ANNUAL REPORT 2020

DATA & FACTS

Selected Performance Indicators	2020	2019	Change	Q4 '20	Q4 '19	Change	Q3 '20	Q2 '20	Q1 '20
PROFIT (IN €M)									
Revenues	3,786.8	3,674.9	3.0 %	973.1	945.3	2.9 %	932.6	940.4	940.7
Service revenues	3,020.0	2,943.0	2.6 %	762.0	742.7	2.6 %	761.0	749.2	747.8
Hardware and Other revenues	766.8	731.9	4.8 %	211.1	202.6	4.2 %	171.6	191.2	192.9
EBITDA	468.5	683.5	-31.5 %	11.9	174.8	-93.2 %	127.0	165.6	164.0
EBITDA margin in % of revenue	12.4 %	18.6 %		1.2 %	18.5 %		13.6 %	17.6 %	17.4 %
EBIT without PPA write-offs	411.2	641.8	-35.9 %	-6.9	165.0	-104.2 %	108.4	155.5	154.2
EBIT margin in % of revenue without PPA write-offs	10.9 %	17.5 %		-0.7 %	17.5 %		11.6 %	16.5 %	16.4 %
EBIT	313.1	528.5	-40.8 %	-28.0	137.2	-120.4%	87.0	127.7	126.4
EBIT margin in % of revenue	8.3 %	14.4 %		-2.9 %	14.5 %		9.3%	13.6 %	13.4 %
EBT	312.6	522.4	-40.2%	-28.3	139.3	-120.3%	87.0	127.7	126.2
EBT margin in % of revenue	8.3 %	14.2 %		-2.9 %	14.7 %		9.3 %	13.6 %	13.4 %
Profit per share in € excluding PPA write-offs	1.64	2.57	-36.4 %	-0.03	0.72	-104.7 %	0.40	0.66	0.61
Profit per share in €	1.25	2.12	-41.2 %	-0.12	0.60	-119.6 %	0.32	0.55	0.50
CASH FLOW (IN €M)									
Net inflow of funds from operating activities	450.7	375.7	20.0 %	60.2	148.2	-59.4 %	192.8	92.7	105.0
Net outflow of funds in investment sector	-397.4	-230.5	-72.4 %	2.8	-221.7	101.3 %	-190.6	-86.0	-123.6
Free cash flow	243.7	355.4	-31.4 %	46.2	136.5	-66.2 %	18.1	81.9	97.5

	31/12/20	31/12/19	Change	31/12/20	31/12/19	Change	30/09/20	30/06/20	31/03/20
HEADCOUNT (INCL. MANAGEMENT BOARD)									
Total per end of December	3,191	3,163	0.9%	3,191	3,163	0.9%	3,154	3,191	3,159
CUSTOMER CONTRACTS (IN MILLIONS)									
Access, contracts	14.83	14.33	3.5%	14.83	14.33	3.5%	14.68	14.57	14.43
of which mobile internet	10.52	9.99	5.3%	10.52	9.99	5.3%	10.36	10.24	10.10
of which broadband (ADSL, VDSL, FTTH)	4.31	4.34	-0.7%	4.31	4.34	-0.7%	4.32	4.33	4.33
BALANCE SHEET (IN €M)									
Short-term assets	1,553.3	1,309.2	18.6 %	1,553.3	1,309.2	18.6 %	1,549.2	1,578.1	1,454.4
Long-term assets	5,137.0	5,152.7	-0.3 %	5,137.0	5,152.7	-0.3 %	5,229.8	5,086.8	5,089.9
Shareholders' equity	4,853.8	4,640.8	4.6 %	4,853.8	4,640.8	4.6 %	4,873.8	4,817.5	4,729.3
Balance sheet total	6,690.3	6,461.9	3.5 %	6,690.3	6,461.9	3.5 %	6,778.9	6,664.9	6,544.2
Equity ratio	72.5 %	71.8 %		72.5 %	71.8 %		71.9 %	72.3 %	72.3 %

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

Fiscal year 2020 was an extraordinary one for both our Company and for the German economy as a whole. The coronavirus pandemic has confronted many industries with unexpected challenges. Despite the difficulties of this environment, 1&1 Drillisch performed well, increasing the number of customer contracts by 500,000 to 14.83 million (31/12/2019: 14.33 million). While broadband lines declined slightly to 4.31 million contracts, customer contracts in the mobile internet business increased by 530,000 (5.3 percent) to 10.52 million (31/12/2019: 9.99 million).

Total revenues increased by €111.9 million (3.0 percent) to €3.787 billion (2019: €3.675 billion) in fiscal year 2020. The high-margin service revenues increased by €77.0 million (2.6 percent) to €3.020 billion (2019: €2.943 billion). Adjusted for negative impacts of €24.1 million caused by the coronavirus pandemic (in particular the decline in international roaming), comparable total revenue would have increased by 3.7 percent and service revenues by 3.4 percent. These earnings are the focus of our attention because they are sustainable and determine profit.

The low-margin other sales – essentially from the realisation of hardware sales brought forward (in particular from investments in smartphones that will be reimbursed by the customers over the minimum contract term in the form of higher package prices) – increased by €34.9 million (4.8 percent) to €766.8 million (previous year: €731.9 million). This business fluctuates seasonally and its development depends heavily on the attractiveness of new devices and the model cycles of manufacturers.

The earnings were burdened in fiscal year 2020 by a one-off, non-cash derecognition of prepaid expenses for existing VDSL contingents in the amount of €129.9 million. But even without taking this special effect into account, the consolidated EBITDA of just under €600 million fell short of the previous year's figure (€683.5 million).

This shortfall was due in particular to the advance services prices charged by Telefónica for the use of its network capacity from 1 July 2020. Our acceptance of Telefónica's improved offer for national roaming in February 2021 will retroactively reduce expenses for the second half of 2020 by about €34.4 million. However, this amount can only be recognised as income related to other periods in 2021 as the conclusion of a national roaming agreement is a prerequisite for this. Negotiations on such an agreement are scheduled between March and May 2021. In addition, the earnings figures were burdened by the regulatory decisions of the EU on text messaging rates (since 15 May 2019) and the Federal Network Agency on the subscriber line charge (since 1 July 2019) totalling €-13.7 million. One-off expenses from integration projects, on the other hand, decreased to €-1.1 million (previous year: €-3.2 million). In addition, there were burdens on earnings due to the temporarily changed use behaviour of our customers as a result of the coronavirus pandemic, especially in the areas of telephony and international roaming (among other factors, because of regulations for working from home and contact bans as well as the severe restrictions on travel activities), amounting to €-25.2 million. The burden on earnings in 2020 from the aforementioned special factors was approximately €204.3 million.

Costs of €-13.9 million (previous year: €-5.7 million) were incurred for the planning and preparation of our 5G mobile network.

Profit per share in fiscal year 2020 came to €1.25 (previous year: €2.12). Precluding the effects of the PPA write-offs, the profit per share amounted to €1.64 (previous year: €2.57).

Free cash flow in 2020 amounted to €243.7 million (previous year: €355.4 million). A contractually agreed one-off payment of €165.0 million was scheduled to be made to Telefónica in the third quarter of 2020 for the first five-year extension phase of the MBA MVNO contract that began on 1 July 2020. Precluding this payment, the free cash flow amounts to approximately €409 million, an increase of approximately 15 percent. Per 31 December 2020, we had about €404 million as freely available cash at our disposal.

Besides business operations, fiscal year 2020 was characterised by the preparations for the construction of the Company's own mobile network and the ongoing negotiations for a national roaming agreement that will be required during the transition period while we are gradually establishing our own network. We have successfully completed these preparations. In our ad hoc announcement of 15 February 2021, we reported that we had accepted the offer from Telefónica Germany – which was improved following a review by the EU Commission – for national roaming and the associated MBA MVNO advance services. The conditions offered by Telefónica with retroactive effect from July 2020 will in future again be based on the pricing mechanisms of the first five years of the MBA MVNO contract. In particular, the agreements provide once again for annually decreasing data prices that are lower than the fixed prices Telefónica charged in the second half of 2020.

With the conclusion of the contract, which Telefónica's offer stipulates for about mid-May 2021, another essential prerequisite for the planned rollout of a high-performance 5G network would be realised. This sharing of the Telefónica network assures our customers of nationwide mobile coverage even during the rollout phase of our 5G network.

In the same ad hoc announcement on 15 February 2021, we reported on the expansion of our fibre optic service. Our goal is to provide more and more households with guaranteed gigabit speeds because fibre optic is increasingly becoming the standard for fast communication even in private households. FTTH lines to private households offer bandwidths of up to 1 Gbit/s. Households not yet equipped with FTTH will be connected to VDSL lines (up to 250 Mbit/s).

In addition to the access to FTTH connections now provided by well-known city carriers, the number of marketable FTTH lines of Deutsche Telekom will increase by an average of 2 million households per year during the next few years. To this end, we have concluded an agreement with our affiliate 1&1 Versatel for the long-term procurement of FTTH and

VDSL complete packages, including voice and IPTV, as 1&1 Versatel's nationwide transport network is largely connected to Deutsche Telekom's regional broadband networks. The advance services contract strictly for VDSL services previously in place between 1&1 Drillisch and Deutsche Telekom was prematurely terminated by agreement of the parties in view of the benefits of the new combined VDSL/FTTH agreement. The new agreement between 1&1 Versatel and Deutsche Telekom is subject to approval by the Federal Network Agency, the competent regulatory authority.

Thanks to the positioning of our brand names and products in mobile internet and landline services, we can be counted among the leading service providers in Germany, offering comprehensive services and outstanding price-benefit ratios. In the respected landline network test conducted by the trade magazine connect for 2020, our premium brand 1&1 took first place for the third time since 2015 and received especially high marks in the categories stability, reliability, fast internet and good supplementary services. 1&1 is also a leader in customer satisfaction. According to the connect Customer Barometer 2020, we posted the highest customer satisfaction rating of all mobile network providers for the fifth time since 2015.

We expect the number of customers to continue to grow throughout all of 2021. We foresee an increase in high-margin service revenues to approximately €3.100 billion (2020: €3.020 billion). EBITDA is expected to increase (precluding the possible income of approximately €34.4 million related to other periods because of the planned signing of the national roaming agreement) to approximately €650 million (2020: €468.5 million). This forecast includes expected negative impacts on revenues and earnings relating to the coronavirus pandemic of approximately €25 million (2020: €25 million) as well as initial costs for the 5G network rollout of approximately €30 million (2020: approximately €14 million). This forecast is subject to uncertainties as it is not possible at present to make an exact assessment of the duration and ongoing impact of the coronavirus pandemic.

In view of the upcoming investments for the 5G network expansion, the Management Board and Supervisory Board will propose an unchanged dividend of €0.05 per voting share to the Annual General Meeting. Our Company is in a good position to take the next steps in our corporate development, and we are optimistic as we look ahead to the future. We want to express our special thanks to all of our employees for their commitment and work and to our shareholders and business partners for the trust they have placed in 1&1 Drillisch.

Best regards from Maintal,

Ralph Dommermuth | Markus Huhn | Alessandro Nava

Maintal, in March 2021

MANAGEMENT

RALPH DOMMERMUTH
Chief Executive Officer

In 1988, Ralph Dommermuth, born in 1963, founded 1&1 EDV Marketing GmbH, the company that was to grow into what is today United Internet AG. His initial business was the provision of systematised marketing services to small software providers. He later developed additional marketing services for large customers such as IBM, Compaq and Deutsche Telekom. When acceptance of the internet began to accelerate, Ralph Dommermuth gradually cut back on these marketing services for third parties and began to build up his own internet services and direct customer relationships. In 1998, the trained banker managed the IPO of 1&1, which was the first internet company on the Frankfurt stock exchange. In 2000, Ralph Dommermuth restructured 1&1 into United Internet AG and developed the company into one of the leading internet specialists in Europe. Mr Dommermuth has also been Chief Executive Officer of 1&1 Drillisch AG since 1 January 2018.

MARKUS HUHN
Chief Financial Officer

Markus Huhn began his professional career in financial controlling at DLW Group in 1990; he simultaneously enrolled in advanced training courses and obtained certification in business administration from an academy of administration and economics (VWA). In July 1994, he moved to 1&1 Holding GmbH to become financial controller. From 1998 to 2007, he was commercial director of 1&1 Internet AG and guided the corporation's growth strategy. Markus Huhn held the position of CFO at 1&1 Internet in the time between 2008 and 2012, and in this role he guided the business sectors Access and Business and Consumer Applications. In addition, he was in charge of the central finance departments, which operate as shared services within United Internet Group. He has been a member of the 1&1 Telecommunication SE Management Board since 2013 and is head of the division Finances for the business unit Access. He has been a member of the 1&1 Drillisch AG Management Board since 1 July 2019.

ALESSANDRO NAVA
Chief Operations Officer

studied business administration at Heinrich-Heine-University in Düsseldorf, earning a degree as a certified merchant (Dipl.-Kaufmann) with a special focus on marketing and financial controlling in 1997. Mr Nava began his professional career as a consultant for KPMG Consulting GmbH. As of 2000, he held the position of senior head of department, initially in landline and later in combined landline/mobile services business, at Vodafone Germany (Vodafone GmbH). His progress took him through several different business sections of the company; for instance, he was in charge of IT requirements management & business analysis, customer care and product development and was responsible for the online platforms. Following the merger of the landline and mobile services business, Mr Nava was in charge of the company's IT development as well as other areas. Since March 2014, Mr Nava has been the head of the division «Technology and Development» (CIO) at 1&1 Telecommunications SE. Since September 2018, he has been in charge of the division «Product Management». He has been a member of the Management Board of 1&1 Drillisch AG (COO) since 1 July 2019.

REPORT OF THE SUPERVISORY BOARD

Supervisory Board Members in Fiscal Year 2020

» **Michael Scheeren (since 16 October 2017)**
Supervisory Board chairman (since 13 November 2017 and until 23 February 2021)

» **Kai-Uwe Ricke (since 16 October 2017)**
Deputy chairman (since 13 November 2017)

» **Dr Claudia Borgas-Herold**
(since 12 January 2018)

» **Vlasios Choulidis**
(since 12 January 2018)

» **Kurt Dobitsch**
(since 16 October 2017, since 16 March 2021 Chairman of the Supervisory Board)

» **Norbert Lang**
(since 12 November 2015)

In fiscal year 2020, the Supervisory Board of 1&1 Drillisch AG fulfilled the duties and responsibilities assigned to it by legal statutes, the articles of association and by-laws and rules of procedure, regularly advised the Management Board in its leadership of the Company and monitored its management of the Company's business. The Supervisory Board was at all times able to determine the legality, expediency and correctness of the Management Board's work. The Supervisory Board was directly involved in all decisions that were of fundamental significance for the Company. The Management Board regularly instructed the Supervisory Board, in writing as well as orally, comprehensively and contemporaneously, including between meetings, regarding all relevant questions of strategy and the related opportunities and risks, corporate planning, development and course of business, planned and ongoing investments, the Group's position, including risks and risk management, and compliance. The Company's strategic orientation is determined by Management and Supervisory Boards in joint consultation. The Management Board submitted a comprehensive report on the course of business, including revenue development and profitability, the Company's position and its business policies to the Supervisory Board at quarterly intervals. The reports included as well information about any aberration in the course of business from planning. The Management Board's reports satisfied the requirements of legal statutes, good corporate governance and the instructions issued to it by the Supervisory Board with respect to both subject matter and scope. The reports were made available to all Supervisory Board members.

The Supervisory Board reviewed the reports submitted by the Management Board and all other information with respect to plausibility; the materials were the subject of intensive discussions, critical examination and in-depth questions. The Supervisory Board gave its consent to specific business transactions if and when this was required by legal statutes, by-laws or rules of procedure for the Management Board.

The Supervisory Board regularly received reports from the Management Board concerning the internal controlling system and the Group-wide risk management that had been set up by the Management Board. Based on its reviews, the Supervisory Board has come to the conclusion that the internal controlling system, the Group-wide risk management and the internal auditing system are effective and functional.

Supervisory Board activities, meetings

A total of five meetings of the full Supervisory Board was held in the 2020 reporting year, of which only one was in-person (on 18 June 2020) because of the coronavirus pandemic.

In addition to the regular reporting required by legal statutes, the following subjects in particular were discussed and reviewed intensively:

» The separate and the consolidated annual financial statements per 31 December 2019

» 2020 revenue and profit budget of the Company

» Planning and investment projects of the corporate group for fiscal year 2020

» The considerations and planning for a 5G mobile network as well as the negotiations for a national roaming agreement

» The Supervisory Board’s report to the Annual General Meeting for fiscal year 2019, the updating of the Declaration of Conformity pursuant to the German Corporate Governance Codex, the Declaration on Corporate Management and the Corporate Governance Report

» The resolution on the Company's revenue and earnings planning for 2021 and the planning of expenses and investments for the 5G mobile network

» The announcement, the agenda and proposals for the adoption of resolutions for the Annual General Meeting 2020

» The adoption of the resolution regarding the Management Board’s proposed allocation of profits

» The proposal to the Annual General Meeting for the disbursement of dividends

» Audit schedules and the quarterly reports

- Monitoring of the effectiveness of the implemented compliance system
- Quarterly reports on risk management and risk management strategy
- Dependency Report 2019, review and approval of the Dependency Report 2019
- Corporate development during the year
- The review of the independence of Ernst & Young GmbH and the acting persons, including the additional services provided, as well as the coordination with the selected auditors Ernst & Young on the focal points of the audit
- Adoption of a resolution regarding the Sustainability Report

Personnel changes on the Management Board and Supervisory Board

There were no changes in the membership of the Management Board during fiscal year 2020. Current members of the Management Board are Messrs Ralph Dommermuth (CEO), Markus Huhn and Alessandro Nava.

There were no changes in the membership of the Supervisory Board during fiscal year 2020.

In accordance with Section 96 (1), Section 101 (1) Stock Corporation Act [*Aktiengesetz; AktG*] and Section 10 (1) of the Company by-laws, the Supervisory Board consisted of six members in 2020 and corresponds in its competence profile to its previous and current objective; in particular, the memberships of Dr Claudia Borgas-Herold and Mr Norbert Lang satisfy the requirement of a minimum of two independent members on the Board. The proportion of women on the Supervisory Board in fiscal year 2020 came to 16.66 percent. Supervisory Board chairman in the reporting period 2020 was Mr Michael Scheeren, and Mr Kai-Uwe Ricke was Supervisory Board deputy chairman.

In its meeting on 21 March 2018, the Supervisory Board decided not to set up any committees in future, but to perform all of its duties and responsibilities as a full body. This will give all Supervisory Board members the opportunity to participate in any and all Supervisory Board topics at peer level.

Corporate Governance

All members took part in the total of five meetings of the Supervisory Board.

In accordance with recommendation D.13 of the German Corporate Governance Code, the Supervisory Board regularly assesses how effectively it performs its duties as a body. For this purpose, the Supervisory Board conducts a self-assessment based on questionnaires approximately every two years. The results of the survey are evaluated anonymously and subsequently discussed in a plenary session. The Board acts on any need for improvement that is revealed during the process. The next self-assessment is scheduled for spring/summer 2021.

The Supervisory Board did not conduct any investor meetings during the reporting period.

Supervisory Board members Michael Scheeren, Kurt Dobitsch and Dr Claudia Borgas-Herold are simultaneously members of the United Internet AG Supervisory Board. A conflict of interest requiring attention has not arisen for any of the Supervisory Board members. If necessary, the Supervisory Board members consult the Supervisory Board chairman about the handling of any conflicts of interest that arise.

Management Board and Supervisory Board report on corporate governance pursuant to C.22 of the German Corporate Governance Codex within the scope of the Declaration on Corporate Management. Management Board and Supervisory Board issued a joint Declaration of Conformity pursuant to Section 161 AktG during the reporting period, most recently on 16 December 2020, showing that the Company is in compliance with most of the recommendations of German Corporate Governance Codex. The declarations and related explanatory comments are permanently available to the shareholders on the Company's internet site. In all other respects, reference is made here to the remarks in the corporate governance report included in the Annual Report 2020.

Discussion of separate and consolidated annual financial statements 2020

The separate annual financial statements and the consolidated annual financial statements per 31 December 2020, the management reports for the stock corporation and Group for fiscal year 2020 (each including the explanatory report on the disclosures pursuant to Section 289a (1) and Section 315 (2a) Commercial Code [*Handelsgesetzbuch; HGB*]) prepared and submitted in good time by the Management Board and the accounting and risk management system were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, the accounting firm elected by the Annual General Meeting on 19 May 2020 for this task, and an unqualified auditor's opinion was issued to the documents.

The separate and consolidated annual financial statements, the management report and the consolidated management report and the related audit reports from the auditor were submitted to all of the Supervisory Board members. Focal points of the engagement of the auditors were in particular the key audit matters (KAM), which included the following points (among others): for the consolidated annual financial statements, revenue recognition, the recognition of contract initiation costs and contract fulfillment costs and the impairment of goodwill; for the separate annual financial statements of 1&1 Drillisch AG, the impairment of financial assets.

Finally, the concluding documents were examined and discussed during a meeting of the Supervisory Board on 24 March 2021 in the presence of the auditor. At that time, the auditor reported on the most significant results of its audit, explained the results and gave detailed answers to questions posed by the Supervisory Board members. Subject matter of this discussion included in particular the results of the audit regarding the defined key audit matters and the accounting process. The internal controlling system, the risk report and the risk management system were discussed in detail with the auditor during the Supervisory Board meeting on 24 March 2021. Regarding the system for the early detection of threats, the auditor determined that the Management Board had implemented the measures required pursuant to Section 91 (2) AktG, in particular with respect to the implementation of a monitoring system, in an appropriate manner and that the monitoring system was suitable to detect in good time any developments that might jeopardise the continued existence of the Company. Following its own audit, the Supervisory Board agreed with the audit results reached by the auditor and, after considering the final results of its own audit, does not raise any objections. In a resolution adopted during its meeting on 24 March 2021, the Supervisory Board approved the separate and the consolidated annual financial statements 2020. The annual financial statements have been adopted pursuant to Section 172 AktG. In its meeting on 24 March 2021, the Supervisory Board reviewed and adopted the non-financial declaration ("Sustainability Report 2020").

Review of the Management Board's report on relationships to affiliated companies

The Management Board submitted the report it had prepared on the relationships to affiliated companies (Dependency Report) for fiscal year 2020 to the Supervisory Board in good time.

The Management Board's report on the relationships to affiliated companies was the subject of the audit by the auditor. The following auditor's opinion was issued in this context:

Following our conscientious audit and assessment, we hereby confirm that:

1. The factual contents of the report are correct;
2. The performance of the Company was not unreasonably high in view of the legal transactions described in the report;
3. No circumstances indicate an assessment differing essentially from that of the Management Board for the actions described in the report.

The auditor submitted the audit report to the Supervisory Board. The Supervisory Board reviewed the Management Board's Dependency Report and the audit report. The final review by the Supervisory Board took place during the Supervisory Board meeting on 24 March 2021.

The auditor attended the meeting and reported on his audit of the Dependency Report and his key audit results, explained his audit report and answered questions from the Supervisory Board members. In accordance with the concluding results of its audit, the Supervisory Board accepts the Management Board's Dependency Report and audit report and does not have any objections to the Management Board's explanations at the conclusion of the report concerning the relationships to affiliated companies.

The Supervisory Board wishes to express its thanks to the members of the Management Board and to all of the Company's associates for their successful work for, and commitment to, 1&1 Drillisch Group in the past fiscal year as in the years before. Our special thanks go to our customers and shareholders for the trust they have placed in the Company.

Maintal, 24 March 2021

On behalf of the Supervisory Board
Kurt Dobitsch

CORPORATE GOVERNANCE REPORT

Fundamentals of Corporate Governance

The corporate governance of 1&1 Drillisch AG as a listed German stock corporation is determined primarily by the Stock Corporation Act [*Aktiengesetz; AktG*] and by the requirements of the German Corporate Governance Code (DCGK).

The term corporate governance stands for responsible management and control of companies geared towards long-term value creation. Efficient cooperation between Management and Supervisory Boards, respect for shareholders' interests as well as openness and transparency in corporate communication are essential aspects of good corporate governance.

The Management and Supervisory Boards of 1&1 Drillisch AG consider it their duty to ensure the continued existence of the Company and sustainable value creation through responsible corporate governance oriented to the long term.

The following report issued by the Management and Supervisory Boards contains the "Declaration on Corporate Governance" pursuant to Section 289f Commercial Code [*Handelsgesetzbuch; HGB*] for the single Company and pursuant to Section 315d HGB for the corporate group and in accordance with Principle 22 of the German Corporate Governance Code.

Declaration pursuant to Section 161 AktG regarding compliance with the recommendations of the German Corporate Governance Code

The current Declaration of Compliance by the Management and Supervisory Boards, which was issued on 16 December 2020 and has since been permanently accessible on the internet at www.1und1-drillisch.de (to be found under "Corporate Governance" under the sub-heading "Declaration of Compliance"), has the following wording:

1&1 Drillisch Aktiengesellschaft

Declaration of the Management Board and Supervisory Board of 1&1 Drillisch AG Regarding the Recommendations of the "Government Commission on the German Corporate Governance Code" Pursuant to Section 161 AktG

The Management Board and Supervisory Board of 1&1 Drillisch Aktiengesellschaft declare that the Company has been in compliance (although with the stated exceptions) with the recommendations of the "Government Commission on the German Corporate Governance Code" (Code) as last revised on 7 February 2017 and published by the Federal Ministry of Justice in the official section of the Federal Gazette on 24 April 2017 since the issue of the last declaration of conformity on 17 December 2019. 1&1 Drillisch AG complies with, and will in future continue to comply with, the recommendations of the Code as most recently revised on 16 December 2019, which entered into effect upon publication in the Federal Gazette on 20 March 2020, although with the following exceptions:

Clause A.2, second sentence
Possibility of whistleblowing for Company employees

The Company has not established a specific whistleblowing system for employees. In view of the statutory provision of Section 612a of the Civil Code (*Bürgerliches Gesetzbuch; BGB*) establishing labour law regulations prohibiting disciplinary measures, the Company sees no reason to establish further protective mechanisms for whistleblowers. The statutory prohibition of disciplinary measures prohibits the discrimination of employees because of the reasonable and lawful exercise of their rights. Moreover, given the open solution-oriented communication culture in the Company, the Company does not see any practical need for a complicated whistleblowing system.

