Annual Financial Statements 2016

MANAGEMENT REPORT FOR THE GROUP AND PARENT COMPANY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS

CONTENTS OF THE MANAGEMENT REPORT

Note:

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

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

MANAGEMENT REPORT FOR THE FISCAL YEAR 2016

1 COMPANY AND GROUP PROFILE

1.1 BUSINESS MODEL

Group structure

Founded in 1988 and based in Montabaur, Germany, United Internet AG is the **Group parent company** of the United Internet Group.

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

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

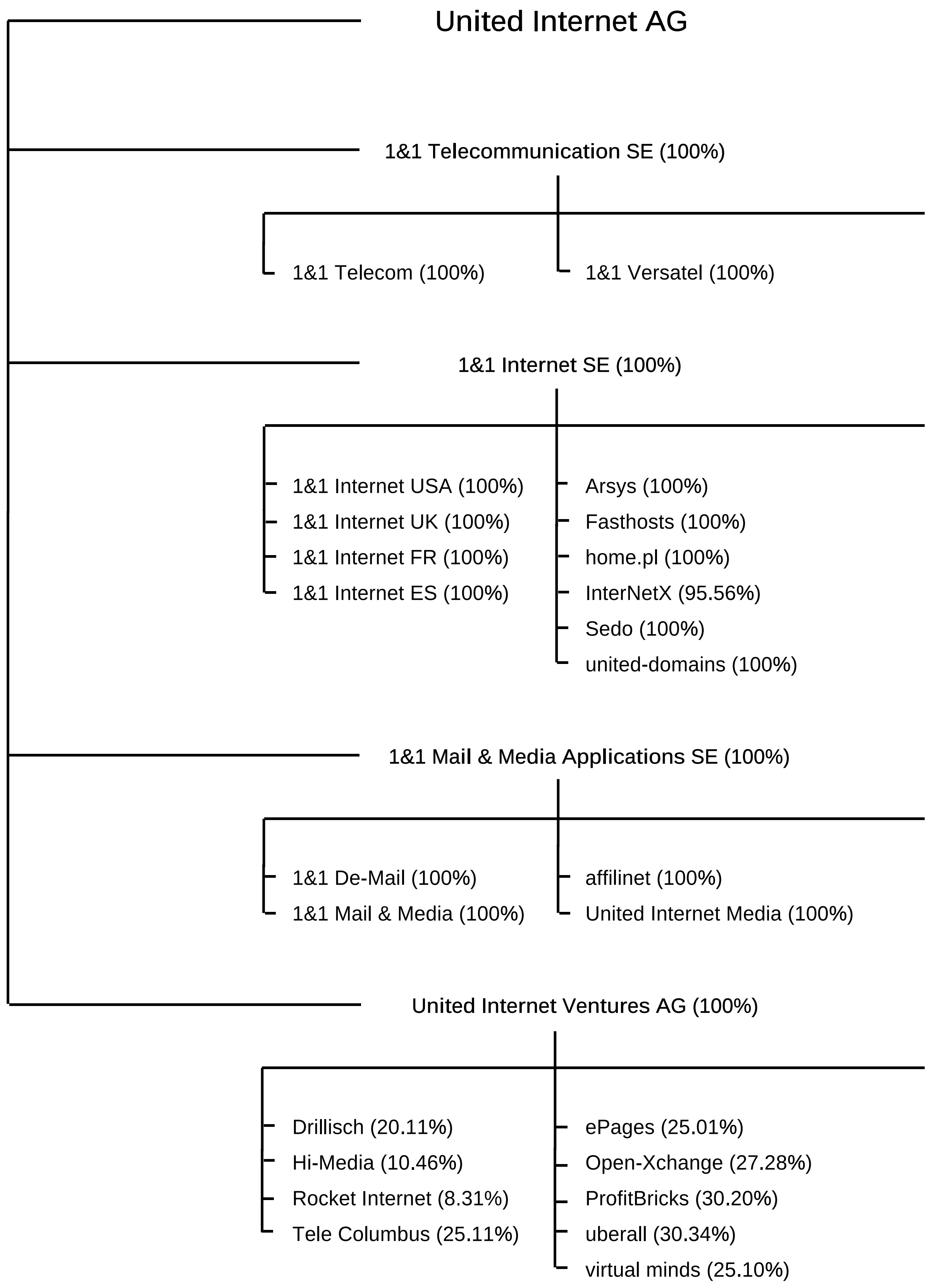
Within the sub-group 1&1 Telecommunication SE, the operating segment **Access** is managed in particular by 1&1 Telecom GmbH and 1&1 Versatel GmbH.

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

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

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

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



Business operations

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

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

Access segment

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

In its Access segment, United Internet operates exclusively in Germany where it is one of the leading providers. The company uses its network and also purchases standardized network services from various pre-service providers. These are enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate them from the competition.

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

Applications segment

The Applications segment comprises the Group's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages, webhosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The applications are developed by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. United Internet also offers its customers performance-based advertising and sales platforms on the internet via the Sedo and affilinet brands.

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

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

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

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

[1] Name changed from Versatel to 1&1 Versatel on July 1, 2016

Management

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

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

As in the previous year, the **Supervisory Board** of United Internet AG elected by the Annual Shareholders' Meeting 2015 comprised the following three members in fiscal year 2016:

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

Main markets and competition

Germany is the most important sales market of the United Internet Group by far and accounts for around 89% of total sales. In addition to Germany, the Group's other major sales markets include the UK, the USA, Spain, France, Poland, Austria, and Canada.

In terms of its competitive standing, United Internet (in the purely domestically aligned Access segment) is among the top three suppliers in Germany's broadband market with its DSL products and one of Germany's fastest growing companies with its mobile internet products.

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

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

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

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

Main locations

As of December 31, 2016, the United Internet Group employed a total headcount of 8,082 at around 40 domestic and foreign facilities.

Main locations (by headcount)

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

1.2 STRATEGY

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

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

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

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

With its many years of experience as an access and application provider, its expertise in software development and data center operation, marketing, sales and customer support, as well as its strong and well-known brands (such as 1&1, GMX and WEB.DE), and customer relationships with millions of private users, freelancers and small companies in Germany and abroad (currently over 51 million user accounts world-wide), the company is excellently positioned.

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

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

Thanks to its high and plannable level of free cash flow, United Internet has a strong source of internal funding as well as good access to debt financing markets.

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

1.3 CONTROL SYSTEMS

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

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

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

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

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

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

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

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

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

1.4 RESEARCH AND DEVELOPMENT

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

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

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

At United Internet's own development centers (especially in Karlsruhe and Bucharest), around 2,600 developers, product managers and technical administrators (corresponding to around 32% of all employees) use mainly open source code in clearly defined and modeled development environments. Third-party programming services are also used to swiftly and efficiently implement specific projects. This enables the company to quickly change existing products and adapt them to changing customer needs. United Internet also procures solutions from partners, which are then modified according to needs and integrated into its systems. With the aid of its self-developed and integrated applications, United Internet has a set of modules which can be easily combined and provided with product-specific or country-specific user interfaces in order to create a variety of powerful and integrated applications – a huge benefit when tailoring products to varying target groups or for international rollouts.

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

Focus areas 2016

Access

Launch of 1&1 fiber-optic business tariff

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

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

Aggregator platform rolled out

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

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

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

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

Business Applications

New design features for 1&1 MyWebsite

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

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

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

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

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

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

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

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

Launch of 1&1 Cloud App Center

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

Introduction of 1&1 Marketing Toolbox for SMEs

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

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

1&1 Managed Cloud Hosting

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

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

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

Consumer Applications

Introduction of DNSSEC/DANE security standard

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

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

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

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

Roll-out of Big Data analytics platform

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

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

2 ECONOMIC REPORT

2.1 GENERAL ECONOMIC AND SECTOR CONDITIONS

General economic development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: German Federal Statistical Office, January 2017

Development of sector / core markets

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

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

(Stationary) broadband market in Germany

In view of the high level of household coverage already achieved and the strong trend toward mobile internet usage, demand for new landline broadband connections in Germany has slowed since 2008. With expected growth of 0.5 million to 31.2 million in 2016, the number of new connections was again well below previous record years and also 0.6 million below the previous year (prior year: 1.1 million new connections). These figures were calculated by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM) and Dialog Consult in their joint "TC Market Analysis for Germany 2016" (October 19, 2016).

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

According to calculations of Dialog Consult / VATM, the average volume of data used is rising much more strongly than the number of newly activated connections and sales of broadband connections – as an indicator of continued growth in usage of e.g. IPTV and cloud applications – with growth of 17.0% to 37.2 GB (per connection and month).

Key market figures: broadband access (landline) in Germany

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

Source: Dialog Consult / VATM; PricewaterhouseCoopers

Mobile internet market in Germany

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

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

According to forecasts of Dialog Consult / VATM, the average volume of data used (per connection and month) – as an indicator of the growing use of mobile data services – rose even more strongly in the same period by 22.9% to 510 MB.

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

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

Source: PricewaterhouseCoopers; Dialog Consult / VATM

Global cloud computing market

There was also further dynamic growth in the cloud computing market. In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide" (October 14, 2016), Gartner Inc. forecast global growth for public cloud services of 17.2% in 2016, from $ 177.6 billion to $ 208.2 billion.

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

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

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

Source: Gartner

German online advertising market

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

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

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

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

Source: PricewaterhouseCoopers

Legal conditions / significant events

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

There were also no significant events in fiscal 2016 which had a material effect on the development of business.

2.2 BUSINESS DEVELOPMENT

Use and definition of relevant financial performance measures

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

United Internet defines these measures as follows:

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

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

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

Actual and forecast development

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

Forecast development

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

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

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

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

Special items

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

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

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

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

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

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

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

Actual development

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

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

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

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

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

Summary: actual and forecast development of business in 2016

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

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

Segment development

Access segment

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

United Internet operates exclusively in Germany in its Access segment, where it is one of the leading providers. The company uses its own landline network and also purchases standardized network services from various pre-service providers. These are enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate them from the competition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Applications segment

The **Applications segment** comprises the Group's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages, webhosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The applications are developed by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. United Internet AG also offers its customers performance-based advertising and sales platforms on the internet via the Sedo and affilinet brands.

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

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

In the field of Business Applications, the main focus in fiscal year 2016 was on the sale of additional features to existing customers (e.g. further domains, e-shops and business apps), as well as the acquisition of high-value customer relationships. Nevertheless, the number of **fee-based contracts for Business Applications** was also increased by 60,000 contracts to 6.05 million in fiscal year 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group investments

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

Significant changes in investments

Acquisition of a 25.11% stake in Tele Columbus

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

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

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

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

Sale of Hipay shares

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

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

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

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

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

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

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

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

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

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

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

Complete takeover of competitor Strato

On December 15, 2016, United Internet AG signed an agreement with the owner of Strato AG, Deutsche Telekom AG, regarding the acquisition of Strato AG.

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

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

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

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

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

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

In addition to its (fully consolidated) core operating companies in the Access and Applications segments, United Internet also held investments in the following companies as of December 31, 2016.

Significant investments in listed companies

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

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

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

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

Minority holdings in partner companies

United Internet has held a stake in virtual minds AG since February 2008 (main activity: media technologies, digital advertising and hosting). As of December 31, 2016, United Internet's share of voting rights amounted to 25.10%. Via its ADITION brand also an adserving supplier of United Internet portals, virtual minds generated a positive result once again in its fiscal year 2016.

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

In July 2013, United Internet acquired a stake in Open-Xchange AG (main activity: e-mail and collaboration solutions). United Internet has already been working successfully with the company for many years in its Applications business. As of December 31, 2016, United Internet's share of voting rights amounted to 27.28%. Open-Xchange closed its fiscal year 2016 with a positive result.

In February 2014, United Internet acquired a stake of 25.01% in ePages GmbH (main activity: e-shop solutions). In addition to the equity stake, ePages and United Internet's subsidiary 1&1 Internet SE agreed a long-term cooperation contract for the use of ePages solutions. As part of this cooperation, there is a joint technology platform for 1&1 E-Shops. As of December 31, 2016, United Internet's share of voting rights amounted to 25.01%. ePages posted a slightly positive result in its fiscal year 2016.

In April 2014, United Internet acquired a stake in **uberall GmbH** (main activity: online listings). In addition, uberall and United Internet's subsidiary 1&1 Internet SE agreed a long-term cooperation contract for the use of uberall solutions. As of December 31, 2016, the share of voting rights amounted to 30.34%. uberall is still in the start-up phase and posted a negative result in its fiscal year 2016.

Share and dividend

Share

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

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

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

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

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

(1) Without special items: 2012 without negative one-off effect from impairment charges (EPS effect: € -0.23) and without positive one-off effect from sale of freenet shares (EPS effect: € +0.09); 2014 without positive one-off effect from Versatel acquisition and portfolio optimization (EPS effect: € +0.82); 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EPS effect: € +0.07); 2016 without negative one-off effect from impairment (EPS effect: € -1.25)

Share data

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

Shareholder structure

Shareholder	Shareholding
Ralph Dommermuth - Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft (39.02%) - RD Holding GmbH & Co. KG (0.98%)	40.00%
Allianz Global Investors	4.78%
Flossbach von Storch	3.09%
BlackRock	3.05%
United Internet (treasury stock)	1.64%
Free float	47.44%

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

Dividend

In fiscal year 2016, United Internet continued to pursue its shareholder-friendly dividend policy based on continuity. The company's Annual Shareholders' Meeting on May 19, 2016 voted to accept the proposal of the Management Board and Supervisory Board to pay a **dividend** of € 0.70 per share for fiscal year 2015 (prior year: € 0.60). The total dividend payment of € 142.9 million (prior year: € 122.3 million) was made on May 20, 2016. The dividend payout ratio amounted to 39.0% of consolidated net income after minority interests for 2015 and was thus at the upper end of the range targeted by the company's dividend policy (20-40% of adjusted consolidated net income after taxes, unless funds are required for further company development).

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

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

Multi-period overview: dividend development

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

(1) Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2017
(2) Without special items: Sedo impairment charges (2012); one-off income from Versatel acquisition and portfolio optimization (2014); Rocket impairment charges (2016)
(3) As of: December 31

Annual Shareholders' Meeting 2016

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

Capital stock and treasury shares

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

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

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

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

Investor Relations

In fiscal 2016, the Management Board and Investor Relations department of United Internet AG once again provided institutional and private investors with regular and comprehensive information. Information was provided to the capital market via the quarterly statements, half-yearly financial report and annual report, as well as at press and analyst conferences. The company's management and Investor Relations department explained the company's strategy and financial results in numerous one-on-one discussions at the company's offices in Montabaur, as well as at roadshows and conferences in Germany, Finland, France, the UK, Canada, the Netherlands, Switzerland, Spain and the USA. Around 30 national and international investment banks are in contact with the company's Investor Relations department and publish regular studies and comments on the company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the company around the clock via the company's website (www.united-internet.de).

2.3 POSITION OF THE GROUP

Group’s earnings position

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

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

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

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

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

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

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

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

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

- in fiscal year 2015, special items from the sale of shares (Goldbach shares and part of stake in virtual minds) had a positive impact on key earnings figures (EBITDA, EBIT, EBT effect = € +14.0 million; net income effect = € +13.7 million; EPS effect = € +0.07), whereas

- in fiscal year 2016, special items from writedowns on financial assets (especially impairment of shares held by United Internet in Rocket Internet SE) had a negative impact on key earnings figures (EBT, net income effect: € -245.9 million; EPS effect: € -1.25).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Group's financial position

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

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

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

Free cash flow, i.e. net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment, fell from € 400.5 million (comparable prior-year figure without the aforementioned capital gains tax refund of € 242.7 million net) to € 323.0 million in fiscal year 2016. This decline was due to the shift of an income tax payment of € 100.0 million planned for the fourth quarter of 2015 to the first quarter of 2016. Without consideration of this purely closing-date effect, free cash flow rose from € 300.5 million in the previous year to € 423.0 million in fiscal year 2016 – whereby free cash flow in 2016 was positively influenced by closing-date effects from the purchase of pre-services.

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

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

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

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

(1) Free cash flow is defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment

(2) 2014 without consideration of a capital gains tax payment due to closing-date effects of € 335.7 million; 2015 without consideration of a capital gains tax refund (net) of € 242.7 million

(3) 2015 without consideration of a capital gains tax refund (net) of € 242.7 million and including an income tax payment (originally planned for the fourth quarter of 2015) of around € 100.0 million; 2016 without consideration of the aforementioned income tax payment (originally planned for the fourth quarter of 2015) of around € 100.0 million

Group’s asset position

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

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

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

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

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

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

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

Multi-period overview: development of relative indebtedness

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

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

(2) Net bank liabilities = balance of bank liabilities and cash and cash equivalents

(3) Free cash flow 2014 and 2015 without consideration of closing-date effects from a capital gains tax payment of € 335.7 million (2014) and a capital gains tax refund (net) of € 242.7 million (2015) and an income tax payment (originally due in the fourth quarter of 2015) of around € 100.0 million (2016)

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

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

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

(1) Repurchase of Versatel shares via Versatel's holding company (2012); decrease due to contribution of the GFC and EFF funds to Rocket and complete takeover of Versatel (2014); increase due to investment in Drillisch (2015); increase due to investment in Tele Columbus (2016)

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

(3) Increase due to complete takeover of Versatel (2014)

(4) Decrease due to impairment charges for Sedo Holding (2012); increase due to Arsys acquisition (2013); increase due to complete takeover of Versatel (2014); increase due to acquisition of home.pl (2015)

(5) Decrease due to repayment of loans (2012); increase due to Rocket investment and takeover of Versatel (2014); increase due to increased stake in Rocket, Drillisch investment, and acquisition of home.pl; increase due to investment in Tele Columbus

(6) Decrease due to share cancellations (2013); increase due to capital increase (2014)

(7) Increase due to capital increase (2014)

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

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

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

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

In the fiscal year 2016, the company once again invested heavily in gaining and expanding customer relationships, as well as in developing new products – thus laying the basis for future growth. In addition to strengthening the foundations for its operational business, United Internet tapped additional opportunities and growth potential with its strategic investment in Tele Columbus, the investment of Warburg Pincus in the Business Applications division, and the takeover of Strato AG.

The financial position of United Internet AG remained strong in fiscal year 2016. Adjusted for tax effects, free cash flow was still high at € 423.0 million (comparable prior-year figure: € 300.5 million). This once again underlines the Group's ability to generate very healthy levels of cash while at the same time achieving strong qualitative growth.

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

As of the reporting date for the annual financial statements 2016, and at the time of preparing this management report, the Management Board believes that the United Internet Group as a whole is well placed for its further development. It regards the financial position and performance – subject to possible special items – as positive and is optimistic about the Group's future prospects.

2.4 POSITION OF THE COMPANY

Earnings of United Internet AG

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

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

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

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

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

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

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

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

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

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

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

Assets and financial position of United Internet AG

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

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

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

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

The parent company's accruals mainly comprise *accrued taxes*, mostly for previous years, amounting to € 12.6 million (prior year: € 7.0 million) as well as *other accrued liabilities* for employee stock ownership plans, legal, auditing and consulting fees, as well as bonuses and commissions totaling € 17.1 million (prior year: € 18.5 million).

The liabilities of the parent company are dominated in particular by liabilities to banks and liabilities due to affiliated companies. Due in particular to the dividend payment, the purchase of treasury shares and the investment in Columbus, *liabilities to banks* rose to € 1,747.4 million in fiscal 2016 (prior year: € 1,409.2 million). Bank liabilities result mainly from a syndicated loan totaling € 750 million concluded in August 2014, a promissory note loan of € 600 million concluded in December 2014, and a revolving syndicated loan of € 810 million, which had been utilized in an amount of € 390 million as of the reporting date. *Liabilities to affiliated companies* rose to € 458.4 million (prior year: € 242.3 million) and mainly comprise liabilities from balances within the United Internet Group's cash pooling system (€ 194.6 million), from service arrangements (€ 14.7 million), and from profit transfer agreements (€ 249.1 million). *Other liabilities* of € 18.7 million (prior year: € 20.8 million) consist of sales tax liabilities.

Cash flow of the parent company's financial statements is dominated by cash flows from the profit transfer agreements and the assumption of additional financial liabilities. The dividend payment in fiscal year 2016 and the purchase of treasury shares disclosed under financial activities had the opposing effect.

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

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

2.5 SIGNIFICANT NON-FINANCIAL PERFORMANCE INDICATORS

United Internet AG believes that its entrepreneurial activities are not solely restricted to the pursuit and implementation of economic objectives, but also involve a commitment and responsibility towards society and the environment. United Internet assumes this responsibility in a variety of ways. The most important aspects are summarized in the following sections.

Sustainable business policy

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

Customer growth

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

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

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

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

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

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

Service quality, customer retention and customer satisfaction

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

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

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

The same applies to the field of customer satisfaction/customer trust. For example, the United Internet brand GMX is the e-mail provider which Germans trust most. This was the result of a survey (November 2016) commissioned by the magazine "Wirtschaftswoche" in which GMX received the "Highest Customer Trust" rating. Starting in 2014, "Wirtschaftswoche" has been examining the trust of German consumers in various companies once a year, in conjunction with the research company Service Value. The results are published in "Germany's Largest Trust Ranking". In 2016, 253,895 customers of 894 companies in 67 sectors were interviewed. The survey's academic advisor is Rolf van Dick, a professor at the University of Frankfurt / Main. For the third year running, GMX has thus taken first place in this ranking of e-mail providers and achieved a score in 2016 which was 17.4% above the average for all e-mail providers (62.8%).

Product quality

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

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

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

Security and data privacy

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

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

Employees

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

United Internet AG was once again recognized as a top employer in 2016. Based on an independent study of the “Top Employers Institute”, United Internet received the “TOP Employers Germany” award – as in the preceding years. Certification is only awarded to organizations which offer staff attractive working conditions. Assessment is based on career opportunities, employer benefits, working conditions, training and development opportunities, and the corporate culture.

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

Headcount and key figures

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

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

There were 3,478 employees in the Access segment (prior year: 3,142), 4,406 in the Applications segment (prior year: 4,945) and 198 employed at the Group's headquarters (prior year: 152). The strong increase in staff at the Group's headquarters resulted from the transfer of employees from the segments (especially the Applications segment) who already worked in corporate functions.

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

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

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

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

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

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

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

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

Targeted staff support and ongoing development

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

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

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

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

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

Discovering and nurturing potential and performance from an early stage

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

Further development programs are offered for staff with exceptional abilities and potential in all areas of the company. Such employees are then accompanied through a structured program of individual development and training plans in order to prepare them for their future personal challenges, and those of the company (MyWay+ for staff and 1&1 MOVE for management and experts).

Specialist training by colleagues for colleagues

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

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

Thanks in part to the measures described above, the United Internet Group was able to recruit around 68% of managers from within its own ranks in fiscal year 2016.

Training held in high regard

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

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

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

At the beginning of the new apprenticeship year 2016, a total of eight refugees were given the opportunity of a future career (with an apprenticeship contract). Over 160 young people were serving their apprenticeships with Group companies at year-end 2016. After successfully passing their examinations, United Internet endeavors to take on as many apprentices as possible and to make an attractive job offer to every graduate. In fiscal year 2016, 32 apprentices and DHBW students were given full-time jobs.

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

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

Diversity

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

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

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

Multi-period overview: employees by gender

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

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

Multi-period overview: employee age profile

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

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

Multi-period overview: employees by country

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016
Employees, total	6,723	7,832	8,239	8,082
thereof Germany	5,080	6,168	6,502	6,438
thereof France	23	46	25	24
thereof UK	208	227	234	235
thereof Philippines	468	450	390	386
thereof Poland	6	6	263	258
thereof Romania	288	264	229	194
thereof Spain	329	341	339	333
thereof USA	303	300	239	197
thereof Other	18	30	18	17

Green IT

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

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

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

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

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

Social responsibility

“United Internet for UNICEF” foundation

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

We carefully select projects from the wide range of UNICEF topics and present them on the high-reach portals of the United Internet Group (1&1, GMX und WEB.DE) in order to attract as many donors as possible – for the particular project or as long-term UNICEF sponsors. During emergency situations, such as hurricane Matthew in Haiti in October 2016, our newsletters can reach over 30 million people within 24 hours and thus facilitate the effective collection of donations.

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

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

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

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

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

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

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

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

- UNICEF imposes strict controls on the use of donations. Both the UNICEF representatives in the program countries and the local partners are regularly inspected to ensure that funds are being used exactly as planned.

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

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

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

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

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

Since April 2016, the main focus of activities has been a training program to prepare refugees for the German labor market. Together with local authorities and social institutions, United Internet developed a modular program called **“Fit for Job”**. Participants are given a general overview of office work, the cultural environment, and possible careers in the IT industry. Graduates of this program will then also be offered internships or entry-level jobs. Armed with the knowledge from this training program, graduates are able to successfully apply for jobs at German companies – whether at United Internet or other employers. Over 140 refugees and immigrants have so far participated in the program at our sites in Montabaur, Karlsruhe and Munich. Around 40 participants subsequently completed an internship at companies of the United Internet Group. Numerous employees volunteer to act as trainers in the “Fit for Job” program, in addition to their daily work.

