Annual Financial Statements 2018

MANAGEMENT REPORT FOR THE GROUP AND PARENT COMPANY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS

CONTENTS OF THE MANAGEMENT REPORT

Notes:
- 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 2018

1 COMPANY AND GROUP PROFILE

1.1 BUSINESS MODEL

Group structure

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

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

Compared to the previous year, there were only minor changes in the Group structure as of December 31, 2018.

Operating activities in the **Consumer Access segment** are mainly managed by the companies Drillisch Online GmbH und 1&1 Telecom GmbH – under the umbrella of 1&1 Drillisch AG.

In its **Business Access segment**, United Internet mainly operates via 1&1 Versatel GmbH – held by United Internet Service Holding GmbH.

Operating activities in the **Consumer Applications segment** are primarily managed via the companies 1&1 De-Mail GmbH, 1&1 Mail & Media GmbH and United Internet Media GmbH – pooled together under 1&1 Mail & Media Applications SE.

In its **Business Applications segment**, United Internet is primarily active via Strato AG and its subsidiary Cronon AG – held by the holding companies 1&1 Internet TopCo SE and 1&1 Internet Holding SE – as well as via 1&1 IONOS SE (formerly: 1&1 Internet SE) and its main domestic and foreign subsidiaries. These include – in addition to 1&1's foreign subsidiaries 1&1 IONOS Inc. (USA), 1&1 Internet Ltd. (UK), 1&1 Internet S.A.R.L. (France) and 1&1 Internet España S.L.U. (Spain) – in particular 1&1 IONOS Cloud GmbH, Arsys Internet S.L. (Spain), Fasthosts Internet Ltd. (UK), home.pl S.A. (Poland), InterNetX GmbH, Sedo GmbH, united-domains AG, and World4You Internet Services GmbH (Austria; acquired in 2018).

In addition to these operative and fully consolidated subsidiaries, United Internet AG held a number of other **investments** as of December 31, 2018.

These mainly consist of equity interests – held by United Internet Investments Holding AG & Co. KG (formerly: United Internet Investments Holding GmbH) – in the listed companies Rocket Internet SE, Berlin (9.00%), and Tele Columbus AG, Berlin (28.52%), as well as investments in the strategic partners ePages GmbH, Hamburg (25.01%), Open-Xchange AG, Nuremberg (25.39%), rankingCoach International GmbH, Cologne (30.70%), uberall GmbH, Berlin (29.70%), and virtual minds AG, Freiburg (25.10%). In addition, United Internet holds shares in AWIN AG, Berlin (20.00%), via 1&1 Mail & Media Applications SE – following the contribution of affilinet to AWIN in 2017.

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

A simplified illustration of the Group structure of United Internet with its significant operating subsidiaries and investments – as of December 31, 2018 – is shown in the following chart.

United Internet AG

- 1&1 Drillisch AG (73.29%)
  - Drillisch Online (100%)
  - 1&1 Telecommunication (100%)
    - 1&1 Telecom (100%)
- United Internet Service Holding GmbH (100%)
  - 1&1 Versatel (100%)
- 1&1 Mail & Media Applications SE (100%)
  - 1&1 De-Mail (100%)
  - 1&1 Mail & Media (100%)
  - United Internet Media (100%)
  - Awin (20%)
- 1&1 Internet TopCo SE (66.67%)
  - 1&1 Internet Holding SE (100%)
    - 1&1 IONOS (100%)
      - 1&1 IONOS USA (100%)
      - 1&1 Internet UK (100%)
      - 1&1 Internet FR (100%)
      - 1&1 Internet ES (100%)
      - 1&1 IONOS Cloud (100%)
      - Arsys (100%)
      - Fasthosts (100%)
      - home.pl (100%)
      - InterNetX (95.56%)
        - Sedo (100%)
      - united-domains (100%)
      - World4You (100%)
    - Strato (100%)
      - Cronon (100%)
- United Internet Investments Holding AG & Co. KG (100%)
  - Rocket Internet (9.00%)
  - Tele Columbus (28.52%)
  - ePages (25.01%)
  - Open-Xchange (25.39%)
  - rankingCoach (30.70%)
  - uberall (28.52%)
  - virtual minds (25.10%)

Business operations

With 23.85 million fee-based customer contracts (prior year: 22.57 million) and 37.00 million ad-financed free accounts (prior year: 35.67 million), United Internet is a leading European internet specialist.

In the course of preparing the consolidated financial statements 2018, the Management Board of United Internet decided to further increase the transparency of reporting and to report in future on 4 segments (previously: 2 reporting segments). In addition to the increase in transparency, the new segmentation also reflects more accurately the corporate structures and responsibilities within the United Internet Group.

The Group's operating business is therefore now divided into the two business divisions "Access" and "Applications", which in turn are divided into the reporting segments "Consumer Access" and "Business Access", as well as "Consumer Applications" and "Business Applications".

Access division

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

With a current length of over 47,000 km, United Internet owns one of Germany's largest fiber-optic networks. Moreover, the company – indirectly via 1&1 Drillisch AG, acquired in 2017 – is the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany and thus extensive access to one of Germany's largest mobile networks. In addition to its own landline network and privileged access to the Telefónica network, the company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate them from the competition.

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

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

Applications division

The Applications division, with its two segments Consumer Applications and Business Applications, comprises ad-financed and fee-based application products for consumer and business customers. These applications include domains, home pages, web hosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software.

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

In its Applications division, United Internet is also a leading global player with activities in Europe (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland and Spain) and 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 IONOS, Arsys, Fasthosts, home.pl, InterNetX, Strato, united-domains and World4You. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by United Internet Media.

Divisions, segments and brands (as of: December 31, 2018):

Management

The Management Board of United Internet AG comprised the following 2 to 3 members in fiscal year 2018:

- Ralph Dommermuth, company founder and Chief Executive Officer
  (with the company since 1988)
- Frank Krause, Chief Financial Officer
  (with the company since 2015)
- Jan Oetjen, Management Board member responsible for Consumer Applications – until June 30, 2018
  (with the company since 2008)

Mr. Jan Oetjen stepped down as planned from his position as a member of the Management Board of United Internet AG on June 30, 2018, in order to focus on the development of the Consumer Applications segment as CEO of 1&1 Mail & Media Applications SE.

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 2018:

- 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 92% of total global sales.

Besides Germany, the Group's most important sales markets are

- the UK,
- the USA,
- Spain,
- France,
- Poland,
- Austria and Switzerland.

Competitive standing in the Consumer Access segment

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

Competitive standing in the Business Access segment

United Internet is also a leading company its Business Access segment, whose operations are also limited to Germany. With the fiber-optic network of 1&1 Versatel spanning over 47,000 km, United Internet owns one of Germany's largest fiber-optic networks.

Competitive standing in the Consumer Applications segment

In its Consumer Applications segment, United Internet operates in Germany, Switzerland and Austria via the GMX and WEB.DE brands, as well as in countries such as the USA, UK, France and Spain via the international brand mail.com. United Internet is the leading provider of e-mail services and one of the leaders in cloud services in its domestic German market.

Competitive standing in the Business Applications segment

In the globally aligned Business Applications segment, United Internet is active in a total of 12 countries with its hosting and cloud applications. The company has long been the market leader in Germany and strengthened its position in 2017 with the takeover of its competitor Strato. In Europe, United Internet's hosting and cloud applications are now available in all major markets – either locally or from 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, the company is among the market leaders in the aforementioned countries. All in all, therefore, United Internet is also one of the leading European suppliers of hosting and cloud applications. Further target markets 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 major players in this segment. From a global perspective, United Internet is thus one of the leading companies for hosting and cloud applications – also according to internet analysts such as 451 RESEARCH.

Main locations

As of December 31, 2018, the United Internet Group employed a total of 9,093 people at around 40 domestic and foreign facilities

Main locations (by headcount; > 50 employees)

Location	Segment	Company
Montabaur (HQ)	Corporate functions	United Internet
	Consumer Access	1&1 Telecommunication
Karlsruhe	Corporate functions	United Internet
	Consumer Access	1&1 Telecommunication
	Consumer Applications	1&1 Mail & Media Applications
	Business Applications	1&1 IONOS
Berlin	Consumer Access	1&1 Telecommunication
	Business Access	1&1 Versatel
	Business Applications	1&1 IONOS, Strato
Zweibrücken	Consumer Access	1&1 Telecommunication
	Business Applications	1&1 IONOS
Munich	Consumer Access	1&1 Drillisch
	Consumer Applications	1&1 Mail & Media Applications
Cebu City (Philippines)	Business Applications	1&1 IONOS
Madrid / Logroño (Spain)	Business Applications	1&1 IONOS, Arsys
Stettin (Poland)	Business Applications	home.pl
Flensburg	Business Access	1&1 Versatel
Krefeld	Consumer Access	1&1 Drillisch
Dortmund	Business Access	1&1 Versatel
Gloucester (UK)	Business Applications	1&1 IONOS, Fasthosts
Düsseldorf	Business Access	1&1 Versatel
Maintal	Consumer Access	1&1 Drillisch
Bucharest (Romania)	Business Applications	1&1 IONOS
Stuttgart	Business Access	1&1 Versatel
Chesterbrook / Lenexa (USA)	Business Access	1&1 IONOS
Regensburg	Business Applications	InterNetX
Essen	Business Access	1&1 Versatel
Cologne	Business Applications	Sedo
Starnberg	Business Applications	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/extended business fields and new/extended markets – organically or via acquisitions and investments.

The large number of customer relationships also helps the company to utilize so-called economies of scale: the more customers using the products created by our development teams and operated at our own data centers, and/or transport data via our own networks, the greater our profit will be. These profits can then be invested in new customers, new developments and new or extended 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 private users and companies will also be United Internet's growth drivers in the years ahead – both as stand-alone products in the Applications division as well as in combination with landline and mobile access products in the Access division.

With its many years of experience as an access and application provider, its expertise in software development and data center operation, marketing, sales and customer support, as well as its strong and well-known brands (such as 1&1, GMX and WEB.DE), and customer relationships with millions of private users, freelancers and small companies in Germany and abroad (currently around 61 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 new or extended business fields in future, as well as in its further internationalization.

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

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

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

1.3 CONTROL SYSTEMS

The internal control systems help management steer and monitor the Group and its segments. The systems consist of planning, actual situation and forecast calculations based on the Group's annually revised strategic planning. Particular attention is paid to market developments, technological developments and trends, as well as their impact on the Group's own products and services, and the Group's financial possibilities. The corporate control system's aim is the continuous 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 sales and EBITDA. These figures are also used in forecast reporting.

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

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

1.4 RESEARCH AND DEVELOPMENT

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

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

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

At United Internet's own development centers (especially in Karlsruhe, Berlin and Bucharest), over 3,000 developers, product managers and technical administrators (corresponding to around 33% 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 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 continuous optimization of back-end operations, the company also focuses on continuously enhancing existing processes in order to raise system reliability and thus also customer satisfaction.

Focus areas 2018

Consumer Access

Launch of VDSL 250

In 2018, the broadband portfolio of the Consumer Access segment was expanded with the addition of a further speed category. Super vectoring technology allows speeds of up to 250 Mbit/s in Deutsche Telekom's VDSL network infrastructure or via the 1&1 Versatel network. Likewise, 1&1 Drillisch is now in a position to reach this speed in the Open Access model via its cooperation with regional city carriers M-Net, Wilhelm.tel, R-Kom and Com-IN. Further partners are to be integrated shortly.

These constantly new expansion areas are offered to new and existing customers as soon as they have been activated. In order to be able to offer the new speed category, the router portfolio was expanded and made 250 Mbit/s-compatible with the Fritzbox 7590 and 7530 from technology partner AVM.

1&1 Digital TV

Together with 1&1 Versatel and IPTV specialist Zattoo as the technical service provider, 1&1 continued to develop 1&1 Digital TV in the fiscal year 2018. Further investments were made in the stability and quality of the platform in order to optimize this product for the future.

1&1 Digital TV offers users the opportunity to receive television via the 1&1 broadband network. It can be used either via the 1&1 TV Box or via WiFi on a tablet or smartphone (Android/iOS). Native apps are also available for Fire TV and Apple TV. 1&1 Digital TV can be booked as a fee-based option for all VDSL connections. The basic package offers up to 3 TV streams that can be used simultaneously and contains around 90 free-to-air channels. Public broadcasters are already included in HD. On request, HD-TV can be booked for all private channels. A wide range of genre- and country-specific TV packages are also available.

1&1 Digital TV is the first completely cloud-based TV offering of a landline provider in the German market. Convenient features, such as recording, pause, instant restart and catch-up, are completely implemented in the cloud. This makes it possible to program recordings at home or on the go using a smartphone. The recordings are then stored in a personal cloud and can be accessed within the private home network. In addition to cloud-based services such as recording, pause and instant restart, 1&1 Digital TV can also be used on multiple devices.

Business Access

Development of a new SD-WAN platform

Wide Area Networks (WAN) are a business-critical component of contemporary enterprise infrastructures. Customer requirements for the network connections of their locations can differ greatly, regardless of which networking concept they use.

Expanding WAN capacity can be complex and expensive. SD WAN (Software Defined Wide Area Network) products have proven to be a successful way of improving application performance, reducing WAN costs and strengthening business continuity.

The growing digitalization of corporate clients places high demands on the speed and flexibility of networking. More and more companies are now centralizing their IT services and accessing shared resources. This trend is being accelerated by cloud services which are being increasingly used by companies.

SD-WAN is an innovative production platform that 1&1 Versatel can use to offer new products. These products require an MPLS and IP backbone, but use this to form a logical overlay network with new features (e.g. virtualization) using new CPEs and encryption.

SD WAN products offer solutions that can be located remotely or in branch offices, larger offices, enterprise data centers, and increasingly on cloud platforms. SD-WAN enables routing that recognizes the data streams of individual applications. For example, it is advantageous to use high-quality connections for voice transmissions and systems that require a short runtime of the data packets. Applications for which this is not important can be run via simpler internet connections.

UCAAS and Virtual PBX

The UCaaS business products (Unified Communication as a Service) provide corporate clients with a modular and individually usable communication solution with local and central TC and UC functionalities.

Due to the successful cooperation in various projects in the past, 1&1 Versatel has entered into a strategic sales partnership agreement with effexx Telekommunikation GmbH. Both companies benefit from their complementary strengths: 1&1 Versatel can combine its data and voice connections with UC services and effexx handles all services for the products and solutions of the manufacturer Innovaphone.

The solutions offered provide the technological basis for a unique migration strategy in the final phase of ISDN migration. IP phones and UC functions can be introduced and used in parallel to the existing ISDN phone system. This makes extensions possible, or devices of the existing phone system can be gradually replaced by IP phones. Customer phone number blocks can also be combined via the different technologies.

The 1&1 Versatel UCaaS business products also comprise a Virtual PBX with SIP PBX functionality in the cloud. Business clients can use their landline numbers worldwide via encrypted internet access. The VPBX business model also enables multi-tenant concepts for resellers. As the general contractor, 1&1 Versatel is the contractual partner for the client and thus ensures “one face to the customer”.

Consumer Applications

Launch of netID

In 2018, the Log-In Alliance became the European netID Foundation (EnID) with its single sign-on product netID, a European alternative to the major US corporations. The product enables users to access all internet offerings of the netID partners using the same log-in data. EnID supports the implementation of European data protection law by allowing users to organize their consent to the use of online services via a privacy center which guarantees transparency and compliance with data privacy regulations. At the time of the official launch in November 2018, more than 35 million internet users were able to log in directly on netID partner sites using their existing WEB.DE, GMX and 7Pass accounts. Over 60 online offerings – from the field of information, entertainment and e-commerce – can currently be used with the netID log-in. These include various channel portals of ProSiebenSat.1, but also the Calida Group and the online portal of Süddeutsche Zeitung.

Via its subsidiary 1&1 Mail & Media GmbH, United Internet assumes the role of netID account provider within the netID system. The existing user management infrastructure of WEB.DE / GMX has been connected to netID.

As the technical service provider, 1&1 Mail & Media develops and operates the core components of the netID platform:

- Broker: The central intermediary that links users and account providers within the federal structure on the basis of established standard protocols.
- Permission center: The system for the storage and administration of user consents and revocations in compliance with data privacy regulations.
- Neutral instance: A multi-tenant-capable white label solution for netID account providers without their own infrastructure for user authentication.
- Developer portal: A website for netID users to manage their access data themselves. They also receive support with the integration of netID APIs into their system environment.

In addition, the central Big Data platform was further expanded and is also used as an analytics backend for netID. It enables the consolidation of events from various sources in order to generate real-time metrics and reports at any level of granularity.

New responsive search for GMX and WEB.DE

The heavily frequented portal search function (around 240 million visits per year) was completely revamped in the fiscal year 2018 under the motto “Mobile First”. With its high level of responsiveness, it is now more user-friendly – especially for mobile users.

The new search function was implemented with white label capability so that other brands and designs can be rolled out in addition to the GMX and WEB.DE brands with identical code bases. In order to react quickly to new customer wishes, new features are constantly being made available. The JavaScript framework Angular is used at the front-end of the search application.

In order to further optimize performance for the customer, a pre-rendering was implemented that greets the customer with a rendered page at the beginning of the visit. Moreover, the search application was equipped with Sentry.io as an analysis tool for errors in the customer’s browser. This makes it possible to react even faster and, above all, more consciously to errors in the future in order to guarantee the customer a consistent and flawless search experience over the long term.

Business Applications

Bare Metal Server (dedicated hardware on demand)

With the aim of bringing more flexibility to the previously rather rigid world of dedicated servers, 1&1 IONOS has developed its Bare Metal Server product on the basis of its own cloud platform. This enables customers to operate their dedicated servers on demand. The flexible CDR-based accounting system of the cloud server platform is used for this purpose. As the tariff and network aspects of the product are operated within the existing cloud server platform, many cloud services available there – such as shared storage or load balancers – can also be used with dedicated servers.

In addition, by combining the two types of server infrastructure, customers can operate them in a hybrid system. In this way, customers have the best of both worlds and can professionalize their applications.

The new and modern technical platform has enabled 1&1 IONOS to reduce the provisioning time of dedicated servers from 1-2 hours to less than 10 minutes. This system also makes it possible to integrate significantly more product variants and offer them even faster in the future – while at the same time reducing implementation and operating costs.

Two-factor authentication for best-possible security of customer accounts

Since May 2018, 1&1 IONOS customers have been able to additionally secure their customer account and thus protect it effectively and easily against misuse. In addition to the user’s log-in data, a six-digit code is requested which is displayed to the user via a so-called authenticator app. In order to implement two-factor authentication for its customers, 1&1 IONOS uses the Time-based One-time Password (TOTP) procedure – a global standard of the Internet Engineering Task Force (IETF), an organization dedicated to the technical development and improvement of the internet and how it works.

All customers need to set up two-factor authentication is a freely available authenticator app on their smartphone or tablet that scans a QR code displayed in the Control Center. After subsequent confirmation, two-factor authentication is activated for the relevant customer account.

From this point on, 1&1 IONOS customers will be asked for the six-digit code displayed by the app – in addition to their access data – each time they log in. Log-in is only possible if the access data and code match. This makes it impossible for potential attackers who have obtained access data from a 1&1 IONOS customer to log in to the respective customer account.

2 ECONOMIC REPORT

2.1 GENERAL ECONOMIC AND SECTOR CONDITIONS

General economic development

The International Monetary Fund (IMF) already downgraded its forecasts for the global economy during 2018. In the latest update to its "World Economic Outlook" on January 21, 2019, the Fund calculated preliminary growth for the global economy of 3.7% in 2018. This was on a par with the previous year (3.7%) and also 0.2 percentage points below the IMF's outlook in January 2018 (3.9%).

The Fund attributed this weaker-than-expected global economic trend to unresolved global trade conflicts, the threat of an unregulated Brexit, and weakening growth in China.

From the point of view of United Internet, the economies of its current target markets all performed worse than originally expected (apart from the USA and Spain). With the exception of the USA and Mexico, the pace of economic growth in United Internet's target markets was also slower than in the previous year

With growth of 2.9% in 2018, the US economy improved strongly over the previous year (2.3%) and also exceeded the IMF forecast issued at the beginning of the year (outlook January 2018: 2.7%). Economic growth of 2.1% in Canada was well below the prior-year figure (3.0%) and also failed to reach the IMF's original expectations (2.3%). Mexico's growth rate of 2.1% was slightly up on the previous year (2.0%) but still below the original forecast (2.3%).

At 1.8%, economic growth in the eurozone fell well short of the prior-year figure (2.4%) and also short of the IMF's original expectations (2.2%).

In France, the 1.5% increase in economic output was well below the prior-year level (1.8%) and original expectations (1.9%). With economic growth of 2.5%, Spain was down on its prior-year rate (3.1%) but still slightly above expectations (2.4%). Italy achieved growth of 1.0% and thus lay well below the prior-year figure (1.6%) and the original expectations of the IMF (1.4%).

With growth of 1.4%, the economic trend in the non-euro country UK was down on the previous year (1.7%) and also below the IMF's original expectations (1.5%).

The IMF calculated economic growth of just 1.5% for Germany, United Internet's most important market (sales share 2018: around 92%), for 2018. This is 1.0 percentage point less than in the previous year (2.5%) and 0.8 percentage points below the IMF's original expectations (2.3%). The IMF's calculations for Germany are line with the preliminary figures of the country's Federal Statistics Office (Destatis), which also calculated growth (after price and calendar adjustments) in gross domestic product (GDP) of 1.5% (prior year: 2.5%). This growth was again driven in particular by consumer spending (+1.0%), as well as public sector spending (+1.1%). However, these growth rates were much weaker than in the previous years (prior year: 1.8% and 1.6%, respectively).

Changes in growth forecasts made during 2018 for United Internet's key target countries and regions

	January forecast	April forecast	July forecast	October forecast	Actual 2018	Change on January forecast
World	3.9%	3.9%	3.9%	3.7%	3.7%	- 0.2 %-points
USA	2.7%	2.9%	2.9%	2.9%	2.9%	+ 0.2 %-points
Canada	2.3%	2.1%	2.1%	2.1%	2.1%	- 0.2 %-points
Mexico	2.3%	2.3%	2.3%	2.2%	2.1%	- 0.2 %-points
Eurozone	2.2%	2.4%	2.2%	2.0%	1.8%	- 0.4 %-points
France	1.9%	2.1%	1.8%	1.6%	1.5%	- 0.4 %-points
Spain	2.4%	2.8%	2.8%	2.7%	2.5%	+ 0.1 %-points
Italy	1.4%	1.5%	1.2%	1.2%	1.0%	- 0.4 %-points
UK	1.5%	1.6%	1.4%	1.4%	1.4%	- 0.1 %-points
Germany	2.3%	2.5%	2.2%	1.9%	1.5%	- 0.8 %-points

Source: International Monetary Fund, World Economic Outlook (Update), January 2019

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

	2014	2015	2016	2017	2018	YoY change
World	3.4%	3.2%	3.2%	3.7%	3.7%	+/- 0.0 %-points
USA	2.4%	2.6%	1.5%	2.3%	2.9%	+ 0.6 %-points
Canada	2.5%	0.9%	1.4%	3.0%	2.1%	- 0.9 %-points
Mexico	2.3%	2.6%	2.9%	2.0%	2.1%	+ 0.1 %-points
Eurozone	0.9%	2.0%	1.8%	2.4%	1.8%	- 0.6 %-points
France	0.2%	1.3%	1.2%	1.8%	1.5%	- 0.3 %-points
Spain	1.4%	3.2%	3.3%	3.1%	2.5%	- 0.6 %-points
Italy	- 0.4%	0.7%	0.9%	1.6%	1.0%	- 0.6 %-points
UK	2.9%	2.2%	1.9%	1.7%	1.4%	- 0.3 %-points
Germany	1.6%	1.5%	1.9%	2.5%	1.5%	- 1.0 %-points

Source: International Monetary Fund, World Economic Outlook (Update), January 2019

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

	2014	2015	2016	2017	2018	YoY change
GDP	1.9%	1.5%	1.9%	2.5%	1.5%	- 1.0 %-points

Source: German Federal Statistical Office, January 2019

Development of sector / core markets

At its annual press conference on January 10, 2019, the industry association Bitkom calculated that the ICT market in Germany grew by 2.0% to € 166.0 billion in 2018. The association had forecast growth of 1.7% at the beginning of 2018.

With sales of € 89.9 billion and growth of 3.1%, the IT sector continued to display the strongest growth and also the largest market volume. Vendors of software (+6.3%), IT services (+2.3%), and IT hardware (+1.5%) once again posted the strongest growth in 2018.

The telecommunications market returned to growth again with an increase of 1.6% to € 66.6 billion. There were increases in sales of user devices (+5.9%), telecommunication infrastructure (+1.3%), and telecommunication services (+0.7%).

Following growth in the previous year, the consumer electronics market declined strongly again with a decrease in sales of 5.0% to € 9.5 billion.

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

(Stationary) broadband market in Germany

In view of the high level of household coverage already achieved and the strong trend toward mobile internet usage, demand for new landline broadband connections in Germany has slowed since 2008. With expected growth of 1.1 million, or 3.3%, to 34.3 million in 2018, the number of new connections was again well below earlier record years. 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 "20th TC Market Analysis for Germany 2018" (October 9, 2018). Within the above mentioned growth, the connections of relevance for United Internet in the two technology fields of DSL and FTTB / FTTH grew by 0.5 million to 25.2 million and by 0.2 million to 1.0 million. The number of cable connections rose by 0.4 million to 8.1 million. A further 0.1 million connections in Germany are still operated via satellite / powerline.

At € 32.8 billion, revenues generated in United Internet's landline business remained constant compared with the previous year. In addition to retail sales, the above revenue figures also include wholesale, interconnection and terminal device revenues.

In the latest survey of its study "German Entertainment and Media Outlook 2017-2021" (October 2017), PricewaterhouseCoopers (PWC) forecasts that purely retail sales of landline broadband connections will rise in total by 1.1% to around € 8.15 billion in 2018.

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 8.2% to 90.0 GB (per connection and month). As a result, demand for more powerful broadband connections also developed strongly. For example, the proportion of switched broadband connections with speeds of at least 50 MBits/s increased by 4.9 percentage points, from 28.3% in the previous year to 33.2% in 2018.

Key market figures: broadband access (landline) in Germany

	2018	2017	Change
Broadband revenues (in € billion)	8.15	8.06	+ 1.1%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017 – 2021, October 2017

Mobile internet market in Germany

According to estimates of Dialog Consult / VATM, the number of active SIM cards in the German mobile communications market increased only slightly by 0.6 million, or 0.5%, to 132.9 million in 2018.

Mobile revenues also increased slightly by 0.4% to € 26.6 billion. Sales of user devices and content fell by 13.5% to € 3.2 billion, while voice and connection revenues declined by 3.1% to € 9.3 billion. By contrast, sales of data services (including SMS) increased by 6.8% to € 14.1 billion. The revenue share of data services therefore grew by 3.3 percentage points to 53.0% (prior year: 49.8%). The aforementioned revenue figures also include – in addition to retail sales – interconnection, wholesale and user device sales.

According to the latest calculations of PricewaterhouseCoopers, purely retail sales of mobile data services – the main market for United Internet – grew by 5.8% to € 8.22 billion in 2018 and thus caught up with retail revenues in the landline segment.

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 83.9% to 1.6 GB.

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

	2018	2017	Change
Mobile internet revenues (in € billion)	8.22	7.77	+ 5.8%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017 – 2021, October 2017

Global cloud computing market

There was also further dynamic growth in the cloud computing market in 2018. In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide" (November 2018), Gartner Inc. forecast global growth for public cloud services of 18.6% in 2018, from $ 167.1 billion to $ 198.2 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)

	2018	2017	Change
Global sales of public cloud services	198.2	167.1	+ 18.6%
thereof System Infrastructure Services (IaaS)	32.5	25.3	+ 28.5%
thereof Application Infrastructure Services (PaaS)	16.8	13.6	+ 23.5%
thereof Application Services (SaaS)	87.2	72.0	+ 21.1%
thereof Management and Security Services	11.5	9.7	+ 18.6%
thereof Business Process Services (BPaaS)	50.2	46.6	+ 7.7%

Source: Gartner, November 2018

German online advertising market

In its study "German Entertainment and Media Outlook 2018-2022" (October 2018), PricewaterhouseCoopers forecasts an increase in (net) revenues of the German online advertising market of 7.3% to around € 7.95 billion in 2018.

With growth of 26.8%, mobile online advertising posted the strongest increase – due in particular to the further sharp rise in the use of mobile devices. However, video advertising and search word marketing also rose strongly once again, with growth of 6.9% and 6.4%, respectively.

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

	2018	2017	Change
Online advertising revenues	7.95	7.41	+ 7.3%
thereof search marketing	3.66	3.44	+ 6.4%
thereof display advertising	1.62	1.57	+ 3.2%
thereof mobile online advertising	1.04	0.82	+ 26.8%
thereof affiliate / classifieds	1.01	1.00	+ 1.0%
thereof video advertising	0.62	0.58	+ 6.9%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2018 – 2022, October 2018

Legal conditions / significant events

The legal parameters for United Internet's business activities remained largely unchanged from the previous year in 2018 and thus had no significant influence on the development of the United Internet Group.

There were also no significant events in fiscal 2018 which had a material effect on the development of business.

2.2 BUSINESS DEVELOPMENT

Initial application of IFRS 15

In May 2014, the International Accounting Standards Board (IASB) published the standard IFRS 15 “Revenue from Contracts with Customers”. Application is mandatory in reporting periods beginning on or after January 1, 2018 – and thus also for the current consolidated financial statements for 2018. The new standard provides a single, principles-based, five-step model for the determination and recognition of revenue to be applied to all contracts with customers. In particular, it replaces the previous standards IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

United Internet has exercised its right to use the modified retrospective transitional method, i.e. in the current annual financial statements 2018, the prior-year figures have not been adjusted. The conversion effects were recognized directly in equity as of January 1, 2018.

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

- Whereas under the previous regulations, revenue from sales of hardware (e.g. cellphones) as part of a multiple-element arrangement (e.g. mobile contract and cellphone) was only recognized in the amount billed to the customer, IFRS 15 requires a separation of the total price for the customer contract based on the relative standalone selling prices of the individual elements. The resulting revenue share allocated to hardware is recognized in total on delivery to the customer. As the allocated revenue share generally exceeds the amount charged to the customer in the first month, the new regulations lead to accelerated revenue recognition and the corresponding recognition of a contract asset.

- Moreover, IFRS 15 requires the capitalization of contract costs. Provided that certain conditions are met, the costs of contract acquisition (e.g. sales commissions) and the costs of contract fulfillment (e.g. customer activation fees) must be capitalized and amortized over the estimated period of use.

In addition to conversion effects from the first-time application of IFRS 15, sales and earnings figures of United Internet were impacted by the increased use of smartphones to attract new and retain existing customers (no or only small one-off customer charges for new contracts and refinancing via higher tariff prices over the contractual term). In order to provide comparability between sales and earnings figures according to IFRS 15 in the fiscal year 2018 and sales and earnings figures according to IAS 18 in the fiscal year 2017, the most important effects are reported in the form of additional comments in the sections “Business Development” and “Position of the Group”.

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. One-off amounts in the fiscal year 2018 were not adjusted but are disclosed in the respective sections.

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

Actual and forecast development 2018

United Internet AG maintained its growth trajectory in fiscal year 2018. The company raised the number of customer contracts, improved its sales and earnings figures once again, and reached its forecasts.

Forecast development

United Internet published its guidance for the fiscal year 2018 in its annual financial statements 2017 as follows.

	Actual Fiscal year 2017 (IAS 18)	Forecast fiscal year 2018 (IFRS 15)
Sales	€ 4.206 billion	+ approx. € 5.2 billion
EBITDA	€ 0.980 billion(1)	+ approx. € 1.2 billion

(1) Fiscal year 2017 without extraordinary income from the revaluation of Drillisch shares (EBITDA effect: € +303.0 million) and the revaluation of ProfitBricks shares (EBITDA effect: € +16.1 million) as well as without M&A transaction costs (EBITDA effect: € -17.1 million) and without restructuring charges in offline sales (EBITDA effect: € -28.3 million)

Actual development

United Internet continued to invest heavily in new customer relationships in fiscal year 2018 and succeeded in raising the number of fee-based customer contracts by 1.28 million in total – of which 1.03 million from organic growth and 250,000 from the takeover of World4You. A total of 310,000 contracts were added in the company’s Applications business and 970,000 contracts (900,000 mobile internet and 70,000 broadband connections) in its Access business.

In fiscal year 2018, consolidated sales (acc. to IFRS 15) rose by 22.0%, from € 4.206 billion (acc. to IAS 18) to € 5.131 billion and were thus within the target range of the forecast (approx. € 5.2 billion).

Whereas EBITDA in the fiscal year 2018 was not influenced by special items, the EBITDA result of the previous year was shaped by a net positive extraordinary result of € 273.7 million. This resulted from one-off, non-cash-effective, extraordinary income from the revaluation of Drillisch shares acquired before the complete transaction was closed amounting to € 303.0 million and from the revaluation of ProfitBricks shares already held before the takeover amounting to € 16.1 million, as well as – with an opposing effect – M&A transaction costs of € 17.1 million for the aforementioned transactions and restructuring charges in offline sales of Drillisch amounting to € 28.3 million.

Consolidated **EBITDA** (acc. to IFRS 15) increased by 22.6% in fiscal year 2018, from € 0.980 billion (comparable prior-year figure acc. to IAS 18 without the aforementioned special items) to € 1.201 billion and was thus in the anticipated target range (approx. € 1.2 billion).

Summary: actual and forecast development of business in 2018

	Actual Fiscal year 2017 (IAS 18)	**Forecast** Fiscal year 2018 (IFRS 15)	**Actual** Fiscal year 2018 (IFRS 15)
Sales	€ 4.206 billion	approx. € 5.2 billion	€ 5.131 billion
EBITDA	€ 0.980 billion(1)	approx. € 1.2 billion	€ 1.201 billion

(1) Fiscal year 2017 without extraordinary income from the revaluation of Drillisch shares (EBITDA effect: € +303.0 million) and the revaluation of ProfitBricks shares (EBITDA effect: € +16.1 million) as well as without M&A transaction costs (EBITDA effect: € -17.1 million) and without restructuring charges in offline sales (EBITDA effect: € -28.3 million)

Development of divisions and segments

In the course of preparing the consolidated financial statements for the fiscal year 2018, the Management Board of United Internet decided to further increase the transparency of reporting and in future to report on 4 segments (previously: 2 reporting segments). In addition to increased transparency, the new segment reporting also more strongly reflects the corporate structures and responsibilities within the United Internet Group.

The Group’s operating activities are now divided into the two business divisions Access and Applications, which in turn are divided into the segments Consumer Access and Business Access as well as Consumer Applications and Business Applications.

As part of the new segmentation, the company's Management Board also decided to make two adjustments at the level of contract inventories.

- On the one hand, around 70,000 broadband connections from phased-out old businesses were removed from the Consumer Access inventory and will no longer be reported. The comparative figures for previous periods have been adjusted accordingly, so that the adjustment has no effect on the net change in the number of contracts within the comparative periods.

- On the other hand, around 260,000 Applications contracts were transferred from the Business Applications contract inventory to the Consumer Applications contract inventory, as the majority of these contracts are consumer products that are also managed by the companies responsible for the Consumer Applications business. The comparative figures for previous periods have been adjusted accordingly, so that the transfer has no effect on the net change in the number of contracts within the comparative periods.

Access division

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

With a current length of over 47,000 km, United Internet owns one of Germany’s largest fiber-optic networks. Moreover, the company – indirectly via 1&1 Drillisch AG acquired in 2017 – is the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany and thus extensive access to one of Germany’s largest mobile networks. In addition to its own landline network and privileged access to the Telefónica network, the company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications and services from the company’s own “Internet Factory” in order to differentiate them from the competition.

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

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

Consumer Access segment

In 2018, the Consumer Access segment focused on integration measures in connection with the merger of Drillisch AG (acquired in 2017, now 1&1 Drillisch AG) with 1&1 Telecommunication SE.

Significant progress was made in staffing the management teams, in merging the previously separate operating structures, in brand management and the brand portfolio, as well as in existing customer marketing and retention processes.

In addition to these integration measures, the segment also focused on adding further valuable broadband and mobile internet contracts. In particular, the aim is to drive growth with coordinated brand management and customer targeting in the mobile internet business as well as with the increased use of smartphones to attract new customers and retain existing customers (no or only small one-off customer payment for new contracts and refinancing via higher tariff prices over the contractual term).

With the aid of the above mentioned measures, the number of **fee-based contracts** in the Consumer Access segment rose by 970,000 contracts to 13.54 million(1) in the fiscal year 2018. A total of 900,000 customer contracts were added in the Mobile Internet business, thus raising the total number of contracts to 9.20 million. The number of broadband connections rose by 70,000 contracts to 4.34 million(1).

Development of Consumer Access contracts in fiscal year 2018
(in million)

	Dec. 31, 2018	Dec. 31, 2017	Change
Consumer Access, total contracts(1)	13.54	12.57	+ 0.97
thereof Mobile Internet	9.20	8.30	+ 0.90
thereof broadband connections(1)	4.34	4.27	+ 0.07

(1) After an inventory adjustment as of December 31, 2018 by 0.07 million broadband connections from phased-out businesses; the comparative figures for the previous period have been restated accordingly so that the adjustment has no impact on the net change

Development of Consumer Access contracts in the 4th quarter of 2018
(in million)

	Dec. 31, 2018	Sept. 30, 2018	Change
Consumer Access, total contracts(1)	13.54	13.26	+ 0.28
thereof Mobile Internet	9.20	8.93	+ 0.27
thereof broadband connections(1)	4.34	4.33	+ 0.01

(1) After an inventory adjustment as of December 31, 2018 by 0.07 million broadband connections from two phased-out businesses;
the comparative figures for the previous period have been restated accordingly so that the adjustment has no impact on the net change

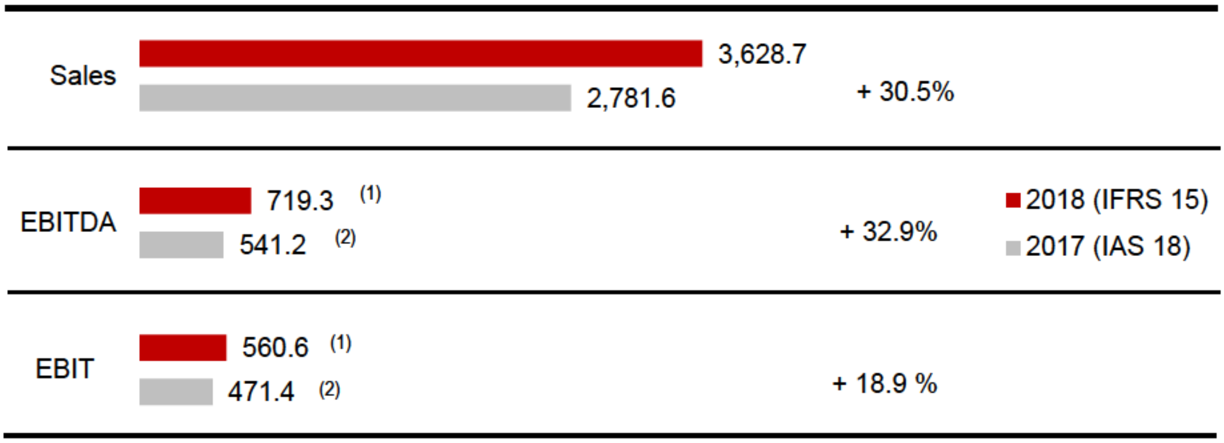
Due in part to the merger with Drillisch in September 2017 and takeover of the mass market business of 1&1 Versatel in May 2017, **sales of the Consumer Access segment** rose by 30.5% in the fiscal year 2018, from € 2,781.6 million in the previous year to € 3,628.7 million (sales effect from IFRS 15: € +277.6 million). On a pro forma basis (including Drillisch for the whole of the previous year), segment sales rose by 13.3%, from € 3,203.1 million to € 3,628.7 million (sales effect from IFRS 15: € +277.6 million).

Due in part to the merger with Drillisch in September 2017 and takeover of the mass market business of 1&1 Versatel in May 2017, **segment EBITDA** increased by 32.9%, from € 541.2 million (comparable prior-year figure without extraordinary income from the revaluation of Drillisch shares and without restructuring charges in offline sales) to € 719.3 million (earnings effect from IFRS 15: € +268.1 million; earnings effect from increased use of smartphones: € -268.1 million). On a pro forma basis (including Drillisch for the whole of the previous year), segment EBITDA rose by 12.3%, from € 640.7 million (comparable prior-year figure) to € 719.3 million (earnings effect from IFRS 15: € +268.1 million; earnings effect from increased use of smartphones: € -268.1 million). EBITDA includes € 25.1 million **one-off expenses** for current integration projects.

Segment EBIT increased by 18.9%, from € 471.4 million (comparable prior-year figure) to € 560.6 million (earnings effect from IFRS 15: € +270.0 million; earnings effect from increased use of smartphones: € -268.1 million). EBIT also includes the above mentioned one-off expenses. The difference in percentage growth compared to EBITDA (+32.9%) results from increased PPA amortization from the Drillisch takeover.

Due to the sale of yourfone Shop GmbH with around 100 physical stores at the turn of the year 2017/2018, the number of **employees** in this segment declined by 8.9% to 3,150 as of December 31, 2018 (prior year: 3,457).

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



(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -25.1 million)
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million)

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

	Q1 2018 (IFRS 15)	Q2 2018 (IFRS 15)	Q3 2018 (IFRS 15)	Q4 2018 (IFRS 15)	Q4 2017 (IAS 18)	Change
Sales	898.3	907.4	893.2	929.8	805.9	+ 15.4%
EBITDA	165.3[1]	174.9[2]	181.6[3]	197.5[4]	179.3[5]	+ 10.2%
EBIT	124.8[1]	134.7[2]	141.6[3]	159.5[4]	132.1[5]	+ 20.7%

(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -5.0 million)
(2) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -2.7 million)
(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -4.7 million)
(4) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -12.7 million)
(5) Without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million)

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

	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Sales	2,414.0	2,781.6	3,628.7
EBITDA	395.2	541.2[2]	719.3[3]
EBITDA margin	16.4%	19.5%	19.8%
EBIT	384.5	471.4[2]	560.6[3]
EBIT margin	15.9%	16.9%	15.4%

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2018
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million)
(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -25.1 million)

Business Access segment

In the fiscal year 2018, the key topics in the Business Access segment were the expansion of the fiber-optic network and the addition of further Layer 2 access points for VDSL/vectoring. The network was expanded from 44,889 km in the previous year to a length of 47,013 km. At the same time, the number of Layer 2 access points was increased as planned to around 500 BNGs (of Deutsche Telekom's total of 897 BNGs).

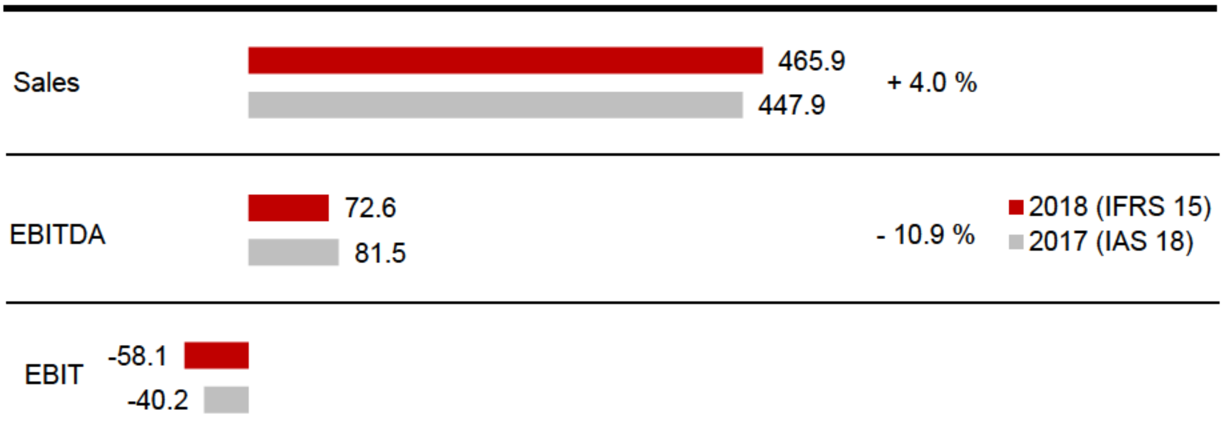
Sales of the Business Access segment increased by 4.0% in the fiscal year 2018, from € 447.9 million to € 465.9 million (sales effect from IFRS 15: € 0). The reason for this no more than moderate growth was the mass market business of 1&1 Versatel, part of which was still included in the Business Access segment in the previous year (since May 1, 2017 part of the Consumer Access segment). Without consideration of this mass market business, the Business Access segment grew strongly (+13.9%).

Segment EBITDA of € 72.6 million (earnings effect from IFRS 15: € +1.6 million) was below the prior-year figure (€ 81.5 million). This was also due to the mass market business of 1&1 Versatel, part of which was still included in the Business Access segment in the previous year (since May 1, 2017 part of the Consumer Access segment). Without consideration of this mass market business, EBITDA of the Business Access segment increased significantly (+27.9%).

As a result of high depreciation charges in the field of network infrastructure due to customer growth and Layer2 connections that are only amortized in subsequent periods, **segment EBIT** amounted to € -58.1 million (earnings effect from IFRS 15: € +1.6 million), compared to € -40.2 million in the previous year.

The number of **employees** in this segment rose slightly by 2.4% to 1,095 as of December 31, 2018 (prior year: 1,069).

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



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

	Q1 2018 (IFRS 15)	Q2 2018 (IFRS 15)	Q3 2018 (IFRS 15)	Q4 2018 (IFRS 15)	Q4 2017 (IAS 18)	Change
Sales	110.1	112.1	112.4	131.3	122.0	+ 7.6%
EBITDA	12.1	13.6	17.9	29.0	19.4	+ 49.5%
EBIT	-19.2	-18.6	-14.7	-5.6	-11.1	

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

	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Sales	513.7	447.9	465.9
EBITDA	124.0	81.5	72.6
EBITDA margin	24.1%	18.2%	15.6%
EBIT	-1.0	-40.2	-58.1
EBIT margin	-	-	-

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2018

Applications division

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

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

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

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, 1&1 IONOS, Arsys, Fasthosts, home.pl, InterNetX, Strato, united-domains and World4You. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by the company's in-house agency United Internet Media.