Clauses D.2/D.3
Formation of committees

The Supervisory Board performs all its tasks as a whole rather than forming committees. The Supervisory Board considers it appropriate for all Supervisory Board members to have the opportunity to participate equally in all Supervisory Board issues. Even a supervisory board with six members is small enough for the effective conduct of discussions and the intense sharing of views as a group. Consequently, the Supervisory Board does not believe that the establishment of committees would serve to enhance the efficiency of its work.

Clauses G.1 to G.5
Remuneration of the Management Board – remuneration system

The recommendations from G.1 to and including G.5 of the Code refer to a system of remuneration for Management Board members within the sense of Section 87a AktG ("Remuneration System") that, following the reform of the German Stock Corporation Act by the Act Implementing the Second Shareholders' Rights Directive (ARUG II), must now be adopted by the Supervisory Board and submitted to the Annual General Meeting for approval. The remuneration system must be presented for approval for the first time at the 1&1 Drillisch AG Annual General Meeting in 2021.

A remuneration system is currently being developed by the Supervisory Board and will be submitted to the 2021 Annual General Meeting for approval. The remuneration system will not become the basis for determining the remuneration of the Management Board members in future until it has been submitted to the Annual General Meeting. Since the recommendations from G.1 to and including G.5 of the Code presume the existence of a remuneration system, an exception is declared in this respect. The remuneration system currently in preparation is expected to take into account the recommendations from G.1 to and including G.5 of the Code without any restrictions.

Clause G.10
Remuneration of the Management Board – long-term variable remuneration

According to G.10 of the Code, the variable remuneration components granted to members of the Management Board should be granted primarily as shares of company stock or granted on the basis of company stock. Moreover, any such grants to board members should be subject to a blackout period of four years. Share-based remuneration is awarded in the form of the Stock Appreciation Rights (SARs) programme as a long-term remuneration programme for the Management Board. The term of this programme totals six years. Within this period of six years, a Management Board member can redeem a portion (25 percent) of the vested SARs at certain points in time – at the earliest, however, after two years. This means that a Management Board member can obtain a part of the long-term variable remuneration after only two years.

The Supervisory Board is of the opinion that this system of long-term remuneration has proven its value and sees no reason to postpone any further the possibility of obtaining remuneration earned under the programme. The Supervisory Board believes that the linking of the programme to the 1&1 Drillisch AG share price and the opportunity for Management Board members to redeem their shares to satisfy the claims from the programme secure reasonable participation of Management Board members in the risks and opportunities of the company 1&1 Drillisch AG. Since the programme has been designed with a term of six years and the awarded SARs are vested proportionately over this term and at the earliest after two years, the Supervisory Board is of the opinion that the programme achieves an optimal commitment effect and incentive control in the interest of 1&1 Drillisch AG and does not require any changes.

Clause G.11
Remuneration of the Management Board – withholding/clawback of variable remuneration

According to G.11 of the Code, the Supervisory Board should have the possibility to withhold or claw back variable remuneration in justified cases. The current service contracts of the Management Board members do not contain any such provisions. However, there are plans to include a so-called “claw back clause” regulating the return of variable remuneration in the remuneration system and to include the clause in future service contracts of the Management Board members.

Clause G.13
Remuneration of the Management Board – benefits upon termination of contract

According to G.13 of the Code, payments to a Management Board member in the event of premature termination of Management Board membership should not exceed the value of two years’ remuneration and should not remunerate the member for a period longer than the remaining term of the service contract. If and when there is a post-contractual non-competition clause, any such severance payment should also be offset against the waiting period compensation. The service contracts for Management Board members do not currently provide such an offset option. However, there are plans to incorporate this option into the remuneration system and into future service contracts of the Management Board members (and any related termination agreements).

Clause G.17
Consideration of the deputy chairmanship in the remuneration of Supervisory Board members

The remuneration of Supervisory Board members does not take into account the deputy chairmanship of the Supervisory Board as the deputy chairperson of the Supervisory Board does not currently perform any additional duties that would place a greater burden on him or her in comparison with an ordinary member of the Supervisory Board.

Maintal, 16 December 2020

On behalf of the Supervisory Board	The Management Board		
Michael Scheeren	Ralph Dommermuth	Markus Huhn	Alessandro Nava

Management and corporate structure

As appropriate to its legal form, 1&1 Drillisch AG has a two-tier management and supervisory structure with the governing bodies Management and Supervisory Boards. The third governing body is the general meeting. The governing bodies are obliged to act in the best interests of the Company.

Management Board

Working methods of the Management Board

The Management Board is the managing body of the Group. It consisted of three persons in fiscal year 2020 (namely Ralph Dommermuth, Markus Huhn and Alessandro Nava). The Management Board conducts the Company's affairs in accordance with statutory provisions and the articles of association, the rules of procedure approved by the Supervisory Board and the pertinent recommendations of the German Corporate Governance Code insofar as no exceptions have been declared in accordance with Section 161 AktG.

When appointing Management Board members, the Supervisory Board strives for a diversified and mutually complementary composition for the best possible service to the Company and considers long-term succession planning. Above all, experience and knowledge of the industry as well as professional and personal qualifications play an important role. The maximum age for Management Board membership has been set at 70.

As part of the long-term succession planning, the Supervisory Board, with the involvement of the Management Board, regularly examines highly qualified executives who are potential candidates for Management Board positions.

The Management Board is responsible for preparing the interim and annual financial statements and for filling key personnel positions in 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 legal provisions of Section 90 AktG and provides the chairperson of the Supervisory Board with an overview of the current status of the reporting items viewed as relevant in accordance with Section 90 AktG at least once a month orally and also, at the request of the Supervisory Board chairperson, in writing. The chairperson or spokesperson of the Management Board or the chief financial officer informs the Supervisory Board chairperson without delay of any important events that are of significance for the assessment of the situation, development and the management of the Company. Any significant deviation from the Company's budgetary planning or other forecasts shall also be considered an important event. The chairperson or spokesperson of the Management Board or the chief financial officer also informs the Supervisory Board chairperson (in advance if possible, otherwise immediately thereafter) of any ad hoc announcement of the Company pursuant to Art. 17 of the Market Abuse Regulation [MAR].

The Management Board has overall responsibility for the management of the Company's business in accordance with uniform objectives, plans and guidelines. The Management Board's overall responsibility notwithstanding, each and every member of the Management Board acts on his/her own responsibility in the purview assigned to him/her, but is required to subordinate the interests of his/her purview to the overall good of the Company.

In fiscal year 2017, the Management Board set targets of 5.3 percent for the proportion of women in each of the two management levels below the Management Board in accordance with Section 76 (4) first sentence AktG and set a deadline of 30 June 2022 for the achievement of the targets. The set targets have been and are currently achieved.

The allocation of duties within the Management Board is regulated by the Supervisory Board in a business allocation plan proposed by the Management Board.

The Management Board members inform one another about important events within their purviews.

Irrespective of their responsibility to their own purviews, all members of the Management Board constantly monitor the events and data that are decisive for the course of business of the Company so that they are able to work at any and all times towards the prevention of impending harm and the implementation of desirable improvements or expedient changes by addressing the full Management Board or in any other appropriate manner.

The full Management Board adopts decisions regarding any and all matters that are of particular importance and scope for the Company or its subsidiaries and its participating interests.

The Management Board as a whole adopts its decisions by a simple majority of votes. In the event of a tie, the Board chairperson casts the deciding vote. Management Board decisions are recorded in the minutes of the meeting.

The full Management Board meets every fortnight as a rule; further meetings are convened as required by circumstances.

Each and every Management Board member discloses any and all conflicts of interest to the Supervisory Board without delay.

Current composition of the Management Board

The 1&1 Drillisch AG Management Board consisted of the following three members in fiscal year 2020:

» Ralph Dommermuth, Chief Executive Officer

» Markus Huhn, Chief Financial Officer

» Alessandro Nava, Chief Operations Officer

Supervisory Board

Working methods of the Supervisory Board

The Supervisory Board elected by the Annual General Meeting consisted of six members in fiscal year 2020. As a rule, the term of office of the Supervisory Board members is five years.

The Supervisory Board maintains regular contact with the Management Board and monitors and advises the Management Board in the management of the business and the risk and opportunity management of the Company in accordance with statutory provisions, the articles of association, the rules of procedure and the pertinent recommendations of the German Corporate Governance Code (insofar as no exception has been declared in accordance with Section 161 AktG).

At regular intervals, the Supervisory Board discusses with the Management Board any and all questions of strategy and its implementation, planning, business development, risk situation, risk management and compliance that are relevant to the Company. It discusses the quarterly and semi-annual reports with the Management Board prior to their publication and approves the annual budget. It reviews the separate and consolidated annual financial statements and approves the financial statements if no cause for objection is found. Its review takes into account the audit reports of the auditor.

The Supervisory Board's responsibilities also include the appointment of the members of the Management Board as well as the determination of the Management Board's remuneration and its regular review in compliance with the pertinent applicable legal provisions as well as the recommendations of the German Corporate Governance Code insofar as no exception has been declared pursuant to Section 161 AktG.

In accordance with Recommendation D.13 of the German Corporate Governance Code, the Supervisory Board regularly assesses the effectiveness of the performance of its duties as a body. For this purpose, the Supervisory Board conducts a self-assessment based on questionnaires approximately every two years. The results of the survey are evaluated anonymously and subsequently discussed in a plenary session. The Board acts on any need for improvement that is revealed during the process. The next self-assessment is scheduled for spring/summer 2021.

The Supervisory Board members assume on their own initiative responsibility for any training and advanced training measures required for their tasks, and their actions are appropriately supported by the Company.

Supervisory Board meetings are convened by written announcement from the chairperson issued, as a rule, at least 14 days in advance.

The agenda shall be included with the convocation announcement. If an agenda has not been properly announced, resolutions may be adopted solely if and when no Supervisory Board member objects before the vote on the resolution.

Supervisory Board resolutions are as a rule adopted during meetings. Meetings are chaired by the Supervisory Board chairperson. Outside of meetings, resolutions may also be adopted by other means (e.g. by phone or by email) on the chairperson's instruction provided that no member objects to this procedure.

The Supervisory Board has a quorum if and when the meeting has been properly announced to all members and at least three members participate in the vote on the adoption of the resolution. A member participates in a vote on a resolution even if he/she abstains.

Supervisory Board resolutions are adopted by a simple majority unless otherwise mandated by law.

Minutes of the proceedings and resolutions of the Supervisory Board are recorded in writing.

The Supervisory Board chairperson is authorised to submit on behalf of the Supervisory Board any and all declarations of intent required to implement the Supervisory Board resolutions.

Objectives for the composition of the Supervisory Board/Competence profile for the full body

The rules of procedure for the Supervisory Board require that care be taken during the nomination of candidates for election to the Supervisory Board to ensure that the Supervisory Board members at all times have the knowledge, skills and professional experience required for the orderly performance of their duties. Determining the suitability of candidates should take into account the international activities of the Company, potential conflicts of interest and the age limit of 70 for Supervisory Board members.

In accordance with C.1 of the German Corporate Governance Code, the Company's Supervisory Board has also set the following objectives for its composition (including certain competence requirements for the body as a whole) that have been consistently observed since the objectives were set for elections of Supervisory Board members and, most recently, for the election of the current Supervisory Board members by the Annual General Meeting on 17 May 2018:

- » The Supervisory Board membership should include at least two representatives from the telecommunications, media and/or IT sectors. Currently, all members of the Supervisory Board have relevant industry knowledge and the required competence.
- » The Supervisory Board should have at least one member with international experience (e.g. in financial engineering, telecommunications, M&A). All members of the Supervisory Board have the relevant experience and skills and meet this criterion.
- » The Supervisory Board should not include more than two former members of the Management Board. This criterion is also met as solely Mr Vlasios Choulidis served as a Management Board member and spokesman prior to his election to the Supervisory Board. Furthermore, Supervisory Board members should immediately disclose to the Supervisory Board any conflicts of interest that may arise and resign from the Supervisory Board whenever there are permanent conflicts of interest. No such conflicts of interest arose in the reporting year.
- » The Supervisory Board should include at least two members who do not have a personal or business relationship with the Company, its governing bodies, a controlling shareholder or an enterprise affiliated with the latter that could constitute a material and not merely temporary conflict of interest. In the opinion of the Supervisory Board, at least two members – Dr Claudia Borgas-Herold and Mr Norbert Lang – are independent.
- » Supervisory Board members should step down from the Supervisory Board at the end of the annual general meeting following their 75th birthday. This criterion is also met.
- » There should be at least one woman on the Supervisory Board. This criterion is met through the membership of Dr Claudia Borgas-Herold on the Supervisory Board.

The 1&1 Drillisch AG Supervisory Board consisted of the following members in fiscal year 2020:

- » Michael Scheeren, Chairman of the Supervisory Board
  (since October 2017)
- » Kai-Uwe Ricke, Deputy Chairman of the Supervisory Board
  (since October 2017)
- » Dr Claudia Borgas-Herold
  (since January 2018)
- » Vlasios Choulidis
  (since January 2018)
- » Kurt Dobitsch
  (since October 2017)
- » Norbert Lang
  (since November 2015)

In the reporting year, the Supervisory Board again addressed the above objectives for its composition, in particular with regard to the competence profile for the Board as a whole, and confirmed their continued standing. The composition of the Supervisory Board complies with the defined objectives as well as the competence profile.

The Supervisory Board nominations for the election of Supervisory Board members should continue to be oriented towards the welfare of the Company, also taking into account these objectives and the endeavour to satisfy the competence profile for the body as a whole.

When setting the targets for the proportion of women on the Supervisory Board and the Management Board in accordance with Section 111 (5) first sentence AktG in fiscal year 2018, the Supervisory Board also maintained its position that the proportion of women on the Supervisory Board should be 16.66 percent and the proportion of women on the Management Board should be 0 percent. The deadline for achieving the aforementioned targets was set at 30 June 2022. Irrespective of this, the selection should always be made according to the individual competence profile of the potential board members, whereby the Supervisory Board endeavours to give preference to women whenever candidates' qualifications are otherwise equivalent. The set targets have been and are currently achieved.

Subject to the formation of stub periods, the term of office of each Supervisory Board member ends at the conclusion of the annual general meeting that adopts a resolution discharging the Supervisory Board members for fiscal year 2022.

Disclosures on relevant corporate governance practices within the sense of Section 289f (2) no. 2 HGB – Risk management/Compliance – Diversity concept

If the Company's success is to be assured over the long term, it is essential to identify and analyse the risks of business actions effectively and to eliminate or restrict their effects by means of the appropriate steering mechanisms. The Company's risk management system ensures the responsible handling of these risks. It has been designed specifically with the aim of recognising risks early and of assessing and controlling them. The system is subject to constant development and adaptation to changing circumstances. The Management Board regularly reports to the Supervisory Board whenever necessary on existing risks and their management. The effectiveness of the internal control system and the risk management system was monitored by the Supervisory Board as a body.

The primary features of the internal control and risk management system relating to the accounting process are described in detail in the management report in accordance with Section 289 (4) HGB and in the consolidated management report in accordance with Section 315 (4) HGB. The Management Board also reports in detail on any existing risks and their development in these reports.

Compliance is an important component of the management and corporate culture of 1&1 Drillisch Group. In the Company's view, compliance encompasses the totality of all measures to comply with the law and its own internal standards, principles and rules. From the Company's perspective, legally and ethically irreproachable conduct is the basis of any sustainable entrepreneurial success. This has led the Management Board to implement a compliance management system that is based on a central compliance directive. The compliance guideline applies to the members of all governing bodies and to employees of the corporate group and ensures that the value system is practised consistently and continuously across a broad spectrum.

Central areas of the compliance guideline concern, for example, fair, respectful and trustworthy dealings with colleagues and business partners as well as conduct towards competitors. Bribery and corruption are not tolerated at the Company; and the compliance guideline clearly underscores this attitude with appropriate prohibitions and instructions. Violations of compliance standards are unacceptable to us. We consistently follow up on any reports of violations and clarify the related facts. If and when violations are determined, they are stopped immediately and, if necessary, sanctioned consistently within the appropriate framework.

Diversity aspects are always taken into account in the composition of the Management and Supervisory Boards. The Company regards diversity as not only desirable, but indeed as crucial to its success. In consequence, the Company strives to maintain overall a corporate culture of appreciation in which individual diversity in terms of culture, nationality, gender, age group and religion is desired and equal opportunities irrespective of age, disability, ethnic-cultural origin, gender, religion and ideology or sexual identity are promoted.

Individual strengths – that is, everything that makes the individual employees within the Company unique and distinctive – have made it possible for the Company to become what it is today. A workforce that is made up of a wide variety of personalities offers optimal conditions for creativity and productivity and fosters as well employee satisfaction. The resulting potential for ideas and innovation strengthens the Company's competitiveness and increases opportunities on future markets. In keeping with this thought, diversity (in terms of age, gender or professional experience, for example) should be the object of close attention; certainly the field of activity and the position in which an individual's potential and talents can be exploited in the best possible way should be found for each and every employee, but in the Company's own interests, it should also be a factor for the composition of the Management and Supervisory Boards.

In view of the size of its workforce and the open and trusting interaction, however, the Company does not pursue a more explicit diversity concept beyond this. The fostering of diversity cannot take a one-size-fits-all approach that would be dictated by such a concept. The selection of candidates and appointments to board positions should also be based on objective factors such as qualifications, professional suitability and the individual competence profile of the potential executives, whereby the Company endeavours to give preference to women with equal qualifications.

Financial publicity/Transparency

1&1 Drillisch has the declared goal of informing institutional investors, private shareholders, financial analysts, employees and the interested public simultaneously and equally about the Company’s position through regular, open and up-to-date communication.

To this end, all essential information such as press releases, ad hoc announcements and other mandatory disclosures (such as directors’ dealings or voting rights notifications) as well as all financial reports are published in accordance with legal requirements. Furthermore, 1&1 Drillisch also provides extensive information on the Company's website (www.1und1-drillisch.de). Documents and information about the Company’s general meetings as well as other economically relevant information can be found on the site.

1&1 Drillisch reports to shareholders, analysts and representatives of the press on the development of business as well as the financial and earnings situation four times in each fiscal year in accordance with a fixed financial calendar. The financial calendar is published and regularly updated on the Company’s website in accordance with legal requirements.

In addition, the Management Board notifies shareholders without delay by issuing ad hoc announcements concerning circumstances that are not publicly known and that are likely to have a significant impact on the share price.

As part of its investor relations, management meets regularly with analysts and institutional investors. Moreover, analyst conferences, to which investors and analysts also have telephone access, are held to present the semi-annual and annual figures.

Accounting and auditing

The Group's accounts are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS, as applicable in the EU), taking into account Section 315e HGB. The annual financial statements relevant for disbursement and tax purposes, on the other hand, are prepared according to the provisions of the German Commercial Code (HGB). The separate and consolidated annual financial statements are audited by independent auditors. The auditor is elected by the general meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, was appointed as auditor for fiscal year 2020. The Supervisory Board issues the audit mandate, determines the focal points of the audit and the audit fee and reviews the independence of the auditor.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has been the auditor for 1&1 Drillisch AG and the group since fiscal year 2018. Mr Jens Kemmerich has been the auditor in charge of the audit since fiscal year 2018.

Remuneration for Management Board and Supervisory Board

The basic features of the remuneration system for the Management and Supervisory Boards are presented in the remuneration report on pages 79 and 81 (point 5) of the management report. The disclosure of the remuneration of the Management and Supervisory Board members, individualised and broken down by components (in accordance with legislative requirements and the German Corporate Governance Code) can be found in the remuneration report and on page 163 of the notes to the consolidated financial statements.

Stock option programmes

The basic features of the employee participation programme at 1&1 Drillisch AG are described in the remuneration report on pages 79 and 81 (point 5) of this management report. Further details can be found on page 147 et seqq. (point 38) of the notes to the consolidated financial statements.

CONSOLIDATED MANAGEMENT REPORT

GENERAL INFORMATION ABOUT THE COMPANY AND GROUP

1. General information about the Company and Group

1.1. Business model

1&1 Drillisch Group

1&1 Drillisch Group, together with 1&1 Drillisch Aktiengesellschaft, Maintal, the listed parent company (hereinafter: "1&1 Drillisch AG" or, along with its subsidiaries, "1&1 Drillisch" or "1&1 Drillisch Group"), is a telecommunications provider that operates solely and exclusively in Germany. Serving more than 14.8 million contracts, 1&1 Drillisch is a leading internet specialist and is authorised to use one of the largest fibre optic networks in Germany because of its affiliation with the company 1&1 Versatel GmbH, Düsseldorf (hereinafter: "1&1 Versatel GmbH"), which is a member of the United Internet AG corporate group. As a virtual mobile network operator, 1&1 Drillisch has guaranteed access to up to 30 percent of the capacity of Telefónica's mobile network in Germany (so-called Mobile Bitstream Access Mobile Virtual Network Operator = MBA MVNO). In addition, 1&1 Drillisch utilises capacities in Vodafone's mobile network. The Group's business unit Access offers landline and mobile network-based internet access products. They include, among others, chargeable landline and mobile access products and the related applications such as home networks, online storage, telephony, video on demand or IPTV. In addition, 1&1 Drillisch is currently planning to build its own mobile network using the 5G mobile frequencies that were acquired in the auction in 2019.

1&1 Drillisch – sole MBA MVNO on the German mobile market

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Telefónica grants to 1&1 Drillisch via its wholly-owned subsidiary Drillisch Online GmbH, Maintal (as the only competitor on the German mobile market), access to up to 30 percent of the utilised network capacity of Telefónica in the mobile network of Telefónica and E-Plus that is controlled after the merger of the two companies. This right applies to all future as well as current technologies, including 5G. At the same time, 1&1 Drillisch obtains access rights to the so-called "Golden Grid Network" of Telefónica that has been created by the merger. This means access to the enhanced footprint of the mobile network of Telefónica, including all necessary technical specifications and the technical capability to reduce speed and restrict transport in the event of excessive data utilisation by end customers.

In 2019, 1&1 Drillisch exercised the first option to extend the MBA MVNO agreement as planned so that the contract now runs until 30 June 2025. The MBA MVNO agreement provides for an option to become a licensed mobile network operator for which, among other things, the conclusion of a national roaming agreement is indispensable.

Pursuant to these agreements, 1&1 Drillisch secures access to the Telefónica mobile network over the long term and guarantees seamless coverage during the construction phase of its own nationwide network.

Preparation of its own 5G mobile network

The course was set for the construction of the Company's own 5G mobile network when it acquired 5G frequencies in 2019.

In 2019, 1&1 Drillisch acquired frequency blocks in the 2 GHz and 3.6 GHz ranges. While the frequency blocks in the 3.6 GHz range are already available, the frequency blocks in the 2 GHz range will not become available until 1 January 2026. To bridge this period, 1&1 Drillisch has leased additional frequencies in the 2.6 GHz range from Telefónica until its own frequencies become available.

On 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of hundreds of mobile base stations in so-called "white spots." 1&1 Drillisch's actions in this regard will help to close existing coverage gaps and contribute to the improvement of mobile communications coverage in rural regions. In return, 1&1 Drillisch will be allowed to pay the costs for the acquired 5G frequencies in twelve annual instalments. The licence costs originally due in the years 2019 and 2024 can now be paid to the federal agencies in instalments scheduled through 2030. This agreement fits in with 1&1 Drillisch's long-term financing strategy, which provides for the majority of the expenditures for the construction of a modern 5G network to be financed from current income.

Another prerequisite is the conclusion of a national roaming agreement for uninterrupted coverage during the construction phase of the Company's own network. On 15 February 2021, 1&1 Drillisch announced that it would accept the offer for national roaming submitted by Telefónica, which had been improved once again following the review by the EU Commission. With the conclusion of the contract, which Telefónica's offer stipulates for about mid-May 2021, another essential prerequisite for the planned rollout of a high-performance 5G network would be realised.