With its various programs, United Internet is also active in the **“We Together”** initiative, in which over 150 companies so far pool their integration activities and exchange notes on their experiences.

3 SUBSEQUENT EVENTS

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

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

  In the period January 1 to February 3, 2017, a total of 2,000,000 treasury shares were purchased at an average price of € 38.58 and with a total volume of € 77.2 million.

  Together with the 3,000,000 treasury shares already purchased in fiscal year 2016, the share buyback program of June 30, 2016 has thus been completely exhausted.

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

- On December 15, 2016, United Internet announced its intention to acquire **Strato AG**. The takeover was initially subject to approval by the German Federal Cartel Office ("Bundeskartellamt"). This approval was granted on February 10, 2017.

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

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

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

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

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

Apart from these items, there were no other significant events subsequent to the end of the reporting period on December 31, 2016 which had a material effect on the financial position and performance or the accounting and reporting of the parent company or the Group.

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

4 RISK, OPPORTUNITY AND FORECAST REPORT

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

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

4.1 RISK REPORT

Risk management

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

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

Methods and objectives of risk management

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

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

Risks for United Internet

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

Strategy

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

Market

Competition

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

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

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

Business development and innovations

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

Legal & political

Regulation

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

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

Data protection

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

Litigation

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

Personnel

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

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

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

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

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

Fraud

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

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

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

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

Provision of services

Threat potential of the internet

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

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

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

It was possible to observe an increasing professionalization of the attackers and their attack methods during the reporting period. According to Germany's Federal Office for Information Security (BSI), the number of known malicious program variants was 560 million in August 2016. The threat posed by so-called ransomware, i.e. the danger of encryption trojans, has grown significantly in Germany since the end of 2015.

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

Complexity and possible manipulation of hardware and software used

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

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

Complexity in development

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

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

The company minimizes these risks by continuously developing and enhancing its internal processes, pooling and retaining its experts and key personnel, and continuously improving the organizational structures of the development components. When selecting and controlling strategic outsourcing partners, care is taken to ensure that their reliability and expertise is proven in accordance with international criteria and no partnerships are formed for critical business areas which could not be maintained without delay by skilled staff within the company.

Additional disclosures on risks, financial instruments and financial risk management

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

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

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

Liquidity

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

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

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

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

Financial Covenants

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

Financial market

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

- **Interest**

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

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

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

- Currency

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

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

- Stock exchange prices (valuation risk)

  A stock exchange risk mainly results from investments in listed companies. These investments are carried at amortized cost in the separate financial statements of the parent company and at fair value or at equity in the consolidated financial statements. Should the (proportional) stock exchange value of an investment permanently lie below its amortized cost, the company recognizes an impairment of the financial instrument in the income statement of its separate financial statements. Changes in fair value assessments are recognized in the income statement of the consolidated financial statements if there is any impairment due to a significant or persistent decline in the fair value. Further details are provided in the Subsequent Events section, as well as in the notes to the consolidated financial statements in section 2 "Accounting and valuation principles" and section 3 "Significant accounting judgments, estimates and assumptions".

Capital management

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

In order to maintain and adapt its capital structure, the company can adjust dividend payments or pay capital back to its shareholders, purchase treasury shares and where necessary place them again or issue new shares. As of December 31, 2016 and December 31, 2015, no changes were made to the company's targets, methods and processes.

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

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

From the current perspective, the main challenges focus on the areas of "Potential threats via the internet", as well as risks from the areas "Political and legal risks", "Market" and "Fraud".

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

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

Although the assessment of key risk areas or individual risks changed over the course of fiscal year 2016 due to the development of external conditions or as a consequence of the company's own countermeasures, the overall risk situation for United Internet is virtually unchanged compared to the previous year and against the background of corporate development. In the assessment of the overall risk situation, the opportunities which exist for United Internet were not taken into consideration. There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2016 nor as of the preparation date for this Management Report, neither from individual risk positions nor from the overall risk situation.

Probability of occurrence / possible impact of company risks

	Probability of occurrence	Possible impact
Risks in the field of "Strategy"		
Internationalization	Low (2015: Low)	High (2015: High)
Risks in the field of "Market"		
Competition	High (2015: Low)	High (2015: High)
Business development and innovations	Low (2015: Low)	High (2015: High)
Risks in the field of "Law & Politics"		
Regulation	High (2015: High)	High (2015: High)
Data protection	Low (2015: Very low)	High (2015: High)
Litigation	High (2015: High)	High (2015: High)
Risks in the field of "Personnel"		
Employees	Low (2015: Low)	High (2015: High)
Risks in the field of "Fraud"		
Fraud	High (2015: Low)	High (2015: Low)
Risks in the field of "Service Provision"		
Threat potential of the internet	Low (2015: Low)	Extremely high (2015: Very high)
Complexity / possible manipulation of hardware and software	Low (2015: Low)	High (2015: High)
Complexity in development	Low (2015: Low)	High (2015: High)
Risks in the field of "Financial Instruments and Financial Risk Management"		
Liquidity	Very high (2015: Low)	Very low (2015: Very low)
Financial covenants	Very low (2015: Very low)	Very low (2015: Very low)
Financial market	Low (2015: Very high)	High (2015: Very high)
Capital management	Very low (2015: Very low)	Very low (2015: Very low)

Assessment categories of company risks in ascending order

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

4.2 OPPORTUNITY REPORT

Opportunity management

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

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

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

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

Opportunities for United Internet

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

Broad strategic positioning in growth markets

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

Participation in market growth

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

Expansion of market positions

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

Entry into new business fields

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

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

Own infrastructure

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

In addition, having its own network also offers United Internet the opportunity to enter the B2B data and infrastructure business with SMEs and large corporations. This scale of this opportunity is underlined by the fast-growing data consumption of private users and companies (according to Dialog Consult / VATM figures: +17.0% data volume consumption per broadband connection and month in 2015) and the considerable pent-up demand for direct fiber-optic connections in Germany. According to the latest survey of the OECD (Organization for Economic Co-operation and Development) in December 2015, only 1.5% of all broadband connections in Germany are fiber-optic connections. Germany thus lags well behind in 30th place among the 34 OECD countries.

Internationalization

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

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

Acquisitions and investments

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

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

4.3 FORECAST REPORT

Expectations for the economy

In its global economic outlook published in January 2017, the International Monetary Fund (IMF) updated its forecasts for the development of the global economies in 2017 and 2018. All in all, the IMF's outlook for the global economy is slightly more optimistic than in its previous forecasts.

According to the IMF, a major cause for the improved growth prospects is the ongoing recovery of those major emerging and developing countries which suffered economic crises in 2016. The IMF also believes that growth prospects have improved in the USA, China, Europe and Japan. At the same time, the IMF refers to the current considerable uncertainty surrounding the future economic direction of the new US government.

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

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

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

The IMF expects diverging economic trends in United Internet's main European markets (France, Spain, Italy and the non-euro country UK). Following growth of 1.3% in 2016, the IMF's forecast for **France** remains unchanged at 1.3% for 2017 and 1.6% for 2018. By contrast, **Spain** is expected to grow by 2.3% and 2.1% in 2017 and 2018 – after growth of 3.2% in 2016 – and thus by 0.1 and 0.2 percentage points more than previously forecast. The IMF forecasts growth in **Italy** of 0.7% in 2017 and 0.8% in 2018, following growth of 0.9% in 2016. This is 0.2 and 0.3 percentage points less than previously expected. And after growing by 2.0% in 2016, the IMF forecasts growth for **the UK** in 2017 and 2018 of 1.5% and 1.4%, respectively. This corresponds to 0.4 and 0.3 percentage points less than previously expected.

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

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

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

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

Market / sector expectations

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

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

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

Of particular importance to United Internet are the German broadband and mobile internet market in its subscription-financed Access segment and the global cloud computing market and German online advertising market in its subscription- and ad-financed Applications segment.

(Stationary) broadband market in Germany

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

According to the survey "German Entertainment and Media Outlook 2016-2020", PricewaterhouseCoopers expects sales of landline-based broadband connections to increase by just 0.6% to € 8.02 billion in 2017.

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

	2017e	2016	Change
Sales	8.02	7.97	+ 0.6%

Source: PricewaterhouseCoopers

Mobile internet market in Germany

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

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

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

	2017e	2016	Change
Sales	7.86	7.36	+ 6.8%

Source: PricewaterhouseCoopers

Cloud computing market

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

Market forecast: global cloud computing
(in $ billion)

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

Source: Gartner

Online advertising market in Germany

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

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

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

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

Source: PricewaterhouseCoopers

Expectations for the company

Focus areas in fiscal year 2017

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

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

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

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

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

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

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

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

Forecast for the fiscal year 2017

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

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

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

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

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

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

Due to its role as a holding company, the earnings of United Internet AG at **parent company level** are mainly influenced by its investment result (profit transfers and dividends) and the interest result. The net income of United Internet AG for fiscal year 2017 according to German commercial law will be dominated by proceeds from the sale of shares in 1&1 Internet SE to 1&1 Internet Holding SE within the Group. This transaction is likely to produce one-off, non-cash income of € 1.4 billion before taxes. In addition, United Internet AG will recognize additional interest income from a vendor loan resulting from the sale of shares. Against this backdrop, the Management Board expects strongly positive net income for fiscal year 2017.

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

Management Board’s overall statement on the anticipated development

The Management Board of United Internet AG is upbeat about its prospects for the future. Thanks to a business model based predominantly on electronic subscriptions, United Internet believes it is largely stable enough to withstand cyclical influences.

And with the investments made over the past few years in customer relationships, new business fields and internationalization, as well as via acquisitions and investments, the company has laid a broad foundation for its planned future growth.

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

In the case of Access products, marketing and sales activities will focus mainly on mobile internet products in fiscal year 2017. In this business, the market shares in Germany are currently being allocated. United Internet aims to participate in market growth and achieve above-average growth. The company also plans to leverage the strong positioning of its DSL products to generate visible growth. In addition to marketing Access products to consumers, the company will continue to expand its business with Access solutions for business clients via the 1&1 Versatel brand.

In addition to the German market, international business with cloud applications also promises strong potential for the medium- and long-term growth of the company. In 2017, however, the company will again focus on the key topics of “monetization of free accounts via advertising” (Consumer Applications), “expanding business with existing customers” and “gaining new high-quality customer relationships” (Business Applications).

Following a successful start to the year (at the time of preparing this Management Report), the company’s Management Board believes that the company is on track to reach the forecasts presented above in the section “Forecast for the fiscal year 2017” and summarized again in the table below.

2017 forecast for United Internet AG

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

(1) Organic growth
(2) Expected contract growth from Strato takeover
(3) Including approx. € 95 million from first-time consolidation of Strato as of April 1, 2017 and opposing burden on sales of approx. € 60 million from regulation issues (roaming / termination charges)
(3) Including approx. € 36 million EBITDA from first-time consolidation of Strato as of April 1, 2017 and opposing net burden on EBITDA of approx. € 30 million from regulation issues and Telefónica DSL migration

Forward-looking statements

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

5 ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with Sec. 289 (5) and Sec. 315 (2) No. 5 German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report.

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

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

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

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

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

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

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

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

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

6 DISCLOSURES REQUIRED BY TAKEOVER LAW

The following disclosures according to Secs. 289 (4) and 315 (4) German Commercial Code (HGB) represent conditions as of the balance sheet date. As required by Sec. 176 (1) Sentence 1 AktG, the disclosures are explained in the sections below.

Composition of capital

The subscribed capital of United Internet AG as of December 31, 2016 amounts to € 205,000,000 divided into 205,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution. All shares are listed on the stock exchange.

Limitations affecting voting rights or the transfer of shares

There are legal limitations affecting voting rights of certain shares pursuant to Sec. 71b AktG and Sec. 71d S. 4 in conjunction with Sec. 71b AktG. At the end of the reporting period, United Internet holds 3,370,943 shares representing 1.64% of capital stock.

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

Among the members of the Management Board, Mr. Ralph Dommermuth holds 82,000,000 shares (40.00% of capital stock) as of December 31, 2016. Moreover, Mr. Robert Hoffmann holds 211,907 shares (0.10% of capital stock), Mr. Jan Oetjen holds 14,033 shares (0.01% of capital stock), Mr. Martin Witt holds 23,195 shares (0.01% of capital stock), and Mr. Frank Krause holds 920 shares (0.00% of capital stock).

Among the members of the Supervisory Board, Mr. Michael Scheeren holds 300,000 shares (0.15% of capital stock) at the end of the reporting period.

There are no limitations affecting the transfer of shares.

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

The company's CEO, Mr. Ralph Dommermuth, owns 82,000,000 shares or 40.00% of the 205,000,000 shares in United Internet AG as of December 31, 2016. The Management Board is not aware of further participations in capital exceeding 10% of voting rights.

Special rights

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

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

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

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

Powers of the Management Board to issue shares

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

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

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

Powers of the Management Board to buy back shares

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

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

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

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

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

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

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

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

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

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

7 DECLARATION ON COMPANY MANAGEMENT / CORPORATE GOVERNANCE REPORT

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

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

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

The following report contains the “Declaration on company management”, in accordance with Sec. 289a HGB for the parent company and in accordance with Sec. 315 (5) HGB for the Group, as well as the “Corporate Governance Report” of the Management Board and Supervisory Board pursuant to Section 3.10 of the German Corporate Governance Code.

Management and corporate structure

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

Supervisory Board

Working procedures of the Supervisory Board

The Supervisory Board is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2016. The members of the Supervisory Board are generally elected for a period of five years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In view of

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

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

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

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

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

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

Current composition of the Supervisory Board

The Supervisory Board re-elected by the Annual Shareholders' Meeting 2015 continued to comprise the following three independent members – as defined by the criteria of Section 5.4.2 GCGC – in fiscal year 2016:

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

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

Management Board

Working procedures of the Management Board

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

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

Decisions of fundamental importance require the approval of the Supervisory Board. The Management Board reports to the Supervisory Board in accordance with the statutory provisions of Sec. 90 AktG and provides the Chairman of the Supervisory Board at least once a month with an oral overview – and at the request of the Chairman of the Supervisory Board also in writing – of the current status of relevant reporting items pursuant to Sec. 90a AktG. The Chairman of the Supervisory Board is thus informed without delay by the Chairman or Speaker of the Management Board, or the Chief Financial Officer, about important events that are essential for assessing the company's situation and development, as well as for the management of the company. Important items also include any substantial deviation from the budget or other forecasts of the company. The Chairman or Speaker of the Management Board, or Chief Financial Officer, shall also inform the Chairman of the Supervisory Board, in advance where possible otherwise immediately thereafter, about all ad hoc announcements of the company pursuant to Sec. 15 WpHG.

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

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

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

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

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

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

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

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

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

Current composition of the Management Board

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

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

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

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

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

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

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

After careful examination, the Supervisory Board and Management Board of United Internet AG adopted the following based on a resolution of August 12, 2015:

- For the reference period (until June 30, 2017), a target of “0” is set for the Supervisory Board which was only elected by the Annual Shareholders' Meeting of May 21, 2015. The Supervisory Board currently comprises only men. The period of office for all Supervisory Board members extends well beyond the end of the reference period. No personnel changes or expansion of the Supervisory Board are planned or envisaged.
- For the reference period (until June 30, 2017), a target of “0” is set for the Management Board. The Management Board also currently comprises only men. No personnel changes or expansion of the Management Board are planned or envisaged. The Supervisory Board believes that the government’s aim to raise the share of women is subordinate to the interests of the company to continue the successful work conducted by experienced Management Board members and a Management Board size which is tailored to the needs of the company.
- With regard to the share of women on the Supervisory Board and Management Board, the Supervisory Board reserves the right to resolve again on the target within the reference period should there be any indication of a new appointment during the reference period.
- No target has been set for the first and second management levels as United Internet AG does not have any management levels below the Management Board due to its holding structure.

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

Annual Shareholders' Meeting

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

Compliance

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

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

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

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

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

The Compliance Organization is responsible for the creation of suitable structures and processes to support the implementation of compliance throughout the company and to efficiently introduce measures. The compliance organization present and anchored in the business units via functional and local Compliance Managers (FCMs and LCMs). In addition to their normal functions, the FCMs and LCMs support the area of compliance.

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

Financial disclosures / transparency

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

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

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

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

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

Accounting and auditing

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS, as applicable in the EU) with consideration of Sec. 315a HGB. However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements and the consolidated financial statements are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, was elected to audit the annual financial statements for the fiscal year 2016. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

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

Remuneration of Management Board and Supervisory Board

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

Stock option plans

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

Directors' Dealings

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

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

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

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

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

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

Shareholdings of Management Board and Supervisory Board members

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

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

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

The corporate governance of United Internet is based on the German Corporate Governance Code, which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002. The 13th and currently valid version of the German Corporate Governance Code was completed on May 5, 2015 and published by the Ministry of Justice in the Federal Gazette (http://www.bundesanzeiger.de) on June 12, 2015.

The Code contains three types of standard:

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

German corporations are obliged to observe the legal regulations.

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

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

On February 20, 2017, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity (presented below) in accordance with Sec. 161 AktG and immediately published it on the company's website (www.united-internet.de), as well as in the Federal Gazette.

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

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

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

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

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

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

Formation of committees (section 5.3 of the Code)

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

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

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

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

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

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

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

8 REMUNERATION REPORT

Principles of the Management Board remuneration system

The Supervisory Board is responsible for determining the remuneration of Management Board members. The total compensation of individual members of the Management Board is determined by the Supervisory Board based on a performance assessment, taking into account any payments made by Group companies. Criteria for determining the appropriateness of remuneration are based on the responsibilities of the individual Management Board member, their personal performance, the economic situation, the performance and outlook of the company, as well as a review of the comparability of compensation with peer companies and the remuneration structure in place in other areas of the company. The size of the remuneration components is regularly reviewed, whereby the Supervisory Board also takes account of Management Board remuneration in relation to compensation for senior management and the workforce of United Internet AG as a whole over time.

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

The fixed remuneration component is paid monthly as a salary. The size of the variable remuneration component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on key sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation is capped at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets. No minimum payment of the variable remuneration component is guaranteed. In the case of four Management Board members, there is a component providing long-term incentives in the form of a compensation program based on virtual shares (SARs). The exercise hurdle of this program is 120% of the share price. Payment of value growth is capped at 100% of the calculated share price when the virtual options were granted.

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

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

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

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

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

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

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

Value of benefits granted for the reporting period

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

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

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

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

(2) The fringe benefits of Mr. Krause in 2015 and 2016 in each case result from the benefit in kind of a company car and a one-off payment of € 100,000; the size of the maximum multi-year compensation (SAR program V 2016) for Mr. Krause is calculated (based on 100,000 SARs) from an issue price of € 36.27 and a theoretical share price of at least € 72.54 for the respective exercise period and distributed over a term of 5 years

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

Allocation for the reporting period

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

Allocation (in €k)	Ralph Dommermuth		Norbert Lang[1]		Frank Krause[2]		Robert Hoffmann		Jan Oetjen[3]		Martin Witt[3]	
	CEO		CFO		CFO		Business Applications		Consumer Applications		Access	
	Since 2000		Until June 30, 2015		Since June 1, 2015		Since January 1, 2013		Since October 1, 2014		Since October 1, 2014	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Fixed compensation	0	300		150	360	210	300	300	300	300	300	300
Fringe benefits	0	0		11	111	106	12	12	13	13	12	12
Total	0	300		161	471	316	312	312	313	313	312	312
One-year variable compensation	0	240		95	139	82	199	130	199	207	199	201
Multi-year variable compensation	0	0		0	0	0	4.917	4.917	0	896	1.681	722
SAR program I 2010 (6 years)										896		
SAR program A 2011 (6 years)											121	121
SAR program B 2011 (6 years)							902	902				
SAR program F 2012 (6 years)											199	199
SAR program H 2012 (6 years)							4.015	4.015			402	402
SAR program M 2012 (6 years)											959	
Other	0	0		0	0	0	0	0	0	0	0	0
Total	0	540		256	610	398	5.428	5.359	512	1.416	2.192	1.235
Service cost	0	0		0	0	0	0	0	0	0	0	0
Total compensation	0	540		256	610	398	5.428	5.359	512	1.416	2.192	1.235

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

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

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

In fiscal year 2016, the following Management Board members exercised SARs: Mr. Robert Hoffmann (325,000 SARs with a weighted strike price of € 15.13) and Mr. Martin Witt (125,000 SARs with a weighted strike price of € 24.47). In the reporting period 2016, Mr. Frank Krause was granted 100,000 SARs with a strike price of € 36.27. In fiscal year 2015, the following Management Board members exercised SARs: Mr. Robert Hoffmann (325,000 SARs with a weighted strike price of € 15.13), Mr. Jan Oetjen (100,000 SARs with a weighted strike price of € 8.96) and Mr. Martin Witt (50,000 SARs with a weighted strike price of € 14.44). In the reporting period 2015, Mr. Frank Krause was granted 200,000 SARs with a strike price of € 40.

In the IFRS consolidated financial statements of the United Internet Group, the following expenses were recognized for share-based payments to Management Board members: Mr. Ralph Dommermuth (€ 0k, prior year: € 0k), Mr. Norbert Lang (€ 0k, prior year: € 0k), Mr. Frank Krause (€ 394k, prior year: € 191k), Mr. Robert Hoffmann (€ 258k, prior year: € 464k), Mr. Jan Oetjen (€ 341k, prior year: € 458k) and Mr. Martin Witt (€ 381k, prior year: € 523k).

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

Principles of the Supervisory Board remuneration system

The 3 members of the Supervisory Board of United Internet AG also form the supervisory board of the most important subsidiaries, i.e. the sub-groups 1&1 Telecommunication SE, 1&1 Internet SE and 1&1 Mail & Media Applications SE, as well as United Internet Ventures AG. The Supervisory Board members each receive separate compensation for their work on behalf of the companies mentioned. In each case, this compensation consists of a fixed element and an attendance fee.

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

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

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

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

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

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

Employee stock ownership plans

Virtual stock option program for management (SAR)

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

Virtual stock options, or Stock Appreciation Rights (SARs), refer to the commitment of United Internet AG to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the

Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price when the virtual options were granted.