Consumer Applications segment

In the fiscal year 2018, the Consumer Applications segment focused in particular on the repositioning of GMX and WEB.DE. As part of this repositioning, the segment strongly reduced ad space on its portals while at the same time driving the expansion of data-driven business models for monetizing advertising.

Ad-financed free accounts grew by 1.33 million to 37.00 million in the fiscal year 2018. The number of fee-based Consumer Applications accounts (contracts) rose in total by 10,000 to 2.25 million(2). The total number of **Consumer accounts** therefore increased by 1.34 million to 39.25 million accounts(2).

Development of Consumer Applications accounts in fiscal year 2018
(in million)

	Dec. 31, 2018	Dec. 31, 2017	Change
Consumer Applications, total accounts	39.25(2)	37.91(2)	+ 1.34
thereof with Premium Mail subscription	1.54	1.56(1)	- 0.02
thereof with Value-Added subscription	0.71(2)	0.68(1,2)	+ 0.03
thereof free accounts	37.00	35.67(1)	+ 1.33

(1) After reclassification of 250,000 customer relationships (110,000 accounts with Premium Mail subscription and 140,000 accounts with Value-Added subscription) from contract inventory to free accounts as of March 31, 2018; the comparative figures of previous periods have been restated accordingly so that the adjustment has no impact on the net change

(2) After reclassification of 260,000 customer relationships from the Business Applications contract inventory (domestic) to the Consumer Applications contract inventory (Value-Added subscription) as of December 31, 2018; the comparative figures of previous periods have been restated accordingly so that the adjustment has no impact on the net change

Development of Consumer Applications accounts in the fourth quarter of 2018
(in million)

	Dec. 31, 2018	Sept. 30, 2018	Change
Consumer Applications, total accounts	39.25(1)	38.42(1)	+ 0.83
thereof with Premium Mail subscription	1.54	1.53	+ 0.01
thereof with Value-Added subscription	0.71(1)	0.72(1)	- 0.01
thereof free accounts	37.00	36.17	+ 0.83

(1) After reclassification of 260,000 customer relationships from the Business Applications contract inventory (domestic) to the Consumer Applications contract inventory (Value-Added subscription) as of December 31, 2018; the comparative figures of previous periods have been restated accordingly so that the adjustment has no impact on the net change

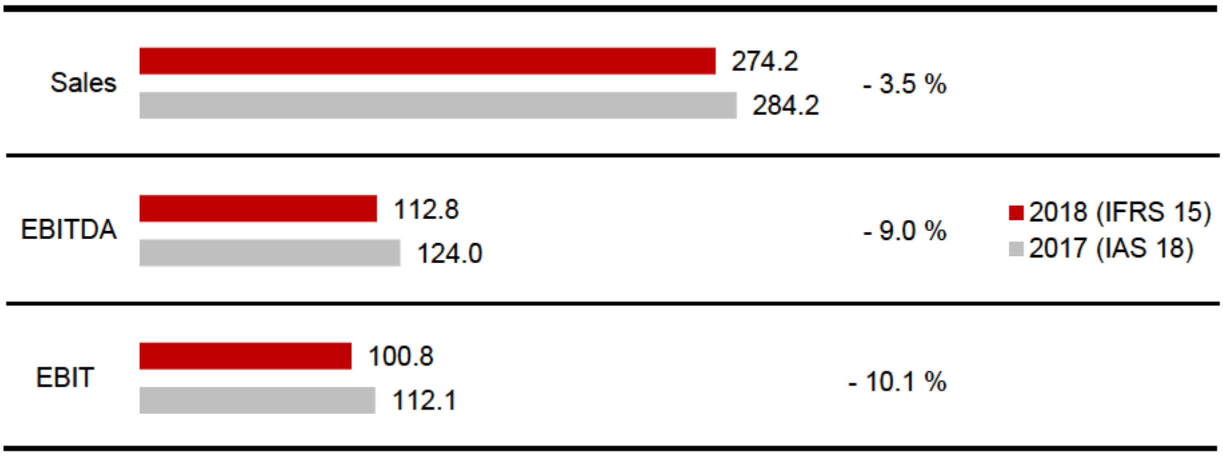
Due to the above mentioned repositioning of GMX and WEB.DE, **sales of the Consumer Applications segment** amounting to € 274.2 million for the fiscal year 2018 (sales effect from IFRS 15: € +2.8 million) fell as expected below the prior-year figure (€ 284.2 million). The same applies to **sales abroad**, which reached € 7.9 million (prior year: € 8.7 million).

Segment EBITDA of € 112.8 million (earnings effect from IFRS 15: € +0.2 million) was also down on the previous year as expected (€ 124.0 million). This decline was also a result of the repositioning of GMX and WEB.DE.

Segment EBIT amounted to € 100.8 million (earnings effect from IFRS 15: € +0.2 million), compared to € 112.1 million in the previous year.

The number of **employees** in this segment fell slightly by 1.5% to 947 as of December 31, 2018 (prior year: 961).

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



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

	Q1 2018 (IFRS 15)	Q2 2018 (IFRS 15)	Q3 2018 (IFRS 15)	Q4 2018 (IFRS 15)	Q4 2017 (IAS 18)	Change
Sales	72.0	68.2	63.7	70.3	82.4	- 14.7%
EBITDA	27.5	27.0	25.4	32.9	39.2	- 16.1%
EBIT	24.0	24.3	22.5	30.0	36.2	- 17.1%

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

	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Sales	283.6	284.2	274.2
EBITDA	127.6	124.0	112.8
EBITDA margin	45.0%	43.6%	41.1%
EBIT	115.0	112.1	100.8
EBIT margin	40.6%	39.4%	36.8%

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2018

Business Applications segment

In the fiscal year 2018, the key topics in the Business Applications segment were projects for the integration of the technical platforms and a rebranding of the business.

As part of this rebranding, 1&1 Internet SE and ProfitBricks GmbH were combined as 1&1 IONOS SE. As a result, 1&1 IONOS replaces the 1&1 Internet and ProfitBricks brands in Germany, France, the UK, Italy, Canada, Mexico, Austria, Spain and the USA.

The Business Applications segment also focused 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 in 2018. Nevertheless, the number of fee-based Business Applications contracts was also raised organically by 50,000 in the fiscal year 2018. Contract growth in the fourth quarter of 2018 was hampered by the increased advertising budget for rebranding activities. Including approx. 250,000 contracts from the acquisition of the Austrian web host World4You (consolidated since mid-August 2018), the number of fee-based contracts rose to a total of 8.06 million(1).

Development of Business Applications contracts in the fiscal year 2018
(in million)

	Dec. 31, 2018	Dec. 31, 2017	Change
Business Applications, total contracts	8.06(1)	7.76(1)	+ 0.30(2)
thereof in Germany	3.82(1)	3.75(1)	+ 0.07
thereof abroad	4.24	4.01	+ 0.23(2)

(1) After reclassification of 260,000 customer relationships from the Business Applications contract inventory (domestic) to the Consumer Applications contract inventory (Value-Added subscription) as of December 31, 2018; the comparative figures of previous periods have been restated accordingly so that the adjustment has no impact on the net change
(2) Including approx. 250,000 customer contracts from the takeover of World4You

Development of Business Applications contracts in the fourth quarter of 2018
(in million)

	Dec. 31, 2018	Sept. 30, 2018	Change
Business Applications, total contracts	8.06(1)	8.07(1)	- 0.01
thereof in Germany	3.82(1)	3.81(1)	+ 0.01
thereof abroad	4.24	4.26	- 0.02

(1) After reclassification of 260,000 customer relationships from the Business Applications contract inventory (domestic) to the Consumer Applications contract inventory (Value-Added subscription) as of December 31, 2018; the comparative figures of previous periods have been restated accordingly so that the adjustment has no impact on the net change

Due in part to the consolidation of Strato acquired on April 1, 2017, **sales of the Business Applications segment** rose by 10.5% in the fiscal year 2018, from € 762.1 million in the previous year to € 841.8 million (sales effect from IFRS 15: € +2.8 million). On a pro forma basis (including Strato for the whole of the previous year), segment sales increased by 5.9% from € 794.9 million to € 841.8 million (sales effect from IFRS 15: € +2.8 million). Influenced in part by the year-on-year devaluation of the British pound, **sales abroad** rose slightly more slowly by 5.4%, from € 380.4 million to € 400.8 million. Adjusted for currency effects, sales generated abroad were up 6.4%.

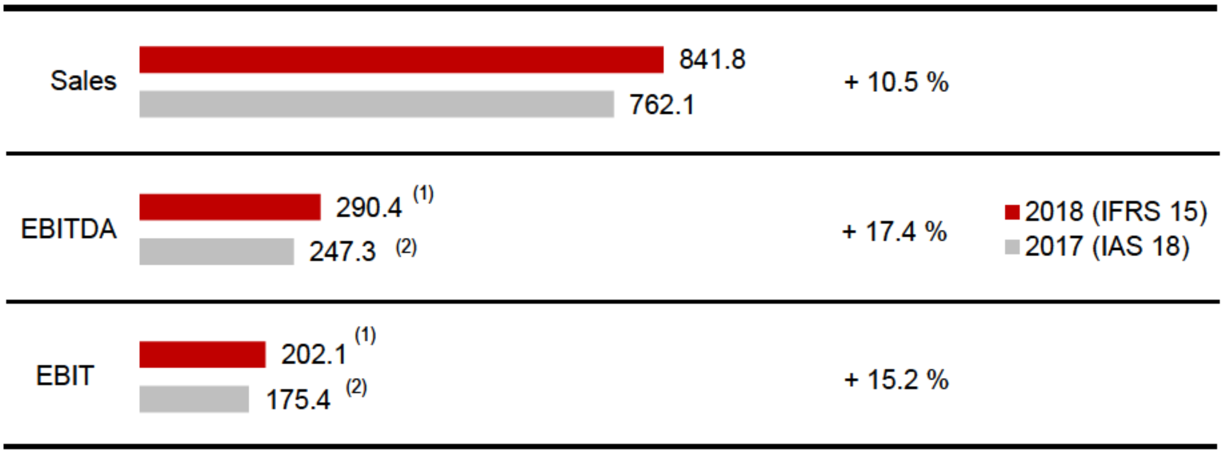
Also resulting in part from the consolidation of Strato acquired on April 1, 2017, **segment EBITDA** rose by 17.4%, from € 247.3 million (comparable prior-year figure without extraordinary income from the revaluation of ProfitBricks shares and without M&A costs) to € 290.4 million (earnings effect from IFRS 15: € +7.0 million). On a pro forma basis (including Strato for the whole of the previous year), segment EBITDA grew by 13.7% from € 255.3 million (comparable prior-year figure) to € 290.4 million (earnings effect from IFRS 15: € +7.0 million). EBITDA includes **one-off expenses** for current integration projects of € 16.6 million.

Segment EBIT improved by 15.2%, from € 175.4 million (comparable prior-year figure) to € 202.1 million (earnings effect from IFRS 15: € +6.9 million). EBIT also includes the above mentioned one-off expenses. The difference in percentage growth compared to EBITDA (+17.4%) results from increased PPA amortization from the Strato takeover.

As a result of staff transfers from this segment to the Corporate/HQ division, the number of **employees** fell by 6.4% to 3,355 as of December 31, 2018 (prior year: 3,586).

Key sales and earnings figures in the Business Applications segment

(in € million)



(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -16.6 million)
(2) Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million); EBIT 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)

Quarterly development; change on prior-year quarter

(in € million)

	Q1 2018 (IFRS 15)	Q2 2018 (IFRS 15)	Q3 2018 (IFRS 15)	Q4 2018 (IFRS 15)	Q4 2017 (IAS 18)	Change
Sales	209.4	209.9	215.4	207.1	205.0	+ 1.0%
EBITDA	74.7[1]	74.2[2]	85.0[3]	56.5[4]	61.0	- 7.4%
EBIT	54.6[1]	52.8[2]	61.0[3]	33.7[4]	39.3[5]	- 14.2%

(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -3.1 million)
(2) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -3.1 million)
(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -2.6 million)
(4) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -7.8 million)
(5) without trademark writedowns Strato (EBIT effect: € -20.7 million); EBIT Q4 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)

Multi-period overview[1]: development of key sales and earnings figures

(in € million)

	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Sales	638.9	762.1	841.8
EBITDA	202.5	247.3[2]	290.4[3]
EBITDA margin	31.7%	32.4%	34.5%
EBIT	159.2	175.4[2]	202.1[3]
EBIT margin	24.9%	23.0%	24.0

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2018
(2) Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million); EBIT 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)
(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -16.6 million)

Group investments

United Internet AG continued to optimize its investment portfolio in the fiscal year 2018. A further competitor in the field of Business Applications was acquired with the Austrian web host World4You in August 2018 and in October 2018 the non-strategic investment in AdUX was sold.

Significant changes in investments

Takeover of World4You

In mid-August 2018, United Internet reached an agreement with the owners of the Austrian web hosting company World4You concerning the 100% acquisition of the company by United Internet subsidiary 1&1 Internet SE (now 1&1 IONOS SE).

Based in Linz, Austria, World4You Internet Services GmbH was founded in 1998. The company is the market leader for web hosting in Austria. The product range of World4You (www.world4you.com) comprises domains, e-mail solutions, websites, web hosting and servers, as well as security solutions. It is planned that World4You will remain an independent company and continue to develop the Austrian market.

The Austrian web hosting and cloud applications market has made good progress over the past few years. The market is heavily fragmented and dominated by competition between national companies and a few international players.

The acquisition of World4You strengthens United Internet AG's international activities in the field of Business Applications and continues its strategy of complementing organic growth with targeted acquisitions.

Sale of shares in AdUX

In October 2018, United Internet sold its stake in the listed company AdUX S.A. (formerly: Hi-Media S.A.), Paris / France. The proceeds from the sale amounted to € 1.3 million.

44In 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, 2018.

Minority holdings in listed companies

United Internet has held an investment in Rocket Internet SE since August 2014. As of December 31, 2018 the share of voting rights amounted to 9.00%. The company's market capitalization as of December 31, 2018 was around € 3.078 billion (prior year: € 3.489 billion).

In February 2016, United Internet announced its investment in Tele Columbus AG. As of December 31, 2018, the share of voting rights amounted to 28.52%. The company's market capitalization as of December 31, 2018 was around € 370 million (prior year: € 1.180 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, 2018, United Internet's share of voting rights amounted to 25.10%. In its fiscal year 2018, virtual minds – via its ADITION brand also an adserving supplier of United Internet portals – posted a slightly 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, 2018, United Internet's share of voting rights amounted to 25.39%. Open-Xchange closed its fiscal year 2018 with a positive result.

In February 2014, United Internet acquired a stake of 25.10% in ePages GmbH (main activity: e-shop solutions). In addition to the equity stake, ePages and United Internet's subsidiary 1&1 IONOS 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, 2018, United Internet's share of voting rights amounted to 25.01%. ePages posted a positive result in its fiscal year 2018.

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 IONOS SE agreed a long-term cooperation contract for the use of uberall solutions. As of December 31, 2018, the share of voting rights amounted to 28.52%. uberall is still in the start-up phase and posted a negative result in its fiscal year 2018.

In April 2017, United Internet acquired a stake in rankingCoach International GmbH (main activity: online marketing solutions). In addition to the equity stake, rankingCoach and 1&1 IONOS SE signed a long-term cooperation agreement for 1&1 IONOS SE to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. As of December 31, 2018, the share of voting rights amounted to 30.70%. rankingCoach is also still in the start-up phase and posted a negative result in its fiscal year 2018.

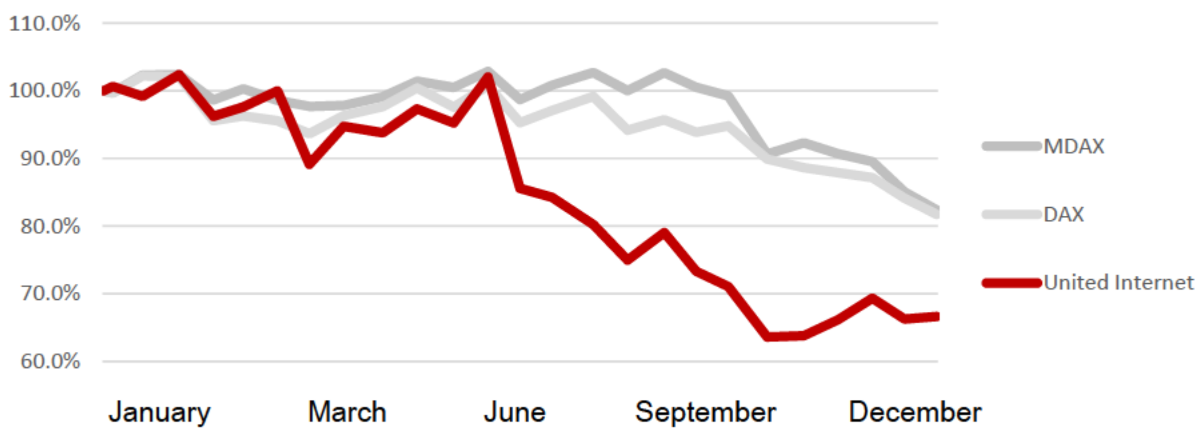
Following the contribution of affilinet GmbH to AWIN in October 2017, United Internet also holds a stake in AWIN AG (main activity: affiliate marketing). As of December 31, 2018, United Internet's share of voting rights amounted to 20.00%. AWIN once again closed its fiscal year 2018 with a strongly positive result.

Share and dividend

Share

The United Internet **share** decreased in value during fiscal year 2018: the share price fell by 33.4% to € 38.20 as of December 31, 2018 (December 31, 2017: € 57.34). The share thus performed worse than its comparative indices, which also fell strongly (DAX: -18.3%; MDAX -17.6%).

Share performance 2018, indexed



There was a corresponding decline in the **market capitalization** of United Internet AG from around € 11.75 billion in the previous year to around € 7.83 billion as of December 31, 2018.

In fiscal year 2018, average daily trading via the XETRA electronic computer trading system amounted to around 405,000 shares (prior year: 419,000) with an average value of € 19.3 million (prior year: € 19.7 million).

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

	2014	2015	2016	2017	2018
Year-end	37.49	50.91	37.10	57.34	38.20
Performance	+ 21.2%	+ 35.8%	- 27.1%	+ 54.6%	- 33.4%
Year-high	37.95	51.94	49.89	59.17	59.80
Year-low	28.35	36.17	34.42	37.01	34.14
Average daily turnover	13,731,799	15,279,407	16,301,156	19,666,155	19,261,114
Average daily turnover (units)	420,640	354,904	407,372	418,771	404,956
Shares at year-end (units)	205 million	205 million	205 million	205 million	205 million
Market value at year-end	7.69 billion	10.44 billion	7.61 billion	11.75 billion	7.83 billion
EPS[(1)]	2.28	1.80	0.86	3.06	0.94
Adjusted EPS[(2)]	1.46	1.73	2.11	2.02	1.96

(1) EPS from continued operations

(2) EPS from continued operations and without special items: 2014 without positive one-off effect from Versatel acquisition and portfolio optimization (EPS effect: € +0.82); 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EPS effect: € +0.07); 2016 without negative one-off effect from impairment (EPS effect: € -1.25); 2017 without net positive one-off effects from valuation topics, transaction and restructuring costs, writedowns on brands, writedowns on financial assets / Rocket impairment charges, financing costs and one-off tax effects (EPS effect: €+1.04); 2018 without negative effect from Tele Columbus impairment charges (EPS effect: € -1.02)

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	MDAX, 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	5.44%
Flossbach von Storch	3.14%
Capital Group	3.05%
United Internet (treasury stock)	2.29%
Free float	46.08%

As of December 31, 2018; figures based on the last respective notification of voting rights

Dividend

United Internet's current dividend policy aims to pay a dividend to its shareholders of approx. 20-40% of adjusted consolidated net income from continued operations after minority interests (adjusted consolidated net income attributable to the "shareholders of United Internet AG" – according to the consolidated statement of comprehensive income), provided that funds are not needed for further company development.

In fiscal year 2018, United Internet continued to pursue its shareholder-friendly dividend policy based on continuity. The company's Annual Shareholders' Meeting on May 24, 2018 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.85 per share for fiscal year 2017 (prior year: € 0.80). The total dividend payment of € 170.0 million (prior year: € 159.7 million) was made on May 29, 2018. The dividend payout ratio amounted to 42.1% of the adjusted consolidated net income from continued operations after minority interests for 2017 (€ 403.8 million) and was thus slightly above the range targeted by the company's dividend policy.

On January 24, 2019, the Group subsidiary 1&1 Drillisch AG announced that it intended to apply to the German Federal Network Agency ("Bundesnetzagentur") for admission to take part in the auction on the allocation of mobile frequencies ("5G spectrum auction") and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. The applicant was Drillisch Netz AG, a wholly-owned subsidiary of 1&1 Drillisch AG. On February 25, 2019, the Bundesnetzagentur granted admission to the 5G spectrum auction, which started on March 19, 2019.

Against the background of the ongoing 5G spectrum auction, and the necessary additional investments in the event of a successful acquisition of spectrum at the auction, the Management Board of United Internet AG will propose to the Supervisory Board the following two-part **dividend proposal** for the fiscal year 2018 in accordance with the company's dividend policy:

- Payment of a dividend of € 0.05 per share in the event that Drillisch Netz AG has acquired spectrum during the 5G spectrum auction by May 20, 2019. The dividend is based on the minimum dividend as prescribed by Section 254 (1) AktG. On the basis of 200.3 million shares with dividend entitlement (as of December 31, 2018), the total dividend payment for fiscal year 2018 would amount to € 10.0 million.

- Payment of a dividend of € 0.90 (prior year: € 0.85) per share in the event that Drillisch Netz AG has not acquired spectrum during the 5G spectrum auction by May 20, 2019. On the basis of 200.3 million shares with dividend entitlement (as of December 31, 2018), the total dividend payment for fiscal year 2018 would amount to € 180.3 million.

The dividend payout ratio would therefore amount to 2.5% (for a dividend of € 0.05 per share) or 45.9% (for a dividend of € 0.90 per share) of adjusted consolidated net income from continued operations after minority interests for 2018 (€ 392.6 million). The dividend yield – based on the closing price of the United Internet share on December 31, 2018 – would be 0.1% (for a dividend of € 0.05 per share) or 2.4% (for a dividend of € 0.90 per share).

The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 27, 2019 (and thus after the preparation deadline for this management report of March 22, 2019). The Annual Shareholders' Meeting of United Internet AG on May 23, 2019, will then vote on whether to adopt the joint proposal of the Management Board and Supervisory Board.

Multi-period overview: dividend development

	For 2014	For 2015	For 2016	For 2017	For 2018[1]
Dividend per share (in €)	0.60	0.70	0.80	0.85	0.05 or 0.90[4]
Dividend payment (in € million)	122.3	142.9	161.3	169.9	10.0[5] 180.3[6]
Payout ratio	27.3%	39.0%	90.0%	26.1%	5.3%[5] 95.5%[6]
Adjusted payout ratio[2]	43.0%	39.0%	37.2%	42.0%	2.5%[5] 45.9%[6]
Dividend yield[3]	1.6%	1.4%	2.2%	1.5%	0.1%[5] 2.4%[6]

(1) Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2019
(2) Without special items: one-off income from Versatel acquisition and portfolio optimization (2014); writedowns on financial assets / Rocket impairment charges (2016); net positive one-off effects from non-cash-effective valuation topics, transaction and restructuring costs, writedowns on brands, writedowns on financial assets / Rocket impairment charges, financing costs, one-off tax effects, and discontinued operations (2017); writedowns on Tele Columbus shares (2018)
(3) As of: December 31
(4) Two-part dividend proposal
(5) On a dividend of € 0.05 per share
(6) On a dividend of € 0.90 per share

Annual Shareholders' Meeting 2018

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 24, 2018. A total of 77.41% of capital stock (or 79.34% of capital stock less treasury shares) was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

With a resolution adopted on 18 May 2017, the Annual General Meeting authorized United Internet AG to buy back shares in accordance with Section 71 (1) No. 8 AktG up to a total of 10% of capital stock. The authorization was granted until 18 September 2020. United Internet did not buy back any shares in the fiscal year 2018.

Following the issue of treasury shares as part of employee stock ownership plans, United Internet held 4,702,990 treasury shares as of December 31, 2018 (December 31, 2017: 5,093,289). This corresponds to 2.29% of the current capital stock of € 205,000,000 (December 31, 2017: 2.48%).

Investor Relations

In the fiscal year 2017, the Management Board and Investor Relations department of United Internet AG once again provided institutional and private investors with regular and comprehensive information. Information was provided to the capital market via the quarterly statements, half-yearly financial report and annual report, press and analyst conferences, as well as via various webcasts. 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, France, UK, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, Spain and the USA. Over 20 national and international investment banks are in contact with the company's Investor Relations department and publish regular studies and comments on the company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the company around the clock via the company's website (www.united-internet.de).

Liquidity and finance

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

As of December 31, 2018, the Group's bank liabilities amounted to € 1,939.1 million (prior year: € 1,955.8 million) and mainly comprise both promissory note loans and syndicated loans.

Promissory note loans

At the end of the reporting period on December 31, 2018, total liabilities from promissory note loans with maximum terms until March 2025 amounted to € 835.5 million (prior year: € 1,035.5 million).

Syndicated loan facilities & syndicated loans

On December 21, 2018, United Internet signed an agreement with its core banks regarding a new syndicated loan facility. The company used the favorable market situation to renegotiate significant components of the loan agreement. As a result, borrowing costs were reduced and the term was extended to January 2024.

As of December 31, 2018, € 700 million of the revolving syndicated loan facility totaling € 810 million had been drawn (prior year: € 477 million). The increased usage was mainly due to the repayment of a tranche of the promissory note loan of € 200 million in December 2018. As a result, funds of € 110 million (prior year: € 333 million) were still available to be drawn from the credit facility.

At the end of the reporting period on December 31, 2018, a total of € 400 million in syndicated loans, redeemable on maturity, divided into two tranches with terms from August 2019 to August 2021 were still outstanding, as well as various drawings from the revolving syndicated loan facility with a term until January 2024.

In addition, United Internet AG increased a bilateral credit facility by € 125 million, from € 75 million to € 200 million. The facility has been granted until further notice. No drawings had been made from the credit facility as at the end of the reporting period.

A revolving credit line of 1&1 Drillisch AG amounting to € 100 million and with an original term until December 2019 was prematurely terminated in the fiscal year 2018.

As of December 31, 2018, United Internet thus had free credit lines totaling € 310 million.

These successful financing activities demonstrate the company's trusting and cooperative relationships with its long-standing core banks and underline the United Internet Group's strong position on the capital market. Further disclosures on the various financial instruments, drawings, interest rates and maturities are provided under point 31 of the Notes to the Consolidated Financial Statements

2.3 POSITION OF THE GROUP

Earnings position

In the fiscal year 2018, the number of **fee-based customer contracts** rose by 1.28 million in total – of which 1.03 million from organic growth and 250,000 from the takeover of World4You – to 23.85 million contracts. Ad-financed free accounts increased by 1.33 million to 37.00 million.

The sales and earnings figures for the fiscal year 2018 are shaped by the consolidation of Strato and Drillisch, as well as by positive conversion effects from the initial application of IFRS 15 (prior year: IAS 18). There were opposing and expected burdens on earnings from the increased use of smartphones for new and existing customers (no or only small one-off customer payment for new contracts and refinancing via higher tariff prices over the contractual term). Earnings in the fiscal year 2017 were dominated by a net positive extraordinary result from the previous year's M&A activities.

Due in part to the consolidation of Strato and Drillisch, **consolidated sales** grew by 22.0% from € 4,206.3 million in the previous year to € 5,130.8 million in the fiscal year 2018 (sales effect from IFRS 15: € +283.2 million). On a pro forma basis (including Strato and Drillisch for the whole of the previous year), sales rose by 10.2% from € 4,660.6 million to € 5,130.8 million (sales effect from IFRS 15: € +283.2 million). Negatively influenced in part by the year-on-year decline in the value of the British pound, **consolidated sales abroad** (adjusted for intercompany sales) increased by 5.2%, from € 381.0 million to € 401.0 million. Adjusted for currency effects, foreign sales rose by 6.3%.

Owing to the increased use of smartphones for new and existing customers, the **cost of sales** increased faster than revenues from € 2,691.1 million (64.0% of sales) in the previous year to € 3,378.0 million (65.8% of sales) in the fiscal year 2018. There was a corresponding decline in the **gross margin** from 36.0% to 34.2%. At the same time, **gross profit** rose by 15.7% from € 1,515.2 million to € 1,752.8 million.

Sales and marketing expenses increased more slowly than sales (due in part to IFRS 15 accounting) from € 638.3 million (15.2% of sales) in the previous year to € 678.2 million (13.2% of sales). **Administrative expenses** also rose more slowly than sales (due in part to IFRS 15 accounting) from € 185.1 million in the previous year (4.4% of sales) to € 218.9 million (4.3% of sales).

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

	2014 (IAS 18)	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Cost of sales	2,034.5	2,437.2	2,461.8	2,691.1(1)	3,378.0
Cost of sales ratio	66.4%	65.6%	64.6%	64.0%(1)	65.8%
Gross margin	33.6%	34.4%	35.4%	36.1%	34.2%
Selling expenses	481.3	557.2	521.2	638.3	678.2
Selling expenses ratio	15.7%	15.0%	13.7%	15.2%	13.2%
Administrative expenses	136.9	182.2	182.9	185.1	218.9
Administrative expenses ratio	4.5%	4.9%	4.8%	4.4%	4.3%

(1) 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)

Due in particular to the reclassification of impairment losses on receivables and contract assets to a new separate income statement line as a result of new IFRS standards, **other operating expenses** fell from € 100.6 million to € 24.0 million.

Other operating income amounted to € 77.9 million (prior year: € 365.8 million). The extremely high level of other operating income in the previous year resulted in particular from one-off, non-cash-effective, extraordinary income described below from the revaluation of Drillisch shares (€ 303.0 million) and from the revaluation of ProfitBricks shares (€ 16.1 million).

The new line **Impairment losses on receivables and contract assets** amounted to € 98.5 million (prior year: € 0).

Key earnings figures for the fiscal years 2018 and 2017 were influenced by various **special items**.

Special items 2018:

- "Impairment charges Tele Columbus": this special item results from the impairment of shares in Tele Columbus AG held by United Internet and disclosed in the result from associated companies. It has a negative effect on EBT, net income and EPS.

Special items 2017:

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

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

	Fiscal year 2018	Fiscal year 2017
EBITDA	1,201.3	1,253.3
Revaluation of Drillisch shares (2017)		- 303.0
Revaluation of ProfitBricks shares (2017)		- 16.1
M&A transaction costs (2017)		+ 17.1
Restructuring costs offline sales (2017)		+ 28.3
EBITDA before special items (operating)	**1,201.3**	**979.6**
EBIT	811.0	957.0[(1)]
Revaluation of Drillisch shares (2017)		- 303.0
Revaluation of ProfitBricks shares (2017)		- 16.1
M&A transaction costs (2017)		+ 17.1
Restructuring costs offline sales (2017)		+ 28.3
Trademark writedowns Strato (2017)		+ 20.7
EBIT before special items (operating)	**811.0**	**704.0**[(1)]
EBT	561.9	889.0[(1)]
Revaluation of Drillisch shares (2017)		- 303.0
Revaluation of ProfitBricks shares (2017)		- 16.1
M&A transaction costs (2017)		+ 17.1
Restructuring costs offline sales (2017)		+ 28.3
Trademark writedowns Strato (2017)		+ 20.7
Financing costs Drillisch (2017)		+ 4.3
Writedowns on financial assets (2017)		+ 19.8
Impairment charges Tele Columbus (2018)	+ 203.8	
EBT before special items (operating)	**765.7**	**660.1**[(1)]
Revaluation of Drillisch shares (2017)	312.1	646.6[(1)]
Revaluation of ProfitBricks shares (2017)		- 303.0
M&A transaction costs (2017)		- 16.1
Restructuring costs offline sales (2017)		+ 12.0
Trademark writedowns Strato (2017)		+ 19.9
Financing costs Drillisch (2017)		+ 14.5
Writedowns on financial assets (2017)		+ 3.0
Revaluation of Drillisch shares (2017)		+ 19.8
Impairment charges Tele Columbus (2018)	+ 203.8	
Tax effects from M&A activities (2017)		+ 43.0
Net income before special items (operating)	**515.9**	**439.7**[(1)]
EPS from continued operations	0.94	3.06
Revaluation of Drillisch shares (2017)		- 1.51
Revaluation of ProfitBricks shares (2017)		- 0.08
M&A transaction costs (2017)		+ 0.06
Restructuring costs offline sales (2017)		+ 0.10
Trademark writedowns Strato (2017)		+ 0.07
Financing costs Drillisch (2017)		+ 0.01
Writedowns on financial assets (2017)		+ 0.10
Impairment charges Tele Columbus (2018)	+ 1.02	
Tax effects from M&A activities (2017)		+ 0.21
EPS before special items (operating)	**1.96**	**2.02**

(1) Adjusted in connection with a final purchase price allocation (ProfitBricks)

Without consideration of the above special items, United Internet's key performance measures for the fiscal year 2018 developed as follows:

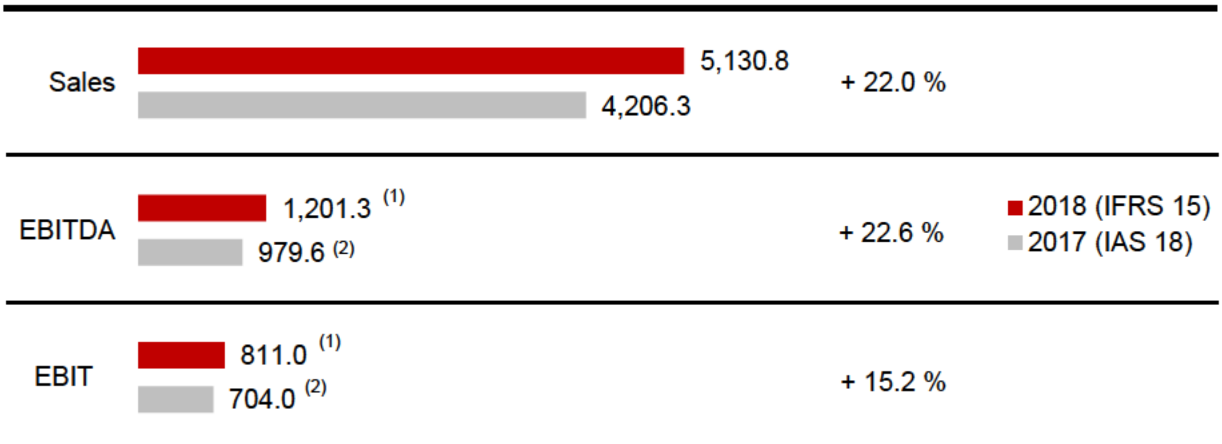
Consolidated EBITDA rose by 22.6% from € 979.6 million (comparable prior-year figure) to € 1,201.3 million (earnings effect from IFRS 15: € +286.9 million; earnings effect from increased smartphone use: € -268.1 million). On a pro forma basis (including Strato and Drillisch in the whole of the previous year), EBITDA improved by 10.5% from € 1,087.1 million (comparable prior-year figure) to € 1,201.3 million (earnings effect from IFRS 15: € +286.9 million; earnings effect from increased smartphone use: € -268.1 million). EBITDA for the fiscal year 2018 includes total one-off expenses for current integration projects of € 41.7 million.

Consolidated EBIT increased by 15.2% from € 704.0 million (comparable prior-year figure) to € 811.0 million (earnings effect from IFRS 15: € +288.9 million; earnings effect from increased smartphone use: € -268.1 million). EBIT also includes the above mentioned one-off expenses. The difference in percentage growth compared to EBITDA (+22.6%) is due to increased amortization of purchase price allocations (PPA) from the Strato and Drillisch takeovers.

Operating EBT rose by 16.0% from € 660.1 million (comparable prior-year figure) to € 765.7 million and **operating net income** from continued operations increased by 17.3% from € 439.7 million (comparable prior-year figure) to € 515.9 million.

Despite the increase in operating net income, **operating earnings per share (EPS)** fell from € 2.02 to € 1.96. This was due to the first full-year inclusion of minority interests as a result of the 33% stake of Warburg Pincus in the Business Applications segment and the 27% stake of minority shareholders in 1&1 Drillisch AG and thus in the Consumer Access segment. In addition, there were increased PPA writedowns resulting in particular from the acquisition of Versatel and the Strato and Drillisch takeovers completed in 2017. Adjusted for PPA writedowns, EPS rose by 6.0% from € 2.34 to € 2.48.

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



(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -41.7 million)
(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), as well as without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million); EBIT 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)

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

	Q1 2018 (IFRS 15)	Q2 2018 (IFRS 15)	Q3 2018 (IFRS 15)	Q4 2018 (IFRS 15)	Q4 2017 (IAS 18)	Change
Sales	1,270.7	1,278.2	1,267.0	1,314.9	1,198.1	+ 9.7%
EBITDA	278.3(1)	287.2(2)	309.1(3)	326.7(4)	295.5(5)	+ 10.6%
EBIT	182.9(1)	190.9(2)	209.0(3)	228.2(4)	192.8(5)	+ 18.4%

(1) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -8.1 million)
(2) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -5.8 million)
(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -7.3 million)
(4) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -20.5 million); EBIT Q4 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)
(5) Without M&A transaction costs (EBITDA and EBIT effect: € -1.9 million), without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million)

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

	2014 (IAS 18)	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Sales	3,065.0	3,715.7	3,808.1	4,206.3	5,130.8
EBITDA	551.5(1)	757.2(2)	835.4	979.6(3)	1,201.3(4)
EBITDA margin	18.0%	20.4%	21.9%	23.3%	23.4%
EBIT	430.6(1)	541.7(2)	642.7	704.0(3)	811.0 (4)
EBIT margin	14.0%	14.6%	16.9%	16.7%	15.8%

(1) Without one-off income from Versatel acquisition and portfolio optimization (EBITDA and EBIT effect: € +186.1 million)
(2) Without one-off income from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)
(3) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), as well as without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million); EBIT 2017 adjusted in connection with a final purchase price allocation (ProfitBricks)
(4) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -41.7 million)

Group's financial position

Thanks to the positive trend in operating earnings, **operative cash flow** rose from € 656.4 million in the previous year to € 889.5 million in the fiscal year 2018.

Cash flow from operating activities in the fiscal year 2018 decreased from € 655.7 million in the previous year (without consideration of a capital gains tax refund of € 70.3 million) to € 482.3 million. This was mainly due to prepayments for services received which will not be recognized until the following periods, increased hardware use, and a short-term increase in inventories which led to corresponding cash outflows and will not be amortized until subsequent periods.

Cash flow from investing activities amounted to € 350.9 million in the fiscal year 2018 (prior year: € 897.7 million). This resulted mainly from disbursements of € 271.8 million for capital expenditures (prior year: € 233.5 million), from disbursements of € 72.0 million (less cash received) for the purchase of shares in affiliated companies (World4You takeover), and from a subsequent cash outflow from the Drillisch integration. In addition to the aforementioned capital expenditures, cash flow from investing activities in the previous year was dominated by payments of € 528.1 million (less cash received) for the purchase of shares in affiliated companies (Strato, ProfitBricks und Drillisch takeovers), and payments for the purchase of shares in associated companies totaling € 127.9 million (mainly from the increase of stakes in Tele Columbus and Drillisch – prior to the closing of the overall transaction – as well as the investment in rankingCoach).

As a result of the investments made in operating activities (increased use of smartphones for new and existing customers) which will not be amortized until subsequent periods, **free cash flow** (i.e. cash flow from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment) fell from € 424.4 million (comparable prior-year figure without above mentioned capital gains tax refund) to € 219.9 million or € 254.6 million (without consideration of a tax payment of € 34.7 million from the fiscal year 2016).

Cash flow from financing activities in the fiscal year 2018 was dominated by the net repayment of loans totaling € 22.9 million (prior year: assumption of € 138.6 million), the dividend payment of € 170.0 million (prior year: € 159.7 million), and the dividend payment to minority shareholders (mostly 1&1 Drillisch shareholders) of € 75.4 million (prior year: € 0.2 million). Apart from the assumption of loans and dividend payment, cash flow from financing activities in the previous year was dominated by the purchase of treasury shares (€ 77.2 million), and contributions from minority shareholders (€ 427.3 million from the investment of Warburg Pincus in the now Business Applications segment).

Cash and cash equivalents amounted to € 58.1 million as of December 31, 2018 – compared to € 238.5 million on the same date last year.

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

	2014 (IAS 18)	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Operative cash flow	380.6	554.5	644.2	656.4	889.5
Cash flow from operating activities	454.0(2)	533.2(3)	587.0(4)	655.7(5)	482.3
Cash flow from investing activities	-1,349.8	-766.0	-422.7	-897.7	-350.9
Free cash flow(1)	386.6(2)	300.5(3)	423.0(4)	424.4(5)	254.6(6)
Cash flow from financing activities	1,240.9	23.1	-43.2	312.2	-299.5
Cash and cash equivalents on December	50.8	84.3	101.7	238.5	58.1

(1) Free cash flow is defined as cash flow 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 (€ 335.7 million)
(3) 2015 without consideration of a capital gains tax refund (net: € 242.7 million) and including an income tax payment originally planned for the fourth quarter of 2015 (around € 100.0 million)
(4) 2016 without consideration of the aforementioned income tax payment (€ 100.0 million)
(5) 2017 without consideration of a capital gains tax refund originally planned for the fourth quarter of 2016 (€ 70.3 million)
(6) 2018 without consideration of a tax payment from fiscal year 2016 (€ 34.7 million)

Group's asset position

The **balance sheet total** rose from € 7.605 billion as of December 31, 2017 to € 8.174 billion on December 31, 2018.

The **initial application of** IFRS 15 in the fiscal year 2018 resulted in current and non-current assets, as well as current and non-current liabilities, which comprise items from previous periods recognized directly in equity as of January 1, 2018 and adjustments of the current reporting period carried in profit or loss.

Current assets increased from € 823.9 million as of December 31, 2017 to € 1,364.7 million on December 31, 2018. *Cash and cash equivalents* disclosed under current assets decreased from € 238.5 million to € 58.1 million due to investments made in connection with the increased use of smartphones for new and existing customers. *Trade accounts receivable* rose from € 290.0 million to € 351.4 million due to closing-date effects and the expansion of business. There was also an increase in *inventories* for forthcoming campaigns from € 44.7 million to € 89.6 million resulting from closing-date effects. The new item **contract assets** amounting to € 427.0 million includes claims against customers due to accelerated revenue recognition from the application of IFRS 15 in the fiscal year 2018, which were recognized directly in equity at the beginning of the year and since this time amortized at cost. *Current prepaid expenses* rose from €92.3 million to € 224.8 million and mainly comprise the short-term portion of expenses relating to contract acquisition and contract fulfillment according to IFRS 15. *Other financial assets* fell from € 100.3 million (including a refund claim against a pre-service provider) to € 72.8 million. *Income tax claims* increased from € 57.3 million to € 129.6 million.

Non-current assets increased from € 6,781.3 million as of December 31, 2017 to € 6,809.2 million on December 31, 2018. *Shares in associated companies* decreased from € 418.0 million to € 206.9 million as a result of Tele Columbus impairment charges. Due in particular to the subsequent valuation of United Internet's investments, *other financial assets* rose from € 333.7 million to € 348.0 million. *Property, plant and equipment* increased from € 747.4 million to € 818.0 million, while *intangible assets* fell from € 1,408.4 million to € 1,244.6. Mainly as a result of the World4You takeover, *goodwill* rose from € 3,564.1 million to € 3,612.6 million. The new item **contract assets** amounting to € 168.8 million includes claims against customers due to accelerated revenue recognition from the application of IFRS 15 in the fiscal year 2018. **Prepaid expenses** increased from € 100.9 million to € 341.2 million and mainly include the long-term portion of expenses relating to contract acquisition and contract fulfillment, as well as prepayments in connection with long-term purchasing agreements. As a result of IFRS 15 accounting, **deferred tax assets** fell from € 155.2 million to € 10.8 million.

Current liabilities rose from € 1,284.5 million as of December 31, 2017 to € 1,299.7 million on December 31, 2018. Due to closing-date effects and the expansion of business, current *trade accounts payable* increased from € 399.9 million to € 557.7 million. Short-term *bank liabilities* fell from € 248.2 million to € 206.2 million. *Income tax liabilities* rose from € 130.2 million to € 187.9 million. Current **contract liabilities** of € 154.3 million mainly include payments received from customer contracts for which the performance has not yet been completely rendered. On initial application of IFRS 15 at the beginning of the year, deferred revenue as of December 31, 2017 was recognized as a contract liability where applicable.

Non-current liabilities increased from € 2,272.0 million as of December 31, 2017 to € 2,352.6 million on December 31, 2018. Long-term *bank liabilities* rose from € 1,707.6 million to € 1,733.0 million. Non-current **contract liabilities** of € 33.8 million mainly include payments received from customer contracts for which the performance has not yet been completely rendered. On initial application of IFRS 15 at the beginning of the year, deferred revenue as of December 31, 2017 was recognized as a contract liability where applicable. The increase in non-current **other accrued liabilities** from € 33.5 million to € 100.0 million resulted in particular from initial recognition of accruals for termination fees as part of IFRS 15 accounting.

The Group's **equity capital** rose from € 4,048.7 million as of December 31, 2017 to € 4,521.5 million on December 31, 2018. The change mainly reflects the adjustments recognized directly in equity from using the modified retrospective transition method on initial application of IFRS 15 as of January 31, 2018. There was a corresponding rise in the ***equity ratio*** from 53.2% to 55.3%. At the end of the reporting period on December 31, 2018, United Internet held 4,702,990 **treasury shares** (December 31, 2017: 5,093,289).

Net bank liabilities (i.e. the balance of bank liabilities and cash and cash equivalents) increased from € 1,717.3 million as of December 31, 2017 to € 1,881.1 million on December 31, 2018. As in previous years, this temporary increase is due to the dividend payment made in May and the takeover of World4You in August.