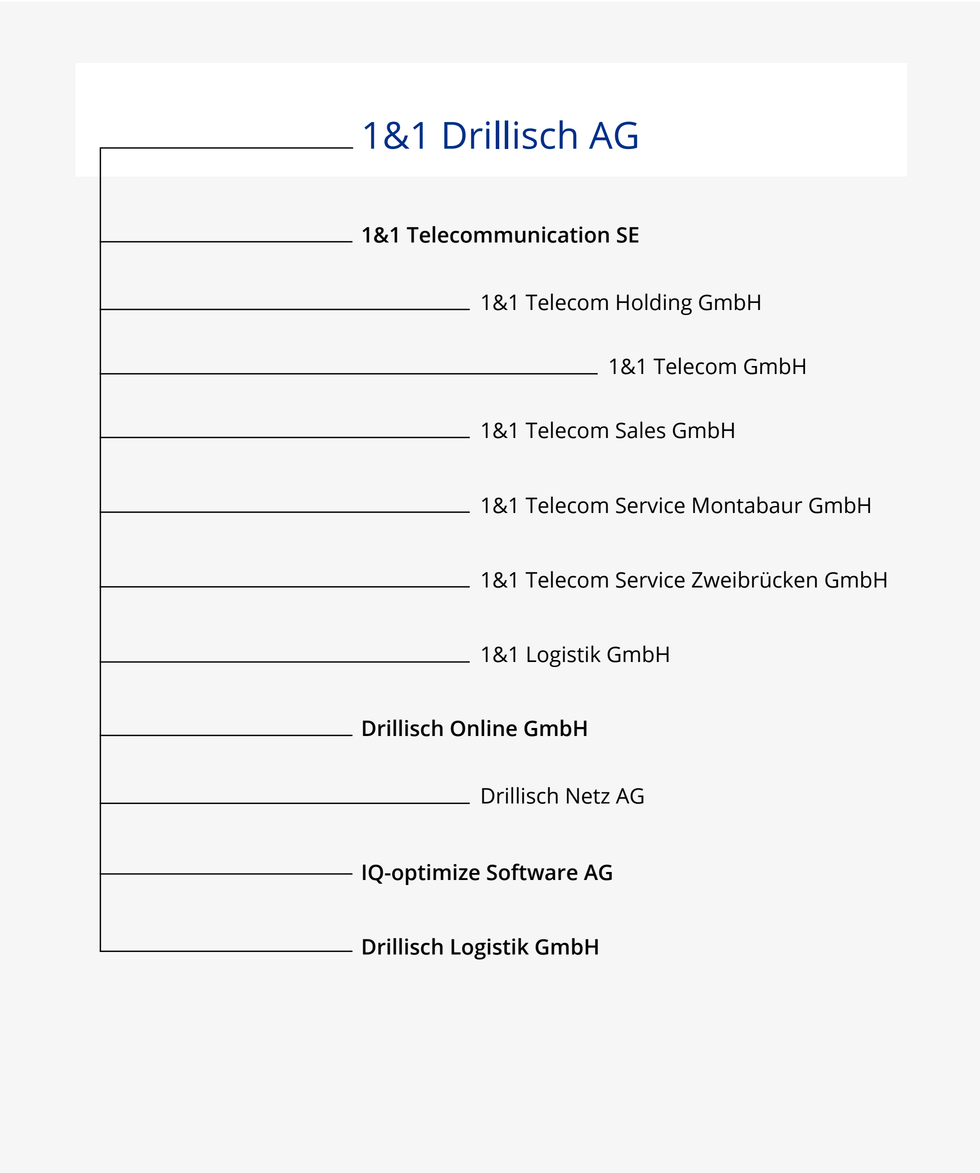
During the fiscal year, intensive planning activities and preparations for the construction of the necessary infrastructure continued. In particular, negotiations with potential mobile network outfitters were conducted; they can be concluded by the middle of 2021. The acceptance of the offer for national roaming has laid the groundwork for a successful and permanent positioning as the fourth mobile network operator in Germany, and following the conclusion of the national roaming agreement, the construction of a high-performance 5G mobile network can begin.

1&1 Drillisch AG is the Group's holding company

Within 1&1 Drillisch Group, 1&1 Drillisch AG, the parent company, concentrates on the holding tasks such as management, finances and accounting, financial controlling, cash management, human resources, risk management, corporate communications and investor relations along with the definition, management and monitoring of the corporate strategy.

The operating business is essentially conducted by 1&1 Telecom GmbH and by Drillisch Online GmbH.

1&1 Drillisch AG is a listed subsidiary of United Internet AG, Montabaur, which is also listed.



Business activities

Chargeable contracts with 14.83 million subscribers make 1&1 Drillisch one of the leading providers of broadband and mobile services products in Germany.

Company management and group reporting encompass the segments "Access" and "5G" (previously three reporting segments: "Access", "5G" and "Miscellaneous").

The reporting segment "Miscellaneous" was integrated into the segment "Access" during the reporting year to optimise the informative value and the presentation of related business activities. The figures for the previous year were restated appropriately.

Segment "Access"

The Group's chargeable wireless access and landline products, including the related applications (such as home networks, online storage, telephony, video on demand or IPTV), are grouped together in the segment "Access". 1&1 Drillisch operates solely and exclusively in Germany. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, a member company of United Internet AG Group, and its access right to the Telefónica network; in addition, it purchases standardised network services from various providers of advance services. Access to the networks is enhanced by offerings of devices, own developments of applications and services to set the Company apart from its competitors.

The Access products are marketed via the well-known brand name 1&1 and discount brands such as yourfone or smartmobil.de, which address specific target groups on the market.

"5G" Segment

The expenses and income relating to preparations for the future establishment, expansion and operation of the Company's own 5G mobile network are disclosed in the segment "5G".

Major locations

LOCATION	MAJOR ACTIVITIES	COMPANY
Maintal	Headquarters, holdings, IR, PR, finance, accounting, financial controlling, risk management, legal matters, compliance, HR	1&1 Drillisch AG
	IT	IQ-optimize Software AG
	Accounting, marketing, sales, customer service	Drillisch Online GmbH
Krefeld	Marketing, sales, logistics, customer service, financial controlling, receivables management and risk management	Drillisch Online GmbH
Düsseldorf	Network planning	Drillisch Netz AG
Munich	Marketing, sales, logistics, sales controlling	Drillisch Online GmbH
Montabaur	Finance, PR, marketing, sales, logistics, customer service	1&1 Telecom GmbH, 1&1 Telecom Sales GmbH
Karlsruhe	Development, product management, data centre operation, marketing, sales, purchasing, customer service	1&1 Telecom GmbH, 1&1 Telecom Sales GmbH
Zweibrücken	Customer service	1&1 Telecom Service Zweibrücken GmbH

In fiscal year 2020, an average headcount of 3,177 (previous year: 3,119) was employed at 1&1 Drillisch Group.

1.2 Strategy

The 1&1 Drillisch business model is based primarily on customer contracts characterised by fixed monthly payments and fixed contract terms. Contracts without fixed terms are also marketed, although to a lesser degree. A business model of this type secures stable and plannable revenues and cash flows, provides protection from short-term economic fluctuations and opens up financial manoeuvring room so that opportunities arising in new business fields and on new markets can be exploited.

A large number of customer relationships also helps the Company to take advantage of so-called scaling effects; the greater the demand for the products, the better fixed costs can be covered and the higher the realised profit. These profits can then be invested in acquiring new customers and in developing new products and business areas.

From today’s perspective, mobile internet and high-speed broadband lines along with the related applications represent the growth markets of the coming years. Thanks to its clear positioning on these markets, 1&1 Drillisch, operating under the umbrella of United Internet Group, is strategically well placed to exploit the expected market potential.

The Company has established an outstanding position for itself thanks to its many years of experience as a telecommunications provider; to its competence in software development and data centre operation, marketing, sales and customer care; to its brands (such as 1&1, smartmobil.de and yourfone); and to the existing customer contract relationship with more than 14.83 million subscribers in Germany.

1&1 Drillisch will continue to invest heavily in new customers and new products so that it can steadily expand its market positioning by building on this expected growth.

1&1 Drillisch's successful participation in the 5G frequency auction in 2019 opens up further strategic potential for strengthening and expanding its position on the German mobile communications market.

While not neglecting organic growth, 1&1 Drillisch continuously examines as well possible corporate acquisitions, holdings and cooperative ventures as further methods for the expansion of market position, competencies and product portfolios.

Thanks to its plannable and high free cash flow, 1&1 Drillisch has at its disposal the resources to fund activities itself while securing solid access to debt capital markets.

Additional information about opportunities and objectives can be found under "Risks, opportunities and forecast report" under item 4.

1.3 Steering systems

The internal steering systems support management in the steering and monitoring of the group. Among other elements, the system includes budgetary and as-is calculations and is based on the group's strategic planning that is revised annually. Factors given particular consideration are market developments, technological developments and trends, their impact on the Company's own products and services and the financial opportunities available to the group. The goal of the corporate steering activities is to continue the development of 1&1 Drillisch AG and its subsidiaries continuously and sustainably.

Group reporting encompasses monthly profit and loss statements along with quarterly IFRS reports of all consolidated subsidiaries and presents the assets and liabilities, the financial position and the earnings of the group and the business units. Financial reporting is supplemented by further detailed information necessary for the assessment and steering of operating business.

The key steering indicators are described in the section "Segment reporting" of the consolidated notes.

The reports on the major risks to the Company that are prepared quarterly are another component of the steering system.

These reports are discussed during the meetings of Management and Supervisory Boards and serve as fundamental pillars for analyses and decisions.

The key performance indicators are revenue, gross profit and the adjusted consolidated EBITDA based on IFRS (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary and one-off factors). Moreover, actions of Company management include consideration of non-financial indicators, in particular the number of, and growth in, contracts subject to charge. Use and definition of relevant financial performance indicators can be found under point 2.2. 1&1 Drillisch AG (separate company) in its role as the group holding concentrates on the operating values of the Group.

As in the previous year, the existing goodwill is attributed to the “Access” reporting segment and is monitored at this level by the competent corporate positions.

Item 2.2 “Course of business” in the section “Actual and projected course of business” and item 2.3 “Position of the group” in the section containing the general statement on the development of business present a comparison between the performance indicators designated in the forecast with the as-is values of these performance indicators.

1.4. Focus on products and innovations

Product development in fiscal year 2020 focused on the following areas:

- Launch of a fibre optic gigabit tariff for private customers
- Development of new “IPTV applications” for smart TVs based on Tizen/Samsung
- Extension of streaming options for IPTV users from 3 to 4 parallel streams
- Introduction of a process for the marketing and installation of Apple Smart Watches with LTE and eSIM in cooperation with Apple and Telefónica
- Marketing start of 5G rate plans

BUSINESS REPORT

2. Business Report

2.1. General economic and industry-related conditions

Development of the overall economy

The International Monetary Fund (IMF) expects Germany's economic performance to decline by -5.4 percent in 2020 as a consequence of the coronavirus pandemic. The IMF's calculations for Germany remain below the provisional calculations of the Federal Statistical Office (Destatis), which determined a decline in (price-adjusted) gross domestic product (GDP) of -5.0 percent (previous year: +0.6 percent). After a ten-year period of growth, the German economy has fallen into a deep recession in the coronavirus crisis year 2020, similar to what happened most recently during the financial and economic crisis of 2008/2009. However, the economic slump was less severe than in 2009 when it was -5.7 percent.

Changes during the year in the growth forecasts 2020 for primary target countries and regions of 1&1 Drillisch

	January forecast	April forecast	June forecast	October forecast	**Actual 2020**	Deviation from January forecast
World	3.3 %	-3.0 %	-4.9 %	-4.4 %	-3.5 %	-6.8 percentage points
Germany	1.1 %	-7.0 %	-7.8 %	-6.0 %	-5.4 %	-6.5 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2021

Multi-period overview: development of GDP in primary target countries and regions of 1&1 Drillisch

	2016	2017	2018	2019	**2020**	Change over previous year
World	3.2 %	3.7 %	3.6 %	2.8 %	-3.5 %	-6.3 percentage points
Germany	1.9 %	2.5 %	1.5 %	0.6 %	-5.4 %	-6.0 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2021

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

	2016	2017	2018	2019	**2020**	Change over previous year
GDP	2.1 %	2.8 %	1.5 %	0.6 %	-5.0 %	- 5.6 percentage points

Source: Federal Statistical Office, January 2021

Development of the industry/core markets

As announced during its annual press conference (13 January 2021), the industry association Bitkom assumed a decline for the German ICT market of -0.6 percent (previous year: +1.9 percent) to €169.8 billion in 2020. At the beginning of 2020 (i.e. before the coronavirus pandemic), BITKOM was still projecting revenue growth of +1.5 percent. Despite the decline, the German ICT sector has so far weathered the coronavirus crisis comparatively well.

As in the previous year, the telecommunications market in Germany continues to move sideways. While sales revenues increased by 0.1 percent in 2019, the association forecasts a decline in revenue of -0.1 percent for 2020. Devices (+0.3 percent) and telecommunications services (+0.1 percent) increased slightly, but there was a decline in revenue of -2.4 percent in telecommunications infrastructure.

The decline in the overall ICT market is due in particular to declining revenues in information technology. According to the BITKOM forecast 2020, revenues in this largest sub-market fell by -0.7 percent (previous year: +4.0 percent) to €94.6 billion, a significant change from the growth of +2.7 percent projected at the beginning of the year. Yet the individual sectors developed very differently: +3.2 percent for IT hardware (previous year: +3.2 percent), -1.0 percent for software (previous year: +7.3 percent), -3.2 percent for IT services (previous year: +2.4 percent).

The most important ITC market for 1&1 Drillisch is the German telecommunications market (broadband lines and mobile internet) in the "Access" business unit, which is financed largely by subscriptions.

(Landline) broadband market in Germany

The demand for new broadband landlines in Germany has slowed down in recent years because household coverage is already extensive and because of the strong trend in the direction of mobile internet use. An expected plus of 1.0 million new lines (2.8 percent) to 36.2 million in 2020 meant that the number of new activations was significantly below the record figures of earlier years. This was the conclusion reached by the Association of the Providers of Telecommunications and Added-value Services (VATM) and Dialog Consult in their joint 22. *TK-Marktanalyse Deutschland* 2020 (October 2020). Of the growth described above, the lines relevant for 1&1 Drillisch in the two technology sectors DSL and FTTB/FTTH rose by 0.3 million to 25.6 million and by 0.4 million to 1.9 million, respectively. The number of cable connections rose by 0.3 million to 8.7 million. Another 0.05 million connections are operated via satellite/Powerline in Germany.

Revenues generated in the landline business of €33.0 billion were slightly higher (+0.6 percent) in 2020 than the previous year's level (€32.8 billion). The aforementioned revenue figures include inter alia advance service, interconnection and device revenues in addition to the end customer revenues.

According to a projection from Dialog Consult/VATM, the average consumption of data volume developed much more strongly than the number of newly activated lines and the revenues realised from landline connections, rising by 25.0 percent to 168.1 GB (per line and month), an indicator of the continuing rise in the use of IPTV or cloud applications (for example). The demand for high-speed broadband lines developed at a correspondingly high rate. The number of activated broadband lines with speeds of at least 50 MBit/s rose by 6.4 percentage points from 40.3 percent in the previous year to 46.7 percent in 2020.

The total number of active broadband lines in Germany grew in 2020, as in the previous year, by 1.0 million (+2.8 percent) to the present 36.2 million lines. At the end of 2020, 70.8 percent is expected to be (V)DSL/vectoring lines (25.6 million), 24.0 percent cable network lines (8.7 million) and 5.2 percent FTTB/FTTH lines (1.9 million). Gigabit lines increase by another 700,000 while there are 300,000 more DSL lines.

Key market figures: landlines in Germany

	2020	2019	Change
Landline revenues (in €bn)	33.0	32.8	+ 0.6 %

Source: Dialogue Consult/VATM, *TK-Marktanalyse Deutschland* 2020, October 2020

Mobile internet market in Germany

According to estimates from Dialog Consult/VATM published in the joint 22. TK-Marktanalyse Deutschland 2020, the number of active SIM cards on the German mobile communications market increased by 8.6 million (6.1 percent) to 148.7 million in 2020. The growth results from the so-called M2M SIM cards (machine-to-machine SIM cards), which are used, for example, for the automated exchange of information among machines, vending machines, vehicles etc. and/or with a central control centre and which increased by 9.5 million to 39.1 million. The number of personal SIMs, on the other hand, fell by 0.9 million to 109.6 million.

Revenues for mobile services increased at the same time by +1.6 percent to €25.9 billion. These revenue figures also include – in addition to revenues from end customers – interconnection, advance service and device revenues.

According to forecasts by Dialog Consult/VATM, the average data volume consumed per line and month rose by 45.4 percent to 3.0 GB, a rate much faster than the number of SIM cards and mobile revenues and a sign of the increasing use of mobile data services. At the same time, the number of SIM cards suitable for the faster 4G/5G networks also increased by 12.9 million to 75.4 million while the number of 2G/3G SIM cards declined by 13.8 million to 34.2 million.

Key market figures: wireless services in Germany

	2020	2019	Change
Mobile internet revenues (in €bn)	25.9	25.5	+ 1.6 %

Source: Dialogue Consult/VATM, *TK-Marktanalyse Deutschland 2020*, October 2020

General legal conditions/Major events

The legal framework for the business activities of 1&1 Drillisch remained essentially unchanged in fiscal year 2020 compared to the previous year.

Conclusion of a contract for broadband advance services with 1&1 Versatel

1&1 Drillisch AG has concluded an agreement with its affiliate 1&1 Versatel for the long-term procurement of FTTH and VDSL complete packages including voice and IPTV from 1 April 2021. At the same time, 1&1 Versatel concluded an agreement with Deutsche Telekom regarding the use of the latter's FTTH/VDSL household lines. This means an expansion of the optic fibre services offered by 1&1 Drillisch and will encompass all FTTH/VDSL advance services from 1&1 Versatel in future. The FTTH/VDSL agreement has a term of 10 years and is expected to increase the number of FTTH lines accessible to 1&1 Drillisch by approximately 750,000 right away. According to information from Deutsche Telekom, the total number of marketable FTTH lines is scheduled to increase by an average of two million households per year over the next few years.

The advance services contract, strictly for VDSL advance services, previously in place between 1&1 Drillisch and Deutsche Telekom with a term until 31 March 2024 will be prematurely terminated by agreement of the parties in view of the benefits of the new combined FTTH/VDSL agreement. As a result of the reassessment of the term of the contract, the item of prepaid expenses for VDSL existing customer contingents still available in the amount of €129.9 million has been reversed. The one-time derecognition is non-cash and will be significantly exceeded in the long term by positive effects in the following years from the expanded cooperation with 1&1 Versatel and Deutsche Telekom.

The new FTTH/VDSL agreement between 1&1 Versatel and Deutsche Telekom is subject to approval by the Federal Network Agency, the competent regulatory authority.

Status of the negotiations regarding a national roaming agreement

Besides business operations, fiscal year 2020 was characterised by the preparations for the construction of our own mobile network and the ongoing negotiations for a national roaming agreement that will be required during the transition period while 1&1 Drillisch is gradually establishing its own network. In an ad hoc announcement of 15 February 2021, 1&1 Drillisch reported that it had accepted the offer from Telefónica Germany – which was improved following a review by the EU Commission – for national roaming and the associated MBA MVNO advance services. With the conclusion of the agreement, which Telefónica's offer stipulates by mid-May 2021, another essential prerequisite for the planned rollout of a high-performance 5G mobile network would be realised.

The prices offered for national roaming are set to apply retroactively to the current MBA MVNO agreement from July 2020. Telefónica has been charging the same high advance service prices in the MBA MVNO agreement since July 2020 while until then the advance services prices have been steadily sinking. This had a negative impact on the result for fiscal year 2020. Telefónica's national roaming offer reverts to the pricing mechanisms of the first five years of the MBA MVNO agreement. In particular, it again foresees annual decreases in data prices, which are lower than the prices currently charged under the MBA MVNO agreement. A conclusion of the agreement would result in a positive effect on earnings of approximately €34.4 million (which would be recognised as income in fiscal year 2021) for 1&1 Drillisch.

Status of the price adjustment procedures

As 1&1 Drillisch has described in its financial reports, certain advance service prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch, in the course of which 1&1 Drillisch expects binding decisions on the type and amount of permanent price adjustments in the form of retrospectively lower advance service prices. In the arbitration proceedings for the review of a price increase initiated by Telefónica in December 2018 in reference to the 2015 frequency auction in the one-off amount of approximately €64 million, the arbitrator submitted his final assessment on 17 December 2020. The assessor comes to the conclusion that this price increase during the reviewed period (2016 to 2020) is unjustified in full and there are no payment obligations for 1&1 Drillisch. Otherwise, no further arbitrator proceedings initiated by Telefónica are pending.

Conversely, 1&1 Drillisch is demanding substantial retroactive reductions in the advance services prices pursuant to the MBA MVNO agreement from Telefónica in its price review procedures 2, 5 and 6.

Coronavirus pandemic

Despite the stable business model that is largely independent of economic cycles, the business activities of 1&1 Drillisch in 2020 were also impacted by the effects of the coronavirus pandemic.

While in the first quarter of 2020 there were still positive revenue effects from the temporarily changed use behaviour of customers as a result of the coronavirus pandemic (especially in the area of telephony resulting from factors such as provisions for working from home and contact bans), these were overshadowed in the rest of the year by revenue losses (especially a lack of international roaming revenues) that resulted primarily from the temporary, but highly restricted travel options of customers. Overall, there was a negative impact on revenues of €-24.1 million. At the same time, the aforementioned temporary change in customers' use behaviour (especially in the areas of telephony and international roaming) had a negative impact of €-25.2 million (in comparison with the budget for 2020) on the segment's earnings figures. There were no negative effects in the form of increased bad debts.

No other significant events with a decisive influence on the course of business occurred in fiscal year 2020.

2.2. Course of business

Use and definition of financial performance indicators relevant for business

Financial performance indicators such as gross profit, gross profit margin, EBITDA, EBITDA margin, EBIT, EBIT margin or free cash flow are used in addition to the disclosures required by the International Financial Reporting Standards (IFRS) in the group's annual and interim financial statements to ensure a clear and transparent presentation of 1&1 Drillisch's business development.

These performance indicators as used at 1&1 Drillisch are defined as shown below:

» Gross profit: gross profit is calculated as the difference between sales and expenditures for procured services and merchandise.

» Gross profit margin: the gross profit margin is the ratio of gross profit to revenue.

» EBIT: the EBIT (earnings before interest and taxes) shows the results of operating activities disclosed in the comprehensive income statement.

» EBIT margin: the EBIT margin is the ratio of EBIT to revenue.

» EBITDA: the EBITDA (earnings before interest, taxes, depreciation and amortisation) is calculated as the EBIT plus the write-offs on intangible and tangible assets (items disclosed in the cash flow statement) and write-offs on assets capitalised during the acquisition of companies.

» EBITDA margin: the EBITDA margin is the ratio of EBITDA to revenue.

» Free cash flow: the free cash flow is calculated as the net payments from operating activities (items disclosed in the capital flow statement) less investments in intangible and tangible assets plus payments from the disposal of intangible and tangible assets.

The above-mentioned performance indicators are adjusted for special factors/special effects to the extent this is necessary to ensure a clear and transparent presentation. As a rule, the special effects are related solely to those effects that, because of their nature, frequency and/or scope, are capable of negatively affecting the meaningfulness of the financial performance indicators for the financial and income development of the group. All special effects are pointed out and explained in the relevant chapter of the financial statements for the purpose of the rollover to the unadjusted financial performance indicators.

Actual and forecast course of business

Forecast course of business 1&1 Drillisch

1&1 Drillisch published the forecast for fiscal year 2020 as part of its 2019 annual financial statements; during the year, figures were corrected or stated more precisely as shown below:

	Actual 2019	Forecast 2020 (March 2020)	Concretisation[1] (August 2020)	Correction[2] (September 2020)	Concretisation[3] (November 2020)	Correction[4] (February 2021)	Actual 2020
Revenue	€3,674.9m	Unchanged	Approximately + 4.0 %		Approximately + 3.0 %	Approximately + 3.0 %	**3.0 %**
Service revenues	€2,943.0m		Approximately + 2.0% - +3.0 %		Approximately + 2.5 %	Approximately + 2.6 %	**2.6 %**
EBITDA	€683.5m	Unchanged		Approximately €600m		Approximately €470m	**€468.5m**

(1) Concretisation based on course of business to date.

(2) Correction of EBITDA forecast due to price changes by Telefónica for advance services since July 2020.

(3) Concretisation based on course of business to date.

(4) Announcement of the provisional figures for fiscal year 2020. In this sense, the EBITDA forecast was corrected due to the derecognition of the prepaid expenses for existing contingents required by the broadband advance service agreement with 1&1 Versatel.

Actual course of business – 1&1 Drillisch

In fiscal year 2020, 1&1 Drillisch was able to increase the number of chargeable customer contracts from 14.33 million to 14.83 million. The increase of 0.53 million contracts is attributable to the Mobile Internet division, where the contract portfolio rose to 10.52 million contracts. The number of contracts for broadband lines (4.31 million) remained essentially constant in comparison with the end of fiscal year 2019.

Sales revenues in fiscal year 2020 amounted to €3,786.8 million (previous year: €3,674.9 million). The high-margin service revenues grew by 2.6 percent compared to the previous year and amounted to €3,020.0 million in fiscal year 2020. The previous year's forecast (by and large no change in sales revenues) was clearly exceeded.

The EBITDA in the group fell from €683.5 million in the previous year to €468.5 million, so results fell short of the previous year's forecast of a constant EBITDA compared to the previous year. The decline resulted in particular from the derecognition of the prepaid expenses item relating to the premature termination of the VDSL advance services contract (€129.9 million). At the same time, the aforementioned temporary change in customers' use behaviour because of the impact of the coronavirus pandemic resulted in a shortfall of €-25.2 million in the segment's earnings figures in comparison with the forecast for 2020. Moreover, there were negative effects from the costs for procured mobile advance services that had risen since the middle of the year. A conclusion of the national roaming agreement scheduled for the middle of May would result in a positive effect on earnings for the period from 1 July to 31 December 2020 of approximately €34.4 million (which would be recognised as income in fiscal year 2021) for 1&1 Drillisch.

Forecast course of business – 1&1 Drillisch AG

The Management Board expected sales revenues for 1&1 Drillisch AG in 2020 at the level of the separate financial statements to be of roughly the same magnitude as in fiscal year 2019 and a moderate improvement in the profit for the year.