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

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

Stock-based compensation for employees

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

With the aid of this program, United Internet aims to

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

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

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

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

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

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

9 DEPENDENT COMPANY REPORT

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

Montabaur, March 17, 2017

The Management Board

Ralph Dommermuth   Robert Hoffmann   Frank Krause   Jan Oetjen   Martin Witt

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS AS AT DECEMBER 31, 2016

CONTENTS

United Internet AG, Montabaur - Consolidated balance sheet acc. to IFRS as of December 31, 2016 in €k

*

ASSETS	Note	December 31, 2016	December 31, 2015
Current assets			
Cash and cash equivalents	17	101,743	84,261
Trade accounts receivable	18	228,025	218,074
Inventories	19	39,490	42,509
Prepaid expenses	20	111,172	82,633
Other financial assets	21.1	21,536	22,840
Other non-financial assets	21.2	129,427	114,575
		631,393	564,892
Non-current assets			
Shares in associated companies	22	755,546	468,366
Other financial assets	23	287,688	448,959
Property, plant and equipment	24	655,006	665,195
Intangible assets	25, 27	369,470	389,514
Goodwill	26, 27	1,087,685	1,100,123
Trade accounts receivable	18	55,841	37,431
Prepaid expenses	28	127,974	102,438
Deferred tax assets	14	103,131	108,512
		3,442,341	3,320,538
Total assets		**4,073,734**	**3,885,430**
LIABILITIES			
Current liabilities			
Trade accounts payable	29, 35	373,710	395,862
Liabilities due to banks	30, 35	422,236	29,332
Advance payments received	35	12,326	15,084
Accrued income taxes	31, 35	64,145	129,586
Deferred revenue	32, 35	235,503	231,979
Other accrued liabilities	33, 35	13,237	23,835
Other financial liabilities	34.1, 35	114,748	105,445
Other non-financial liabilities	34.2, 35	33,528	36,805
		1,269,433	967,928
Non-current liabilities			
Liabilities due to banks	30, 35	1,338,417	1,507,170
Deferred tax liabilities	14	94,211	97,946
Trade accounts payable	29, 35	9,479	4,042
Deferred revenue	32, 35	33,820	26,856
Other accrued liabilities	33, 35	39,671	36,209
Other financial liabilities	34.3, 35	90,891	95,521
		1,606,489	1,767,744
Total liabilities		**2,875,922**	**2,735,672**
Equity			
Capital stock	37	205,000	205,000
Additional paid-in capital	38	377,550	372,203
Accumulated profit	38	724,213	695,799
Treasury stock		-122,493	-26,318
Revaluation reserves	38	30,988	-96,021
Currency translation adjustment	38	-17,794	-1,443
Equity attributable to shareholders of the parent company		**1,197,464**	**1,149,220**
Non-controlling interests	39	348	538
Total equity		**1,197,812**	**1,149,758**
Total liabilities and equity		**4,073,734**	**3,885,430**

United Internet AG, Montabaur - Statement of comprehensive income acc. to IFRS
from January 1, 2016 to December 31, 2016 in €k

	Note	2016 January - December		2015 January - December	
Sales	5	3,948,939	100.0%	3,715,680	100.0%
Cost of sales	6, 10, 11	-2,594,578	-65.7%	-2,437,225	-65.6%
Gross profit		**1,354,361**	34.3%	**1,278,455**	34.4%
Selling expenses	7, 10, 11	-523,616	-13.3%	-557,220	-15.0%
General and administrative expenses	8, 10, 11	-183,634	-4.7%	-182,245	-4.9%
Other operating expenses	9.1	-57,830	-1.5%	-69,778	-1.9%
Other operating income	9.2	57,870	1.5%	86,505	2.3%
Operating result		**647,151**	16.4%	**555,717**	15.0%
Financial expenses	12	-31,176	-0.8%	-27,139	-0.7%
Financial income	13	4,802	0.1%	13,129	0.4%
Amortization of financial assets	23	-254,905	-6.5%	-5,317	-0.1%
Result from associated companies	11	1,248	0.0%	-1,293	0.0%
Pre-tax result		**367,119**	9.3%	**535,097**	14.4%
Income taxes	14	-187,957	-4.8%	-168,518	-4.5%
Net income before non-controlling interests		**179,162**	4.5%	**366,579**	9.9%
Attributable to					
non-controlling interests		164	0.0%	174	0.0%
shareholders of United Internet AG		178,998	4.5%	366,405	9.9%
Result per share of shareholders of United Internet AG (in €)					
- basic	15	0.88		1.80	
- diluted	15	0.88		1.79	
Weighted average of outstanding shares (in million units)					
- basic	15	203.26		203.92	
- diluted	15	203.84		205.20	
Überleitung zum gesamten Konzernergebnis					
Konzernergebnis		179,162		366,579	
Categories that may be reclassified subsequently to profit or loss					
Currency translation adjustment - unrealized		-14,136		11,003	
Market value changes of available-for-sale financial instruments before taxes - unrealized	23	21,059		-313,403	
Tax effect	23	38		3,102	
Market value changes of available-for-sale financial instruments before taxes - realized	23	106,873		-2,519	
Tax effect	23	0		54	
Categories that are not reclassified subsequently to profit or loss					
Share in other comprehensive income of associated companies		-961		0	
Other comprehensive income		112,872		-301,763	
Total comprehensive income		**292,035**		**64,816**	
Attributable to					
non-controlling interests		164		174	
shareholders of United Internet AG		291,871		64,642	

United Internet AG, Montabaur - Consolidated Cash Flow Statement acc. to IFRS
from January 1, 2016 to December 31, 2016 in €k

	Note	2016 January - December	2015 January - December
Cash flow from operating activities			
Net income		179,162	366,579
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization			
Depreciation and amortization of intangible assets and property, plant and equipment	10	146,809	168,742
Amortization of intangible assets resulting from company acquisitions	10	46,669	46,723
Amortization of financial assets	23	254,905	5,317
Compensation expenses from employee stock option plans	36	4,433	2,850
Results of at-equity companies	22	-1,248	1,293
Distributed profit of associated companies	22	19,309	100
Income from deconsolidation of associated companies	9.2, 22	0	-8,388
Income from the disposal of financial assets	9.2	0	-5,569
Change in deferred taxes	14	1,459	-3,762
Loss from the disposal of intangible assets and property, plant and equipment	9.1, 9.2	0	896
Other non-tax items		-7,295	-20,870
Other adjustments		0	553
Operative cash flow		**644,203**	**554,464**
Change in assets and liabilities			
Change in receivables and other assets		-41,784	-23,175
Change in inventories		3,019	121
Change in deferred expenses		-53,358	-76,571
Change in trade accounts payable		-16,715	38,083
Change in advance payments received		-2,758	3,170
Change in other accrued liabilities		-3,586	11,589
Change in accrued income taxes		-65,441	-10,049
Change in other liabilities		9,028	22,148
Change in deferred income		14,375	13,424
Change in assets and liabilities, total		**-157,220**	**-21,260**
Cash flow from operating activities (before capital gains tax payments)		**486,983**	**533,204**
Capital gains tax refund	45	0	326,013
Capital gains tax payment	45	0	-83,345
Cash flow from operating activities		**486,983**	**775,872**
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		-168,861	-140,442
Payments from disposals of intangible assets and property, plant and equipment		4,894	7,732
Purchase of shares in affiliated companies less cash received	4.2	309	-154,483
Purchase of shares in associated companies	4.1, 22, 45	-266,384	-417,821
Investments in other financial assets	23, 45	0	-93,885
Payments for loans granted	40	-657	-1,141
Payments from loans granted		3,548	250
Payments from the disposal of at-equity companies	4.3, 22	0	13,303
Payments from the disposal of financial assets	4.3, 23	4,464	18,165
Refunding from other financial assets	23	0	2,283
Cash flow from investment activities		**-422,687**	**-766,039**
Cash flow from financing activities			
Purchase of treasury stock	37	-112,167	0
Sale of treasury stock in connection with an employee stock ownership plan	37	6,964	0
Taking out / repayment of loans	30	360,000	191,411
Repayment / taking out of loans	30	-135,849	-30,000
Redemption of finance lease liabilities	44	-18,178	-15,721
Dividend payments	16	-142,857	-122,260
Dividend payments to non-controlling interests		-354	-377
Payments in connection with the investment of Warburg Pinucs	47	-717	0
Cash flow from financing activities		**-43,158**	**23,053**
Net increase in cash and cash equivalents		21,139	32,886
Cash and cash equivalents at beginning of fiscal year		84,261	50,829
Currency translation adjustments of cash and cash equivalents		-3,657	546
Cash and cash equivalents at end of fiscal year		**101,743**	**84,261**

United Internet AG, Montabaur - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS
from January 1, 2016 to December 31, 2016

Note	Capital stock 37		Additional paid-in capital 38	Accumulated profit 38	Treasury shares 37		Revaluation reserves 38	Currency translation difference 38	Equity attributable to shareholders of Uinited Internet AG	Non-controlling interests 39	Total equity
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2015	205,000,000	205,000	369,353	460,671	1,232,338	-35,335	216,745	-12,446	1,203,988	741	1,204,729
Net income				366,405					366,405	174	366,579
Other comprehensive income							-312,766	11,003	-301,763		-301,763
Total comprehensive income				366,405			-312,766	11,003	64,642	174	64,816
Issue of treasury shares				-9,017	-314,479	9,017			0		0
Employee stock ownership program			2,850						2,850		2,850
Dividend payments				-122,260					-122,260		-122,260
Profit distributions									0	-377	-377
Balance as of December 31, 2015	205,000,000	205,000	372,203	695,799	917,859	-26,318	-96,021	-1,443	1,149,220	538	1,149,758
Balance as of January 1, 2016	205,000,000	205,000	372,203	695,799	917,859	-26,318	-96,021	-1,443	1,149,220	538	1,149,758
Net income				178,998					178,998	164	179,162
Other comprehensive income							127,009	-14,136	112,873		112,873
Total comprehensive income				178,998			127,009	-14,136	291,871	164	292,035
Capital increase									0		0
Purchase of treasury shares					3,000,000	-112,167			-112,167		-112,167
Issue of treasury shares			914	-9,942	-546,916	15,992			6,964		6,964
Cancellation of treasury shares									0		0
Employee stock ownership program			4,433						4,433		4,433
Dividend payments				-142,857					-142,857		-142,857
Profit distributions									0	-354	-354
Reclassifications				2,215				-2,215		0		0
Balance as of December 31, 2016	205,000,000	205,000	377,550	724,213	3,370,943	-122,493	30,988	-17,794	1,197,464	348	1,197,812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

1. General information on the company and accounting

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

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

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

The reporting currency is euro (€). Amounts stated in the notes to the consolidated financial statements are in euro (€), thousand euro (€k) or million euro (€m). The consolidated financial statements are always drawn up on the basis of historical costs. The exception to this rule are derivative financial instruments and available-for-sale financial assets, which are stated at fair value.

The balance sheet date is December 31, 2016.

The Supervisory Board approved the consolidated financial statements for 2015 at its meeting on March 16, 2016. The consolidated financial statements were published in the German Federal Gazette (“Bundesanzeiger”) on April 20, 2016.

The consolidated financial statements for 2016 were prepared by the Company’s Management Board on March 17, 2017 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for approval on March 22, 2017. Theoretically, there may still be changes until the consolidated financial statements are approved and released for publication by the Supervisory Board. However, the Management Board expects that the consolidated financial statements will be approved in the present version. They are to be published on March 23, 2017.

2. *Accounting and valuation principles*

This section first presents all accounting policies which have been applied consistently in the periods presented in these consolidated financial statements. Following this, those accounting standards applied for the first time in these financial statements are explained, as are those accounting standards recently published but not yet applied.

2.1 Explanation of main accounting and valuation methods

Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. According to IFRS 10, control exists if an investor has the power to make decisions, is exposed to variable returns, and is able to use power to affect the amount of variable returns. The annual financial statements of subsidiaries are prepared as to the same balance sheet date and using the same standardized accounting and valuation methods as those applied by the parent company.

All intercompany balances, transactions, income, expenses, profits and losses from intercompany transactions contained in the carrying value of assets are fully eliminated.

Subsidiaries are fully consolidated from the point of acquisition, i.e. from the date on which the Company gained control. Consolidation ends as soon as the parent company no longer has control over the subsidiary.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated statement of comprehensive income in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

Non-controlling interests represent the proportion of the result and net assets which is not attributable to the Group. Non-controlling interests are disclosed separately in the consolidated balance sheet. They are disclosed in the consolidated balance sheet as part of shareholders' equity, but separate to the equity capital attributable to the shareholders of United Internet AG. For purchases of shares without a controlling influence (minority shareholding) or disposals of shares with a controlling influence but without loss of the controlling influence, the carrying values of shares with or without a controlling influence are adjusted to reflect the change in the respective shareholding. The amount by which compensation paid or received for the change in shareholding exceeds the carrying value of the respective share without a controlling influence is recognized directly in equity as a transaction with the shareholders.

Revenue recognition

Revenue is recognized separately for each of the Group's different segments (see also explanations on segment reporting in note 5).

Revenue is recognized when it is probable that the Group will receive an economic benefit and the amount of revenue can be reliably determined. Revenue is measured at the fair value of the compensation received. Sales tax or other charges are not considered. The recognition of revenue must also fulfill the measurement criteria described below.

Revenues in the separate segments are recognized according to the following principles:

Access segment

The Access segment mainly comprises the product lines DSL connections and mobile internet.

In these product lines, the Company generates revenue from the provision of the aforementioned access products, as well as from additional services such as internet and mobile telephony. Revenue consists of fixed monthly basic fees, as well as variable additional usage fees for certain services (e.g. for foreign calls and mobile phone connections not covered by any flat-rate), and proceeds from the sale of the respective hardware.

Revenue is recognized according to service provision, which generally corresponds to the receipt of monthly fees paid by customers (usage charges and basic fees). Revenue from the sale of hardware is recognized on transfer of risk at the invoiced amount. Payments on account received from customers are carried as deferred income.

The segment also includes revenues from various telecommunication products for business and wholesale customers. In addition to the provision of classic landline connections (DSL and ISDN), telecommunication services comprise broadband services, network solutions as telecommunications infrastructure (so-called leased lines) or VPNs, value-added services, interconnection and IP services. Certain products are provided on a leasing basis. In the case of such leases, the present value of the minimum lease payments from this economic sale is recognized as revenue from the beginning of the lease term if all material risks and rewards are transferred to the lessee; in subsequent accounting for the finance lease receivables, interest income is recognized in subsequent periods. The leased assets are derecognized through cost of sales. Provision fees are deferred over the lease term.

Applications segment

The Applications segment comprises United Internet’s application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The Company also offers its customers performance-based advertising and sales possibilities via Sedo and affilinet.

In the field of fee-based subscriptions, revenue is mainly generated from fixed monthly fees for the usage, administration and storage of the above applications, as well as income from the brokerage and administration of domains. In addition to fixed monthly fees, one-off fees such as set-up services, SMS charges, and income from affiliate programs are also generated.

Customers generally pay in advance for a contractually fixed time period for the services to be provided by the Company. Revenue is recognized pro rata over the period of service provision.

In the field of ad-financed applications (generally free e-mail solutions from GMX and WEB.DE), the Company generates advertising income and e-commerce commission via the WEB.DE, 1&1, GMX and smartshopping portals. This business is based on the frequent use of free applications and the correspondingly high number of hits for the portals. In the field of online advertising, space is offered on the websites of portals. Realized revenues depend on the placing of advertising and number of screenings or according to click rates. In its e-commerce business, the Company receives commission for the sale of products or brokerage of customers.

Revenues are realized according to services rendered. Advance customer payments are carried as deferred income.

In addition to application revenues, the segment also generates revenue from the performance-based advertising formats Domain Marketing and Affiliate Marketing.

In Domain Marketing, United Internet operates (via Sedo GmbH) a trading platform for the secondary domain market (domain trading). At the same time, the Company offers domain owners the possibility to market unused domains to advertisers (domain parking). In addition to these customer domains, the Company also holds its own portfolio of marketable and salable domains. In domain trading, the Company receives sales commission from the successful sale of domains via the platform and also generates revenue from services relating to domain value assessments and transfers. The sales commissions and services are generally based on a percentage of the sales price achieved, whereas fixed prices are generally charged for the other services. In domain parking, domains are mainly marketed using text links, i.e. links on the parked domains to offers of the advertisers (primarily via cooperation agreements with search engines). The Company receives performance-based payment on a monthly basis from the cooperation partner on a pay-per-click basis, according to the number of clicks registered by the cooperation partner.

The Company recognizes sales commissions as revenue when the service is rendered. Revenue is thus recognized on completion of the transaction or provision of the service. In the case of domain parking, the monthly payments credited by cooperation partners are recognized as revenue.

United Internet operates an internet platform for Affiliate Marketing via the company affilinet GmbH. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser's offer.

The advertiser recruits, controls and remunerates affiliates via the common platform. As the platform operator, affilinet is compensated by the advertiser for the use of administration and management tools provided on the platform, as well as for the calculation of transactions and the monthly payments to affiliates. Invoicing is based on the commission to be paid to the affiliate. This can be on a cost-per-click, cost-per-action or cost-per-sale basis, or a mixture of these three.

Revenue is recognized on completion of performance. Amounts invoiced in advance are recognized less performance completed as advance payments received.

Disclosure of disposal gains and losses from the sale of investments

Insofar as they concern effects on the income statement, regular carrying amounts and valuations, especially of investments in associated companies and available-for-sale shares, are disclosed in the financial result (see explanations on the financial result).

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

Foreign currency translation

The consolidated financial statements are prepared in euro, the Company's functional and presentation currency. Each company within the Group determines its own functional currency. The items in the annual financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated to the functional currency at the prevailing spot rate on the day of transaction. Monetary assets and liabilities in a foreign currency are translated to the functional currency on every balance sheet date using the closing rate. All currency differences are expensed in the income statement. The exception to this rule are currency differences resulting from foreign currency loans, providing they are used to hedge against a net investment in a foreign operation. These are recognized directly in equity until the net investment is sold and only recognized in profit or loss on disposal. Deferred taxes arising from such currency differences are also recognized directly in equity. Non-monetary items valued at historical cost in a foreign currency, are translated at the exchange rate prevailing on the day of the transaction. Non-monetary items stated at fair value in a foreign currency are translated at the ex-change rate prevailing at the time fair value was assessed. All goodwill items resulting from the acquisition of a foreign operation and all adjustments to fair value of the carrying values of assets and liabilities resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into euro at the closing rate. Income and expenditure is translated at the exchange rate prevailing on the date of the transaction (for practical considerations, a weighted average rate is used for translation). The resulting translation differences are recognized separately in equity. The cumulative amount for a foreign operation which is stated in equity is reversed with an effect on the income statement when the foreign operation is sold.

The exchange rates of major currencies developed as follows:

(in relation to 1 euro)	Closing rate		Average rate	
	31.12.16	31.12.15	2016	2015
US dollar	1.054	1.087	1.107	1.110
UK pound	0.856	0.734	0.819	0.726

Property, plant and equipment

Property, plant and equipment is always carried at cost less cumulative scheduled depreciation.

Items of property, plant and equipment are eliminated either on their disposal or when no further economic use is expected from the continued use or sale of the asset. Gains and losses from the disposal of an asset are recognized in the income statement.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Property, plant and equipment assets are depreciated over their expected economic useful life using the straight-line method.

The useful life periods can be found in the following summary:

	Useful life in years
Leasehold improvements	Up to 10
Buildings	10 or 50
Vehicles	5 to 6
Telecommunication equipment	7 to 10
Distribution networks	20
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13
Servers	3 to 5

For property, plant and equipment acquired in connection with company acquisitions, the applicable remaining useful life is determined primarily on the basis of the aforementioned useful lives and the useful lives elapsed at the time of acquisition.

Impairment tests and the recognition of impairment losses or reversals are conducted in the same way as for intangible assets with limited useful lives (see below).

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are connected with the production or purchase of a qualifying asset. As in the previous year, there was no need to capitalize borrowing costs during the reporting period.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves the recognition of all identifiable assets and liabilities of the acquired operation at fair value.

Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is valued at amortized cost. Goodwill is subjected to an impairment test at least once annually or whenever there is any event or change in circumstances which might indicate impairment.

In order to test whether there is any impairment, goodwill acquired in the course of a business combination must be allocated from the date of acquisition to each of the cash-generating units of the Group which are to profit from the synergy effects of the combination. This does not depend on whether other assets and liabilities of the Group are already allocated to these cash-generating units.

The impairment need is determined by comparing the recoverable amount of the cash-generating units to which goodwill refers with their carrying value. The recoverable amount of an asset, or a cash-generating unit, is the higher of fair value of the asset or cash-generating unit less transaction costs and its value-in-use. In order to determine the value-in-use, expected future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market expectations regarding the interest effect and the specific risks of the asset. A suitable valuation model is used to determine fair value less sales costs. This is based on DCF models, valuation multipliers, the share prices of listed subsidiaries or other available indicators for fair value. If the carrying amount of an asset, or cash-generating unit, exceeds its recoverable amount, the asset, or cash-generating unit, is regarded as impaired and is written down to the recoverable amount. An impairment loss recognized for goodwill may not be reversed in the following reporting periods. The Group performs its annual impairment test for goodwill on the balance sheet date.

Intangible assets

Individually acquired intangible assets are carried at cost on initial recognition. The acquisition cost of intangible assets resulting from the business combination corresponds to its fair value at the time of acquisition. In the following periods, intangible assets are valued at cost less cumulative amortization and cumulative impairment charges. With the exception of those development costs which can be capitalized, costs for internally generated intangible assets are expensed in the period incurred.

A difference is made between intangible assets with limited and those with indefinite useful lives.

Intangible assets with limited useful lives are amortized over their economic useful life using the straight-line method and tested for possible impairment if there is any indication that the asset may be impaired. The impairment test is conducted in the same way as for goodwill. The useful lives and amortization methods of intangible assets with limited useful lives are reviewed at least at the end of each fiscal year. Necessary changes to the depreciation method and useful life are treated as changes to assumptions. Amortization of intangible assets with limited useful lives are recognized in the income statement under the expense category corresponding to the function of the intangible asset in the Company.

Intangible assets with indefinite useful lives are not amortized in scheduled amounts. Instead, an impairment test is performed at least once annually on the balance sheet date for the individual asset or on the level of the cash-generating unit. The impairment test is conducted in the same way as for goodwill. The useful life of an intangible asset with an indefinite useful life is reviewed annually to ascertain whether the assumption of an indefinite useful life is still justified. If this is not the case, a prospective change is made from indefinite useful life to limited useful life.

The useful life periods can be found in the following summary:

	Useful life in years
Trademarks	Indefinite
Customer base	4 to 25
Licenses and other rights	2 to 15
Software	3 to 5

A review is also conducted on each balance sheet date to determine whether there is any indication that a previously recognized impairment loss no longer exists or has decreased in size. In the case of such an indication, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is only reversed if there has been a change in the assumption used to determine the recoverable amount since recognition of the last impairment loss. If this is the case, the asset's carrying value is raised to its recoverable amount. This amount may not exceed the carrying amount, less depreciation, that would have been determined had no impairment loss been recognized for the asset in prior years.

Investments in associated companies

Investments in associated companies are valued according to the equity method. An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

In the case of successive acquisition of company shares, the carrying value is measured using the equity method as of the date on which the prerequisites for accounting as an associated company are met. United Internet measures the old shares in the case of successive share purchases according to the retrospective method (cost-based approach). The original purchase cost of the old shares is included as acquisition cost using the equity method. Unrealized gains or losses previously recognized in the revaluation reserve are not considered.

Using the equity method, investments in associated companies are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company. Goodwill connected with an associated company is included in the carrying value of the investment and not subjected to scheduled amortization. The income statement includes the Company's portion of the success of the associated company. Changes recognized directly in the equity capital of the associated company are recognized by the Company in proportion to its shareholding and – where applicable – reported in "Changes in shareholders' equity".

Profits and losses from transactions between the Company and the associated company are eliminated in proportion to the shareholding in the associated company.

Upon loss of significant influence, a gain or loss from the disposal of the associated company is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the associated company, and (ii) the carrying amount of the investment to be disposed of.

The annual financial statements of the associated company are generally prepared as to the same balance sheet date as those of the parent company. Where necessary, adjustments are made to bring the methods in line with standard group-wide accounting and valuation methods.

On application of the equity method, the Company ascertains whether it is necessary to recognize an additional impairment loss for the Company's investments in associated companies. On each balance sheet date, the Company assesses whether there are objective indications for the impairment of an investment in an associated company. With regard to the underlying criteria, please refer to the comments on impairment of financial assets. Impairment tests and the recognition of impairment losses or reversals are conducted in the same way as for intangible assets with limited useful lives.

Fair value measurement

In some cases, assets and liabilities are measured either on initial recognition or during subsequent valuations at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible for the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Leases

The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time of signing and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

- Group as lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease period. The leased property is carried at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income.

Capitalized leased assets are fully depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Significant agreements classified as finance leases relate to IRU agreements (Indefeasible Rights of Use) and the use of leased city networks of the Versatel Group. IRUs are amortized over the contract term or, if there is a favorable purchase option, over their economic useful life.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

- Group as lessor

In those cases where Group companies agree finance leases as the lessor, a receivable is recognized at an amount equal to the net investment in the lease. The lease payments are apportioned between repayment of principal and finance income.

If the Group bears all substantial risks and rewards (operating lease), the leased asset is recognized in the balance sheet by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor.

Financial instruments – financial assets

The Group's financial assets comprise cash and short-term deposits, trade receivables, receivables from loans and other receivables, as well as listed and non-listed financial instruments.

Financial assets are carried at fair value on initial recognition. In the case of other financial investments than those classified as held at fair value through profit or loss, transaction costs directly attributable to the acquisition of the asset are also considered.

Financial assets are classified according to the valuation categories

- loans and receivables
- available-for-sale financial assets

at the moment of initial recognition.

All standard market purchases and sales of financial assets are recognized on the trading day, i.e. on the day on which the Company entered into the obligation to purchase the asset. Standard market purchases and sales are purchases and sales of financial assets which prescribe the delivery of the assets within a period specified by market regulations or conventions.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Following initial recognition, loans and receivables are carried at amortized cost using the effective interest method less allowances for impairment. Profits and losses are recognized in the period when the loans and receivables or eliminated or impaired or as part of amortization.

Available-for-sale financial assets are non-derivative financial assets which are classified as being available for sale and which have not been assigned to any other category. After initial recognition, available-for-sale financial assets are carried at fair value, unless there is significant uncertainty in the estimation of value. Non-realized profits or losses are recognized directly in equity in the revaluation reserve. Impairment is recognized in profit or loss. On disposal of available-for-sale financial assets, the cumulative profit or loss previously recognized in equity is reclassified to the income statement. If the fair value of available-for-sale financial assets cannot be reliably calculated, they are measured at amortized cost. If they were previously classified as financial assets held at fair value through profit or loss, they are reclassified correspondingly in the case of is significant uncertainty in the estimation of value. Fair value at this moment represents the acquisition cost under the new valuation category.

Financial instruments – impairment of financial assets

On each balance sheet date, the Company assesses whether there has been any impairment of a financial asset or group of financial assets.