Multi-period overview: development of relative indebtedness

	2014 (IAS 18)	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)
Net bank liabilities [(1)] / EBITDA	1.79	1.88	1.98	1.37	1.57
Net bank liabilities [(1)] / free cash flow[(2)]	3.42	3.63	3.88	4.04	7.39

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

(2) Free cash flow without consideration of closing-date effects from a capital gains tax payment of € 335.7 million (2014), a capital gains tax refund (net) of € 242.7 million (2015), an income tax payment originally due in the fourth quarter of 2015 of around € 100.0 million (2016), a capital gains tax refund originally planned for the fourth quarter of 2016 of € 70.3 million (2017), and a tax payment from fiscal year 2016 of € 34.7 million (2018)

Further details on the objectives and methods of the Group's financial risk management are provided under point 43 of the notes to the consolidated financial statements.

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

	2014 (IAS 18)	2015 (IAS 18)	2016 (IAS 18)	2017[1] (IAS 18)	2018 (IFRS 15)
Total assets	3,673.4	3,885.4	4,073.7	7,605.2	8,173.8
Cash and cash equivalents	50.8	84.3	101.7	238.5	58.1
Shares in associated companies	34.9	468.4[2]	755.5[2]	418.0[2]	206.9[2]
Other financial assets	695.3	449.0[3]	287.7[3]	333.7[3]	348.1[3]
Property, plant and equipment	689.3	665.2	655.0	747.4[4]	818.0
Intangible assets	385.5	389.5	369.5	1,408.4[4]	1,244.6
Goodwill	977.0	1,100.1[5]	1,087.7	3,564.1[5]	3,612.6[5]
Liabilities due to banks	1,374.0	1,536.5[6]	1,760.7[6]	1,955.8[6]	1,939.1
Capital stock	205.0	205.0	205.0	205.0	205.0
Treasury stock	35.3	26.3	122.5	189.4	174.9
Equity	1,204.7	1,149.8	1,197.8	4,048.7[7]	4,521.5[7]
Equity ratio	32.8%	29.6%	29.4%	53.2%	55.3%

(1) 2017 figures were adjusted retroactively in connection with a final purchase price allocation for a company acquisition

(2) Increase due to investment in Drillisch (2015); increase due to investment in Tele Columbus (2016); decrease due to takeover and consolidation of ProfitBricks and Drillisch (2017); decrease due to Tele Columbus impairment charge (2018)

(3) Decrease due to sale of Goldbach shares and subsequent valuation of shares in listed companies (2015); decrease due to subsequent valuation of shares in listed companies (2016); increase due to subsequent valuation of shares in listed companies (2017); increase due to subsequent valuation of shares in listed companies (2018)

(4) Increase due to Strato, ProfitBricks and Drillisch takeovers (2017)

(5) Increase due to acquisition of home.pl (2015); increase due to Strato, ProfitBricks and Drillisch takeovers (2017); increase due to World4You takeover (2018)

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

(7) Increase due to consolidation effects in connection with the investment of Warburg Pincus in the Business Applications segment and takeover of Strato (2017); transitional effects from initial application of IFRS 15 (2018)

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

With the exception of the USA and Mexico, the macroeconomic conditions in the main target countries of the United Internet Group deteriorated during the reporting period, compared to the previous year. GDP in Germany – United Internet's most important market – also only grew by 1.5% – following 2.5% in the previous year. With sales growth of 2.0%, the German ICT market also fell well short of its prior-year growth rate of 3.0%.

With growth of 1.28 million customer contracts to 23.85 million, a 22.0% increase in sales to € 5.131 billion and an improvement in EBITDA of 22.6% to € 1.201 billion, United Internet enjoyed further dynamic growth in fiscal year 2018. With the figures achieved in sales and earnings in fiscal year 2018, United Internet was also able to meet the targets it set itself.

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 2018, 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 the largely completed integration of the companies it acquired in 2017, Strato, ProfitBricks (now 1&1 IONOS Cloud) and Drillisch (now 1&1 Drillisch), with a variety of synergy effects in both business divisions.

The financial position of United Internet AG remained strong in fiscal year 2018. Despite heavy investment in the increased use of smartphones for new and existing customers in 2018, which will only be amortized in the following periods, free cash flow adjusted for tax effects remained high at € 254.6 million (comparable prior-year figure: € 424.4 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.

As of the reporting date for the annual financial statements 2018, and at the time of preparing this management report, the Management Board believes that the United Internet Group as a whole is well placed for its further development. It regards the financial position and performance – subject to possible special items – as positive and is optimistic about the Group's future prospects.

2.4 POSITION OF THE COMPANY

Earnings of United Internet AG

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

In the fiscal year 2018, **sales** of the parent company amounted to € 0.01 million (prior year: € 0.85 million) and result mainly from services rendered to the Group's subsidiaries.

Other operating income amounted to € 147.6 million (prior year: € 1,434.8 million) and mainly results from extraordinary income in connection with the disposal of financial assets totaling € 143.8 million (scheduled exercise of a put option from 2017 for the preferred share of 1&1 Internet Holding SE), as well as from other operating income of € 2.3 million in connection with cost allocations within the Group, and income of € 1.6 million relating to other periods from the reversal of accruals. In the previous year, other operating income of € 1,434.8 million was dominated by extraordinary income of € 1,429.2 million in connection with the sale of shares in 1&1 Internet SE (now 1&1 IONOS SE) to 1&1 Internet Holding SE as part of the investment of Warburg Pincus in this segment, as well as internal Group charges of € 5.0 million.

Adjusted for effects from employee stock ownership programs, **personnel expenses** amounted to € 0.6 million (prior year: € 1.4 million).

Other operating expenses increased to € 36.9 million (prior year: € 13.8 million) and mostly comprise internal Group charges of € 28.7 million (incl. charges for previous years), as well as legal, auditing and consulting fees of € 3.8 million (prior year: € 10.8 million).

Income from profit transfer agreements of € 117.7 million (prior year: € 141.5 million) result from the profit transfers of 1&1 Mail & Media Applications SE amounting to € 93.6 million (prior year: € 100.0 million), and United Internet Corporate Services GmbH amounting to € 24.1 million (prior year: expense of € 10.5 million).

Income from investments amounted to € 209.6 (prior year: € 0) and comprised the dividends of 1&1 Drillisch AG (€ 189.7 million) and 1&1 Internet TopCo SE (€ 19.9 million).

Expenses for loss assumptions of € 263.6 million (prior year: € 10.5 million) mainly related to the compensation expense of United Internet Investments Holding AG & Co. KG amounting to € 222.2 million (prior year: income of € 40.1 million), due especially to the writedown on shares in Tele Columbus AG held by the company, as well as of United Internet Service Holding GmbH amounting to € 41.3 million (prior year: income of € 1.4 million).

The parent company's **result before taxes** amounted to €273.3 million (prior year: € 1,620.3 million).

Income taxes of € 68.4 million (prior year: € 77.9 million) comprise current taxes of 2018 of € 55.8 million (of which € 27.6 million corporation tax and the solidarity surcharge and € 28.2 million trade tax), and € 7.3 million from previous years. In addition, there were expenses from the formation of deferred tax liabilities amounting to € 5.4 million.

The **net income** in the separate financial statements of United Internet AG for the fiscal year 2018 amounted to € 204.9 million (prior year: € 1,542.4 million).

Assets and financial position of United Internet AG

The parent company's balance sheet total rose from € 5,834.0 million on December 31, 2017 to € 6,233.8 million as of December 31, 2018.

Non-current assets of the parent company amounting to € 5,981.3 million (prior year: € 4,952.7 million) were dominated by financial assets. *Shares in affiliated companies* increased to € 3,668.8 million (prior year: € 3,101.0 million). This was mainly due to the Group's internal reallocation of shares previously held by United Internet Investments Holding AG & Co. KG in 1&1 Drillisch AG to United Internet AG, as well as the investment of United Internet AG in the capital reserves of United Internet Service Holding GmbH in connection with the carve-out of Versatel in 2017. *Loans to affiliated companies* rose to € 2,312.5 million (prior year: € 1,851.6 million). The increase results in particular from a loan to United Internet Investments Holding AG & Co. KG in connection with the internal rescheduling of existing short-term cash pooling receivables from the company as long-term loans, as well as a loan to United Internet Service Holding GmbH in connection with the restructuring of the Versatel Group's cash pooling with United Internet Service Holding as the holding company. In addition, there was a loan to 1&1 Internet Holding SE in connection with the purchase of shares in World4You Internet Services GmbH, Linz / Austria.

Current assets of the parent company amounting to € 252.3 million (prior year: € 881.1 million) comprise receivables due from affiliated companies and other assets. The *receivables due from affiliated companies* declined to € 207.1 million (prior year: € 832.0 million). These mainly comprise receivables within the United Internet Group's internal cash management system. *Other assets* disclosed under current assets amounting to € 40.7 million (prior year: € 41.4 million) consist mainly of receivables due from the tax office.

Shareholders' equity of the parent company amounted to € 3,617.3 million as of December 31, 2018 (prior year: € 3,566.7 million). The increase in equity during the reporting period is mainly due to the net income for the year of € 204.9 million, with an opposing effect from the dividend payout of € 170.0 million. The use of treasury shares for employee stock ownership plans resulted in an increase of shareholders' equity of € 15.8 million. As a result of the disproportionately stronger increase in the balance sheet total, the equity ratio fell from 61.1% in the previous year to 58.0% as of December 31, 2018.

The parent company's accruals of € 80.8 million (prior year: € 64.5 million) mainly comprise *accrued taxes*, mostly for previous years, amounting to € 76.9 million (prior year: € 55.0 million) as well as *other accrued liabilities* for employee stock ownership plans, legal, auditing and consulting fees, as well as bonuses totaling € 3.9 million (prior year: € 9.5 million).

The liabilities of the parent company are shaped in particular by liabilities to banks and liabilities due to affiliated companies. Despite the dividend payment and takeover of World4You, *liabilities to banks* decreased to € 1,943.8 million in the fiscal year 2018 (prior year: € 1,952.8 million). Bank liabilities mainly comprise two promissory note loans totaling € 835.5 million, as well as syndicated loans totaling € 1,100.0 million. *Liabilities to affiliated companies* rose to € 575.0 million (prior year: € 233.7 million) and mainly comprise liabilities from balances within the United Internet Group's cash pooling system (€ 272.1 million), from service arrangements (€ 36.6 million), and from profit transfer agreements (€ 263.6 million). *Other liabilities* of € 5.4 million (prior year: € 10.8 million) are mainly sales tax liabilities.

Cash flow of the parent company's financial statements is dominated by cash flows from the profit transfer agreements, as well as the dividends of investments. There was an opposing effect in the fiscal year 2018 from the dividend payment disclosed under financial activities.

Management Board's overall assessment of the current business situation of the parent company

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 and financial result. The above statements on the Group's economic position therefore also apply qualitatively for United Internet AG itself.

2.5 SIGNIFICANT NON-FINANCIAL PERFORMANCE INDICATORS

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

Further information on these and other sustainability topics are included in the Non-Financial Statement 2018 (Sustainability Report) of United Internet AG – based on the Global Reporting Initiative (GRI) framework – which will be published on April 11, 2019 at https://www.united-internet.de/investor-relations/publikationen/berichte.html.

Sustainable business policy

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

Customer relationships

In its fiscal year 2018, United Internet once again invested heavily in customer growth and raised the number of fee-based customer contracts organically by 1.03 million. Including the takeover of World4You, the number of fee-based customer contracts grew by as much as 1.28 million auf 23.85 million (prior year: 22.57 million).

Apart from these customer contracts in the reported product lines, United Internet holds a further 0.41 (prior year: 0.47) million contracts without basic monthly fees and service provider contracts (volume-based tariffs / MSP tariffs), as well as 0.06 (prior year: 0.11) million broadband connections in the phased-out T-DSL / R-DSL product lines.

In addition to these fee-based contracts, United Internet also operates 37.00 (prior year: 35.67) million active free accounts at its data centers that are refinanced via advertising revenue.

In total, therefore, United Internet manages 61.32 (prior year: 58.89) million customer accounts globally.

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

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

	2014(1)	2015(2)	2016	2017(3)	2018(4)
Contracts with basic fees	+ 1.41	+ 1.25	+ 1.06	+ 6.10	+ 1.28
Contracts without basic fees / old contracts	- 0.08	- 0.06	- 0.06	+ 0.40	- 0.11
Free accounts	+ 0.61	+ 1.03	+ 1.14	+ 1.13	+ 1.33
Total customer accounts	+ 1.94	+ 2.22	+ 2.14	+ 7.63	+ 2.50

(1) Including 0.42 million contracts with basic fees from the takeover of Versatel
(2) Including 0.34 million contracts with basic fees from the takeover of home.pl and an opposing 0.08 million from contract streamlining
(3) Including 3.35 million contracts with basic fees and 0.49 million contracts without basic fees / old contracts from the takeover of Drillisch as well as including 1.87 million contracts with basic fees from the takeover of Strato
(4) Including 0.25 million contracts with basic fees from the takeover of World4You

Customer satisfaction

In addition to attracting new customers, retaining existing customers and customer loyalty are the most important factors for expanding our customer base. The key control criterion for United Internet is customer satisfaction. We have therefore established structures and processes in our (mass market) segments Consumer Access, Consumer Applications and Business Applications in order to continuously and sustainably measure, analyze and ultimately improve customer satisfaction with the aid of key performance indicators (KPIs). Customer surveys, market research and analyses, e.g. of postings on social media platforms, are carried out on a regular basis in order to collect feedback from customers.

Depending on the segment, customer satisfaction is measured and controlled using various KPIs such as customer sentiment or the recommendation rate / net promoter score (NPS).

The findings from these customer satisfaction analyses are used to identify areas for improvement and then translated into concrete measures to increase customer satisfaction (e.g. in the field of service or product quality).

As of October 2018, for example, all customers of the 1&1 IONOS brand have the opportunity to contact a personal consultant free of charge as a central point of contact for all questions relating to products, their contracts and their online business success. In this way, 1&1 IONOS can accompany companies through all phases of their development – from registering a domain and setting up a first website, to setting up shop systems and dedicated servers, to using enterprise cloud infrastructures. In addition, companies have the opportunity to use numerous cloud applications that support their business.

Service quality

As part of the above measures, United Internet has also invested heavily in service quality over the past years, e.g. with the introduction of the so-called 1&1 Principle and further constant enhancements to it.

With the 1&1 Principle, broadband and mobile internet customers are given five clear product-related performance promises. These include, for example, a one-month test phase and highly available expert hotline, delivery of the ordered product within one working day or on-site replacement of faulty equipment on the next working day.

As of the past year, the 1&1 Replacement Service offers additional all-round protection: in the event of damage, customers receive a new – and identical – mobile phone within 24 hours. If the model is not available, in exceptional cases, an equivalent smartphone is immediately delivered.

Since September 2018, this premium service has been free of charge for customers and included in all Mobile 1&1 All-Net Flat tariffs with smartphone on signing the contract. The special feature is that the 1&1 Replacement Service goes beyond the usual device warranty and also covers self-caused damage, such as water damage or screen breakage. This all-round protection is valid for the entire minimum term.

The excellent scores achieved in customer service surveys during 2018 are proof that the investments in service quality are paying off.

As in previous years, the German newspaper DIE WELT, together with ServiceValue, systematically examined the service quality of German companies from the customer's point of view in 2018. ServiceValue is a Cologne-based analysis and consulting company specializing in relationship management between companies and stakeholders. Service ranking from the customer's perspective is based on the scientifically proven Service Experience Score (SES). This percentage value is determined in the same way as the well-known polling question "Which party would you vote for if the election were held this Sunday" and represents a clear, understandable and efficient measuring instrument. As part of the SERVICE CHAMPIONS 2018 study (published in October 2018), customers were asked to judge the best companies with regard to service experienced from a total of 3,016 companies from 327 different industries.

The United Internet brand 1&1 (Consumer Access segment) won the "No. 1 in Customer Service Experience" award in both the "Telecommunications" and "Internet Provider" (DSL) sectors.

Other sector winners were the United Internet brands GMX (Consumer Applications segment) in the "E-mail Provider" sector and Strato (Business Applications segment) – for the fifth time in a row – in the "Web Hosting Provider" sector.

The United Internet brand 1&1 Versatel (Business Access segment) is one of the most popular telecommunications service providers for small to mid-sized companies (SMEs). This was proven by a ranking of the German magazine WirtschaftsWoche (published in February 2018). In cooperation with ServiceValue, WirtschaftsWoche identified – for the third year now – the most popular service providers of Germany's SMEs. More than 6,000 decision-makers, buyers and users of SMEs were surveyed. In addition to general customer satisfaction, seven other categories – such as consulting, value for money and service quality – were evaluated. Overall, customer ratings were obtained for 267 providers from 28 industries. 1&1 Versatel achieved very good results in two categories (Telecommunications Telephony/Internet and Telecommunications Telephony/Internet/Mobile), finishing second in each category.

The test results for 1&1 customer service in Spain and France (Business Applications) illustrate that these excellent service ratings are not limited to Germany. In Spain, the 1&1 hotline won the coveted service award "Elegido servicio de atención al cliente" in the "Hosting" category for the fifth time in a row in October 2018. The 1&1 hotline in France also won the "Élu Service Client de l'Année" award for the best customer service in the "Hosting" category in October 2018.

Product quality

The product quality and value-for-money of the United Internet brands also received various accolades in the fiscal year 2018.

In 2018, for example, the 1&1 IONOS Cloud Server was named winner in the benchmark test of the US analysts Cloud Spectator (published April 2018). In this test, the cloud offerings of the largest and most important providers in North America, such as IBM Cloud, Amazon Web Services and Microsoft Azure, were examined with regard to their cost-benefit ratio. 1&1 IONOS was the overall winner with the highest possible “CloudSpecs Score” of 100. 1&1 IONOS won in North America for the third time in a row. In Europe, 1&1 IONOS achieved second place with a “CloudSpecs Score” of 82 (published in June 2018).

The Enterprise Cloud of 1&1 IONOS was rated by the analysts of CRISP Research as one of the market leaders (“Accelerator”) in the highly promising cloud market “Cloud Platforms – IaaS & PaaS” by the analysts of CRISP Research and is thus ranked in the same category as the US heavyweights Amazon Web Services, Microsoft Azure and Google. The evaluation criteria of the Crisp Vendor Universe are divided into two main categories, “Service/Product Value Creation” and “Vendor Performance”. The “Service/Product Value Creation” category focuses on market maturity. “Vendor Performance” examines providers in the cloud computing market environment in terms of their presence and market strategy.

Network quality

In terms of network quality, the United Internet brand 1&1 came second in the prestigious broadband and landline network test of the respected German specialist magazine “connect” (published in August 2018) with a score of 441 from a maximum 500 points (prior year: first place). 1&1 was the only nationwide provider – apart from Deutsche Telekom with 447 points – to receive an overall rating of “Very Good”, putting it ahead of competitors such as Unitymedia, O_2/Telefónica and Vodafone, who were all rated “Good”.

“connect” holds its test annually and in 2018 checked the test connections of all well-known providers in the categories Voice, Data, Web Services and Web TV. The landline test was conducted in three bandwidth classes for the second time in 2018. In doing so, “connect” aims to reflect the actual market distribution more accurately. Class 1 comprises connections with speeds of up to 20 Mbit/s (downstream), Class 2 is for 20 to 100 Mbit/s, and Class 3 for 100 Mbit/s and more.

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

The latter once again impressed in the test with “very good” landline voice services. 1&1 also achieved “very good” in the categories Data and Web Services.

The landline test was carried out on behalf of “connect” by zafaco GmbH. According to “connect”, about 4.4 million measurements were carried out on 96 test connections at 48 locations throughout Germany over a period of around four weeks. The test connections automatically initiated voice and data transfers. The test analyzed such categories as voice quality, data and error rates, response times and video quality.

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’s e-mail services GMX and WEB.DE also offer 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 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”, GMX and WEB.DE developed an encryption system based on the globally recognized “Pretty Good Privacy” (PGP) standard in 2015. The new e-mail security level works on all commonly used devices, is provided free to all customers of the two mail services, and is compatible with all previous PGP applications. In 2016, the PGP solution of GMX and WEB.DE was also rolled out in the foreign markets of France, Spain and the UK via the international e-mail brand mail.com.

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

In 2018, GMX and WEB.DE introduced a new protection against calendar spam – still a relatively new phenomenon. Spammers send fake appointment invitations to the mailbox and the digital calendar. GMX and WEB.DE allow customers to report and delete calendar spam. By clicking on a new “spam” button, the fake invitations with advertising, supposed discounts, or links to malware and phishing sites are deleted from the inbox.

Customer trust / recommendation behavior

A high level of service, product and network quality combined with high standards of security and data privacy also have a positive impact on the aspect of customer trust and ultimately on the recommendation behavior of customers.

For example, the United Internet brand GMX is the e-mail provider which Germans trust most. This was the result of a survey (published in September 2018) commissioned by the German magazine WirtschaftsWoche in which GMX once again 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 ServiceValue. The results are published in “Germany’s Largest Trust Ranking”. In 2018, around 330,000 customers of 1,134 companies in 88 sectors were interviewed. 81.3% of all respondents stated that they trusted GMX. For the fourth year running, GMX has thus taken first place in this ranking of e-mail providers and achieved a score in 2018 which was 16.2% above the average for all e-mail providers (65.1%). The survey’s academic advisor is the Psychology Institute of Goethe University Frankfurt/Main.

Together with ServiceValue, Focus Money conducted a large-scale customer survey in 2018 on the recommendation behavior of customers across 78 industries and over 1,000 companies (published in June 2018). ServiceValue applied its scientific method to evaluate some 460,000 customer opinions. The recommendation rates for GMX and WEB.DE not only put them in first and second place in the category “E-Mail”, but also second and third place in the global ranking of all 1,000 companies.

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 2018. Based on an independent study of the “Top Employers Institute”, United Internet received the “TOP Employers Germany” award – as in the preceding years. Certification is only awarded to organizations which offer staff attractive working conditions. Assessment is based on career opportunities, employer benefits, working conditions, training and development opportunities, and the corporate culture.

Headcount and key figures

In the highly competitive market for skilled workers in the ICT 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.

Compared to the previous year, there was a slight decline in headcount in the fiscal year 2018. Specifically, the number of employees decreased by 3.4% to 9,093 (prior year: 9,414). The main reason was the sale of yourfone Shop GmbH with around 100 physical stores at the turn of the year 2017/2018.

Due in particular to the above mentioned sale of yourfone Shop GmbH, headcount in Germany fell by 4.1% to 7,567 as of December 31, 2018 (prior year: 7,890). The number of employees at the Group’s non-German subsidiaries was virtually unchanged at 1,526 (prior year: 1,524).

From the segment perspective, there were 3,150 employees in the Consumer Access segment (prior year: 3,457), 1,095 in the Business Access segment (prior year: 1,069), 947 in the Consumer Applications segment (prior year: 961), and 3,355 in the Business Applications segment (prior year: 3,586). A further 546 people were employed at the Group’s headquarters (Corporate/HQ) (prior year: 341). The strong increase in Corporate/HQ staff resulted in part from the transfer of employees from the Business Applications segment who already worked in corporate functions in the past, but mainly from pooling apprentices in a specially created Corporate/HQ company.

Multi-period overview: headcount development by location [(1)]

	2014	2015	2016	2017	2018	Change over 2017
Employees, total	7,832	8,239	7,897	9,414	9,093	- 3.4%
thereof in Germany	6,168	6,502	6,322	7,890	7,567	- 4.1%
thereof abroad	1,664	1,737	1,575	1,524	1,526	+ 0.1%

(1) Active employees as of December 31 of the respective fiscal year

Multi-period overview: headcount development by segment [(1)]

	2014	2015	2016	2017	2018	Change over 2017
Employees, total	7,832	8,239	7,897	9,414	9,093	- 3.4%
thereof Consumer Access			2,401	3,457	3,150	- 8.9%
thereof Business Access			1,077	1,069	1,095	+ 2.4%
thereof Consumer Applications			978	961	947	- 1.5%
thereof Business Applications			3,243	3,586	3,355	- 6.4%
thereof Corporate/HQ			198	341	546	+ 60.1%

(1) Active employees as of December 31 of the respective fiscal year; as the new segmentation was only carried out as of the annual financial statements 2018, the segment breakdown is limited to the fiscal years 2016 - 2018

Due in particular to the acquisition of Strato, ProfitBricks and Drillisch in the course of 2017, **personnel expenses** rose by 10.2% to € 538.8 million in fiscal 2018 (prior year: € 489.0 million). By contrast, the personnel expense ratio fell strongly to 10.5% (prior year: 11.6%), as consolidated sales rose even faster by 22.0% – due also to the full-year consolidation of the above mentioned companies and first-time accounting according to IFRS 15.

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

	2014	2015	2016	2017	2018	Change over 2017
Personnel expenses	351.7	429.7	433.8	489.0	538.8	+ 10.2%
Personnel expense ratio	11.5%	11.6%	11.4%	11.6%	10.5%	

Sales per employee, based on annual average headcount, amounted to approx. € 555k in fiscal year 2018 (prior year: approx. € 486k). The reason for this significant increase was also the above mentioned strong rise in sales.

Targeted staff support and ongoing development

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

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

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

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

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

Discovering and nurturing potential and performance from an early stage

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

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

Specialist training by colleagues for colleagues

A particular training-on-the-job initiative in the United Internet Group's technical divisions is the TEC campus, which is now in its fifth, highly successful year. TEC Campus comprises a series of lectures ("Business Academy"), training on tools, processes and methods, as well as e-learning, and two internal conferences, the cross-national and cross-locational TECDays. The program and content are 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 (Project/Agile/Scrum/Kanban methods) 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 65% of managers from within its own ranks in fiscal year 2018.

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 Computer Sciences, Information Management, Accounting, Tax & Law/Accounting & Controlling, Business Administration/Marketing Management, and Business Administration/Digital Business Management at the universities of Karlsruhe, Stuttgart 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 apprenticeship years 2016, 2017, and 2018 a total of 27 refugees were given the opportunity of a future career with an apprenticeship contract. Around 239 young people were serving their apprenticeships with Group companies at year-end 2018. 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 2018, 58 apprentices and DHBW students were given full-time jobs. In 2019, the first 8 refugees are expected to successfully complete their apprenticeships.

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 in the field of 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, religion, sexual orientation and disability – 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.

Since this year, the development of women in United Internet companies has been supported by a structured planning of activities such as lectures, collegial case consulting, topic-related exchange groups, and individual measures such as coaching or mentoring.

Multi-period overview: employees by gender

	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Women	33%	34%	34%	31%	32%
Men	67%	66%	66%	69%	68%

The average age of the United Internet Group's employees at the end of fiscal year 2018 was around 38 (prior year: 39).

Multi-period overview: employee age profile

	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
< 30	32%	27%	28%	24%	26%
30 – 39	43%	40%	41%	36%	38%
40 – 49	20%	25%	23%	27%	25%
≥ 50	5%	8%	8%	13%	11%

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, 2014	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2018
Employees, total	7,832	8,239	7,897	9,414	9,093
thereof Germany	6,168	6,502	6,322	7,890	7,567
thereof France	46	25	3	3	3
thereof UK	227	234	209	232	216
thereof Austria	7	8	6	5	37
thereof Philippines	450	390	386	366	351
thereof Poland	6	263	258	251	270
thereof Romania	264	229	194	174	176
thereof Spain	341	339	322	319	331
thereof USA	300	239	197	174	142
thereof Other	23	10	0	0	0

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.

We have been using electricity from renewable sources for our data centers in Germany for more than ten years now. In all countries in which we operate data centers, e.g. the USA, the UK and Spain, we now use a mix of renewable energies and CO_2 offsetting via the use of certificates. This enables the climate-neutral operation of our data centers.

We also attach importance to using renewable energy from geographically adjacent regions, i.e. mostly in the same country or in a nearby area (e.g. the Alpine region).

The main elements of our energy-saving efforts at data centers around the world are:

- An optimized cooling system: depending on the data center, direct or indirect free cooling is used. In the case of direct free cooling, the air in the building is used to cool IT systems; in the case of indirect free cooling, only outdoor air is used. In both cases, the use of energy-intensive compressor cooling is minimized.
- The server hardware: a proportion of our servers 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 web hosting system used by United Internet is our own highly optimized 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.
- The use of containers: containers further optimize the virtualization principle by dispensing with redundant operation of the operating system kernel. Instead, it is shared by all instances. This also enables even stronger “elastic” load-dependent scaling of the IT resources provided. Containers are used both in internal operations and as customer products.

Social responsibility

United Internet for UNICEF Foundation

The United Internet for UNICEF Foundation was set up by Ralph Dommermuth in September 2006 as an independent foundation under German civil law. It primarily supports projects of UNICEF, the United Nations Children's Fund.

Projects are carefully selected from the wide range of UNICEF topics and presented on the high-reach portals of the United Internet Group (1&1, GMX und WEB.DE) in order to attract as many donors as possible – for the particular project or as sustaining members of UNICEF. During emergency situations, such as the earthquake and tsunami on Sulawesi (Indonesia) in September 2018, newsletters can reach over 30 million people within 24 hours and thus facilitate the effective collection of donations.

In 2018, the Foundation mostly supported the ongoing crisis regions of the Democratic Republic of Congo and Yemen. It also promoted projects in India and launched an emergency mailing for the victims of the earthquake and tsunami on Sulawesi. In 2018 alone, for example, United Internet for UNICEF provided € 160,000 for the Congo and over one million euros for Yemen. Thanks to the tremendous donation response, the Foundation was able to quickly provide UNICEF with almost € 450,000 for emergency aid in Indonesia.

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, over € 3.5 million (prior year: € 3.9 million) could be collected in donations in the fiscal year 2018 – according to preliminary figures. Since its creation, the foundation has so far collected € 42.9 million. As of December 31, 2018, there are around 12,750 active sustaining members of UNICEF (prior year: 12,327).

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

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

In addition to the United Internet for UNICEF foundation, the United Internet Group has been active since 2015 in various activities to promote the sustainable integration of refugees in Germany on the three levels which typify United Internet: with its employees, as an employer and via the company’s products. The measures have been constantly adapted to the respective current needs of refugees over the past few years.

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

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

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

Over 310 refugees and immigrants have so far participated in the program at our sites in Montabaur, Karlsruhe and Munich. More than 120 participants subsequently completed an internship at companies of the United Internet Group and 27 are currently doing apprenticeships. Four graduates have since been given full-time employment. Around 190 employees volunteer to act as trainers, sponsors, and internship assistants in the “Fit for Job” program, in addition to their daily work.

With its various programs, United Internet is also active in the “We Together” initiative, in which over 230 companies pool their integration activities and exchange notes on their experiences.

3 SUBSEQUENT EVENTS

The management board of 1&1 Drillisch AG, a subsidiary of United Internet AG, decided on January 24, 2019, with the consent of its supervisory board, to apply for admission to the auction on the allocation of mobile frequencies in the 2 GHz and 3.6 GHz frequency bands ("5G spectrum auction") in accordance with the decision BK1-17/001 with the German Federal Network Agency ("Bundesnetzagentur") and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. The applicant was Drillisch Netz AG, a wholly-owned subsidiary of 1&1 Drillisch AG. The company is confident that this step will establish the basis for a successful and lasting positioning of the 1&1 Drillisch Group as the fourth mobile network operator in Germany, and make a substantive contribution to enabling Germany to become Europe's leading 5G market. On February 25, 2019, the Bundesnetzagentur granted admission to the auction, which started on March 19, 2019.

On January 24, 2019, 1&1 Drillisch also agreed its own credit lines of € 2.8 billion with a European bank consortium – in addition to its intra-group credit lines with United Internet AG. These credit lines are available to 1&1 Drillisch in addition to available liquidity and its sustainable cash flows from operating activities.

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

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

4 RISK, OPPORTUNITY AND FORECAST REPORT

The risk and opportunity policy of the United Internet Group is based on the objective of maintaining and sustainably enhancing the company's values by utilizing opportunities while at the same time recognizing and managing risks from an early stage in their development. A risk and opportunity management system which is "lived" ensures that United Internet AG can exercise its business activities in a controlled company environment. The risk and opportunity management system regulates the responsible handling of those uncertainties which are always 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 management manual which is valid for and available to all members of the Group. These requirements are regularly adapted to changing legal conditions and continuously developed. Corporate Risk Management 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.

Corporate Risk Management is supported by the risk management teams of the respective segments (Company Risk Management). In order to support Company Risk Management, additional local risk managers have been installed in business fields of particular importance for the company's business success (such as the areas "Technology & Development"). In order to facilitate the group-wide exchange and comparison of risk information, regular Risk Manager Meetings are held between the various risk managers and also with the company-wide, cross-functional managers.

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 31000:2018. 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.

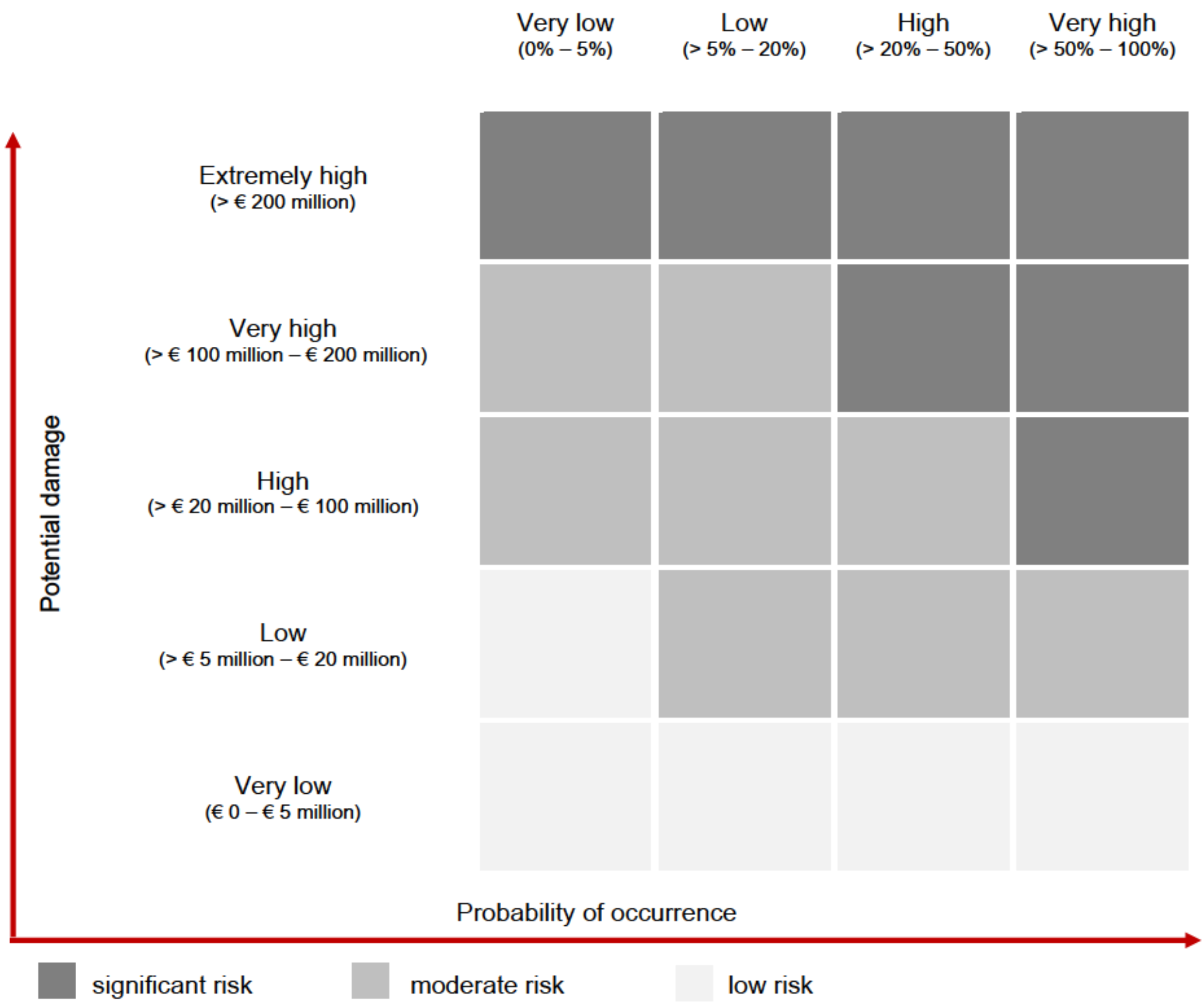
The current status of the main risks is communicated to the Management Board and Supervisory Board four times per year. Identified important risks with an immediate impact or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately 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.

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

The assessment of the overall risk situation is the result of a consolidated examination of all known material risks. Of the total risks identified for the Group, the following sections describe the main risk categories from the company's point of view.

The starting point for assessing the materiality of risks is provided by the characteristics "probability of occurrence" and "potential damage". Based on the combination of probability of occurrence and potential damage, the risks are assigned to one of three risk categories: "significant", "moderate" and "low" risks.



Specific assessments of the company's Management Board regarding the Group's risk situation, as well as the probability of occurrence, potential damage and resulting categorization of the risks described below are provided at the end of this Risk Report.

Strategy

Shareholdings and investments

The acquisition and holding of shares in other companies and the making of strategic investments represent a key success factor for United Internet AG. In addition to improved access to existing and new growth markets, as well as to new technologies and know-how, investments also serve to exploit synergy and growth potential. However, these opportunities also involve risks. For example, there is a risk that the targeted potential cannot be exploited as expected or that acquired shareholdings will not develop as expected (impairment losses, disposal losses, absence of dividend, or reduction of hidden reserves).

All investments are therefore subject to a continuous monitoring process by the Investment Management and are supported promptly if required. This risk is largely without relevance for EBITDA as, in the event of an incident, predominantly non-cash-effective impairments are incurred. The value of investments is continuously monitored by management and the Controlling division.

Business development and innovations

A further key success factor for United Internet is also the development of new and constantly improved products and services in order to enhance sales and earnings, attract new customers, and expand existing customer relationships. There is always a risk, however, that new developments might be launched too late on the market or not be accepted by the target group as expected.

United Internet counters such risks by constantly and closely observing market, product and competition trends, as well as by undertaking product development which constantly responds to customer feedback.

As part of its efforts to diversify the business model or expand its value chain, United Internet occasionally enters new markets, or upstream and downstream markets. On January 24, 2019, the management board of 1&1 Drillisch AG, a subsidiary of United Internet AG, decided with the approval of its supervisory board to apply to the Bundesnetzagentur for admission to the auction on the allocation of mobile frequencies in the 2 GHz and 3.6 GHz frequency bands in accordance with the decision BK1-17/001 and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. At present, the company's mobile offerings are based on the use of third-party networks. The resulting costs could be gradually reduced and absorbed in future by setting up a separate network. Admission to the auction was granted by the Bundesnetzagentur on February 25, 2019.

In addition to the resulting opportunities, such an entrepreneurial decision also entails risks. These may include, for example, the risk areas "technical plant operation", "procurement market" "litigation", "financing", and "liquidity". The company attempts to minimize these risks by, among other things, cooperating with specialized partner companies as well as by preparing detailed and long-term plans in the risk areas "financing" and "liquidity".

Cooperation and outsourcing

United Internet works together with specialized cooperation and outsourcing partners in certain areas of the company. The focus here is on objectives such as focusing on the actual core business, reducing costs, or leveraging the expertise of partners. These opportunities also involve risks in the form of dependencies on external service providers as well as contractual and default risks.

In order to reduce these risks, detailed market analyses and due diligence reviews are carried out before major contracts are concluded with external service providers, and close and cooperative relationships are maintained with the cooperation and outsourcing partners after the contracts have been concluded.

Organizational structure and decision-making

The choice of the appropriate organizational structure is essential for the efficiency and success of the company. In addition to the organizational structure, business success also depends to a large extent on making the right decisions. The basis for such decisions can be negatively influenced by various factors, such as limited flexibility offered by existing business processes and structures, or misunderstandings caused by ambiguities in the definition of key figures. If efficiency is jeopardized by one or several factors, this represents a strategic risk for United Internet which should be avoided wherever it makes economic sense.

Due to the high degree of agility within the organization, United Internet considers itself to be generally well positioned in this respect and undertakes a number of measures to standardize and optimize processes, structures and key figures.

Personnel development and retention

Highly skilled and well trained employees form the basis for the economic success of United Internet. In addition to the successful recruitment of qualified personnel (see also the “personnel recruitment” risk), personnel development and the long-term retention of top performers within the company are strategically important. If the company fails to develop and retain executives and employees with specialist or technological knowledge, there is the danger that United Internet may not be able to effectively conduct its business and achieve its growth targets. The concentrated accumulation of strategic knowledge and skills (so-called head monopoly) can have a considerable impact on the performance of the company if the corresponding employee is no longer available.

United Internet counteracts this risk by continuously developing employee and management skills. For example, it offers targeted measures for professional development, mentoring and coaching programs as well as special offers for high potentials geared to the further development of talent and leadership skills.

Further information on the topic of “personnel” is provided in section 2.5 “Significant non-financial performance indicators” of this management report under “Employees”.

Market

Sales market and competition

United Internet's markets are characterized by strong and sustained competition. Depending on the strategy of the parties involved in the market, different effects may occur which may lead also involve adjustments to the company’s own business models or pricing policy. The entry of new competitors might also jeopardize market shares, growth targets or margins. In addition, United Internet itself occasionally enters new, additional markets with large competitors. Such an entrepreneurial decision is always associated with new risks.

United Internet attempts to minimize these risks by means of detailed planning based on internal experience and external market studies, as well as by constantly monitoring the market and the competition.

Procurement market

A gap in the procurement or delivery of resources required for business operations may also lead to bottlenecks or outages at United Internet. This applies both to the purchase of hardware and the purchase of wholesale services. An increase in the price of purchased products and services also represents a risk for the targeted margins. Planned positive effects from contractually fixed price adjustment rounds can become a risk for the achievement of the company's periodic targets due to time delays.

United Internet counters these risks by cooperating with several long-term service providers and suppliers and – where it makes economic sense – by expanding its own value chain.

Financial market

The activities of United Internet AG are fundamentally exposed to risks on the financial market. In particular, these include risks from changes in interest rates and exchange rates.

- Interest
  The company is 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.

Personnel recruitment

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. If United Internet is not able to attract managers and employees with specialist and technological knowledge, it would not be able to effectively conduct its business and achieve its growth targets.

As an attractive employer, the company believes it is well placed to hire highly skilled specialists and managers with the potential to drive its business success in the future. This was confirmed in the past years by the Top Employers Institute, which awarded United Internet the accolade “Top Employer 2018”.

Further details on the topic of human resources are provided in section 2.5 of this management report “Significant non-financial performance indicators” under “Employees”.

Provision of services

Work processes

In view of the ever-increasing complexity and interoperability of the products offered, there are steadily growing demands placed on the development of internal work processes. This also involves an ever-higher degree of coordination The particular challenge is to ensure quality standards especially in view of fast-changing market events – and on numerous differing domestic and foreign markets.

The company counters these risks by continuously developing and enhancing its internal processes, pooling and retaining its experts and key personnel, and continuously optimizing its organizational structures.

Information security

United Internet generates its commercial success largely in the telecommunications market and 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.

In order to deal with such risks more quickly, the existing monitoring and alarm system, together with the necessary processes and documentation, is continuously optimized.

There is also the risk of hacker attacks with the aim of stealing or deleting customer data or using services fraudulently. In the fiscal year 2018, an increasing professionalization of the attackers and their attack methods was observed. According to the German Federal Office for Information Security (BSI), the number of known malicious program variants grew by an average of around 390,000 for PCs and around 690,000 for smartphones with Android operating systems per day between July 2017 and June 2018.

United Internet counters this risk with the aid of virus scanners, firewalling concepts, self-initiated tests and various technical monitoring mechanisms.

The threat potential of the internet is one of the largest threat groups 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.

Capacity bottlenecks

Due to temporary or permanent shortages of technical resources, e.g. due to the temporary overloading of systems or a lack of resources to operate data centers, the planned provision of services may be jeopardized, threatening a corresponding loss of sales. Risks from the procurement of resources, such as products or services on the market, are not taken into account here.

In order to counter these risks, several internal stores are maintained. In addition, the company is in close contact with energy suppliers, for example, in order to coordinate emergency concepts regarding the data centers. In the case of outages, these can be compensated for at short notice by implementing the aforementioned measures.

Projects

The classic project objectives of quality, time and budget are defined before or at the start of a project and are thus the subject of entrepreneurial planning. If negative deviations from these plans become apparent in the course of a project's implementation, these are recorded as risks. Moreover, projects may also involve risks that do not affect the project itself but arise after the project has been completed (for example, security vulnerabilities in new software code).

In addition to maintaining the current professional project management, the company reduces the aforementioned risks by holding regular specialist project management training courses, in order to improve such aspects as security or data privacy requirements. The project objectives of quality, time and budget are also closely monitored by management and the Controlling division.

Technical plant operation

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.

Compliance

Data privacy

It can never be fully ruled out that data privacy regulations may be contravened, for example by human error or technical weaknesses. In such cases, United Internet faces fines and the loss of customer confidence.

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 privacy. By using state-of-the-art technologies, continuously monitoring all data-privacy 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, United Internet continuously invests in improving the standard of its data privacy.

The new rules of the EU General Data Protection Regulation (GDPR) came into force in May 2018. Due to increased sanctions for breaches of duty, data protection risks have increased. In addition to higher sanctions, GDPR also includes new regulations regarding consent declarations and new obligations for reporting to authorities and those affected in the case of data loss.

Misconduct and irregularities

Non-compliance or non-observance of social norms, trends and peculiarities can lead to misconduct and wrong decisions and thus to a loss of revenue. As an internationally operating company, United Internet also faces the challenge of countering such negative factors through adequate management in the area of internal processes and procedures. Not every decision or business practice that is unobjectionable from a legal point of view is also acceptable in the respective cultural, ethical or social context.

United Internet counters the risks arising from misconduct and breaches of rules with its “culture of togetherness”, the provision of a Code of Conduct, country-specific management and compliance as an integral part of corporate culture.

Legislation and regulation

Changes in existing legislation, the enactment of new laws and changes in government regulation issues may have unexpected negative effects on the business models pursued by United Internet and their further development. In the Consumer Access segment in particular, the decisions of the Federal Network Agency and the Federal Cartel Office have an influence on network access and 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 in 2014, United Internet now also has its own landline network. This network infrastructure gives United Internet the possibility to gradually expand its vertical integration procure fewer internally produced broadband wholesale services. In addition, since the takeover of Drillisch (now 1&1 Drillisch) in 2017, United Internet has been the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany. This gives United Internet extensive access to one of Germany’s largest mobile networks and to all available mobile communications technologies, such as 5G.

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, where permissible.

Tax risks
As an internationally operating company, United Internet is subject to the tax laws applicable in the respective countries. Risks may arise from changes in tax laws or case law as well as from differences in the interpretation of existing regulations.