Actual course of business – 1&1 Drillisch AG

As the holding company within the 1&1 Drillisch Group, the earnings of 1&1 Drillisch AG are highly dependent on the development of the operating results of the subsidiaries. Sales revenues from intercompany services amount to €2.3 million (previous year: €2.1 million). Other operating expenses increased from €6.9 million to €13.8 million. This is due in particular to higher costs related to the planning of the 5G mobile network. Income from profit and loss transfer agreements amounts to €256.7 million (previous year: €544.3 million). The background for the lower earnings from profit and loss transfer agreements include in particular the aforementioned one-off effects (derecognition of a prepaid expenses item and increased costs for procured mobile advance services) at the operative subsidiaries 1&1 Telecommunication SE and Drillisch Online GmbH. The development of the annual profit fell short of the Management Board's expectations.

Segment development

Segment "Access"

The Group's chargeable wireless and broadband access products, including the related applications (such as home networks, online storage, telephony, video on demand or IPTV), are grouped together in the segment "Access."

1&1 Drillisch operates exclusively in Germany and its 14.83 million contracts mean it is one of the country's leading providers in the telecommunications sector. The Company uses the landline network of the affiliate 1&1 Versatel GmbH, a member company of United Internet AG Group, and the access right to the Telefónica network; in addition, it purchases standardised network services from various providers of advance services. Access to the mobile or landline networks is combined with devices, own developments of applications and services to create an extended portfolio that sets the Company apart from its competitors.

The Access products are marketed via (for example) the well-known brands 1&1, smartmobil.de or yourfone, which address specific target groups on the market.

In fiscal year 2020, 1&1 Drillisch again invested in the acquisition of new customers and in the retention of current customer relationships. Focus was on the marketing of mobile internet contracts.

The number of chargeable contracts in the segment “Access” rose in the current product lines by 0.50 million to 14.83 million contracts in fiscal year 2020. In the mobile internet business, it was possible to acquire 0.53 million customer contracts, raising the number of contracts to 10.52 million. The number of contracts for broadband lines (4.31 million) remained essentially constant in comparison with the end of fiscal year 2019.

Development of Access contracts in fiscal year 2020 (in millions)

	31/12/2020	31/12/2019	Change
Access, total contracts	14.83	14.33	+ 0.50
of which mobile internet	10.52	9.99	+ 0.53
of which broadband lines	4.31	4.34	- 0.03

Development of Access contracts in Q4 2020 (in millions)

	31/12/2020	30/09/2020	Change
Access, total contracts	14.83	14.68	+ 0.15
of which mobile internet	10.52	10.36	+ 0.16
of which broadband lines	4.31	4.32	- 0.1

The group’s operating business activities take place primarily in the reporting segment “Access”. The segment reporting is aligned with the internal organisation and reporting structure.

Revenue in the segment “Access” rose by €111.9 million (3.0 percent) to €3,786.8 million (previous year: €3,674.9 million).

In the segment “Access”, the cost of materials rose by €307.0 million to €2,787.8 million (previous year: €2,480.8 million).

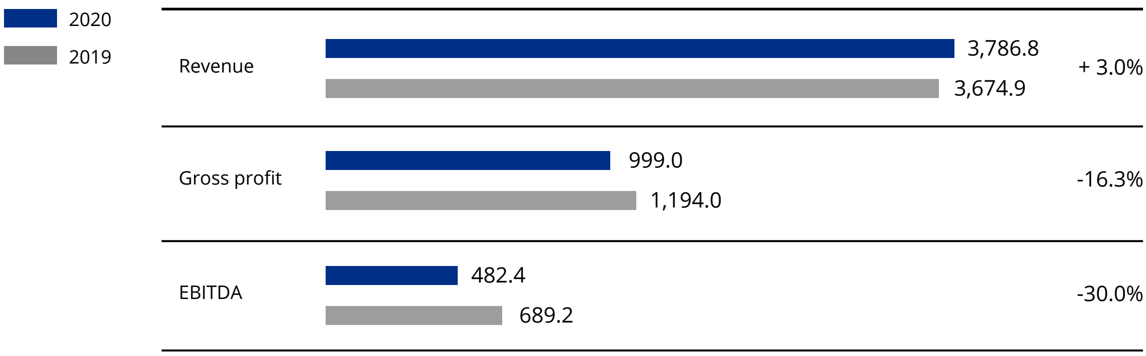
The segment EBITDA amounts to €482.4 million and is below the previous year’s value of €689.2 million. The decrease results in particular from the derecognition of prepaid expenses related to the premature termination of the VDSL advance services contract (€129.9 million) as well as the increased costs for procured mobile advance services since the middle of the year. A retroactive reduction of expenses for the second half of 2020 as a consequence of the acceptance of Telefónica’s offer for national roaming in the amount of about €34.4 million will not become effective until after the conclusion of the agreement in 2021.

In addition to these effects, the EBITDA includes other extraordinary or one-off effects. The EU's regulatory decisions on text message rates (since 15 May 2019) and the German Federal Network Agency's decisions on the subscriber line charge (since 1 July 2019) have negative effects on the EBITDA totalling €-13.7 million. The one-off expenses from the ongoing integration projects amounted to €-1.1 million (2019: €-3.2 million). In addition to these expected negative effects, the temporary change in customer use behaviour as a result of the coronavirus pandemic (particularly in the area of telephony and international roaming) had a negative impact of €-25.2 million in comparison with the budget on the segment's key earnings figures.

The aforementioned effects have an impact of about €-204.3 million on fiscal year 2020.

Major revenue and profit indicators in the segment "Access"

(in €m)



"5G" Segment

The expenses and income relating to the preparation and conduct of the 5G frequency auction and resulting from the establishment, expansion and operation of the Company's own 5G mobile network are disclosed in the segment "5G".

Fiscal year 2020 was characterised by preparatory and planning measures for the development of the necessary infrastructure and the conclusion of a national roaming agreement. The segment EBITDA amounts to €-13.9 million euros (previous year: €-5.7 million) and results from the costs incurred within the framework of our planning activities.

2.3. Position of the Group

Earnings position in the Group

1&1 Drillisch Group continued to grow in a highly competitive market environment in fiscal year 2020. This growth was driven above all by the contract customer business. It was possible to increase the number of chargeable contracts in comparison with the previous year by 3.5 percent to 14.83 million contracts.

Sales revenues rose in fiscal year 2020 by 3.0 percent from €3,674.9 million in the previous year to €3,786.8 million. Of this revenue increase, €77.0 million is attributable to service revenues and €34.9 million to other revenues.

Service revenues, which result essentially from the billing of current customer relationships, increased by 2.6 percent to €3,020.0 million. The positive development of service revenues results from the ongoing rise in the number of contract customers and the related monthly payments. These are sustained earnings that determine profit. Other revenues, which consist mainly of revenues from the realisation of hardware revenues (especially from investments in smartphones that are repaid by customers over the contractual minimum term in the form of higher package prices), increased by 4.8 percent owing to the growing number of contracts and the higher sales prices of the sold hardware compared to the previous year. However, this business fluctuates seasonally and its development depends heavily on the attractiveness of new devices and the model cycles of manufacturers. Regardless, these revenue fluctuations have no significant impact on EBITDA development.

The consequences of the coronavirus pandemic have a negative impact of €24.1 million on revenue development. While the changed use behaviour in the area of telephony (caused, among other things, by regulations for working from home and contact bans) initially still had a positive effect on revenue, the significant restrictions on customers' travel in particular had a negative impact on revenue development in the further course of the year because of a lack of international roaming revenue.

Cost of sales increased in 2020 by €307.1 million (11.9 percent) to €2,881.8 million (previous year: €2,574.7 million). The gross margin, 29.9 percent in the previous year, came to 23.9 percent. Gross profit fell by €195.2 million from €1,100.2 million in the previous year to €905.0 million. The reduction in the gross margin results in particular from the derecognition of prepaid expenses related to the premature termination of the VDSL advance services contract (€129.9 million) as well as the increased costs for procured mobile advance services since the middle of the year. A retroactive reduction of expenses for the second half of 2020 as a consequence of the acceptance of Telefónica's offer for national roaming in the amount of about €34.4 million will become effective after the conclusion of the agreement in 2021.

Furthermore, the cost of sales compared to 2019 includes additional expenses from regulatory decisions of €-13.7 million as well as higher advance services costs of €-1.1 million relating to the temporarily changed use behaviour of customers as a result of the coronavirus pandemic. Excluding these additional expenses that were not incurred in the previous year, the cost of sales would have risen by 5.0 percent (€128.0 million). An adjustment of these special effects leads to a gross margin of 28.6 percent (previous year: 30.0 percent). The change results especially from a stronger increase in low-margin other revenues (4.8 percent) in comparison with the high-margin service revenues (2.6 percent).

Distribution costs rose from €426.5 million in the previous year to €442.3 million in 2020, in particular as a consequence of increased marketing activities and in conjunction with the sponsorship agreement at Borussia Dortmund. In relation to revenue, distribution costs in 2020 amounted to 11.7 percent (previous year: 11.6 percent). Administration costs rose from €92.2 million in the previous year (2.5 percent of revenue) to €99.4 million (2.6 percent of revenue).

The other result from other operating expenses of €1.7 million (previous year: €3.3 million) and other operating income of €33.9 million (previous year: €33.6 million) is almost unchanged from the previous year. Impairment losses from financial assets declined from €83.3 million in the previous year to €82.3 million in fiscal year 2020.

The EBITDA in 2020 amounted to €468.5 million (previous year: €683.5 million). The reasons for the decline are in particular the derecognition of prepaid expenses as a result of the premature termination of the VDSL advance services contract (€129.9 million) as well as the increased costs for procured mobile advance services since the middle of the year as a result of the price increases (excluding the retroactive price adjustment of €34.4 million for the second half of 2020). Moreover, the EBITDA is impacted by the regulatory decisions of the EU on text message rates (since 15 May 2019) and the Federal Network Agency on the subscriber line ctharge (since 1 July 2019) totalling €-13.7 million (and one-off expenses from integration projects of €-1.1 million (previous year: €-3.2 million). Furthermore, results were reduced by €-25.2 million in comparison with the forecast for 2020 because of the temporary change in use behaviours of our customers as a consequence of the coronavirus pandemic. The aforementioned effects had a negative impact on profits of €204.3 million in fiscal year 2020. The adjusted EBITDA came to €672.8 million (previous year: €686.7 million).

The EBITDA includes costs related to planning and preparations for our 5G mobile network of €-13.9 million (previous year: €-5.7 million).

The EBITDA margin came to 12.4 percent (previous year: 18.6 percent).

Earnings before interest and taxes (EBIT) in 2020 amounted to €313.1 million (previous year: €528.5 million). The EBIT margin came to 8.3 percent (previous year: 14.4 percent). The effects of PPA write-offs continue to weigh on the result. Precluding the effects from these write-offs, the EBIT amounted to €411.2 million and the EBIT margin to 10.9 percent (previous year: €641.8 million and 17.5 percent, respectively).

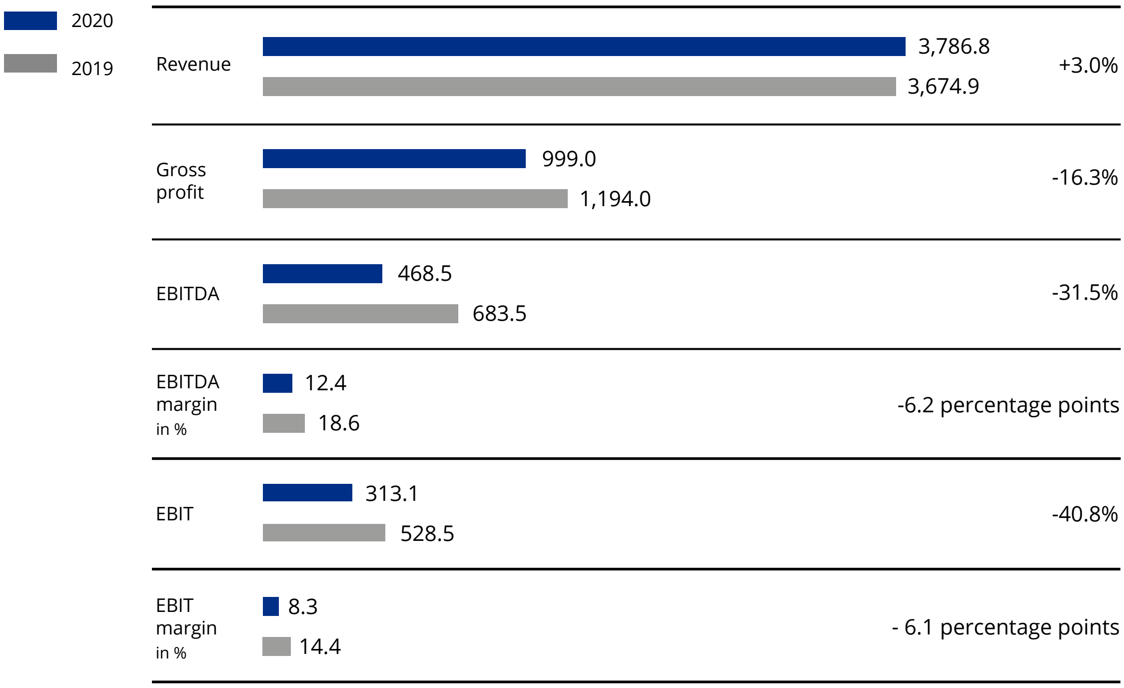
Financing expenses in 2020 amounted to €1.6 million (previous year: €7.3 million). The change over the same period of the previous year results by and large from the conclusion of a credit line with a European bank syndicate in January 2019 and the related one-off fees together with expenses relating to the provision of this credit line. This credit line was terminated during fiscal year 2019. Financial income in 2020 amounted to €1.1 million (previous year: €1.2 million).

Earnings before taxes (EBT) in 2020 amounted to €312.6 million (previous year: €522.4 million). Tax expenses amounted to €93.0 million (previous year: €148.8 million), resulting in a tax rate of 29.7 percent (previous year: 28.5 percent).

Consolidated earnings amounted to €219.6 million (previous year: €373.6 million).

The undiluted profit per share in 2020 came to €1.25 (previous year: €2.12). Excluding the effects of the PPA write-offs, the undiluted profit per share in 2020 amounted to €1.64 (previous year: €2.57).

Major revenue and profit indicators (in €m)



Financial position in the Group

Cash flow from operating activities in 2020 was slightly above the previous year's value at € 511.3 million (previous year: € 510.5 million). Net inflow of funds from operating activities increased substantially from €375.7 million in the previous year to €450.7 million in 2020. The primary reasons for this are the continued success of 1&1 Drillisch's operating business and a lower tie-up of funds in working capital. The contrary development is the increased tie-up of funds in the contract assets because of the renewed increase in hardware sales compared to the previous year, for which repayment is usually made over the contract terms.

Cash flow from investments shows total net outgoing payments of €397.4 million during the reporting period (previous year: outgoing payments of €230.5 million). Investments in intangible and tangible assets result in outgoing payments of €207.2 million and incoming payments of €0.2 million (previous year: outgoing payments of €20.5 million and incoming payments of €0.2 million). Investments of €165.0 million relate in particular to payments in conjunction with the extension of the MBA MVNO agreement. The extension of the MBA MVNO agreement laid the groundwork for the later negotiations for national roaming. The investment of free cash resulted in outgoing payments of €190.0 million (previous year: €210.0 million). They relate to the short-term investment of free cash with United Internet AG.

Free cash flow, defined as net inflow of funds from operating activities less investments in intangible and tangible assets plus inflow of funds from disposals of intangible and tangible assets, amounted to €243.7 million in 2020 (previous year: €355.4 million). Adjusted for the one-off payment related to the extension of the MBA MVNO agreement, the adjusted free cash flow amounts to €408.7 million, which is 15.0 percent above the previous year's value.

As in the previous year, the cash outflows from financing activities of €61.3 million resulted from the repayment of liabilities related to the acquisition of the 5G frequencies. In addition, there were payments in the fiscal year related to the dividend disbursement and the repayment of liabilities from finance leases.

Cash and cash equivalents per 31 December 2020 amounted to €4.4 million (previous year: €31.8 million).

Assets and liabilities in the Group

The balance sheet total increased from €6,461.9 million per 31 December 2019 to €6,690.3 million per 31 December 2020. On the assets side, short-term assets rose by €244.1 million while long-term assets declined by €15.7 million.

The increase in short-term assets is in the form of €185.6 million in accounts due from associated companies. The development is the result of the investment of free cash at United Internet AG. The short-term contract assets include in particular receivables from the sale of hardware. The increase of €67.7 million is due above all to the increase in hardware sales, which are recognised as soon as contract are concluded while the repayment is usually made over the terms of the mobile services contracts. Prepaid expenses declined from €211.7 million to €187.1 million and concern essentially contract costs and prepaid utilisation fees that will not be recognised through expenditures until later periods. The decline relates mainly to the short-term share of prepaid expenses for the prematurely terminated VDSL advance service contract. Recognised contract costs, which are included in prepaid expenses at €143.5 million (previous year: €149.7 million), include prepaid expenses to obtain and fulfil contracts over the terms of the contracts.

Long-term assets decreased by €15.7 million to €5,137.0 million. The rise in tangible assets by €58.3 million results in particular from the conclusion of new long-term leases. The increase in intangible assets of €54.6 million results primarily from the payment in the amount of €165.0 million relating to the extension of the MBA MVNO agreement. The assets determined as part of the 1&1 Drillisch purchase price allocation were reduced by scheduled depreciation and amortisation attributable to these items. Goodwill remains unchanged from the previous year at €2,932.9 million. Long-term contract assets increased by €22.3 million in line with the development of revenues.

Long-term prepaid expenses decreased by €151.2 million. The change is related above all to the premature termination of the VDSL advance services contract.

On the liabilities side, €25.7 million of the increase in the balance sheet total is attributable to short-term liabilities and €212.9 million to equity. Long-term liabilities declined from €1,272.2 million in the previous year to €1,262.0 million.

The increase in short-term liabilities results in particular from an increase in trade payables due to a rise in hardware business at the end of the year compared to the previous year. Contrary to this movement, accounts due to related parties per the closing date declined by €23.5 million and are related to accounts due to group undertakings of United Internet Group pursuant to the procurement of advance services and other cost allocations. Short-term other non-financial liabilities fell by €12.0 million to €17.3 million and concern in particular value-added tax.

Contract liabilities include short-term liabilities from reimbursement obligations for one-time fees for revoked contracts and deferred income from one-time fees related to the application of IFRS 15.

In long-term liabilities, other financial liabilities decreased by €17.2 million. The repayment of the frequency liability of €61.3 million is partially offset by increased leasing liabilities as a result of IFRS 16 accounting.

Deferred tax liabilities increased by €4.3 million from €229.7 million per 31 December 2019 to €234.0 million per 31 December 2020. The contract liabilities in the amount of €6.9 million (previous year: €5.0 million) include long-term income from one-time fees that is to be deferred in accordance with the application of IFRS 15.

Group equity rose from €4,640.8 million per 31 December 2019 to €4,853.8 million per 31 December 2020. While dividends of €8.8 million were distributed, the increase in equity results in particular from the consolidated result of €219.6 million. The equity ratio rose from 71.8 percent in the previous year to 72.5 percent per 31 December 2020.

The share capital is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 each and represents the share capital of 1&1 Drillisch AG. As of the balance sheet closing date 31 December 2019, a total of 500,000 1&1 Drillisch AG shares had been acquired as part of the stock repurchase programme. No treasury shares were repurchased in fiscal year 2020.

General statement from the Management Board regarding the Group's economic position

The Management Board of 1&1 Drillisch looks back on a challenging year. As a consequence of the coronavirus pandemic, the general economic conditions have undergone a different development than originally hoped. Even though total sales on the German telecommunications market remained comparatively stable with a decline of only 0.1 percent, the market did not provide the hoped-for impetus for business.

Even under these challenging conditions, 1&1 Drillisch nevertheless developed positively with an increase of 0.5 million customer contracts to 14.83 million, further solidifying its strong position in a highly competitive market environment. Service revenues were increased beyond expectations by 2.6 percent to €3,020.0 million. The decline in the EBITDA of €215.0 million to €468.5 million was caused in particular by negative special factors in the amount of €204.3 million.

The financial position of 1&1 Drillisch AG remained positive in fiscal year 2020 as well. Free cash flow of €408.7 million, adjusted for the one-off payment as part of the extension of the MBA MVNO agreement, surpassed the comparable figure for the previous year as well as the forecast. At the same time, targeted investments in preparations for the construction of our 5G mobile network and in our customer and contract structure have created the conditions for sustainable growth.

Overall, the Management Board regards 1&1 Drillisch Group to be in an excellent position for its continued corporate development per the closing date of fiscal year 2020 as well as at the point in time of preparation of this report. The Board has a positive assessment of the assets and liabilities, the financial position and earnings – subject to the reservation of unforeseen special effects – and is optimistic in its outlook for the future.

2.4 Position of the Company

Earnings of 1&1 Drillisch AG

At the level of the annual financial statements of 1&1 Drillisch AG, sales revenues rose slightly to €2.3 million (previous year: €2.1 million). The sales revenues result largely from intercompany services. Other operating income increased from €0.5 million to €1.0 million, in particular due to higher intercompany recharges.

The increase in personnel expenses from €3.1 million to €3.5 million results in particular from the 17 percent increase in the average number of employees. Other operating expenses increased from €6.9 million to €13.8 million. The rise was caused in particular by higher costs related to the planning of the 5G mobile network.

The balance of income and expenses from profit and loss transfer agreements at €256.7 million is €287.6 million below the previous year's value. The change is caused in particular by the derecognition of prepaid expenses related to the premature termination of the VDSL advance services contract (€129.9 million) as well as the increased costs for procured mobile advance services since the middle of the year for two subsidiaries.

Interest income amounts to €5.8 million (previous year: €3.6 million) and results primarily from interest income within the framework of group-wide cash management. Interest expenses amount to €0.4 million (previous year: €7.3 million). The previous year included interest expenses from fees for the provision of a credit line that was terminated later in the same year.

The deduction of taxes on income of €88.4 million euros (previous year: €172.6 million) leaves a net profit for the year of €159.7 million (previous year: €360.6 million).

Assets, liabilities and financial position

The balance sheet total for 1&1 Drillisch AG rose by €247.7 million to €7,259.2 million in fiscal year 2020 (previous year: €7,011.5 million). Fixed assets did not change appreciably compared to the previous year, rising by €1.5 million.

The increase in the balance sheet total on the assets side of €246.1 million is attributable in particular to current assets, above all to €238.4 million in accounts due from associated companies, which increased to €709.8 million (previous year: €471.4 million). The major cause is the short-term investment of free cash at United Internet AG.

The liquidity of 1&1 Drillisch AG is ensured by the positive cash flows from the operating activities of its subsidiaries and the account due from United Internet AG that can be called in at any time. In addition, within the framework of the cash management agreement concluded between 1&1 Drillisch AG and United Internet AG in fiscal year 2018, 1&1 Drillisch AG can draw on up to a maximum of €200.0 million in cash from United Internet AG, thus securing the financing of 1&1 Drillisch.

Other assets rose from €12.7 million per 31 December 2019 to €48.1 million per 31 December 2020 and essentially comprise claims for the reimbursement of tax.

Cash and cash equivalents amount to €3.4 million, down from €31.1 million in the previous year.

In comparison with the previous year, equity increased by a total of €150.9 million to €7,091.2 million (previous: €6,940.3 million). The change results from the net profit for the year of €159.7 million and the disbursement of dividends of €8.8 million. An equity ratio of 97.7 percent (previous year: 99.0 percent) means that almost all assets continue to be financed by equity.

Tax provisions amount to €25.3 million (previous year: €26.9 million) per 31 December 2020. At €2.0 million (previous year: €1.4 million), other provisions are slightly above the previous year's figure.

The increase in liabilities from €42.9 million to €140.7 million comes in particular from an increase by €84.6 million to €100.8 million (previous year: €16.2 million) in accounts due to associated companies. As in the previous year, the accounts due to associated companies concern primarily liabilities from cash pooling to companies within 1&1 Drillisch Group. Other liabilities, which relate essentially to VAT liabilities, amount to €14.4 million (previous year: €25.5 million).

As in the previous year, there was a surplus of deferred tax assets in fiscal year 2020 that was not recognised in exercise of the option pursuant to Section 274 (1) second sentence Commercial Code [*Handelsgesetzbuch; HGB*].

General statement regarding the Company's economic position

The assumption made in the previous year that sales revenues would remain constant was exceeded slightly. The development of the annual profit was below the forecast values because of the described one-off effects. Restated for the one-off effects, however, the development is clearly positive, so that the Management Board is satisfied overall with operational development.

Overall, the Management Board regards 1&1 Drillisch AG to be in an excellent position for its continued corporate development per the closing date of fiscal year 2020 as well as at the point in time of preparation of this report. It assesses the net assets and liabilities, financial and earnings position – subject to possible special effects – as positive and is optimistic about the future, particularly in view of the agreements reached on the VDSL/ FTTH advance services contract as well as the progress in the negotiations for a national roaming agreement and the associated advanced planning for the Company's own 5G mobile network.

In view of the additional investments that will be required for the establishment and expansion of its own 5G mobile network, the Management Board of 1&1 Drillisch AG submits the following dividend proposal (which is in harmony with the dividend policy) for fiscal year 2020 to the Supervisory Board:

» Disbursement of a dividend of €0.05 per share. This proposal is oriented to the minimum dividend required by Section 254 (1) Stock Corporation Act [Aktiengesetz; AktG]. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2020.

Management Board and Supervisory Board will discuss this dividend proposal in the Supervisory Board meeting on 24 March 2021. The Annual General Meeting of 1&1 Drillisch AG will decide about the motion proposed jointly by Management Board and Supervisory Board on 26 May 2021.