If there is an objective indication that financial assets carried at amortized cost are impaired, the loss is calculated as the difference between the asset's carrying value and the present value of the expected future cash flows (with the exception of expected future credit losses not yet occurred), discounted with the original effective interest rate of the financial asset (i.e. the effective interest rate on initial recognition). Allowances for trade receivables are made on the basis of experience values by classifying receivables according to age and on the basis of other information regarding the impairment of customer-specific receivables. The asset's carrying value is reduced using an impairment account. The impairment loss is recognized in the income statement. If the scale of the impairment is reduced in one of the following reporting periods and this reduction can be objectively attributed to an event occurring after recognition of impairment, the allowance is reversed. This write-back is limited in scale to amortized cost at the time of the write-back. The write-back is recognized in the income statement.

If the value of an available-for-sale financial asset is impaired, an amount recognized in equity amounting to the difference between acquisition cost (less any redemption and amortization) and current fair value of this financial asset is reclassified to the income statement.

In order to ascertain impairment requiring recognition, information concerning all adverse changes in the technological, market-related, economic or legal environment is considered. A significant or persistent decrease in the fair value of an equity instrument below its acquisition cost is also an objective indication of impairment.

A significant decrease is assumed if the decline in fair value of an equity instrument at the end of the reporting period is more than 25% below its average cost. This does not apply if the prevailing circumstances and situation in exceptional cases clearly indicate that there is no impairment.

If an impairment is recognized for an available-for-sale financial asset, all further declines in the fair value in subsequent periods must also be recognized as impairments. Consequently, in the case of available-for-sale financial assets, an impairment charge equal to the difference between the fair value and the original costs less impairment charges of previous periods must be recognized at the end of each reporting period.

Impairment charges recognized in profit or loss for available-for-sale equity instruments may not be reversed in profit or loss, but are reclassified from equity to the income statement as soon as the equity instrument is sold.

Write-backs of debt instruments classified as available-for-sale, are recognized in the income statement if the increase in the instrument's fair value objectively results from an event which occurred after recognizing an impairment charge.

Financial instruments – financial liabilities

The Group's financial liabilities mainly comprise trade accounts payable, liabilities due to banks, and liabilities from finance leases.

Financial liabilities are initially recognized at the fair value of the consideration received less transaction costs relating to the loan. Liabilities from finance leases are initially recognized at the present value of the minimum lease payments.

After initial recognition, they are measured at amortized cost using the effective interest method.

Financial instruments – derivative financial instruments and hedging relationships

The Group occasionally uses derivative financial instruments in order to hedge against interest and exchange rate risks. Derivative financial instruments are recognized at fair value on the date of the agreement and carried at fair value in the subsequent periods. The fair value of interest derivatives is calculated on the basis of present value models using market information (interest rate curves) as well as – where material – the individual credit risk of the Company. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. Profit or loss resulting from changes in the fair value of derivative financial instruments which do not meet the criteria for recognition as hedging relationships are recognized immediately in the income statement.

When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity ("Cash flow hedge reserve"). Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as at the end of the reporting period using the hypothetical derivative method. The amounts recognized in equity are reclassified to the statement of comprehensive income in the period in which the hedge influences the period result, e.g. when hedged financial income or expenses are recognized or when an expected sale is made.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less estimated necessary selling costs. Adequate valuation allowances for excess inventories are made to provide for inventory risks.

Valuation is also based in part on time-related write-downs for inventories. Both the size and distribution over time of such write-downs represents a best-possible estimation of net realizable value and are thus subject to uncertainties. On indication of decreased net realizable value, inventories are corrected by recognizing suitable impairment charges.

Treasury shares

Treasury shares are deducted from shareholders’ equity. The purchase, sale, issue or retirement of treasury shares is not recognized in the income statement.

The cancellation of treasury shares results in the pro rata reversal of the item “Treasury shares” disclosed in shareholders’ equity at the expense of the remaining shareholders’ equity. The Group uses the following application sequence:

- The cancellation of treasury shares is always deducted from share capital in the amount of the par value.
- The amount exceeding par value is first derecognized in the amount of the value contribution from employee stock ownership plans (SARs and convertible bonds) against capital reserves.
- Any amount exceeding the value contribution from employee stock ownership plans is derecognized against accumulated profit.

Cash and cash equivalents

Cash and cash equivalents consist of bank balances, other investments, checks and cash in hand, which all have a high degree of liquidity and maturities of less than 3 months – calculated from the date of purchase.

Pensions and other post-employment benefits

Payments to defined contribution retirement benefit plans are expensed on payment of salary to the employee.

Provisions

Provisions are formed if the Group has a current (legal or actual) obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. If the Group expects at least partial compensation for a recognized provision (e.g. in the case of an insurance policy), this compensation is recognized as a separate asset if the reimbursement is virtually certain. The expense from forming the provision is recognized in the income statement after deducting the reimbursement. If the interest effect from discounting is significant, provisions are discounted at a pre-tax interest rate which reflects the specific risk of the debt, if so required by the individual case. In the event of a discount, the increase in provisions caused by the passage of time is recognized as a financial expense.

Share-based payment

Group employees receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the Company’s discretion. As the United Internet Group has no agreements with a current obligation for cash settlement, all share-based payment transactions are carried in the balance sheet as equity-settled payment transactions.

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective valuation process, the value component is determined at the time of granting, also for subsequent valuation until the end of the term. On every valuation date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available. The measurement of cost from the granting of equity instruments and the corresponding increase in equity occurs over the period in which the vesting or performance conditions have to be satisfied (the so-called vesting period). This period ends after the vesting date, i.e. the date on which the employee concerned has gained irrevocable entitlement. The cumulative expenses recognized on each balance sheet date for equity-settled transactions until the vesting date reflect the extent to which the vesting period has expired and the number of equity instruments which, according to the Group's best-possible estimate, will actually be vested after the vesting period. The income or expense recognized in the income statement represents the development of cumulative expenses recognized at the beginning and end of the reporting period. No expense is recognized for payment rights which are not vested.

Earnings per share

Undiluted or basic earnings per share are calculated by dividing the result attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised.

Financial income

Interest income is recognized as interest accrues (using the effective interest rate, i.e. the rate which discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Dividend income is recognized with the inception of the legal right to payment.

Government grants

Government grants are recognized where there is reasonable certainty that the grant will be received and the Company will satisfy all attaching conditions. Where the grants relate to an expense item, they are recognized as income in scheduled amounts over the period necessary to match the grants to the costs they are intended to compensate. Grants relating to an asset item reduce the carrying value of that item.

Current income tax and deferred taxes

The tax expense for a period comprises current taxes and deferred taxes. Taxes are recognized in the income statement, unless they relate to transactions that are recognized in other comprehensive income or directly in equity. In these cases, taxes are recognized accordingly in other comprehensive income or directly in equity.

Current taxes are valued at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable on the reporting date.

The liability method is used to create deferred taxes on all temporary differences existing on the reporting date between the carrying value of an asset or a liability in the balance sheet and the fiscal carrying value.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as of the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.2 Summary of measurement principles

The Group’s measurement principles can be summarized and simplified as follows – providing there is no impairment:

Balance sheet item	Measurement
ASSETS	
Intangible assets	
with limited useful lives	Amortized cost
with indefinite useful lives	Impairment-only recognition
Property, plant and equipment	Amortized cost
Shares in associated companies	Equity method
Available-for-sale assets	Fair value through other comprehensive income
Trade accounts receivable	Amortized cost
Inventories	Lower of cost and net realizable value
Prepaid expenses	Amortized cost
Other financial assets	Amortized cost
Other non-financial assets	Amortized cost
Deferred tax assets	Undiscounted valuation at tax rates valid in the period in which an asset is realized or a liability settled
LIABILITIES	
Liabilities due to banks	Amortized cost
Deferred tax liabilities	Undiscounted valuation at tax rates valid in the period in which an asset is realized or a liability settled
Income tax liabilities	Expected payment to the tax authorities based on tax rates applicable on the reporting date or in the near future
Trade accounts payable	Amortized cost
Deferred revenue	Amortized cost
Other accrued liabilities	Expected discounted amount that will lead to outflow of resources
Other financial liabilities	Amortized cost
Other non-financial liabilities	Amortized cost

2.3 Effects of new or amended IFRS standards

The following standards and interpretations amended or published by the IASB were mandatory in fiscal year 2016:

- **Annual Improvement Project 2012-2014**

The new or amended standards had no significant impact on the consolidated financial statements.

2.4 Accounting standards already published but not yet mandatory

Apart from the IFRSs mentioned above whose application is mandatory, the IASB has also published further IFRSs and IFRICs which have already partly received EU endorsement but which will not become mandatory until a later date. United Internet AG will probably only implement these standards when their adoption becomes mandatory.

Standard		Mandatory for fiscal years beginning on or after	Endorsed by EU Commission
IFRS 2	Classification and Measurement of Share-based Payment Transactions	Jan. 1, 2018	No
IFRS 9	Financial Instruments (standard and further amendments)	Jan. 1, 2018	Yes
IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	Yes
IFRS 15	Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Jan. 1, 2018	No
IFRS 16	Leases	Jan. 1, 2019	No
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	Jan. 1, 2017	No
IAS 7	Disclosure Initiative	Jan. 1, 2017	No
IFRS 10 / IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed until further notice	

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments which replaces IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 combines the three project phases of accounting for financial instruments “Classification and Measurement”, “Impairment”, and “Hedge Accounting”. IFRS 9 is mandatory for the first time in fiscal years beginning on or after January 1, 2018. Apart from Hedge Accounting, the standard is to be applied retroactively. However, the disclosure of comparative information is not required. The regulations concerning Hedge Accounting are generally to be used prospectively, with a few exceptions. United Internet is currently analyzing the effects on the presentation of its financial position and performance or cash flows. The impact for the United Internet Group may include effects on the classification and measurement of assets currently classified as “available-for-sale”.

IFRS 15 - Revenue from Contracts with Customers provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. The new standard replaces the existing standards IAS 18 - Revenue and IAS 11 - Construction Contracts. Application of IFRS 15 is mandatory for the first time in fiscal years beginning on or after January 1, 2018. Transition to the new standard can be either modified or completely retrospective. The United Internet Group will exercise its right to use the modified retrospective transitional method. The prior-year figures in the consolidated financial statements for fiscal year 2018 will not therefore be adjusted. As of January 1, 2018, the conversion effects will be recognized in equity.

The application of IFRS 15 will have a significant impact on the financial position and performance of the United Internet Group. The effects mainly concern the accounting of so-called multiple-element arrangements. Whereas under the previous regulations, revenue from sales of hardware supplies as part of a multiple-element arrangement was only recognized in the amount billed to the customer, the new regulations require a separation of the total price for the customer contract based on the relative standalone selling prices of the individual elements. The resulting revenue share allocated to hardware is recognized on delivery to the customer. As the allocated revenue share generally exceeds the amount charged to the customer, the new regulations lead to accelerated revenue recognition. At the same time, the revenue share attributable to hardware rises at the expense of revenues from the services rendered. Moreover, the new regulations require the capitalization of contract costs. Provided that certain conditions are met, the costs of contract completion (e.g. provision fees) and the costs of contract acquisition (e.g. sales commissions) must also be capitalized in future and spread over the estimated period of use. The effects of applying IFRS 15 will be analyzed as part of a Group-wide project on the implementation of the new standard. The United Internet Group currently expects an increase in consolidated shareholders' equity in the hundreds of millions from the aforementioned effects relating to the transition to IFRS 15. However, a reliable specific estimate of the quantitative effects is not currently possible.

The accounting standard IFRS 16 – Leases revises lease accounting and obliges lessees to disclose all leases in the balance sheet. No basic difference is made in future between an asset which is leased and one which is acquired on credit terms. IFRS 16 applies for the first time in fiscal years beginning on or after January 1, 2019. The new regulation will lead to an increase in non-current assets in the consolidated balance sheet (for right of use), and at the same time an increase in financial liabilities (due to the payment obligation). As a result, every leasing or rental arrangement is disclosed in the balance sheet. In the income statement, this leads to increased depreciation and interest expense. In turn, this results in increased EBITDA. However, as financial liabilities increase at the same time, the ratio of net financial liabilities to adjusted EBITDA (relative indebtedness) may change although there has been no economic change.

Leasing or rental arrangements with terms up to twelve months and low-value contracts are exempted from the recognition obligation.

In the field of operating leases, United Internet AG is predominantly a lessee at present, but is active as both lessor and lessee in the field of finance leases. The Group's operating leases mainly refer to rental obligations for network infrastructure, including subscriber lines, buildings, technical equipment and vehicles. The effects of IFRS 16 on the consolidated financial statements of United Internet AG are therefore likely to be mainly in the amount of operating leases and the resulting depreciation and interest effects, which will replace the current operating lease expenses (see note 44).

No significant impact is expected from the other IFRS amendments.

3. Significant accounting judgments, estimates and assumptions

The application of accounting and valuation methods in preparing the consolidated financial statements requires management to make certain accounting judgments, estimates and assumptions. These have an effect on the disclosed amounts of earnings, expenditure, assets and liabilities, as well as contingent liabilities, as of the balance sheet date. Actual amounts may differ from these estimates and assumptions, which may lead in future to significant adjustments to the carrying values of the assets and liabilities concerned.

Accounting judgments

In the application of accounting and valuation methods, management made the following accounting judgments which significantly affect amounts in the annual financial statements.

The consolidated financial statements are affected in particular by IRUs (Indefeasible Rights of Use). With this form of lease, management assesses whether all substantial risks and rewards related to the asset are transferred. If management concludes that all risks and rewards from usage are transferred to the Group company or to the customer, the contract is accounted for in accordance with IAS 17 as a finance lease. The carrying value of liabilities from finance leases amounted to € 99,189k as of December 31, 2016 (prior year: € 103,564k)

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost represents objective evidence of impairment. The decision on when a significant or prolonged decline has taken place requires judgment. In making this assessment, the Group considers in particular the percentage size of the decline in fair value and the duration of the decline, among other factors.

The Group holds a strategic investment in Rocket Internet SE (share of capital stock 8.31%). Since Rocket Internet SE's IPO on October 2, 2014, the share price of this strategic investment has been strongly volatile. At the at the end of the reporting period, the share price of Rocket Internet SE was 47% below the Group's average acquisition costs. On the basis of the accounting and valuation principles described in section 2, the decline was classified as significant. In the first and second quarters, impairment charges were therefore recognized for the investment. Compared to June 30, 2016, the share price recovered slightly as of the end of the reporting period. In this connection, there is positive accumulated other comprehensive income of € 22,912k for the investment in Rocket Internet SE as of December 31, 2016.

The carrying value of available-for-sale equity instruments amounted to € 273,559k as of December 31, 2016 (prior year: € 436,870k).

At the end of the reporting period, the stock market value of shares in Tele Columbus AG, carried as an associated company, are below the amortized carrying amount using the equity method. According to the accounting and measurement principles described in section 2, this fall below the carrying amount is not classified as impairment.

Estimates and assumptions

The most important forward-looking assumptions and other major sources of uncertainty as of the balance sheet date, which involve the risk of significant adjustments to the carrying values of assets and liabilities in the coming fiscal year, are explained below.

Impairment of non-financial assets

Goodwill and other intangible assets with undefined useful lives are assessed at least once a year or on indication of impairment. Other non-financial assets are tested for impairment if there is any indication that the carrying value exceeds the recoverable amount. The recoverable value of the respective cash-generating unit to which the goodwill or intangible assets have been allocated is calculated either as “value-in-use” or fair value less cost of sell.

In order to estimate value-in-use or fair value less cost of sell, management must estimate expected future cash flows of the asset or cash-generating unit and select a suitable discount rate to assess the present value of these cash flows. Further details, including a sensitivity analysis of significant assumptions, are presented in the note “Impairment of goodwill and intangible assets with indefinite useful lives”.

The most important management assumptions for the measurement of the recoverable value of cash-generating units include assumptions regarding the development of sales, margins and the discount rate.

Carrying amounts and impairment test for investments in associated companies

As of the balance sheet date, the United Internet Group holds investments in various associated companies. In accordance with IAS 28.31, the Company examines on the balance sheet date whether the net investment of the United Internet Group in the respective associated company requires an additional impairment charge.

The carrying amount for shares in associated companies is measured on the basis of their prorated annual results. If the annual results for the fiscal year are not known, an estimate is made on the basis of the latest publicly available financial information of the respective associated company.

The recoverable amounts of listed associated companies is based on the respective share price. The recoverable amounts of non-listed companies consider both the available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2016, the carrying value of investments in listed associated companies amounted to € 724,921k (prior year: € 440,272k). The carrying value of investments in non-listed associated companies as of December 31, 2016 amounted to € 30,625k (prior year: € 28,094k).

Share-based payments

The Group measures the cost of granting equity instruments to employees by using the fair value of these equity instruments at the moment they were granted. A suitable valuation model must be used to estimate fair value when granting equity instruments; this depends on the contractual terms. Suitable data must also be chosen for the valuation process, including the expected option term, volatility, exercise behavior and dividend yield, as well as the corresponding assumptions.

In the reporting period, expenses for share-based remuneration (stock appreciation rights and employee stock ownership plan) amounted to € 4,433k (prior year: € 2,850k).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. The carrying value of income tax liabilities as of December 31, 2016 amounted to € 64,145k (prior year: € 129,586k).

Trade accounts receivable

Trade accounts receivable are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to € 283,866k as of December 31, 2016 (prior year: € 255,505k).

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less the necessary expected costs up to the time of sale. Valuation is also based in part on write-downs for inventories. The size of such write-downs represents a best-possible estimation of net realizable value and is thus subject to uncertainties. The carrying values of inventories as of the balance sheet date amounted to € 39,490k (prior year: € 42,509k). Please refer to note 19 for further information.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are valued at cost on initial recognition. After initial recognition, property, plant and equipment and intangible assets with limited useful lives are depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 892,672k as of December 31, 2016 (prior year: € 922,661k).

Accounting for business combinations

Business combinations are accounted for using the purchase method. Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Costs accrued in the course of the business combination are recognized under other operating expense.

However, assumptions made to determine the respective fair value of the acquired assets and liabilities as of the date of acquisition are subject to significant uncertainties.

For the identification of intangible assets, depending on the type of intangible asset and complexity of determining its fair value, the Company either uses independent appraisals of external assessors or fair value is determined internally using a suitable assessment technique for the respective intangible asset, generally based on a forecast of total expected future cash flow generation. These valuations are closely related to assumptions and estimates which management has made about the future development of the respective assets and the applicable discounted interest rate.

The carrying values of goodwill as of the balance sheet date amounted to € 1,087,685k (prior year: €1,100,123k).

Provisions

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions amounted to € 52,908k as of December 31, 2016 (prior year: € 60,044k).

4. Business combinations and investments

4.1. Investments in fiscal year 2016

Via its subsidiary United Internet Ventures AG, United Internet contractually secured the acquisition of a share package amounting to approx. 15.31% of shares in Tele Columbus AG, Berlin, Germany, on February 10, 2016. At the time, the closing of the acquisition was subject to approval by the German anti-trust authority ("Bundeskartellamt"). This approval was granted on March 7, 2016. After closing the acquisition, United Internet has a total indirect shareholding – together with further shares acquired – of 25.11% in Tele Columbus and carries it as an associated company.

In the second quarter, United Internet sold its 430,454 shares (8.37% stake) in HiPay Group S.A., Paris / France, in an over-the-counter transaction at a price of € 10.37 per share and thus for a total of € 4.5 million. This share sale resulted in other operating income of € 935k.

4.2. Business combinations in the previous year

On December 30, 2015, 1&1 Internet SE acquired 100% of shares in home.pl S.A., Stettin (Poland) from the private equity company V4C Eastern Europe. For the acquisition of all shares in the home.pl S.A. Group, 1&1 Internet SE paid a total amount of € 159,028k on December 30, 2015 (in cash as well as in the form of a redemption of the interest-bearing liabilities of the group) (transferred consideration).

The subsequent adjustment of the purchase price agreed in the course of the acquisition, depending on free cash available on the closing date December 31, 2015, led to a subsequent purchase price reduction of € 309k. The final transferred consideration was as follows:

Final transferred consideration for the acquisition of home.pl S.A.	**€k**
Cash purchase price	136,013
Assumption of financial debt	23,015
Free cash adjustment	-309
Transferred consideration	**158,719**

Due to the short period between the company acquisition and the reporting date of December 31, 2015, the purchase price allocation was subsequently made in the current fiscal year 2016 within the 12-month valuation period pursuant to IFRS 3.

The preliminary goodwill from company acquisition before purchase price allocation amounted to € 158,866k in the previous year. The purchase price allocation completed in the reporting period resulted in a reduction in goodwill of € 37,672k. Goodwill as of December 30, 2015 after purchase price allocation (PPA) amounted to € 121,194k.

The following table compares the preliminary PPA figures with the final PPA figures:

	Preliminary PPA €k	Final PPA €k
Assets		
Current		
Cash and cash equivalents	4,545	4,545
Trade accounts receivable	431	431
Prepaid expenses	4,761	4,761
Other financial assets	57	57
Other non-financial assets	5	5
Non-current		
Trade accounts receivable	18	18
Other financial assets	91	91
Prepaid expenses	15	15
Property, plant and equipment	1,583	1,583
Intangible assets	1,891	47,063
Deferred tax assets	1,416	1,416
Liabilities		
Current		
Trade accounts payable	1,182	1,182
Advance payments received	148	148
Income tax liabilities	388	388
Deferred revenue	11,353	10,296
Other financial liabilities	776	776
Other non-financial liabilities	113	113
Non-current		
Trade accounts payable	292	292
Deferred tax liabilities	0	8,866
Deferred revenue	326	326
Other financial liabilities	14	14
Total identifiable net assets	**221**	**37,584**
Non-controlling interests	59	59
Goodwill from company acquisition	**158,866**	**121,194**
Transferred consideration	**159,028**	**158,719**

In the fiscal year 2015, total transaction costs of € 1,916k were expensed in the course of the business combination (see note 9.1).

As a result of the completed purchase price allocation and the resulting retrospective adjustment of assets and liabilities, the prior-year figures were updated as follows:

	Dec. 31, 2015	Dec. 31, 2015	Adjustments
	updated	acc. to AR 2015	
	€k	€k	€k
Intangible assets	389,514	344,033	45,481
Goodwill	1,100,123	1,137,795	-37,672
Deferred revenue - current	231,979	233,036	-1,057
Deferred tax liabilities	97,946	89,080	8,866

4.3. Investments in the previous year

On April 10, 2015, United Internet sold its 898,970 shares (14.96%) in Goldbach Group AG, Küsnacht-Zurich / Switzerland, over the counter at a price of CHF 21.00 or € 20.14 per share and thus for a total of CHF 18.9 million or € 18.1 million. The share sale resulted in other operating income of € 5,569k.

On April 27, 2015, the Company announced that on that day it had contractually secured – via its subsidiary United Internet Ventures AG – the purchase of an approx. 9.1% equity stake in Drillisch AG, Maintal. Following approval by the relevant anti-trust authorities and closing of the share purchase transaction, United Internet AG had a total indirect holding of 20.7% in Drillisch AG – including shares already acquired. The acquisition costs for the total shareholding (20.7%) amounted to € 436,643k. The company has been included in the consolidated financial statements of United Internet AG as an associated company since the purchase of the 9.1% stake in Drillisch AG. Following a capital increase conducted by Drillisch AG, United Internet Ventures AG holds a stake of 20.11% in Drillisch AG.

At the end of the first half-year 2015, the listed United Internet investment Hi-Media S.A. (10.46%) span off its activities in the field of online payment to create the company HiPay Group, which it also took public. Following the transaction, United Internet also owns an 8.37% stake in HiPay. The investments are carried as other financial assets.

At the end of June 2015, the ProSiebenSat.1 Group announced that it had acquired – as the second strategic investor – a 51.00% stake in virtual minds AG (subject to the approval of the relevant anti-trust authorities). United Internet had already held a stake in this company since 2008 and will continue to hold a stake of 25.10% (previously: 48.65%) even after the investment by ProSiebenSat.1. Following approval by the anti-trust authorities, United Internet received proceeds of € 13.3 million. The sale of the shares resulted in other operating income of € 8,388k.

Rocket Internet SE resolved on a capital increase for cash contribution on February 13, 2015. The capital stock of Rocket Internet SE was raised by € 12,010k, from € 153,131k to € 165,141k. United Internet AG indirectly participated in this capital increase via UI Ventures and acquired 1,201,000 shares for a total price of € 58,849k. In this connection, the stake held by UI Ventures in Rocket Internet SE increased from 8.18% to 8.31%.

5. Sales revenue / segment reporting

According to IFRS 8, the identification of operating segments to be included in the reporting process is based on the so-called management approach. External reporting should therefore be based on the Group's internal organization and management structure, as well as internal financial reporting to the Chief Operating Decision Maker. In the United Internet Group, the Management Board is responsible for assessing and controlling the success of the various segments.

Management and consolidated reporting is undertaken via the segments "Access" and "Applications". The sub-segments "Consumer" and "Business" are combined herein as the products and services within the segments do not fundamentally differ. A description of the products and services is provided in note 2.5 in the explanation of revenue recognition. The segment "Corporate" comprises mainly management holding functions.