United Internet counters these risks by continuously expanding its existing tax management system.

Finance

Financing
The main financial liabilities incurred by 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.

Fraud and credit default
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 fraudsters. Due to the strong appeal of the products and services offered, not only the number of customers is increasing but also the number of non-payers and fraudsters. Consequently, the amount of credit default has risen. United Internet may suffer damage, for example, from hardware or automated domain orders which are ordered under false names and not paid for. The fraudulent use of SIM cards may also incur damage due to large-scale call forwarding or roaming calls, for example.

United Internet attempts to prevent such fraud attacks – or at least to recognize and end them at an 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.

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 continuously cover its financial needs and secure flexibility, for example by using overdraft facilities and loans.

Group-wide cash requirements and surpluses are managed centrally by the cash management system. By netting these cash requirements and surpluses within the Group, the amount of external bank transactions can be minimized. This is managed, for example, by using cash pooling processes. 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.

Acts of God

External events such as natural disasters (earthquakes, floods, tsunamis etc.), personnel crises (pandemics, strikes etc.), infrastructure crises (power outages, road damage etc.), or violent incidents (rampage, terrorist attacks etc.) may affect United Internet's operations.

United Internet counters these risks as far as possible with a variety of measures. Examples include the establishment of building access restrictions, the operation of georedundant data centers, hygiene precautions, and the elaboration of emergency concepts.

Additional disclosures on risks, financial instruments and financial risk management

Further details on risks, financial instruments and financial risk management are provided in Note 42 “Objectives and methods of financial risk management“ in the explanations to the consolidated financial statements.

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 challenge is the risk field "information security".

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 2018 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 2018 nor as of the preparation date for this Management Report, neither from individual risk positions nor from the overall risk situation.

Probability of occurrence, potential damage, and the classification of risks from the Group's perspective and their relevance for the various segments / divisions:

	Main segment relevance	Probability of occurrence	Potential damage	**Risk classification**	Change over previous year
Risks in the field of "Strategy"					
Shareholdings & investments	Corporate/HQ	High(1)	High(1)	**Moderate(1)**	→
Business development & innovations	Consumer Applications Business Applications	Low	Low	**Moderate**	→
Cooperation & outsourcing	Business Applications	High	Very low	**Low**	→
Organizational structure & decision-making	Business Applications	High	Very low	**Low**	→
Personnel development & retention	Business Applications	High	Low	**Moderate**	→
Risks in the field of "Market"					
Sales market & competition	Consumer Applications Business Applications	Low	High	**Moderate**	→
Procurement market	Business Applications	Very low	High	**Moderate**	→
Financial market	Business Applications	Very high	Very low	**Low**	↘
Personnel recruitment	Business Access Business Applications	High	Very low	**Low**	→

(1) Risk largely without relevance for EBITDA as, in the event of an incident, predominantly non-cash-effective impairments are incurred

	Main segment relevance	Probability of occurrence	Potential damage	**Risk classification**	Change over previous year
Risks in the field of "Service Provision"					
Work processes	Business Applications	Low	Low	**Moderate**	→
Information security	Business Applications	Low	Extremely high	**Significant**	→
Capacity bottlenecks	Business Applications	High	Very low	**Low**	→
Projects	Business Applications	Very high	Very low	**Low**	→
Technical plant operation	Business Applications	Low	High	**Moderate**	→
Risks in the field of "Compliance"					
Data privacy	Consumer Access Business Applications	Low	High	**Moderate**	→
Misconduct & irregularities	No significant risks at present			**Low**	→
Legislation & regulation	Consumer Applications	Low	High	**Moderate**	→
Litigation	Consumer Access	Low	Very high	**Moderate**	↘
Tax risks	Business Applications	High	Very low	**Low**	→
Risks in the field of "Finance"					
Financing	Business Applications	Very low	Very low	**Low**	→
Fraud & credit default	Consumer Access	High	Low	**Moderate**	↗
Liquidity	Business Applications	Low	Very low	**Low**	→
Risks in the field of "Acts of God"					
Acts of God	Business Access Consumer Applications	Very low	High	**Moderate**	→

↘ improved → unchanged ↗ worsened

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 continuous 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 continuously 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 Consumer Applications and Business Applications segments as well as in combination with landline and mobile access products in our Consumer Access segment.

Participation in market growth

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

Expansion of market positions

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

Entry into new business fields

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

When new opportunities appear on the horizon, 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.

In 2018, United Internet established the European netID Foundation (EnID) together with the media group RTL Germany and ProSiebenSat.1. The initiative's goal is to establish a European alternative to US providers with the single sign-on product netID. The Foundation has developed an open standard that enables users to access all partner websites of the European netID Foundation using the same login data. The Foundation reviews all standards, partners and providers of user accounts within the initiative. With the open login standard netID, the Foundation focuses on the data sovereignty of each individual user. With the aid of netID, users can organize their consent to the use of online services via a privacy center which guarantees transparency and compliance with data protection regulations. netID is available to GMX and WEB.DE customers as well as customers of other netID partners with the same log-in data. New users can create a netID account free of charge by using a combination of e-mail address and password. As part of the development of NetID, the United Internet brands GMX and WEB.DE have greatly reduced their ad space on the respective portals and at the same time are driving the expansion of data-driven business models for better advertising monetization.

Own landline infrastructure

Since its acquisition of 1&1 Versatel (2014), United Internet has had its own telecommunications network. With a length of over 47,000 km, it is one of Germany’s largest fiber-optic networks. With its own network infrastructure, United Internet has the opportunity to extend its vertical integration and also gradually reduce its purchases of wholesale broadband services.

In addition, having its own network also offers United Internet the opportunity to systematically expand its B2B data and infrastructure business with SMEs and large corporations. This scale of this opportunity is underlined by the fast-growing data consumption of private users and companies (according to Dialog Consult / VATM estimates: +8.2% to approx. 90.0 GB data volume consumption per broadband connection and month in 2018) 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 2017, only 2.3% (prior year: 1.8%) of all broadband connections in Germany are fiber-optic connections. Germany thus lags well behind in 23rd place (prior year: 30th place) among the 36 OECD countries surveyed and also well below the OECD average of 23.3% (prior year: 21.2%).

Access to Telefónica mobile network

Following the merger with Drillisch (2017), United Internet – indirectly via 1&1 Drillisch – is the only MBA MVNO in Germany with a long-term claim to a specific share (rising to 30%) of the used network capacity of Telefónica Germany and thus extensive access to one of Germany's largest mobile networks. As a result, United Internet has contractually assured, unrestricted access not only to LTE (4G), but also to all further future technologies such as 5G.

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

High degree of vertical integration for applications

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

Internationalization

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

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

Acquisitions and investments

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

United Internet has enhanced its market standing in Germany and abroad, for example, by making several acquisitions and strategic investments while gaining considerable expertise in the field of mergers and acquisitions (M&A) and company integration.

The most important M&A activities of recent years include the acquisition of WEB.DE's portal business (in 2005), the acquisitions of Fasthosts (2006) and united-domains (2008), the acquisition of freenet's broadband business (2009) and the acquisitions of mail.com (2010), Arsys (2013), Versatel (2014; now 1&1 Versatel), home.pl (2015), Strato (2017), ProfitBricks (2017; now 1&1 IONOS Cloud), and Drillisch (2017; now 1&1 Drillisch) and World4You (2018). The most important strategic investments include the investments in virtual minds (2008), Open-Xchange (2013), ePages (2014), uberall (2014), Rocket Internet (2014), Tele Columbus (2016), rankingCoach (2017) and Awin (2017 via contribution of affilinet).

4.3 FORECAST REPORT

Expectations for the economy

In its global economic outlook published in January 2019, the International Monetary Fund (IMF) updated its forecasts for the development of the global economies in 2019 and 2020. All in all, the IMF's outlook for the global economy is more pessimistic than in its previous forecasts.

According to the IMF, the major causes for the deterioration of growth prospects are the unresolved global trade disputes, the danger of a "no-deal Brexit", and weaker growth in a large number of countries.

Specifically, the IMF predicts that the **global economy** will grow by 3.5% in 2019 and by 3.6% in 2020, following growth of 3.7% in 2018. This is 0.2 and 0.1 percentage points less, respectively, than the IMF predicted in its outlook of October 2018.

The latest IMF forecasts for United Internet's target markets in North America (the USA, Canada and Mexico) are as follows: following growth of 2.9% in 2018, the **US economy** is expected to grow by 2.5% in 2019 and 1.8% in 2020. The IMF has thus left its previous forecasts (October outlook 2018) unchanged. The **Canadian economy** is expected to grow by 1.9% in both 2019 and 2020 – following growth of 2.1% in 2018 – and thus 0.1 percentage point less and 0.1 percentage point more than previously forecast, respectively. The economy in **Mexico** is expected to grow by 2.1% in 2019 and 2.2% in 2020, following growth of 2.1% in 2018. This is 0.4 and 0.5 percentage points less than previously forecast.

The IMF anticipates growth in the eurozone to reach 1.6% and 1.7% in 2019 and 2020 – compared to 1.8% in 2018. The previous forecast for 2019 was thus lowered by 0.3 percentage points, while the forecast for 2020 remained 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 1.5% in 2018, the IMF forecasts an increase of 1.5% and 1.6% in 2019 and 2020 for **France** – this is 0.1 and 0.0 percentage points less than previously predicted. **Spain** is still expected to grow by 2.2% and 1.9% in 2019 and 2020 – after growth of 2.5% in 2018. The IMF forecasts growth in **Italy** of 0.6% and 0.9% in 2019 and 2020, following growth of 1.0% in 2018. This is 0.4 and 0.0 percentage points less than before. And after growing by 1.4% in 2018, the IMF forecasts growth for the **UK** of 1.5% and 1.6% in 2019 and 2020. This is 0.0 and 0.1 percentage point more than previously expected.

For United Internet's most important market, **Germany**, the IMF forecasts economic growth of 1.3% in 2019 and 1.6% in 2020 – following 1.5% in 2018. These forecasts are 0.6 and 0.0 percentage points less than previously expected. With expected growth of 1.3% for 2019, the IMF is well above the forecast of the German government, which forecast growth of just 1.0% in price-adjusted GDP in its Annual Economic Report 2019 (previous forecast: 1.8%).

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

	2020e	2019e	2018
World	3.6%	3.5%	3.7%
USA	1.8%	2.5%	2.9%
Canada	1.9%	1.9%	2.1%
Mexico	2.2%	2.1%	2.1%
Eurozone	1.7%	1.6%	1.8%
France	1.6%	1.5%	1.5%
Spain	1.9%	2.2%	2.5%
Italy	0.9%	0.6%	1.0%
UK	1.6%	1.5%	1.4%
Germany	1.6%	1.3%	1.5%

Source: International Monetary Fund, World Economic Outlook (Update), January 2019

Sector / market expectations

The industry association Bitkom expects the **ICT market in Germany** to grow by 1.5% (prior year: +2.0%) to € 168.5 billion in 2019.

With an increase of 2.5% (prior year: +3.1%) to € 92.2 billion, the **IT market** is expected to show the strongest growth again in 2019. Within this sector, growth in the software segment will once again be the fastest with an increase of 6.3% (prior year: +6.3%) to € 26.0 billion. IT services – which include project business and IT consulting – are also expected to reach growth of 2.3% again (prior year: +2.3%) to € 40.8 billion. By contrast, the IT hardware segment is expected to decline by 0.7% (prior year: +1.5%) to € 25.4 billion.

Further growth is also expected for the **telecommunications market**. Sales are expected to grow by 1.1% (prior year: 1.6%) to € 67.3 billion. Sales of TC devices are set to grow by 2.0% (prior year: 5.9%) to € 11.0 billion. Telecommunication infrastructure is forecast to grow by 1.6% (prior year: +1.3%) to € 7.1 billion. Growth of 0.8% (prior year: +0.7%%) to € 49.2 billion is anticipated for telecommunication services.

A further strong decline of 5.0% (prior year: -5.0%) to € 9.0 billion is forecast for sales of **consumer electronics**.

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

(Stationary) broadband market in Germany

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

According to the survey "German Entertainment and Media Outlook 2017-2021" (October 2017), PricewaterhouseCoopers expects retail sales of landline-based broadband connections to increase by just 0.5% (prior year: +1.1%) to € 8.19 billion in 2019.

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

	2019e	2018	Change
Sales	8.19	8.15	+ 0.5%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017 – 2021, October 2017

Mobile internet market in Germany

By contrast, all experts continue to predict further strong growth for the mobile internet market. Following market growth of 5.8% to € 8.22 billion in 2018, PricewaterhouseCoopers also forecasts an increase in mobile data services of 6.1% (prior year: 5.8%) to € 8.72 billion in 2019.

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)

	2019e	2018	Change
Sales	8.72	8.22	+ 6.1%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2017 – 2021, October 2017

Global cloud computing market

In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide", Gartner forecasts global growth for public cloud services of 17.6% (prior year: 18.6%), from $ 198.2 billion to $ 233.0 billion in 2019.

Market forecast: global cloud computing
(in $ billion)

	2019	2018	Change
Global sales of public cloud services	233.0	198.2	+ 17.6%
thereof system infrastructure services (IaaS)	41.4	32.5	+ 27.4%
thereof application infrastructure services (PaaS)	20.4	16.8	+ 21.4%
thereof application services (SaaS)	103.5	87.2	+ 18.7%
thereof management and security services	13.4	11.5	+ 16.5%
thereof business process services (BPaaS)	54.2	50.2	+ 8.0%

Source: Gartner, November 2018

Online advertising market in Germany

Advertisers continued to display a strong willingness to invest in online advertising activities in 2018.

Experts also forecast further growth for 2019. PricewaterhouseCoopers expects an increase of 6.7% (prior year: 7.3%) to € 8.48 billion. The strongest growth is expected for mobile online advertising and video advertising with increases of 23.1% and 6.5%, respectively.

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

	2019e	2018	Change
Online advertising revenues	8.48	7.95	+ 6.7%
thereof search marketing	3.86	3.66	+ 5.5%
thereof display advertising	1.66	1.62	+ 2.5%
thereof mobile online advertising	1.28	1.04	+ 23.1%
thereof affiliate / classifieds	1.02	1.01	+ 1.0%
thereof video advertising	0.66	0.62	+ 6.5%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2018 – 2022, October 2018

Expectations for the company in 2019

Initial application of IFRS 16

On January 13, 2016, the International Accounting Standards Board (IASB) published IFRS 16, a new standard for lease accounting. The new standard is to be applied in fiscal years beginning on or after January 1, 2019.

United Internet is mainly a lessee. The majority of the Group's leases are for renting network infrastructure, buildings, technical equipment and vehicles.

According to IFRS 16, leases are no longer regarded as classic rental agreements but as financing transactions: the lessee acquires a right to use the leased asset and finances it via the lease installments. Consequently, the lessee must recognize a liability for the use of the leased asset and a right of use for the leased asset in the balance sheet. In this way, every lease and rental relationship is stated in United Internet's balance sheet. Excluded are lease or rental agreements with terms of up to twelve months and contracts with low values.

On initial application of IFRS 16, United Internet opted to recognize the asset for the right of use granted at the value of the related lease liability and not to apply it retrospectively for each previous reporting period. In addition, United Internet makes use of the exemptions provided in the standard for leases that expire within twelve months from the date of initial application as well as the exemption for leases where the underlying asset is of low value.

The new standard will lead to an increase in non-current assets (for the right of use) in the consolidated balance sheet, and at the same time financial liabilities will also increase (due to the payment obligation). In the income statement, this will lead to increased depreciation and interest expenses. This in turn will lead to an increase in EBITDA.

Forecast for the fiscal year 2019

- **Consolidated sales** are expected to grow by approx. 4% in the fiscal year 2019 (2018: € 5.13 billion).

- An increase of approx. 8% is anticipated for **consolidated EBITDA** (2018: € 1.20 billion). Including the expected effects from initial application of IFRS 16, EBITDA growth is likely to reach approx. 12%.

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. Against this backdrop, the Management Board expects strongly positive net income for fiscal year 2019 (subject to possible special items).

United Internet AG intends to maintain its shareholder-friendly **dividend policy** based on continuity in the coming years. Dividend payouts will continue to represent approx. 20-40% of adjusted net income from continued operations after minority interests (adjusted net income attributable to "shareholders of United Internet AG" – according to the consolidated statement of comprehensive income) in the future. The prerequisite, however, is that funds are not 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. A possible Brexit is not expected to have any significant impact on key sales and earnings figures.

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

- In the Consumer Access segment, the main focus in 2019 will be on marketing mobile internet products and winning high-quality customer relationships. The company also plans to leverage the strong positioning of its broadband products to generate further growth.

- In the Business Access segment, the company's own fiber-optic network is to be expanded in 2019 with further connections to the BNGs (access points) of Deutsche Telekom. Further expansion of activities for business and wholesale customers are also planned.

- In fiscal year 2019, the key topics in the Consumer Applications segment will be the repositioning of GMX and WEB.DE, and the associated reduction in monetization via traditional advertising in favor of big data solutions.

- In the Business Applications segment, the focus will continue to be on expanding business with existing customers and gaining new high-quality customer relationships in 2019.

Following a successful start to the year (at the time of preparing this Management Report), the company's Management Board believes that the company is on track to reach the forecast presented above in the section "Forecast for the fiscal year 2019".

Forward-looking statements

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

5 ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

6 DISCLOSURES REQUIRED BY TAKEOVER LAW

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

Composition of capital

The subscribed capital of United Internet AG as of December 31, 2018 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 4,702,990 shares representing 2.29% of capital stock.

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

Among the members of the Management Board, Mr. Ralph Dommermuth held 82,000,000 shares of United Internet AG (40.00% of capital stock) as of December 31, 2018. Moreover, Mr. Frank Krause held 5,482 shares (0.00% of capital stock).

As of December 31, 2018, no members of the Supervisory Board held shares in United Internet AG.

There are no limitations affecting the transfer of shares.

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

On December 31, 2018, the company’s CEO, Mr. Ralph Dommermuth, held 82,000,000 shares or 40.00% of the 205,000,000 shares in United Internet AG. The Management Board is not aware of further participations in capital exceeding 10% of voting rights.

Special rights

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

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

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

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

Powers of the Management Board to issue new shares

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

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

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

Powers of the Management Board to buy and use treasury shares

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

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

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

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

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

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

Board may determine, in derogation herefrom, that the capital stock shall remain unchanged upon cancellation and that instead, by way of cancellation, the proportional ratio of remaining shares to the capital stock shall increase. The Supervisory Board is authorized to amend Section 5 of the company's by-laws in accordance with the respective utilization of its authorization to cancel shares.

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

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

7 DECLARATION ON COMPANY MANAGEMENT / CORPORATE GOVERNANCE REPORT

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

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

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

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

Management and corporate structure

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

Supervisory Board

Working procedures of the Supervisory Board

The Supervisory Board is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2018. The members of the Supervisory Board are generally elected for a period of five years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In view of

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

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

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

Requirements for individual members

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

General requirement profile

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

Time availability

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

Conflicts of interest

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

Age limit for Supervisory Board members

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

No regular limit for duration of membership

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

Requirements regarding the composition of the Supervisory Board as a whole

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

Skills profile for the Supervisory Board as a whole

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

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

Diversity

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

Independence

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

Current composition of the Supervisory Board / implementation status

The company's Supervisory Board is of the opinion that the stated targets for the composition of the Supervisory Board are currently fulfilled. The Supervisory Board re-elected by the Annual Shareholders' Meeting 2015 continued to comprise the following three independent members – as defined by the criteria of Section 5.4.2 GCGC – in fiscal year 2018:

- 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 2018, it consisted of three persons (two persons as of July 1, 2018). The Management Board conducts operations in accordance with its legal and statutory obligations as well as the rules of procedure approved by the Supervisory Board and the corresponding recommendations of the German Corporate Governance Code – unless deviations are declared pursuant to Sec. 161 AktG.

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

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

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

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

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

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

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

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

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

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

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

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

Current composition of the Management Board

The Management Board of United Internet AG comprised the following two (three) members in fiscal year 2018:

- Ralph Dommermuth, company founder and Chief Executive Officer
  (with the company since 1988)
- Frank Krause, Chief Financial Officer
  (with the company since 2015)

- Jan Oetjen, Management Board member responsible for Consumer Applications – until June 30, 2018
  (with the company since 2008)

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

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

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

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

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

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

- The Supervisory Board sets the deadline for the attainment of the targets for the share of women on the Supervisory Board and Management Board as the expiry of the Annual Shareholders' Meeting that decides on the discharge of the Supervisory Board for the fiscal year 2019 (probably May 2020). The Supervisory Board is to be re-elected at this Annual Shareholders' Meeting.
- A target of "0" is set for the Supervisory Board. The Supervisory Board currently comprises only men. No personnel changes or expansion of the Supervisory Board are planned or envisaged.
- A target of "0" is set for the Management Board. The Management Board also currently comprises only men. No personnel changes or expansion of the Management Board are planned or envisaged. The Supervisory Board believes that the government's aim to raise the share of women is subordinate to the interests of the company to continue the successful work conducted by experienced Management Board members and a Management Board size which is tailored to the needs of the company.
- With regard to the share of women on the Supervisory Board and Management Board, the Supervisory Board reserves the right to resolve again on the target within the deadline period for attainment should there be any indication of a new appointment.

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

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

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

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

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

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

Annual Shareholders' Meeting

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

Compliance

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

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

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

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

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

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

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

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

Financial disclosures / transparency

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

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

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

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

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

Accounting and auditing

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS, as applicable in the EU) with consideration of Sec. 315e HGB. However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements and the consolidated financial statements are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, was elected to audit the annual financial statements for the fiscal year 2018. 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 42 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 37 of the notes to the consolidated financial statements.

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

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

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

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

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

The Code contains three different elements:

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

German corporations are obliged to observe the legal regulations.

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

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

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

On February 19, 2019, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity (presented below) in accordance with Sec. 161 AktG and immediately published it on the company's website (www.united-internet.de), as well as in the Federal Gazette.

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

Since its last Declaration of Conformity issued on February 20, 2018, United Internet AG complied with the recommendations of the German Corporate Governance Code (the "Code") in the version dated February 7, 2017 with the stated exceptions, and will comply with the recommendations of the Code in the currently valid version dated February 7, 2017, which came into force with publication in the Federal Gazette on April 24, 2017, with the following exceptions:

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

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

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

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

Formation of committees (section 5.3 of the Code)

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

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

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

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

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

Financial reporting
(section 7.1.2 sentence 4 of the Code)

Due to internal organizational reasons, United Internet AG will not publish its interim report for the first six months of 2019 until August 15, 2019.

8 REMUNERATION REPORT

Principles of the Management Board remuneration system

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

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

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

The fixed remuneration component is paid monthly as a salary.

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

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

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

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

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

With regard to severance pay for members of the Management Board, United Internet AG 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.

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

Value of benefits granted for the reporting period

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

Benefits granted (in €k)	Ralph Dommermuth				Frank Krause[1]			
	CEO				CFO			
	Since 2000				Since June 1, 2015			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	0	0	0	0	360	360	360	360
Fringe benefits	0	0	0	0	311	11	11	11
Total	0	0	0	0	671	371	371	371
One-year variable compensation	0	0	0	0	140	140	0	168
Multi-year variable compensation	0	0	0	0	0	0	0	0
Total	0	0	0	0	811	511	371	539
Service cost	0	0	0	0	0	0	0	0
Total compensation	0	0	0	0	811	511	371	539

Benefits granted (in €k)	Robert Hoffmann				Jan Oetjen[2]				Martin Witt[2]			
	Business Applications				Consumer Applications				Access			
	From January 1, 2013 to December 31, 2017				From October 1, 2014 to June 30, 2018				From October 1, 2014 to September 30, 2017			
	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)	2017	2018	2018 (Min)	2018 (Max)
Fixed compensation	300				300	150	150	150	225			
Fringe benefits	12				13	7	7	7	9			
Total	312				313	157	157	157	234			
One-year variable compensation	200				200	100	0	120	150			
Multi-year variable compensation	0				0	0	0	0	0			
Total	512				513	257	157	277	384			
Service cost	0				0	0	0	0	0			
Total compensation	512				513	257	157	277	384			

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

(2) The former Management Board members Mr. Jan Oetjen and Mr. Martin Witt received their compensation via subsidiaries of United Internet AG

Allocation for the reporting period

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

Allocation (in €k)	Ralph Dommermuth		Frank Krause[1]		Robert Hoffmann		Jan Oetjen[2]		Martin Witt[2]	
	CEO		CFO		Business Applications		Consumer Applications		Access	
	Since 2000		Since June 1, 2015		From January 1, 2013 to December 31, 2017		From October 1, 2014 to June 30, 2018		From October 1, 2014 to September 30, 2017	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Fixed compensation	0	0	360	360		300	150	300		225
Fringe benefits	0	0	11	311		12	7	13		9
Total	0	0	371	671		312	157	313		234
One-year variable compensation	0	0	140	140		200	100	200		150
Multi-year variable compensation	0	0	0	700		4,015	1,833	2,314		2,315
SAR program F 2012 (6 years)										199
SAR program H 2012 (6 years)						4,015				402
SAR program M 2012 (6 years)							1,833	2,314		1,714
SAR program O 2015 (6 years)				700						
Other	0	0	0	0		0	0	0		0
Total	0	0	511	1,511		4,527	2,090	2,827		2,699
Service cost	0	0	0	0		0	0	0		0
Total compensation	0	0	511	1,511		4,527	2,090	2,827		2,699

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

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

In the fiscal year 2018, the Management Board member Mr. Jan Oetjen exercised SARs (75,000 SARs with a strike price of € 31.15). In fiscal year 2017, the following Management Board members exercised SARs: Mr. Frank Krause (50,000 SARs with a strike price of € 40.00), Mr. Robert Hoffmann (250,000 SARs with a strike price of € 16.06), Mr. Martin Witt (115,000 SARs with a weighted strike price of € 25.54) and Mr. Jan Oetjen (150,000 SARs with a strike price of € 31.15).

In the IFRS consolidated financial statements of the United Internet Group, the following expenses were recognized for share-based payments to Management Board members: Mr. Ralph Dommermuth (€ 0k, prior year: € 0k), Mr. Frank Krause: € 334k (prior year: € 466k), Mr. Robert Hoffmann: € 0 (prior year: € 114k), Mr. Jan Oetjen: € 125k (prior year: € 211k), Mr. Martin Witt: € 0 (prior year: € 227k).

Further details on Management Board remuneration are provided in section 42.

Principles of the Supervisory Board remuneration system

In the fiscal year 2018, the members of the Supervisory Board of United Internet AG also served – in different constellations – on the supervisory boards of United Internet AG's most important subsidiaries, i.e. the supervisory boards of 1&1 Drillisch AG, Drillisch Online AG (until July 2018; after change in legal form: Drillisch Online GmbH) and 1&1 Telecommunication SE, 1&1 Internet SE (after change of name: 1&1 IONOS SE), as well as 1&1 Mail & Media Applications SE. The Supervisory Board members each receive separate compensation for their work on behalf of the companies mentioned.

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

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

The new remuneration system for the Supervisory Board of 1&1 Drillisch AG adopted by the Annual Shareholders' Meeting 2018 consists of a fixed remuneration component for an ordinary member of the Supervisory Board of € 45,000 each per full fiscal year and for the Chairman of the Supervisory Board of € 55,000 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 Drillisch Online AG (until July 2018; after change in legal form: Drillisch Online GmbH), the fixed remuneration component for an ordinary member of the Supervisory Board, for the Deputy Chairman of the Supervisory Board, and for the Chairman of the Supervisory Board € 10,000 per full fiscal year in each case. 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 Telecommunication SE, the fixed remuneration component for an ordinary member of the Supervisory Board, for the Deputy Chairman of the Supervisory Board, and for the Chairman of the Supervisory Board is € 10,000 per full fiscal year in each case. 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 (after change of name: 1&1 IONOS 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.

Specific details on Supervisory Board compensation is provided in section 42 of the notes to the consolidated financial statements.

Employee stock ownership plans

Virtual stock option program for management (SAR)

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

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

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

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

Stock-based compensation for employees

In addition to its long-standing employee stock ownership program for management, United Internet AG introduced a wide-ranging program for its employees in Germany in the fiscal year 2016, which ended in mid-2018.

The aim of the program was to

- involve 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 employee stock ownership program ("ESOP") was designed in the form of a stock-based compensation plan. The program consisted 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 then had to hold for a period of two years (vesting period).
- On completion of the vesting period, participants were granted further shares for free, provided they were still working for the company – whereby employees of companies participating in "performance matching" received additional shares if certain pre-defined targets were reached.

Both the discounted acquisition of the shares and the free allocation of additional shares after the end of the vesting period represented 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 37 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 22, 2019

The Management Board

Ralph Dommermuth Frank Krause

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS ACC. TO IFRS AS AT DECEMBER 31, 2018

CONTENTS

United Internet AG, Montabaur

Consolidated balance sheet acc. to IFRS as of December 31, 2018 in €k

ASSETS	Note	December 31, 2018	December 31, 2017
Current assets			
Cash and cash equivalents	18	58,066	238,522
Trade accounts receivable	19	351,427	289,995
Contract assets	20	426,992	n/a
Inventories	21	89,617	44,672
Prepaid expenses	22	212,399	92,291
Other financial assets	23.1	72,774	100,270
Income tax claims		129,611	57,308
Other non-financial assets	23.2	11,330	858
		1,352,216	823,916
Non-current assets			
Shares in associated companies	24	206,856	418,048
Other financial assets	25	348,046	333,699
Property, plant and equipment	26	818,010	747,423
Intangible assets	27, 29	1,244,578	1,408,436
Goodwill	28, 29	3,612,634	3,564,056
Trade accounts receivable	19	58,229	53,576
Contract assets	20	168,792	n/a
Prepaid expenses	22	353,661	100,880
Deferred tax assets	15	10,797	155,151
		6 821 603	6 781 269
Total assets		**8,173,819**	**7,605,185**

LIABILITIES	Note	December 31, 2018	December 31, 2017
Current liabilities			
Trade accounts payable	30, 36	557,730	399,898
Liabilities due to banks	31, 36	206,175	248,185
Advance payments received		n/a	10,901
Income tax liabilities	32, 36	187,938	130,195
Contract liabilities	33, 36	154,290	n/a
Deferred revenue	33, 36	n/a	262,480
Other accrued liabilities	34, 36	24,468	49,412
Other financial liabilities	35.1, 36	124,092	135,658
Other non-financial liabilities	35.2, 36	45,047	47,753
		1,299,740	1,284,482
Non-current liabilities			
Liabilities due to banks	31, 36	1,732,968	1,707,596
Deferred tax liabilities	15	389,829	391,952
Trade accounts payable	30, 36	9,024	9,023
Deferred revenue	33, 36	n/a	32,397
Contract liabilities		33,838	n/a
Other accrued liabilities	34, 36	99,972	33,485
Other financial liabilities	35.3, 36	86,976	97,537
		2,352,607	2,271,990
Total liabilities		**3,652,347**	**3,556,472**
Equity			
Capital stock	38	205,000	205,000
Capital reserves	39	2,696,141	2,709,203
Accumulated profit	39	1,496,154	1,203,373
Treasury stock		-174,858	-189,384
Revaluation reserves	39	83,023	74,923
Currency translation adjustment	39	-14,314	-13,120
Equity attributable to shareholders of the parent company		**4,291,146**	**3,989,995**
Non-controlling interests	40	230,326	58,718
Total equity		**4,521,472**	**4,048,713**
Total liabilities and equity		**8,173,819**	**7,605,185**

* Prior year figures adjusted in connection with a final purchase price allocation; see note 4.2

United Internet AG, Montabaur
Consolidated statement of comprehensive income acc. to IFRS
from January 1, 2018 to December 31, 2018 in €k

	Note	2018 January - December	2017 January - December*
Sales	5	5,130,804	4,206,302
Cost of sales	6, 11, 12	-3,377,984	-2,691,063
Gross profit		**1,752,820**	**1,515,239**
Selling expenses	7, 11, 12	-678,231	-638,313
General and administrative expenses	8, 11, 12	-218,943	-185,106
Other operating expenses	9.1	-23,966	-100,632
Other operating income	9.2	77,871	365,796
Impairment of receivables and contract assets	10	-98,540	n/a
Operating result		**811,011**	**956,984**
Financial expenses	13	-34,676	-44,245
Financial income	14	7,114	3,428
Amortization of financial assets	25	0	-19,757
Result from associated companies	24	-221,526	-7,387
Pre-tax result		**561,923**	**889,023**
Income taxes	15	-249,832	-242,379
Net income		**312,091**	**646,644**
Net income after taxes from discontinued operations		0	38,578
Net income (after discontinued operations)		**312,091**	**685,222**
thereof attributable to			
non-controlling interests		123,297	36,036
shareholders of United Internet AG		188,794	649,186
Result per share of shareholders of United Internet AG (in €)			
- basic	16	0.94	3.25
- diluted	16	0.94	3.25
thereof result per share (in €) - from continued operations			
- basic	16	0.94	3.06
- diluted	16	0.94	3.05
thereof result per share (in €) - from discontinued operations			
- basic	16	0.00	0.19
- diluted	16	0.00	0.19
Weighted average of outstanding shares (in million units)			
- basic	16	200.17	199 86
- diluted	16	200.29	200 35
Reconciliation to total comprehensive income			
Net income		312,091	685,222
Items that may be reclassified subsequently to profit or loss			
Currency translation adjustment - unrealized	39	-1,793	-1,103
Currency translation adjustment - realized	39	0	-312
Market value changes of financial assets measured at fair value through other comperhensive income	39	-13,252	46,203
Tax effect	39	-1,517	0
Items that are not reclassified subsequently to profit or loss			
Share in other comprehensive income of associated companies		208	483
Other comprehensive income		-16,354	45,271
Total comprehensive income		**295,738**	**730,493**
Attributable to			
non-controlling interests		122,325	35,368
shareholders of United Internet AG		173,413	695,125
- continued operations		173,413	656,594
- discontinued operations		0	38,531

* Prior year figures adjusted in connection with a final purchase price allocation; see note 4.2

United Internet AG, Montabaur
Consolidated cash flow statement acc. to IFRS
from January 1, 2018 to December 31, 2018 in €k

	Note	2018 January - December	2017 January - December*
Result from operating activities			
Net income (from discontinued operations)		0	36,036
Net income (from continued operations)		312,091	649,186
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of intangible assets and property, plant and equipment	11	193,780	187,512
Depreciation and amortization of assets resulting from company acquisitions	11	196,528	109,542
Amortization of financial assets	25	0	19,757
Share-based payment expense	37	7,182	5,180
Share of profit of associated companies	24	221,525	7,388
Dividends received from associated companies	24, 46	0	19,823
Other non-cash items from tax adjustments	15	-42,358	-31,468
Other non-cash items		784	-346,549
Other adjustments		2	-13
Operative cash flow		**889,534**	**656,394**
Change in assets and liabilities			
Change in receivables and other assets		-45,825	-126,053
Change in inventories		-44,945	1,245
Change in contract assets		-244,742	0
Change in income tax claims		-72,302	71,261
Change in deferred expenses		-168,453	52,520
Change in trade accounts payable		160,813	-44,050
Change in advance payments received		0	-543
Change in other accrued liabilities		-16,503	1,232
Change in income tax liabilities		57,663	46,211
Change in other liabilities		-21,449	-7,128
Change in contract liabilities		-11,511	4,617
Change in assets and liabilities, total		**-407,254**	**-688**
Cash flow from operating activities (before capital gains tax payments)		**482,280**	**655,706**
Capital gains tax refund		0	70,293
Cash flow from operating activities		**482,280**	**725,999**
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		-271,761	-233,480
Payments from disposals of intangible assets and property, plant and equipment		9,386	2,205
Payments for company acquisitions less cash received	4.1	-72,045	-528,125
Payments from company disposals less cash sold	4 2	0	-2,183
Purchase of shares in associated companies	4.1, 24	-8,260	-127,949
Investments in other financial assets	25	0	-8,156
Payments in connection with company transactions	4 3	-8,300	0
Payments for loans granted		-1,291	0
Payments from the sale of financial assets		1,326	0
Cash flow from investment activities		**-350,945**	**-897,688**
Cash flow from financing activities			
Purchase of treasury stock	38	0	-77,214
Taking out loans	46	225,267	615,294
Repayment of loans	46	-248,185	-476,716
Redemption of finance lease liabilities and rights of use	44, 45	-25,864	-16,684
Dividend payments	17	-170,006	-159,703
Dividend payments to non-controlling interests		-75,360	-164
Payments from the redemption of a bond		-3,100	0
Payments from/to minority interests		-15,353	427,337
Cash flow from financing activities		**-312,601**	**312,150**
Net increase/decrease in cash and cash equivalents		-181,266	140,461
Cash and cash equivalents at beginning of fiscal year		238,522	101,743
Currency translation adjustments of cash and cash equivalents		810	-3 682
Cash and cash equivalents at end of fiscal year		**58,066**	**238,522**

* Prior year figures adjusted in connection with a final purchase price allocation; see note 4 2

United Internet AG, Montabaur - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS
from January 1, 2018 to December 31, 2018 in €k

	Capital stock		Capital reserves	Accumulated profit	Treasury shares		Revaluation reserves	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
Note	38		39	39	38		39	39		40	
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2017	205,000,000	205,000	377,550	724,213	3,370,943	-122,493	30,987	-17,794	1,197,463	349	1,197,812
Net income*				649,186 *					649,186 *	36,036 *	685,222
Other comprehensive income							46,686	-747	45,939	-668	45,271
Total comprehensive income*				649,186 *			46,686	-747	695,125 *	35,368 *	730,493
Purchase of treasury shares					2,000,000	-77,214			-77,214		-77,214
Issue of treasury shares				-10,323	-277,654	10,323			0		0
Employee stock ownership program			8,886						8,886	1,466	10,352
Dividend payments				-159,703					-159,703		-159,703
Profit distributions									0	-164	-164
Transactions with shareholders			2,322,767				-2,750	5,421	2,325,438	21,699	2,347,137
Balance as of December 31, 2017*	205,000,000	205,000	2,709,203	1,203,373 *	5,093,289	-189,384	74,922	-13,120	3,989,995 *	58,718 *	4,048,713
Effects recognized in equity pursuant to new IFRS standards				287,811			22,287		310,098	127,675	437,773
Balance as of January 1, 2018	205,000,000	205,000	2,709,203	1,491,184	5,093,289	-189,384	97,209	-13,120	4,300,093	186,393	4,486,486
Net income				188,794					188,794	123,297	312,091
Other comprehensive income							-14,186	-1,194	-15,380	-972	-16,352
Total comprehensive income				188,794			-14,186	-1,194	173,414	122,325	295,739
Issue of treasury shares				-14,525	-390,299	14,526			0		0
Employee stock ownership program			662						662	1,461	2,123
Dividend payments				-170,006					-170,006		-170,006
Profit distributions									0	-75,360	-75,360
Transactions with shareholders			-13,724	707					-13,017	-4,493	-17,510
Balance as of December 31, 2018	205,000,000	205,000	2,696,141	1,496,154	4,702,990	-174,858	83,023	-14,314	4,291,146	230,326	4,521,472

* Prior year figures adjusted in connection with a final purchase price allocation; see note 4.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2018

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 business divisions Access (landline and mobile internet access products) and Applications (applications for using the internet), which are each divided into Business and Consumer segments.

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 315e (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 individual financial instruments which are stated at fair value.

The reporting date is December 31, 2018.

The Supervisory Board approved the Consolidated Financial Statements for 2017 at its meeting on March 21, 2018. The Consolidated Financial Statements were published in the German Federal Gazette (“Bundesanzeiger”) on March 28, 2018.

The Consolidated Financial Statements for 2018 were prepared by the Company’s Management Board on March 22, 2019 and subsequently submitted to the Supervisory Board. The Consolidated Financial Statements will be presented to the Supervisory Board for approval on March 27, 2019. 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 28, 2019.

2. Accounting and measurement 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 measurement methods

Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. Control exists when the Group is exposed to fluctuating returns from its involvement in a company, or has rights to such returns, and is able to influence these returns through its control over the investee. The annual financial statements of subsidiaries are prepared as of the same reporting date and using the same standardized accounting and measurement methods as those applied by the parent company. Where necessary, adjustments are made to the financial statements of subsidiaries in order to bring their accounting methods into line with those of the Group.

All intercompany assets and liabilities, equity, income and expenses, as well as cash flows from business transactions conducted between Group companies are fully eliminated during consolidation.

A subsidiary is consolidated from the date on which the Group obtains control over the subsidiary. It ends when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the reporting period are recognized in the Consolidated Financial Statements from the date on which the Group obtains control over the subsidiary until the date on which control ends.

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 (i) the 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.

A change in the stake held in a subsidiary without loss of control is accounted for as an equity transaction.

Non-controlling interests represent the proportion of the result and net assets which is not attributable to the Group’s shareholders. 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 amounts 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 from contracts with customers (as of January 1, 2018)

Revenue from contracts with customers is accounted for using the following five steps:

- Identification of the contract or contracts with a customer
- Identification of distinct performance obligations in the contract
- Determination of the transaction price
- Allocation of transaction price to the performance obligations
- Revenue recognition on fulfillment of performance obligations

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

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

<u>Consumer Access segment</u>

The Consumer Access segment mainly comprises landline-based and mobile-based internet access products. The range comprises "Mobile Internet" and "Broadband".

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. The transaction price 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 recognition is based on a separation of the transaction price for the customer contract on the basis of the relative standalone selling prices of the individual performance obligations. The United Internet Group generally offers comparable tariffs both with and without hardware. In these cases, the standalone selling price for the service component is therefore based on the tariff conditions of a service tariff without hardware. By contrast, the standalone selling prices for hardware are determined on the basis of the adjusted market assessment approach, as only a very small amount of the relevant hardware is sold to customers without a mobile contract.

The resulting revenue share allocated to hardware is recognized on delivery to the customer (time-related revenue recognition). It usually exceeds the fee invoiced to the customer and then results in the recognition of a contract asset. This contract asset value is reduced by the customer's payments over the contract period. The revenue share allocated to the service component is recognized over the minimum term of the customer contract (period-related revenue recognition).

If the one-off fees invoiced to the customer on conclusion of the contract, such as activation fees, do not represent a material right (favorable renewal option), these are not recognized as a separate performance obligation but are allocated to the identified performance obligations as part of the transaction price and recognized in accordance with their performance. If the customer is granted material rights in the form of options to use additional goods or services, these represent an additional performance obligation to which part of the transaction price is allocated, taking into account the expected utilization. The corresponding revenue is recognized when these future goods or services are transferred or when the option expires. If one-off fees qualify as a favorable renewal option, revenue is recognized over the expected duration of the customer contract.

The United Internet Group grants its customers time-limited promotion discounts at the time of contract conclusion. These discounts are included in the calculation of the transaction price and are allocated to the performance obligations by means of an allocation mechanism.

Within the context of the 1&1 Principle, United Internet grants its customers a voluntary 30-day right of cancellation. If customers make use of the 1&1 Principle and cancel their contracts, they have the right to be reimbursed for individual transaction components, such as one-off fees and basic fees which have been invoiced. Any usage fees are excluded from the reimbursement claim. In return, United Internet has the right to demand the return of any hardware supplied. No revenue is recognized for expected customer cancellations. The payments received from the customer and to be reimbursed are carried as reimbursement liabilities and the claims for reimbursement resulting from the 1&1 Principle for delivered hardware are disclosed as non-financial assets.

In determining the transaction price, United Internet reviewed the materiality of a financing component. An analysis of the current customer contracts determined that no material benefit is to be assumed at present. However, a change in the assumed interest rates or tariffs could lead to a significant financing component in the future. The financing effect is therefore reviewed for materiality at regular intervals.

Business Access segment

The Business Access segment comprises revenue from various standardized and customized telecommunications products for business and wholesale customers. In addition to the provision of traditional landline connections, the telecommunications services also include broadband services, network solutions as telecommunications infrastructure (leased lines) or VPN, added-value services, interconnection, IP services and cloud solutions.

In the case of products that do not meet the definition of a finance lease pursuant to IAS 17, the transaction price consists of fixed monthly basic fees and/or variable, additional per-minute usage fees for certain services (which are not covered by a flat rate) and, to an insignificant extent, revenue from the sale of related hardware. Revenue recognition is based on a separation of the transaction price for the customer contract on the basis of the relative standalone selling prices of the individual performance obligations. The transaction price for the sale of hardware is based on standard market prices. The standalone selling price for the service component is based on the tariff conditions of a comparable service tariff without hardware.

Temporary discounts or basic fee exemptions are also granted to a lesser extent at the beginning of the term. These discounts are included in the transaction price and allocated on a straight-line basis in the course of revenue recognition.

Certain products are provided on a lease basis. If all material opportunities and risks from a lease are transferred to the lessee, the present value of the minimum lease payments from this economic sale is recognized as revenue on commencement of the lease; as part of the subsequent accounting of finance lease receivables, interest income is recognized in subsequent periods. Leased assets are derecognized through cost of sales. In addition to the monthly payments, the minimum lease payments include any customer activation fees payable at the beginning of the lease term.

In the case of operating leases, where the lessor retains the material opportunities and risks, the lease payments are recognized as revenue on a straight-line basis over the lease term. Activation fees for operating leases are deferred and amortized over the lease term.

Consumer Applications segment

The Consumer Applications segment comprises United Internet’s consumer application business – whether ad-financed or via fee-based subscriptions – as well as the sales platforms for fee-based partner products.

Besides Germany, the United Internet Group also operates in Austria and the USA in this segment.

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 mainly 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. Revenues are generated depending on the placing of advertising and number of screenings or according to click rates. In its e-commerce business, the Company receives commissions for the sale of products or brokerage of customers. For these products, revenue is recognized at a specific point in time.

In the field of fee-based subscriptions for the WEB.DE, 1&1, GMX and smartshopping portals, revenue is mainly generated from fixed monthly fees for the use of extended applications, as well as for administration and storage. 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. The payments received in advance result in contractual liabilities which are reduced accordingly over the performance period.

Revenues from partner products (affiliates) are recognized and measured according to the Group's intermediary function. A distinction is made as to whether the delivery or service provided to the end customer results in delivery revenue and the Group is thus acting on its own account (principal) or whether the Group's services are limited to brokerage or commission (agent). Acting as a principal is assumed if the Group controls the goods or services owed to the end customer before they are transferred to the customer. Acting as an agent is assumed if the Group's performance obligation is basically to broker the supply of goods and services of another company.