2.5 Principles and objectives of the financial and capital management

The financing of the group is handled centrally by the parent company 1&1 Drillisch AG. The top priority of the financial management at 1&1 Drillisch is to secure the Company's liquidity at all times. Liquidity reserves are always maintained in such an amount that any and all payment obligations can be met on time. Liquidity is secured on the basis of detailed financial planning. Business operations are financed from cash flow and free cash. The Company strives to develop further and to optimise the financial management continuously. As a general principle, the company law provisions form the framework of capital management in 1&1 Drillisch Group. In cases in which contractual provisions must be observed, equity is managed additionally in accordance with the principles defined in these provisions. In cases in which no special provisions need be observed, the managed equity is the equity as disclosed in the balance sheet. During the reporting period, the Company complied with both company law and contractual provisions at all times.

2.6 Non-financial performance indicators

According to 1&1 Drillisch's perception of itself, entrepreneurial activities go beyond the straightforward pursuit and achievement of economic targets to encompass as well an obligation and responsibility to society and the environment. 1&1 Drillisch fulfils this responsibility in various ways.

We refer to the Non-Financial Declaration 2020 (Sustainability Report) of 1&1 Drillisch AG at https://www.1und1-drillisch.de/corporate-governance#nachhaltigkeitsbericht regarding these and other sustainability topics that will be published in April 2021.

In addition to the development in the number of subscribers explained in the business report, the non-financial performance indicators described below along with efficient, value-oriented corporate management are major factors contributing to 1&1 Drillisch's success.

Customer loyalty: In addition to acquiring new customers, the most important factor in expanding the customer base is retaining and securing the loyalty of current customers. Customer satisfaction is a management criterion at 1&1 Drillisch. For this reason, structures and processes have been established in the "Access" segment to measure, analyse and ultimately improve customer satisfaction on a continuous and sustainable basis.

Service quality: The introduction of the so-called 1&1 Principle as well as the constant optimisations of the service processes in the following years represented continuous investments in the optimisation of service quality. Customer experience in terms of excellent service was enhanced once again with the introduction of the 1&1 Card in fiscal year 2020.

In the test conducted by the established trade magazine "connect", 1&1 took first place in the category of the most satisfied customers, but that was not all. 1&1 won all eight sub-categories in the test, including service quality, by a large margin in the areas of friendliness and quality.

Network quality: 1&1 once again won the broadband and landline network test of the trade magazine "connect" in fiscal year 2020, its third victory since 2015. The annual test examines the categories "Language", "Data", "Web Services" and "Web TV". The results of crowdsourcing analyses by the Federal Network Agency are also included in the overall ranking. In telephony, 1&1's convincing performance included short connection times, and we posted "Outstanding services" when it came to high-speed internet. And 1&1 also delivered top performances in web services such as accessing websites, uploading to photo book services or playing videos.

Knowledge of the markets: Thanks to 1&1 Drillisch's many years of operation on the telecommunications market, the Company has established a position of trust among its customers. This is what enables 1&1 Drillisch to recognise upcoming trends in good time and to exploit them to raise value. Realising innovative marketing ideas and alternative distribution solutions has repeatedly led to 1&1 Drillisch's success in offering at an early stage products that meet the needs of the customers.

Efficiency of business processes: 1&1 Drillisch works constantly on the improvement of efficiency in business processes, efforts which have led to sustained increases in productivity.

SUPPLEMENTARY REPORT

3. Supplementary report

In 2021, a general agreement regarding the procurement of FTTH/VDSL advance services was concluded with 1&1 Versatel. The agreement has a term of ten years and was intended to increase the number of FTTH lines available to 1&1 Drillisch.

On 15 February 2021, 1&1 Drillisch announced its acceptance of the improved offer for national roaming submitted by Telefónica. The offer also has an effect on the prices that have been billed pursuant to the MBA MVNO agreement since July 2020, which, once the agreement has been concluded (expected in mid-May 2021), is expected to result in income related to other periods of approximately €34.4 million in fiscal year 2021.

A detailed description of the circumstances can be found under point 2.1, "General Legal conditions/Major events".

Statements on the economic position of the Group and the Company at the time of preparation of this report are provided under item 4.3 in the "Forecast report".

RISK REPORT

4. Risks, opportunities and forecast report

The risk and opportunity policy of 1&1 Drillisch Group is oriented to the goal of maintaining and sustainably increasing the Company's value by taking advantage of opportunities and identifying and controlling risks at an early stage. The risk and opportunity management as practised ensures that 1&1 Drillisch can carry out its business operations in a controlled corporate environment.

The risk and opportunity management regulates the responsible handling of uncertainties that are always a part of entrepreneurial activities.

4.1 Risk report

Risk management

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities as well as the detection and limitation of risks. 1&1 Drillisch operates a risk management system throughout the group that includes continuous observation to ensure early recognition and the standardised recording, assessment, control and monitoring of risks. The objective is to obtain information about negative developments and the related financial effects as early as possible so that appropriate countermeasures can be initiated. The management of the company results and corporate value utilises the instruments of risk management. They can become a strategic success factor for corporate management – for 1&1 Drillisch AG itself as well as for the subsidiaries.

If the Company is to be consistently successful in the conflict between opportunities for profit and the threat of loss, risks must be taken into consideration during the decision-making process systematically and in accordance with standards that are uniform throughout the group. Risk management includes the definition of risk fields, the recording and communication of risks by the operating units, the assignment of responsibilities and tasks and the documentation of these steps. The concrete implementation of the procedures which have been issued is secured by a monitoring system. The 1&1 Drillisch risk management process utilises the following building blocks for the exploitation of opportunities without delay and the early discovery of risks:

» The internal controlling system

» The daily, weekly and monthly management reporting, especially in the areas controlling, cash management and the operating business segments

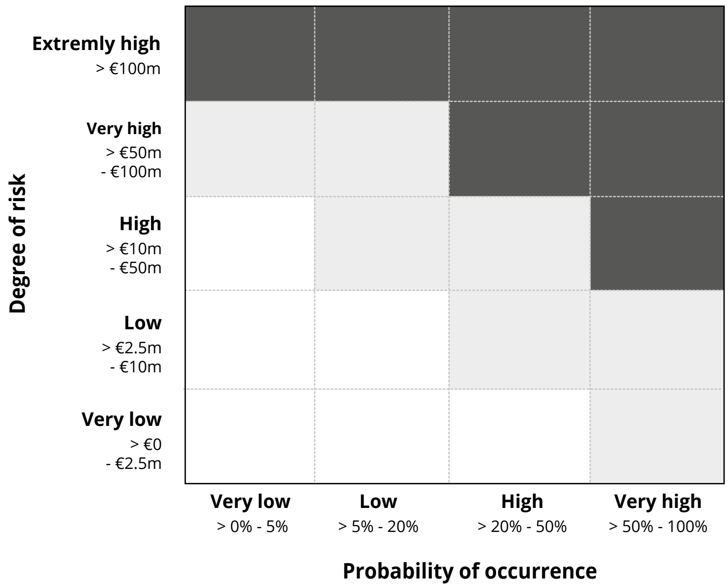
» The continuous monitoring of the market

» The quarterly risk inventory

The coordination of risk management is handled at the group level by Group Controlling and Legal. Based on monthly close-outs, the regular comparison of budget and as-is figures as well as market analyses and market observations, opportunities and risks from operating and strategic areas can be recognised early and addressed in the risk portfolio by implementation of suitable measures. Lines of responsibility and accountability are clearly regulated at 1&1 Drillisch and are based on the corporate structure of 1&1 Drillisch Group. Adequate insurance policies, provided that they are regarded as being economically justifiable, have been concluded to cover incidents of loss and liability risks arising in the course of daily business.

Risks are assessed as far as possible by determining the probability of their occurrence and possible impact on the EBITDA and equity. The probability of occurrence and the impact are classified and assessed appropriately. The assessment of the degree of the risk and the possible financial impact is based on the criteria Very low, Low, High, Very high and Extremely high; the assessment of the probability of occurrence is classified according to Very low, Low, High and Very high. The group Management Board and operating management level in each of the business segments are directly responsible for the early and continuous identification, assessment and management of opportunities. The system complies with the legal requirements for an early risk detection system, is in harmony with the German Corporate Governance Code and in its design is based on the guidelines defined in the international ISO standard ISO 31000:2018. The Supervisory Board reviews the effectiveness of the risk management system in accordance with the provisions of the Stock Corporation Act.

RISK ASSESSMENT MATRIX



The limits for the scope of risks were adjusted in the management reports of the Company and the Group for the year 2020. The change was made to better reflect the relationship of the impact of the risks on the EBITDA and equity.

The Management Board and Supervisory Board are regularly provided with reports on the risk situation and the effectiveness of the risk management system with all of its controlling functions. The results are discussed by both the Management Board and Supervisory Board.

Description of the major features of the internal controlling and risk management with respect to the accounting process

The internal controlling system in 1&1 Drillisch Group includes all of the principles, procedures and measures needed to secure the effectiveness, correctness and economic efficiency of the accounting and to assure compliance with the pertinent legal requirements. Besides the manual process controls in the form of the "two sets of eyes principle," automatic IT process checks also form a major part of the integrated controlling measures. The risk management system in 1&1 Drillisch Group as a component of the internal controlling system is oriented, with respect to the accounting, to the risk of incorrect representation in the bookkeeping and the external reporting. A "monitoring system for the early recognition of risks threatening the Company's existence" has been set up in 1&1 Drillisch Group to ensure the systematic early detection of risks so that other risks besides those threatening the existence of the enterprise are detected early, controlled and monitored. The bookkeeping systems from the manufacturers Sage and SAP are used for the posting of accounting items in 1&1 Drillisch Group while the consolidation software from the manufacturer IDL is used at the group level.

Risks related to accounting can arise from the conclusion of unusual or complex transactions, for example. Moreover, business transactions that are not handled as a matter of routine entail latent risks. The measures of the internal controlling system oriented to the correctness of the accounting ensure that all of the business transactions are recorded completely and contemporaneously in conformity with legal and statutory requirements. Furthermore, it is assured that assets and debts are correctly recognised, measured and disclosed in the annual financial statements. The controlling activities include the analysis of material circumstances and developments, for example, using special indicator systems. The organisational separation of administrative, executive, billing and approval functions significantly reduces vulnerability to fraud. The internal controlling system also assures the representation of changes in the economic or legal environment of 1&1 Drillisch Group and ensures the application of any new or amended legal provisions for the accounting.

Risks

Strategy

Business development and innovation

A major factor for continuing the success of 1&1 Drillisch is the development of new and continuously improved products and services so that new customers are acquired and current customer relationships are strengthened. The risk here is that the introduction of new developments to the market will be too late or that the target group will not accept them as expected.

1&1 Drillisch counters these risks by closely and constantly monitoring market, products and competition and by responding to customer feedback at all stages of product development.

Within the context of the diversification of the business model and the expansion of the value-added chain, 1&1 Drillisch occasionally enters new markets or upstream or downstream markets. On 24 January 2019, the 1&1 Drillisch AG Management Board, with the consent of the Supervisory Board, decided to submit an application to the Federal Network Agency in accordance with the decision BK1- 17/001 for participation in the auction for the awarding of mobile network frequencies in the ranges 2 GHz and 3.6 GHz and, in the event of the successful acquisition of frequencies, to establish and operate a 5G mobile network. At this time, the mobile services provided by 1&1 Drillisch are based on the use of third-party networks. On 12 June 2019, 1&1 Drillisch successfully completed its participation in the auction of 5G frequencies and purchased two frequency blocks of 2 x 5 MHz each in the 2 GHz range and five frequency blocks of 10 MHz each in the 3.6 GHz range for a total price of €1.07 billion. The Company plans to use these frequencies for the step-by-step buildup of its own 5G mobile network, increasing its added value in the mobile communications business as well and developing new business areas. The establishment and expansion of the Company's own 5G mobile network depend on the conclusion of national roaming agreements with one or more mobile network operators. 1&1 Drillisch accepted Telefónica's offer for national roaming in February 2021. If the agreement is not concluded by mid-May 2021 as stipulated in the Telefónica offer and no agreements can otherwise be concluded on competitive terms, this could jeopardise the establishment and expansion of the Company's own 5G mobile network. In this case, there is a risk of impairment losses on intangible assets through profit and loss resulting from the acquisition of the frequencies insofar as that they cannot be resold, which is always a possibility. Due to the limited capacities relating to available network equipment outfitters, there are in addition risks with regard to time, quality and budget arising from the establishment and expansion of a proprietary mobile network. The Company is countering these risks with intensive discussions and negotiations to conclude appropriate agreements.

A business decision of this type involves risks as well as offers opportunities. The main areas of risk are "operations of technical systems," "procurement market" or "legal disputes". 1&1 Drillisch strives to minimise these risks through detailed, long-term planning, cooperation with specialist partner companies and other methods.

Participations and investments

The acquisition and holding of equity interests and the making of strategic investments represent a significant success factor for 1&1 Drillisch AG. Besides enabling better access to existing and new growth markets and to new technologies/know-how, participations and investments also serve to develop synergy and growth potential. These opportunities are accompanied by risks. There is a risk that the hoped-for potential cannot be exploited as expected or that acquired investments will not develop as expected (write-downs of going-concern value, losses on disposals, loss of dividends or reduction in hidden reserves).

All participations are therefore subject to a continuous monitoring process. This risk is largely irrelevant for the EBITDA as its occurrence results primarily in non-cash impairment losses. The recovery value of the investments that have been made is regularly monitored by management and financial controlling.

Cooperation and outsourcing

In some of the business units, 1&1 Drillisch cooperates with specialist cooperation and outsourcing partners. The primary objectives of such cooperative activities include (among others) the concentration on the Company's actual core business, cost reductions or participation in the partner's expertise. These opportunities simultaneously entail risks in the form of dependencies on external service providers as well as risks related to contracts and failures.

To reduce these risks, a detailed market analysis and a due diligence review are carried out before a contract is concluded with an external service provider, and even after the conclusion of the contract, close interaction in the spirit of partnership is maintained with the cooperation and outsourcing partners.

Organisational structure and decision-making

The selection of a suitable organisation structure is essential for the efficiency and success of the Company. Besides the organisational structure, however, business success is also decisively dependent on making the right decisions. The basis for decisions is affected by existing business processes and structures. If efficiency is jeopardised by one or more factors, this represents a strategic risk for 1&1 Drillisch that, insofar as economically justifiable, should be avoided.

1&1 Drillisch sees itself well positioned here due to the high level of agility in the organisation and is carrying out a variety of measures to optimise and standardise structures, processes and key figures.

Personnel development and retention

Highly qualified and well trained employees are the foundation for the commercial success of 1&1 Drillisch. In addition to the successful recruiting of qualified personnel (see also the risk “Personnel recruitment”), personnel development and the long-term retention of key employees in the Company are of strategic importance for 1&1 Drillisch. If the Company does not succeed in recruiting, developing further and retaining executives and employees with special professional or technological expertise, there is a danger that 1&1 Drillisch might no longer be in a position to carry out its business activities effectively and to achieve its growth targets. Where strategic knowledge and skills have been brought together in such a concentration (so-called brain monopoly), the loss of one of these key employees can have a significant impact on the Company’s ability to perform.

1&1 Drillisch counters this risk by ensuring the continuous further development of employee and managerial competencies and establishing rules for representation. Specific measures for professional advanced development, mentoring and coaching programmes and special programmes for high-potential candidates that are designed to foster and promote the talents and managerial competence of the staff are offered.

Market

Sales market and competition

The German telecommunications market is characterised by stiff and constant competition. Depending on the strategy of the players participating in the market, various effects can appear that may require inter alia a modification of the Company’s own business model or adjustments in its own price policies. The delivery of hardware within one working day or an on-site replacement of defective devices on the next working day requires an adequate stock of devices. This may result in impairment losses over time if market prices for devices change. Market entries of new competitors can also pose a danger to market shares, growth targets or profit margins.

1&1 Drillisch seeks to minimise these risks with detailed planning based on in-company experience values and external market studies as well as the constant monitoring of market and competition.

Procurement market

A gap in the procurement or supply of resources required for company operations can lead to bottlenecks or operational disruptions at 1&1 Drillisch. This is true of both the purchase of hardware and the procurement of advance services. Changes to the existing models of the terms and conditions for advance services (for example, price increases or changes in billing modalities) may result in margin and earnings risks. A price increase in the purchased products and other services also represents a risk for the product margin targets.

1&1 Drillisch counters these risks by cooperating in partnership with multiple service providers and suppliers bound by long-term contracts and – insofar as economically justifiable – expanding its own value-added chain.

Personnel recruitment

The effective management of personnel resources is of key importance for 1&1 Drillisch so that the short-, middle- and long-term demands for employees and the required professional expertise can be secured. If the Company does not succeed in recruiting executives and employees with special professional and technological expertise, 1&1 Drillisch might no longer be in a position to carry out its business activities effectively and to achieve its growth targets.

In terms of its position as an employer, 1&1 Drillisch sees itself in a good position to attract and hire qualified professionals and managers with the potential to enhance business success in the future as well.

Service performance

Work procedures and processes

Demands on the continued development of internal work procedures and processes are rising at an accelerating pace in this setting of steadily increasing complexity and interoperability of the offered products. This goes hand in hand with steadily growing alignment and coordination efforts. The special challenge in this sense – besides assuring quality standards – is above all the adaptation to market events that are occurring in ever shorter cycles.

The Company counters these risks with constant further development and improvement of internal procedures and processes, the specific bundling and binding of experts and personnel with key competencies and the continuous optimisation of the organisational structures.

Cyber and information security

1&1 Drillisch essentially realises its corporate success in the internet sector. Within the scope of the business processes, information and telecommunications technologies (data centres, transmission systems, switching nodes etc.) are used for service performance; they are tightly meshed with the internet and their availability can be jeopardised by threats from the internet. For instance, DDoS attacks (DDoS = Distributed Denial of Service) can result in an overload on technical services or in server failures.

The current monitoring and alert system, including the necessary processes and documentation, is continuously optimised so that such risks can be warded off more and more quickly.

There is also the risk of a hacker attack with the objective of illegally obtaining or deleting customer data or of misusing services.

1&1 Drillisch counters this risk by using virus scanners, firewall concepts, tests it has initiated itself and various technical control mechanisms.

The potential for threats from the internet represents for 1&1 Drillisch one of the largest risk groups in terms of possible impact; overall, they are monitored by a large and varied number of technical and organisational measures. Particularly noteworthy in this context are the operation and the continuous improvement of the security management system and the constant expansion of the systems' resilience.

Capacity bottlenecks

The planned service performance can be jeopardised because of temporary or long-lasting shortages of resources, and this can in turn lead to losses of revenues.

There is close interaction with suppliers regarding the emergency concepts agreed with them to counter this risk.

Technical system operation

The 1&1 Drillisch products and the business processes required for them are based on a complex technical infrastructure and a broad range of software systems critical for success (servers, customer management databases, statistics systems etc.). The constant adaptation to changing customer needs leads to ever growing complexity of this technical infrastructure and the need for regular modification. In consequence of these actions as well as because of more extensive transitions such as migrations of data records, there are many different possibilities of disruptions or service failures. If, for instance, service systems were affected, 1&1 Drillisch would no longer be able to provide the warranted services to its customers, either long-term or temporarily.

The Company counters these risks by means of specific architectural adaptations, quality assurance measures and a spatially separate (geo-redundant) design of the core functions.

Moreover, various security precautions based on software and hardware have been implemented to protect infrastructure and availability. The distribution of tasks ensures that actions or business transactions involving risks are not performed by one employee alone, but are carried out in accordance with the "two sets of eyes principle." Manual and technical access restrictions also ensure that employees are active solely in their purviews. An additional security measure to prevent data loss is the regular backup of existing data records and storage in geo-redundant data centres.

Compliance

Data protection

The possibility that data protection regulations will be violated because of human error, technical weak points or other factors can never be completely precluded. In such a case, 1&1 Drillisch would be at risk of having to pay fines and of losing the trust of its customers.

1&1 Drillisch stores its customers’ data on servers in data centres certified in accordance with international security standards and operated by the Company itself as well as in in leased facilities. The handling of these data is subject to extensive statutory requirements, and compliance with these requirements is regularly reviewed.

The Company is aware of its immense responsibility and places a high value on data protection, paying especially close attention to ensuring customers’ privacy. 1&1 Drillisch continually invests in the improvement of its data protection standards by employing the latest technologies, constantly reviewing data protection and other legal requirements, conducting an extensive training programme on data protection laws for employees and integrating privacy aspects and requirements in product development at the earliest possible stage.

The new provisions of the EU General Data Protection Regulation (GDPR) have been in force since May 2018. Because of the stricter sanctions for breach of obligations that have been implemented, the impact of data protection risks has risen. In addition to implementing tougher sanctions, the EU GDPR contains new regulations regarding declarations of consent and new reporting obligations to government authorities and data subjects in the event of loss of data.

Legislation and regulation

Changes in current legislation, the passage of new laws and changes in government regulatory actions can have unexpectedly negative effects on the business models in place at 1&1 Drillisch and on further developments. Decisions of the Federal Network Agency and the Bundeskartellamt [Federal Cartel Office] influence network access and the design of the internet access rate plans, above all in the segment “Access.” Price increases by the grid operators from which 1&1 Drillisch procures advance services for its own customers could have negative effects on the profitability of the rate plans. Equally, there is the possibility that a lack of regulation will cause the market environment for 1&1 Drillisch to worsen.

1&1 Drillisch counters the regulation risk, which has a tendency to rise, through its collaboration with multiple advance services partners and proactive association work. Moreover, 1&1 Drillisch has access to the landline network via 1& 1 Versatel GmbH, an affiliated company in United Internet Group. This access to the network infrastructure gives 1&1 Drillisch the opportunity to extend the depth of its added-value generation and to reduce the procurement of broadband advance services from third parties.

Moreover, 1&1 Drillisch has a long-term entitlement to a share of the entire network capacity of Telefónica Germany that can be raised to a maximum of 30 percent, the only MBA MVNO in Germany to have such an entitlement, giving the Company extensive access to the largest mobile network in Germany and to all available mobile technologies such as 5G.

Legal disputes

1&1 Drillisch is currently involved in various litigation and arbitration proceedings that result from its normal business activities. One advance services provider reported claims in a low range of hundreds of millions in 2019. 1&1 Drillisch regards the claims from each of the opposing parties to be unfounded and does not consider an outflow of resources to be likely. By their nature, the results of legal disputes are uncertain and therefore represent a risk. To the extent that the amount of the obligation can be reliably estimated, the risks from the legal disputes have been given due consideration in the provisions.

Tax risks

1&1 Drillisch is subject to legal tax provisions that are in effect. Risks can arise from changes in tax laws or court precedents and from varying interpretations of existing provisions.

1&1 Drillisch counters these risks by continuously expanding the scope of its tax management.

Finances

Financing

Financial liabilities that are primarily incurred by 1&1 Drillisch AG as part of the financing of its business activities include loans, overdraft facilities and other financial liabilities. 1&1 Drillisch at its disposal various financial assets that result immediately from its business activities. They basically include holdings as well as accounts due from group undertakings.

1&1 Drillisch and its activities are by their nature vulnerable to risks on the financial market. This is especially true of risks from changes in interest rates.

Interest rates

The Company is vulnerable to interest rate risks because funds are generally obtained from and invested with United Internet AG at variable interest rates (1M EURIBOR + margin) and for terms of varying lengths. The Company constantly reviews the various investment and acquisition opportunities for cash and the terms and conditions of the financial obligations on the basis of its liquidity planning. Any need to obtain financing is covered by suitable instruments for liquidity management.

The goal of the financial risk management is to limit risks through ongoing operating and finance-oriented activities.

Fraud and bad debt losses

Ordering and delivery processes at 1&1 Drillisch – as is true of many large companies in mass market business – are largely automated so that dynamic customer growth can be handled effectively and services and products can be provided as quickly as possible, all in the interest of our customers. Automated processes of this type are by their nature vulnerable to fraudulent activities. As a consequence of the high appeal of the offered products and services, the number of defaulters and fraudsters increases along with the number of customers. The consequence is growth in bad debt losses. For instance, 1&1 Drillisch could suffer losses from hardware orders that are placed using a false identity and are never paid. Losses can also be incurred from the misuse of SIM cards, e.g. through massive call diversions or roaming calls.

1&1 Drillisch seeks to prevent fraud attacks or, as a minimum, to recognise such attempts at an early stage and to stop them by permanently expanding the scope of its fraud management, through close cooperation with advance services providers and through the appropriate design of its products and services.

Liquidity

1&1 Drillisch's liquidity risk arises essentially from the possibility that the Company will be unable to meet its financial obligations (e.g. the repayment of financial debt). The Company's objective is to cover continuously its financial requirements and to ensure flexibility by using overdrafts and loans as well as by investing and raising cash and cash equivalents at United Internet AG.

Demand and surplus of cash and cash equivalents are determined centrally for the entire group in cash management. The number of external bank transactions is held to a minimum by netting of demand and surplus within the group. The Company has established standardised processes and systems for the management of its bank accounts and the internal clearing accounts and for the execution of automated payment transactions.

External events – Force majeure

External events such as natural disasters (earthquakes or floods), personnel crises (pandemics or epidemics) or infrastructural crises (damage to the road network, restriction of the energy supply) can lead to obstruction of the business operations of 1&1 Drillisch. 1&1 Drillisch counters these risks as far as possible with a variety of different measures; their scope is being further expanded in response to the coronavirus pandemic. Examples include extensive hygiene precautions (provision of disinfectants and masks), regular checks on compliance with social distancing rules and mandatory wearing of masks to ensure health and infection protection. Flexible workplace concepts at all sites with individual arrangements for working at home that are geared to the specific requirements of the pandemic have been introduced. The use of modern communications media has been expanded to avoid travel. Regular development and review of the emergency concepts and training in their provisions are part of the standards at 1&1 Drillisch AG.