The Management Board of United Internet AG mainly controls operations on the basis of key performance figures. It measures segment success primarily on the basis of sales revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and the result of ordinary operations (EBIT). Transactions between segments are charged at market prices. Information on sales revenues is allocated to the country in which the company is domiciled. Segment earnings are reconciled with the total amount for the United Internet Group.

Segment reporting of United Internet AG in fiscal year 2016 was as follows:

January - December 2016	Access segment €k	Applications segment €k	Corporate segment €k	Reconciliation/ Consolidation €k	United Internet Group €k
Segment revenues	2,917,169	1,070,731	189	-39,150	3,948,939
- thereof domestic	2,917,169	645,986	189	-39,150	3,524,194
- thereof non-domestic	0	424,745	0	0	424,745
EBITDA	525,564	334,967	-19,902	0	840,629
EBIT	389,890	278,348	-21,087	0	647,151
Financial result			-1,613	-24,761	-26,374
Writedowns on investments			-254,899	-6	-254,905
Result from at-equity companies			-1,995	3,242	1,247
EBT			-279,594	646,713	367,119
Tax expense				-187,957	-187,957
Net income					179,162
Assets (non-current)	1,236,115	593,156	301,648	---	2,130,919
- thereof domestic	1,236,115	297,949	299,406	---	1,833,470
- thereof shares in associated companies	724,726	0	29,208	---	753,934
- thereof other financial assets	4,907	738	270,198	---	275,843
- thereof goodwill	506,482	297,211	0	---	803,693
- thereof non-domestic	0	295,207	2,242	---	297,449
- thereof shares in associated companies	0	1,612	0	---	1,612
- thereof other financial assets	0	9,603	2,242	---	11,845
- thereof goodwill	0	283,992	0	---	283,992
Investments in intangible assets, property, plant and equipment (without goodwill)	133,411	43,842	341	---	177,594
Amortization/depreciation	135,674	56,619	1,185	---	193,478
- thereof intangible assets and property, plant and equipment	98,975	46,649	1,185	---	146,809
- thereof assets capitalized during company acquisitions	36,699	9,970	0	---	46,669
Number of employees	3,478	4,406	198	---	8,082
- thereof domestic	3,478	2,762	198	---	6,438
- thereof non-domestic	0	1,644	0	---	1,644

Segment revenues also include certain revenues between segments, but without internal Group allocations and charges. The segment revenue of the Applications segment thus also contains revenue of € 39,150k generated with the Access segment, mainly in connection with the marketing of the GMX and WEB.DE portals for Access products launched in the reporting period. Revenues generated with external customers of the Access segment and Applications segment amount to € 2,917,169k (prior year: € 2,742,647k) and € 1,031,581k (prior year: € 972,812k), respectively.

Non-current segment assets comprise shares in associated companies, other financial assets and goodwill.

In the periods under review, there was no significant concentration of individual customers in the customer profile. The United Internet Group does not generate more than 10% of total external sales revenues with one customer. Foreign sales accounted for 10.8% (prior year: 10.3%) of total Group revenues. As in the previous year, revenues of the Access segment from external customers were generated exclusively in Germany. Of total revenues of the Applications segment from external customers, an amount of € 606,836k was generated in Germany (prior year: € 589,226k) and an amount of € 424,745k was generated abroad (prior year: € 383,586k).

The highest management committee only monitors shares in associated companies, other non-current financial assets and goodwill. The depreciation disclosed in the segments refers to other, non-monitored intangible assets and property, plant and equipment.

The reconciliation figure with regard to earnings before taxes represents the corresponding EBT contribution of the Access and Applications segments.

Segment reporting of United Internet AG in fiscal year 2015 was as follows:

January - December 2015	Access segment €k	Applications segment €k	Corporate segment €k	Reconciliation/ Consolidation €k	United Internet Group €k
Segment revenues	2,742,647	1,001,181	221	-28,369	3,715,680
- thereof domestic	2,742,647	617,595	221	-28,369	3,332,094
- thereof non-domestic	0	383,586	0	0	383,586
EBITDA	492,125	281,932	-2,875	0	771,182
EBIT	336,392	222,510	-3,185	0	555,717
Financial result			9,199	-23,209	-14,010
Writedowns on investments			-5,292	-25	-5,317
Result from at-equity companies			-5,065	3,772	-1,293
EBT			-4,343	539,440	535,097
Tax expense				-168,518	-168,518
Net income					366,579
Assets (non-current)	983,118	645,549	426,453	---	2,055,120
- thereof domestic	983,118	322,042	421,231	---	1,726,391
- thereof shares in associated companies	440,272	0	26,539	---	466,811
- thereof other financial assets	36,364	20	394,692	---	431,076
- thereof goodwill	506,482	322,022	0	---	828,504
- thereof non-domestic	0	323,507	5,222	---	328,729
- thereof shares in associated companies	0	1,555	0	---	1,555
- thereof other financial assets	0	12,661	5,222	---	17,883
- thereof goodwill	0	309,291	0	---	309,291
Investments in intangible assets, property, plant and equipment (without goodwill)	96,308	52,448	791	---	149,547
Amortization/depreciation	155,733	59,422	310	---	215,465
- thereof intangible assets and property, plant and equipment	116,162	52,270	310	---	168,742
- thereof assets capitalized during company acquisitions	39,571	7,152	0	---	46,723
Number of employees	3,142	4,945	152	---	8,239
- thereof domestic	3,142	3,208	152	---	6,502
- thereof non-domestic	0	1,737	0	---	1,737

6. *Cost of sales*

	2016	2015
	€k	€k
Cost of services	1,765,131	1,633,941
Cost of goods	396,152	376,911
Personnel expenditure	178,972	164,320
Depreciation	135,856	139,530
Others	118,467	122,523
Total	**2,594,578**	**2,437,225**

Cost of sales in relation to sales revenue remained constant at 65.7% compared with the previous year (65.6%). As a result, gross margin was virtually unchanged at 34.3% (prior year: 34.4%).

7. *Selling expenses*

Selling expenses developed less than proportionately from € 557,220k (15.0% of sales) to € 523,616k (13.3% of sales). They include personnel expenses of € 191,367k (prior year: € 185,258k), depreciation of € 23,516k (prior year: € 44,875k) and other selling expenses of € 308,733k (prior year: € 327,087k). The decline in depreciation results mainly from the final depreciation in the previous year of the customer base of Freenet AG acquired in fiscal year 2009. Other selling expenses mostly comprise customer acquisition costs, advertising, customer care and product management.

8. *General and administrative expenses*

Compared to the previous year, general and administrative expenses rose more slowly than sales from € 182,254k (4.9% of sales) to € 183,634k (4.7% of sales). They include personnel expenses of € 75,330k (prior year: € 80,170k), depreciation of € 34,117k (prior year: € 31,060k) and other general and administrative expenses of € 74,187k (prior year: € 71,015k). The other general and administrative expenses mostly comprise expenses for accounts receivable management, rent, legal and consulting fees, and maintenance costs.

9. Other operating income / expenses

9.1 Other operating expenses

	2016	2015
	€k	€k
Losses due to accounts receivable	34,642	33,158
Transaction costs	11,008	1,916
Expenses from foreign currency translation	5,291	12,735
Other taxes	459	3,463
Donations	335	246
Losses from the disposal of investment	302	1,365
Others	5,793	16,895
Total	**57,830**	**69,778**

Losses due to accounts receivable include expenses for valuation allowances on trade accounts receivable and expenses arising from the derecognition of such receivables.

Transaction costs mainly comprise expenses in connection with the investment of Warburg Pincus and the acquisition of Strato; please refer to note 47.

Expenses from foreign currency translation mainly comprise losses from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as losses from valuation at the balance sheet date. Currency gains from these items are reported under other operating income. A net consideration of this item results in a net gain of € 313k (prior year: € 246k).

Other expenses in the previous year mainly comprise costs for legal disputes. These refer to litigation risks for which suitable provisions were formed as at the reporting date.

9.2 Other operating income

	2016	2015
	€k	€k
Income from dunning and return debit charges	27,393	25,206
Income from the processing of an investment transaction	7,827	20,870
Income from foreign currency translation	5,604	12,981
Income from the reversal of accrued liabilities	2,361	1,691
Income from subsequent measurement of a purchase price liability	1,754	306
Income from impaired accounts receivable	1,320	0
Income from the disposal of HiPay	935	0
Income from the disposal of property, plant and equipment	269	469
Income from the disposal of Virtual Minds	0	8,388
Income from the disposal of Goldbach	0	5,569
Income from an agreement in the course of a company acquisition	0	2,700

Income from the processing of an investment transaction refers to the recognition of a derivative financial instrument during the year which was measured at fair value.

Income from foreign currency translation mainly comprise gains from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as gains from valuation at the balance sheet date. Currency losses from these items are reported under other operating expenses.

For information the valuation of liabilities, please refer to note 34.3.

10. Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant and equipment consist of the following:

	2016	2015
	€k	€k
Cost of sales	135,845	139,530
Selling expenses	23,516	44,875
General and administrative expenses	34,117	31,060
Total	**193,478**	**215,465**

Depreciation and amortization also includes the amortization of capitalized assets resulting from business combinations. These are divided between the capitalized assets as follows:

	2016	2015
Intangible assets	**€k**	**€k**
Customer base / order backlog	25,521	22,816
Software	1,191	276
Technology	1,442	1,442
	28,154	**24,534**
Tangible assets		
Network infrastructure	18,515	21,407
Operational equipment	0	782
Total	**46,669**	**46,723**

Amortization of capitalized assets resulting from business combinations is divided between the business combinations as follows:

	2016	2015
	€k	**€k**
Versatel	36,699	39,571
Arsys	5,096	6,116
home.pl	4,132	0
Fasthosts	705	999
WEB.DE portal business	37	37
	46,669	**46,723**

11. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2016	2015
	€k	**€k**
Cost of sales	178,972	164,320
Selling expenses	191,367	185,258
General and administrative expenses	75,330	80,170
Total	**445,669**	**429,747**

Personnel expenses include wages and salaries of € 380,555k and social security costs of € 65,114k.

The number of employees decreased by 1.9%, from 8,239 in the previous year to 8,082 at the end of 2016:

	2016	2015
Germany	6,438	6,502
Outside Germany	1,644	1,737
thereof the Philippines	386	390
thereof Spain	333	339
thereof Great Britain	235	234
thereof Poland	258	263
thereof USA	197	239
thereof Romania	194	229
thereof France	24	25
Others	17	18
Total	**8,082**	**8,239**
thereof women	34%	34%
thereof men	66%	66%

The average number of employees in fiscal year 2016 amounted to 8,090 (prior year: 7,972), of which 6,425 (prior year: 6,374) were employed in Germany and 1,665 (prior year: 1,598).

With regard to company pension plans, the Group only has defined contribution plans. The Company pays contributions to the state pension fund as a result of statutory obligations. There are no other benefit obligations for the Company after payment of the contributions. The current contribution payments are disclosed as an expense in the respective year. In fiscal year 2016, they amounted to € 26,394k (prior year: € 25,060k) and mostly concerned contributions paid to the state pension fund in Germany.

As a result of contribution exemptions, an amount of € 0k (prior year: € 0k) of this total referred to contributions paid to related parties.

12. Financial expenses

	2016	2015
	€k	€k
Loans and overdraft facilities	27,742	22,136
Financial expense from finance leases	2,266	2,228
Interest expense from tax audit	639	456
Other	529	2,319
	31,176	**27,139**

The year-on-year increase in borrowing costs results mainly from higher finance volumes.

Please refer to note 44 for an explanation of the financial expense from finance leases.

13. Financial income

	€k	€k
Interest income from tax audit	2,409	498
Interest income from finance leases	899	523
Income from dividends	589	10,640
Income from loans to associated companies	306	285
Other	599	1,183
Total financial income	**4,802**	**13,129**

Income from dividends in the previous year mainly comprised income from a dividend of € 10,472k distributed by Drillisch AG. In fiscal year 2016, Drillisch AG is carried under associated companies using the equity method; we refer to note 22.

Other financial income mainly comprises interest income from credit balances with banks.

With regard to income from loans to associated companies, please refer to note 41.

14. *Income taxes*

The income tax expense is comprised as follows:

	2016	2015
	€k	€k
Current income taxes		
- Germany	177,959	158,298
- Abroad	8,539	13,982
Total (current period)	186,498	172,280
Deferred taxes		
- Due to tax loss carryforwards	1,095	2,819
- Tax effect on temporary differences	364	-6,581
Total deferred taxes	1,459	-3,762
Total tax expense	**187,957**	**168,518**

Under German tax law, income taxes comprise corporate income tax and trade tax, as well as the solidarity surcharge.

German trade tax is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate in fiscal year 2016 amounted to approx. 14.4% (prior year: 14.5%).

As in the previous year, German corporate income tax was levied at 15% – irrespective of whether the result was retained or distributed. In addition, a solidarity surcharge of 5.5% is imposed on the assessed corporate income tax.

In addition to taxes on the current result, income taxes include tax income not relating to the period of € 5,841k (prior year: € 2,810k).

Deferred tax assets are recognized for tax loss carryforwards and temporary differences if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets for tax loss carryforwards in certain countries are shown in the table below:

	2016	2015
	€k	€k
Germany	21,826	22,193
France	282	670
USA	0	340
	22,108	**23,203**

Deferred tax assets for loss carryforwards of German companies mainly refer to the Versatel Group.

The following time limits apply for the use of tax loss carryforwards in different countries:

- USA: 20 years
- Germany: indefinite, but minimum taxation
- France: indefinite, but minimum taxation
- Poland: 5 years

Tax loss carryforwards for which no deferred tax assets have been formed, refer to the following countries (excluding Germany):

	2016	**2015**
	€k	**€k**
USA Federal *	10,342	8,711
USA State **	11,532	9,862
Poland	11	1,369
	21,885	**19,942**

* Tax rate 30.6%

** Tax rate 10.0%

A breakdown of income tax types results in the following loss carryforwards for Germany for which no deferred taxes have been formed:

	2016		**2015**	
	Corporation tax in €k	**Trade tax in €k**	**Corporation tax in €k**	**Trade tax in €k**
Germany	90,315	31,553	85,710	32,953

Loss carryforwards in Germany for which no deferred tax assets have been formed mainly refer to loss carryforwards of the Versatel Group.

In fiscal year 2016, no significant loss carryforwards were used (prior year: € 3,626k).

In fiscal year 2016, a deferred tax expense from the devaluation of deferred tax assets amounting to € 1,527k was recognized (prior year: € 0k).

Deferred taxes resulted from the following items:

In €k	2016 Deferred tax assets	2016 Deferred tax liabilities	2015 Deferred tax assets	2015 Deferred tax liabilities
Trade receivables	1,502	6,800	1,904	3,746
Inventories	48	60	275	0
Other financial assets - current	537	0	502	15
Other financial assets - non-current	21,834	559	33,756	316
Other assets	717	1	445	88
Prepaid expenses	89,789	1,889	83,975	1,894
Property, plant and equipment	3,262	53,209	4,261	62,636
Intangible assets	4,083	108,535	7,922	114,132 *
Other provisions	6,832	0	7,781	1,290
Other liabilities	27,998	4,257	28,973	3,689
Prepaid expenses	6,594	1,919	5,960 *	2,191
Gross value	163,196	177,229	175,754	189,997
Tax loss carryforwards	22,108	0	23,203	0
Tax credit Spain	0	0	854	0
Adjustments for consolidation	7,421	2,016	1,182	430
Outside basis differences	0	4,560	0	0
Offsetting	-89,594	-89,594	-92,481	-92,481
Consolidated balance sheet	**103,131**	**94,211**	**108,512**	**97,946**

*Prior-year figures adjusted due to final purchase price allocation of Home.pl Group. Deferred tax liabilities were adjusted by € 8,792k under intangible assets and deferred tax assets adjusted by € -74k under prepaid expenses. After netting, the total effect is € 8,866k.

The net balance of deferred tax assets decreased from € 10,566k in the (adjusted) previous year to € 8,920k. As a result, the total change in the net balance of deferred taxes amounted to € 1,646k (prior year: € -2,496k). This change was mainly due to the following factors:

- Decrease in deferred tax assets from other financial assets of € 12,121k due to the use of a debtor warrant of the Versatel Group acquired in 2014,
- Decrease in deferred tax liabilities from property, plant and equipment of the Versatel Group acquired in 2014 (€ 9,872k),
- Increase in deferred tax liabilities of € 4,560k due to recognition of so-called outside-basis-differences in connection with the Warburg Pincus transaction,
- Increase in deferred tax assets for customer acquisition costs in the tax balance sheet (€ 5,757k).

The change in the net balance of deferred taxes compared to the previous year is reconciled as follows:

In €k	2016	2015
Deferred tax expense (prior year: tax income)	-1,458	3,762
Deferred tax expense recognized directly in equity (prior year: tax ir	-188	2,642
Addition in connection with business combinations	0	-8,900
Change in the net balance of deferred taxes	**-1,646**	**-2,496**

The net liability balance of deferred taxes recognized directly in equity amounted to € 1,377k as of December 31, 2016 (prior year: € 1,189k).

The aggregate tax rate is reconciled to the effective tax rate of continued operations as follows:

	2016	2015
	%	%
Anticipated tax rate	30.2	30.3
- Actual and deferred taxes for previous years	-1.5	-0.5
- Transaction costs in connection with business combinations which must be capitalized for tax purposes	0.0	0.2
- Writedowns on financial assets not deductible from tax	21.0	0.0
- Amortization of intangible assets (not) deductible from tax	-0.8	0.5
- Tax-reduced profit from disposals and income from investments	-0.5	-2.5
- Tax effect in connection with internal Group dividends and disposals	0.6	4.3
- Differences to foreign tax rates	-0.5	-0.4
- Employee stock ownership plan	1.4	-0.6
- Tax losses of the fiscal year for which no deferred taxes have been capitalized	0.2	0.0
- Value adjustment of tax loss carryforwards and temporary differences capitalized in previous years	0.4	0.0
- Use of loss carryforwards for which no deferred taxes have been capitalized	0.0	-0.2
- Non-taxable at-equity results	-0.1	0.1
- Recognition of deferred tax liabilities for outside basis differences	1.2	0.0
- Balance of other tax-free income and non-deductible expenses	-0.4	0.3
Effective tax rate	**51.2**	**31.5**

The non-tax-deductible writedowns refer to the impairment of shares in Rocket Internet SE.

The non-tax-deductible amortization of intangible assets results from differences in assets recognized in equity on initial booking, for which no deferred taxes are formed pursuant to IAS 12.

The expected tax rate corresponds to the tax rate of the parent company, United Internet AG.

15. Earnings per share

As in the previous year, capital stock as of December 31, 2016 was divided into 205,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2016, United Internet held 3,370,943 treasury shares (prior year: 917,859). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating undiluted earnings per share was 203,261,162 for fiscal year 2016 (prior year: 203,917,520).

A dilutive effect must be taken into consideration for option rights resulting from the employee stock ownership programs of United Internet AG which were contained in cash as of December 31, 2016. All option rights existing on December 31, 2016 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the number of potential shares. On the basis of the average fair value of the shares, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the rights plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued in the amount of this difference without consideration.

The calculation of diluted earnings per share was based on 1,113,630 (prior year: 2,875,000) potential shares (from the assumed use of rights). Based on an average market price of € 40.56 (prior year: € 43.33), this would result in the issuance of 576,073 (prior year: 1,278,548) shares without consideration.

The following table shows the underlying amounts for the calculation of undiluted and diluted earnings:

	2016	2015
	€k	€k
Profit attributable to the shareholders of United Internet AG	**178,998**	**366,405**
Earnings per share (in €)		
- undiluted	0.88	1.80
- diluted	0.88	1.79
Weighted average number of outstanding shares (in million units)		
- undiluted	203.26	203.92
- diluted	203.84	205.20

16. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 19, 2016 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.70 per share. The total dividend payment of € 142.9 million was made on May 20, 2016.

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

Pursuant to Sec. 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of signing the consolidated financial statements, the United Internet Group holds 5,370,943 treasury shares (prior year: 917,859).

17. Cash and cash equivalents

Cash and cash equivalents consist of bank balances, checks and cash in hand. Bank balances generally bear variable interest rates for call money. Due to the current low interest rates – which is even negative at present for amounts denominated in euros – bank balances no not bear interest.

The development and application of cash and cash equivalents is stated in the consolidated cash flow statement.

18. Trade accounts receivable

	2016	2015
	€k	€k
Trade accounts receivable	303,403	278,603
less		
Bad debt allowances	-19,537	-23,098
Trade accounts receivable, net	283,866	255,505
thereof trade accounts receivable - **current**	228,025	218,074
thereof trade accounts receivable **- non-current**	55,841	37,431

As of December 31, 2016 bad debt allowances for trade accounts receivable amounted to € 19,537k (prior year: € 23,098k). The development of bad debt allowances can be seen below:

	2016	2015
	€k	**€k**
As of January 1	23,098	20,369
Utilization	-17,000	-15,340
Additions charged to the income statement	16,446	20,487
Reversals	-3,051	-2,520
Exchange rate differences	44	102
As of December 31	**19,537**	**23,098**

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the balance sheet date.

As of the balance sheet date there is no recognizable indication that payment obligations for receivables not adjusted cannot be met.

The maximum credit risk as of the balance sheet date corresponds to the net carrying value of the above trade accounts receivable.

Overdue receivables are tested for possible impairment. Individual allowances are mainly formed by classifying receivables according to their age profile. We refer to note 42.

All overdue receivables not adjusted individually are subjected to lump-sum allowances.

As of December 31, the age profile of trade accounts receivable less the aforementioned allowances was as follows:

	2016	2015
	€k	€k
Trade accounts receivable, net		
< 30 days		
30-60 days	268,288	237,030
60-90 days	6,706	6,466
90-120 days	3,322	5,543
>120 days	1,864	3,695
> 120 Tage	3,686	2,771
	283,866	**255,505**

19. Inventories

As of December 31, inventories consisted of the following items:

	2016	2015
	€k	€k
Merchandise		
Mobile telephony / mobile internet	37,021	40,014
DSL hardware	4,970	4,993
IP-TV	4,043	1,920
SIM cards	761	468
Other	0	48
Domain stock held for sale	3,805	4,088
	50,600	**51,531**
less		
Allowances	-11,110	-9,022
Inventories, net	**39,490**	**42,509**

Goods recognized as material expense from inventories in cost of sales amounted to € 396,152k in the reporting period (prior year: € 376,911k). Of this total, an amount of € 698k refers to impairment of inventories (prior year: € 438k).

Allowances include € 7,508k for mobile telephony/mobile internet and IP-TV (prior year: € 5,375k) and € 3,602k for domain stock (prior year: € 3,647k).

20. Current prepaid expenses

Prepaid expenses of € 111,172k (prior year: € 82,633k) consist mainly of prepayments for domain registration fees and pre-service fees which were deferred and charged to the income statement on the basis of the underlying contractual period. In addition, they include expenses of € 3,929k in connection with the Warburg Pincus transaction. On completion of the transaction in the course of 2017, these will be netted with the contributions of Warburg Pincus and reclassified to equity.

21. Other current assets

21.1 Other current financial assets

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Payments on account	5,435	5,044
Receivable from pre-service providers	3,329	4,525
Creditors with debit balances	2,851	2,681
Sales bonuses	1,101	1,896
Deposits	402	562
Other	8,418	8,132
Other financial assets, net	**21,536**	**22,840**

21.2 Other current non-financial assets

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Receivables from tax office	129,427	114,575
Other non-financial assets	**129,427**	**114,575**

Receivables from the tax office of € 111 million refer to receivables from the payment of allowable capital gains tax including the solidarity surcharge (prior year: € 83 million).

22. Shares in associated companies

Via its subsidiary United Internet Ventures AG, United Internet acquired a share package amounting to approx. 15.31% of shares in Tele Columbus AG, Berlin, Germany, in fiscal year 2016. After closing the acquisition, United Internet has a total indirect shareholding – together with further shares acquired – of 25.11% in Tele Columbus. The company is an independent broadband cable network operator active in the German multimedia and communication sector with most of its network infrastructures in eastern Germany (Berlin, Brandenburg, Saxony, Saxony-Anhalt und Thuringia), as well as in North Rhine-Westphalia and Hesse. Tele Columbus offers its customers digital TV program packages, as well as internet and telephone connections.

United Internet holds 20.11% of shares in Drillisch AG, Maintal, Germany. The company operates exclusively in Germany as a mobile virtual network operator (MVNO) offering products and services in the field of telecommunications and software services.

In the case of both associated companies, the shareholding corresponds to the proportion of voting rights. They are valued using the equity method.