Business Applications segment

In the Business Applications segment, a wide range of e-mail, hosting, cloud and e-business applications are offered for freelancers, small and medium-sized businesses and home users. These applications include domains, websites 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 opportunities via Sedo.

In this segment, the United Internet Group is active in Germany, as well as in France, the UK, Spain, Austria, Switzerland, Poland, Italy, Canada, Mexico and the USA. It is one of the leading companies in all the countries mentioned. The services are rendered by various subsidiaries of the United Internet Group in Germany and abroad.

Customers generally pay in advance for a contractually fixed time period for the services to be provided by the Company. The main service in the product group Domains consists of domain registration for the end customer with the respective registry. With regard to the time-related recognition of revenue from domain registration, the special regulations regarding licenses are applied. As in the case of domains, a right of use is granted to an intellectual property existing at the time the license is granted (static), revenue is recognized at a specific moment in time.

Product groups that contain domains as part of multiple-element arrangements primarily relate to web hosting products. The web hosting packages offered usually combine domain registrations with further services, such as storage capacity (Webspace) and software-as-a-service (SaaS). The service Webspace concerns the provision of storage space on servers at the data centers of the United Internet Group. SaaS refers to the customer's use of software (e.g. to create websites) hosted on servers of the United Internet Group. Both the Webspace and SaaS services are performance obligations based on time periods, as the customer benefits continuously from the corresponding flow of benefits.

Customer contracts in the web hosting product category generally comprise several separate performance obligations, which are recognized both on a time-related basis (domain registration performance obligation) and a period-related basis (Webspace and SaaS performance obligation). The total fee for the customer contract is therefore allocated to the various performance obligations. In the absence of separate standalone selling prices for Webspace and SaaS and a high degree of price variability, the residual method is used to allocate the total fee. The revenue share attributable to the period-related services is therefore determined on the basis of the total fee less the standalone selling price of the included domains.

In addition to application revenue, this segment also includes revenue from the performance-based advertising form of domain marketing.

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

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

Revenue recognition (until December 31, 2017)

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 broadband 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 revenue 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. Activation 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. Recognized revenue depends 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 revenue, the segment also generates revenue from the performance-based advertising format Domain Marketing.

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

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

Until its contribution to Awin, United Internet operated an internet platform for Affiliate Marketing via the company affilinet GmbH. In the fiscal year 2018 and in the previous year, affilinet is carried as a discontinued operation. Please refer to note 4.2. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser’s offer. The advertiser recruits, controls and remunerates affiliates via the common platform. As the platform operator, affilinet is compensated by the advertiser for the use of administration and management tools provided on the platform, as well as for the calculation of transactions and the monthly payments to affiliates. Invoicing is based on the commission to be paid to the affiliate. This can be on a cost-per-click, cost-per-action or cost-per-sale basis, or a mixture of these three.

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

Disclosure of disposal gains and losses from the sale of investments

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

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

Foreign currency translation

The Consolidated Financial Statements are prepared in euro, the Company's functional and presentation currency. Each company within the Group determines its own functional currency. The items in the annual financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated to the functional currency at the prevailing spot rate on the day of transaction. Monetary assets and liabilities in a foreign currency are translated to the functional currency on every reporting 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 amounts of assets and liabilities resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

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

The exchange rates of major currencies developed as follows:

(in relation to 1 euro)	Closing rate		Average rate	
	Dec. 31, 2018	Dec. 31, 2017	2018	2017
US dollar	1.15	1.20	1.18	1.13
UK pound	0.90	0.89	0.89	0.88

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 measurement 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 at the end of the reporting period.

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.

Development costs for a single project are only capitalized as intangible assets if the Group can demonstrate the following:

- The completion of the intangible asset can be technically realized to the extent that it can be used or sold;
- United Internet intends to complete the intangible asset and to use or sell it;
- United Internet has the ability to use or sell the intangible asset;
- The way in which the intangible asset is expected to generate future economic benefits; United Internet may demonstrate, for example, the existence of a market for the products of the intangible asset or for the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- Adequate technical, financial and other resources are available so that the development can be completed and the intangible asset can be used or sold;
- United Internet has the ability to reliably measure the expenditure attributable to the intangible asset during its development.

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

Amortization of capitalized development costs begins from the point in time at which the asset can be used. It is recognized in cost of sales over the period during which future benefits are expected. An impairment test is performed annually during the development phase.

Intangible assets with indefinite useful lives are not amortized in scheduled amounts. Instead, an impairment test is performed at least once annually at the end of the reporting period 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
Internally generated intangible assets	3 to 5

* In deviation from the general principle, the Strato brand has an expected remaining useful life of 1.5 years as of December 31, 2018.

A review is also conducted on each reporting 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. Significant influence is the power to participate in the financial and operating policy decisions of the associated company, but not to control or jointly steer the decision-making processes.

In the case of successive acquisition of company shares, the carrying amount 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 (i) the 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 reporting date as those of the parent company. Where necessary, adjustments are made to bring the methods in line with standard group-wide accounting and measurement methods.

After 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. If there is objective evidence that an impairment has occurred, an impairment test is carried out in the same way as for goodwill. Objective evidence exists, for example, if an associate is experiencing significant financial difficulties, has committed breaches of contract, is highly likely to become insolvent, requires restructuring, or an active market for the net investment ceases to exist because of the financial difficulties of the associate. A significant or prolonged decline in the fair value of an associate below cost also constitutes objective evidence of impairment. A significant decline is assumed if the decrease in the fair value of an associate at the end of the reporting period is more than 25% of cost. This shall not apply if in exceptional cases the circumstances at that time clearly indicate that there is no impairment.

An impairment loss is recognized when the recoverable amount is less than the associate's total carrying amount. Impairment losses are recognized in the statement of comprehensive income in the result from companies accounted for using the equity method. If the recoverable amount increases in future periods, the impairment loss is reversed accordingly.

Contract assets

A contract asset is the Group's right to consideration in exchange for goods or services it has transferred to a customer when that right is conditioned on something other than the passage of time. Every unconditional right to consideration is disclosed separately as a receivable. Contract assets are regularly assessed for impairment. The procedure is the same as for financial assets.

Contract liabilities

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer. If a customer provides consideration before the

Group has transferred goods or services to the customer, a contractual liability is recognized at the time of payment or at the latest at the time when the payment becomes due. Contractual liabilities are recognized as revenue as soon as the Group fulfills the contractual obligations.

Contract initiation and contract fulfillment costs

Additional costs incurred in initiating a contract with a customer (e.g. sales commissions) are capitalized if the Group expects to recover these costs.

In addition, the Group capitalizes the costs incurred in fulfilling a contract with a customer (e.g. customer activation fees and expected termination fees) if these costs are

- not within the scope of a standard other than IFRS 15 (e.g. IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets),
- related to an existing or expected contract,
- for the creation of company resources or the improvement of company resources of the company that will be used in the future for the (continued) fulfillment of performance obligations, and
- the costs are expected to be settled.

Capitalized contract initiation and fulfillment costs are amortized over the estimated period of use. They are recognized in the balance sheet within deferred expenses. The amortization of contract initiation costs is disclosed in selling expenses and the amortization of contract fulfillment costs is disclosed in cost of sales.

The amortization periods for contract initiation costs are 1 to 5 years and for contract fulfillment costs 3 to 4 years.

An impairment loss is recognized if the carrying amount of the capitalized costs exceeds the remaining amount of the customer's expected consideration for the delivery of goods or the rendering of services less the costs still to be incurred.

Classification as current and non-current

The Group classifies its assets and liabilities in the balance sheet as current and non-current assets and liabilities. An asset is classified as current if

- the asset is expected to be realized within the normal operating cycle or the asset is held for sale or consumption within that period,
- the asset is held primarily for the purpose of trading,
- the asset is expected to be realized within twelve months after the reporting date or
- the asset is cash or a cash equivalent, unless restricted from being exchanged or used to settle a liability for a period of at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current if

- it is expected to be settled within the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the end of the reporting period or
- the Group has no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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. Fair value measurement is based on the assumption 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.

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 measurement 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 – measurement techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — measurement 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 (as of January 1, 2018)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets – initial recognition and measurement

With the exception of trade accounts receivable that do not contain a significant financing component or have a maturity of less than one year, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not subsequently measured at fair value through profit or loss, directly attributable transaction costs. Trade accounts receivable that do not contain a significant financing component or have a maturity of less than one year are measured at the transaction price. In this context, reference is made to the accounting policies in the section Revenue Recognition – Revenue from Contracts with Customers (as of January 1, 2018).

Purchases or sales of financial assets that provide for delivery of the assets within a period determined by the rules or conventions of the respective market (standard market purchases) are recognized as of the trading date, i.e. the date on which the Group commits to purchase or sell the asset.

Financial assets – subsequent measurement

For subsequent measurement purposes, the classification of financial assets on initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the Group's business model for managing financial assets. For subsequent measurement, financial assets are classified in three categories:

- Financial assets (debt instruments) at amortized cost (ac)
- Financial assets (equity instruments) at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (fvoci)
- Financial assets at fair value through profit or loss (fvtpl)

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets at fair value through other comprehensive income (equity instruments) with no recycling of cumulative gains and losses upon derecognition

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income if they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the income statement when the right of payment has been established, unless the dividends recover part of the cost of the financial asset. In this case, such gains are recognized in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets must be classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading. Financial assets with cash flows that are not solely payments of principal and interest are also classified and measured at fair value through profit or loss, irrespective of the business model. Debt instruments may also be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks of the embedded derivative are not closely related to the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with net changes in fair value recognized in the income statement. Dividends on listed equity investments are also recognized as other income in the income statement when the right of payment has been established.

Financial assets – derecognition

A financial asset (or part of a financial asset, or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired.

Impairment of financial assets

For trade accounts receivable and contract assets, the Group applies a simplified (one-step) method for calculating expected credit losses, whereby a loss allowance based on expected credit losses over the remaining term is recognized at each reporting date.

Expectations of future credit losses are formed on the basis of regular reviews and measurements as part of credit monitoring. Historical data is regularly used to derive relationships between credit losses and various factors (e.g. payment agreement, overdue period, dunning level etc.). On the basis of these relationships, supplemented by current observations and forward-looking assumptions regarding the portfolio of receivables and contract assets held as of the reporting date, an estimate of future credit losses is made.

The Group recognizes an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. Expected credit losses are recognized in two stages. For financial instruments for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the expected credit losses based on a default event within the next twelve months. For those financial instruments for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

The Group’s operating business is mainly in the mass customer business. Default risks are thus taken into account by means of individual value adjustments and lump-sum individual value adjustments. The specific bad debt allowances for overdue receivables are mainly based on the age structure of the receivables with different valuation discounts, which are mainly derived from the success rates of those collection agencies commissioned to collect overdue receivables. The age structure of receivables is shown in note 19. All receivables that are more than 365 days overdue are written down individually by 100%. Fully impaired trade accounts receivable are derecognized 180 days after collection has been handed over to the collection agency, unless the agency has given positive feedback or payment for an impaired receivable is unexpectedly received, or if the customer’s inability to pay is known before or after transfer to the collection agencies.

Further details on the impairment of trade accounts receivable and contract assets are provided in the following notes:

- Significant accounting judgments, estimates and assumptions (note 3)
- Trade accounts receivable (note 19)
- Contract assets (note 20)
- Objectives and methods of financial risk management (note 43)

Financial liabilities - initial recognition and measurement

On initial recognition, financial liabilities are classified as financial liabilities measured at fair value through profit or loss, or as financial liabilities measured at amortized cost.

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities measured at amortized cost, net of directly attributable transaction costs.

Financial liabilities – subsequent measurement

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss

This category also includes derivative financial instruments entered into by the Group. Separated embedded derivatives are also classified as held for trading. Gains or losses on financial liabilities held for trading are recognized through profit or loss.

Financial liabilities at amortized cost

After initial recognition, financial liabilities classified at amortized cost are subsequently measured using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Amortization using the effective interest method is included as part of finance costs in the income statement.

Financial liabilities - derecognition

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred result in an adjustment to the carrying amount of the liability and are amortized over the remaining life of the liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial instruments (until December 31, 2017)

Financial instruments – financial assets

The Group’s financial assets comprise cash and short-term deposits, trade accounts receivable, 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 measurement 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.

<u>Loans and receivables</u> 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.

<u>Available-for-sale financial assets</u> 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 measurement category.

<u>Financial instruments – financial liabilities</u>

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 – impairment of financial assets

On each reporting 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 accounts receivable 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 – 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 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 allowances for excess inventories are made to provide for inventory risks.

Measurement 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 and Management Board members 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 measurement process, the value component is determined at the time of granting, also for subsequent measurement until the end of the term. On every measurement 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 reporting date for equity-settled transactions until the vesting date reflect the extent to which the vesting period has expired and the number of equity instruments which, according to the Group's best-possible estimate, will actually be vested after the vesting period. The income or expense recognized in the income statement represents the development of cumulative expenses recognized at the beginning and end of the reporting period. No expense is recognized for payment rights which are not vested.

Earnings per share

Undiluted or basic earnings per share are calculated by dividing the result attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised.

In addition, undiluted and diluted earnings per share are disclosed separately for continued and discontinued operations.

Financial income

Interest income is recognized as interest accrues (using the effective interest rate, i.e. the rate which discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Dividend income is recognized with the inception of the legal right to payment.

Government grants

Government grants are recognized where there is reasonable certainty that the grant will be received and the Company will satisfy all attaching conditions. Where the grants relate to an expense item, they are recognized as income in scheduled amounts over the period necessary to match the grants to the costs they are intended to compensate. Grants relating to an asset item reduce the carrying value of that item.

Current income tax and deferred taxes

The tax expense for a period comprises current taxes and deferred taxes. Taxes are recognized in the income statement, unless they relate to transactions that are recognized in other comprehensive income or directly in equity. In these cases, taxes are recognized accordingly in other comprehensive income or directly in equity.

Current taxes are valued at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable on the reporting date.

The liability method is used to create deferred taxes on all temporary differences existing on the reporting date between the carrying value of an asset or a liability in the balance sheet and the fiscal carrying value.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each reporting 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 reporting 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 reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Discontinued operations

Discontinued operations are business fields that are either held for sale or have already been sold and that can be clearly separated from other business activities from a business perspective as well as for the purposes of financial reporting. In addition, the discontinued operation must represent a separate significant business field or geographical area of the Group. Non-current assets that are held for sale individually or together in a disposal group or that belong to a discontinued operation no longer undergo scheduled depreciation. They are carried at the lower of carrying amount and fair value less selling costs to be incurred. If this amount is below the carrying amount, an impairment cost is charged. The result from the measurement of divested business fields and the gains and losses from the disposal of discontinued operations, as well as the result from ordinary operations of these business fields, are disclosed separately in the consolidated income statement as the result from discontinued operations. Prior-year figures of the income statement are adjusted accordingly. The respective assets and liabilities are disclosed in a separate balance sheet item. Cash flows from discontinued operations are reported separately in the cash flow statement, and prior-year figures adjusted accordingly. However, the balance sheet of the previous year is not adjusted.

2.2 Summary of measurement principles

The Group's measurement principles can be summarized and simplified as follows – providing there is no impairment:

Balance sheet item	Measurement
ASSETS	
Cash and cash equivalents	Amortized cost
Trade accounts receivable	Amortized cost
Contract assets	Amortized cost
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
Other financial assets	
Equ ty instruments	Financial assets measured at fair value through other comprehensive income w thout reclassification of cumulative gains and losses on derecognit on
Derivatives	Fair value through profit or loss
Other	Amortized cost
Inventories	Lower of cost and net realizable value
Prepa d expenses	Amortized cost
Income tax claims	Expected payment from the tax authorities based on tax rates applicable on
Other non-financial assets	Amortized cost
Deferred tax assets	Undiscounted measurement at tax rates valid in the period in which an asset settled
LIABILITIES	
Liabil ties due to banks	Amortized cost
Deferred tax liabil ties	Undiscounted measurement at tax rates valid in the period in which an asset settled
Income tax liabilities	Expected payment to the tax authorities based on tax rates applicable on the near future
Trade accounts payable	Amortized cost
Contract liabil ties	Amortized cost
Other accrued liabilities	Expected discounted amount that will lead to outflow of resources
Other financial liabil ties	Amortized cost
Derivatives	Fair value through profit or loss
Other	Amortized cost
Other non-financial liabilities	Amortized cost

2.3 Effects of new or amended IFRS standards

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments which replaced IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The introduction of the final version of IFRS 9 combined 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 exercised the option to report in accordance with the simplified first-time adoption of IFRS 9. The cumulative effect resulting from the transition to IFRS 9 was recognized directly in equity. There was also no retroactive adjustment of the corresponding comparative figures from previous years. The changes in balance sheet items for the reporting period resulting from conversion are presented below.

Financial assets previously classified according to the measurement categories of IAS 39 are to be allocated to the newly introduced measurement categories pursuant to IFRS 9. In the following table, United Internet presents the changes to the closing balances of these items in the form of a reconciliation to the applicable measurement categories of IFRS 9:

	Carrying amount as of Dec. 31, 2017 (IAS 39) €k	Remeasurements €k	Carrying amount as of Jan. 1, 2018 (IFRS 9) €k
Financial assets at fair value through other comprehensive income (equity instruments)			
Additions:			
from availabe-forsale financial assets - at fair value	291,285		291,285
from availabe-forsale financial assets - at cost	8,720	34,036	42,756
Total fair value through other comprehensive income	**300,005**	**34,036**	**334,041**
Financial assets at fair value through profit or loss			
Additions:			
from held-for-trading financial assets	17,890		17,890
Total fair value through profit or loss	**17,890**		**17,890**
Financial assets at amortized cost (debt instruments)			
Additions:			
from loans and receivables	638,937	-12,600	626,337
	638,937	**-12,600**	**626,337**
Total change	**956,832**	**21,436**	**978,268**

All financial assets of the Group held at fair value continue to be measured at fair value. Gains or losses from financial assets held as “available-for-sale” are still recognized in other comprehensive income, but later no longer reclassified to profit or loss.

In addition, there are adjustment effects in connection with the remeasurement of available-for-sale assets previously measured at cost. IFRS 9 makes no distinction with regard to the reliability of the estimate. In this connection, shares in Affilias which were previously measured at cost due to the low reliability of their measurement, are now measured at fair value. The measurement adjustment amounted to € 34,036k as of January 1, 2018 before deferred taxes and was recognized accordingly in the revaluation reserve.

As a result of the new regulations on impairment, expected losses from trade accounts receivable will in some cases be expensed earlier than under IAS 39.

No changes in measurement resulted from the allocation of financial liabilities to the new IFRS 9 measurement categories. The names of the measurement categories were merely adjusted to the new IFRS 9 terms.

The following table presents the various classes of financial assets and liabilities. In accordance with the requirements of IFRS 9, the table contains an overview of the respective measurement categories and carrying amounts as at December 31, 2017 / January 1, 2018 in comparison to the previously applied IAS 39:

	Measurement categories		:arrying amount as of Dec. 31, 2017 / Jan. 1, 201:		
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	**Difference amount**
Financial assets					
Cash and cash equivalents	lar	ac	238,522	238,522	0
Trade accounts receivable					
- Receivables from finance leases	n/a	n/a	59,229	59,229	0
- Others	lar	ac	284 341	271 741	-12 600
Other current financial assets	lar	ac	100,270	100,270	0
Other non-current financial assets					
- Investments	afs	fvoci	300,005	334,041	34,036
- Derivatives	fahft	fvtpl	17,890	17,890	0
- Others	lar	ac	15,804	15,804	0
Financial liabilities					
Trade accounts payable	flac	ac	-408 920	-408 920	0
Liabilities due to banks	flac	ac	-1,955,781	-1,955,781	0
Other financial liabilities					
- Finance leases	n/a	n/a	-91,787	-91,787	0
- Conditional purchase price obligation	flhft	fvtpl	-9,686	-9,686	0
- Others	flac	ac	-131,722	-131,722	0

IAS 39 categories

lar	Loans and receivables
afs	Available-for-sale financial assets
fahft	Financial assets held for trading
flac	Financial liabilities measured at amortized cost
flhft	Financial liabilities held for trading

IFRS 9 categories

ac	At amortized cost
fvoci	At fair value through other comprehensive income without recycling to profit or loss
fvtpl	At fair value through profit or loss

The conversion to IFRS 9 also resulted in adjustment effects regarding the impairment of contract assets pursuant to IFRS 15 recognized for the first time. As of January 1, 2018, the accumulated adjustment effects from the impairment of contract assets pursuant to IFRS 15 recognized for the first time, before consideration of deferred taxes, amounted to € 26,032k and were recognized accordingly in retained earnings.

The following table shows changes in allowances on financial assets and contract assets following the transition from IAS 39 to IFRS 9 as of January 1, 2018:

Allowances on financial assets and contract assets in €k	Trade accounts receivable	Contract assets	**Total**
Measurement categories			
acc. to IAS 39	LaR	n/a	
acc. to IFRS 9	AC	n/a	
Allowances			
Balance acc. to IAS 39 (Dec. 31, 2017)	29,190	0	29,190
Additions in connect on with change to IFRS 9	12,600		12,600
Additions in connect on with change to IFRS 15		26,032	26,032
Balance acc. to IFRS 9 (Jan. 1, 2018)	41,790	26,032	67,822
Change in retained earnings	**-12,600**	**-26,032**	**-38,632**

IFRS 15 – “Revenue from Contracts with Customers” was published in May 2014 and revised in April 2016. IFRS 15 supersedes IAS 11 “Construction Contracts”, IAS 18 “Revenue” and related interpretations and applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also changes the accounting treatment of certain costs of contract fulfillment and contract initiation. Application of IFRS 15 is mandatory for fiscal years beginning on or after January 1, 2018 and stipulates either full or modified retrospective application.

The United Internet Group exercised the option to use the modified retrospective transitional method; all contracts as of January 1, 2018 were taken into account. The cumulative conversion effects were recognized in equity as of January 1, 2018. There is no obligation to adjust the comparative figures for previous periods and they continue to be included in the Consolidated Financial Statements in accordance with the applicable accounting standards of the time.

The effects of IFRS 15 mainly concern the Consumer Access and Business Applications segments.

In the Consumer Access segment, the effects mainly concern the accounting of so-called multiple-element arrangements. Whereas under the previous regulations, revenue from hardware supplied as part of a multiple-element arrangement were only recognized in the amount invoiced 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 performance obligations. 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 revenue from the services rendered. Within the context of initial application of IFRS 15, pro-rata revenue for all current service contracts on January 1, 2018 with previously supplied subsidized hardware were recognized directly in equity. However, future revenue from the respective service contract is reduced by the revenue share allocated for hardware.

In the Business Applications segment, the effects mainly concern the accounting of the product group Domains as well as product groups which contain domains as part of multiple-element arrangements (mainly web hosting products). As the main service in the product group Domains consists of domain registration for the end customer with the respective registry, the special regulations regarding licenses are applied with regard to the time-related recognition of revenue from domain registration. As in the case of domains a right of use is granted to an intellectual property existing at the time the license is granted (static), revenue is to be recognized at a specific moment in time according to IFRS 15. In the past, revenue was recognized on a period-related basis (standard for multiple-element arrangements) pursuant to IAS 18. Accordingly, fees paid by the customer on commencement of the contract were carried as deferred income over the term of the contract. In the case of domains, therefore, the implementation of IFRS 15 has led to a change in revenue recognition from a period-related basis to a time-related basis. For multiple-element arrangements containing domains, the total price for the customer contract (according to the residual method) is to be allocated to the various performance obligations. The deferred income previously recognized for domains was therefore reversed in equity as of January 1, 2018.

Moreover, the new regulations require the capitalization of contract costs. Provided that certain conditions are met, the costs of contract fulfillment (e.g. customer activation fees, expected termination fees) and the costs of contract initiation (e.g. sales commissions) are to be capitalized according to IFRS 15 and spread over the estimated period of use. Customer acquisition costs were previously recognized immediately as an expense in the statement of comprehensive income. In the course of initial recognition, contract fulfillment and contract initiation costs were capitalized for all service contracts running on January 1, 2018, thus leading to future depreciation charges. Consequently, during the transitional period, customer acquisition costs already expensed under IAS 18 are expensed again in part due to IFRS 15. The change in revenue recognition for domain registrations has also led to a change in the timing of recognition for domain registration costs. Whereas in the past, domain registration costs were deferred over the respective contract term, under IFRS 15 expenses are recognized when the performance obligation is rendered, i.e. they are recognized immediately without being deferred over the term. Corresponding accruals and deferrals therefore no longer apply as of January 1, 2018, so that no expense will be recognized for them in the future.

The initial application of IFRS 15 resulted in the following effects for the financial position and performance of the United Internet Group:

in €k

	Explanation	Carrying amount acc. to IAS 18 as of Dec. 31, 2018	Carrying amount acc. to IFRS 15 as of Dec. 31, 2018	Difference IAS 18 / IAS 11 vs. IFRS 15
ASSETS				
CURRENT ASSETS				
Contract assets	a)	0	**426.992**	426.992
Prepaid expenses	b)	126.531	**212.399**	85.868
Other non-financial assets	c)	8.281	**11.330**	3.049
Other assets		699.406	**701.496**	2.090
NON-CURRENT ASSETS				
Intangible assets	d)	1.257.637	**1.244.578**	-13.059
Contract assets	a)	0	**168.792**	168.792
Deferred tax assets	e)	206.521	**10.797**	-195.724
Prepaid expenses	b)	204.067	**341.220**	137.153
Other assets		5.043.775	**5.043.775**	0
LIABILITIES				
CURRENT LIABILITIES				
Advance payments received				
Deferred revenue	f)	11.181	**0**	-11.181
Contract liabilities	f)	269.352	**0**	-269.352
Other accrued liabilities	f)	0	**154.290**	154.290
Other financial liabilities	g)	25.678	**24.469**	-1.209
Other liabilities		122.959	**124.092**	1.133
NON-CURRENT LIABILITIES		995.282	**996.890**	1.608
Deferred tax liabilities		0	**0**	
Deferred revenue	e)	332.256	**389.829**	57.573
Contract liabilities	f)	28.790	**0**	
Other accrued liabilities	f)	0	**33.838**	33.838
Other liabilities	g)	33.151	**99.972**	66.821
EQUITY		1.828.968	**1.828.968**	0
Equity				
Retained earnings including results carried forward plus non-controlling interests[a]		3.898.602	**4.521.472**	622.870

a For reasons of simplfication combined for the presentation of the accumulated effect on equity from the change to IFRS 15.

in €k	Explanation	**IFRS 15 2018**	IAS 18 / IAS 11 2018	Change
SALES	h)	**5,130,804**	**4,847,622**	**283,182**
Cost of sales	i)	-3,377,984	-3,358,875	-19,109
Selling expenses	i)	-678,231	-728,108	49,877
General and administrative expenses		-218,943	-218,943	0
Other operating income		77,871	77,104	767
Other operating expenses	j)	-23,966	-96,649	72,683
Impairment of receivables and contract assets	j)	-98,540	n.a.	-98,540
OPERATING RESULT		**811,011**	**522,151**	**288,860**
Financial result		-27,563	-27,563	0
Result from associated companies		-221,525	-221,525	0
FINANCIAL RESULT		**-249,088**	**-249,088**	**0**
PRE-TAX RESULT		**561,923**	**273,062**	**288,860**
Income taxes	k)	-249,832	-163,174	-86,658
NET INCOME		**312,091**	**109,888**	**202,202**

The conversion effects result mainly from the following items:

a) The recognition of contract assets amounting to € 596 million mainly relates to the Consumer Access segment. The contract assets result both from accelerated revenue recognition compared to IAS 18 for subsidized hardware as well as from the distribution of non-linear discounts.

b) The adjustments to prepaid expenses primarily relate to contract initiation and contract fulfillment costs (customer activation fees, termination fees etc.) amounting to € 166 million and € 125 million respectively, which result in capitalization and thus later recognition of expenses according to IFRS 15. Before IFRS 15 became effective, these expenses were immediately recognized as an expense in the statement of comprehensive income. Domain registration costs of € 57 million have an opposing effect. These were previously recognized as prepaid expenses and are now recognized directly on registration of the domain as an expense under IFRS 15.

c) The adjustment effects in other current non-financial assets of € 3 million result from return claims for hardware from terminated contracts in connection with the 1&1 Principle.

d) The decline in intangible assets results from the adjustment of the customer base capitalized during the Drillisch purchase price allocation, which in the course of transition to IFRS 15 is already recognized as a contract asset.

e) The net balance of deferred tax liabilities increased by € 253 million due to conversion effects from IFRS 15.

f) IFRS 15 requires deferred revenue and advance payments received to be recognized as contract liabilities. In addition, the change from period-based to time-based revenue recognition in connection with domain revenue in the Business Applications segment led to a reduction in revenue previously deferred. The deferral of activation fees has the opposite effect.

g) In connection with the capitalization of contract fulfillment costs pursuant to IFRS 15, accruals were formed for future payment obligations from termination fees.

h) IFRS 15 results in accelerated revenue recognition compared to IAS 18. In fiscal year 2018, this resulted in an increase in sales of € 283 million, which was boosted by general contract growth and the increased use of smartphones.

i) Until fiscal year 2017, expenses from assumed customer activation fees as part of marketing campaigns were recognized as selling expenses under IAS 18 in line with their economic character. With the introduction of IFRS 15, these expenses are reported in full as cost of sales. In addition, differences result from the capitalization and amortization of contract initiation and fulfillment costs.

j) Due to an amendment to IAS 1, impairment losses on receivables and contract assets must be reported separately in the statement of comprehensive income. Impairment losses on receivables were previously included in other operating expenses.

k) The increase in tax expenses under IFRS 15 mainly relates to deferred tax liabilities from the various above mentioned items.

In the fiscal year 2018, application of the following standards and interpretations amended or newly issued by the IASB was also mandatory:

- IFRS 2 Classification and Measurement of Share-based Payment Transactions
  The amendments deal with individual issues relating to the accounting treatment of share-based payment transactions with cash settlement. The most significant change or amendment is that IFRS 2 now contains provisions relating to the determination of the fair value of obligations arising from share-based payments. The amendment has no material impact on the Consolidated Financial Statements.

- Annual Improvements 2014-2016
  Clarifications on IFRS 1 and IAS 28. The clarifications have no material impact on the Consolidated Financial Statements.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration
  The purpose of this interpretation is to clarify the accounting treatment of transactions involving the receipt or payment of consideration in a foreign currency. The interpretation has no material 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 9	Amendment: Prepayment Features with Negative Compensation	Jan. 1, 2019	Yes
IAS 12, IAS 28, IFRS 3	Annual Improvements 2015–2017	Jan. 1, 2019	Yes
IFRS 16	Leases	Jan. 1, 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	Yes
IAS 28	Clarification on IAS 28 Investments in Associates and Joint Ventures	Jan. 1, 2019	Yes
IAS 19	Amendment: Plan Amendment, Curtailment or Settlement	Jan. 1, 2019	Yes
Conceptual Framework	Revised Conceptual Framework	Jan. 1, 2020	No
IFRS 3	Amendment: Definition of a Business	Jan. 1, 2020	No
IAS 1, IAS 8	Amendment: Definition of Material	Jan. 1, 2020	No

IFRS 16 was issued in January 2016 and replaces IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. However, the standard includes two exemptions from accounting according to IFRS 16 – leases of low-value assets (e.g. PCs) and short-term leases (e.g. leases with a term of 12 months or less). IFRS 16 is to be initially applied in fiscal year beginning on or after January 1, 2019.

On initial recognition of a lease, the lessee must capitalize an asset that represents the right to use the underlying asset over the term of the lease (i.e. the right of use). At the same time, the lessee must recognize a liability in the amount of the future lease payments less the interest portion (i.e. the lease liability). In the subsequent period, liabilities are adjusted with an effect on expenses due to interest and a depreciation charge for the right of use.

The lessee is also required to remeasure the lease liability should certain events occur (e.g. a change in the lease term, a change in future lease payments due to a change in an index or rate used to measure liabilities or determine payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The application of IFRS 16 leads to an increase in non-current assets in the consolidated balance sheet (for right of use), and at the same time to an increase in financial liabilities (due to the payment obligation). In the income statement, this leads to higher depreciation and interest expense. In turn, operating expenses will be reduced. This will lead to an increase in EBITDA. However, as financial liabilities increase at the same time, the ratio of net financial liabilities to adjusted EBITDA (relative indebtedness) may change mathematically, although there will be no economic change.

The United Internet Group has opted for the modified retrospective initial adoption method. It has also chosen the option to recognize the right-of-use asset at the value of the corresponding lease liability on initial application.

In the field of operating leases, the United Internet Group 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.

In the fiscal year 2018, the Group performed a detailed impact assessment on IFRS 16. In summary, the effects from initial application of IFRS 16 with respect to lessee contracts previously accounted for as operating leases as of January 1, 2019 are as follows (deviations possible):

The balance sheet total is expected to increase by approx. € 250 million to € 300 million as of January 1, 2019. The capitalization of rights of use amounting to approx. € 250 million to € 300 million is opposed by the recognition of lease liabilities of approximately the same amount, which are offset against deferred lease prepayments.

No significant impact is expected from the other IFRS amendments.

3. *Significant accounting judgments, estimates and assumptions*

The application of accounting and measurement 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 reporting date. Actual amounts may differ from these estimates and assumptions, which may lead in future to significant adjustments to the carrying amounts of the assets and liabilities concerned.

Accounting judgments

In the application of accounting and measurement 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 € 82,232k as of December 31, 2017 (prior year: € 91,787k).

Determining whether the definition of a discontinued operation pursuant to IFRS 5 is met is a fundamentally discretionary decision as it must be a significant business division, among other things. In the previous year, management assessed affilinet GmbH as a significant business division in the course of the merger between affilinet and Awin and disclosed it as such in the statement of comprehensive income of the previous year. Furthermore, it was decided not to eliminate the deconsolidation result according to the equity interest in Awin.

Estimates and assumptions

The most important forward-looking assumptions and other major sources of uncertainty as of the reporting date, which involve the risk of significant adjustments to the carrying amounts of assets and liabilities in the coming fiscal year, are explained below.

Revenue recognition

The standalone selling prices for hardware are determined on the basis of the adjusted market assessment approach, which requires an estimate of the relevant market prices for the respective hardware. Changes in these estimates may affect the allocation of the transaction price to the individual performance obligations and thus also affect the amount and timing of revenue recognition.

In addition, various other assumptions and estimates are made during application of the portfolio approach, which are based on past experience and available knowledge at the end of the reporting period. Changes in these assumptions and estimates in their entirety can also have a material effect on the amount and timing of revenue recognition.

Costs of contract fulfillment and contract initiation

The calculation of the estimated amortization periods for contract costs is based on past experience and subject to significant uncertainties, in particular with regard to unforeseen customer or technology developments. A change in the estimated amortization period affects the timing of the recognition. The carrying amount of capitalized contract initiation and contract fulfillment costs as of December 31, 2018 amounted to € 290,957k (prior year: n.a.).

Measurement of non-listed equity instruments

Measuring the fair value of a non-listed equity instrument not only takes into account past experience of the company in question but also expectations of its probable future development. These expectations are based on numerous assumptions and the measurement of fair value is therefore subject to significant uncertainties. The carrying amount of non-listed equity instruments as of December 31, 2018 amounted to € 42,796k (prior year: € 8,720k).

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 reporting date, the United Internet Group holds investments in various associated companies. If the consideration for the acquisition of the shares is made by contributing a subsidiary or other investment, the acquisition costs of the associated company are to be determined by means of a company valuation. This valuation is closely related to the assumptions and estimates made by management with respect to the future development of the respective company and the applicable discount rate.

In accordance with IAS 28.31, the Company examines on the reporting 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, 2018, the carrying value of investments in listed associated companies amounted to € 105,502k (prior year: € 322,891k). The carrying value of investments in non-listed associated companies as of December 31, 2018 amounted to € 101,354k (prior year: € 95,157k).

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 measurement 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 € 7,182k (prior year: € 5,161k).

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, 2018 amounted to € 187,938k (prior year: € 130,195k).

Trade accounts receivable and contract assets

Trade accounts receivable and contract assets are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of expected credit losses by means of regular reviews 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 accounts receivable amounted to € 409,656k as of December 31, 2018 (prior year: € 343,571k). The carrying value of contract assets as of December 31, 2018 amounted to € 595,784k (prior year: € 0).

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. Measurement 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 amounts of inventories as of the reporting date amounted to € 89,617k (prior year: € 44,672k). Please refer to note 21 for further information.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are valued at cost on initial recognition. After initial recognition, property, plant and equipment and intangible assets with limited useful lives are depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 1,865,882k as of December 31, 2018 (prior year: € 1,971,821k*).

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

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 amounts of goodwill as of the reporting date amounted to € 3,612,634k (prior year: € 3,564,056k*).

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

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 € 124,440k as of December 31, 2018 (prior year: € 82,897k).

4. Business combinations and investments

4.1. Business combinations in the fiscal year

Acquisition of World4You

On August 17, 2018, United Internet AG reached an agreement with the owners of the Austrian web host World4You concerning the 100% acquisition of the company by United Internet subsidiary 1&1 IONOS SE.

Based in Linz, Austria, World4You Internet Services GmbH was founded in 1998. The company is the market leader for web hosting in Austria. The product range of World4You (www.world4you.com) comprises domains, e-mail solutions, websites, web hosting and servers, as well as security solutions. It is planned that World4You will remain an independent company and continue to develop the Austrian market.

The Austrian web hosting and cloud applications market has made good progress over the past few years. The market is heavily fragmented and dominated by competition between national companies and a few international players.

With the acquisition of World4You, United Internet AG has strengthened its international activities in the field of Business Applications and is continuing its strategy of complementing organic growth with targeted acquisitions.

The Company paid € 75.5 million in cash for the shares of World4You. After deduction of assumed cash amounting to € 3.5 million, the Group's net cash outflow was € 72 million.

1&1 IONOS SE assumed control over World4You with effect from August 17, 2018 (date of acquisition).

In the course of the business combination, total transaction costs of € 0.5 million were expensed.

World4You was first included in the Consolidated Financial Statements of United Internet AG as of the date of acquisition. Initial consolidation of World4You was made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The net cash outflow from the acquisition was as follows:

Cash flow from investing activities	**€k**
Cash purchase price	75,533
Less assumed cash	-3,488
Net cash outflow	**72,045**

The assets and liabilities of World4You were recognized on the basis of a purchase price allocation. Goodwill of € 51,250k resulted from this purchase price allocation. The fair value of other intangible assets amounts to € 29,631k. These mainly include customer relationships (€ 24,014k), trademarks (€ 3,494k) and software (€ 1,910k). The following table, prepared on the basis of the purchase price allocation, presents an overview of the recognized assets and liabilities:

Assets	€k
Current	
Cash and cash equivalents	3,488
Trade accounts receivable	449
Prepaid expenses	74
Other financial assets	43
Non-current	
Property, plant and equipment	767
Intangible assets	29,631
Deferred tax assets	69
Liabilities	
Current	
Trade accounts payable	366
Income tax liabilities	79
Deferred revenue	2,071
Other financial liabilities	212
Other non-financial liabilities	13
Non-current	
Deferred tax liabilities	7,497
Total identifiable net assets	**24,283**
Preliminary goodwill from business acquisition	**51,250**
Transferred consideration	**75,533**

The gross trade accounts receivable amounted to € 726k. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 449k.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how.

As a result of the initial consolidation of World4You, sales revenue increased by € 4.2 million and earnings after taxes increased by € 0.5 million in the fiscal year 2018. If World4You had already been included in the consolidated group of the United Internet Group as of January 1, 2018, sales revenue would have increased by € 11.1 million and earnings after taxes by € 0.7 million as of December 31, 2018.

4.2 Business combinations of the previous year

Acquisition of the Drillisch Group

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

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

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

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

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

The transaction was accompanied by a voluntary public tender offer submitted by United Internet AG for all outstanding shares of Drillisch AG. United Internet offered to purchase the no-par value bearer shares, each representing a proportionate amount of Drillisch AG share capital of €1.10, from the current Drillisch shareholders. As compensation, United Internet offered to pay € 50 per no-par share – which is 8.2% more than the volume-weighted average domestic share price of Drillisch shares over the past three months as of May 11, 2017 (€ 46.18). The cash offer was made in accordance with the condition specified in the offer document published on May 26, 2017 regarding anti-trust approval. This condition was met with the approval of the German Federal Cartel Office ("Bundeskartellamt") on June 9, 2017. There was no minimum acceptance threshold for the tender offer.

With the registration of the capital increase for non-cash contribution in the Commercial Register on September 8, 2017, Drillisch acquired the remaining stake of approx. 92.25% in 1&1 Telecommunication. The capital increase had been approved by the Extraordinary General Meeting of Drillisch on July 25, 2017. 1&1 Telecommunication is thus a wholly-owned subsidiary of Drillisch. In return, United Internet received 107,937,831 new Drillisch shares, increasing United Internet's stake in Drillisch to 73.29%. As a result, Drillisch has been consolidated in the financial statements of United Internet since the date of acquisition (September 8, 2017). Initial consolidation of Drillisch AG is made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The measurement basis for the goodwill is calculated as follows:

Measurement basis goodwill Drillisch AG acquisition	**€k**
Pro-rated transfer of shares in 1&1 Telecommunication as part of non-cash capital increase Drillisch (September 8, 2017)	1,280,731
Existing shares in Drillisch valued at stock exchange price	1,248,154
Sub-total	2,528,885
Non-controlling interests at fair value of Drillisch net assets	167,150
Measurement basis for goodwill	**2,696,035**

The fair value of existing shares in Drillisch (including shares from the capital increase in May 2017) amounted to € 1,248,154k. Income from the revaluation of shares on the acquisition date amounted to € 302,951k.

Net cash inflow from the acquisition was as follows:

Cash flow from investing activity	**€k**
Assumed cash and cash equivalents	33,125
Net cash inflow	**33,125**

Total transaction costs of € 13,657k were expensed in the course of the business combination.

The assets and liabilities of Drillisch AG were recognized on the basis of purchase price allocation. Goodwill of € 2,070 million resulted from the purchase price allocation. The fair value of other intangible assets amounts to € 905.6 million. These mainly comprise customer relationships (€ 742 million), trademarks (€ 56 million) and a favorable purchasing contract (€ 71 million). Customer relationships were valued using the so-called MEEM approach (Multi-period Excess Earnings Method); an asset's fair value is derived from the calculation of the present value of post-tax earnings attributable to the asset. The measurement of the favorable purchasing contract is based on a comparison of the purchasing terms of Drillisch with those of a market participant. Trademarks are valued using the relief-from-royalty method.

The following table shows the assets and liabilities recognized using purchase price allocation (PPA):

Assets	**€k**
Current	
Cash and cash equivalents	33,125
Trade accounts receivable	64,604
Inventories	6,427
Other financial assets	27,280
Other non-financial assets	38
Non-current	
Other financial assets	1,095
Property, plant and equipment	7,532
Intangible assets	905,606
Deferred tax assets	42,536
Total assets	**1,088,243**
Liabilities	
Current	
Trade accounts payable	79,399
Advance payments received	3,267
Income tax liabilities	20,007
Other accrued liabilities	26,031
Other financial liabilities	22,372
Non-current	
Liabilities to banks	53,116
Deferred tax liabilities	255,805
Other accrued liabilities	1,993
Other financial liabilities	457
Total liabilities	**462,447**
Total identifiable net assets	**625,796**
Measurement basis for goodwill	**2,696,035**
Total identifiable net assets	-625,796
Goodwill from business acquisition	**2,070,239**

The non-controlling interests of 26.71% amount to € 167 million on the acquisition date and are valued with the corresponding share of the amount recognized for the purchased net assets (without goodwill).

The gross trade accounts receivable amounted to € 91.4 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 64.6 million.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how.

Due to the ongoing measurement of the favorable purchasing contract, the purchase price allocation of the Drillisch Group had not been completed as of December 31, 2017. The purchase price allocation was finalized in the current fiscal year 2018 within the 12-month measurement period of IFRS 3. There were no changes compared to the previous year.

As a result of the initial consolidation of the Drillisch Group, sales revenue increased by € 221.1 million and earnings decreased by € 25.8 million in the fiscal year 2017. If the Drillisch Group had already been included in the consolidated group of the United Internet Group as of January 1, 2017, sales revenue would have increased by € 647 million and earnings after taxes – without consideration of the previous at-equity investment in the Drillisch Group – would have improved by € 13.8 million as of December 31, 2017.

Acquisition of the Strato Group

On December 15, 2016, United Internet AG signed an agreement with the owner of Strato AG, Deutsche Telekom AG, regarding the acquisition of Strato AG. Based in Berlin, Strato AG employs over 500 people with operations mainly in Germany and the Netherlands. With over 1.8 million customer contracts, Strato's annual revenue for fiscal year 2016 was around € 127 million with EBITDA in 2016 of around € 48.5 million. The German Federal Cartel Office ("Bundeskartellamt") granted approval in February 2017.

The share purchase was made via 1&1 Internet Holding SE. The Company paid € 557.6 million in cash for the purchase of the shares in Strato AG. A conditional purchase price component of up to € 34 million is due at a later point subject to reaching certain performance goals. After deduction of assumed cash amounting to € 4.2 million, the Group's net cash outflow was € 553.3 million.

With effect from April 1, 2017 (date of acquisition), 1&1 Internet Holding SE assumed control over Strato AG.

The purchase price tranche of € 557.6 million due in 2017 at the holding structure level is financed by an internal loan from United Internet AG of € 350 million, as well as by prorated equity capital contributions of United Internet AG and Warburg Pincus. In the course of the acquisition of Strato AG, Warburg Pincus will retain its 33.33% stake in the "Business Applications" division in accordance with the partnership agreement.

In the course of the business combination, total transaction costs of € 5,504k were expensed; the major share of these transaction costs was already incurred in the fiscal year 2016.