The further spread of the coronavirus may have a negative impact on demand from consumers and businesses as well as on their purchase of advance services (e.g. smartphones, routers, servers or network technology) or their liquidity. As of the moment, there have been no notable bad debts. The restrictions on international travel may lead to a reduction in roaming contribution margins as the pandemic continues, just as working from home over the longer term may lead to additional costs for voice use. An essential factor for the successful mastering of the pandemic is also reflected in the health and operational capability of the employees and ultimately also affects the performance of 1&1 Drillisch.

General statement from the Management Board regarding the risk situation of Company and group

The assessment of the overall risk situation for 1&1 Drillisch and 1&1 Drillisch Group is the result of a consolidated consideration of all major risk areas and specific risks, taking into account interdependencies.

From today's perspective, the most significant challenge for 1&1 Drillisch AG and 1&1 Drillisch Group is presented by the risk areas "business development and innovation" and "information security". There was a lowering of the risk classification for the risk area "procurement market" during the year.

By continually expanding the scope of its risk management, 1&1 Drillisch counters these risks and limits them, in so far as justifiable, to a minimum by implementing specific actions.

The assessment of the major risk fields or specific risk positions were, as is natural, subject to fluctuations during fiscal year 2020 because of the development of external conditions as well of the impact of the Company's own countermeasures. The overall risk situation for 1&1 Drillisch AG and 1&1 Drillisch Group has improved slightly in comparison with the previous year because of the conclusion of the procedure regarding advance services prices. In assessing the overall risk situation, the opportunities available to 1&1 Drillisch AG and to 1&1 Drillisch Group are not taken into account. Risks threatening the existence of 1&1 Drillisch AG and 1&1 Drillisch Group from either specific risk positions or the overall risk situation were not discernible during fiscal year 2020 nor on the date of preparation of this report.

Over the course of fiscal year 2020, the risk situation changed as a consequence of the continuing global spread of the coronavirus (Sars-CoV-2) in the risk areas of "Procurement market" and "External risks – Force majeure" and others. The spread of the virus has a negative impact on demand from consumers and businesses and may equally impair the procurement of advance services (e.g. smartphones, routers, servers or network technology) or the health and fitness of employees. Ultimately, the spread of the coronavirus also affects the performance capability of 1&1 Drillisch. A precise risk assessment is still not possible at the time this report was issued as the assessment of health experts and the measures introduced by the federal government and the German states are subject to frequent changes, creating uncertainty about future development.

Probability of occurrence, potential damage and risk classification of the risks from the Company's and the group's point of view and their relevance (development compared to the previous year is presented on the basis of a comparable risk level):

	Probability of occurrence	Degree of risk	Risk classification	Development
Risks in the area of "Strategy"				
Business development and innovation	Low	Extremely high	Significant	→
Participations and investments	Low	Very low	Low	→
Cooperation and outsourcing	Low	Very low	Low	→
Organisational structure and decision-making	Low	Very low	Low	→
Personnel development and retention	Low	Very low	Low	→
Risks in the area of "Market"				
Sales market and competition	Low	High	Moderate	→
Procurement market	Low	Very low	Low	↘
Recruitment market	Low	Very low	Low	→
Risks in the area of "Service performance"				
Work procedures and processes	Low	Very low	Low	→
Information security	Low	High	Moderate	→
Capacity bottlenecks	Low	Very low	Low	→
Technical system operation	Low	Very low	Low	→
Risks in the area "Compliance"				
Data protection	Low	Low	Low	→
Legislation and regulation	Low	Very high	Moderate	→
Legal disputes	Low	Extremely high	Significant	→
Tax risks	Low	Very low	Low	→
Risks in the area "Finances"				
Financing	Very low	Very low	Low	→
Interest rates	Very low	Very low	Low	→
Fraud and bad debt losses	Very high	Low	Moderate	→
Liquidity	Low	Very low	Low	→
External events – personnel crises	Low	Very low	Low	→

↘ Improved → Unchanged ↗ Worsened

*The probability of the occurrence of the risk described under "Business development and innovation" – the failure to conclude a national roaming agreement – has been significantly reduced by the acceptance of Telefónica's offer at the end of the fiscal year. The principle of the closing date on which the risk report is based dictates that the risk be described here without any changes. This will be modified in later reports.

OPPORTUNITIES REPORT

4.2. Opportunities report

Opportunities management

The opportunities management is rooted in the strategic planning and related actions for the development of products and their positioning in the various target groups and on the different markets during the product lifecycle.

The group Management Board and the operating management level (management boards and managing directors of subsidiaries) are directly responsible for the early and continuous identification, assessment and management of opportunities.

The 1&1 Drillisch AG management concerns itself intensely with detailed analyses, models and scenarios related to current and future industry and technology trends, products, markets/market potential and competitors in the Company's environment. The potential of the opportunities identified during such strategic analyses are evaluated subsequently in the context of the critical success factors and of the existing general conditions and possibilities for 1&1 Drillisch AG, discussed among Management Board, Supervisory Board and the operations managers during the planning meetings, then embodied in concrete actions, targets and milestones.

Progress and success of the actions are continuously monitored by the operations managers and by the managing directors and executive officers of the Company.

Opportunities

1&1 Drillisch's stable business model, which is largely unaffected by economic fluctuations, secures plannable revenues and cash flows, thereby opening up the financial flexibility necessary to take advantage of opportunities in new business fields and on new markets, whether organically or through participations and corporate takeovers.

Broad strategic positioning on growth markets

In view of the positioning on today's growth markets, the Company's growth opportunities from a strictly strategic perspective are obvious: increasingly powerful landline and mobile access products that are available everywhere and at all times make possible new and more complex applications. 1&1 Drillisch believes that these internet-based applications for private users, freelancers and small companies will, from today's perspective, be the growth drivers in the coming years in the segment "Access".

Participation in market growth

Despite the uncertain general economic conditions, 1&1 Drillisch as well as many of the leading industry analysts expect a positive development on the German telecommunications market that is of major importance for the Company. Thanks to its highly competitive Access products, the strong and well-known brands, the high selling power and the current business relationships with millions of customers (potential for cross- and upselling), 1&1 Drillisch is in a good position to secure its share of the expected market growth in the business segment “Access.”

Expansion of market positions

1&1 Drillisch is today one of the leading companies in Germany, serving more than 14.8 million customers in the field of internet-based access services. By building on its available technological know-how, the high quality of products and services, the brand awareness of the group’s brand names such as 1&1, smartmobil.de or yourfone, the business relationships with millions of customers and the strength of customer loyalty, 1&1 Drillisch believes that its chances to expand its current market shares are good.

Entry into new business fields

The core competencies at 1&1 Drillisch also include the ability to recognise customer wishes, trends and the related new markets at an early stage. The breadth of the added-value chain (from product development and data centre operation to effective marketing and an efficient sales force to active customer care) makes it possible for 1&1 Drillisch to introduce innovations on the market quickly and to market them intensely.

Development of our own 5G mobile network

On 12 June 2019, 1&1 Drillisch successfully completed its participation in the auction of 5G frequencies and purchased two frequency blocks of 2 x 5 MHz each in the 2 GHz range and five frequency blocks of 10 MHz each in the 3.6 GHz range for a total price of €1.07 billion. In addition, 1&1 Drillisch has leased frequencies from Telefónica for the construction of its own 5G mobile network. These are two frequency blocks of 10 MHz each in the 2.6 GHz range. The two frequency blocks will be available to 1&1 Drillisch until 31 December 2025. The Company plans to use these frequencies for the step-by-step build-up of a high-performance 5G mobile network, increasing its added value in the mobile communications business as well and developing new business areas.

In February 2021, 1&1 Drillisch accepted Telefónica’s offer for national roaming, and the parties have agreed to negotiate and conclude a national roaming agreement by mid-May 2021, thereby fulfilling yet another major prerequisite for the launch of the network construction.

More than 10.5 million mobile customers and 4.3 million broadband customers together with access to one of the largest fibre optic networks in Germany indicate that 1&1 Drillisch has the best prerequisites for exploiting the high potential of 5G in Germany.

Access to the second-largest optic fibre network in Germany

As it is a member company of United Internet Group, 1&1 Drillisch has access to the 1&1 Versatel telecommunications network, one of the largest and most powerful fibre optic networks in Germany. The network infrastructure provided by 1&1 Versatel gives 1&1 Drillisch the chance to enhance further its own added value and to procure from United Internet Group broadband advance services produced within the group. In addition, 1&1 Drillisch will have access to Deutsche Telekom’s fibre optic network via 1&1 Versatel from April 2021. 1&1 Drillisch will be able as of this time to offer initially about 750,000 more fibre optic lines for marketing. The number of marketable fibre optic lines from Deutsche Telekom is supposed to increase by an average of two million households per year over the next few years.

The special opportunity for 1&1 Drillisch becomes clearly evident when we consider the sharply rising data consumption among private users (according to an estimate by Dialog Consult/VATM: + 25.0 percent to approximately 168.1 GB used data volume per broadband line and month in 2020) and, simultaneously, Germany’s extremely high lag in the provision of direct fibre optic lines. According to the most recent analysis by the OECD (Organisation for Economic Cooperation and Development) from December 2019, only 4.1 percent (previous year: 3.2 percent) of all broadband lines in Germany were fibre optic lines. This puts Germany in 34th place (previous year: 32nd place), far to the rear among the 37 OECD member states that were examined and even well below the OECD average of 28.0 percent (previous year: 26.0 percent).

Access to Telefónica **mobile** network

1&1 Drillisch, the only MBA MVNO in Germany in this position, is entitled long-term to as much as 30 percent of the utilised network capacity of Telefónica Germany, assuring the Company of extensive access to the largest mobile services network in Germany. 1&1 Drillisch has contractually assured, unlimited access to all products and technologies available at this time (e.g. LTE) and in the future (e.g. 5G) in the Telefónica network and, on this basis, can continue to expand its market position and business volume in the coming years. Unrestricted access to LTE as well as to even more sophisticated future technologies guarantees to 1&1 Drillisch the long-term flexibility it needs to be independent in the design of new products, thus allowing fair competition on equal footing with the three German mobile network operators.

The contract with a term until the middle of 2025 and the option of a further extension for another five years offer 1&1 Drillisch the opportunity for further long-term and continued successful corporate development as well as a high degree of planning security.

In addition, the agreement concluded with Telefónica gives 1&1 Drillisch the opportunity to become a licensed mobile network operator. The latter can initially and with technical support from Telefónica (“national roaming”) be limited to specific regions in Germany. This is substantiated by the agreement reached on national roaming, which stipulates the conclusion of a contract by May 2021.

Moreover, 1&1 Drillisch can coordinate its brand management and customer address for activities aimed even more specifically at the premium and discount segment on the German mobile services market and take advantage of the differing positions of its brand names to realise the broad and comprehensive address of various target groups

Acquisitions and participations

Along with its organic growth, 1&1 Drillisch continuously examines opportunities to acquire companies and to obtain strategic participations. Thanks to the plannable and high cash flow, 1&1 Drillisch has powerful resources to finance its activities itself and has as well good access to debt capital markets so that it can seize opportunities that present themselves in the form of acquisitions and participations.

Summary of opportunity and risk position

Compared to the previous year, the opportunities and risks related to the development of the Company’s own mobile communications network have improved significantly as a result of the agreement on national roaming reached with Telefónica.

Furthermore, the opportunity and risk situation in relation to ongoing business remains unchanged. The opportunities and risks described here are the major opportunities and risks which have been identified at this time. The possibility that additional major opportunities and risks that at this time have not been recognised by management exist or that the probability of the occurrence of such opportunities and risks has been wrongly assessed as negligible cannot be precluded. Adequate precautions have been taken to counter any probable risks. There are at this time no known risks which would threaten the Company's existence.

FORECAST REPORT

4.3. Forecast report

This report contains certain statements oriented to the future which are based on the current assumptions and projections of the Company's management. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessment shown here.

Economic expectations

Following a decline of -5.4 percent in 2020, the IMF expects economic growth for Germany of +3.5 percent in 2021 and +3.1 percent in 2022. With the expected growth of +3.5 percent for 2021, the IMF is above the forecast of the German government, which assumed a growth of the price-adjusted gross domestic product of 3.0 percent in its Annual Economic Report 2021 on 26 January 2021.

Industry/market expectations

The industry association Bitkom expects a plus on the German ITC market of 2.7 percent (previous year decline of -0.6 percent) to €174.4 billion in 2021.

The market for IT hardware is expected to show the greatest growth, posting an increase in revenues of +8.6 percent. Growth is also forecast for the software segment (+4.1 percent) and the IT services segment (+1.1 percent), while a decline in sales of -2.0 percent is expected for the consumer electronics segment.

The most important ITC market in the sense of 1&1 Drillisch's business model is the German telecommunications market (broadband lines and mobile internet) in the "Access" business unit, which is financed largely by subscriptions.

Telecommunications market in Germany

For the German telecommunications market, the industry association Bitkom expects growth of 1.0 percent in 2021 following the decline in revenues by -0.1 percent in 2020 brought about by the coronavirus pandemic. Total sales are forecast at €67.4 billion.

The association expects the relatively highest growth in the telecommunications infrastructure sector (+3.2 percent) and in telecommunications devices (+2.8 percent.) Growth of +0.3 percent is forecast for telecommunications services.

Market forecast: telecommunications market in Germany

	2021e	2020	Change
Revenues	67.4	66.7	+ 1.0 %

Source: Bitkom, Annual Press Conference, January 2021

Forecast for fiscal year 2021

In view of the continued high relevance of the telecommunications industry for the German economy, the 1&1 Drillisch Management Board expects continued positive development for the group. Significant growth stimulus is no longer expected from the market; although use of services is increasing, consumers continue to be sensitive to prices.

Data communications will remain the most important growth segment in telecommunications. Network quality and the availability of fast data connections continue to gain in importance for consumers. Simplicity in making phone calls and surfing at fair prices will remain the focus of interest for mobile services customers.

In view of the comparatively high household coverage at present and the trend to mobile internet use, the Management Board expects growth to remain only moderate on the German (landline-based) broadband market,

so 1&1 Drillisch will once again strive to achieve additional customer growth in the coming fiscal year. For the year 2021, 1&1 Drillisch expects an increase in the high-margin service revenues to approximately €3,100 million as well as the equivalent development of total revenues. The 1&1 Drillisch Management Board expects the EBITDA to amount to about €650 million. This earnings forecasts does not include income related to other periods in the amount of €34.4 million which will presumably be recognised upon conclusion of the national roaming agreement with Telefónica.

The budget presumes use behaviour comparable to that of fiscal year 2020 because of the coronavirus pandemic and consequently a comparable burden on revenues and profits.

At the separate financial statements level, the Management Board expects sales revenues for 2021 to be roughly similar to fiscal year 2020, but to see a significant improvement in the profit for the year.

This forecast is subject to uncertainties as it is not possible at present to make an exact assessment of the duration and ongoing impact of the coronavirus pandemic.

General statement from the Management Board on presumable development

The Management Board believes that 1&1 Drillisch is well positioned for the future steps in the Company's development and is optimistic as it looks ahead to the future.

The acquisition of the 5G mobile frequencies in 2019 and the acceptance of Telefónica's offer on national roaming have set the course for the construction of the Company's own mobile network, and 1&1 Drillisch will continue to drive forward the network development energetically. For one, operating our own mobile network allows the expansion of the value-added chain and the related reduction of cost components. For another, the operation of our own network gives Sales the opportunity to market customised products and services.

The Management Board also expects further growth in the Access segment. The plan for the division Mobile Access is to continue growth and benefit from the market growth. The new agreement on the procurement of VDSL/FTTH advance services will also open up new potential in the marketing of landline products in the future.

Thanks to a business model that is based for the most part on electronic subscriptions, 1&1 Drillisch views its position as by and large stable and secure from economic fluctuations.

1&1 Drillisch will continue to pursue this sustainable business policy in the coming years.

In view of the successful start to the year and of the situation at the time of the issue of this report as well, the Management Board believes that the Company is well on its way to realising the goals explained in greater detail in the above section "Forecast for fiscal year 2021"

Future-oriented statements and forecasts

This report on the position of the Company and the Group contains future-oriented statements that are based on the current expectations, assumptions and forecasts of the 1&1 Drillisch AG Management Board and on the information available to the Board at this time. The future-oriented statements are subject to various risks and uncertainties and are based on expectations, assumptions and forecasts that may possibly prove in future to be false. 1&1 Drillisch does not guarantee that the future-oriented statements will prove to be true, and it neither assumes any obligation, nor does it have the intention, to adjust or update any future-oriented statements made in this report.

REMUNERATION REPORT

5. Remuneration report

The structure of the remuneration system for the Management Board is determined by the Supervisory Board. The criteria for the reasonableness of the remuneration include in particular the duties and responsibilities of each of the Management Board members; their personal performance; the performance of the Management Board as a whole; and the economic position, success and future prospects of the Company, taking into account its comparative environment. The remuneration for the Management Board members comprises short-term components and factors with long-term incentive components. The short-term components consist of elements not contingent on success and merit-based elements. The elements not contingent on success comprise fixed remuneration as well as payment in kind and other benefits. The fixed remuneration as basic remuneration not contingent on success is paid monthly as a salary. In addition, the Management Board members receive other benefits, in particular allowances for health and long-term care insurance, as well as payments in kind comprising essentially the use of a company vehicle. The Management Board's remuneration always includes variable merit-based remuneration elements. These elements are redefined every year by the Supervisory Board on the basis of targets.

A remuneration component with the effect of a long-term incentive exists for Management Board members Markus Huhn and Alessandro Nava in the form of a participation programme based on virtual share options (SAR). The exercise threshold of the programme is 120 percent of the exercise price. The payment of the growth in value is limited to 100 percent of the stock exchange price of 1&1 Drillisch AG determined at the time the virtual options were granted. The option right can be exercised as described here: for a partial amount of up to 25 percent at the earliest upon expiration of 24 months from the point in time of the vesting of the option, for a partial amount totalling up to 50 percent at the earliest 36 months from the point in time of the vesting of the option, for a partial amount totalling up to 75 percent at the earliest 48 months from the point in time of the vesting of the option and for the full amount at the earliest upon the expiration of 60 months after the point in time of the vesting of the option.

The CEO of 1&1 Drillisch AG, Mr Ralph Dommermuth, does not receive any compensation for his work.

As in the previous year, the members of the Management Board did not receive any remuneration from their Supervisory Board activities at various subsidiaries in the 2020 financial year. The Management Board members did not receive any loans or advance payments in the reporting period.

No pension commitments have been made to the Management Board.

The following expenses for stock-based remuneration for the Management Board are recognised in the IFRS consolidated annual financial statements for 1&1 Drillisch AG: Mr Ralph Dommermuth: €0k (previous year: €0k); Mr Markus Huhn: €300k (previous year: €0k); and Mr Alessandro Nava: €500k (previous year: €0k).

Remuneration for the members of the Company's Management Board comprises the following elements: Ralph Dommermuth, the Management Board chairman, did not receive any remuneration for his work (as in the previous year):

(in €k)	Markus Huhn[1]						Alessandro Nava[1]					
	Benefits granted				Inflows		Benefits granted				Inflows	
	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2019	2020	2020 (Min)	2020 (Max)	2019	2020
Fixed remuneration	225	450	450	450	225	450	200	400	400	400	200	400
Ancillary benefits	6	11	11	11	6	11	6	14	14	14	6	14
TOTAL	**231**	**461**	**461**	**461**	**231**	**461**	**206**	**414**	**414**	**414**	**206**	**414**
One-year variable remuneration	50	50	0	60	0	50	100	200	0	200	0	100
Multi-year variable remuneration												
- SAR scheme 2020	0	1,310	0	1,310	0	0	0	2,183	0	2,183	0	0
TOTAL	**50**	**1,360**	**0**	**1,370**	**0**	**50**	**100**	**2,383**	**0**	**2,383**	**0**	**100**
Pension expenses	2	5	5	5	2	5	7	14	14	14	7	14
TOTAL REMUNERATION	**283**	**1,826**	**466**	**1,836**	**233**	**516**	**313**	**2,811**	**428**	**2,811**	**213**	**528**

(in €k)	André Driesen[2]						Martin Witt[3]					
	Benefits granted				Inflows		Benefits granted				Inflows	
	2019	2020	2020 (Min)	2020 (Max)	2019	2020	2019	2020	2020 (Min)	2020 (Max)	2019	2020
Fixed remuneration	400	0	0	0	400	0	150	0	0	0	150	0
Ancillary benefits	12	0	0	0	12	0	7	0	0	0	7	0
TOTAL	**412**	**0**	**0**	**0**	**412**	**0**	**157**	**0**	**0**	**0**	**157**	**0**
One-year variable remuneration	350	0	0	0	286	350	100	0	0	0	200	100
Multi-year variable remuneration												
- Bonus 2018 - 2020	100	0	0	0	0	200	0	0	0	0	0	0
TOTAL	**450**	**0**	**0**	**0**	**286**	**550**	**100**	**0**	**0**	**0**	**200**	**100**
Pension expenses	1	0	0	0	1	0	0	0	0	0	0	0
TOTAL REMUNERATION	**863**	**0**	**0**	**0**	**699**	**550**	**257**	**0**	**0**	**0**	**357**	**100**

(1) From 01/07/2019
(2) Until 31/12/2019
(3) Until 30/06/2019

Markus Huhn, Alessandro Nava and Martin Witt, Management Board members of 1&1 Drillisch AG, received their remuneration from 1&1 Telecommunication SE.

The remuneration system for the 1&1 Drillisch AG Supervisory Board adopted by the Annual General Meeting 2018 provides for fixed remuneration for an ordinary Supervisory Board member in the amount of €45,000 for each full fiscal year and for the Supervisory Board chairman in the amount of €55,000 for each full fiscal year. Supervisory Board members who belong to the Supervisory Board or act as chairperson of the Supervisory Board for only part of the fiscal year receive the fixed remuneration on a pro rata temporis basis, rounded up to full months. Moreover, an attendance fee of €1,000 is paid per meeting for each participation in an in-person meeting or in a telephone or video conference of the Supervisory Board. The fixed remuneration and the attendance fees as a whole are due and payable upon the expiration of a fiscal year. The Supervisory Board members are also reimbursed for all of their expenses and for any value-added tax which must be paid on their remuneration and expenses. In its own interest, the Company provides reasonable insurance at its own expense to the members of the Supervisory Board to cover the exercise of their Supervisory Board activities. There is no stock option plan for the members of the Supervisory Board.

The Supervisory Board remuneration breaks down as follows:

Supervisory Board remuneration (in €k)	**2020**	2019
Michael Scheeren	59.0	62.0
Kai-Uwe Ricke	49.0	52.0
Vlasios Choulidis	49.0	52.0
Kurt Dobitsch	49.0	52.0
Dr Claudia Borgas-Herold	49.0	52.0
Norbert Lang	49.0	52.0
	304.0	**322.0**

SUPPLEMENTAL INFORMATION

6. Supplementary information

6.1. Supplementary information pursuant to Section 289a HGB and Section 315a HGB (information relevant for acquisitions)

The subscribed capital amounts to €194,441,113.90 and is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10. Each share is the equivalent of one vote. The securitisation of the stock is precluded. In accordance with Sections 84 and 85 AktG in conjunction with Section 7 of the Company by-laws, the Management Board is appointed and recalled by the Supervisory Board. Any amendments to the Company by-laws must be adopted in conformity with legal statutes (Sections 179 et seqq. AktG) by the General Meeting. Moreover, the Supervisory Board is authorised to amend the Company by-laws provided that such amendments affect only the wording. Per 31 December 2020, United Internet AG, Montabaur, held 75.10 percent of the 1& 1 Drillisch AG stock.

Approved Capital 2018

The extraordinary General Meeting of 12 January 2018 authorised the Management Board, subject to the approval of the Supervisory Board, to increase the Company's share capital by as much as a total of €97,220,556.40 by a single or multiple issue of new shares against cash contributions and/or contributions in kind before the lapse of 11 January 2023 (Approved Capital 2018).

In the event of cash contributions, the new shares issued by the Management Board may, subject to the consent of the Supervisory Board, also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription solely and exclusively to the shareholders (indirect subscription right). As a matter of principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

» If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the shares already traded on the exchange at the time of the final determination of the issue price, which should take place as contemporaneously as possible with the placement of the shares. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) fourth sentence AktG may not exceed 10 percent of the share capital, neither at the point in time at which this authorisation becomes effective nor at the point in time that it is exercised. Any shares that are issued or that are to be issued pursuant to options or convertible bonds must be attributed to this figure to the extent that the bonds are issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG in exclusion of subscription rights; moreover, any shares that are issued or sold during the term of this authorisation in direct application or application mutatis mutandis of Section 186 (3) fourth sentence AktG must be attributed to this figure;

- To the extent required to ensure that a subscription right can be granted to holders or creditors of option and/or conversion rights or of equivalent option and/or conversion obligations from bonds that have been or are issued by the Company and/or by companies dependent on the Company or in which the Company holds a majority interest, either directly or indirectly, equivalent to the subscription right to which such holders or creditors would be entitled after exercise of their option and/or conversion right or after fulfilment of the option and/or conversion obligation;
- If the capital increase against contributions in kind is carried out for the purpose of issuing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;
- So that new shares up to a proportionate amount of the share capital totalling €9,722,055.20 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Furthermore, the Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company by-laws in accordance with the specific utilisation of the Approved Capital 2018 or after the expiration of the authorisation.