The following table contains summarized financial information on the two main associated companies on the basis of a 100% shareholding:

Summarized financial information on the main associated companies:

	Drillisch AG €k	Tele Columbus AG €k
Current assets	203,798	136,204
Non-current assets	2,306,829	2,730,609
Current liabilities	-170,644	-159,708
Non-current liabilities	-215,657	-1,533,149
Shareholders' equity	2,124,326	1,173,956
Sales revenue	522,145	354,166
Other comprehensive income	0	-3,827
Net profit/loss	24,742	-29,421
Total comprehensive income	**24,742**	**-33,248**

As financial information on both investments as of December 31, 2016 had not yet been published at the time of preparation, the summarized financial information is based on the quarterly statements as of September 30, 2016, taking account of adjustments which the United Internet Group believe to be necessary at this time. There were no results from discontinued operations for either company.

A reconciliation of the main associated companies with the carrying amounts in the consolidated financial statements as of December 31, 2016 – with an estimation of investment results for the fourth quarter – is presented below:

	Drillisch AG €k	Tele Columbus AG €k
United Internet Group’s share in the net asset values as of September 30, 2016	427,202	294,780
Closing date-related reconciliation effects	3,066	-127
Carrying amount as of December 31, 2016	**430,268**	**294,653**
Fair value of shares as of December 31, 2016	**450,421**	**253,037**
Dividend received in 2016	**19,272**	**0**

As of December 31, 2016, the other associated companies disclosed an aggregated carrying value of € 30,625k (prior year: € 28,094k) and an aggregated loss of € 1,901k (prior year: € 4,893k) in fiscal year 2016.

The following table contains summarized financial information on the associated companies held as of December 31, 2015 based on a shareholding of 100%:

	2015 **€k**
Current assets	380,603
Non-current assets	2,128,200
Current liabilities	93,782
Non-current liabilities	115,522
Shareholders' equity	2,299,499
Sales revenue	502,769
Net profit	30,391

The summarized financial information mainly refers to the investment in Drillisch AG. The financial information is based in part on local accounting regulations as a reconciliation of this financial information with IFRS would incur disproportionately high costs.

23. Other non-current financial assets

The development of other non-current financial assets was as follows:

			Amortization of revaluation reserve not recognized in income					
	Jan. 1, 2016	Additions	Recycling	Change	Impairment	Reclassification	Disposals	Dec. 31, 2016
	€k	€k	€k	€k	€k	€k	€k	€k
Hi-media shares	1,380			862				2,242
HiPay shares	3,792		-935	935	-263		-3,529	0
Afilias shares	8,720							8,720
Rocket Internet shares	387,448			129,785	-254,636			262,597
Tele Columbus shares	35,530	79,083		-2,715		-111,898		0
Other	12,089	657			-6	4,937	-3,548	14,129
	448,959	**79,740**	**-935**	**128,867**	**-254,905**	**-106,961**	**-7,077**	**287,688**

			Amortization of revaluation reserve not recognized in income					
	Jan. 1, 2015	Additions	Recycling	Change	Impairment	Reclassification	Disposals	Dec. 31, 2015
	€k	€k	€k	€k	€k	€k	€k	€k
Goldbach shares	13,449		-2,519				-10,930	0
Hi-media shares	11,838			-632	-3,433	-6,393		1,380
HiPay shares	0			-742	-1,859	6,393		3,792
Afilias shares	8,720							8,720
Rocket Internet shares	643,343	58,849		-314,744				387,448
Tele Columbus shares	0	32,815		2,715				35,530
Other	17,937	2,221			-25	-1,542	-6,502	12,089
	695,287	**93,885**	**-2,519**	**-313,403**	**-5,317**	**-1,542**	**-17,432**	**448,959**

The additions mainly relate to the increase in shares held in Tele Columbus AG. The reclassification of shares in Tele Columbus was due to the purchase of further shares, taking the total stake to 25.11%, and the resulting classification as an associated company. We refer to note 22.

A non-cash-effective writedown of listed shares in Rocket Internet of € 156.7 million was already made in the first quarter of fiscal year 2016. After initial recognition of impairment for an available-for-sale financial asset, all further declines in the fair value in subsequent periods must also be recognized as impairments. In this connection, a further non-cash-effective writedown of shares in Rocket Internet of € 97.9 million was made in the second quarter of the reporting period. The share price of Rocket Internet increased again as of the reporting date. The impairment reversal of € 22.9 million was thus added to the revaluation reserve through other comprehensive income.

Based on the same impairment rules, a non-cash-effective writedown of shares in HiPay amounting to € 263k was made in the reporting period. The sale of shares in HiPay resulted in other operating income of € 935k.

24. Property, plant and equipment

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Acquisition costs		
– Telecommunication equipment	554,077	474,050
– Operational and office equipment	492,166	466,093
– Network infrastructure	187,323	184,132
– Payments on account	26,749	14,584
– Land and buildings	17,082	17,144
	1,277,397	**1,156,003**
Less		
Accumulated depreciation	-622,391	-490,808
Property, plant and equipment, net	**655,006**	**665,195**

An alternative presentation of the development of property, plant and equipment in the fiscal years 2016 and 2015 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The carrying value of property, plant and equipment held as part of finance leases amounts to € 96,506k as of December 31, 2016 (prior year: € 104,579k).

As of balance sheet date, there are purchase obligations for non-current assets totaling € 32.6 million (prior year: € 22.3 million).

25. *Intangible assets (without goodwill)*

	Dec. 31, 2016	Dec. 31, 2015*
	€k	€k
Acquisition costs		
- Customer base	308,379	312,573
- Software / technology	134,864	122,093
- Trademarks	131,915	133,032
- Licenses	35,084	28,099
- Payments on account	2,350	0
- One-off charges	1,468	919
	614,060	**596,716**
Less		
Accumulated amortization and impairment	-244,590	-207,202
Intangible assets, net	**369,470**	**389,514**

*Prior-year figures adjusted in connection with the final purchase price allocation of home.pl. For further details, please refer to note 4.2.

An alternative presentation of the development of intangible assets in the fiscal years 2016 and 2015 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The carrying value of the customer base results from the following company acquisitions:

	Dec. 31, 2016	Dec. 31, 2015*
	€k	€k
Versatel	146,208	164,392
home.pl S.A.	26,491	30,507
Arsys	20,710	24,353
Other	1,012	2,020
	194,421	**221,272**

*Prior-year figures adjusted in connection with the final purchase price allocation of home.pl. For further details, please refer to note 4.2.

The residual amortization period for the customer base of the home.pl transaction amounts to 9 years and for Arsys 6 years. The residual amortization period for the customer base from the acquisition of the Versatel Group amounts to 2 to 23 years depending on the products and services, whereby 23 years applies to the major share.

The carrying values of intangible assets with indefinite useful lives (trademarks) totaled € 131,804k (prior year: € 132,048k). Intangible assets with indefinite useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date. There was therefore no impairment in the reporting period (prior year: € 0k).

The following table provides an overview of trademarks:

	Dec. 31, 2016	Dec. 31, 2015*
	€k	€k
Versatel	62,000	62,000
Mail.com	25,887	25,065
WEB.DE	17,173	17,173
Arsys	7,553	7,553
united-domains	4,198	4,198
Fasthosts	4,031	4,698
home.pl	10,962	11,361
	131,804	**132,048**

*Prior-year figures adjusted in connection with the final purchase price allocation of Home.pl. For further details, please refer to note 4.2.

The useful life of trademarks is determined as being indefinite, as there are no indications that the flow of benefits will end in future.

26. Goodwill

A presentation of the development of goodwill in the fiscal years 2016 and 2015 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

27. Impairment of goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are subjected to an impairment test at least once per year. With reference to its internal budgeting process, the Company has chosen the last quarter of its fiscal year to conduct its statutory annual impairment test.

Goodwill acquired in the course of business combinations is allocated for impairment test purposes to cash-generating units.

Impairment charges are always disclosed separately in the income statement and the consolidated assets movement schedule.

Goodwill as of December 31 is allocated to the cash-generating units as follows:

	2016	2015*
	€k	€k
Access segment		
Versatel	398,261	398,261
1&1 Telecom	108,221	108,221
	506,482	**506,482**
Applications segment		
1&1 Mail & Media	228,501	228,501
home.pl	119,731	121,689
Arsys	100,495	100,495
UK (Fasthosts)	63,409	73,901
united-domains	35,924	35,924
Affiliate Marketing	22,451	22,451
InterNetX	5,237	5,237
Domain Marketing	5,098	5,098
Mail.com	357	345
	581,203	**593,641**
	1,087,685	**1,100,123**

*Due to the short period between the acquisition and the preparation of these consolidated financial statements, no purchase price allocation had been made for home.pl in the previous year. The purchase price allocation was made in fiscal year 2016 and final goodwill as of December 31, 2015 was adjusted. For further details, please refer to note 4.2.

Goodwill after company acquisitions

The carrying values of goodwill according to cash-generating unit result from various transactions over the past years. The Group's goodwill is mainly the result of the following company acquisitions:

- The carrying value of cash-generating units in the Access segment exclusively reflects goodwill from the acquisition of the Versatel Group in 2014.
- The carrying value of the cash-generating unit 1&1 Mail & Media mainly comprises goodwill from the acquisition of the portal business of WEB.DE AG in 2005.
- The carrying value of the cash-generating unit home.pl results from the acquisition of home.pl S.A. in 2015.
- The carrying value of the cash-generating unit Arsys results from the acquisition of Arsys Internet S.L. in 2013.
- The carrying value of the cash-generating unit Fasthosts results from the acquisition of Fasthosts Internet Ltd. in 2006 and the acquisition of Dollamore Ltd. in 2008.

- The carrying value of the cash-generating unit united-domains results from the acquisition of united-domains AG in 2008.

- The carrying value of the cash-generating unit InterNetX results from the acquisition of InterNetX GmbH in 2005.

Scheduled impairment test on December 31, 2016

The recoverable amounts of the cash-generating units are calculated on the basis of a calculation of fair value less disposal costs using cash flow forecasts. The hierarchy of fair value less disposal costs as defined by IFRS 13 is set at Level 3 for all impairment tests. The cash flow forecasts are based on the Company's budgets for fiscal 2017. These budgets were prepared by management on the basis of external market studies and internal assumptions, extrapolated for a period of up to 12 years. Following this period, management assumes an annual increase in cash flow of 0.5% for the Access segment (prior year: 0.5% to 1.0%), and between 0.5% and 0.6% for the Applications segment (prior year: 1.0%), corresponding to long-term average growth of the sector in which the respective cash-generating unit operates. The discount rates after tax used for cash flow forecasts are 5% for the Access segment (prior year: 6% to 7%), and between 5% and 8% for the Applications segment (prior year: 5% to 9%).

The following table presents the basic assumptions used when checking impairment of individual cash-generating units, to which goodwill has been allocated, in order to determine their fair value less disposal costs:

	Reporting year	Total proportion of goodwill	Long-term growth rate	Discount rate after taxes
CGUs Access segment				
Versatel	2016	36.6%	0.5%	4.5%
	2015	36.2%	0.5%	5.8%
1&1 Telecom	2016	9.9%	0.5%	4.9%
	2015	9.8%	1.0%	6.7%
CGUs Application segment				
1&1 Mail & Media	2016	21.0%	0.5%	5.3%
	2015	20.8%	1.0%	5.5%
Arsys	2016	9.2%	0.5%	8.7%
	2015	9.1%	2.4%	8.9%
Fasthosts	2016	5.8%	0.5%	6.7%
	2015	6.7%	1.3%	7.3%
united-domains	2016	3.3%	0.5%	6.1%
	2015	3.3%	1.0%	6.8%
Affiliate-Marketing	2016	2.1%	0.5%	5.3%
	2015	2.0%	1.0%	5.5%
InterNetX	2016	0.5%	0.5%	6.1%
	2015	0.5%	1.0%	6.8%
Domain-Marketing	2016	0.5%	0.5%	6.1%
	2015	0.5%	1.0%	6.8%
home.pl *	2016	11.0%	0.6%	7.3%
	2015	11.1%	N/A	N/A

*Due to the short period between the company acquisition and the preparation of the consolidated financial statements 2015, no purchase price allocation nor impairment test were conducted in the previous year for the reporting year 2015.

The cash flow forecasts depend heavily on the estimation of future sales revenues. The management of the respective cash-generating unit expects a varied development of sales within its planning horizon. Sales revenue figures in the detailed planning period of the cash-generating units for the Access segment are based on average annual sales growth rates of between 0.4% and 5.8% (prior year: between 0.8% and 4.9%). Sales revenue figures in the detailed planning period of the cash-generating units for the Applications segment are based on average annual sales growth rates of between 0.5% and 8.1% (prior year: between 0.5% and 6.4%).

Fair value less disposal costs is mainly based on the present value of the perpetual annuity, which is particularly sensitive to changes in assumptions on the long-term growth rate and the discount rate. For the calculation of fair value less disposal costs, disposal cost rates of 3% were assumed (previous year: 1.5% to 3%).

In the Applications segment, trademarks recognized amount to € 69,804k (prior year: € 58,687k) and in the Access segment to € 62,000k (prior year: € 62,000k; see note 25). In the course of business combinations, the trademarks were valued at their fair values less disposal cost using appropriate valuation methods (generally the so-called “royalty relief” method; in the cash-generating unit Mail.com using the residual value method) and tested again for impairment on the balance sheet date. The trademark-relevant cash flows were multiplied with the trademark-relevant royalty rates. These range from 0.75% to 2.5% (prior year: 0.75% to 2.5%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of fair values. As in the previous year, the test resulted in no impairment.

Sensitivity of assumptions

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

In the course of analyzing sensitivity for cash-generating units to which goodwill or trademarks have been allocated, an increase in the discount rates (after taxes) of 1 percentage point and a decline in the long-term growth rate in perpetuity of 0.25 percentage points was assumed. These assumptions would not result in any changes to the impairment test.

The Company’s management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine fair value less disposal costs of a cash-generating unit could cause the carrying value to significantly exceed the recoverable amount.

28. Non-current prepaid expenses

Non-current prepaid expenses result mainly from advance payments relating to long-term purchasing agreements with pre-service providers and amount to € 127,974k as of December 31, 2016 (prior year: € 102,438k).

29. Trade accounts payable

Trade accounts payable amount to € 383,189k (prior year: € 399,904k), of which liabilities with terms of more than one year total € 9,479k (prior year: € 4,042k).

30. Liabilities due to banks

a) Liabilities due to banks

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Bank loans	1,760,653	1,536,502
Less		
Current portion of liabilities due to banks	-422,236	-29,332
Non-current portion of liabilities due to banks	**1,338,417**	**1,507,170**
Short-term loans/overdrafts	422,236	29,332
Current portion of liabilities due to banks	**422,236**	**29,332**
Total	**1,760,653**	**1,536,502**

Bank liabilities of € 1,761 million as of December 31, 2016 result mainly from a syndicated loan totaling € 750 million concluded in August 2014, comprising two tranches with terms to August 2017 and August 2019, a promissory note loan of € 600 million divided into 4 tranches with varying terms from December 2017 to December 2022, and several drawings from revolving syndicated loan facilities of € 810 million negotiated in July 2015 with a term until July 2020.

The syndicated loan has a variable interest rate. The effective interest rates for interest periods of 1, 3 and 6 months are tied to the respective EURIBOR rate plus a margin p.a.. This margin depends on key performance indicators of the United Internet Group and is within a range of 0.6% to 1.4%. Redemption payments are possible at any time.

The interest rates for the promissory note loan are partly variable, tied to the respective 6-month EURIBOR rate plus a margin p.a., and partly fixed. The fixed interest rates vary between 1.32% and 2.15% p.a. depending on the term.

There are variable interest rates for drawings from the revolving syndicated loan of € 810 million. The effective interest rates for the interest periods of one, three or six months are tied to the EURIBOR rate plus a margin p.a.. The margin depends on key performance indicators of the United Internet Group. The applicable interest rate including margin p.a. as of the reporting date amounts to 1.35% (prior year: 1.00%).

As of December 31, 2016, an amount of € 407 million had been drawn from the revolving syndicated loan facility (prior year: € 163 million). An amount of € 403 million is therefore still available from the portion of the revolving syndicated loan facility not yet drawn (prior year: € 647 million).

As of December 31, 2016, there are also current account overdrafts.

No collateral was provided for any of the liabilities due to banks.

With the exception of the interest-bearing tranches of the promissory note loan, the fair values of bank liabilities mainly correspond to their carrying values. For further information on the promissory note loan, please refer to note 40.

A euro cash pooling agreement (zero balancing) has been in place between United Internet AG, certain subsidiaries and one of the Company's core banks, since July 2002. Under the agreement, credit and debit balances of the participating Group subsidiaries are pooled and netted in a central account of United Internet AG and available each banking day.

b) Credit commitments (excluding the revolving syndicated loan facility)

In addition to the syndicated loan facility, United Internet AG has the following credit commitments, which in some cases can also be used by other Group companies. These credit commitments are mainly in the form of advances on current accounts and other short-term loans and credit lines or the provision of bank guarantees.

	2016 **€ million**	**2015** **€ million**
Credit line and guarantees	143	133
Credit line utilization	5	28
Available credit line	138	105
Utilization of guarantees	38	37
Average interest rate (in%)	0.50-0.80	0.53-1.10
Unutilized credit facilities	100	68

Credit commitments have been granted both for limited and unlimited ("until further notice") periods.

As in the previous year, United Internet AG is liable as co-debtor for one of the listed credit commitments which is available to both United Internet AG and various Group companies. The stated average interest rate as of the reporting date is based on utilization.

31. Income tax liabilities

At the end of the reporting period, income tax liabilities consist of the following items:

	2016	2015
	€k	€k
Germany	60,816	126,477
UK	1,880	2,328
Poland	621	388
Spain	510	151
USA	32	242
Romania	197	0
Others	89	0
Total	**64,145**	**129,586**

32. Deferred revenue

Customers pay for certain contracts in advance. These contracts are mostly for webhosting and internet access services, as well as one-off provision charges of the Versatel Group. The prepaid charges are allocated and recognized as revenues over the underlying contractual period.

33. Other accrued liabilities

The development of accruals in fiscal year 2016 was as follows:

	Restoration obligations	Litigation risks	Others	Total
	€k	€k	€k	€k
January 1, 2016	**34,949**	**19,328**	**5,767**	**60,044**
Utilization	0	1,379	5,288	6,667
Reversal	5,816	4,326	185	10,327
Addition of accrued interest	516	250	0	766
Addition	40	4,094	4,958	9,092
December 31, 2016	**29,689**	**17,967**	**5,252**	**52,908**

The accruals for restoration obligations mainly refer to possible obligations to remove active telecommunication technology in leased main distribution frames (MDFs).

Litigation risks consist of various legal disputes of Group companies.

Other accruals refer mainly to provisions for warranties and impending losses.

Accruals of € 16,426k (prior year: € 10,267k) have a term of one to five years and accruals of € 23,245k (prior year: € 25,942k) a term of over five years. Long-term accruals mainly refer to restoration obligations.

34. Other liabilities

34.1 Other current financial liabilities

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Other current financial liabilities		
- Salary liabilities	35,036	41,823
- Marketing and selling expenses / commissions	23,820	27,851
- Legal and consulting fees, auditing fees	16,399	3,008
- Finance lease commitments	16,333	17,747
- Creditors with debit balances	6,621	6,522
- Service / maintenance / restoration obligations	5,961	3,658
- Public relations	275	353
- Others	10,303	4,483
Total	**114,748**	**105,445**

34.2 Other current non-financial liabilities

	Dec. 31, 2016	Dec. 31, 2015
Other current non-financial liabilities	€k	€k
- Liabilities to the tax office	27,867	36,408
- Others	5,661	397
Total	**33,528**	**36,805**

Liabilities to the tax office mainly refer to sales tax liabilities.

34.3 Other non-current financial liabilities

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Other non-current financial liabilities		
- Finance lease commitments	82,855	85,817
- Purchase price liability InterNetX	1,356	3,110
- Others	6,680	6,594
Total	**90,891**	**95,521**

Please refer to note 44 regarding finance lease commitments.

On June 10, 2014, 1&1 Internet AG signed an option agreement with the other shareholders of InterNetX GmbH concerning the remaining 4.44% of shares in InterNetX. In the agreement, the two joint owners were granted a put option by 1&1 Internet AG for their remaining shares, which cannot be exercised until 2017. The purchase price depends mainly on the development of the company's earnings. The put option adjustments to the fair value of the obligation, as well as effects from discounting, will be carried in profit or loss as a purchase price adjustment and disclosed under other operating income in subsequent valuations.

35. Maturities of liabilities

The maturities of liabilities are as follows:

	Dec. 31, 2016			
€k	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	406,929	736	406,193	0
-Syndicated loan	749,338	351,207	398,131	0
-Promissory note loan	599,386	65,293	436,821	97,272
-Current account overdrafts	5,000	5,000	0	0
Trade accounts payable	383,189	373,710	4,480	4,999
Other financial liabilities				
-Finance leases	99,189	16,333	47,734	35,122
-Other	106,450	98,415	5,924	2,111
Total financial liabilities	**2,349,481**	**910,694**	**1,299,283**	**139,504**
Non-financial liabilities				
Advance payments received	12,326	12,326	0	0
Income tax liabilities	64,145	64,145	0	0
Deferred revenue	269,323	235,503	33,820	0
Other accrued liabilities	52,908	13,237	16,426	23,245
Other non-financial liabilities	33,528	33,528	0	0
Total non-financial liabilities	**432,230**	**358,739**	**50,246**	**23,245**
Liabilities	**2,781,711**	**1,269,433**	**1,349,529**	**162,749**

The maturities of liabilities in the previous year are as follows:

	Dec. 31, 2015			
	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	162,451	372	162,079	0
-Syndicated loan	747,108	157	746,951	0
-Promissory note loan	598,943	803	500,942	97,198
-Current account overdrafts	28,000	28,000		
Trade accounts payable	399,904	395,862	1,999	2,043
Other financial liabilities				
-Finance leases	103,564	19,315	51,915	32,334
-Other	97,402	86,130	8,162	3,110
Total financial liabilities	**2,137,372**	**530,639**	**1,472,048**	**134,685**
Non-financial liabilities				
Advance payments received	15,084	15,084	0	0
Income tax liabilities	129,586	129,586	0	0
Deferred revenue	258,835	231,979	26,856	0
Other accrued liabilities	60,044	23,835	10,267	25,942
Other non-financial liabilities	36,805	36,805		0
Total non-financial liabilities	**500,354**	**437,289**	**37,123**	**25,942**
Liabilities	**2,637,726**	**967,928**	**1,509,171**	**160,627**

In the course of determining the maturities of liabilities due to banks, management assumed that the amount drawn from the revolving syndicated loan facility as at the respective balance sheet date would remain constant until the end of the term (July 9, 2020).

36. Share-based payment – employee stock ownership plans

There were two different employee stock ownership plans in the reporting period 2016. One model with so-called *Stock Appreciation Rights (SAR)* is aimed at the group of senior executives and managers and based on virtual stock options. The second model, the *Employee Stock Ownership Plan (ESOP),* was introduced in the second quarter of 2016 for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%.

36.1 Stock Appreciation Rights (SAR)

The SAR program 2006 to 2010 and 2010 to 2017 employs so-called Stock Appreciation Rights (SARs) and is treated as an equity-settled shared-based payment transaction. SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right, however, to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model on the basis of a binominal model in accordance with IFRS 2, the fair value of options issued was calculated as follows:

Valuation parameters				
Issue date	22.06.15	01.03.16	01.04.16	12.04.16
Fair value	1,213 €k	1,142 €k	827 €k	971 €k
Average market value per option	6.07 €	7.61 €	6.89 €	6.47 €
Strike price	40.00 €	43.76	43.49 €	44.06 €
Share price	40.59 €	46.19	44.54 €	43.97 €
Dividend yield	1.5 %	1.3 %	1.4 %	1.4 %
Volatility of the share	29 %	31 %	30 %	30 %
Expected term (years)	5	5	5	5
Risk-free interest rate	0.05 %	0 %	0 %	0 %

Issue date	01.05.16	01.06.16	13.07.16	02.12.16
Fair value	459 €k	178 €k	118 €k	465 €k
Average market value per option	6.12 €	5.94 €	5.89 €	4.65 €
Strike price	43.51 €	43.45 €	37.49 €	36.27 €
Share price	42.83 €	42.16 €	38.68 €	35.41 €
Dividend yield	1.4 %	1.4 %	1.8 %	2.0 %
Volatility of the share	30 %	30 %	31 %	29 %
Expected term (years)	5	5	5	5
Risk-free interest rate	0 %	0 %	0 %	0 %

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 18 months prior to the valuation date. The strike price is calculated on the basis of the average share price of the last 10 days prior to the issuance date.

The total expense from the stock ownership plan amounts to € 34,851k (prior year: € 30,691k). The cumulative expense as of December 31, 2016 totaled € 29,613k (prior year: € 26,668k). Expenses of € 5,238k (prior year: € 4,023k) therefore relate to future years. The personnel expense for share options issued amounted to € 2,945k in the reporting period (prior year: € 2,850k).

Moreover, in fiscal year 2012 an individual commitment for the transfer of 100,000 shares of United Internet AG was granted. The total value of the commitment amounted to € 1,593 thousand on the grant date. On expiry of the blocking period, the shares are expected to be transferred in early 2018. The transfer is not linked to vesting conditions.