Strato AG was first included in the Consolidated Financial Statements of United Internet AG as of the date of acquisition. Initial consolidation of Strato AG was made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The transferred consideration and net cash outflow were as follows:

Transferred consideration for the acquisition of Strato AG	**€k**
Cash purchase price	557,551
Fair value of conditional purchase price component	5,520
Transferred consideration	**563,071**

The net cash outflow from the acquisition was as follows:

Cash flow from investing activities	**€k**
Cash purchase price	557,551
Less assumed cash	-4,249
Net cash outflow	**553,302**

The assets and liabilities of Strato AG were recognized on the basis of a purchase price allocation. Goodwill of € 401,570k resulted from this purchase price allocation. The fair value of other intangible assets amounts to € 225,617k. These mainly include customer relationships (€ 179,027k), trademarks (€ 23,000k) and self-produced software (€ 18,833k). The following table, prepared on the basis of the preliminary purchase price allocation, presents an overview of the recognized assets and liabilities:

Assets	k
Current	
Cash and cash equivalents	4,249
Trade accounts receivable	3,535
Prepaid expenses	7,233
Other financial assets	1,348
Non-current	
Other financial assets	2,625
Property, plant and equipment	33,967
Intangible assets	225,617
	278,574
Liabilities	
Current	
Trade accounts payable	5,073
Deferred revenue	25,501
Other accrued liabilities	67
Other financial liabilities	14,738
Other non-financial liabilities	2,543
Non-current	
Deferred tax liabilities	67,936
Other accrued liabilities	1,146
Other financial liabilities	69
	117,073
Total identifiable net assets	**161,501**
Goodwill from business acquisition	**401,570**
Transferred consideration	**563,071**

The gross trade accounts receivable amounted to € 6.2 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 3.5 million.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how.

As a result of the initial consolidation of Strato AG, sales revenue increased by € 99.2 million and earnings after taxes increased by € 5.6 million in the fiscal year 2017. If Strato AG had already been included in the consolidated group of the United Internet Group as of January 1, 2017, sales revenue would have increased by € 132.4 million and earnings after taxes would have decreased by € 0.7 million as of December 31, 2017.

Acquisition of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

In a first step, the United Internet Group increased its existing stake in ProfitBricks GmbH from 30.2% to 44.4% GmbH with a purchase agreement dated June 26, 2017 between its subsidiary United Internet Investments Holding GmbH and Lakestar I LP. The purchase price for these shares amounted to € 7,920k.

With a purchase agreement dated July 24, 2017, 1&1 Internet SE – a subsidiary of the United Internet Group – subsequently acquired 100% of shares in ProfitBricks GmbH (from United Internet Investments Holding GmbH as well as the other outstanding shareholders) for a total purchase price of € 36,359k, of which € 4,416k was a variable purchase price component (conditional purchase price payment) and € 31,943k was paid in cash as fixed acquisition costs. On August 7, 2017, the German Federal Cartel Office (“Bundeskartellamt”) stated that the transaction could be completed. The transaction was closed on August 8, 2017 with the purchase price payment.

The shares were purchased both internally from United Internet Investments Holding GmbH (44.4%) and from other shareholders (55.6%). The purchase price for shares acquired from the non-Group shareholders (55.6%) amounted to € 9,759k (payment in cash) as well as a conditional purchase price payment of € 4,416k.

In addition, transaction costs of € 130k were incurred, which were not capitalized.

The measurement basis for the goodwill is calculated as follows:

Measurement basis goodwill ProfitBricks acquisition	**€k**
Cash purchase price	9,759
Fair value of the conditional purchase price component	4,416
Old shares in ProfitBricks measured at fair value	22,184
Measurement basis for goodwill	**36,359**

The fair value of existing shares in ProfitBricks (including shares from the purchase from Lakestar) amounted to € 22,184k. Income from the revaluation of shares on the acquisition date amounted to € 16,053k.

Net cash outflow from the acquisition was as follows:

Cash flow from investing activity	**€k**
Cash purchase price	9,759
Less assumed cash and cash equivalents	-1,811
Net cash outflow	**7,948**

Due to the short period between the acquisition date and the date of preparing the Consolidated Financial Statements as of December 31, 2017, the merger was accounted for using preliminary figures in the previous year. In the fiscal year 2018, the purchase price allocation was finalized within the 12-month measurement period of IFRS 3.

The following table presents the preliminary PPA amounts together with the final PPA amounts:

Assets	**Preliminary PPA €k**	**Final PPA €k**
Current		
Cash and cash equivalent	1.811	1.811
Trade accounts receivable	2.939	2.939
Prepaid expenses	181	181
Other financial assets	61	61
Non-current		
Other financial assets	95	95
Intangible assets and property,plant and equipment	1.556	18.616
	6.643	**23.703**
Liabilities		
Current		
Trade accounts payable	1.803	1.803
Other accrued liabilities	16	16
Other financial liabilities	1.001	1.001
Other non-financial liabilities	108	108
Non-current		
Liabilities due to affiliated companies	8.665	8.665
Deferred taxes	0	1.336
	11.593	**12.929**
Total identifiable net assets	**-4.950**	**10.774**
Goodwill from business acquisitions	**41.309**	**25.585**
Transfered consideration	**36.359**	**36.359**

In the course of the final PPA, intangible assets of € 17,060k were identified.

The gross trade accounts receivable amounted to € 2.9 million. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 2.9 million.

The resulting goodwill from the business combination will not be tax-deductible.

As a result of the initial consolidation of ProfitBricks GmbH, sales revenue increased by € 4.8 million and earnings decreased by € 4.0 million* in the fiscal year 2017. If ProfitBricks GmbH had already been included in the consolidated group as of January 1, 2017, sales revenue would have increased by € 6.1 million and earnings after taxes – without consideration of the previous at-equity investment in ProfitBricks GmbH – would have decreased by € 8.5 million* as of December 31, 2017.

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

Due to the completed purchase price allocation and the associated retrospective adjustment of the Group's assets and liabilities, the prior-year figures were updated as follows:

€k	**Dec. 31, 2017**	**Dec. 31, 2017**	**Adjustments**
	updated	acc. to AR 2017	
Intangible assets	1,408,437	1,393,339	15,098
Goodwill	3,564.057	3.579,780	-15,723
Deferred tax liabilities	391,952	390,734	1,218
Cumulative net income	1,202,758	1,204,603	-1,845
Cost of sales	-2,691,063	-2,689,100	-1,963
Tax expenses	-242,379	-242,497	118

Of the total change in accumulated net income, € -1,230k is attributable to shareholders of United Internet AG and € -615k to non-controlling interests.

ProfitBricks GmbH was renamed as 1&1 IONOS Cloud GmbH in the fiscal year 2018.

4.3 Other company transactions of the previous year

Merger of affilinet and Awin

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

As part of the transaction, United Internet contributed its affiliate marketing business operated by its subsidiary affilinet GmbH to AWIN AG in return for 20% of AWIN shares. 80% of AWIN shares are held by Axel Springer. The investment in AWIN AG is carried as an associated company using the equity method. The purchase price allocation required for the equity adjustment was finalized in the fiscal year 2018 within the 12-month measurement period. There were no material changes.

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

The merger was approved by the relevant anti-trust authorities in Austria and Germany on September 12 and 15, 2017 and closed as of October 1, 2017.

With the contribution of affilinet to AWIN and affilinet's qualification as a discontinued operation according to IFRS 5, the statement of comprehensive income of the fiscal year 2017 was to be presented accordingly. The revenue and expenses of the discontinued operation (Applications segment) are no longer included in the respective items. The net income after taxes of the discontinued operation is disclosed separately.

Earnings after taxes of discontinued operations are as follows:

€k	Until September 2017
Current earnings after taxes of affilinet	2,308
Net income after taxes from the contribution of affilinet to AWIN	36,270
Result from discontinued operations	38,578

The eliminations between continued and discontinued operations were allocated to discontinued operations taking into account future supply and service relationships (economic perspective). As the (previously intra-Group) supplies and services will continue with either this company or third parties after the final disposal of the discontinued operation, the full allocation of the eliminations to the discontinued operation results in a more meaningful presentation of the financial impact in the statement of comprehensive income.

Current earnings after taxes of affilinet were as follows:

€k	Until September 2017
Sales	109,452
Expenses	-106,932
Other operating expenses/ income	576
Financial result	54
Result before taxes	**3,150**
Income taxes	-842
Result after taxes	**2,308**

The result before taxes from the contribution of affilinet to AWIN is calculated from the difference between the fair value of the contributed investment and the carrying amount of the disposed assets and liabilities. On the basis of an accounting decision taken by United Internet, there was no prorated elimination of the deconsolidation result according to the stake in AWIN.

The fair value of the transferred consideration and thus the acquisition costs of United Internet for the shares in Awin amount to € 59,936k.

The net cash flows of the discontinued operation are as follows:

€k	Until September 2017
Net cash flow from operating activities	-5,523*
Net cash flow from investing activities	-3,962
Net cash flow from financing activities	4,208*

* Net cash flow from operating activities results in part from a decline in trade accounts payable (€ -7,410k), which was partly financed by a reduction of the cash pool balance (part of financing activities). Net cash flow from financing activities includes a dividend (€ -9,705k) and a reduction of the cash pool balance (€ 17,232k).

In connection with the contribution of affilinet GmbH to AWIN, the United Internet Group received compensation of € 1,410k. Cash and cash equivalents of affilinet at the time of deconsolidation amounted to € 3,593k.

In the course of deconsolidating affilinet, the following assets and liabilities were disposed of: current assets without cash and cash equivalents (€ 22,417k), cash and cash equivalents (€ 3,593k), non-current assets (€ 13,399k), current liabilities (€ 24,485k) and non-current liabilities (€ 265k).

Investment of Warburg Pincus

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

Following approval by the German Federal Cartel Office ("Bundeskartellamt"), the transaction was closed over several stages in early 2017. United Internet

AG contributed its shares in 1&1 Internet SE, Montabaur, initially to its subsidiary 1&1 Internet Holding SE, Montabaur, in the form of a mixed capital increase against the issue of new common shares and one preferred share, as well as a long-term vendor loan.

In a second step, United Internet AG contributed all common shares in 1&1 Internet Holding SE to a newly founded 1&1 Internet TopCo SE, Montabaur, against the issue of 66.67% of capital stock. The remaining 33.33% of shares in 1&1 Internet TopCo SE are held by Warburg Pincus. A purchase price of up to € 450 million was agreed for the 33.33% of shares held by Warburg Pincus.

In connection with the Warburg Pincus investment, a so-called Shareholders' Agreement and further contractual arrangements were concluded between United Internet and Warburg Pincus. Pursuant to IFRS 10, United Internet retains control over 1&1 Internet TopCo SE and its subsidiaries (Business Applications division) on the basis of the structure under company law as well as on the basis of the provisions of the Shareholders' Agreement.

The Warburg Pincus investment in the Business Applications division is disclosed in the Consolidated Financial Statements of United Internet as a disposal of shares in a subsidiary without loss of control. Pursuant to IFRS 10, non-controlling interests in the sub-group 1&1 Internet TopCo SE were recognized for the first time, as was the contribution of Warburg Pincus. The difference was carried as an increase in capital reserves. The result of the sub-group 1&1 Internet TopCo SE is divided according to the respective stakes of United Internet (66.7%) and Warburg Pincus (33.3%).

Investment in rankingCoach

On March 28, 2017, United Internet AG announced that it had acquired – via United Internet Investments Holding GmbH (formerly: United Internet Ventures AG) – a stake of 29.93% in rankingCoach GmbH in the course of a capital increase. Based in Cologne, rankingCoach was founded in 2014 by the company's managers as a spin-off of a major online marketing agency. Today, an international team of over 60 specialists supports small and mid-size enterprises (SMEs) in 11 languages and 24 countries. rankingCoach markets its products both directly to end-users and agencies, as well as indirectly via international partners, such as hosting providers, telecommunications companies and publishers. Online visibility and online reputation have a major impact on the business success of SMEs. rankingCoach offers affordable, web-based solutions in the field of search engine marketing (SEM), search engine optimization (SEO) and social media which are tailored to the needs of its various target groups. The capital increase is aimed in particular at driving technical product development, the expansion of services, and the company's further internationalization. In addition to the equity stake, rankingCoach and the United Internet subsidiary 1&1 Internet SE have signed a long-term cooperation agreement for 1&1 to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. At the time of its announcement, the transaction was still subject to approval by the relevant anti-trust authorities. This approval was granted on April 13, 2017. The acquisition costs for the share purchase amount to approx. € 5.0 million.

Investment in Tele Columbus

In the first quarter of 2017, United Internet increased its stake in Tele Columbus AG from 25.11% as of December 31, 2016 and holds around 28.52% of shares as of December 31, 2018. A total of € 34.9 million was paid for the purchase of additional shares.

Sale of yourfone Shop GmbH

With effect from December 31, 2017, Drillisch Online AG sold yourfone Shop GmbH with its 100 or so shops to aptus 1206. GmbH, Berlin, Germany. The sale of yourfone Shop GmbH resulted in a deconsolidation loss of € 15.1 million. In addition, one-off restructuring expenses for offline sales of € 13.2 million were incurred. The amount is disclosed in other operating expenses. The cash flow from disposal will not be carried until 2018.

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.

Until the fiscal year 2017, management and consolidated reporting was undertaken via the reporting segments "Access" and "Applications". In the course of preparing the Consolidated Financial Statements 2018, the Management Board of United Internet decided to further increase the transparency of reporting and to report in future on 4 segments (previously: 2 reporting segments). In addition to the increase in transparency, the new segmentation also reflects more accurately the corporate structures within the United Internet Group.

The Group's operating business is therefore now divided into the two business divisions "Access" and "Applications", which in turn are divided into the reporting segments "Consumer Access" and "Business Access", as well as "Consumer Applications" and "Business Applications". The prior-year figures were adjusted accordingly.

A description of the products and services is provided in note 2.1 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 revenue, 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 revenue 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 2018 was as follows:

Januar - Dezember 2018	Segment Business Access T€	Segment Consumer Access T€	Segment Business Applications T€	Segment Consumer Applications T€	Corporate T€	Überle tung / Konsolierung T€	United Internet-Gruppe T€
Segment revenue	**465,874**	**3,628,718**	**841,772**	**274,249**	**1,661**	-81,470	**5,130,804**
- thereof domestic	465,874	3,628,718	440,934	266,373	1,661	-73,776	4,729,784
- thereof foreign	0	0	400,838	7,876	0	-7,694	401,020
Segment revenue from transactions with other segments	55,297	2,557	4,142	19,474	0		81,470
Segment revenue from contracts with customers	410,577	3,626,161	837,630	254,775	1,661		5,130,804
- thereof domestic	*410 577*	*3 626 161*	*444 144*	*247 241*	*1 661*		*4 729 784*
- thereof foreign	*0*	*0*	*393 486*	*7 534*			*401 020*
EBITDA	72,589	719,296	290,360	112,787	6,287		1,201,319
EBIT	-58,099	560,586	202,095	100,792	5,637		811,011
Financial result							-27,562
Result from at-equity companies							-221,526
EBT							561,923
Tax expense							-249,832
Net income							312,091
Assets (non-current)	398,261	2,285,370	856,796	294,910	332,199	---	4,167,536
- thereof domestic	398,261	2,285,370	478,161	294,585	332,199	---	3,788,576
- thereof shares in associated companies	0	105,502	0	61,202	38,259	---	204,963
- thereof other financial assetswerte	0	1,408	1,767	7,862	293,940	---	304,977
- thereof goodwill	398,261	2,178,460	476,394	225,521	0	---	3,278,636
- thereof foreign	0	0	378,635	325	0	---	378,960
- thereof shares in associated companies	0	0	1,893	0	0	---	1,893
- thereof other financial assetswerte	0	0	43,069	0	0	---	43,069
- thereof goodwill	0	0	333,673	325	0	---	333,998
Investments in intangible assets and property, plant and equipment (without goodwill)	174,383	15,499	74,714	13,943	11,805	---	290,344
Amortization/depreciation	130,688	158,710	88,265	11,995	650	---	390,308
- thereof intangible assets, and property, plant and equipment	108,953	24,923	47,290	11,964	650	---	193,780
- thereof assets capitalized during company acquisitions Assets	21,735	133,787	40,975	31	0	---	196,528
Number of employees	1,095	3,150	3,355	947	546	---	9,093
- thereof domestic	1,095	3,150	1,833	943	546	---	7,567
- thereof foreign	0	0	1,522	4	0	---	1,526

Segment reporting of United Internet AG in fiscal year 2017 was as follows:

Januar - Dezember 2017	Segment Business Access	Segment Consumer Access	Segment Business Applications	Segment Consumer Applications	Corporate	Überleitung / Konsolidierung	United Internet-Gruppe
	T€	T€	T€	T€	T€	T€	T€
Segment revenue	**447,860**	**2,781,632**	**762,115**	**284,245**	**1,165**	-70,715	**4,206,302**
- thereof domestic	447,860	2,781,632	381,688	275,573	1,165	-62,610	3,825,308
- thereof foreign	0	0	380,427	8,672	0	-8,105	380,994
Segment revenue from transactions with other segments	35,986	1,286	4,315	29,128	0		70,715
Segment revenue from contracts with customers	411,874	2,780,346	757,800	255,117	1,165		4,206,302
- thereof domestic	*411 874*	*2 780 346*	*385 244*	*246 679*	*1 165*		*3 825 308*
- thereof foreign	*0*	*0*	*372 556*	*8 438*			*380 994*
EBITDA	81,549	815,888	254,721	123,998	-22,852		1,253,304
EBIT	-40,219	746,080	162,126	112,149	-23,152		956,984
Financial result							-40,817
Writedowns on investments							-19,757
Result from at-equity companies							-7,387
EBT							889,023
Tax expense							-242,379
Net income (from continued operations)							646,644
Net income after taxes from discontinued operations							38,578
Net income (after discontinued operations)							685,222
Assets (non-current)	398,376	2,507,445	773,068	294,195	342,719	---	4,315,803
- thereof domestic	398,376	2,507,445	477,251	293,886	341,333	---	4,018,291
- thereof shares in associated companies	0	322,891	0	60,502	32,896	---	416,289
- thereof other financial assetswerte	115	6,094	857	7,863	308,437	---	323,366
- thereof goodwill	398,261	2,178,460	476,394	225,521	0	---	3,278,636
- thereof foreign	0	0	295,817	309	1,386	---	297,512
- thereof shares in associated companies	0	0	1,759	0	0	---	1,759
- thereof other financial assetswerte	0	0	8,947	0	1,386	---	10,333
- thereof goodwill	0	0	285,111	309	0	---	285,420
Investments in intangible assets and property, plant and equipment (without goodwill)	165,801	16,215	46,004	15,708	7,286	---	251,014
Amortization/depreciation	121,768	69,808	92,595	11,849	300	---	296,320
- thereof intangible assets, and property, plant and equipment	93,594	19,313	61,759	11,812	300	---	186,778
- thereof assets capitalized during company acquisitions Assets	28,174	50,495	30,836	37	0	---	109,542
Number of employees	1,069	3,457	3,586	961	341	---	9,414
- thereof domestic	1,069	3,457	2,067	956	341	---	7,890
- thereof foreign	0	0	1,519	5	0	---	1,524

Non-current segment assets comprise shares in associated companies, other financial assets and goodwill.

In the fiscal year 2018, revenue of the Consumer Access segment from contracts with customers includes hardware sales of € 722,717k. In the fiscal year 2018, revenue of the Business Access segment from contracts with customers includes hardware sales of € 5,614k. The remaining revenue of the two segments is attributable to service revenue. The other business segments only generate revenue from services.

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 revenue with any single customer. Foreign sales accounted for 7.8% (prior year: 9.1%) of total Group revenue.

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.

Contract balances developed as follows in the fiscal year 2018:

in €k	Dec. 31, 2018	Jan. 1, 2018
Trade accounts receivable (note 19)	409,656	333,040
Contract assets (note 20)	595,784	351,042
Contract liabilities (note 33)	188,128	197,638

Apart from customer growth, the main reason for the increase in contract assets from December 1, 2018 to December 31, 2018 was the increased subsidizing of hardware in the fiscal year 2018.

In fiscal year 2018, revenue of € 170,228k was recognized which was contained in contract liabilities at the beginning of the fiscal year.

The total transaction price of performance obligations still unfulfilled at the end of the reporting period amounted to € 1,498,289k as of December 31, 2018. The following table shows the time bands in which the transaction prices from unfulfilled or partially unfulfilled performance obligations as of the reporting date are expected to be recognized:

in €k		**2019**	**2020**	**>2020**
Business Applications	**4,538**	4,166	313	59
Consumer Access	**1,089,744**	815,576	274,167	0
Business Access	**397,916**	196,126	92,771	109,019
Consumer Applications	**6,091**	4,680	1,412	0
Total	**1,498,289**	1,020,547	368,664	109,078

The transaction prices shown relate to unfulfilled performance obligations from contracts with customers with an original contract term of more than 12 months. They relate to service components with period-based revenue recognition and to contracts for which a one-off fee has been invoiced and which are now recognized as revenue over the relevant original minimum contract term.

6. Cost of sales

	2018 €k	2017 €k
Cost of services	2,066,047	1,797,412
Cost of goods	702,983	389,476
Personnel expenditure	214,682	191,778
Depreciation	238,604	188,630
Others	155,668	123,767
Total	3,377,984	2,691,063

Cost of sales in relation to sales revenue increased to 65.8% compared with the previous year (64.0%*), resulting in a slight decline in gross margin to 34.2% (prior year: 36.0%*).

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

7. Selling expenses

Selling expenses rose from € 638,313k (15.2% of sales) to € 678,231k (13.2% of sales). They include personnel expenses of € 219,359k (prior year: € 209,267k), depreciation of € 137,653k (prior year: € 96,945k) and other selling expenses of € 321,219k (prior year: € 332,101k). The increase in depreciation results mainly from depreciation in connection with company acquisitions in 2017. Other selling expenses mostly comprise customer acquisition costs, advertising, customer care and product management. Selling expenses in the previous year also include costs from assumed activation fees in connection with marketing campaigns (€ 63,508k); with the introduction of IFRS 15, these expenses are disclosed under cost of sales in the fiscal year 2018.

8. General and administrative expenses

Compared to the previous year, general and administrative expenses rose from € 185,106k (4.4% of sales) to € 218,943k (4.3% of sales). They include personnel expenses of € 104,728k (prior year: € 87,923k), depreciation of € 14,051k (prior year: € 10,746k), and other general and administrative expenses of € 100,163k (prior year: € 86,437k). 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

.

	2018	2017
	€k	€k
Losses due to accounts receivable*	-	41,090
Project for the integration of Drillisch AG	10,579	0
Expenses from foreign currency translation	5,648	4,869
Losses from the disposal of investment	1,151	789
Restructuring of offline business	13	28,300
Transaction costs	479	17,085
Others	6,097	8,499
Total	**23,966**	**100,632**

* Due to the changed requirements of IAS 1, losses due to accounts receivable are presented separately in fiscal year 2018.

Losses due to accounts receivable include expenses for allowances on trade accounts receivable, as well as contract assets and expenses from derecognition.

The restructuring of offline business in the fiscal year 2017 refers to the sale of yourfone Shop GmbH and the associated restructuring measures. With effect from December 31, 2017, Drillisch Online AG sold yourfone Shop GmbH with its 100 or so physical stores. The restructuring resulted in total other operating expenses of € 28.3 million. In addition to an amount of € 15.1 million for the deconsolidation of yourfone Shop GmbH, Düsseldorf, the expense includes restructuring costs of € 13.2 million.

Transaction costs in the previous year mainly comprise expenses in connection with the purchase of the Drillisch Group and the ProfitBricks Group.

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 measurement as of the reporting date. Currency gains from these items are reported under other operating income. A net consideration of this item results in a net loss of € 51k (prior year: net gain of € 527k).

9.2 *Other operating income*

	2018	2017
	€k	€k
Income in connection with successive company acquisitions	0	319,002
Income from dunning and return debit charges	41,976	29,551
Income from the reversal of accrued liabilities	7,230	2,921
Put option for the shares of an associated company	6,800	0
Income from foreign currency translation	5,598	4,342
Income from the disposal of property, plant and equipment	692	158
Income from subsequent measurement of a purchase price liability	255	186
Others	15,321	9,636
Total	**77,871**	**365,796**

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 measurement as of the reporting date. Currency losses from these items are reported under other operating expenses.

10. Impairment charges on receivables and contract assets

Impairment charges on receivables and contract assets comprised the following:

	2018	2017
	€k	€k
Trade accounts receivable	62,710	n/a
Contract assets	35,830	n/a
Total	**98,540**	**n/a**

11. Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant and equipment consist of the following:

	2018	2017*
	€k	€k
Cost of sales	238,604	188,630
Selling expenses	137,653	96,945
General and administrative expenses	14,051	10,746
Total	**390,308**	**296,321**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

Depreciation and amortization also includes the amortization of capitalized assets resulting from business combinations. These are divided between the capitalized assets as follows:

	2018	2017*
Intangible assets	**€k**	**€k**
Customer base/ order backlog	135,696	71,355
Software	17,503	9,934
Technology	962	1,442
Trademark	1,200	0
Licenses	25,059	8,447
	180,420	91,178
Tangible assets		
Network infrastructure	16,109	18,364
Operating and office equipment	0	0
Total	**196,529**	**109,542**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

Amortization of capitalized assets resulting from business combinations is divided between the business combinations as follows:

	2018	2017*
	€k	€k
Drillisch	124,374	42,127
Versatel	31,148	36,542
Strato	26,165	18,723
Arsys	4,615	5,082
home.pl	4,434	4,509
1&1 IONOS Cloud (formerly: ProfitBricks)	4,264	1,963
World4You	945	0
Fasthosts	553	559
Portal business WEB.DE	31	37
Total	**196,529**	**109,542**

* Prior-year adjustment in connection with the final purchase price allocation of the ProfitBricks Group

12. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2018	2017
	€k	€k
Cost of sales	214,682	191,778
Selling expenses	219,359	209,267
General and administrative expenses	104,728	87,923
Total	**538,770**	**488,968**

Personnel expenses include wages and salaries of € 462,164k (prior year: € 418,221k) and social security costs of € 76,606k (prior year: € 70,747k).

The number of employees decreased by 3.4%, from 9,414 in the previous year to 9,093 employees at year-end 2018:

	2018	2017
Germany	7,567	7,890
Outside Germany	1,526	1,524
thereof the Philippines	351	366
thereof Spain	331	319
thereof UK	216	232
thereof Poland	270	251
thereof USA	142	174
thereof Romania	176	174
thereof France	3	3
Others	37	5
Total	**9,093**	**9,414**
thereof women	32%	31%
thereof men	68%	69%

The average number of employees in fiscal year 2018 amounted to 9,051 (prior year: 8,788), of which 7,547 (prior year: 7,241) were employed in Germany and 1,504 abroad (prior year: 1,547).

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 2018, they amounted to € 28,181k (prior year: € 28,197k) 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.

13. *Financial expenses*

	2018	2017
	€k	€k
Loans and overdraft facilities	28,596	34,525
Subsequent valuation of derivatives	2,100	5,290
Financial expense from finance leases	1,852	2,093
Interest expense from tax audit	1,080	1,533
Other	1,048	804
	34,676	**44,245**

The year-on-year decrease in borrowing costs results mainly from lower interest due to new loans. Moreover, the interest result in the previous year contained a one-off bank fee in connection with the overall Drillisch transaction.

The subsequent measurement of derivatives refers to the measurement through profit or loss of derivatives agreed in the course of the Warburg Pincus investment.

Please refer to note 45 for an explanation of the financial expense from finance leases.

14. *Financial income*

	€k	€k
Income from dividends	3,542	730
Interest income from tax audit	1,524	606
Interest income from finance leases	1,024	1,084
Subsequent valuation of derivatives	0	250
Income from loans to associated companies	282	221
Other	742	537
	7,114	**3,428**

Income from dividends includes € 2,822k from the investment in Afilias, which was allocated to the measurement category “financial assets measured at fair value through other comprehensive income”. 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 42.

15. Tax expenses

The income tax expense is comprised as follows:

	2018	2017
Current income taxes		
- Germany	-281,111	-262,284
- Abroad	-11,079	-10,516
Total (current period)	-292,190	-272,800
Deferred taxes		
- Due to tax loss carryforwards	31,290	-3,955
- Tax effect on temporary differences	20,203	32,419
- Due to tax rate changes	-9,135	1,957
Total deferred taxes	42,358	30,421
Total tax expense	-249,832	-242,379

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 revenue which is 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 2018 amounted to approx. 15.2% (prior year: 15.3%).

As in the previous year, German corporate income tax was levied at 15% – irrespective of whether the result was retained or distributed. In addition, a solidarity surcharge of 5.5% is imposed on the assessed corporate income tax.

In addition to taxes on the current result, income taxes include tax expenses not relating to the period of € 4,093k (prior year: tax income € 3,675k).

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:

	2018	2017
	€k	€k
Germany	46,856	21,380
USA - Federal	2,001	0
	48,857	**21,380**

Deferred tax assets for loss carryforwards of German companies mainly refer to the Versatel Group and 1&1 IONOS Cloud GmbH (formerly ProfitBricks).

Deferred tax assets of € 2,744k (prior year: € 0) were formed for loss carryforwards of previous years.

The following time limits apply for the use of tax loss carryforwards in different countries:

- USA: 20 years for loss carryforwards incurred before 2018, indefinite for loss carryforwards incurred from 2018 onwards
- Germany: 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):

	2018	2017
	€k	€k
USA Federal *	14,915	8,949
USA State **	327	9,998
Poland	295	305
	15,537	**19,252**

* Tax rate 21.0%

** Tax rate 10.0%

A breakdown of income tax types results in the following loss carryforwards for Germany for which no deferred taxes have been formed:

	2018		2017	
	Corporation tax in €k	Trade tax in €k	Corporation tax in €k	Trade tax in €k
Germany	58,851	57,702	87,194	47,342

Loss carryforwards in Germany for which no deferred tax assets have been formed mainly refer to loss carryforwards of the Versatel Group and 1&1 IONOS Cloud GmbH (formerly: ProfitBricks).

The so-called “interest cap” enshrined in German tax law limits the deductibility of interest expenses for the assessment of company income taxes. Interest expenses that cannot therefore be deducted are carried forward indefinitely to the following fiscal years (interest carryforward).

The Group’s interest carryforward, for which no deferred taxes were formed, amounts to € 92,167k (prior year: € 50,140k).

In fiscal year 2018, loss carryforwards of € 1,254k were used (prior year: € 10,325k).

In fiscal year 2018, a deferred tax expense from the devaluation of deferred tax assets amounting to € 0k was recognized (prior year: € 775k).

Deferred taxes resulted from the following items:

In €k	Dec. 31, 2018 Deferred tax assets	Dec. 31, 2018 Deferred tax liabilities	Dec. 31, 2017 * Deferred tax assets	Dec. 31, 2017 * Deferred tax liabilities
Trade accounts receivable	861	9,460	8,098	5,815
Inventories	149	458	48	233
Contract assets - current	5,346	115,104	n.a.	n.a.
Contract assets - non-current	2,694	46,933	n.a.	n.a.
Other financial assets - current	1,395	230	607	54
Other financial assets - non-current	498	2,039	5,823	338
Other assets	1	970	3,924	2,415
Prepaid expenses	142,110	92,884	84,808	1,801
Property, plant and equipment	2,212	43,618	3,108	45,724
Intangible assets	48,599	358,583	41,821	401,905
Other accruals	30,791	0	19,059	3
Contract liabilities	21,188	48,079	n.a.	n.a.
Other liabilities	23,555	2,852	26,238	2,834
Deferred revenue **	n.a.	n.a.	6,760	2,013
Gross value	279,400	721,210	200,295	463,135
Tax loss carryforwards	48,857		20,904	
Adjustments for consolidation	8,945	-4,976	7,031	1,896
Offsetting	-326,406	-326,406	-73,079	-73,079
Consolidated balance sheet	**10,797**	**389,829**	**155,151**	**391,952**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

**Pursuant to IFRS 15, deferred taxes on deferred revenue are disclosed in the item contract liabilities.

The net balance of deferred tax liabilities of € 236,801k* in the previous year changed to a net balance of deferred tax liabilities of € 379,032k. As a result, the total change in the net balance of deferred taxes amounted to € 142,231k (prior year: € 245,721k*). This change was mainly due to the following factors:

- Increase in deferred tax assets on accrued hardware subsidies and assumed activation fees in the tax balance sheet (€ 42,943k).

- Increase in deferred tax assets on deferred expenses from the change in revenue recognition for domains in connection with IFRS 15 amounting to € 14,393k.

- Increase in deferred tax assets from deferred expenses due to capitalization of contract costs pursuant to IFRS 15 amounting to € 91,070k.

- Decrease of € 39,986k in deferred tax liabilities from intangible assets in connection with the amortization of assets from company acquisitions.

- Increase of € 48,079k in deferred tax liabilities from contract liabilities in connection with the decline in deferred revenue due to the change in revenue recognition from a period-related to time-related basis in the Business Applications segment.

- Increase of € 21,188k in deferred tax assets from contract liabilities in connection with the change to IFRS 15 and thus period-related revenue recognition for various products in the Business Applications segment.

The change in the net balance of deferred taxes compared to the previous year is reconciled as follows:

In €k	2018	2017*
Deferred tax income	42,358	30,420
Discontinued activities	0	431
Addition in connection with business combinations	-7,428	-281,164
Deferred tax expense recognized in other comprehensive income pursuant to IFRS 9	-1,968	0
Deferred tax expense recognized in equity for employee programs	-5,059	-4,593
Deferred tax expense recognized in equity pursuant to IFRS 15	-170,134	0
Change in the net balance of deferred taxes	**-142,231**	**-254,906**

* Prior-year adjustment in connection with final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group.

The deferred tax expense recognized in other comprehensive income pursuant to IFRS 9 relates to the measurement adjustment of Afilias (see note 25). The deferred tax expense recognized directly in equity pursuant to IFRS 15 relates in particular to deferred taxes on the opening balance sheet amounts of the new items contract assets and contract liabilities, recognized for the first time under IFRS 15.

The aggregate tax rate is reconciled to the effective tax rate of continued operations as follows:

	2018	2017
	%	%
Anticipated tax rate	31,1	31,2
- Actual and deferred taxes for previous years	-1,3	0,5
- Costs in connection with business combinations	0,0	0,2
- Non-tax-deductible writedowns on financial assets	0,1	0,9
- Non-tax-deductible writedowns on intangible assets	-0,4	-0,5
- Tax-reduced profit from disposals and income from investments	0,2	0,3
- Tax effects in connection with internal Group dividends and disposals	2,7	3,6
- Differences due to tax rate changes	-2,9	-1,0
- Employee stock ownership plans	0,3	-0,8
- Income not realized for tax purposes from transitional consolidations	0,0	-10,6
- Initial capitalization of tax losses not recognized in previous years	-0,5	0,0
- Tax losses and non-deductible interest of the fiscal year for which no deferred taxes were recognized	2,7	2,4
- Non-taxable at-equity results	12,3	0,3
- Balance of other tax-free income and non-deductible expenses	0,2	0,7
Effective tax rate	**44,5**	**27,2**

Non-taxable at-equity results mainly relate to shares in the associated company Tele Columbus. In the previous year, the impairment of shares in Rocket Internet SE were disclosed under non-tax-deductible writedowns.

Tax-free income from transitional consolidations in the previous year refers to special income from the successive acquisitions of Drillisch AG and 1&1 IONOS Cloud GmbH.

The non-tax-deductible writedowns in the previous year refer to the impairment of shares in Rocket Internet SE.

Tax effects in connection with internal Group dividends and disposals in the previous year mainly refer to Group restructuring.

The non-tax-deductible writedowns on intangible assets result from differences in assets not affecting income at the time of initial recognition and for which no deferred taxes were therefore recognized pursuant to IAS 12.

The anticipated tax rate corresponds to the tax rate of the parent company, United Internet AG.

16. *Earnings per share*

As in the previous year, capital stock as of December 31, 2018 was divided into 205,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2018, United Internet held 4,702,990 treasury shares (prior year: 5,093,289). 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 200,167,199 for fiscal year 2018 (prior year: 199,864,853).

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, 2018. All option rights existing on December 31, 2018 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 reporting 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 697,500 (prior year: 1,518,630) potential shares (from the assumed use of rights). Based on an average market price of € 48.52 (prior year: € 47.55), this would result in the issuance of 119,119 (prior year: 487,000) shares without consideration.

The following table shows the underlying amounts for the calculation of undiluted and diluted earnings:

	2018	2017*
	€k	€k
Profit attributable to the shareholders of United Internet AG	**188,794**	**649,186**
- thereof earnings after taxes from discontinued operations	**0**	**38,578**
Earnings per share (in €) from continued operations		
- undiluted	0.94	3.25
- diluted	0.94	3.24
thereof earnings per share (in €) - from continued operations		
- undiluted	0.94	3.06
- diluted	0.94	3.05
thereof earnings per share (in €) - from discontinued operations		
- undiluted	0.00	0.19
- diluted	0.00	0.19
Weighted average number of outstanding shares (in million units)		
- undiluted	200.17	199.86
- diluted	200.29	200.35

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

17. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 24, 2018 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.85 per share. The total dividend payment of € 170.0 million was made on May 25, 2018.

On January 24, 2019, the Group subsidiary 1&1 Drillisch AG announced that it intended to apply to the German Federal Network Agency ("Bundesnetzagentur") for admission to take part in the auction on the allocation of mobile frequencies ("5G spectrum auction") and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. The applicant was Drillisch Netz AG, a wholly-owned subsidiary of 1&1 Drillisch AG. On February 25, 2019, the Bundesnetzagentur granted admission to the 5G spectrum auction, which started on March 19, 2019.

Against the background of the ongoing 5G spectrum auction, and the necessary additional investments in the event of a successful acquisition of spectrum at the auction, the Management Board of United Internet AG will propose to the Supervisory Board the following two-part **dividend proposal** for the fiscal year 2018 in accordance with the company's dividend policy:

- Payment of a dividend of € 0.05 per share in the event that Drillisch Netz AG has acquired spectrum during the 5G spectrum auction by May 20, 2019. The dividend is based on the minimum dividend as prescribed by Section 254 (1) AktG. On the basis of 200.3 million shares with dividend entitlement (as of December 31, 2018), the total dividend payment for fiscal year 2018 would amount to € 10.0 million.

- Payment of a dividend of € 0.90 per share in the event that Drillisch Netz AG has not acquired spectrum during the 5G spectrum auction by May 20, 2019. On the basis of 200.3 million shares with dividend entitlement (as of December 31, 2018), the total dividend payment for fiscal year 2018 would amount to € 180.3 million.

The dividend payout ratio would therefore amount to 2.5% (for a dividend of € 0.05 per share) or 45.9% (for a dividend of € 0.90 per share) of adjusted consolidated net income from continued operations after minority interests for 2018 (€ 392.6 million). The dividend yield – based on the closing price of the United Internet share on December 31, 2018 – would be 0.1% (for a dividend of € 0.05 per share) or 2.4% (for a dividend of € 0.90 per share).

The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 27, 2019 (and thus after the preparation deadline for these Consolidated Financial Statements as of March 22, 2019). The Annual Shareholders' Meeting of United Internet AG on May 23, 2019, will then vote on whether to adopt the joint proposal of the Management Board and Supervisory Board.

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 4,702,990 treasury shares (prior year: 5,093,289).

18. 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.

19. Trade accounts receivable

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
Trade accounts receivable	479,601	372,761
less		
Bad debt allowances	-69,945	-29,190
Trade accounts receivable, net	**409,656**	**343,571**
thereof trade accounts receivable - **current**	351,427	289,995
thereof trade accounts receivable **- non-current**	58,229	53,576

As of December 31, 2018 bad debt allowances for trade accounts receivable amounted to € 69,945k (prior year: € 29,190k). The development of bad debt allowances can be seen below:

	€k	€k
As of January 1	29,190	19,537
Addition due to initial application of IFRS 9	12,600	0
Reclassifications from contract assets	1,667	0
Utilization	-35,929	-19,295
Additions charged to the income statement	66,222	34,506
Reversals	-3,967	-4,273
Exchange rate differences	162	-484
Deconsolidation affilinet		-801
As of December 31	**69,945**	**29,190**

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the reporting date.

As of December 31, the age profile of trade accounts receivable less the aforementioned allowances was as follows:

	2018	2017
	€k	€k
Trade accounts receivable, net		
< 5 days	355,412	296,933
6 - 15 days	11,682	7,475
16 - 30 days	10,051	9,389
31 - 180 days	20,295	19,091
181 - 365 days	7,928	9,519
> 365 days	4,288	1,164
	409,656	**343,571**

20. Contract assets

	2018	2017
	€k	**€k**
Contract assets	628,867	n/a
less		
Bad debt allowances	33,083	n/a
Contract assets, net	595,784	n/a
thereof contract assets - current	426,992	n/a
thereof contract assets – non-current	168,792	n/a

As of December 31, 2018, bad debt allowances for contract assets amounted to € 33,083k. The development of bad debt allowances was as follows:

	2018	2017
	€k	**€k**
As of January 1	26,032	n/a
Utilization	-27,112	n/a
Reclassifications to trade accounts receivable	-1,667	n/a
Additions and reversals through profit or loss	35,830	n/a
As of December 31	33,083	n/a

21. Inventories

As of December 31, inventories consisted of the following items:

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
Merchandise		
Mobile telephony / mobile internet	77,734	33,120
DSL hardware	8,745	9,936
SIM cards	3,401	2,368
IP-TV	792	1,487
Other	244	288
Domain stock held for sale	3,393	3,670
	94,309	**50,869**
less		
Allowances	-6,807	-6,197
Payments on account	2,115	0
Inventories, net	**89,617**	**44,672**

Goods recognized as material expense from inventories in cost of sales amounted to € 702,983k in the reporting period (prior year: € 389,476k). Of this total, an amount of € 8,372k refers to impairment of inventories (prior year: € 689k).

Allowances include € 3,475k for mobile telephony/mobile internet and IP-TV (prior year: € 2,647k) and € 3,332k for domain stock (prior year: € 3,550k).

22. Prepaid expenses

Current prepaid expenses of € 224,840k (prior year: € 92,291k) consist mainly of contract initiation costs of € 81,655k, contract fulfillment costs of € 72,180k, and prepayments for wholesale fees which were deferred and charged to the income statement on the basis of the underlying contractual period.

Non-current prepaid expenses of € 341,220k consist mainly of contract initiation costs of € 84,524k, contract fulfillment costs of € 52,597k, and prepayments as part of long-term purchasing contracts with pre-service providers of € 202,099k (prior year: € 100,880k).

At the end of the reporting period, the final balances of capitalized contract initiation costs amounted to € 166,179k (thereof current € 81,655k) and of capitalized contract fulfillment costs to € 124,777k (thereof current € 72,180k). In the fiscal year 2018, amortization of capitalized contract initiation costs amounted to € 83,063k. Amortization of capitalized contract fulfillment costs amounted to € 87,638k in the fiscal year 2018.

The final balances of prepayments for wholesale fees amounted to € 220,253k as of the reporting date. A total of € 39,158k was expensed in fiscal year 2018.

23. *Other current assets*

23.1 Other current financial assets

	Dec. 31, 2018 €k	Dec. 31, 2017 €k
Receivable from pre-service providers	37,220	71,350
Creditors with debit balances	8,225	4,127
Put option for the sale of shares in associated companies	6,800	0
Payments on account	5,577	7,140
Deposits	702	736
Other	14,250	16,917
Other financial assets	**72,774**	**100,270**

23.2 Other current non-financial assets

	2018 €k	2017 €k
Return claims hardware	3,049	n.a.
Receivables from tax office	8,281	858
Other non-financial assets, net	**11,330**	**858**

24. *Shares in associated companies*

Via its subsidiary United Internet Investments Holding AG & Co KG (formerly: United Internet Investments Holding GmbH), United Internet holds a stake in Tele Columbus AG, Berlin, Germany. Tele Columbus AG is an independent broadband cable network operator active in the German multimedia and communication sector with most of its network infrastructures in eastern Germany (Berlin, Brandenburg, Saxony, Saxony-Anhalt und Thuringia), as well as in North Rhine-Westphalia and Hesse. Tele Columbus offers its customers digital TV program packages, as well as internet and telephone connections.

The shareholding in Tele Columbus AG corresponds to the proportion of voting rights. As in the previous year, it is valued using the equity method.

Due to the strong decline in the share price of this investment, an impairment charge on shares in Tele Columbus AG was already recognized in the third quarter of 2018. As of December 31, 2018, the share price of TeleColumbus had recovered slightly. Consequently, the cumulative writedown for the fiscal year 2018 amounted to € 204 million.

In addition, United Internet holds an investment in AWIN AG, Berlin, (20% of shares) via its subsidiary 1&1 Mail & Media Applications SE.

The following table contains summarized financial information on Tele Columbus AG on the basis of a 100% shareholding as of December 31, 2018:

Summarized financial information on the main associated companies:	**Tele Columbus AG €k**	**AWIN AG €k**
Current assets	137,046	323,230
Non-current assets	2,744,794	376,339
Current liabilities	241,807	292,912
Non-current liabilities	1,519,143	100,647
Shareholders' equity	1,120,890	306,010
Sales revenue	367,751	183,429
Other comprehensive income	728	0
Net profit/loss	-34,234	3,503
Total comprehensive income	**-33,506**	**3,503**

As financial information on Tele Columbus AG as of December 31, 2018 had not yet been published at the time of preparation, the summarized financial information is estimated on the basis of the quarterly statements as of September 30, 2018, taking account of adjustments which the United Internet Group believe to be necessary at this time. There were no results from discontinued operations.

A reconciliation with the carrying amounts in the Consolidated Financial Statements as of December 31, 2018 – with an estimation of investment results for the fourth quarter – is presented below:

	Tele Columbus AG €k	AWIN AG €k
United Internet Group's share in the net asset values as of September 30, 2018	319,678	n.a.
Closing date-related reconciliation effects	-10,357	n.a.
Impairment in 2018	-203,819	0
Carrying amount as of December 31, 2018	**105,502**	**61,202**
Fair value of shares as of December 31, 2018	**105,502**	**-**
Dividend received in 2018	**0**	**0**

The following table contains summarized financial information on the main associated companies on the basis of a 100% shareholding as of December 31, 2017:

Summarized financial information:	**Tele Columbus AG €k**	**AWIN AG €k**
Current assets	127,801	262,882
Non-current assets	2,717,090	371,314
Current liabilities	198,203	254,066
Non-current liabilities	1,481,870	77,620
Shareholders' equity	1,164,818	302,510
Sales revenue	368,650	225,750
Other comprehensive income	-1,688	0
Net profit/loss	-15,314	2,680
Total comprehensive income	**-17,002**	**2,680**

As financial information on Tele Columbus AG as of December 31, 2017 had not yet been published at the time of preparing the Consolidated Financial Statements for the previous year, the summarized financial information is estimated on the basis of the quarterly statements as of September 30, 2017, taking account of adjustments which the United Internet Group believe to be necessary at this time. There were no results from discontinued operations.