Contingent Capital 2018

The share capital has been contingently raised by up to €96,800,000.00 by the issue of up to 88,000,000 new no-par shares issued to the bearer (Contingent Capital 2018). The contingent capital increase will be carried out solely to the extent that the holders or creditors of option and/or convertible bonds, profit sharing rights and/or income bonds (or combinations of these instruments) that include option and/or conversion rights and/or option and/or conversion obligations or tender rights of the Company and that are issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, pursuant to the authorisation resolution of the General Meeting of 12 January 2018, by no later than 11 January 2023, exercise their option or conversion rights pursuant to these bonds or fulfil their obligation to exercise the option or for conversion; or, to the extent the Company exercises an option, to grant no-par shares of the Company in lieu of the payment of a cash amount that is due and to the extent that no cash compensation is granted or that own shares or shares of another company listed on the stock exchange are not used to satisfy the claims. The new shares will be issued in each case at the option or conversion price to be determined in accordance with the authorisation resolution stipulated above. The new shares participate in profits as of the beginning of the fiscal year in which they are issued; to the extent legally permissible, the Management Board, subject to the Supervisory Board's consent, may also determine the participation in profits for a previously expired fiscal year for new shares in abrogation of this provision and of Section 60 (2) AktG. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase.

Treasury stock

Per the closing date 31 December 2020, 1&1 Drillisch AG held 500,000 shares of its own stock.

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the 1&1 Drillisch AG Management Board to acquire treasury stock totalling up to 10 % of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives).

The granted authorisation for the acquisition and utilisation of treasury stock was revoked by the extraordinary General Meeting of 12 January 2018 and superseded by the new authorisation below.

The Company is authorised to acquire shares of the Company's own stock in an amount totalling no more than 10 percent of the share capital at the time of the adoption of the resolution or – if this value is lower – at the time of the exercise of the authorisation; this authorisation expires on 11 January 2023. Any shares acquired pursuant to this authorisation, together with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG, may not exceed at any time a value of 10 percent of the share capital.

The authorisation may be exercised in one full amount or in partial amounts, once or on multiple occasions, in pursuit of one or multiple objectives, directly by the Company or also by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, or by third parties instructed by the Company or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest.

At the option of the Management Board, the shares may be acquired on the stock exchange or on the basis of a public purchase offer or by means of a public invitation to submit offers to sell.

The Management Board is authorised, subject to the Supervisory Board's consent, to sell any Company shares acquired pursuant to this authorisation on the stock exchange or by offer to all shareholders in the ratio of their holdings. Moreover, Company shares acquired pursuant to this authorisation may be used for any and all other legally permissible purposes, including in particular, but not limited to, the following purposes:

- The shares may be sold to third parties against cash payment at a price that does not fall significantly short of the stock exchange price of shares of an equivalent nature at the point in time of the sale. In this case, the number of shares to be sold may not exceed in total 10 percent of the share capital at the time of the adoption of the resolution by extraordinary General Meeting of 12 January 2018 or – if this amount is lower – 10 percent of the share capital at the time of the sale of the Company's shares. Any shares issued or sold in application, whether direct or mutatis mutandis, of Section 186 (3) fourth sentence AktG during the term of this authorisation must be attributed to this limitation of 10 percent of the share capital. Furthermore, any shares that must be issued to satisfy option and/or convertible bonds must be attributed to this limit of 10 percent of the share capital, provided that the bonds have been issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right.

- The shares may be used for the fulfilment of obligations pursuant to bonds with option and/or conversion right or option and/or conversion obligation issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest,

- The shares may be issued against assets, including claims against the Company, in particular, but not solely, in relation to the acquisition of companies, holdings in companies or parts of companies, or corporate mergers.

- The shares may be used in relation to stock-based compensation or employee stock option programmes of the Company or of its affiliates and may be offered and transferred to persons who are or were in an employment relationship with the Company or one of its affiliates as well as to directors and officers of the Company's affiliates.

- The shares may be redeemed without requiring any additional General Meeting resolution for the redemption or the execution of the redemption. The Management Board may determine that the share capital will be decreased during the redemption; in this case, the Management Board is authorised to reduce the share capital by the proportionate amount of share capital attributable to the redeemed shares and to adjust the information regarding the number of shares and the share capital in the Company Charter. The Management Board may also determine that the share capital will remain unchanged by the redemption and that instead the share of the other shares in the share capital is increased by the redemption pursuant to Section 8 (3) AktG. The Management Board is authorised is this case as well to adjust the information regarding the number of shares in the Company by-laws.

» The Supervisory Board is authorised to assign treasury stock acquired pursuant to this authorisation to the members the Company's Management Board in fulfilment of applicable compensation agreements.

The subscription right of the shareholders is excluded to the extent that treasury stock is utilised in accordance with the authorisations described above. Furthermore, the Management Board, subject to the Supervisory Board's consent, is authorised, in the event of the sale of acquired treasury stock based on an offer to the shareholders, to grant to the holders or creditors of bonds with option and/or conversion rights or corresponding option and/or conversion obligations issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, a subscription right to the shares in the scope to which they would be entitled after exercise of the option or conversion right or fulfilment of the option or conversion obligation; the shareholders' subscription right is precluded in the same scope.

As of the closing date 31 December 2020, United Internet AG, Montabaur, Germany, held 75.10 percent of the stock in 1&1 Drillisch AG. Per 31 December 2020, Mr Ralph Dommermuth; Montabaur, Germany, in turn holds indirectly through holding companies 42.27 percent of the share capital of United Internet AG as reduced by his own shares of United Internet AG.

6.2. Declaration on Corporate Management pursuant to Section 315d HGB in conjunction with Section 289f HGB

1&1 Drillisch has published the Declaration on Corporate Management pursuant to Section 289f and Section 315d HGB, which also contains the Declaration of Conformity pursuant to Section 161 AktG, on the Company's internet site at www.1und1-drillisch.de/corporate-governance ➞ Declaration of Conformity. Moreover, Management Board and Supervisory Board describe in detail the principles of good, value-oriented corporate management in full awareness of responsibility as pursued at 1&1 Drillisch in the corporate governance report in the Annual Report and on the Company's internet site. In addition, the working methods of the Management Board and Supervisory Board as well as the composition and working methods of the committees are described.

6.3. Non-financial declaration pursuant to Section 289b HGB and Section 315c HGB

The Company's declaration pursuant to Section 289b and Section 315c HGB is published in compliance with statutory deadlines on the internet site of 1&1 Drillisch AG at www.1und1-drillisch.de/corporate-governance ➞ Sustainability Report.

DEPENDENCY REPORT

7. Dependency report

Pursuant to Section 312 AktG, the Management Board declares: that the Company received consideration for each and every legal transaction and action listed in the Report on relations to affiliated companies; that in view of the circumstances known to the Company at the time the transactions were carried out or the actions were executed or not executed, the consideration was reasonable; and that the Company was not disadvantaged because the actions were executed or not executed.

Maintal, 19 March 2021

The Management Board

Ralph Dommermuth Markus Huhn Alessandro Nava

CONSOLIDATED ANNUAL ACCOUNTS

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 31 December 2020

	Remarks	2020 January - December €k	2019 January - December €k
Sales	4	3,786,788	3,674,846
Cost of sales	5,11,12	-2,881,797	-2,574,677
GROSS PROFIT FROM REVENUES		**904,991**	**1,100,169**
Distribution costs	6,11,12	-442,338	-426,467
Administration costs	7,11,12	-99,371	-92,165
Other operating expenses	8	-1,735	-3,345
Other operating income	9	33,908	33,634
Impairment losses from receivables and contract assets	10	-82,374	-83,341
RESULTS FROM OPERATING ACTIVITIES		**313,081**	**528,485**
Financing expenses	13	-1,604	-7,262
Financial income	14	1,110	1,213
PROFIT BEFORE TAXES		**312,587**	**522,436**
Tax expenses	15	-92,994	-148,816
CONSOLIDATED PROFIT		**219,593**	**373,620**
Profit per share (in €)			
- undiluted	49	1.25	2.12
- diluted	49	1.24	2.12
Weighted average number of shares outstanding (in millions)			
- undiluted	49	176.27	176.27
- diluted	49	177.84	176.27
Rollover to total consolidated profit			
CONSOLIDATED PROFIT		**219,593**	**373,620**
Categories that may subsequently be reclassified in the profit and loss account (net)		0	0
Categories that will not subsequently be reclassified in the profit and loss account (net) - Net profits or losses from equity instruments that are measured at fair market value as non-operating results in other results	40	-44	-272
Other results	40	-44	-272
TOTAL CONSOLIDATED PROFIT		**219,549**	**373,348**

CONSOLIDATED BALANCE SHEET

Per 31 December 2020

	Remarks	31/12/2020 €k	31/12/2019 €k
ASSETS			
Short-term assets			
Cash and cash equivalents	16	4,360	31,785
Trade accounts receivable	17	232,437	228,261
Receivables due from associated companies	19	400,885	215,329
Inventories	20	85,366	79,227
Contract assets	18	565,793	498,111
Prepaid expenses*	21	187,081	211,745
Other financial assets	22	23,639	28,923
Other non-financial assets	23	53,736	15,844
		1,553,297	**1,309,225**
Long-term assets			
Other financial assets	24	1,992	1,678
Tangible assets	25	122,800	64,496
Intangible assets	26,27	1,740,591	1,686,027
Goodwill	27	2,932,943	2,932,943
Contract assets	18	196,049	173,747
Prepaid expenses*	28	142,665	293,828
		5,137,040	**5,152,719**
TOTAL ASSETS		**6,690,337**	**6,461,944**

* The item “Prepaid expenses” combines the items “Costs to fulfil contracts”, “Costs to obtain contracts” and “Prepaid expenses” that were disclosed separately in the previous year.

	Remarks	31/12/2020 €k	31/12/2019 €k
LIABILITIES AND EQUITY			
Short-term liabilities			
Trade accounts payable	29,37	319,866	266,369
Liabilities due to associated companies	30,37	55,800	79,294
Contract liabilities	31,37	44,110	40,314
Other provisions	33,37	5,299	6,559
Other financial liabilities	34,37	106,283	102,634
Other non-financial liabilities	35,37	17,269	29,256
Income tax liabilities	32,37	25,933	24,469
		574,560	**548,895**
Long-term liabilities			
Contract liabilities	31,37	6,917	4,960
Other provisions	33,37	46,444	45,670
Other financial liabilities	36,37	974,651	991,825
Deferred tax liabilities	15	234,005	229,748
		1,262,017	**1,272,203**
TOTAL LIABILITIES		**1,836,577**	**1,821,098**
Equity			
Share capital	39	193,891	193,891
Capital reserves	40	2,432,054	2,429,876
Cumulative consolidated results		2,228,835	2,018,055
Other equity	40	-1,020	-976
TOTAL EQUITY		**4,853,760**	**4,640,846**
TOTAL LIABILITIES AND EQUITY		**6,690,337**	**6,461,944**

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 31 December 2020

	Remarks	2020 January - December €k	2019 January - December €k
RESULTS FROM OPERATING ACTIVITIES	**47**		
Consolidated profit		219,593	373,620
Allowances for rollover of consolidated profit to incoming and outgoing payments			
Amortisation and depreciation on intangible and tangible assets	11	45,403	29,091
Depreciation on assets capitalised within the framework of corporate acquisitions	11	109,992	125,923
Personnel expenses from employee stock ownership programmes	38	2,178	79
Changes in the adjustment items for deferred tax assets	15	4,264	-18,018
Correction profits/losses from the sale of tangible assets		2	-158
Other items not affecting payments	5	129,828	0
CASH FLOW FROM OPERATING ACTIVITIES		**511,260**	**510,537**
Changes in assets and liabilities			
Change in receivables and other assets		-37,098	41,571
Change in contract assets		-89,983	-90,828
Change in inventories		-6,139	10,321
Change in prepaid expenses*		45,935	14,674
Change in trade accounts payable		53,502	-98,833
Change in other provisions		-241	-23,628
Change in income tax liabilities		1,463	-13,516
Change in other liabilities		-14,619	12,273
Change in receivables due from/liabilities due to associated companies		-19,161	18,512
Change in contract liabilities		5,753	-5,376
Changes in assets and liabilities, total		**-60,588**	**-134,830**
Net inflow of funds from operating activities		**450,672**	**375,707**

	Remarks	2020 January - December €k	2019 January - December €k
CASH FLOW FROM INVESTMENTS	**47**		
Investments in intangible and tangible assets		-207,245	-20,452
Inflow of funds from disposal of intangible and tangible assets		233	184
Investments in other financial assets		-390	-326
Outflow of funds for the grant of loans to associated companies	43	-190,000	-210,000
Repayments from other financial assets		50	45
Net outflow of funds in investment sector		**-397,352**	**-230,549**
CASH FLOW FROM FINANCING SECTOR	**47**		
Acquisition of treasury stock	41	0	-3,844
Dividend payment	50	-8,813	-8,813
Repayment of liabilities related to the acquisition of 5G spectrum	47	-61,266	-61,266
Repayment of leasing liabilities and rights of use	34, 46	-10,666	-11,418
Outflow of funds to associated companies in repayment of loans	43	0	-32,000
Net outflow of funds in financing sector		**-80,745**	**-117,341**
Net increase/decline in cash and cash equivalents		-27,425	27,817
Cash and cash equivalents at beginning of fiscal year		31,785	3,968
Cash and cash equivalents at end of reporting period		**4,360**	**31,785**

* The “Change in prepaid expenses” includes the “Changes in costs to obtain contracts and to fulfil contracts” that were disclosed separately in the previous year.

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Years 2020 and 2019

		Share capital		Capital reserves	Cumulative consolidated results	Other equity	Total equity
	Remarks		39,41	40,41		40	
		Denomination	k€	k€	k€	k€	k€
Per 01 January 2019		**176,363,945**	**194,000**	**2,433,531**	**1,653,248**	**-704**	**4,280,075**
Consolidated profit					373,620		373,620
Other consolidated results						-272	-272
Total results					**373,620**	**-272**	**373,348**
Dividend payments					-8,813		-8,813
Employee stock ownership programme				79			79
Acquisition of own shares		-99,296	-109	-3,734			-3,844
Per 31 December 2019		**176,264,649**	**193,891**	**2,429,876**	**2,018,055**	**-976**	**4,640,846**
Per 01 January 2020		**176,264,649**	**193,891**	**2,429,876**	**2,018,055**	**-976**	**4,640,846**
Consolidated profit					219,593		219,593
Other consolidated results						-44	-44
Total results					**219,593**	**-44**	**219,549**
Dividend payments	50				-8,813		-8,813
Employee stock ownership programme	38			2,178			2,178
Per 31 December 2020		**176,264,649**	**193,891**	**2,432,054**	**2,228,835**	**-1,020**	**4,853,760**

CONSOLIDATED NOTES PER 31 DECEMBER 2020

1. General information about the Company and the financial statements

1&1 Drillisch Group, together with 1&1 Drillisch Aktiengesellschaft, Maintal, the listed parent company (hereinafter: "1&1 Drillisch AG" or "Company" or, along with its subsidiaries, "1&1 Drillisch" or "Group"), is a telecommunications provider that operates solely and exclusively in Germany. With more than 14.8 million contracts, 1&1 Drillisch is a leading internet specialist and is authorised to use one of the largest fibre optic networks in Germany because of its affiliation with the company 1&1 Versatel GmbH, Düsseldorf, a member of the United Internet AG corporate group. As a virtual mobile network operator, 1&1 Drillisch has guaranteed access to up to 30 percent of the capacity of Telefónica's mobile network in Germany (so-called Mobile Bitstream Access Mobile Virtual Network Operator = MBA MVNO). In addition, 1&1 Drillisch utilises capacities in Vodafone's mobile network. The Group's business unit Access offers landline and mobile network-based internet access products. They include, among others, chargeable landline and mobile access products and the related applications such as home networks, online storage, telephony, video on demand or IPTV.

Company headquarters of 1&1 Drillisch are at Wilhelm-Röntgen-Strasse 1–5 in 63477 Maintal, Germany, and the Company is registered under the number HRB 7384 at Hanau Local Court.

The consolidated financial statements of 1&1 Drillisch AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) as they are applicable in the European Union (EU) and with the commercial law provisions that must be observed in supplement pursuant to Section 315e (1) German Commercial Code (HGB).

1&1 Drillisch AG is included in the consolidated financial statements of United Internet AG, Montabaur. The consolidated annual financial statements are published in the German Federal Gazette [Bundesanzeiger].

The euro is the currency of the reporting. The figures in the notes are shown as designated in each specific case in euros (€), thousand euros (€k) or million euros (€m). The financial statements are prepared by applying the principle of cost of acquisition. This principle is not applied to certain financial instruments, which are measured at fair value.

The balance sheet date is 31 December 2020.

In its meeting on 24 March 2020, the Supervisory Board approved the consolidated annual financial statements for 2019. The consolidated annual financial statements for 2019 were made public in the Federal Gazette on 03 April 2020.

The consolidated annual financial statements for 2020 were prepared by the Management Board on 19 March 2021 and subsequently submitted to the Supervisory Board. The consolidated annual financial statements will be presented to the Supervisory Board for approval on 24 March 2021. Until the consolidated annual financial statements have been approved and released for publication by the Supervisory Board, it is theoretically possible that changes will be made. The Management Board, however, is assuming that the consolidated annual financial statements will be approved in their current form. They will be published on 25 March 2021.

Shareholdings of 1&1 Drillisch AG in accordance with Section 313 (2) HGB

The Group includes per 31 December 2020 the following companies in which 1&1 Drillisch AG, directly or indirectly, holds a majority interest.

	Capital share
Name and registered office of the company	**%**
1&1 Telecommunication SE, Montabaur	100
1&1 Telecom Holding GmbH, Montabaur[1]	100
1&1 Telecom Sales GmbH, Montabaur[1]	100
1&1 Telecom Service Montabaur GmbH, Montabaur[1]	100
1&1 Telecom Service Zweibrücken GmbH, Zweibrücken[1]	100
1&1 Logistik GmbH, Montabaur[1]	100
1&1 Telecom GmbH, Montabaur[2]	100
Drillisch Online GmbH, Maintal	100
IQ-optimize Software AG, Maintal	100
Drillisch Netz AG, Düsseldorf[3]	100
Drillisch Logistik GmbH, Münster	100

(1) Wholly-owned subsidiary of 1&1 Telecommunication SE
(2) Wholly-owned subsidiary of 1&1 Telecom Holding GmbH
(3) Wholly-owned subsidiary of Drillisch Online GmbH

The scope of consolidation has been modified as follows in comparison with 31 December 2019:

The shares in 1&1 Berlin Telecom Service GmbH, Berlin, were sold effective per 30 June 2020. This did not have any significant effects on the Group's earnings or financial position or on its assets and liabilities. In addition, Mobile Ventures GmbH, Maintal, was merged with Drillisch Online GmbH, Maintal, with retroactive effect per 1 January 2020.

As in the previous year, no companies were acquired in the 2020 reporting period.

Moreover, the Company has holdings, either direct or indirect, in the following companies; they are not included in the consolidated financial statements because of their minor significance.

	Capital share
Name and registered office of the company	**%**
Blitz 17-665 SE, Maintal	100
Blitz 17-666 SE, Maintal	100
CA BG AlphaPi AG, Vienna/Austria	100

In addition, 1&1 Drillisch holds interests in the following companies, which are disclosed under the other long-term financial assets:

	Capital share
Name and registered office of the company	**%**
POSpulse GmbH, Berlin	1
High-Tech Gründerfonds III GmbH & Co. KG, Bonn	1

During the fiscal year, 1&1 Drillisch held 15 percent of the shares in PipesBox GmbH, Rostock. Insolvency proceedings were opened against the company's assets in fiscal year 2020 and the company was dissolved. The equity shares are a financial asset (equity instrument) measured at fair value through other comprehensive income in other results. Accordingly, there was no reclassification of accumulated gains and losses in the profit and loss statement (note 40).

2. Accounting and valuation methods

This section begins with a description of all of the accounting principles that have been applied uniformly to the periods covered in these financial statements. Following these remarks, the accounting standards applied for the first time in these financial statements as well as the recently issued accounting standards that have not yet been applied will be explained.

2.1 Explanatory comments on major accounting and valuation methods

Consolidation principlese

The consolidated financial statements include 1&1 Drillisch AG and all of the subsidiaries it controls (majority interests). In accordance with IFRS 10, an investor has control of a company when he has the authority to make decisions, is vulnerable to variable returns or is entitled to rights related to the returns and he is in a position to influence the variable returns as a consequence of his authority to make decisions. The financial statements of the subsidiaries are prepared per the same balance sheet date and in application of uniform accounting and valuation methods as the financial statements of the parent company. As necessary, restatements are made in the separate financial statements of subsidiaries to ensure conformity of their accounting methods with those of the Group.

All assets and liabilities, equity, income and expenditures within the Group as well as payment flows from business transactions between Group companies are completely eliminated during consolidation.

The consolidation of a subsidiary begins on the day the Group gains control over the subsidiary. It ends when the Group loses its control over the subsidiary. Assets, liabilities, income and expenditures of a subsidiary acquired or sold during the reporting period are recognised in the consolidated financial statements from the day on which the Group obtains control over the subsidiary until the day on which this control ends.

With the loss of the controlling influence, any gain or loss from the departure of the subsidiary is recognised in the consolidated comprehensive income statement in the amount of the difference between (i) the income from the sale of the subsidiary, the fair value of any retained shares, the carrying value of the non-controlling shares and the cumulative amounts of the other consolidated results attributable to the subsidiary and (ii) the carrying value of the departing net assets of the subsidiary.

Any change in the amount of participation in a subsidiary without loss of control is disclosed in the balance sheet as an equity transaction.

Non-controlling interests represent the share of the results and net assets that are not attributable to the Group's shareholders. Non-controlling interests are disclosed separately in the consolidated balance sheet. The disclosure in the consolidated balance sheet is shown within equity, but separate from the equity attributable to the 1&1 Drillisch AG shareholders. Whenever interests without a controlling influence (minority interests) are acquired or shares with controlling influence are sold without a loss of the controlling interest, the carrying values of the shares with and without controlling interest are restated to reflect the change in the corresponding participation rate. The amount by which the consideration to be paid or received for the change in the participation rate exceeds the value of the pertinent interests without controlling influence must be recognised directly in equity as a transaction with the companies.

Revenue from contracts with customers

Revenue from contracts with customers is disclosed in the balance sheet on the basis of the following five steps:

- Identification of the contract or contracts with a customer
- Identification of the independent performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations
- Revenue realisation upon satisfaction of the performance obligations

Sales revenues comprise essentially revenues from the provision of access to a telecommunications network and the billing of these services on the basis of the existing customer relationships (sales revenues from access services) and sales revenues from the sale of hardware.

The Group realises revenues primarily from the provision of the access products and from services such as internet and mobile telephony. The transaction price comprises fixed monthly basic fees and variable additional utilisation charges for certain services (e.g. for foreign and mobile connections that are not covered by a flat rate) as well as revenue from the sale of the relevant hardware.

The revenue realisation is based on a breakdown of the transaction price from the customer contract on the basis of the relative single selling prices of individual performance obligations. As a rule, 1&1 Drillisch Group offers comparable rate plans both with and without hardware. The calculation of the single selling price for the service components is based in these cases on the rate conditions of a service rate plan without hardware. In contrast, the calculation of the single selling prices for the hardware is based on the adjusted market assessment price because relevant hardware without a corresponding mobile services contract is only rarely sold to customers.

The share of sales for the hardware allocated on this basis is recognised upon delivery to the customer (income realisation based on point in time). As a rule, it exceeds the charge billed to the customer and results in the recognition of a contract asset. This contract asset declines over the course of the term of the contract because of the customer's payments. The revenue share attributable to the service components is recognised over the minimum term of the customer contract (income realisation based on time period).

Insofar as the one-off fees charged to the customer upon conclusion of the contract (e.g. provision or activation fees) do not represent a fundamental right (favourable option for contract renewal), they are not recognised as separate performance obligations, but are instead allocated to the identified performance obligations as part of the transaction price and realised appropriately to their service performance. If the customer is granted fundamental rights in the form of options for the use of additional goods or services, they represent an additional performance obligation to which a part of the transaction price is allocated in consideration of the expected utilisation. The corresponding revenue is then recognised when these future goods or services are transferred or when the option expires. If one-off fees qualify as favourable renewal options, revenue is realised to this extent over the expected term of the customer contract.

1&1 Drillisch Group grants to its customers monetary campaign rebates available for a limited time as part of the conclusion of the contract. Such rebates are incorporated into the calculation of the transaction price and distributed to performance obligations by an allocation mechanism, consequently reducing the corresponding revenue.

In accordance with the 1&1 Principle, 1&1 Drillisch grants to its customers a voluntary revocation right limited to 30 days. If a customer exercises this right according to the 1&1 Principle and revokes his/her contract, he/she has a claim to refund of separate transaction components such as billed one-off fees and basic charges. Any fees for use are precluded from the refund claim. In return, 1&1 Drillisch has a claim for return of any hardware that has been delivered. To this extent, there is no revenue realisation for customer cancellations that are to be expected. Payments received from customers and that will be refunded are shown as refund liabilities and the return claims for supplied hardware resulting from application of the 1&1 Principle are recognised as non-financial assets.

When calculating the transaction price, 1&1 Drillisch reviewed the materiality of a financing component. The analysis of current customer contracts revealed that at this time no major use is to be presumed. A change in the assumed interest rates or rate plans, however, could in future result in a major financing component. The financing effect is consequently reviewed for its materiality at regular intervals.

Revenue from associated companies

Revenues from services and allocations for United Internet AG and group companies belonging to United Internet Group that are not members of the group of consolidated companies of 1&1 Drillisch AG Group are realised as soon as the service has been performed.

Foreign currency translation

The consolidated annual financial statements are prepared in euros, the parent's functional and presentation currency. Each of the companies within the Group determines its own functional currency. The items of the separate financial statements of each company are recognised in this functional currency.

Transactions in foreign currencies are initially translated into the functional currency at the applicable spot rate in effect on the day of the business transaction.