The changes in the virtual stock options granted and outstanding are shown in the following table:

	United Internet AG	
	SAR	Average strike price (€)
Outstanding as of December 31, 2014	**3,860,000**	**20.07**
issued	200,000	40.00
exercised	-75,000	18.13
exercised	-20,000	12.12
exercised	-125,000	12.03
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-100,000	13.43
expired / forfeited	-100,000	18,13
expired / forfeited	-100,000	32,79
expired / forfeited	-75,000	16,24
exercised	-100,000	8.96
exercised	-15,000	13.30
exercised	-75,000	16.24
Outstanding as of December 31, 2015	**2,875,000**	**22.78**
issued	20,000	37.49
issued	150,000	43.76
issued	75,000	43.51
issued	250,000	44.06
issued	30,000	43.45
issued	100,000	36.27
issued	120,000	43.49
expired / forfeited	-100,000	44,06
exercised	-25,000	31.02
exercised	-20,000	12.12
exercised	-75,000	18.13
exercised	-15,000	30.11
exercised	-125,000	12.03
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-100,000	13.43
exercised	-25,000	32.79
exercised	-15,000	13.30
exercised	-85,000	31.15
exercised	-75,000	16.24
Outstanding as of December 31, 2016	**2,560,000**	**29.46**
Exercisable as of December 31, 2015	0	0.00
Exercisable as of December 31, 2016	75,000	31.15
Weighted average remaining term as of December 31, 2015 (in months)	31	
Weighted average remaining term as of December 31, 2016 (in months)	42	

The range of strike prices for stock options outstanding at the end of the reporting period is between € 13.30 and € 44.06 (prior year: € 8.96 and € 40.00).

36.2 Employee stock ownership plan (ESOP)

In fiscal year 2016, a new employee stock ownership plan (ESOP) was introduced for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%. The ESOP is designed to involve employees more in the development of the United Internet Group and the United Internet AG share, while raising staff motivation and performance and in particular their ties with the United Internet Group, i.e. to honor their continued work for the company (loyalty). The ESOP consists of two components:

Firstly, qualifying employees will receive the option to buy a specific number of shares in United Internet AG at a reduced price, which they must then hold for a period of two years (vesting period). On completion of this period, participants will be granted further shares for free provided they are still working for the company. On achievement of defined “ambition figures”, the qualifying employees will receive additional free shares. Of the 5,638 qualifying employees in total, 1,936 employees or 34% of those entitled have accepted the offer and subscribed for a total of 211,460 shares in United Internet AG. In fiscal year 2016, expenses of € 1,488k were incurred from the employee stock ownership plan. The fair value of commitments classified as equity instruments amounted to € 4,298k on the grant date.

Expenses for the employee stock ownership plan comprise both personnel expenses from the discounted sale of shares in United Internet AG to participating employees (investment expense) and from the granting of United Internet AG shares on expiry of 2 years (matching expense). the investment expense per share results from the difference between the stock exchange price of a United Internet share on the grant date (€ 36.22) and the purchase price (reference price less discount; € 32.96). On the basis of 211,460 shares, an expense of € 689k was recognized. The matching expense to be recognized over the service period is calculated on the basis of the following material valuation parameters: share price of a United Internet on the grant date (€ 36.22), expected dividend yield of approx. 2%, discount rate for dividend in 2017 and 2018: 0.1% p.a. and 0.2% p.a., and expected fluctuation of 7% p.a..

37. Capital stock

As in the previous year, the fully paid-in capital stock of the balance sheet date amounted to € 205,000,000 divided into 205,000,000 (prior year: 194,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

With a resolution adopted on May 22, 2014, the Annual Shareholders’ Meeting authorized United Internet AG to purchase treasury shares representing up to 10% of capital stock pursuant to Sec. 71 (1) No. 8 AktG. The authorization was issued for the period up to September 22, 2017. On June 30, 2016, the Management Board of United Internet AG resolved to launch a new share buyback program on the basis of this authorization. In the course of this new share buyback program, up to 5,000,000 company shares are to be bought back via the stock exchange. At the same time, the previous share buyback program adopted by the company’s Management Board on

June 13, 2014 – also on the basis of the authorization granted by the Annual Shareholders' Meeting of May 22, 2014 – was ended.

Following the purchase of 3,000,000 treasury shares under the new share buyback program and issues of 546,916 shares for existing employee stock ownership plans (prior year: 314,479), the Group held 3,370,943 treasury shares as of December 31, 2016 (prior year: 917,859) corresponding to 1.64% of capital stock (prior year: 0.45%).

Treasury shares reduce equity and have no dividend entitlement.

Authorized capital

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock in the period ending May 20, 2020 by a maximum of € 102,500,000.00 by issuing on one or more occasions new no-par value shares in return for cash and/or non-cash contributions, whereby the subscription rights of shareholders can be excluded under certain conditions (Authorized Capital 2015). The previous authorization to increase capital stock in the period ending May 26, 2016 by a maximum of € 112,500,000.00 by issuing on one or more occasions new no-par value shares was cancelled on expiry of May 21, 2015 with effect for the future.

In the case of a capital increase, shareholders shall be granted subscription rights. Pursuant to Section 186 (5) AktG, shareholders can also be granted subscription rights indirectly. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the rights of shareholders to subscribe:

- in the case of fractional amounts arising from the subscription ratio;

- in the case of a capital increase in return for cash contribution if the new shares are issued at an issuance price which is not substantially below the market price (as defined by Section 203 (1) and (2) in conjunction with Section 186 (3) Sentence 4 AktG) of those Company shares already listed of the same type and with the same terms at the time of the final determination of the issuance price by the Management Board, which should be as near as possible to the share issue date, and the proportionate amount of the capital stock attributable to the new shares for which subscription rights are excluded does not exceed ten percent of the existing capital stock, neither at the time this authorization becomes effective nor when it is exercised. This amount includes the proportionate share of capital stock attributable to shares issued or used during the term of the authorization in direct or corresponding application of Section 186 (3) Sentence 4 AktG under exclusion of subscription rights. This amount also includes the proportionate share of capital stock attributable to shares issued or to be issued to serve conversion or warrant rights, providing the underlying bonds are issued during the term of this authorization under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG;

- to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of bonds with warrant or conversion rights or obligations issued by the Company or subordinated Group companies in the amount to which they are entitled on exercise of their warrant or conversion rights or fulfillment of their warrant or conversion obligation;

- in the case of capital increases in return for non-cash contribution to grant shares for the purpose of acquiring companies, parts of companies, interests in companies or other assets, including rights and receivables, or as part of business combinations.

Conditional capital

Capital stock is to be conditionally increased by up to € 25,000,000.00, divided into 25,000,000 no-par value shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds granted by the Company or a subordinated Group company in accordance with the above authorization. The new shares shall be issued at the warrant or conversion price to be determined in the bond terms and in accordance with the above authorization. The conditional capital increase shall only be implemented to the extent that the warrant or conversion rights pertaining to the bonds are exercised or warrant or conversion obligations pertaining to the bonds are fulfilled, or the Company exercises its right to tender shares, and unless other fulfillment possibilities for servicing are used. The new shares used for the issue shall participate in profits from the beginning of the fiscal year in which they are created by exercising the warrant or conversion right; to the extent that it is legally permissible, the Management Board may, with the approval of the Supervisory Board, determine the profit participation of new shares and, notwithstanding Section 60 (2) AktG, also for a fiscal year already expired. The Management Board is authorized to determine the further details of the implementation of the conditional capital increase.

The authorization valid up to May 21, 2019 to conditionally increase capital stock by up to € 30,000,000.00, divided into 30,000,000 no-par value shares, was cancelled on expiry of May 21, 2015 with effect for the future.

38. Reserves

As of December 31, 2016, capital reserves amounted to € 377,550k (prior year: € 372,203k). € 5,347k of this increase results from additions in connection with employee stock ownership plans.

The accumulated result includes the past results of consolidated companies, insofar as no dividends were paid, less expenses for share-based remuneration.

At the end of the reporting period, the revaluation reserve consisted of the following items:

	2016 €k	2015 €k
Available-for-sale financial assets:		
- Rocket Internet shares	22,912	-106,870
- Afilias shares	8,175	8,175
- Tele Columbus shares	0	2,674
- Hi Media shares	862	0
Share in other comprehensive income of associated companies:		
- Tele Columbus shares	-961	0
Total	**30,988**	**-96,021**

The revaluation reserve from available-for-sale financial assets includes gains and losses from subsequent measurement at fair value. Provided there is no indication of impairment, these are recognized directly in other comprehensive income net – i.e. less deferred taxes – and after non-controlling interests.

Translation differences from the annual financial statements of foreign subsidiaries without an effect on profit or loss are recognized in the currency translation adjustment.

An overview of the composition and changes in the reserves described above for the fiscal years 2016 and 2015 is provided in the statement of changes in shareholders' equity.

39. Non-controlling interests

Non-controlling interests as of December 31, 2016 mainly comprise the shares of the minority shareholders of InterNetX GmbH, Regensburg, (4.44% of capital stock) and subsidiaries of the home.pl S.A. Group.

40. Additional details on financial instruments

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2016:

(in €k)	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2016	Valuation acc. to IAS 39: Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Measurement acc. to IAS 17	Fair value on Dec. 31, 2016
Financial assets							
Cash and cash equivalents	lar	101,743	101,743				101,743
Trade accounts receivable	lar/n/a						
Receivables from finance leases	n/a	61,775				61,775	64,551
Others	lar	222,091	222,091				222,091
Other current financial assets	lar	21,536	21,536				21,536
Other non-current financial assets	lar/afs						
Investments	afs	273,559	8,720	264,839			273,559
Others	lar	14,129	14,129				14,544
Financial liabilities							
Trade accounts payable	flac	-383,189	-383,189				-383,189
Liabilities due to banks	flac	-1,760,653	-1,760,653				-1,779,529
Other financial liabilities	flac/n/a						
Finance leases	n/a	-99,189				-99,189	-101,208
Others	flac	-106,450	-106,450				-106,450
Of which aggregated acc. to valuation categories:							
Loans and receivables (lar)	lar	359,499	359,499	0	0	0	359,914
Available-for-sale (afs)	afs	273,559	8,720	264,839	0	0	273,559
Financial liabilities measured at amortized cost (flac)	flac	-2,250,292	-2,250,292	0	0	0	-2,269,167
Finance leases	n/a	-37,414	0	0	0	-37,414	-36,657

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2016:

Net result acc. to valuation categories 2016 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation: Fair value	Currency translation	Value adjusted	Net result
Loans and receivables (lar)	lar	905	--	219	-34,642	-33,518
Available for sale (afs)	afs					0
- of which not affecting net income		--	128,867	--	--	128,867
- of which affecting net income		589	--	--	-254,905	-254,316
Financial liabilities measured at amortized cost (flac)	flac	-28,271	--	94	--	-28,177
Financial assets held for trading	hd					
- of which affecting net income		--	6,592		--	6,592
Total		-26,777	135,459	313	-289,547	-180,552

With the exception of trade accounts receivable in connection with finance leases, cash and cash equivalents, trade accounts receivable, and other current financial assets mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

As in the previous year, the fair value of other non-current financial assets differs from the carrying amount as prorated loss assumptions from accounting using the equity method were allocated to existing loans.

In the case of the remaining other non-current financial assets carried at amortized cost, it is assumed that their carrying values correspond to fair value.

Trade accounts payable mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value. The same applies to current liabilities due to banks.

Non-current liabilities due to banks are loans which can be prematurely redeemed. In addition, both the basic interest rate and the margin are variable. The margin depends on predefined KPIs of the United Internet Group. Due to these factors, it is assumed that their carrying values of non-current liabilities correspond approximately to fair value.

In spite of the promissory note loan of € 600 million concluded in fiscal year 2014 at favorable conditions, the fair values of these liabilities rose slightly year-on-year by €2 million, from € 617 million to € 619 million, due to the positive risk assessment of the Group by the banks. The valuation is based on Level 3 disclosures.

Due to changed interest rates, there are slight deviations between the carrying value and fair value of receivables and liabilities in connection with finance leases.

In the case of the remaining other non-current financial liabilities carried at amortized cost, it is assumed that their carrying values correspond to fair value.

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2015:

			Valuation acc. to IAS 39				
(in €k)	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2015	Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Measurement acc. to IAS 17	Fair value on Dec. 31, 2015
Financial assets							
Cash and cash equivalents	lar	84,261	84,261				84,261
Trade accounts receivable	lar/n/a						
Receivables from finance leases	n/a	42,001				42,001	42,948
Others	lar	213,504	213,504				213,504
Other current financial assets	lar	22,840	22,840				22,840
Other non-current financial assets	lar/afs						
Investments	afs	436,870	8,720	428,150			436,870
Others	lar	12,089	12,089				13,365
Financial liabilities							
Trade accounts payable	flac	-399,904	-399,904				-399,904
Liabilities due to banks	flac	-1,536,502	-1,536,502				-1,553,350
Other financial liabilities	flac/n/a						
Finance leases	n/a	-103,483				-103,483	-106,026
Others	flac	-97,483	-97,483				-97,483
Of which aggregated acc. to valuation categories:							
Loans and receivables (lar)	lar	332,694	332,694	0	0	0	333,971
Available-for-sale (afs)	afs	436,870	8,720	428,150	0	0	436,870
Financial liabilities measured at amortized cost (flac)	flac	-2,033,889	-2,033,889	0	0	0	-2,050,737
Finance leases	n/a	-61,482	0	0	0	-61,482	-63,078

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2015:

Net result acc. to valuation categories 2015 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			Net result
			Fair value	Currency translation	Value adjusted	
Loans and receivables (lar)	lar	1,468	--	-17	-33,158	-31,707
Available for sale (afs)	afs					
- of which not affecting net income		--	-315,922	--	--	-315,922
- of which affecting net income		10,640	--	--	-5,317	5,323
Financial liabilities measured at amortized cost (flac)	flac	-24,455	--	-7	--	-24,462
Financial assets held for trading	hd					
- of which affecting net income		--	21,140	--	--	21,140
Total		-12,347	-294,782	-24	-38,475	-345,628

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2016, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

- The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

- Fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available.

- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets and liabilities measured at fair value

	Dec. 31, 2016	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	264,839	264,839		

In the reporting period ending 31 December 2016, there were no transfers between levels.

	As of Dec. 31, 2015	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	428,150	428,150		

The valuation of shares in unlisted companies is mainly based on present value models, using planning calculations and market-observable interest rates. The resulting fair values are compared with information from market transactions of comparable shares.

41. Transactions with related parties

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board of United Internet AG and their close relatives were classified as related parties. Moreover, companies over which the related parties exert a controlling influence are classified as related parties.

Mr. Norbert Lang stepped down from the Management Board at his own request as of June 30, 2015. There were no other changes to the circle of related parties as compared with the consolidated financial statements as at December 31, 2015.

United Internet's premises in Montabaur and Karlsruhe are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements have different terms between the end of 2017 and September 2025. The resulting rent expenses are customary and amounted to € 8,378k in fiscal year 2016 (prior year: € 7,206k).

At the ordinary shareholders' meeting on May 21, 2015, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren (deputy chairman), and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2019.

In fiscal year 2016, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

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

Kai-Uwe Ricke

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

Michael Scheeren

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

On May 21, 2015, the Annual Shareholders' Meeting adopted a new remuneration system which complies fully with the German Corporate Governance Code. It consists of a fixed remuneration component and an attendance fee per meeting. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 15k per full fiscal year. The Chairman of the Supervisory Board receives the double amount. The attendance fee amounts to € 1k for each meeting.

The members of the Supervisory Board of United Internet AG are also members of the supervisory board of various subsidiaries. As of fiscal year 2015, they also receive remuneration from these subsidiaries. The remuneration of the subsidiaries also consists of a fixed annual remuneration and an attendance fee for each meeting. The fixed annual remuneration varies between the subsidiaries, while the standard attendance fee amounts to € 1k for each meeting.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet AG:

	United Internet AG			Subsidiaries of United Internet AG			Total		
2016	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
	€k	€k	€k	€k	€k	€k	€k	€k	€k
Kurt Dobitsch	30	4	34	110	16	126	140	20	160
Kai-Uwe Ricke	15	4	19	115	16	131	130	20	150
Michael Scheeren	15	4	19	135	16	151	150	20	170
	60	12	72	360	48	408	420	60	480

	United Internet AG			Subsidiaries of United Internet AG			Total		
2015	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
	€k	€k	€k	€k	€k	€k	€k	€k	€k
Kurt Dobitsch	30	4	34	110	16	126	140	20	160
Kai-Uwe Ricke	15	4	19	115	16	131	130	20	150
Michael Scheeren	15	4	19	135	16	151	150	20	170
	60	12	72	360	48	408	420	60	480

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

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2015. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board.

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

The following table provides details on the compensation received by members of the Management Board:

2016	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2016* €k
Ralph Dommermuth	0	0	0	0	-
Robert Hoffmann	300	199	12	511	-
Frank Krause	360	139	111	610	465
Jan Oetjen	300	199	13	512	-
Martin Witt	300	199	12	511	-
	1,260	736	148	2,144	465

2015	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2015* €k
Ralph Dommermuth	300	240	0	540	-
Robert Hoffmann	300	130	12	442	-
Frank Krause since June 1, 2015	210	82	106	398	1,213
Norbert Lang until June 30, 2015	150	95	24	269	-
Jan Oetjen	300	207	13	520	-
Martin Witt	300	201	12	513	-
	1,560	955	167	2,682	1,213

* Share-based payments (so-called Stock Appreciation Rights) are compensation components with a long-term incentive and paid out over a total period of 6 years.

Total Management Board remuneration as defined by Section 314 (1) No. 6 a and b HGB, i.e. including the market value of share-based payments, amounted to € 2,609k in the fiscal year (prior year: € 3,895k). Members of the Management Board were not granted any advances or loans in the reporting period nor in the previous year.

In fiscal year 2016, Mr. Ralph Dommermuth waived his claim in full to Management Board remuneration with effect from January 1, 2016. As a consequence, Mr. Ralph Dommermuth received no remuneration in fiscal year 2016.

On his retirement from the Management Board of United Internet AG in the previous year, Mr. Norbert Lang received a special payment of € 13k to compensate for holiday claims, which is included in the fringe benefits. No further benefits were agreed on the departure of Mr. Lang.

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

In the fiscal year 2016, Mr. Martin Witt exercised 125,000 (prior year: 50,000) and Mr. Robert Hoffmann 325,000 subscription rights (prior year: 325,000). In addition, Mr. Jan Oetjen exercised 100,000 subscription rights in the previous year. 100,000 virtual stock options were granted to Mr. Frank Krause in the reporting period (prior year: 200,00) (for conditions see note 36).

Reference is also made to the Remuneration Report, which is part of the Combined Management Report.

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is given in the following table:

Shareholding	January 1, 2016			December 31, 2016		
Management Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Ralph Dommermuth	---	82,000,000	82,000,000	---	82,000,000	82,000,000
Robert Hoffmann	100,000	---	100,000	211,907	---	211,907
Frank Krause	920	---	920	920	---	920
Jan Oetjen	14,033	---	14,033	14,033	---	14,033
Martin Witt	3,139	---	3,139	23,195	---	23,195
	118,092	**82,000,000**	**82,118,092**	**250,055**	**82,000,000**	**82,250,055**
Supervisory Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	300,000	---	300,000	300,000	---	300,000
	300,000	**---**	**300,000**	**300,000**	**---**	**300,000**

The United Internet Group can also exert a significant influence on its associated companies.

Conditions of transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2016 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

A convertible loan of € 600k was granted to ProfitBricks GmbH in April 2014. The loan was converted to equity in fiscal year 2015. At the at the end of the reporting period, there is therefore one loan agreement (prior year: one) with a total volume of € 7,125k (prior year: € 7,125k). The interest on the loans is not due until March 31, 2017 and March 31, 2020. The contract provides for special repayment possibilities. At the end of the reporting period, the receivable including interest amounted to € 8,499k (prior year: € 8,214k).

In addition, dividend income of Drillisch AG, Maintal, and DomainsBot S.r.l., Rome/Italy amounting to € 19,272k (prior year: € 9,462k) and € 37k (prior year: € 100k) respectively was received.

The following table presents the outstanding balances and total transactions volumes with associated companies in the respective fiscal year:

Purchases/ services from related parties		Sales/ services to related parties		Liabilities due to related parties		Receivables from related parties	
2016	2015	2016	2015	2016	2015	2016	2015
€k	€k	€k	€k	€k	€k	€k	€k
11,978	9,066	962	25	2,470	373	10,279	8,214

Receivables from other related parties mainly result from loans to ProfitBricks GmbH. Interest income of € 285k (prior year: € 285k) accrued in this connection.

Financial income		Financial expenses	
2016	2015	2016	2015
€k	€k	€k	€k
306	385	0	0

42. Objectives and methods of financial risk management

Principles of risk management

The risk management system introduced by the United Internet Group is based on the COSO-ERM framework and is described in detail in the Management Report.

The principles of finance policy are set by the Management Board and monitored by the Supervisory Board. Certain transactions require the prior approval of the Supervisory Board.

The main financial liabilities used by the Group include bank loans, promissory note loans and overdraft facilities, trade accounts payable and other financial liabilities.

The Group holds various financial assets which result directly from its business activities. They consist mainly of trade accounts receivable, available-for-sale financial investments and short-term deposits.

As of the balance sheet date, the Group mainly held primary financial instruments.

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

Liquidity risk

Liquidity risk constitutes the risk that a company will be unable to meet the financial obligations arising from its financial liabilities. As in the previous year, the general liquidity risk of United Internet consists of the possibility that the Company may not be able to meet its current financial obligations in due time. To ensure the solvency and financial flexibility of the United Internet Group at all times, short-term liquidity forecasts and longer-term financial planning are conducted.

As a result of the expected positive contribution to liquidity from operations and the interest-optimized use of the credit lines already granted, the Company is able to ensure the continual coverage of its financial needs for fiscal year 2017 at all times. The credit commitments granted to the Company by banks and the existing syndicated loan facility offer sufficient flexibility for these needs. In order to maintain financial stability, a balanced financial structure is sought which provides both a diversification of financial instruments and a balanced maturity profile.

Our global cash requirements and surpluses are managed by our central liquidity management system. The daily automatic pooling of bank balances held by the participating Group companies provides United Internet AG at all times with the predominant proportion of its cash denominated in euro. The Company has established standardized processes and systems to manage its bank and netting accounts as well as for the execution of payment transactions.

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2016 and 2015:

	Carrying values as of Dec. 31, 2016	**2017**	**2018**	**2019**	**2020**	**> 2020**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,760,653	442,739	218,337	414,315	654,303	101,526	1,831,220
Trade accounts payable	383,189	373,709	1,238	1,189	1,055	5,998	383,189
Other financial liabilities	205,639	124,403	16,328	14,299	11,427	49,019	215,477

	Carrying values as of Dec. 31, 2015	**2016**	**2017**	**2018**	**2019**	**> 2019**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,536,502	46,622	431,372	215,064	412,874	510,824	1,616,756
Trade accounts payable	399,904	394,571	713	662	1,752	2,206	399,904
Other financial liabilities	200,966	116,960	16,696	15,337	13,005	49,568	211,566

For the calculation of cash flows from liabilities to banks, management assumed that the portion of the revolving syndicated loan facility currently used amounting to € 406,991k (prior year: € 163,441k) would remain unchanged until the end of its term (July 9, 2020).

Please refer to note 30 for details on interest and redemption payments for liabilities to banks.

The Company has no significant concentration of liquidity risks.

Market risk

The activities of United Internet are mainly exposed to financial risks from changes in interest rates, exchange rates, stock exchange prices, and credit or contingency risks.

Interest risk

The interest (rate) risk refers to the risk that fair values or future interest payments on existing and future financial liabilities may fluctuate due to changes in market interest rates.

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

With the aid of the liquidity planning, various investment possibilities or possibilities to reduce surplus liquidity are constantly examined. The maturity profile and amount of the Group's variable-rate financial instruments are regularly reviewed and appropriate measures are taken to ensure liquidity and the management of interest risks.

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

Due to the ongoing expansionary interest policy of the European Central Bank, the relevant EURIBOR interest rate is negative at the end of the reporting period. The company does not expect any material changes in risk premiums in the foreseeable future. United Internet currently regards the interest risk for its existing variable-rate financial instruments as low.

The interest risk is negligible for other interest-bearing liabilities. At the end of the reporting period, there were no external interest-hedging transactions.

Currency risk

A currency risk is the risk that fair values or future cash flows of financial instruments may fluctuate due to changes in exchange rates. The Group companies are mainly exposed to currency risks as a result of their operations (if revenue and/or expenses are in a currency other than the functional currency of the respective company). In order to cover such foreign currency risks, United Internet strives to achieve an equilibrium between the incoming and outgoing payments of Group companies (so-called natural hedging). Currency risks which do not affect cash flows (i.e. risks from translating the assets and liabilities of the Group's foreign companies) are not hedged against.