A reconciliation with the carrying amounts in the Consolidated Financial Statements as of December 31, 2017 – with an estimation of investment results for the fourth quarter – is presented below:

	Tele Columbus AG €k	**AWIN AG €k**
United Internet Group's share in the net asset values as of September 30, 2017	332,206	n.a.
Closing date-related reconciliation effects	-9,315	n.a.
Carrying amount as of December 31, 2017	**322,891**	**60,502**
Fair value of shares as of December 31, 2017	**336,515**	**-**
Dividend received in 2017	**0**	**0**

As of December 31, 2018, the other associated companies disclosed an aggregated carrying value of € 40,152k (prior year: € 34,655k) and an aggregated loss of € 4,630k (prior year: € 1,023k). The earnings/loss contributions of other associated companies are only included in the aggregated loss on a prorated basis.

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.

25. Other non-current financial assets

The development of other non-current financial assets was as follows:

	Jan. 1, 2018	Additions	Change in revaluation reserve Change	Change affecting income / Impairment	Reclassification	Disposals	ec. 31, 2018
	€k	€k	€k	€k	€k	€k	€k
AdUX shares	1,386		-60			-1,326	0
Afilias shares	42,756		40				42,796
Rocket Internet shares	289,899		-13,033				276,866
Derivatives	17,890			-2,100			15,790
Other	15,804	1,291	-486	0	0	-4,015	12,594
	367,735	**1,291**	**-13,539**	**-2,100**	**0**	**-5,341**	**348,046**

	Jan. 1, 2017	Additions	Amortization of revaluation reserve Recycling	Change	Change affecting income / Impairme nt	eclassificatio	Disposals	Dec. 31, 2017
	€k	€k	€k	€k	€k	€k	€k	€k
AdUX shares	2,242			-856				1,386
Afilias shares	8,720							8,720
Rocket Internet shares	262,597			47,059	-19,757			289,899
Derivatives	0	23,180			-5,290			17,890
Other	14 129	9 268			0	415	-8 008	15 804
	287,688	**32,448**	**0**	**46,203**	**-25,047**	**415**	**-8,008**	**333,699**

As of January 1, 2018, the measurement adjustment for Afillias pursuant to IFRS 9 resulted in deferred taxes of € 34,036k and was recognized accordingly in the revaluation reserve. Please refer to note 2.3 for further details.

In the course of accounting changes in connection with IFRS 9, the investments in Rocket Internet SE, Afilias and AdUX were reclassified to the measurement category “financial assets at fair value through other comprehensive income”. Future measurement changes will be recognized in other comprehensive income, but not later recycled to profit or loss. The fall in share price of Rocket Internet SE as of December 31, 2018 was thus recognized in other comprehensive income.

Additions in the previous year mainly refer to derivatives agreed in the course of the Warburg Pincus investment.

26. Property, plant and equipment

	Dec. 31, 2018 €k	Dec. 31, 2017 €k
Acquisition costs		
– Telecommunication equipment	826,727	679,565
– Operational and office equipment	473,279	519,334
– Network infrastructure	201,290	200,456
– Payments on account	45,762	43,385
– Land and buildings	19,339	17,732
	1,566,397	**1,460,472**
Less		
Accumulated depreciation	-748,387	-713,049
Property, plant and equipment, net	**818,010**	**747,423**

An alternative presentation of the development of property, plant and equipment in the fiscal years 2018 and 2017 is shown in the exhibit to the notes of the Consolidated Financial Statements (Development of non-current assets).

The carrying value of property, plant and equipment held as part of finance leases amounts to € 81.3 million as of December 31, 2018 (prior year: € 87.8 million).

As of the reporting date, there are purchase obligations for non-current assets totaling € 50.9 million (prior year: € 49.9 million).

27. *Intangible assets (without goodwill)*

	2018 €k	2017* €k
Acquisition costs		
- Customer base*	1,237,440	1,226,387
Software / technology	261,412	261,508
- Trademarks	212,703	208,539
- Internally generated intangible assets	12,433	5,198
- Payments on account	5,703	4,670
- Other intangible assets	72,681	73,337
	1,800,371	**1,779,639**
Less		
Accumulated amortization and impairment	-557,793	-371,203
Intangible assets, net	**1,244,578**	**1,408,436**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

An alternative presentation of the development of intangible assets in the fiscal years 2018 and 2017 is shown in the exhibit to the notes of the Consolidated Financial Statements (Development of non-current assets).

Internally generated intangible assets relate to capitalized costs from software.

The carrying amount of the customer base results from the following company acquisitions:

	Dec. 31, 2018 1, €k	Dec. 31, 2017 €k
1&1 Drillisch	585,334	709,725
Strato	146,736	165,188
1&1 Versatel	112,993	128,031
home.pl	21,160	24,895
Arsys	16,096	17,070
World4You	23,326	
Other	15,310	509
	920,955	**1,045,418**

The residual amortization period for the customer base from the acquisition of the Drillisch Group (now 1&1 Drillisch) amounts to 4 to 12 years, depending on the customer groups, whereby 7 years applies to the major share. The residual amortization period for the customer base from the acquisition of Strato AG amounts to 2 to 12 years, depending on the product groups, whereby 10 years applies to the major share. The residual amortization period for the customer base of the home.pl transaction amounts to 7 years and for Arsys 4 years. The residual amortization period for the customer base from the acquisition of the Versatel Group amounts to 1 to 21 years, depending on the products and services, whereby 21 years applies to the major share.

The carrying amounts of intangible assets with indefinite useful lives (trademarks) totaled € 191,002k (prior year: € 186,001k). Intangible assets with indefinite useful lives were subjected to an impairment test on the level of the cash-generating units as of the reporting date.

Based on findings from an internal integration project for the Business Applications division and subsequent internal considerations, United Internet expects that the Strato brand will not be indefinitely continued. According to current considerations, it is expected that the Strato brand will be discontinued in Q2/2020 (prior year: Q2/2019). Against this backdrop, an impairment amount of € 20,738k was recognized for the Strato trademark (Business Applications segment) in the fiscal year 2017. In the previous year, the residual useful life of the trademark was defined as being 1.5 years. At the end of the reporting period, considerations to discontinue were initially postponed until Q2/2020. A corresponding write-up was therefore recognized. The carrying amount of the Strato trademark as of December 31, 2018 is € 1,899k.

The following table provides an overview of trademarks:

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
1&1 Versatel	62,000	62,000
1&1 Drillisch	56,300	56,300
Mail.com	23,869	22,804
WEB.DE	17,173	17,173
home.pl	11,257	11,589
Arsys	7,553	7,553
united-domains	4,198	4,198
Fasthosts	3,858	3,921
World4You	3,494	0
Strato	1,899	1,800
Cronon	463	463
	192,064	**187,801**

With the exception of the STRATO trademark, the useful life of trademarks is determined as being indefinite, as there are no indications that the flow of benefits will end in future.

Other intangible assets mainly refer to beneficial purchasing agreements of the Drillisch Group.

28. Goodwill

A presentation of the development of goodwill in the fiscal years 2018 and 2017 is shown in the exhibit to the notes of the Consolidated Financial Statements (Development of non-current assets).

29. 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.

The preliminary purchase price allocation of the previous year for the acquisition of Strato and 1&1 Drillisch was finalized in the reporting period. The goodwill of Strato was allocated in full to the cash-generating unit Strato. Goodwill from the acquisition of 1&1 Drillisch was allocated to the cash-generating units 1&1 Drillisch and 1&1 Telecom.

After completing the integration of 1&1 Drillisch into the Consumer Access segment in the reporting period, the cash-generating units 1&1 Drillisch and 1&1 Telecom were merged into a cash-generating unit Consumer Access. The merger also takes into account that both cash-generating units derive a considerable portion of their synergies from a joint wholesale agreement. Since this time, the strategic alignment and management of the Consumer Access segment have been carried out on the basis of a single economic unit. The integration of 1&1 Drillisch into the Consumer Access segment and the resulting interdependencies in the strategic alignment mean that Consumer Access represents the smallest area for which management monitors goodwill. The impairment test for the Consumer Access segment is thus conducted at the level of the new cash-generating unit Consumer Access, which also corresponds to the Consumer Access segment. Prior to the merger of goodwill of both cash-generating units, an impairment test was conducted on the goodwill of both units without any indication of an impairment need.

In the course of realigning segment reporting in the reporting period, the goodwill of the cash-generating unit 1&1 Hosting was allocated to the Business Applications segment. In previous years, the corresponding goodwill was presented within the summarized Applications segment in the cash-generating unit 1&1 Mail & Media, for reasons of materiality. Due to the new segmentation, a separation has now been made.

Impairment charges are always disclosed separately in the income statement and the statement on the development of non-current assets.

Goodwill as of December 31 is allocated to the cash-generating units as follows:

	Dec. 31, 2018 in €k	Dec. 31, 2017* in €k
Business Access		
1&1 Versatel	398,261	398,261
	398,261	**398,261**
Business Applications		
Strato	401,570	401,570
home.pl	121,240	122,934
Arsys	100,495	100,495
Fasthosts	60,688	61,682
World4You	51,250	n/a
united-domains	35,924	35,924
1&1 IONOS Cloud GmbH (formerly ProfitBricks)	25,585	25,585
InterNetX	5,237	5,237
Domain Marketing	5,098	5,098
1&1 Hosting	2,980	2,980
	810,067	**761,505**
Consumer Access		
1&1 Telecom	n/a	108,221
1&1 Consumer Access (Drillisch)	2,178,460	2,070,239
	2,178,460	**2,178,460**
Consumer Applications		
1&1 Mail & Media	225,521	225,521
Mail.com	325	309
	225,846	**225,830**
Total comprehensive income	**3,612,634**	**3,564,056**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group.

Goodwill after company acquisitions

The carrying amounts 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 goodwill of the cash-generating unit World4You results from the acquisition of World4You in in 2018.

- The goodwill of the cash-generating unit 1&1 Consumer Access (formerly Drillisch) results from the acquisition of the Drillisch Group in

2017 and the merger of the cash-generating units 1&1 Telecom and Drillisch in 2018.

- The goodwill of the cash-generating unit 1&1 IONOS Cloud (formerly: ProfitBricks) results from the acquisition of the ProfitBricks Group in 2017.

- The goodwill of the cash-generating units Versatel and 1&1 Telecom reflect goodwill from the acquisition of the Versatel Group in 2014. In the fiscal year 2018, goodwill of the cash-generating unit 1&1 Telecom was combined with the cash-generating unit 1&1 Consumer Access.

- The goodwill of the cash-generating unit Strato results from the acquisition of the Strato Group in 2017.

- The goodwill of the cash-generating unit home.pl results from the acquisition of home.pl S.A. in 2015.

- The goodwill of the cash-generating unit Arsys results from the acquisition of Arsys Internet S.L. in 2013.

- The goodwill of the cash-generating unit united-domains results from the acquisition of united-domains AG in 2008.

- The goodwill 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 goodwill of the cash-generating unit InterNetX results from the acquisition of InterNetX GmbH in 2005.

- The goodwill 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.

Scheduled impairment test on December 31, 2018

For the Business Access, Consumer Applications and Business Applications segments, the recoverable amounts of the cash-generating units are determined 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 these impairment tests. The recoverable amount of the cash-generating unit Consumer Access is calculated on the basis of market price using market capitalization as of the reporting date. The hierarchy of fair value less disposal costs as defined by IFRS 13 is set at Level 1 for this impairment test.

The cash flow forecasts are based on the Company's budgets for the fiscal year 2019. These budget calculations were extrapolated by management for a period of up to 22 years (prior year: up to 23 years) for the respective cash-generating units on the basis of external market studies and internal assumptions. Following this period, management assumes an annual increase in cash flow of 0.5% for the Consumer Access segment (prior year: 0.5%) and an annual increase in cash flow of 0.5% for the Business Access segment (prior year: 0.5%). Management assumes an annual increase in cash flow of 0.5% for the Consumer Applications segment (prior year: 0.5%) and an annual increase in cash flow for the Business Applications segment of between 0.5% and 1.6% (prior year: between 0.5% and 1.0%). The expected increase corresponds 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 5.7% for the Consumer Access segment (prior year: 5.2%), and 4.9% for the Business Access segment (prior year: 4.8%). The discount rate for the Consumer Applications segment is 5.2% (prior year: 4.8%), and the discount rate used for the Business Applications segment is in a range between 6.5% and 8.6% (prior year: between 6.1% and 8.3%).

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
Consumer Access				
1&1 Consumer Access (Drillisch)	2018	60.3%	n/a	n/a
	2017	58.1%	0.5%	5.2%
1&1 Telecom	2018	n/a	n/a	n/a
	2017	3.0%	0.5%	5.2%
Business Access				
1&1 Versatel	2018	11.0%	0.5%	4.9%
	2017	11.1%	0.5%	4.8%
Consumer Applications				
1&1 Mail & Media	2018	6.2%	0.5%	5.2%
	2017	6.4%	0.5%	4.8%
Business Applications				
Strato	2018	11.1%	0.5%	6.6%
	2017	11.3%	1.0%	6.1%
home.pl	2018	3.4%	1.1%	7.8%
	2017	3.4%	0.5%	7.2%
Arsys	2018	2.8%	1.6%	8.6%
	2017	2.8%	0.5%	8.3%
Fasthosts	2018	1.7%	0.8%	7.3%
	2017	1.7%	0.5%	6.8%
World4You	2018	1.4%	0.8%	7.1%
	2017	n/a	n/a	n/a
united-domains	2018	1.0%	0.5%	6.5%
	2017	1.0%	0.5%	6.2%
1&1 IONOS Cloud (ProfitBricks)	2018	0.7%	0.5%	6.5%
	2017	0.7%	0.5%	6.1%
InterNetX	2018	0.1%	0.5%	6.5%
	2017	0.1%	0.5%	6.1%
Domain Marketing	2018	0.1%	0.5%	6.5%
	2017	0.1%	0.5%	6.1%
1&1 Hosting	2018	0.1%	0.7%	6.9%
	2017	n/a	n/a	n/a

The cash flow forecasts depend heavily on the estimation of future sales revenue. 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 Consumer Access and Business Access segments are based on average annual sales growth rates of 1.9% to 3.6% (prior year: between 2.4% and 4.1%). Sales revenue figures in the detailed planning period of the cash-generating units for the Consumer Applications and Business Applications segments are based on average annual sales growth rates of between 1.4% and 21.1% (prior year: between 1.2% and 24.8%).

Fair value less disposal costs is mainly based on the present value of the perpetual annuity, which is particularly sensitive to changes in assumptions on the long-term growth rate and the discount rate. For the calculation of fair value less disposal costs, disposal cost rates of between 0.1% and 3.0% were assumed (prior year: between 0.2% and 3.0%).

In the Business Applications segment, trademarks recognized amount to € 32,722k (prior year: € 29,523k), in the Consumer Applications segment they amount to € 41,042k (prior year: € 39,977k), in the Business Access segment to € 62,000k (prior year: € 62,000k), and in the Consumer Access segment to € 56,300k (prior year: € 56,300k) (see note 27).

In the course of business combinations, the trademarks were valued at their fair values less disposal cost using appropriate measurement 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 reporting date. The trademark-relevant cash flows were multiplied with the trademark-relevant royalty rates. These range from 0.5% to 2.5% (prior year: 0.5% to 2.5%) for the Business Applications segment; amount to 2.5% (prior year: 2.5%) for the Consumer Applications segment; range from 0.25% to 0.5% (prior year: 0.25% to 0.5%) for the Business Access segment; and amount to 0.75% (prior year: 0.75%) for the Consumer Access segment. The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of fair values.

The result of the test was an impairment reversal need of € 1,300k for the Strato trademark in the Applications segment. The fair value of the Strato trademark at the end of the reporting period amounts to € 1,899k. In this connection, the residual useful life of the Strato trademark was defined as being 1.5 years. In the previous year, there was an impairment need of € 20,738k due to a different assessment of the Strato trademark’s residual useful life.

Sensitivity of assumptions

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

In the course of analyzing sensitivity for cash-generating units to which goodwill or trademarks have been allocated, an increase in the discount rates (after taxes) of 1 percentage point and a decline in the long-term growth rate in perpetuity of 0.25 percentage points was assumed, as in the previous year. These assumptions would not result in any changes to the impairment test.

As in the previous year, the Company's management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine fair value less disposal costs of a cash-generating unit could cause the carrying value to significantly exceed the recoverable amount.

30. Trade accounts payable

Trade accounts payable amount to € 566,754k (prior year: € 408,921k), of which liabilities with terms of more than one year total € 9,024k (prior year: € 9,023k).

31. Liabilities due to banks

a) Liabilities due to banks

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
Bank loans	1,939,143	1,955,781
Less		
Current portion of liabilities due to banks	-206,175	-248,185
Non-current portion of liabilities due to banks	**1,732,968**	**1,707,596**
Short-term loans/overdrafts	206,175	248,185
Current portion of liabilities due to banks	**206,175**	**248,185**
Total	**1,939,143**	**1,955,781**

Bank liabilities of € 1,939 million as of December 31, 2018 result mainly from promissory note loans and syndicated loans.

Promissory note loans

At the end of the reporting period, total liabilities from promissory note loans with maximum terms until March 2025 amounted to € 835.5 million.

The outstanding 7 tranches from the promissory note loans 2014 and 2017 are mainly fixed-interest. Depending on the term, the fixed interest rates vary between 0.897% and 2.150% p.a..
The interest rate for the variable-interest tranche of 2017 is tied to the respective 6-month EURIBOR rate plus a margin of 0.80% p.a.. The promissory note loans are redeemable on maturity and 100% repayable.

Syndicated loans & syndicated loan facilities

On December 21, 2018, United Internet signed an agreement with its core banks regarding a new syndicated loan facility. The Group used the favorable market situation to renegotiate significant components of the loan agreement. As a result, borrowing costs were reduced and the term was extended to January 2024. No new debt was taken on as a result of this measure. The syndicated loan adjusted in May 2017 with an original term until July 2020 was prematurely terminated.

At the end of the reporting period, a total of € 400 million syndicated loans, redeemable on maturity, divided into two tranches with terms from August 2019 to August 2021 were outstanding, as well as drawings from the revolving syndicated loan facility of € 810 million with a term until January 2024.

The two syndicated loans have variable interest rates. The effective interest rates for interest periods of 3 and 6 months are tied to the respective EURIBOR rate plus a margin p.a.. This margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. At the end of the reporting period, the applicable interest rate for both loans was 0.70% p.a. (prior year: 0.90%). Redemption payments are possible at any time.

As of December 31, 2018, € 700 million of the revolving syndicated loan facility had been drawn (prior year: € 477 million). The increased usage was mainly due to the repayment of a tranche of the promissory note loan of € 200 million in December 2018. As a result, funds of € 110 million (prior year: € 333 million) were still available to be drawn from the credit facility.

There are also variable interest rates for drawings from the revolving syndicated loan. The effective interest rates for the interest periods of 1, 2, 3 or 6 months are tied to the EURIBOR rate plus a margin p.a.. The margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. The applicable interest rate as of the reporting date amounts to 0.50% p.a. (prior year: 1.00%).

In addition, United Internet AG increased an existing bilateral credit facility by € 125 million, from € 75 million to € 200 million. The facility has been granted until further notice and bears interest at normal market rates. United Internet AG is the sole borrower for this facility. No drawings had been made from the credit facility as at the end of the reporting period.

The revolving credit line of 1&1 Drillisch AG amounting to € 100 million and with an original term until December 2019 was prematurely terminated in the reporting period.

At the end of the reporting period, United Internet thus had free credit lines totaling € 310 million.

Credit lines granted (without the revolving syndicated loan facility)

	2018	2017
	€k	**€k**
Credit lines granted	200,000	175,000
Credit line utilization	0	41,000
Available credit lines	200,000	134,000
Average interest rate	0.43	0.43

No collateral was provided for any of the liabilities due to banks.

With the exception of the interest-bearing tranches of the promissory note loan, the fair values of bank liabilities mainly correspond to their carrying amounts. 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 and certain subsidiaries since July 2002. Under the agreement, credit and debit balances of the participating Group subsidiaries are pooled and netted via several cascades in a central bank account of United Internet AG and available each banking day. Cash pooling was extended to include the currency pound sterling (GBP) in July 2018. All pooling participants are in the field of Hosting. Liquidity is focused on a central bank account of 1&1 IONOS SE.

b) Guaranty credit facilities

In addition to the above mentioned credit lines, the Group had the following guaranty credit facilities at the end of the reporting period, which in some cases can also be used by other Group companies.

Guaranty credit facilities

	2018	2017
	€k	**€k**
Guaranty lines granted	91,000	91,000
Guaranty lines utilized	44,756	45,686
Available guaranty lines	46,244	45,314
Average interest rate	0.44	0.50

The guaranty credit facilities are available in particular for the provision of operational bank guarantees. The guaranty credit facilities granted are mostly for unlimited periods (“until further notice”). One agreement is limited until June 30, 2020. No collateral was provided to banks.

The stated average interest rate as of the reporting date is based on utilization.

32. *Income tax liabilities*

As in the previous year, income tax liabilities are mainly due to tax authorities in Germany.

33. *Contract liabilities / deferred revenue*

	2018	2017
	€k	€k
- Deferred revenue	n.a.	294,877
thereof current	n.a.	262,480
thereof non-current	n.a.	32,397
- Contract liabilities	188,128	n.a.
thereof current	154,290	n.a.
thereof non-current	33,838	n.a.

Please refer to note 2.3 Effects of new or amended IFRS standards.

34. *Other accrued liabilities*

The development of accruals in fiscal year 2018 was as follows:

	Termination fees	Litigation risks	Restoration obligation	Others	Total
	€k	€k	€k	€k	€k
As of January 1	**0**	**33,939**	**30,080**	**18,878**	**82,897**
Adjustment due to IFRS 15	64,587	0	0	-261	64,326
Utilization	17,504	9,959	49	12,285	39,797
Reversal	0	15,794	0	1,917	17,711
Addition	18,788	1,991	9,403	4,575	34,757
Effects of accrued interest	0	0	-31	0	-31
As of December 31, 2018	**65,871**	**10,177**	**39,403**	**8,990**	**124,441**

With regard to the accrual for termination fees, please refer to the explanations in 2.3 Effects of new or amended IFRS standards.

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.

35. Other liabilities

35.1 Other current financial liabilities

	2018	2017
	€k	€k
Other current financial liabilities		
- Salary liabilities	41,969	49,941
- Marketing and selling expenses / commissions	24,165	22,572
- Finance lease commitments	15,079	16,978
- Service / maintenance / restoration obligations	9,870	6,787
- Creditors with debit balances	7,853	7,132
- Legal and consulting fees, auditing fees	6,564	6,894
- Liabilities from usage rights	5,000	10,000
- Refund liabilities	363	0
- Bonds	0	3,077
- Others	13,230	12,277
Total	**124,092**	**135,658**

35.2 Other current non-financial liabilities

	Dec. 31, 2018	Dec. 31, 2017
Other current non-financial liabilities	€k	€k
- Liabilities to the tax office	35,763	37,693
- Others	9,284	10,060
Total	**45,047**	**47,753**

Liabilities to the tax office mainly refer to sales tax liabilities.

35.3 Other non-current financial liabilities

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
Other non-current financial liabilities		
- Finance lease commitments	67,153	74,809
- Conditional purchase price liabilities	10,566	9,686
- Liabilities from usage rights	0	5,000
- Liabilities from put option (InterNetX)	3,992	1,584
- Others	5,265	6,458
Total	**86,976**	**97,537**

Please refer to note 45 regarding finance lease commitments.

The conditional purchase price liabilities refer to variable purchase price components from the acquisition of Strato AG amounting to € 6,150k (prior year: € 5,270k) and 1&1 IONOS Cloud GmbH (formerly: ProfitBricks GmbH) amounting to € 4,416k (prior year: € 4,416k).

On June 10, 2014, 1&1 IONOS SE (formerly: 1&1 Internet SE and 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 IONOS SE for their remaining shares. The purchase price depends mainly on the development of the company's earnings.

As part of internal Group restructuring, the shares in InterNetX GmbH were contributed by 1&1 IONOS SE and the other shareholders to InterNetX Holding GmbH (formerly: Sedo Holding GmbH) in the course of a non-cash capital increase. In this connection, the joint owners were granted a put option for the shares in InterNetX Holding. The purchase price depends mainly on the earnings performance of the sub-group InterNetX Holding GmbH.

36. Maturities of liabilities

The maturities of liabilities are as follows:

	Dec. 31, 2018			
€k	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	699,404	0	0	699,403
-Syndicated loan	400,997	201,925	199,073	0
-Promissory note loan	838,742	4,251	634,516	199,975
Trade accounts payable	566,753	557,730	9,024	0
Other financial liabilities				
-Finance leases	82,232	15,079	47,636	19,517
-Other	128,836	109,012	17,925	1,899
Total financial liabilities	**2,716,964**	**887,997**	**908,174**	**920,792**
Non-financial liabilities				
Income tax liabilities	187,938	187,938	0	0
Contract liabilities	188,128	154,290	33,838	0
Other accrued liabilities	124,441	24,469	74,598	25,374
Other non-financial liabil ties	45,047	45,047	0	0
Total non-financial liabilities	**545,553**	**411,743**	**108,436**	**25,374**
Liabilities	**3,262,517**	**1,299,740**	**1,016,610**	**946,166**

The maturities of liabilities in the previous year were as follows:

	Dec. 31, 2017			
€k	Total	Up to 1 year	1 to 5 years	Over 5 years
Financial liabilities				
Liabilities due to banks				
-Revolving syndicated loan facility	476,184	7,185	468,999	0
-Syndicated loan	400,233	0	400,233	0
-Promissory note loan	1,038,364	200,000	435,500	402,864
-Current account overdrafts	41,000	41,000		
Trade accounts payable	408,920	399,897	9,023	0
Other financial liabilities				
-Finance leases	91,787	16,978	53,403	21,406
-Other	141,408	118,680	19,248	3,479
Total financial liabilities	**2,597,896**	**783,741**	**1,386,406**	**427,749**
Non-financial liabilities				
Advance payments received	10,901	10,901	0	0
Income tax liabilities	130,195	130,195	0	0
Deferred revenue	294,877	262,480	32,397	0
Other accrued liabilities	82,897	49,412	16,068	17,417
Other non-financial liabilities	47,753	47,753	0	0
Total non-financial liabilities	**566,623**	**500,741**	**48,465**	**17,417**
Liabilities	**3,164,519**	**1,284,482**	**1,434,871**	**445,166**

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 reporting date would remain constant until the end of the term (2024).

37. Share-based payment – employee stock ownership plans

There were five different employee stock ownership plans in the reporting period 2018. One model with so-called *Stock Appreciation Rights (SAR)* is aimed at the group of senior executives and managers and based on virtual stock options of United Internet AG. The second model, the *Employee Stock Ownership Plan (ESOP),* was introduced in the second quarter of 2016 for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%, and expired in 2018. The third program, the *Long-Term Incentive Plan Hosting (LTIP)* was introduced in the second half of 2017 and is aimed at the group of executives and employees in key positions in the Business Applications segment. The fourth program, the *Long Term Incentive Plan Versatel (LTIP)* was introduced in the first half of 2018 and is aimed at the group of executives and employees in key positions in the Business Access segment. The fifth program, the *Stock Appreciation Rights Drillisch (SAR)* was introduced in the first half of 2018 and is aimed at the group of executives and employees in key positions in the Consumer Access segment.

Moreover, in fiscal year 2012 an individual commitment for the transfer of 100,000 shares of United Internet AG was granted. The total value of the commitment amounted to € 1,593 thousand on the grant date. On expiry of the blocking period, the shares were transferred in early 2018; the transfer was not linked to vesting conditions.

37.1 Stock Appreciation Rights (SAR United Internet)

The SAR program 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. Nevertheless, United Internet AG retains the right to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model on the basis of the Black-Scholes model in accordance with IFRS 2, the fair value of options issued was calculated as follows:

Valuation parameters

Issue date	4/6/2017
Fair value	480 €k
Average market value per option	4.80 €
Strike price	41.26 €
Share price	40.95 €
Dividend yield	2.0 %
Volatility of the share	24.86 %
Expected term (years)	5
Risk-free interest rate	0 %

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 6 and 12 months prior to the measurement date, respectively. The strike price is calculated on the basis of the average share price of the last 10 days prior to the issuance date.

The total expense from the stock ownership plan amounts to € 33,645k (prior year € 33,874k). The cumulative expense as of December 31, 2018 totaled € 32,777k (prior year: € 31,710k). Expenses of € 868k (prior year: € 2,164k) therefore relate to future years. The personnel expense for share options issued amounted to € 1,067k in the reporting period (prior year: € 2,097k).

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, 2016	**2,560,000**	**29.46**
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-235,000	31.15
exercised	-15,000	13.30
exercised	-75,000	18.13
exercised	-15,000	30.11
exercised	-25,000	32.79
exercised	-50,000	40.00
expired / forfeited	-75,000	18.13
expired / forfeited	-75,000	31.02
expired / forfeited	-75,000	43.76
expired / forfeited	-100,000	44.06
expired / forfeited	-75,000	43.51
expired / forfeited	-30,000	43.45
issued	100,000	41.26
Outstanding as of December 31, 2017	**1,415,000**	31.51
exercised	-18,750	43.76
exercised	-15,000	30.11
exercised	-10,000	31.15
exercised	-12,500	44.06
exercised	-325,000	16.06
exercised	-75,000	21.95
exercised	-30,000	43.49
exercised	-25,000	32.79
exercised	-75,000	31.15
exercised	-75,000	31.15
expired / forfeited	-56,250	43.76
Outstanding as of December 31, 2018	**697,500**	**37.74**
Exercisable as of December 31, 2018	0	n/a
Exercisable as of December 31, 2017	75,000	31.15
Weighted average remaining term as of December 31, 2018 (in months)	33	
Weighted average remaining term as of December 31, 2017 (in months)	26	

The range of strike prices for stock options outstanding at the end of the reporting period is between € 30.11 and € 44.06 (prior year: € 16.06 and € 44.06).

37.2 Employee stock ownership plan (ESOP)

In fiscal year 2016, a new employee stock ownership plan (ESOP) was introduced for active core employees of those Group companies in which United Internet AG holds a stake of at least 50%. The ESOP is designed to involve employees more in the development of the United Internet Group and the United Internet AG share, while raising staff motivation and performance and in particular their ties with the United Internet Group, i.e. to honor their continued work for the company (loyalty). The ESOP consists of two components:

Firstly, qualifying employees will receive the option to buy a specific number of shares in United Internet AG at a reduced price, which they must then hold for a period of two years (vesting period). On completion of this period, participants will be granted further shares for free provided they are still working for the company. On achievement of defined “ambition figures”, the qualifying employees will receive additional free shares. Of the 5,638 qualifying employees in total, 1,936 employees or 34% of those entitled have accepted the offer and subscribed for a total of 211,460 shares in United Internet AG. The fair value of commitments classified as equity instruments amounted to € 4,298k on the grant date.

In fiscal year 2018, expenses of € 769k (prior year: € 1,720k) were incurred from the employee stock ownership plan. The total expense from the employee stock ownership plan (ESOP) amounts to € 3,977k (prior year: € 4,298k). The cumulative expense as of December 31, 2018 totaled € 3,977k (prior year: € 3,208k). Expenses of € 0k (prior year: € 1,090k) therefore relate to future years.

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 in fiscal year 2016. The matching expense to be recognized over the service period is calculated on the basis of the following material measurement 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..

In the fiscal year 2018, the Group issued a total of 66,212 additional free shares to employees who had reached the agreed ambition figures.

37.3 Long-Term Incentive Plan Business Applications (LTIP Hosting)

An additional employee stock ownership plan (Long-Term Incentive Plan, LTIP) was introduced for the Business Applications segment in the fiscal year 2017. The LTIP is designed to align the long-term interests of management board members and other key employees of the 1&1 IONOS Group (Business Applications segment) with the interests of the company, in order to raise the equity value of the company (1&1 Internet TopCo SE) and other companies of the 1&1 IONOS Group.

Within the LTIP program, qualifying employees in the Hosting division will be allocated so-called *Management Incentive Plan* (MIP) units. The grant is made on a straight-line basis over a period of four years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year.

The entitlements under the LTIP program can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares or options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

Using an option pricing model based on a Black-Scholes model in accordance with IFRS 2, the fair value of the options issued was calculated using the following material measurement parameters:

	2017
Number of MIP units granted	300,000
Strike price	€ 114.7 per MIP
Fair value at time of issue	€ 71.70 per MIP
Volatility	of approx. 28%
Remaining term	approx. 3.8 years
Dividend yield	of 0%
Risk-free interest	of 0%

	2018
Number of MIP units granted	37,500
Strike price	€ 114.7 per MIP
Fair value at time of issue	€ 55.91 per MIP
Volatility	of approx. 30%
Remaining term	approx. 2.8 years
Dividend yield	of 0%
Risk-free interest	of 0%

The volatility used to determine fair value was calculated using the price fluctuations of the past 180 days or last 360 days of the Business Applications division peer group.

Expense is recognized on a straight-line basis over the variable period until the anticipated occurrence of an event defined by the LTIP plan. This assessment is reviewed on each reporting date. Based on current estimates, the total underlying period is 4 years starting from October 1, 2017.

The fair value of commitments classified as equity instruments amounted to € 2,097k on the grant date (prior year: € 21,510k).

The total expense from the employee stock ownership plan amounts to € 15,540k (prior year: € 21,508k). The cumulative expense as of December 31, 2018 totaled € 4,856k (prior year: € 1,344k). Expenses for future years therefore account for € 10,684k (prior year: € 20,164k). The personnel expense from issued stock options amounted to € 3,512k in the reporting period (prior year: € 1,344k).

The changes in the MIP units granted and outstanding are shown in the following table:

	1&1 Internet TopCo SE	
		Average. Strike price (€)
issued	300,000	114.70
Outstanding as of December 31, 2017	**300,000**	114.70
issued	37,500	114.70
expired / forfeited	-112,500	114.70
Outstanding as of December 31, 2018	**225,000**	**114.70**
Exercisable as of December 31, 2018	0	n/a
Exercisable as of December 31, 2017	0	n/a

37.4 Long-Term Incentive Plan Versatel (LTIP Versatel)

An additional employee stock ownership plan (*Long-Term Incentive Plan*, LTIP) was introduced for the Business Access segment in the fiscal year 2018. The LTIP is designed to align the long-term interests of management board members and other key employees of the 1&1 Versatel Group (Business Access segment) with the interests of the company, in order to raise the equity value of the company (Versatel Telecommunications GmbH) and other companies of the 1&1 Versatel Group.

Within the LTIP program, qualifying employees in the Business Access segment are allocated value growth shares. The grant is made over a period of six years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year.

As of December 31, 2018, all units are still outstanding and not yet unforfeitable.

The entitlements under the LTIP program can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares or options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

The LTIP entitlement results from the difference between the terminal value and an initial value, which is multiplied by the respective value growth share and dilution factor.

Expense is recognized on a straight-line basis over the variable period until the anticipated occurrence of an event defined by the LTIP plan. This assessment is reviewed on each reporting date. Based on current estimates, a period of 6 years is used.

The total expense from the employee stock ownership plan amounts to € 2,850k. The cumulative expense as of December 31, 2018 totaled € 475k. Expenses for future years therefore account for € 2,375k. The personnel expense from issued stock options amounted to € 475k in the reporting period.

	1&1 Versatel	Average. Strike price (€)
issued	1% value growth share	2,850
Outstanding as of December 31, 2018	**1% value growth share**	**2,850**
Exercisable as of December 31, 2018	0	n/a

37.5 Stock Appreciation Rights Drillisch (SAR Drillisch)

A further program, *Stock Appreciation Rights Drillisch (SAR),* introduced in the first half of 2018, is aimed at executives and employees in key positions in the Consumer Access segment and is based on virtual stock options of 1&1 Drillisch AG.

An *SAR Drillisch* is the commitment of 1&1 Drillisch AG (or one of its subsidiaries), to pay the option beneficiary a consideration whose amount depends on the share price performance and the operating result (EBIT) of 1&1 Drillisch AG (consolidated). As part of the SAR program, so-called SARs are allocated which are then granted over the vesting period. An SAR corresponds to a virtual subscription right for one share of 1&1 Drillisch AG. However, it is not a share right and thus not a (genuine) option to acquire shares of 1&1 Drillisch AG.

The entitlement arising from an SAR depends on the development of the share price and EBIT. Furthermore, various exercise conditions must be observed. The SAR entitlement is calculated by multiplying the number of SARs exercised by an EBIT factor and the difference between the strike price and the starting price. The EBIT factor is derived from the percentage degree to which the EBIT targets of 1&1 Drillisch AG (“Target EBIT”) have been achieved. The year preceding the exercise date is decisive. For the EBIT factor, only a degree of achievement of the EBIT targets of 80% (exercise hurdle) to 120% (cap) is taken into account. The starting and strike prices are calculated as the average (arithmetic mean) of the closing prices of the 1&1 Drillisch AG share in Xetra trading (or a functionally comparable successor system) of the Frankfurt Stock Exchange on the last 10 trading days prior to the starting or exercise date. If the percentage share price increase is higher than EBIT growth, there is a further cap of 150% on the share price increase.

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 issuance date of the option.

1&1 Drillisch AG reserves the right to fulfill its commitment from the SAR program (or the commitment of a subsidiary) to transfer shares of 1&1 Drillisch AG from its stock of treasury shares by also paying the beneficiary in cash, at its own discretion. As there is currently no obligation to settle in cash, these commitments are accounted for as equity-settled transactions.

Using an option pricing model based on a Monte Carlo simulation in accordance with IFRS 2, the fair value of the options issued was determined as follows:

Valuation parameters as of Dec. 31, 2018

Issue date	Jan. 1, 2018		Sept. 1, 2018		Dec. 31, 2018	
Fair value	4,274	€k	3,036	€k	2,513	€k
Number of SARs	60,000		60,000		60,000	
Starting price	68.70	€	45.00	€	43.90	€
Dividend yield	2.3	%	3.7	%	3.6	%
Volatility of the share	24.0	%	32.6	%	38.1	%
Expected term (years)	5		5		5	
Exercise hurdle (EBIT factor)	80.0	%	80.0	%	80.0	%
CAP (EBIT factor)	120.0	%	120.0	%	120.0	%

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 12 months prior to the measurement date. The strike price is calculated on the basis of the average share price of the last 10 days before the issuance date.

In fiscal year 2018, the total expense from the stock ownership plan amounts to € 9,823k. The previously recognized cumulative expenditure as of December 31, 2018 for SARs exercised in the fiscal year and for SARs not yet exercised as of the reporting date amounts to € 1,359k. Expenses for future years therefore amount to € 8,464k.

The changes in the virtual stock options granted and outstanding are shown in the following table:

	Number
Outstanding as of January 1, 2018	**0**
issued	60,000
issued	60,000
issued	60,000
Outstanding as of December 31, 2018	**180,000**

38. Capital stock

As in the previous year, the fully paid-in capital stock of the reporting date amounted to € 205,000,000 divided into 205,000,000 (prior year: 194,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire treasury shares until September 18, 2020 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. The authorization may not be used for the purpose of trading with treasury shares.

As of the reporting date 4,702,990 treasury shares were held (prior year: 5,093,289).

Treasury shares reduce equity and have no dividend entitlement.

Authorized capital

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock in the period ending May 20, 2020 by a maximum of € 102,500,000.00 by issuing on one or more occasions new no-par value shares in return for cash and/or non-cash contributions, whereby the subscription rights of shareholders can be excluded under certain conditions (Authorized Capital 2015).

In the case of a capital increase, shareholders shall be granted subscription rights. Pursuant to Section 186 (5) AktG, shareholders can also be granted subscription rights indirectly. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the rights of shareholders to subscribe:

- in the case of fractional amounts arising from the subscription ratio;

- in the case of a capital increase in return for cash contribution if the new shares are issued at an issuance price which is not substantially below the market price (as defined by Section 203 (1) and (2) in conjunction with Section 186 (3) Sentence 4 AktG) of those Company shares already listed of the same type and with the same terms at the time of the final determination of the issuance price by the Management Board, which should be as near as possible to the share issue date, and the proportionate amount of the capital stock attributable to the new shares for which subscription rights are excluded does not exceed ten percent of the existing capital stock, neither at the time this authorization becomes effective nor when it is exercised. This amount includes the proportionate share of capital stock attributable to shares issued or used during the term of the authorization in direct or corresponding application of Section 186 (3) Sentence 4 AktG under exclusion of subscription rights. This amount also includes the proportionate share of capital stock attributable to shares issued or to be issued to serve conversion or warrant rights, providing the underlying bonds are issued during the term of this authorization under exclusion of subscription rights pursuant to Section 186 (3) Sentence 4 AktG;

- to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of bonds with warrant or conversion rights or obligations issued by the Company or subordinated Group companies in the amount to which they are entitled on exercise of their warrant or conversion rights or fulfillment of their warrant or conversion obligation;

- in the case of capital increases in return for non-cash contribution to grant shares for the purpose of acquiring companies, parts of companies, interests in companies or other assets, including rights and receivables, or as part of business combinations.

Conditional capital

Capital stock is to be conditionally increased by up to € 25,000,000.00, divided into 25,000,000 no-par value shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds granted by the Company or a subordinated Group company in accordance with the above authorization. The new shares shall be issued at the warrant or conversion price to be determined in the bond terms and in accordance with the above authorization. The conditional capital increase shall only be implemented to the extent that the warrant or conversion rights pertaining to the bonds are exercised or warrant or conversion obligations pertaining to the bonds are fulfilled, or the Company exercises its right to tender shares, and unless other fulfillment possibilities for servicing are used. The new shares used for the issue shall participate in profits from the beginning of the fiscal year in which they are created by exercising the warrant or conversion right; to the extent that it is legally permissible, the Management Board may, with the approval of the Supervisory Board, determine the profit participation of new shares and, notwithstanding Section 60 (2) AktG, also for a fiscal year already expired. The Management Board is authorized to determine the further details of the implementation of the conditional capital increase.

39. Reserves

As of December 31, 2018, capital reserves amounted to € 2,696,141k (prior year: € 2,709,203k). The decline is mainly due to the purchase of treasury shares by listed subsidiaries. In the previous year, € 1,671,860k of the increase resulted mainly from additions in connection with the acquisition of the Drillisch Group, and € 650,907k from the addition in connection with the investment of Warburg Pincus in the Business Applications division.

The accumulated result includes the past results of consolidated companies, insofar as no dividends were paid, less expenses for share-based remuneration.

At the end of the reporting period, the revaluation reserve attributable to shareholders of United Internet AG consisted of the following items:

	Dec. 31, 2018	Dec. 31, 2017
	€k	€k
Financial assets at fair value through other comprehensive income		
- Rocket Internet shares	56,937	69,971
- Afilias shares	26,418	5,427
- AdUX shares	0	6
- Other investments	-195	0
Share in other comprehensive income of associated companies:		
- Tele Columbus shares	-137	-481
Total	**83,023**	**74,923**

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 2018 and 2017 is provided in the statement of changes in shareholders' equity.

40. Non-controlling interests

Non-controlling interests developed as follows:

	1&1 Drillisch AG/Consumer Access (26.54%)	1&1 Internet TopCo SE/Business Applications (33.33 %)	Other non-controlling interests	**Total**
	€k	€k	€k	€k
Dec. 31, 2017	263,118	-204,764	363	**58,717**
Change due to new accounting standards	97,817	29,859	0	**127,676**
Jan. 1, 2018	360,935	-174,905	363	**186,393**
Pro-rated result	107,930	15,334	33	**123,297**
Pro-rated other comprehensive income	0	-972	0	**-972**
Other changes in equity	-3,585	-6,448	1	**-10,032**
Dividend	-75,178	0	-182	**-75,360**
Dec. 31, 2018	**390,102**	**-166,991**	**215**	**223,326**

	1&1 Drillisch AG/ Consumer Access (26.71%)	1&1 Internet TopCo SE/Business Applications (33.33 %)	Other non-controlling interests	**Total**
	€k	**€k***	**€k**	**€k***
Jan. 1, 2017	0	0	348	**348**
Addition through acquisition	231,350	-209,651	0	**21,699**
Employee stock ownership program	0	1,466	0	**1,466**
Pro-rated result	31,768	4,069	199	**36,036**
Pro-rated other comprehensive income	0	-648	-20	**-668**
Dividend	0	0	-164	**-164**
Dec. 31, 2017	263,118	-204,764	363	**58,717**

* Prior-year adjustment in connection with the final purchase price allocation of the 1&1 IONOS Cloud (formerly: ProfitBricks) Group

The addition in the previous year refers to the initial investment of non-controlling shareholders in the respective subsidiary.

The following financial information comprises summarized details on the assets, liabilities, profits or losses, and cash flows of the subsidiary with material non-controlling interests.