With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the currency risk from operations is therefore regarded as low. In the reporting period, there were no currency risks which significantly affected cash flows. At the end of the reporting period, there were no external currency-hedging transactions.

The currency risks arising from original financial instruments in a currency and of a monetary nature other than that of the functional currency as of the balance sheet date were valued by the company. No material currency risks arose from this analysis.

Stock exchange risk (valuation risk)

The Company classifies certain (quoted) financial assets as available-for-sale and records changes in their fair value in equity via other comprehensive income in the revaluation account. If there is a significant or persistent decrease in the fair value of an equity instrument below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement. The fair value of these listed financial assets amounted to € 264,839k as of the balance sheet date (prior year: € 428,150k).

The share price development of listed investments may lead to impairments or changes in equity without affecting income as of the balance sheet date. An increase in stock exchange prices of 10% as of the balance sheet date would have led to the recognition of € 26,484k through equity. A decrease in stock exchange prices of 10% would have reduced equity by € 23,774k and the financial result by € 2,710k as of December 31, 2016.

Credit and contingency risk

In the course of its operating activities, the Company is exposed to a contingency risk. A sophisticated and preventive fraud management system has therefore been established which is being permanently enhanced. Outstanding amounts are still monitored locally and on a continual basis. Individual and lump-sum allowances are made to account for such contingency risks. The Company sees a slight decrease in the contingency risk over the previous year.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see note 18).

Internal rating system

A pre-contractual fraud check is generally conducted and collection agencies are also used for the management of receivables. In addition, a pre-contractual check of creditworthiness is made in the media sales business and collection agencies are also used for the management of receivables.

Individual allowances for receivables overdue are generally made on the basis of the respective age profile. These allowances are mainly derived from success rates of the agencies used for collecting such debts. 100% individual allowances are made for all receivables overdue more than 365 days. In certain Group companies, individual allowances are made for each customer according to various criteria (e.g. dunning level, insolvency, fraud cases etc.).

The Company has no significant concentration of credit risks.

Risks from financial covenants

The existing financial instruments of United Internet AG are tied to so-called financial covenants. An infringement of these covenants may cause the lender to terminate the outstanding financial arrangement and demand repayment of the amounts drawn. The covenants contained in the loan agreements of United Internet require the Company to maintain a specified net debt-to-EBITDA ratio and a specified EBITDA-to-interest ratio. These ratios are used to calculate the relative burden which the financial liabilities and interest payments place on the Company. In view of the far superior ratios of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company's Management Board and was met throughout the year.

Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. Please refer to the statement of changes in shareholders' equity. As of December 31, 2016 and December 31, 2015, no changes were made to the Company's targets, methods and processes.

43. Specific contingencies and commitments

Litigation

Litigation risks mainly relate to various legal disputes of 1&1 and Versatel.

Accruals for litigation were formed for any commitments arising from these disputes (see note 33).

Guarantees

As of the balance sheet date, the Company has issued no guarantees.

44. Leases, other financial commitments, guarantees and contingent liabilities

Group as lessee

Operating lease contracts

The obligations mainly comprise leased network obligations including subscriber lines, buildings, technical equipment and vehicles. The contracts generally include renewal options.

Most leases have options to prolong the contractual relationship. The terms of these prolongation options are negotiable or identical with the current terms.

As of December 31, the future minimum lease obligations were as follows:

	2016	2015
	€k	€k
Up to 1 year	75,612	70,386
1 to 5 years	118,524	85,908
Over 5 years	43,590	29,084
Total*	**237,726**	**185,378**

* Figures are based on minimum contractual terms.

In the reporting period, these operating leases incurred expenses of € 165,297k (prior year: € 182,865k).

Finance leases

The payment obligations resulting from finance leases as of the balance sheet date are carried as a liability at the present value of the future lease payments. Finance leases relate primarily to rent and lease agreements for the passive network infrastructure of the Versatel Group. Most leases include renewal options. Future minimum lease payments from finance leases can be reconciled to their present value as follows:

	Dec. 31, 2016		Dec. 31, 2015	
	Minimum lease payments	**Present value of the minimum lease payments**	**Minimum lease payments**	**Present value of the minimum lease payments**
	€k	**€k**	**€k**	**€k**
Up to 1 year	18,200	16,333	19,504	19,315
1 to 5 years	52,932	47,734	54,968	51,915
Over 5 years	37,895	35,122	39,611	32,334
Total	109,027	99,189	114,083	103,564
Less interest share	-9,838	--	-10,519	---
Present value of minimum lease payments	**99,189**	**99,189**	**103,564**	**103,564**

Group as lessor

Finance leases

The Group acts as the lessor of finance leases via the Versatel Group acquired in 2014. Receivables from finance leases are disclosed in trade accounts receivable. The following table shows a reconciliation of gross investments in leases and the present value of outstanding minimum lease payments, as well as their maturities:

	Dec. 31, 2016	Dec. 31, 2015
	€k	€k
Gross investment (thereof unguaranteed residual values)		
thereof due within 1 year	5,738	3,635
thereof due in 1-5 years	21,379	14,420
thereof due after more than 5 years	38,669	27,528
Unearned finance income	-7,722	-5,916
Net investment	58,064	39,667
Accumulated impairment	0	0
Receivables from sales taxes	3,711	2,334
Carrying amount of finance lease receivables	**61,775**	**42,001**
previously present value of unguaranteed residual values	0	0
Present value of outstanding minimum lease payments	**58,064**	**39,667**
thereof due within 1 year	5,738	3,635
thereof due in 1-5 years	20,154	13,542
thereof due after more than 5 years	32,172	22,490

Finance lease receivables relate solely to leases for the provision and use of dark fiber.

In fiscal year 2016, several new finance lease agreements were concluded with three lessees regarding the provision of fiber pairs. An amount of € 22.0 million (previous year: € 16.4 million) is recognized in gross investment less unrealized financial income for these leases. The maturities range from 13 to 19 years.

Guarantees and other obligations

The Company is jointly and severally liable for credit lines granted to companies of the United Internet Group by a bank. The credit facilities had only been utilized with regard to guarantees as of the balance sheet date.

The Management Board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

Contingent liabilities

Contingent liabilities represent a possible obligation whose existence depends on the occurrence of one or more uncertain future events, or a current obligation whose payment is not likely or whose amount cannot be reliably estimated. As of the balance sheet date on December 31, 2016 and December 31, 2015, there were no significant contingent liabilities.

45. Statement of cash flows

In fiscal year 2016, cash flow from operating activities includes interest paid of € 28,933k (prior year: € 24,595k) and interest received of € 1,291k (prior year: € 1,482k). Income tax payments in fiscal year 2016 amounted to € 250,502k (prior year: € 209,928k) while income tax proceeds totaled € 2,924k (prior year: € 352,793k). Income tax proceeds in the previous year include the allowable capital tax including solidarity surcharge (€ 335,694k) paid in December 2014 in connection with a dividend distributed within the Group.

Cash and cash equivalents include bank balances of € 2,764k (prior year: € 0k) which are only usable under certain conditions as of the balance sheet date.

Cash inflows in connection with dividends received amounted to € 19,309k (prior year: € 9,462k) and mainly comprise dividends from Drillisch AG. Additions to intangible assets and property, plant and equipment of € 10,546k (prior year: € 9,104k) were in connection with finance leases without direct cash outflows.

46. Exemption pursuant to Sec. 264 (3) HGB

The following subsidiaries of United Internet AG make use of the exempting provisions of Sec. 264 (3) HGB:

- 1&1 Berlin Telecom Service GmbH, Berlin
- 1&1 De-Mail GmbH, Montabaur
- 1&1 Internet SE, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Logistik GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Mail & Media Development & Technology GmbH, Montabaur
- 1&1 Mail & Media Service GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur
- 1&1 Telecom Holding GmbH, Montabaur
- 1&1 Telecom Sales GmbH, Montabaur
- 1&1 Telecom Service Holding Montabaur GmbH, Montabaur
- 1&1 Telecom Service Montabaur GmbH, Montabaur
- 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- affilinet GmbH, Munich
- United Internet Corporate Services GmbH, Montabaur
- United Internet Media GmbH, Montabaur
- United Internet Service SE, Montabaur
- United Internet Ventures AG, Montabaur
- United Internet Service Holding GmbH, Montabaur
- 1&1 Versatel GmbH, Berlin (formerly Versatel GmbH)
- 1&1 Versatel Deutschland GmbH, Düsseldorf (formerly Versatel Deutschland GmbH)
- Versatel Beteiligungs GmbH, Düsseldorf
- Versatel Holding GmbH, Berlin
- Versatel Telecommunications GmbH, Düsseldorf
- TROPOLYS Service GmbH, Düsseldorf

47. Subsequent events

Investment of Warburg Pincus

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

Following approval by the German Federal Cartel Office (“Bundeskartellamt”), the transaction was closed over several stages in February 2017. United Internet AG contributed its shares in 1&1 Internet SE initially to its subsidiary 1&1 Internet Holding SE in the form of a mixed capital increase against the issue of new common shares and one preferred share, as well as a long-term vendor loan. The long-term vendor loan of United Internet AG to 1&1 Internet Holding SE amounting to € 1.2 billion has a fixed interest rate and a term of 10 years.

In a second step, United Internet AG contributed all common shares in 1&1 Internet Holding SE to a newly founded 1&1 Internet TopCo SE 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. United Internet expects a payment of approx. € 370 million from the share sale in fiscal year 2017. In addition, the share sale will result in a one-off tax effect and have a future impact on earnings per share (EPS).

Acquisition of Strato

On December 15, 2016, United Internet AG signed an agreement with the owner of Strato AG, Deutsche Telekom AG, regarding the acquisition of Strato AG. Based in Berlin, Strato employs over 500 people with operations mainly in Germany and the Netherlands. With over 1.8 million customer contracts, Strato's annual revenue for fiscal year 2016 is expected to be around € 127 million with anticipated EBITDA in 2016 of around € 48.5 million.

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

The purchase price tranche of € 566 million due in 2017 at the holding structure level will be financed by an internal loan from United Internet of € 350 million as well as by prorated equity capital contributions of United Internet AG and Warburg Pincus. In the course of the acquisition of Strato AG, Warburg Pincus will retain its 33.33% stake in the "Business Applications" division in accordance with the partnership agreement.

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

Treasury shares

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

In the period January 1 to February 3, 2017, a total of 2,000,000 treasury shares were purchased at an average price of € 38.58 and with a total volume of € 77.2 million.

Together with the 3,000,000 treasury shares already purchased in fiscal year 2016, the share buyback program of June 30, 2016 has thus been completely exhausted.

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

Promissory note loan

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

48. Auditing fees

In fiscal year 2016, auditing fees totaling € 6,258k (prior year: € 5,315k) were calculated in the consolidated financial statements. These include auditing fees of € 2,860k (prior year: € 1,890k), other certification services of € 65k (prior year: € 0k), tax consultancy services of € 2,264k (prior year: € 1,533k), and other services of € 1,069k (prior year: € 1,892k).

49. *List of shareholdings of the United Internet AG Group acc. to Sec. 313 (2) HGB*

As of December 31, 2016, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

- **1&1 Internet SE, Montabaur (100.0%)**
  - 1&1 Datacenter SAS, Strasbourg / France (100.0%)
  - 1&1 Internet Development SRL, Bucharest / Romania (100.0%)
  - 1&1 Internet España S.L.U., Madrid / Spain (100.0%)
  - 1&1 Internet Inc., Chesterbrook / USA (100.0%)
    - A1 Media USA LLC, Chesterbrook / USA (100.0%)
    - 1&1 Cardgate LLC, Chesterbrook / USA (100.0%)
  - 1&1 Internet Ltd., Gloucester / UK (100.0%)
  - 1&1 Internet S.A.R.L., Saargemünd / France (100.0%)
  - 1&1 Internet Service GmbH, Montabaur (100.0%)
  - 1&1 Internet (Philippines) Inc., Cebu City / Philippines (100.0%)
  - 1&1 Internet Sp. z o.o., Warsaw / Poland (100.0%)
  - 1&1 UK Holdings Ltd., Gloucester / UK (100.0%)
    - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
      - Fasthosts Internet Inc., Chesterbrook / USA in liquidation (100.0%)
  - Arsys Internet S.L., Logroño / Spain (100.0%)
    - Arsys Internet E.U.R.L., Perpignan / France (100.0%)
    - Tesys Internet S.L., Logroño / Spain (100.0%)
    - Nicline Internet S.L., Logroño / Spain (100.0%)
  - InterNetX GmbH, Regensburg (95.56%)
    - InterNetX LAC S.A., Buenos Aires / Argentina (100.0%)
    - Schlund Technologies GmbH, Regensburg (100.0%)
    - PSI-USA, Inc., Las Vegas / USA (100.0%)
    - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
    - Domain Robot Servicos de Hospedagem na Internet Ltda., São Paulo / Brazil (100.0%)
    - myLLC GmbH, Regensburg (100.0%)
    - myLLP GmbH, Regensburg (100.0%)
    - InterNetX Corp., Miami / USA (100.0%)
  - Sedo Holding GmbH, Montabaur (100.0%)
    - Sedo GmbH, Cologne (100.0%)
      - DomCollect Worldwide Intellectual Property AG in liquidation, Zug / Switzerland (100.0%)
      - DomCollect International GmbH, Montabaur (100.0%)
      - Sedo.com LLC, Cambridge / USA (100.0%)
  - united-domains AG, Starnberg (100.0%)
    - united-domains Reselling GmbH, Starnberg (100.0%)
    - United Domains Inc., Cambridge / USA (100.0%)
  - Immobilienverwaltung AB GmbH, Montabaur (100.0%)
  - Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
  - home.pl S.A. , Stettin / Poland (100.0%)
    - AZ.pl Sp. z o.o., Stettin / Poland (100.0%)
    - HBS Cloud Sp. z o.o., Stettin / Poland (100.0%)
    - premium.pl Sp. z o.o., Stettin / Poland (75.0%)
      - DP EUROPE Sp. z o.o., Stettin / Poland (100.0%)
      - DP AFRICA Sp. z o.o., Stettin / Poland (100.0%)

        - DP AMERICAS Sp. z o.o., Stettin / Poland (100.0%)
        - DP AUSTRALIA Sp. z o.o., Stettin / Poland (100.0%)
        - DP POLAND Sp. z o.o., Stettin / Poland (100.0%)
        - DP ASIA Sp. z o.o., Stettin / Poland (100.0%)

- **1&1 Mail & Media Applications SE, Montabaur (100.0%)**
    - 1&1 Mail & Media GmbH, Montabaur (100.0%)
        - 1&1 De-Mail GmbH, Montabaur (100.0%)
        - 1&1 Energy GmbH, Montabaur (100.0%)
        - 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
        - General Media Xervices GMX S.L., Madrid / Spain (100.0%)
        - GMX Italia S.r.I., Milan / Italy (100.0%)
    - 1&1 Mail & Media Development & Technology GmbH, Montabaur (100.0%)
    - 1&1 Mail & Media Service GmbH, Montabaur (100.0%)
    - United Internet Media GmbH, Montabaur (100.0%)
    - UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)

    - affilinet GmbH, Munich (100.0%)
        - affilinet Austria GmbH, Vienna / Austria (100.0%)
        - affilinet España S.L.U., Madrid / Spain (100.0%)
        - affilinet France SAS, Saint-Denis / France (100.0%)
        - affilinet Ltd., London / UK (100.0%)
        - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)
        - affilinet Switzerland GmbH, Zurich / Switzerland (100.0%)

Pursuant to Sec. 479A of the UK Companies Act 2006, affilinet Ltd., London, UK, entered under No. 05409037, makes use of the provision to be exempted from an audit of its annual financial statements under commercial law.

- **1&1 Telecommunication SE, Montabaur (100.0%)**
    - 1&1 Berlin Telecom Service GmbH, Berlin (100.0%)
    - 1&1 Logistik GmbH, Montabaur (100.0%)
    - 1&1 Telecom Holding GmbH, Montabaur (100.0%)
      1&1 Telecom GmbH, Montabaur (100.0%)
    - 1&1 Telecom Sales GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Montabaur GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (100.0%)
    - Versatel Telecommunications GmbH, Düsseldorf (100.0%)
        - 1&1 Versatel GmbH, Berlin (100.0%)
            - Versatel Holding GmbH, Berlin (100.0%)
                - 1&1 Versatel Deutschland GmbH, Düsseldorf (100.0%)
                    - Versatel Beteiligungs GmbH, Düsseldorf (100.0%)
                    - Versatel Immobilien Verwaltungs GmbH, Düsseldorf (100.0%)
                    - TROPOLYS Service GmbH, Düsseldorf (100.0%)
                    - TROPOLYS Netz GmbH, Düsseldorf (100.0%)
                    - Versatel Service Süd GmbH & Co. KG, Düsseldorf (100.0%)

- **United Internet Ventures AG, Montabaur (100.0%)**

Other:

- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- United Internet Corporate Services GmbH, Montabaur (100.0%)
  - A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0%)
- 1&1 Telecom Service Holding Montabaur GmbH, Montabaur (100.0%)
- United Internet Service SE, Montabaur (100.0%)
- United Internet Service Holding GmbH, Montabaur (100.0%)
- 1&1 Internet Holding SE, Montabaur (100.0%)

Associated companies

Investments over whose financial and business policies the Company has a significant influence are carried as associated companies using the equity method pursuant to IAS 28 and comprise the following main companies:

- Intellectual Property Management Company Inc., Dover / USA (49.0%)
- DomainsBot S.r.l, Rome / Italy (49.0%)
- uberall GmbH, Berlin (30.34%)
- ProfitBricks GmbH, Berlin (30.2%)
- Open-Xchange AG, Nuremberg (27.28%, voting rights 24.9%)
- Tele Columbus AG, Berlin (25.11%)
- virtual minds AG, Freiburg (25.1%)
- VictorianFibre Holding & Co. S.C.A. in liquidation, Luxembourg / Luxembourg (25.10%, voting rights 24.9%)
- ePages GmbH, Hamburg (25.01%)
- Drillisch AG, Maintal (20.11%)

Other investments

Companies in which the Company has invested and over whose financial and business policies it has no significant influence (< 20% of voting shares) are included as financial instruments pursuant to IAS 39 and held as available-for-sale financial assets:

- MMC Investments Holding Company Ltd., Port Louis / Mauritius (11.36%)
- Hi-Media S.A., Paris / France (10.46%)
- Afilias Ltd., Dublin / Ireland (9.82%)
- Rocket Internet SE, Berlin (8.31%)

Changes in the reporting unit

The following companies were founded by the Company in fiscal year 2016:

- 1&1 Energy GmbH, Montabaur (100.0%)

The following companies were acquired and renamed in fiscal year 2016:

- 1&1 Internet Holding SE, Montabaur (100.0%)
  (formerly Atrium 93. Europäische VV SE, Berlin)

The following companies were renamed in fiscal year 2016:

- 1&1 Versatel GmbH, Berlin (100.0%)
  (formerly Versatel GmbH, Berlin)
- 1&1 Versatel Deutschland GmbH, Düsseldorf (100.0%)
  (formerly Versatel Deutschland GmbH, Düsseldorf)

The following companies were liquidated in the reporting period:

- Cleafs B.V. Groningen / Netherlands (100.0%)

The following company was merged with an existing Group company in the reporting period 2016:

- 1&1 Breitband GmbH, Montabaur (100.0%)

50. Corporate Governance Code

The declaration pursuant to Sec. 161 AktG on observance of the German Corporate Governance Code was submitted by the Management Board and Supervisory Board and has been made available to shareholders via the internet portal of United Internet AG (www.united-internet.de).

Montabaur, March 17, 2017

The Management Board

Ralph Dommermuth	Robert Hoffmann	Frank Krause	Jan Oetjen	Martin Witt

United Internet AG - Development of fixed assets acc. to IFRS for the fiscal year 2016 and 2015 (€k)

2016	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2016	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Umbuchungen	Currency translation	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
Intangible assets															
Licenses	28,099		6,312	25	496	203	35,084	27,230	6,539	11		38	33,796	869	1,288
Order backlog	0						0	0					0	0	0
One-off charges	919		549				1,468	785	431				1,216	134	252
Software / Technology	122,093		11,768	1,434	2,655	-218	134,864	86,902	9,263	617		-39	95,509	35,191	39,355
Trademark	133,032			873		-244	131,915	984	0	873		0	111	132,048	131,804
Customer base	312,573			2,833		-1,361	308,379	91,301	25,504	2,833		-14	113,958	221,272	194,421
Portal							0	0					0	0	0
Goodwill	1,164,531			309		-12,129	1,152,093	64,408					64,408	1,100,123	1,087,685
Payments in advance			5,488	51	-3,087		2,350						0	0	2,350
Total (I)	**1,761,247**	**0**	**24,117**	**5,525**	**64**	**-13,749**	**1,766,153**	**271,610**	**41,737**	**4,334**	**0**	**-15**	**308,999**	**1,489,637**	**1,457,155**
Property, plant and equipment															
Land and buildings	17,144		68		-124	-6	17,082	7,705	1,039		-26	-1	8,717	9,439	8,365
Telecommunication equipment	474,050		90,842	12,531	1,716		554,077	92,498	74,247	5,457	-1,024		160,264	381,552	393,813
Network infrastructure	184,132		4,486	2,286	991		187,323	36,260	28,202	597			63,865	147,872	123,458
Operational equipment	466,093		42,229	15,574	674	-1,255	492,166	351,574	48,109	13,261	26	-843	385,607	114,519	106,559
Payments in advance	14,584		15,853	374	-3,321	7	26,748	2,771	143	0	1,024		3,938	11,813	22,810
Total (II)	**1,156,003**	**0**	**153,477**	**30,765**	**-64**	**-1,254**	**1,277,397**	**490,808**	**151,740**	**19,314**	**0**	**-843**	**622,391**	**665,195**	**655,006**
Financial assets															
Shares in affiliated companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans to affiliated companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shares in associated companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total (III)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**2,917,250**	**0**	**177,594**	**36,290**	**0**	**-15,003**	**3,043,551**	**762,418**	**193,478**	**23,647**	**0**	**-859**	**931,390**	**2,154,832**	**2,112,161**

2015	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2015	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2015	Jan. 1, 2015	Additions	Disposals	Umbuchungen	Currency translation	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015
Intangible assets															
Licenses	29,628		6,190	8,594	748	127	28,099	28,204	6,109	7,124	-2	43	27,230	1,424	869
One-off charges	445		475	1			919	95	691	1			785	350	134
Software / Technology	114,533	5,504	7,333	4,511	-864	98	122,093	82,241	7,762	3,179	2	76	86,902	32,292	35,191
Trademark	118,770	11,361				2,901	133,032	933				51	984	117,837	132,048
Customer base	411,170	30,507		130,478		1,374	312,573	177,599	42,773	130,478		1,407	91,301	233,571	221,272
Goodwill	1,041,365	121,194	205	3,171		4,938	1,164,531	64,322				86	64,408	977,043	1,100,123
Total (I)	**1,715,911**	**168,566**	**14,203**	**146,755**	**-116**	**9,438**	**1,761,247**	**353,394**	**57,335**	**140,782**	**0**	**1,663**	**271,610**	**1,362,517**	**1,489,637**
Property, plant and equipment															
Land and buildings	16,264	133	674	218	289	2	17,144	6,343	923		439		7,705	9,921	9,439
Telecommunication equipment	398,230		72,991	1,233	4,062		474,050	18,871	74,012	385			92,498	379,359	381,552
Network infrastructure	181,729		4,021	1,689	71		184,132	7,541	29,366	647			36,260	174,188	147,872
Operational equipment	418,101	1,450	49,480	19,361	5,310	11,113	466,093	308,882	51,336	16,744	-439	8,539	351,574	109,219	114,519
Payments in advance	16,893		8,383	1,101	-9,616	25	14,584	278	2,493				2,771	16,615	11,813
Total (II)	**1,031,217**	**1,583**	**135,549**	**23,602**	**116**	**11,140**	**1,156,003**	**341,915**	**158,130**	**17,776**	**0**	**8,539**	**490,808**	**689,302**	**665,195**
Total	**2,747,128**	**170,149**	**149,752**	**170,357**	**0**	**20,578**	**2,917,250**	**695,309**	**215,465**	**158,558**	**0**	**10,202**	**762,418**	**2,051,819**	**2,154,832**

AUDIT OPINION OF THE INDEPENDENT AUDITIOR

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

"We have audited the consolidated financial statements prepared by United Internet AG, Montabaur – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the management report for the group and the company for the fiscal year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the management report for the group and the company in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the group and the company based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report for the group and the company is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks relating to future development."

Eschborn/Frankfurt am Main, March 20, 2017

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Grote	Vorbrodt
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report and Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Montabaur, March 17, 2017

Board of Management

Ralph Dommermuth   Robert Hoffmann   Frank Krause   Jan Oetjen   Martin Witt