1&1 Drillisch Group (Consumer Access)

	2018	**2017**
	in € million	**in € million**
Current assets	1,065	657
Non-current assets	4,182	4,079
Current liabilities	647	675
Non-current liabilities	320	255
Shareholders' equity	**4,280**	**3,805**
Sales revenue	3,662	2,812
Earnings before taxes	**563**	**431**
Tax expense	-157	-121
Net income	**406**	**310**
Earnings after taxes from discontinued operations	0	171
Cash flow from operating activities	156	348
Cash flow from investing activities	-21	-49
Cash flow from financing activities	-280	-153

1&1 Internet TopCo SE (Business Applications)

	2018 in € million	2017 in € million
Current assets	218	199
Non-current assets	1,302	1,222
Current liabilities	306	376
Non-current liabilities	1,715	1,657
Shareholders' equity	**-502**	**-612**
Sales revenue	877	806
Earnings before taxes	**97**	**55**
Tax expense	-50	-32
Net income	**47**	**23**
Cash flow from operating activities	116	138
Cash flow from investing activities	-139	-648
Cash flow from financing activities	-7	519

41. Additional details on financial instruments

The following table shows the carrying amounts for each category of financial assets and liabilities for fiscal year 2018:

	Measurement category acc. to IFRS 9	Carrying amount on Dec. 31, 2018 €k	Amortized cost €k	Fair value through other comprehensive income without recycling to profit and loss €k	Fair value through profit or loss €k	Measurement acc. to IAS 17 €k	Fair value on Dec. 31, 2018 €k
Financial assets							
Cash and cash equivalents	ac	58,066	58,066				58,066
Trade accounts receivable							
- Receivables from finance leases	n/a	64,757				64,757	65,378
- Others	ac	344,899	344,899				344,899
Other current financial assets							
- Derivatives	fvtpl	6,800			6,800		6,800
- Others	ac	65,974	65,974				65,974
Other non-current financial assets							
At amortized cost	ac	12,594	12,594				12,594
Fair value through other comprehensive income	fvoci	319,662		319,662			319,662
Fair value through profit or loss	fvtpl	15,790			15,790		15,790
Financial liabilities							
Trade accounts payable	flac	-566 754	-566 754				-566 754
Liabilities due to banks	flac	-1,939,143	-1,939,143				-1,946,091
Other financial liabilities							
- Finance leases	n/a	-82,244					-83,164
- Fair value through profit or loss	fvtpl	-10,566			-10,566		-10,566
- Others	flac	-118,258	-118,258				-118,258
Of which aggregated acc. to measurement categories:							
Financial assets at amortized cost	flac	481 533	481 533				481 533
Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	319,662		319,662			319,662
Financial assets at fair value through profit or loss	fvtpl	22,590			22,590		22,590
Financial assets at amortized cost	ac	-2,624,155	-2,624,155				-2,631,103
Financial assets at fair value through profit or loss	fvtpl	-10,566			-10,566		-10,566

The following net results were stated for the individual categories of financial instruments acc. to IFRS 9 in fiscal year 2018:

Net result acc. to measurement categories 2018 (in €k)	Measurement category IFRS 9	From interest and dividends	Net profits and losses from subsequent measurement			Net result
			At fair value	Currency translation	Value adjustment	
Financial assets at amortized cost	ac	1,024	--	-35	-62,710	-61,721
Financial assets at fair value						
- through other comprehensive income	fvoci	3,542	-13,539	--	--	-9,997
- through profit or loss	fvtpl		4,700	--	--	4,700
Financial liabilities at amortized cost	flac	-29,644	--	-15	--	-29,659
Financial liabilities measured at fair value						
- through profit or loss	fltpl		-880			-880
Total		-25,078	-9,719	-51	-62,710	-97,557

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 amounts on the reporting date are thus similar to fair value.

Investments and derivatives are carried at fair value. In the case of the remaining other non-current financial assets carried at amortized cost, it is assumed that their carrying amounts correspond to fair value.

Trade accounts payable mostly have short remaining terms. Their carrying amounts on the reporting 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 amounts of non-current liabilities correspond approximately to fair value. The fair value measurement of the promissory note loans is based at least in part on input parameters not observable on the market.

Due to changed interest rates, there are slight deviations between the carrying value and fair value of receivables and liabilities in connection with finance leases.

The conditional purchase price liabilities are carried at fair value. In the case of the remaining other non-current financial liabilities carried at amortized cost, it is assumed that their carrying amounts correspond to fair value.

The following table shows the carrying amounts for each category of financial assets and liabilities for fiscal year 2017:

(in € k)	Measurement category acc. to IAS 39	Carrying value on Dec. 31, 2017	Measurement acc. to IAS 39			Measurement acc. to IAS 17	Fair value on Dec. 31, 2017
			Amortized cost	Fair value not through profit or loss	Fair value through profit or loss		
Financial assets							
Cash and cash equivalents	lar	238,522	238,522				238,522
Trade accounts receivable	lar/n/a						
Receivables from finance leases	n/a	59,229				59,229	61,965
Others	lar	284,341	284,341				284,341
Other current financial assets	lar	100,270	100,270				100,270
Other non-current financial assets	lar/afs						
Investments	afs	300,005	8,720	291,285			300,005
Derivatives	fahft	17,890			17,890		17,890
Others	lar	33,694	33,694				33,694
Financial liabilities							
Trade accounts payable	flac	-408,920	-408,920				-408,920
Liabilities due to banks	flac	-1,955,781	-1,955,781				-1,956,201
Other financial liabilities	flac/n/a						
Finance leases	n/a	-91,787				-91,787	-95,871
Conditional purchase price obligation	flhft	-9,686			-9,686		-9,686
Others	flac	-131,722	-131,722				-131,722
Of which aggregated acc. to measurement categories::							
Loans and receivables (lar)	lar	656,828	656,828	0	0	0	656,828
Available-for-sale (afs)	afs	300,005	8,720	291,285	0	0	300,005
Financial assets held for trading (fahft)	fahft	17,890	0		17,890	0	17,890
Financial liabilities measured at amortized cost (flac)	flac	-2,496,423	-2,496,423	0		0	-2,496,423
Financial liabilities held for trading (flhft)	flhft	-9,686	0	0	-9,686	0	-9,686
Finance leases	n/a	-32,558	0	0	0	-32,558	-33,906

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2017:

Net result acc. to measurement categories 2017 (in €k)	Measurement category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent measurement			Net result
			Fair value	Currency translation	Value adjusted	
Loans and receivables (lar)	lar	758	--	-369	-41,090	-40,701
Available for sale (afs)	afs					
- of which not affecting net income		--	46,203	--	--	46,203
- of which affecting net income		730	--	--	-19,757	-19,027
Financial liabilities measured at amortized cost (flac)	flac	-35,329	--	-158	--	-35,487
Financial assets held for trading						
- of which affecting net income		--	-5,290		--	-5,290
Financial liabilities held for trading (flhft)						
- of which affecting net income			250			250
Total		-33,841	41,163	-527	-60,847	-54,052

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 accounts receivable, trade accounts payable, 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 December 31, 2018, 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 bank loans and other financial liabilities is estimated by discounting future cash flows using interest rates currently available for debt on similar terms, credit risk and remaining maturities.

- Financial assets and liabilities measured at fair value are measured using appropriate measurement techniques. Where available, stock exchanges prices on active markets are used. The valuation of shares in non-listed companies is based mainly on present value models. The valuation of derivatives and conditional purchase price liabilities is based mainly option pricing models.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by measurement 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, 2018	Level 1	Level 2	Level 3
		€k	€k	€k
Financial assets at fair value through other comprehensive income without recycling to profit or loss	319,662	276,866		42,796
Listed shares	276,866	276,866		
Non-listed equity instruments	42,796			42,796
Financial assets at fair value through profit or loss	22,590			22,590
Derivatives	22,590			22,590
Financial liabilities at fair value through profit or loss	-10,566			-10,566
Purchase price obligations	-10,566			-10,566

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

	Dec. 31, 2017	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	291,285	291,285		
Financial assets held for trading				
Derivatives	17,890			17,890
Financial liabilities held for trading				
Conditional purchase price liability	-9,686			-9,686

The following table shows the main non-observable input factors for the fair value measurements categorized in Level 3 of the fair value hierarchy and a quantitative sensitivity analysis as of December 31, 2018:

	Measurement method	Main non-observable input factors	Considered in measurement	Sensitivity of input factor on fair value	
Non-listed equity instrument - affilias	DCF method	Long-term growth rate of cash flows for subsequent years	0.50%	+ 0.25% + €1.0 million	-0.25% - €0.95 million
Foreign currency-based derivatives	Monte Carlo simulation	Exit date of Warburg Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year + €0.64 million	-1 year - €1.18 million
		Volatility	6.48%	+1 % + €0.9 million	-1 % - €1.18 million
Earnings-based derivatives	Black Scholes	Exit date of Warburg Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year + €0.43 million	-1 year - €0.99 million
		Volatility	35.80%	+1 % + €0.1 million	-1 % - €0.1 million
Derivative - put option	Black Scholes	Volatility	38%	+1 % + €0.1 million	-1 % - €0.2 million
Conditional purchase price liability	Balck Scholes	Exit date of Warburg Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year + €0.35 million	-1 year - €0.85 million
		Volatility	35.80%	+1 % + €0.1 million	-1 % - €0.1 million
Conditional purchase price liability	Modified mulitiple	EBITDA growth	5%	+1 % + €0.1 million	-1 % - €0.1 million

Reconciliation to fair value in Level 3:

€k	Non-listed share - affilias	Derivatives	Conditional purchase price liability
As of January 1, 2018	**42,756**	**17,890**	**-9,686**
Revaluation recognized in other comprehensive income	40	0	0
Revaluation recognized in profit or loss	0	4,700	880
As of December 31, 2018	**42,796**	**22,590**	**-10,566**

42. 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. Jan Oetjen stepped down from the Management Board of United Internet AG as of June 30, 2018. Mr. Robert Hofmann stepped down from the Management Board of United Internet AG as of December 31, 2017. There were no other changes to the circle of related parties as compared with the Consolidated Financial Statements as at December 31, 2017.

United Internet's premises in Montabaur and Karlsruhe are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements have different terms between the end of 2021 and June 2025. The resulting rent expenses are customary and amounted to € 8,987k in fiscal year 2018 (prior year: € 8,730k).

At the Annual Shareholders' Meeting on May 21, 2015, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren (deputy chairman), and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2019.

In fiscal year 2018, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Telecommunication SE, Montabaur (deputy chair)
- 1&1 Mail & Media Applications SE, Montabaur (deputy chair)
- 1&1 Drillisch Aktiengesellschaft (formerly: Drillisch Aktiengesellschaft), Maintal
- Nemetschek SE, Munich (formerly: Nemetschek AG) (chair)
- Graphisoft S.E., Budapest / Hungary
- Vectorworks Inc., Columbia / USA
- Bechtle AG, Gaildorf
- Singhammer IT Consulting AG, Munich
- Drillisch Online GmbH, Maintal (formerly: Drillisch Online AG) (from January 17 to July 18, 2018) (as of January 23, 2018 deputy chair)

Kai-Uwe Ricke

- 1&1 IONOS SE, Montabaur (formerly 1&1 Internet SE) (until September 14, 2018)
- 1&1 Internet Holding SE , Montabaur (as of September 5, 2018)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- STRATO AG, Berlin (until October 5, 2018)
- 1&1 Drillisch Aktiengesellschaft (formerly: Drillisch Aktiengesellschaft), Maintal (deputy chair)
- EUN Holdings LLP, Delaware / USA (liquidated) (until January 11, 2018)
- EuNetworks Group Limited, London (as of September 26, 2018)
- Delta Partners Group Limited, Dubai
- Delta Partners Capital Limited, Dubai
- Delta Partners Growth Fund II GP Limited, Dubai
- SUSI Partners AG, Zurich / Switzerland
- Virgin Mobile CEE B.V., Amsterdam / Netherlands
- Virgin Mobile Polska sp.z.o.o, Warsaw / Poland (chair)
- Cash Credit Limited, Cayman Islands
- Drillisch Online GmbH, Maintal (formerly: Drillisch Online AG) (from January 17 to July 18, 2018) (chair)

Michael Scheeren

- 1&1 IONOS SE, Montabaur (formerly 1&1 Internet SE) (until September 14, 2018)
- 1&1 Internet Holding SE (as of September 5, 2018)
- 1&1 Telecommunication SE, Montabaur (chair)
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Drillisch Aktiengesellschaft (formerly: Drillisch Aktiengesellschaft), Maintal (as of October 16, 2017 - chair)
- STRATO AG, Berlin (until October 5, 2018)
- Drillisch Online GmbH, Maintal (formerly Drillisch Online AG) (from January 17 to July 18, 2018) (deputy 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		
2018	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	80	16	96	110	20	130
Kai-Uwe Ricke	15	4	19	120	20	140	135	24	159
Michael Scheeren	15	4	19	120	20	140	135	24	159
	60	12	72	320	56	376	380	68	448

	United Internet AG			Subsidiaries of United Internet AG			Total		
2017	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
	€k	€k	€k	€k	€k	€k	€k	€k	€k
Kurt Dobitsch	30	4	34	85	10	95	115	14	129
Kai-Uwe Ricke	15	4	19	115	15	130	130	19	149
Michael Scheeren	15	4	19	129	15	144	144	19	163
	60	12	72	329	40	369	389	52	441

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

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2017. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board.

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

The following table provides details on the compensation received by members of the Management Board:

2018	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2018* €k
Ralph Dommermuth	0	0	0	0	-
Frank Krause	360	140	11	511	-
Jan Oetjen	150	100	7	257	
	510	**240**	**18**	**768**	**-**

2017	Fixed €k	Variable €k	Fringe benefits €k	Total fixed, variable and fringe benefits €k	Market value of share-based payments granted in 2017* €k
Ralph Dommermuth	0	0	0	0	-
Robert Hoffmann	300	200	12	512	-
Frank Krause	360	140	311	811	-
Jan Oetjen	300	200	13	513	-
Martin Witt	225	150	9	384	-
	1,185	**690**	**345**	**2,220**	**-**

* 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 € 768k (prior year: € 2,220k). Members of the Management Board were not granted any advances or loans in the reporting period nor in the previous year.

In fiscal year 2016, Mr. Ralph Dommermuth waived his claim in full to Management Board remuneration with effect from January 1, 2016. As a consequence, Mr. Ralph Dommermuth received no remuneration in the fiscal years 2017 and 2018.

In the fiscal year 2018, Mr. Frank Krause exercised no (prior year: 50,000), Mr. Jan Oetjen 75,000 (prior year: 150,000) and Mr. Robert Hoffmann also no (prior year: 250,000) subscription rights. Mr. Robert Hofmann (prior year: 250,000) stepped down from the Management Board of United Internet AG as of December 31, 2017.

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, 2018			December 31, 2018		
Management Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Ralph Dommermuth	---	82,000,000	82,000,000	---	82,000,000	82,000,000
Frank Krause	5,482	---	5,482	5,482	---	5,482
Jan Oetjen	33,621	---	33,621	n/a	n/a	n/a
	39,103	**82,000,000**	**82,039,103**	**5,482**	**82,000,000**	**82,005,482**
Supervisory Board	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	100,000	---	100,000	---	---	---
	100,000	**---**	**100,000**	**---**	**---**	**---**

In addition, the United Internet Group can exert a significant influence on its associated companies.

Transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2018 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

At the end of the reporting period, there were two loan agreements with associated companies totaling € 8,600k (prior year: € 8,600k). In connection with the contribution of affilinet to Awin, United Internet also acquired a loan to Awin. The loan comprises two tranches with terms of five and nine years. The tranches each have fixed interest rates of 2.5% p.a. to 3.0% p.a..

In addition, dividend income of DomainsBot S.r.l., Rome/Italy amounting to € 41k (prior year: € 0k) 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	
2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
€k	**€k**	**€k**	**€k**	**€k**	**€k**	**€k**	**€k**
27,199	10,193	4,138	1,253	11,349	252	2,356	1,640

As in the previous year, receivables from other related parties mainly result from loans to AWIN.

Financial income		Financial expenses	
2018	**2017**	**2018**	**2017**
€k	**€k**	**€k**	**€k**
282	221	0	0

43. 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 reporting 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 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.

Global cash requirements and surpluses are managed by the 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, 2018 and 2017:

	Carrying amounts as of Dec. 31, 2018	**2019**	**2020**	**2021**	**2022**	**> 2022**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,939,143	219,199	254,083	211,912	208,070	1,108,528	2,001,792
Trade accounts payable	566,753	557,776	1,365	1,326	1,292	4,994	566,753
Other financial liabilities	211,068	145,178	12,527	12,409	21,560	26,133	217,806
Total	**2,716,964**	**922,153**	**267,975**	**225,647**	**230,922**	**1,139,655**	**2,786,352**

Payments from other financial liabilities also comprise expected payments from derivatives of € 10.6 million (prior year: € 9.7 million) in fiscal year 2021.

	Carrying amounts as of Dec. 31, 2017	**2018**	**2019**	**2020**	**2021**	**> 2021**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	1,955,781	277,331	219,613	724,270	208,965	608,545	2,038,724
Trade accounts payable	408,920	402,277	1,264	1,142	1,102	5,419	411,204
Other financial liabilities*	233,195	160,258	23,816	12,092	11,803	33,770	241,739
Total	**2,597,896**	**839,866**	**244,693**	**737,504**	**221,870**	**647,734**	**2,691,667**

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 € 700,000k (prior year: € 470,000k) would remain constantly drawn until the end of its term (2024).

Please refer to note 31 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 reporting 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 reporting 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 reporting date were valued by the company. No material currency risks arose from this analysis.

Stock exchange risk (valuation risk)

Until fiscal year 2017, United Internet classified certain (quoted) financial assets pursuant to IAS 39 as available-for-sale and recorded changes in their fair value in equity via other comprehensive income in the revaluation account. If there was a significant or persistent decrease in the fair value of an equity instrument below its acquisition cost, the United Internet Group recognized an impairment of the financial instrument in its income statement. With the initial application of IFRS 9 in fiscal year 2018, financial assets (equity instruments) are either

- measured at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition or

- measured at fair value through profit or loss.

Depending on the measurement category and the share price development of listed investments, changes in equity without affecting income, or income and expenses, may arise as of the reporting date. An increase in stock exchange prices of 10% would have led to the Group's recognition of an equity effect without affecting income of € 27,687k as of the reporting date (prior year under IAS 39: € 28,990k). A decrease in stock exchange prices of 10% would have reduced the Group's equity by € 27,687k as of December 31, 2018 (prior year under IAS 39: € 28,990k). The aforementioned sensitivities do not take account of tax effects.

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.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances. Trade accounts receivable which are not impaired as of the reporting date, are classified according to periods in which they become overdue (see note 19).

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.

The Company has no significant concentration of credit risks.

Risks from financial covenants

The existing loans of United Internet AG are tied to so-called financial covenants. The infringement of a certain net debt-to-EBITDA ratio could result in individual banks terminating outstanding loans with the Company. In view of the low net debt-to-EBITDA ratio of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company's Management Board and was met throughout the year.

Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. Please refer to the statement of changes in shareholders' equity. As of December 31, 2018 and December 31, 2017, no changes were made to the Company's targets, methods and processes.

44. Contingencies, contingent liabilities and other commitments

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 December 31, 2018, pre-service providers have filed claims in the low three-digit million range. United Internet AG considers the claims of the counterparties to be unfounded and regards an outflow of resources for these contingent liabilities as unlikely.

There were no material contingent liabilities in the previous year.

Litigation

Litigation risks mainly relate to various legal disputes of Group subsidiaries.

Accruals for litigation were formed for any commitments arising from these disputes (see note 34).

Guarantees

As of the reporting date, the Company has issued no guarantees.

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 reporting 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.

45. Leases, other financial commitments, and guarantees

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:

	2018	2017
	€k	€k
Up to 1 year	78,711	88,799
1 to 5 years	121,458	116,408
Over 5 years	40,447	37,757
Total*	**240,616**	**242,964**

* Figures are based on minimum contractual terms.

In the reporting period, these operating leases incurred expenses of € 148,551k (prior year: € 156,688k).

Finance leases

The payment obligations resulting from finance leases as of the reporting 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 1&1 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, 2018		Dec. 31, 2017	
	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	16,403	15,069	18,548	16,978
1 to 5 years	51,195	47,638	56,934	53,403
Over 5 years	21,384	19,517	24,850	21,406
Total	88,982	82,224	100,332	91,787
Less interest share	-6,738	--	-8,545	--
Present value of minimum lease payments	**82,244**	**82,224**	**91,787**	**91,787**

Group as lessor

Finance leases

The Group acts as the lessor of finance leases via the 1&1 Versatel Group. 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, 2018 €k	Dec. 31, 2017 €k
Gross investment (thereof unguaranteed residual values)		
thereof due within 1 year	6,647	5,593
thereof due in 1-5 years	25,465	21,891
thereof due after more than 5 years	35,081	34,875
Unearned finance income	-5,790	-6,800
Net investment	61,403	55,559
Accumulated impairment	0	0
Receivables from sales taxes	3,354	3,670
Carrying amount of finance lease receivables	**64,757**	**59,229**
previously present value of unguaranteed residual values	0	0
Present value of outstanding minimum lease payments	**61,403**	**55,559**
thereof due within 1 year	6,590	5,593
thereof due in 1-5 years	24,238	20,665
thereof due after more than 5 years	30,575	29,301

Finance lease receivables relate solely to leases for the provision and use of dark fiber lines.

In fiscal year 2018, several new finance lease agreements were concluded with two lessees regarding the provision of fiber pairs. An amount of € 10.4 million (prior year: € 2.4 million) is recognized in gross investment less unrealized financial income for these leases. The maturities range from 9 to 15 years.

46. Statement of cash flows

In fiscal year 2018, cash flow from operating activities includes interest paid of € 30,016k (prior year: € 37,923k) and interest received of € 3,810k (prior year: € 2,746k). Income tax payments in fiscal year 2018 amounted to € 275,765k (prior year: € 292,704k) while income tax proceeds totaled € 6,114k (prior year: € 158,752k). Income tax proceeds of the previous year included the allowable capital tax including solidarity surcharge (€ 70,793k) in connection with a dividend distributed within the Group.

Cash and cash equivalents include bank balances of € 2,764k (prior year: € 2,764k) which are only usable under certain conditions as of the reporting date.

Cash inflows in connection with dividends received amounted to € 3,542k (prior year: € 19,823k) and mainly comprise dividends from afilias Ltd. Additions to intangible assets and property, plant and equipment of € 18,582k (prior year: € 16,684k) were in connection with finance leases without direct cash outflows.

Reconciliation of balance sheet changes in financial liabilities:

in € million	Promissory note loan	Syndicated loan	Other financial liabilities	Total
As of January 1, 2018	**1,038**	**877**	**41**	**1,956**
Changes from acquisition or disposal of companies				
Cash flow from financing activities				
Proceeds from taking out loans	0	225		225
Payments for the redemption of loans	-200	-7	-41	-248
Total cash-effective change	**-200**	**218**	**-41**	**-23**
Exchange rate changes				
Other non-cash-effective changes	2	4		6
As of December 31, 2018	**840**	**1,099**	**0**	**1,939**

in € million	Promissory note loan	Syndicated loan	Other financial liabilities	Total
As of January 1, 2017	**599**	**1,157**	**5**	**1,761**
Changes from acquisition or disposal of companies	0	0	53	53
Cash flow from financing activities				
Proceeds from taking out loans	500	80	36	616
Payments for the redemption of loans	-65	-359	-53	-477
Total cash-effective change	**436**	**-279**	**-17**	**140**
Exchange rate changes	0	-1	0	-1
Other non-cash-effective changes	3	0	0	3
As of December 31, 2017	**1,038**	**877**	**41**	**1,956**

47. Exemption pursuant to Sec. 264 (3) HGB

The following subsidiaries of United Internet AG make use of the exempting provisions of Sec. 264 (3) HGB:

- 1&1 De-Mail GmbH, Montabaur
- 1&1 Energy GmbH, Montabaur
- 1&1 IONOS SE, Montabaur (formerly: 1&1 Internet SE)
- 1&1 IONOS Cloud GmbH, Berlin (formerly: ProfitBricks GmbH)
- 1&1 Internet Holding SE, Montabaur
- 1&1 Internet TopCo SE, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Mail & Media Development & Technology GmbH, Montabaur
- 1&1 Mail & Media Service GmbH, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Versatel GmbH, Berlin
- 1&1 Versatel Deutschland GmbH, Düsseldorf
- A1 Marketing, Kommunikation and neue Medien GmbH, Montabaur
- Cronon AG, Berlin
- STRATO AG, Berlin
- United Internet Corporate Holding SE, Montabaur
- United Internet Corporate Services GmbH, Montabaur
- United Internet Investments Holding AG & Co. KG, Montabaur (formerly: United Internet Investments Holding GmbH
- United Internet Management Holding SE, Montabaur
- United Internet Media GmbH, Montabaur
- United Internet Service Holding GmbH, Montabaur
- United Internet Service SE, Montabaur
- United Internet Sourcing & Apprenticeship GmbH, Montabaur
- Versatel Telecommunications GmbH, Düsseldorf

48. Subsequent events

The management board of 1&1 Drillisch AG, a subsidiary of United Internet AG, decided on January 24, 2019, with the consent of its supervisory board, to apply for admission to the auction on the allocation of mobile frequencies in the 2 GHz and 3.6 GHz frequency bands (**"5G spectrum auction"**) in accordance with the decision BK1-17/001 with the German Federal Network Agency ("Bundesnetzagentur") and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. The applicant was Drillisch Netz AG, a wholly-owned subsidiary of 1&1 Drillisch AG. The company is confident that this step will establish the basis for a successful and lasting positioning of the 1&1 Drillisch Group as the fourth mobile network operator in Germany, and make a substantive contribution to enabling Germany to become Europe's leading 5G market. On February 25, 2019, the Bundesnetzagentur granted admission to the auction which started on March 19, 2019.

On January 24, 2019, 1&1 Drillisch also agreed its own **credit lines of € 2.8 billion** with a European bank consortium – in addition to its intra-group credit lines with United Internet AG. These credit lines are available to 1&1 Drillisch in addition to available liquidity and its sustainable cash flows from operating activities.

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

49. Auditing fees

In fiscal year 2018, auditing fees totaling € 6,827k (prior year: € 7,122k) were calculated in the Consolidated Financial Statements. These include auditing fees of € 4,585k (prior year: € 4,479k), other certification services of € 56k (prior year: € 46k), tax consultancy services of € 1,866k (prior year: € 1,857k), and other services of € 321k (prior year: € 740k). Auditing fees comprise both statutory audits as well as voluntary audits and audit reviews. Other services mainly refer to transaction-related due diligence services.

50. List of shareholdings of the United Internet AG Group acc. to Sec. 313 (2) HGB

As of December 31, 2017, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

- **1&1 Mail & Media Applications SE, Montabaur (100.0%)**
  - 1&1 Mail & Media Development & Technology GmbH, 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. in liquidation, Madrid / Spain (100.0%)
    - GMX Italia S.r.l. in liquidation, Milan / Italy (100.0%)
  - 1&1 Mail & Media Service GmbH, Montabaur (100.0%)
  - United Internet Media Austria GmbH, Vienna / Austria (100.0%)
  - United Internet Media GmbH, Montabaur (100.0%)

- **United Internet Service Holding GmbH, Montabaur (100.0%)**
  - Versatel Telecommunications GmbH, Düsseldorf (100.0%)
    - 1&1 Versatel GmbH, Berlin (100.0%)
      - 1&1 Versatel Deutschland GmbH, Düsseldorf (100.0%)
        - TROPOLYS Service GmbH, Düsseldorf (100.0%)
        - TROPOLYS Netz GmbH, Düsseldorf (100.0%)
        - Versatel Immobilien Verwaltungs GmbH, Düsseldorf (100.0%)

- **1&1 Drillisch AG (formerly: Drillisch AG), Maintal (73.29%)**
  - 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%)
  - Blitz 17-665 SE, Munich (100.0%)
  - Blitz 17-666 SE, Munich (100.0%)
  - CA BG AlphaPi AG, Vienna / Austria (100.0%)
  - Drillisch Logistik GmbH, Münster (100.0%)
  - Drillisch Online GmbH, Maintal (100.0%)
    - Drillisch Netz AG, Krefeld (100.0%)
    - Mobile Ventures GmbH, Maintal (100.0%)
  - IQ-optimize Software AG, Maintal (100.0%)

- **1&1 Internet TopCo SE, Montabaur (66.67%)**
  - 1&1 Internet Holding SE, Montabaur (100.0%)
    - STRATO AG, Berlin (100.0%)
      - Cronon AG, Berlin (100.0%)
    - 1&1 IONOS SE (formerly: 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 Ltd., Gloucester / UK (100.0%)
      - 1&1 Internet (Philippines) Inc., Cebu City / Philippines (100.0%)
      - 1&1 Internet S.A.R.L., Saargemünd / France (100.0%)
      - 1&1 Internet Service GmbH, Montabaur (100.0%)
      - 1&1 Internet Sp. z o.o. in liquidation, Warsaw / Poland (100.0%)
      - 1&1 IONOS Inc. (formerly: 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 IONOS Cloud GmbH (formerly: ProfitBricks GmbH), Berlin (100.0%)
        - 1&1 IONOS Cloud Inc., San Antonio / USA (100.0%)
      - 1&1 UK Holdings Ltd., Gloucester / UK (100.0%)
        - Fasthosts Internet Inc., Chesterbrook / USA in liquidation (100.0%)

    - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
- Arsys Internet S.L., Logroño / Spain (100.0%)
    - Arsys Internet E.U.R.L., Perpignan / France (100.0%)
    - Nicline Internet S.L., Logroño / Spain (100.0%)
    - Tesys Internet S.L., Logroño / Spain (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 ASIA Sp. z o.o., Stettin / Poland (100.0%)
        - DP EUROPE Sp. z o.o., Stettin / Poland (100.0%)
        - DP POLAND Sp. z o.o., Stettin / Poland (100.0%)
- Immobilienverwaltung AB GmbH, Montabaur (100.0%)
- Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
- InterNetX Holding GmbH, Regensburg (95.56%)
    - InterNetX GmbH, Regensburg (100.0%)
        - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
        - InterNetX Corp., Miami / USA (100.0%)
        - PSI-USA, Inc., Las Vegas / USA (100.0%)
        - Schlund Technologies GmbH, Regensburg (100.0%)
    - Sedo GmbH, Cologne (100.0%)
        - DomCollect International GmbH, Montabaur (100.0%)
        - DomCollect Worldwide Intellectual Property AG in liquidation, Zug / Switzerland (100.0%)
        - Sedo.com LLC, Cambridge / USA (100.0%)
- united-domains AG, Starnberg (100.0%)
    - United Domains Inc., Cambridge / USA (100.0%)
    - united-domains Reselling GmbH, Starnberg (100.0%)
- World4You Internet Services GmbH, Linz / Austria (100.0%)

Other:

- CA BG AlphaRho AG, Vienna / Austria (100.0%)
- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- United Internet Corporate Services GmbH, Montabaur (100.0%)
    - A1 Marketing Kommunikation and neue Medien GmbH, Montabaur (100.0%)
- United Internet Investments Holding AG & Co. KG, Montabaur (100.0%)
- United Internet Service SE, Montabaur (100.0%)
    - United Internet Sourcing & Apprenticeship GmbH, Montabaur (100.0%)
- United Internet Management Holding SE, Montabaur (100.0%)
- United Internet Corporate 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%)
  - DomainsBot Inc., Dover / USA (100.0%)
- rankingCoach GmbH, Cologne (29.93%)
- uberall GmbH, Berlin (28.52%)
- Tele Columbus AG, Berlin (28.52%)
- Open-Xchange AG, Nuremberg (25.39%)
- Virtual Minds AG, Freiburg (25.1%)
- ePages GmbH, Hamburg (25.01%)
- AWIN AG, Berlin (20.0%)

Other investments

Companies in which the Company has invested and over whose financial and business policies it has no significant influence (< 20% of voting shares) are included as financial instruments pursuant to IFRS 9 and held as financial assets measured at fair value through other comprehensive income (equity instruments with no recycling of cumulative gains and losses upon derecognition):

- MMC Investments Holding Company Ltd., Port Louis / Mauritius (11.36%)
- Afilias Inc., Horsham, Pennsylvania / USA (9.82%)
- Rocket Internet SE, Berlin (9.00%)
- PipesBox GmbH, Rostock (13.87%)

Changes in the reporting unit

The following companies were acquired in fiscal year 2018:

- CA BG AlphaPi AG, Vienna / Austria (100.0%)
- CA BG AlphaRho AG, Vienna / Austria (100.0%)
- World4You Internet Services GmbH, Linz / Austria (100.0%)

The following companies changed their legal form in fiscal year 2018:

- United Internet Investments Holding AG & Co. KG, (formerly: United Internet Investments Holding GmbH), Montabaur (100.0%)
- Drillisch Online GmbH (formerly: Drillisch Online AG, Düsseldorf) Maintal (100.0%)

The following companies changed their name in fiscal year 2018:

- 1&1 Drillisch AG (formerly: Drillisch AG), Maintal (73.29%)
- United Internet Management Holding SE (formerly: Atrium 113. Europäische VV SE, Düsseldorf) Montabaur (100.0%)
- United Internet Corporate Holding SE (formerly: Atrium 121. Europäische VV SE, Berlin) Montabaur (100.0%)
- 1&1 IONOS SE (formerly: 1&1 Internet SE), Montabaur (100.0%)
- 1&1 IONOS Inc. (formerly: 1&1 Internet Inc.), Chesterbrook / USA (100.0%)
- 1&1 IONOS Cloud GmbH (formerly: ProfitBricks GmbH), Berlin (100.0%)
- 1&1 IONOS Cloud Inc. (formerly: ProfitBricks Inc.) San Antonio / USA (100.0%)
- InterNetX Holding GmbH (formerly: Sedo Holding GmbH, Montabaur), Regensburg (100.0%)
- Drillisch Netz AG (formerly: Maintal), Krefeld (100.0%)

The following company was merged with an existing Group company in fiscal year 2018:

- Versatel Holding GmbH, Berlin (100.0%) was merged with 1&1 Versatel GmbH, Berlin (100.0%)

The following companies were sold in fiscal year 2018:

- AdUX S.A., Paris / France (10.46%)
- Escrow.domains LLC, Washington / USA (75.0%)

The following company was founded by share exchange in fiscal year 2018:

- Afilias Inc. (formerly: Afilias Ltd., Dublin / Ireland), Horsham, Pennsylvania / USA (9.82%)

51. 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 22, 2019

The Management Board

Ralph Dommermuth	Frank Krause

Annex

United Internet AG - Development of non-current assets acc. to IFRS for the fiscal year 2018 and 2017 (€k)

2018	Acquisition and production costs							Accumulated depreciation							Net book value	
	Jan. 1, 2018	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2018	Jan. 1, 2018	Additions	Disposals	Reclassifications	Currency translation	Additions from initial consolidation	Dec. 31, 2018	Jan. 1, 2018	Dec. 31, 2018
Intangible assets																
Software / licenses	261,508	2,123	19,779	26,110	4,080	32	261,412	159,375	50,579	25,734	64	147	0	184,431	102,133	76,980
Trademark	208,539	3,494	0	0	0	670	212,703	20,739	-100	0	0	0	0	20,639	187,800	192,064
Customer base	1,226,387	24,014	2,680	15,025	0	-616	1,237,440	180,968	135,696	0	0	-179	0	316,485	1,045,420	920,955
Goodwill	3,607,969	51,249	0	0	0	-2,963	3,656,255	43,912	0	0	0	-291	0	43,621	3,564,057	3,612,634
Internally generated intangible assets	5,198	0	6,781	153	672	-65	12,433	480	1,465	146	0	-110	0	1,689	0	10,744
Other intangible assets	73,337	0	1,030	955	-731	0	72,681	9,640	25,866	958	0	0	0	34,549	68,414	38,132
Payments in advance	4,670	0	5,028	294	-3,701	0	5,703	0	0		0	0	0	0	4,670	5,702
Total (I)	**5,387,608**	**80,880**	**35,297**	**42,537**	**320**	**-2,941**	**5,458,627**	**415,117**	**213,506**	**26,838**	**64**	**-432**	**0**	**601,415**	**4,972,494**	**4,857,212**
Property, plant and equipment																
Land and buildings	17,732	0	1,951	625	281	0	19,339	9,712	1,745	1,292	194	0	0	10,359	8,020	8,980
Telecommunication equipment	679,565	0	121,237	4,657	30,582	0	826,727	235,691	91,631	896	-3	0	0	326,424	443,874	500,303
Network infrastructure	200,456	0	8,060	3,490	-3,736	0	201,290	92,711	25,892	19	-2,333	0	0	116,251	107,745	85,039
Operational equipment	519,334	761	86,173	144,245	7,360	3,897	473,279	371,963	56,430	142,546	2,078	3,354	0	291,279	147,371	182,001
Payments in advance	43,385	6	37,625	445	-34,807	-3	45,762	2,972	1,104	2	0	0	0	4,074	40,413	41,687
Total (II)	**1,460,472**	**767**	**255,046**	**153,462**	**-320**	**3,893**	**1,566,398**	**713,047**	**176,802**	**144,754**	**-64**	**3,354**	**0**	**748,387**	**747,423**	**818,010**
Total	**6,848,081**	**81,647**	**290,343**	**195,999**	**0**	**952**	**7,025,025**	**1,128,163**	**390,308**	**171,592**	**0**	**2,921**	**0**	**1,349,802**	**5,719,917**	**5,675,223**

2017	Acquisition and production costs							Accumulated depreciation							Net book value	
	Jan. 1, 2017	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2017	Jan. 1, 2017	Additions	Disposals	Reclassifications	Currency translation	Additions from initial consolidation	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
Intangible assets																
Software / licenses	169,948	75,178	19,043	952	-1,466	-243	261,508	129,305	31,961	190	228	-246	-1,682	159,375	40,643	102,133
Trademark	131,915	80,259	0	959	-187	-2,488	208,540	111	20,738	959	-110	0	959	20,739	131,804	187,800
Customer base*	308,379	916,866	0	431	0	1,573	1,226,387	113,958	70,766	431	0	61	-3,385	180,967	194,421	1,045,420
Goodwill*	1,152,093	2,454,193	0	300	0	1,983	3,607,969	64,408	0	300	0	551	-20,746	43,912	1,087,685	3,564,057
Other intangible assets	1,468	71,000	3,844	528	2,664	87	78,535	1,216	9,372	483	0	16	0	10,121	252	68,414
Payments in advance	2,350	0	3,329	415	-594	0	4,669	0	0	292	292	0	0	0	2,350	4,670
Total (I)*	**1,766,153**	**3,597,496**	**26,216**	**3,585**	**417**	**912**	**5,387,608**	**308,999**	**132,837**	**2,656**	**410**	**381**	**-24,853**	**415,116**	**1,457,155**	**4,972,494**
Property, plant and equipment																
Land and buildings	17,082	2,967	730	3,047	0	0	17,732	8,717	3,470	2,475	0	0	0	9,712	8,365	8,020
Telecommunication equipment	554,077	0	114,202	8,826	20,112	0	679,565	160,264	78,676	3,249	0	0	0	235,691	393,813	443,874
Network infrastructure	187,323	0	7,871	811	6,073	0	200,456	63,865	28,023	242	1,065	0	0	92,711	123,458	107,745
Operational equipment	492,166	35,415	63,480	54,367	-3,963	-13,397	519,334	385,607	52,965	50,854	-1,040	-11,457	-3,258	371,963	106,559	147,371
Payments in advance	26,749	813	38,515	33	-22,639	-20	43,386	3,938	350	882	-435	0	0	2,973	22,811	40,413
Total (II)	**1,277,397**	**39,195**	**224,798**	**67,084**	**-417**	**-13,417**	**1,460,473**	**622,391**	**163,483**	**57,703**	**-410**	**-11,457**	**-3,258**	**713,047**	**655,006**	**747,423**
Total*	**3,043,550**	**3,636,691**	**251,014**	**70,669**	**0**	**-12,505**	**6,848,081**	**931,390**	**296,320**	**60,359**	**0**	**-11,076**	**-28,112**	**1,128,163**	**2,112,161**	**5,719,916**

* Prior year figures adjusted in connection with a final purchase price allocation; see note 4.2

B. Reproduction of the auditor's report

We issued the following auditor's report on the consolidated financial statements and the management report for the Company and the Group:

"Independent auditor's report

To United Internet AG

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

Opinions

We have audited the consolidated financial statements of United Internet AG, Montabaur, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report for the Company and the Group of United Internet AG, for the fiscal year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content in section 7 of the management report for the Company and the Group (the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code and the statement on corporate governance pursuant to Sec. 289f HGB ["Handelsgesetzbuch": German Commercial Code] and Sec. 315d HGB or the declaration pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] contained therein).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the fiscal year from 1 January to 31 December 2018, and

- the enclosed management report for the Company and the Group as a whole provides a suitable view of the Group's position. In all material respects, this management report for the Company and the Group is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report for the Company and the Group does not cover the content contained in section 7 of the management report for the Company and the Group (the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code and the statement on corporate governance pursuant to Sec. 289f HGB and Sec. 315d HGB or the declaration pursuant to Sec. 161 AktG contained therein).

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the management report for the Company and the Group.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the management report for the Company and the Group in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the management report for the Company and the Group" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the management report for the Company and the Group.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

1. Impairment of goodwill

Reasons why the matter was determined to be a key audit matter

The goodwill presented in the consolidated financial statements of United Internet AG comprises 44 % of total assets. Goodwill is tested for impairment at least once every fiscal year. The impairment test comprises a valuation of the cash-generating unit to which the goodwill is allocated and is regularly based on the present value of the future cash flows of the cash-generating unit. The cash flows are derived from the Company's budgets for the coming fiscal year which are extrapolated by the Company on the basis of internal assumptions and external market studies and rolled forward after the detailed planning period using a long-term growth rate. In light of the magnitude of the goodwill, the underlying complexity of the valuation and the judgment exercised during valuation, the goodwill impairment test was a key audit matter.

Auditor's response

We obtained an understanding of the methodology applied by the external expert for the valuations on the basis of the design requirements of IAS 36 and checked the clerical accuracy the calculations in the underlying valuation model. In this context, we also assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values as audit evidence. The focus of our audit was on appraising the key assumptions using for the valuation, such as planning assumptions and discount rates.

We assessed the financial planning in terms of the reliability of previous forecasts and used the historical development to support the underlying assumptions. The assumptions relating to future cash flows were assessed by obtaining supporting evidence and by making inquiries about the significant assumptions relating to growth and business performance. We assessed the other significant assumptions, such as the discount rate and the long-term growth rate with the aid of internal valuation specialists and on the basis of our own analysis of the general market indicators.

Our audit procedures did not lead to any reservations relating to the assessment of impairment of goodwill by the executive directors.

Reference to related disclosures

The Company’s information on the impairment of goodwill is contained in Note 29 of the notes to the consolidated financial statements.

2. Revenue recognition

Reasons why the matter was determined to be a key audit matter

The recognition and cut-off of revenue in the group companies’ mass customer business are largely automated and uniform processes due to the use of special IT systems dedicated to revenue recognition which, owing to the extensive branching and interdependencies, are highly complex in their structure. Owing to the logic implemented in the IT systems, adjustments triggered by changes in tariffs or the launch of new products, for example, made in certain IT systems have a direct effect on the entire revenue recognition process. In addition, there are postings not generated by the system, which entail a risk of errors associated with manual postings. The application of IFRS 15 led to substantial changes in the recognition of revenue as well as the underlying systems and processes. Furthermore, assumptions were made and estimates used in particular relating to the determination of stand-alone selling prices for hardware, which means that the recognition of revenue was a key audit matter.

Auditor’s response

As part of our audit procedures, with the aid of internal IT specialists and giving particular consideration to of the adjustments required by IFRS 15, we assessed the design and operating effectiveness of the control system established by the Group with regard to the IT systems relevant for revenue recognition. In so doing, we tested new IT systems and interfaces in particular and assessed the mapping and processing of business processes. We examined relevant IT general controls and relevant IT application controls as well as manual controls. We examined the adjustments required by IFRS 15 using market data, in particular the allocation of the transaction price to each performance obligation on a relative stand-alone selling price basis. In addition, we evaluated the process used to determine stand-alone selling prices for hardware and the related judgments by the executive directors with regard to the requirements of IFRS 15. Furthermore, we considered the risk of errors arising from manual posting by performing substantive analytical procedures using internal data analysis tools. In this context, revenue was analyzed in relation to its development during the year, the underlying posting patterns, the persons responsible for posting and the correlation between revenue and selected accounts (e.g., cost of materials) as well as non-financial indicators (e.g., contracts concluded and terminated).

Our audit procedures did not lead to any reservations relating to the recognition of revenue.

Reference to related disclosures

The Company’s information on revenue in the consolidated financial statements of United Internet AG is contained in Note 5 and in Note 2.1 “Explanation of main accounting and valuation methods” in the notes to the consolidated financial statements.

3. Recognition of contract initiation costs and contract fulfillment costs

Reasons why the matter was determined to be a key audit matter

The application of IFRS 15 led to changes in the recognition of incremental costs of obtaining contracts and costs to fulfil contracts. Provided that the recognition criteria are met, contract costs are recognized and amortized over their expected useful life. To determine and roll forward the costs to be recognized and assess impairment, the relevant posting logic had to be adjusted and new processes implemented. In addition, assumptions were made and estimates used with regard to the amortization periods which means that the recognition of contract initiation costs and contract fulfillment costs was a key audit matter.

Auditor’s response

Our audit procedures comprised the evaluation of the newly implemented process used to determine the costs to be recognized. Based on the cost recording, we assessed the process used to identify the costs to be recognized and the further processing of the relevant data. We also evaluated on a sample basis whether the criteria of IFRS 15 for the recognition of contract initiation costs and contract fulfillment costs have been met and in particular whether the recognized contract initiation costs are incremental in character. We also checked the measurement of contract costs on a sample basis by comparing them with the underlying invoices. We also performed analytical procedures to assess the recognition and the rollforward of contract initiation costs and contract fulfillment costs over time. We assessed the underlying assumptions and estimates made in connection with the amortization periods using historical customer data. Furthermore, we assessed the logic of the impairment tests of the recognized contract initiation costs and contract fulfillment costs with regard to the requirements of IFRS 15.

Our audit procedures did not lead to any reservations relating to the recognition of contract initiation costs and contract fulfillment costs.

Reference to related disclosures

The Company’s information on contract initiation costs and contract fulfillment costs in the consolidated financial statements of United Internet AG is contained in Note 22 and in Note 2.1 “Explanation of main accounting and valuation methods” in the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the report of the supervisory board pursuant to Sec. 171 (2) AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises

- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code contained in section 7 of the management report for the Company and the Group,

- the declaration on company management pursuant to Sec. 289f HGB and Sec. 315d HGB or the declaration pursuant to Sec. 161 AktG contained therein in section 7 of the management report for the Company and the Group.

The other information also comprises the "responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB" which will be included in the annual report, of which we obtained a version prior to issuing this auditor's report.

In addition, the other information comprises the remaining sections of the annual report that we expect to be provided to us after we have issued our auditor's report, in particular:

- Letter to the shareholders

- Report of the supervisory board pursuant to Sec. 171 (2) AktG

Our opinions on the consolidated financial statements and on the management report for the Company and the Group do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report of the Company and the Group or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report with regard to the other information already provided to us.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the management report for the Company and the Group

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the management report for the Company and the Group that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report for the Company and the Group that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report for the Company and the Group.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report for the Company and the Group as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the management report for the Company and the Group.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report for the Company and the Group.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report for the Company and the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the management report for the Company and the Group in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the management report for the Company and the Group or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the management report for the Company and the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

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

- Perform audit procedures on the prospective information presented by the executive directors in the management report for the Company and the Group. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual shareholders' meeting on 24 May 2018. We were engaged by the supervisory board on 21 June 2018. We have been the group auditor of United Internet AG without interruption since fiscal year 2002.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Andreas Grote.”

Eschborn/Frankfurt am Main, 27. März 2019

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 22, 2019

Board of Management

Ralph Dommermuth

Frank Krause