Monetary assets and liabilities in foreign currencies are translated into the functional currency on every closing date at the exchange rate on the closing date.

Non-monetary items that have been measured at historical cost of acquisition or manufacture in a foreign currency are translated at the exchange rate on the day of the business transaction. Non-monetary items that are measured at their fair value in a foreign currency are translated at the exchange rate that was effective at the point in time of the determination of the fair value.

Tangible assets

Tangible assets are always recognised at their cost of acquisition or manufacture less cumulative scheduled depreciation and cumulative impairment losses.

A tangible asset is derecognised either upon its disposal or when no further commercial benefits are expected from the continued use or sale of the asset. The gain or loss from the disposal of the assets is recognised in operating results in the profit and loss account.

The residual values, useful life and depreciation methods are reviewed and, as appropriate, adjusted at the end of every fiscal year.

Tangible fixed assets are written off over the presumed useful commercial life by the straight-line method.

The assumed useful life for intangible assets is shown in the following overview:

	Useful life in years
Tenant installations	up to 10
Rights of use for land and buildings	up to 17
Motor vehicles	5 to 6
Other equipment, fixtures, fittings and equipment	3 to 19
Rights of use for fixtures, fittings and equipment	up to 4
Office furnishings	up to 13
Servers	3 to 5

The applicable residual useful life for the tangible fixed assets acquired during the corporate acquisition is determined above all on the basis of the aforementioned useful life and the part of the useful life that had passed at the time of the acquisition.

The conduct of impairment tests and the recognition of impairment losses and value recoveries correspond to the procedure for intangible assets with a limited useful life (see below).

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred unless they are related to the production or acquisition of a “qualifying asset”. There were no borrowing costs requiring capitalisation during the reporting period and in the previous year.

Corporate mergers and goodwill

Corporate mergers are disclosed in the balance sheet in accordance with the purchase method. This includes the recognition at fair value of all identifiable assets and liabilities of the acquired business.

If the initial disclosure in the balance sheet of a corporate merger has not been concluded at the end of a reporting period, provisional amounts are recognised for the items related to the disclosure. If new information becomes known within the valuation period of no more than one year from the point in time of the acquisition that illuminates the relationships at the point in time of the acquisition, the provisionally recognised amounts are corrected and additional assets or liabilities are recognised.

The initial recognition of goodwill from corporate mergers is measured at cost of acquisition calculated as the cost of acquisition of the corporate acquisition in excess of the fair value of the acquired identifiable assets, liabilities and contingent liabilities. After the initial recognition, goodwill is measured at the cost of acquisition less cumulative impairment losses. Goodwill is reviewed for impairment losses at least once a year or whenever circumstances or changes in circumstances indicate that the carrying value may have declined.

To determine whether there has been an impairment loss, the goodwill acquired during a corporate merger must be allocated from the day of the takeover to each of the cash-generating units in the corporate group that will benefit from the synergies of the merger. This requirement is independent of whether other assets or liabilities of the corporate group have previously been allocated to these units.

The required impairment loss is calculated by comparing the realisable amount of the cash-generating units to which the goodwill is related with their carrying value. The realisable amount of an asset or of a cash-generating unit is the higher of the fair value of an asset or a cash-generating unit less cost of selling and the utilisation value. The utilisation value is calculated by discounting the expected future cash flow, based on a discount rate before taxes that reflects current market expectations regarding the interest effect and the specific risks of the asset, to its present value. A suitable assessment model is used to determine the fair value less selling costs. It is based on a DCF model, valuation multipliers, stock prices of subsidiaries traded on stock exchanges or other indicators for a fair value that are available. If the carrying value of an asset or a cash-generating unit exceeds the realisable amount, the asset or cash-generating unit is regarded as impaired and written down to the realisable amount. An impairment loss recognised for goodwill may not be recovered in following reporting periods. The Group conducts the annual review of the goodwill for recoverability on the balance sheet date.

Intangible assets

The Group has control over an asset if it is in a position to obtain the future economic benefits flowing from the underlying resource and it can restrict access to these benefits by third parties. Singly acquired intangible assets are measured at cost of acquisition at the time of their initial recognition. The cost of acquisition of intangible assets acquired as part of a corporate merger corresponds to their fair value at the time of the acquisition. In the following periods, intangible assets are presented at cost of acquisition less cumulative amortisation and cumulative impairment losses. Costs for self-produced intangible assets (with the exception of development costs that can be capitalised) are recognised as operating results in the period in which they are incurred.

Development costs of a single project are capitalised as intangible assets only if the Group can prove the following:

» The completion of the intangible asset can be technically realised to the extent that it can be used or sold;

» 1&1 Drillisch intends to complete the intangible asset and use or sell it;

» 1&1 Drillisch is able to use or sell the intangible asset;

» The manner in which the intangible asset is expected to generate future economic benefits; among other things, 1&1 Drillisch can demonstrate 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 benefit of the intangible asset;

» Adequate technical, financial and other resources are available to complete development and to use or sell the intangible asset;

» 1&1 Drillisch is able to assess reliably the expenditures attributable to the intangible asset during its development.

A distinction is made between intangible assets with limited and indeterminate useful lives and intangible assets that cannot yet be used at this time (frequency spectrum).

Intangible assets with a limited useful life are amortised by the straight-line method over the commercial useful life and reviewed for a possible impairment loss whenever there are indications that the intangible asset may have lost value. The procedure for the recoverability test is the same as for the recoverability test for goodwill. The useful life and the amortisation method in the case of intangible assets with a limited useful life are reviewed (as a minimum) at the end of each and every fiscal year. Any required changes in the amortisation method and the useful life are treated as changes in estimates.

Amortisation of intangible assets with a limited useful life is recognised in the profit and loss account under the expense category corresponding to the function of the intangible asset in the company.

The amortisation of capitalised development costs begins upon conclusion of the development phase and from the point in time at which use of the asset can begin. It is applied over the period for which future use is expected and is recognised in the cost of sales. A recoverability test is performed annually during the development phase.

Intangible assets with an indeterminate useful life and intangible assets that cannot yet be used at this time are not amortised according to a schedule, but are reviewed for recoverability at least once a year on the balance sheet date at the level of the specific asset or at the level of the cash-generating unit. The procedure is the same as for the recoverability test for goodwill. The useful life of an intangible asset with an indeterminate useful life is reviewed once annually to determine whether the estimation of an indeterminate useful life is still justified. If this is not the case, the estimation of an indeterminate useful life is changed to a limited useful life on a future basis. The amortisation of the intangible assets that at this time are not yet usable (frequency spectrum) will begin at the point in time at which network operation actually commences.

The assumed useful life for intangible assets is shown in the following overview:

	Useful life in years
Trademark rights	Indeterminate
Clientele	4 to 25
Spectrum	up to 20
Miscellaneous licences and other rights	2 to 15
Rights similar to concessions	5
Software	2 to 5
Own produced intangible assets	3
Rights of use to intangible assets	6

In addition, there is a review on every balance sheet date to determine whether there are any indications that a previously recognised impairment loss no longer exists or has diminished. If there are any such indications, the Group estimates the realisable amount. A previously recognised impairment loss is reversed solely if there has been a change in the estimates used in the calculation of the realisable amount since the recognition of the last impairment loss. If this is the case, the carrying value of the asset is written up to its realisable amount. This amount, however, may not exceed the carrying value that would result after consideration of the write-offs if no impairment losses for the assets had been recognised in previous years.

Contract assets

A contract asset is the Group's legal claim to consideration for the goods and services transferred by the Group to the customer insofar as this claim is not linked solely to the passage of time. Every unconditional claim to receipt of consideration is disclosed separately as a receivable. Contract assets are regularly reviewed to determine whether the value of a contract asset has declined. The procedure is analogous to that used 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 or will receive consideration from the customer. If a customer pays consideration before the Group has provided goods or services to the customer, a contract liability is recognised at the point in time of the payment or, at the latest, at the point in time at which the payment becomes due. Contract liabilities are recognised as revenue as soon as the Group has satisfied the contract performance obligations.

Costs of obtaining and fulfilling contracts

Additional costs incurred when obtaining a contract with a customer (e.g. sales commissions) are capitalised if and when the Group can assume that it will recover these costs.

Moreover, the Group capitalises the costs incurred during the fulfilment of a contract with a customer (e.g. provision fees and expected termination charges) insofar as these costs:

» Do not fall under the application of a standard other than IFRS 15 (e.g. IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets);

» Relate to an existing or expected contract;

» Lead to the procurement of resources or to improvement in the Company's resources that will be used in future for the (continued) satisfaction of performance obligations; and

» Compensation of the costs is expected.

Capitalised costs to obtain and fulfil contracts are amortised by scheduled write-offs over the estimated term of the contract. They are recognised in the balance sheet under prepaid expenses. The amortisation of the costs to obtain contracts is disclosed in distribution costs and the amortisation of contract fulfilment costs is disclosed in the cost of sales.

The recognised amortisation periods for costs to obtain contracts are set at 3 to 4 years and the periods for costs to fulfil contracts at 2 to 3 years.

An impairment loss is taken if the carrying value of the capitalised costs exceeds the remaining part of the expected consideration from the customer for the delivery of goods or the performance of services less the related costs incurred.

For better clarity in the balance sheet, the costs for obtaining and fulfilling contracts that were still disclosed separately in the previous year were combined with the prepaid expenses.

Classification as short-term and long-term

The Group classifies its assets and liabilities in the balance sheet in short-term and long-term assets and liabilities. An asset is to be classified as short-term if:

- The realisation of the asset is expected within the normal business cycle or
- The asset is held for sale or consumption within this period;
- The asset is held primarily for trading;
- The realisation of the asset is expected within twelve months after the closing date; or
- The asset comprises cash or cash equivalents, unless the exchange or use of the asset for the satisfaction of an obligation is restricted for a period of at least twelve months after the closing date.

All other assets are classified as long-term.

A liability is to be classified as short-term if:

- The payment of the liability is expected within the normal business cycle or
- the liability is held primarily for trading;
- The payment of the liability is expected within twelve months after the closing date; or
- The Company does not have an unrestricted right to postpone the payment of the liability by at least twelve months after the closing date.

All other liabilities are classified as long-term.

Deferred tax liabilities are classified as long-term liabilities.

Measurement of the fair value

Some assets and liabilities are measured at fair value at the time of the initial recognition or during the subsequent measurement.

Fair value is the price that would be paid during an orderly business transaction between market participants on the measurement date for the sale of an asset or the transfer of a debt. It is assumed for the measurement of fair value that the business transaction during which the asset is sold or the liability is transferred is conducted:

- Either on the primary market for the asset or liability;
- Or, if there is no principal market, on the most advantageous market for the asset or liability.

The corporation must have access to the active market or to the most advantageous market.

The fair value of an asset or a liability is measured on the basis of the assumptions that the market participants would use as the basis for pricing the asset or liability. It is assumed here that the market participants are acting in their best economic interests.

When measuring the fair value of a non-financial asset, the ability of the market participant to generate an economic benefit from the highest and best use of the asset or from its sale to another market participant who finds the highest and best use for the asset is taken into account.

The Group applies measurement techniques appropriate to the specific circumstances and for which adequate data for measurement of the fair value are available. The use of decisive, observable input factors must be kept as high as possible and the use of unobservable input factors must be kept as low as possible during this process.

All assets and liabilities for which the fair value is determined or disclosed in the financial statements are classified according to the fair value hierarchy shown below, based on the input parameters for the lowest level that is authoritative overall for the measurement of the fair value:

» **Level 1** – Prices (non-adjusted) quoted on active markets for identical assets or liabilities

» **Level 2** – Measurement procedures during which the input parameters of the lowest level that is authoritative overall for the measurement of the fair value can be observed on the market directly or indirectly

» **Level 3** – Measurement procedures during which the input parameters of the lowest level that is authoritative overall for the measurement of the fair value cannot be observed on the market

In the case of assets and liabilities that are recognised on a recurring basis in the financial statements, the Group determines whether there have been any reclassifications between the levels of the hierarchy by reviewing the classification (based on the input parameters of the lowest level that is authoritative overall for the measurement at fair value) at the end of each reporting period.

The Group has defined groups of assets and liabilities based on their type, their features and their risks as well as on the levels of the fair value hierarchy described above so that the disclosure requirements concerning the fair value can be met.

Leases

1&1 Drillisch is exclusively a lessee. Most of the leases in the Group are related to the leasing of buildings and vehicles.

Leases are recognised in accordance with the requirements of IFRS 16 Leases. The Group assesses at the inception of an agreement whether an agreement constitutes or contains a lease. This is the case when the agreement establishes the right to control the use of an identified asset for a specified period of time in return for consideration.

The Group recognises and measures all leases (with the exception of short-term leases and leases involving an underlying asset of minor value) according to one single model. The Group recognises liabilities for lease payments and rights of use for the right to use the underlying asset.

A contract to receive goods or services may be entered into by, or on behalf of, a joint arrangement within the meaning of IFRS 11 (Joint Arrangement). To determine whether such an agreement contains a lease, the Group assesses whether the joint agreement has the right to control the use of an identified asset throughout its full period of use.

Rights of use

The Group recognises rights of use per date of provision (i.e. the date on which the underlying leased asset is available for use). Rights of use are measured at cost less any cumulative depreciation and any cumulative impairment losses and are adjusted for any revaluation of the lease liabilities. The costs of rights of use include the recognised lease obligations, the initial direct costs incurred and the lease payments made at or before the provision of the leased asset less any lease incentives received. The Group determines the term of the lease on the basis of the non-cancellable basic term of the lease and including the periods resulting from an option to extend the lease if it is reasonably certain that it will exercise this option or the periods resulting from an option to terminate the lease if it is reasonably certain that it will not exercise this option. Rights of use are amortised on a straight-line basis over the shorter of the lease term and the expected useful life of the leases as follows:

» Land and buildings up to 17 years

» Office furniture and equipment up to 4 years

» Intangible assets 6 years

If ownership of the leased asset is transferred to the Group at the end of the lease term or if the costs include the exercise of a purchase option, write-offs are determined on the basis of the expected useful life of the leased asset.

Lease liabilities

On the date of provision, the Group recognises lease liabilities at the present value of the lease payments to be made over the term of the lease. Lease payments comprise fixed payments (including de facto fixed payments) less any lease incentives to be received, variable lease payments linked to an index or (interest) rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option if it is reasonably certain that the Group will actually exercise it and penalties for termination of the lease if the lease term takes into account that the Group will exercise the termination option. Periods resulting from an option to extend the lease, insofar as it is reasonably certain that this option will be exercised, or periods resulting from an option to terminate the lease, insofar as it is reasonably certain that this option will not be exercised, are included in the lease term. Variable lease payments not linked to an index or (interest) rate are recognised as expenditures in the period in which the event or condition giving rise to the payment occurs.

In calculating the present value of the lease payments, the Group uses its incremental borrowing rate of interest per the provision date of the lease because the interest rate on which the lease is based cannot be readily determined. After the provision date, the amount of lease liabilities is increased to reflect the higher interest expense and decreased to reflect lease payments made. In addition, the carrying amount of lease liabilities is reassessed in the event of changes in the lease, changes in the term of the lease, changes in lease payments (for example, changes in future lease payments resulting from a change in the index or interest rate used to determine those payments) or a change in the assessment of a purchase option for the underlying asset.

The incremental borrowing rate of interest is derived from reference interest rates for a period of up to 17 years from risk-free interest rates appropriate to the term.

Short-term leases and leases involving an underlying asset of minor value

IFRS 16 provides two exceptions – leasing of low-value assets (e.g. PCs) and short-term leases (e.g. leases with a term of 12 months or less). The Group exercises the exemption provided in the standard for leases with a term that expires within 12 months from the date of provision and the exemption for leases for which the underlying asset is of low value. Lease payments for short-term leases and for leases involving an asset of minor value are recognised as an expense on a straight-line basis over the term of the lease.

Financial instruments

A financial instrument is a contract which simultaneously leads to the creation of a financial asset for one company and to the creation of a financial liability or equity instrument for another company.

Financial assets – initial recognition and measurement

With the exception of trade accounts receivable that do not include a significant financing component or that have a term of less than one year, the Group measures all financial assets at fair value during the initial recognition and, in the case of a financial asset that is subsequently not measured at fair value through profit and loss, plus the directly attributable transaction costs. Trade accounts receivable that do not include a significant financing component or that have a term of less than one year are measured at transaction price. In this context, reference is made to the accounting method in the section Revenue realisation – revenue from contracts with customers.

Purchases or sales of financial assets that foresee the delivery of the assets within a period of time defined by regulations or conventions of the relevant market (standard market purchases) are recognised on the trading day, i.e. on the day on which the Group has assumed the obligation to purchase or sell the asset.

Financial assets – subsequent measurement

The classification of financial assets during initial recognition for the purposes of the subsequent measurement is dependent on the properties of the contractual cash flow of the financial assets and on the Group's business model for management of the financial assets. Financial assets are classified in three categories for the subsequent measurement:

- Financial assets (debt instruments) measured at amortised cost (ac);
- Financial (equity instruments) assets measured at fair value through other comprehensive income without recycling to profit and loss (fvoci);
- Financial assets measured at fair value through profit or loss (fvtpl).

Financial assets (debt instruments) measured at amortised cost

The Group measures financial assets at amortised cost provided that the two conditions shown below are met:

- The financial asset is held within the framework of a business model that has the objective of holding financial assets for the collection of contractual cash flows; and
- The terms and conditions of the contract of the financial asset result in cash flows at the defined point in time that represent solely repayment and interest payments on the outstanding capital amount.

Financial assets measured at amortised cost are measured by applying the effective interest method in subsequent periods and must be reviewed for impairments. Gains and losses are recognised through profit and loss when the asset is derecognised, modified, or impaired.

Financial assets (equity instruments) measured at fair value through other comprehensive income without recycling to profit and loss

At the time of initial recognition, the Group may make an irrevocable choice to classify its equity instruments as at fair value through other comprehensive income, provided that they satisfy the definition of equity in accordance with IAS 32 Financial Instruments: Presentation and are not held for trading. Each instrument is classified separately.

Gains and losses from these financial assets are never reclassified in the profit and loss account. Dividends are recognised in the profit and loss account as Other income if there is a legal claim to payment unless a part of the costs of acquisition of the financial assets is recovered through the dividends. In this case, gains are recognised in Other results. Equity instruments measured at fair value through other comprehensive income are not reviewed for impairment.

Financial assets measured at fair value through profit and loss

The group of financial assets measured at fair value through profit and loss includes the financial assets held for trading, financial assets that were classified during initial recognition as measured at fair value through profit and loss or financial assets for which measurement at fair value is mandatory. Classification as financial assets for trading is mandatory if such assets are acquired for sale or for surrender in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading. Financial assets with cash flows that do not serve exclusively repayment and interest payments are classified at fair value through profit and loss and measured accordingly, regardless of the business model. In addition, debt instruments can be measured at fair value through profit and loss during initial recognition if this eliminates or significantly reduces an accounting anomaly.

A derivative with a financial or non-financial liability as the underlying contract embedded in a hybrid contract is separated from the basic contract and disclosed separately in the balance sheet if the economic characteristics and risks of the embedded derivative are not closely tied to the basic contract, an independent instrument subject to the same terms and conditions as the embedded derivative would meet the definition of a derivative and the hybrid contract is not measured at fair value through profit and loss.

Financial assets measured at fair value through profit and loss are recognised at fair value in the balance sheet, whereby the changes in fair value are recognised as a balance in the profit and loss account. Dividends from listed equity instruments are also recognised as Other income in the profit and loss account if there is a legal claim to payment.

Derecognition of financial assets

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised whenever the contractual rights to the procurement of cash flows from the financial asset have expired. The gains and losses recognised for financial assets measured at fair value in other comprehensive income are reclassified to cumulative profit or loss. A pro rata transfer posting is made for pro rata disposal.

Impairment of financial assets

The Group applies a simplified (one-step) method for the calculation of the expected credit losses from trade accounts receivable and contract assets, whereby a risk provision in the amount of the credit losses expected over the remaining term is recognised on every closing date.

The determination of the expected future credit losses is based on regular reviews and assessments within the framework of the credit monitoring. Relationships between credit losses and various factors (e.g. payment agreements, overdue periods, dunning level etc.) are regularly determined on the basis of historical data. Based on these relationships and supplemented by current observations and future-related assumptions relating to the portfolio of receivables and contract assets on the closing date, future credit losses are estimated.

The Group recognises a valuation allowance for expected credit losses for all debt instruments that are not measured at market value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows that are to be paid in accordance with the contract and the total of the cash flows the Group expects to receive, discounted by an approximate value of the original effective interest rate. The expected cash flows include the cash flows from the sale of the held securities or other collateralisations that are an essential component of the terms and conditions of the contracts. Expected credit losses are recognised in two steps. A risk provision in the amount of the expected credit losses resulting from a default event within the next twelve months is recognised for financial instruments whose risk of default has not significantly increased since the initial measurement. A risk provision in the amount of the credit losses expected over the remaining term is recognised for financial instruments whose risk of default has increased significantly since the initial measurement, regardless of when the default event occurs.

The Group's operating business is essentially found in mass customer business. Risks of default are consequently taken into consideration by means of valuation allowances and lump-sum valuation allowances. The valuation allowances for overdue receivables are determined essentially in dependency on the age structure of the receivables with differing measurement discounts that are basically derived from the success quota of the collection agencies engaged to collect overdue receivables and from analyses of return debit notes. The age structure of the receivables is presented in item 17 of the notes. Receivables that are overdue by more than 365 days are restated at a valuation allowance of 97.5 percent to 100 percent. Trade accounts receivable that have been fully value-adjusted are derecognised 180 days after handover to a collection agency unless there has been a positive report from the collection agency or unexpected receipt of payment from the customer for a value-adjusted receivable or if knowledge of the customer's insolvency is obtained before or after handover to the collection agency.

Additional details on the impairment of trade accounts receivable and contract assets are provided in the following information in the notes:

» Significant discretionary decisions and estimates (item 3 of the notes)

» Trade accounts receivable (item 17 of the notes)

» Contract assets (item 18 of the notes)

» Objectives and methods of financial risk management (item 44 of the notes)

Financial liabilities – initial recognition and measurement

Financial liabilities are classified at initial recognition as financial liabilities measured at fair value through profit and loss or as financial liabilities that are to be measured at amortised cost.

All financial liabilities are measured at fair value at initial recognition; in the event of financial liabilities measured at amortised cost, they are measured less the directly attributable transaction costs.

Financial liabilities – subsequent measurement

The subsequent measurement of financial liabilities is dependent on their classification:

Financial liabilities measured at fair value through profit and loss

This category encompasses the derivative financial instruments concluded by the Group. Embedded derivatives recognised separately are also classified as held for trading. Gains or losses from financial liabilities held for trading are recognised through profit and loss.

Financial liabilities measured at amortised cost

After initial recognition, financial liabilities classified as measured at amortised cost are measured by application of the effective interest rate method. The amortised costs are calculated in consideration of premiums and discounts and of fees or costs that represent an integral component of the effective interest rate. The amortisation from the effective interest rate method is included in the profit and loss statement as part of the financing expenses.

Financial liabilities – derecognition

A financial liability is derecognised when the obligation on which it is based has been satisfied or revoked or has expired. If a current financial liability is replaced by another financial liability from the same lender at substantially different contractual terms and conditions or if the terms and conditions of a current liability are fundamentally modified, such a replacement or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying values of the liabilities is recognised through profit and loss. If the replacement or modification is not recognised as a repayment, any costs or fees that may be incurred lead to a restatement in the carrying value of the liability and are amortised over the remaining term of the modified liability.

Balancing of financial instruments

Financial assets and liabilities are balanced and the net amount is disclosed in the consolidated balance sheet if at the present point in time there is a legal right to offset the recognised amounts against one another and there is the intention to balance them on a net basis or to discharge the relevant liability simultaneously with the realisation of the pertinent asset.

Inventories

Inventories are measured at the lower of cost of acquisition or manufacture and net selling value. The net selling value is the estimated income from the sale less the estimated required selling costs. Adequate valuation allowances for surplus stocks are taken in consideration of inventory risks.

The measurement is based, among other factors, on marketability discounts dependent on time. Both the amount and the distribution of the discounts over time represent the best possible estimate of the net selling value and are consequently subject to estimate uncertainties. If there are indications of a decline in the net selling income, the inventory stocks are corrected by appropriate impairment losses.

Own stock

Own stock is deducted from equity. Purchase, sale, issue or redemption of own stock is not recognised through profit and loss.

The Group uses the following order of use:

» The recognition of redemption is always carried out in the nominal amount as a debit of share capital.

» Any amount in excess of the nominal amount is initially derecognised in the amount of the value contribution from employee stock option programmes (SAR and debenture bonds) against capital reserves.

» Any amount in excess of the value contribution from employee stock option programmes is derecognised against the cumulative consolidated results.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, other money investments, cheques and cash on hand that all have a high degree of liquidity and a remaining term of less than 3 months, calculated from the point in time of acquisition. Cash and cash equivalents are measured at cost.

Pensions and similar benefits after termination of the employment relationship

Payments for contribution-oriented pension schemes are recognised as expenses together with payroll payments to the employee.

Provisions

A provision is created if the Group has a current (legal or factual) obligation arising from a past event, the outflow of resources with economic benefits for fulfilment of the obligation is probable and a reliable estimate of the amount of the obligation is possible. To the extent that the Group expects at least a partial reimbursement for a provision recognised in the liabilities of the balance sheet (e.g. from an insurance policy), the reimbursement is recognised as a separate asset, provided that the inflow of the reimbursement is virtually certain. The expense from the creation of a provision less the reimbursement is disclosed in the profit and loss account. If a significant interest effect results from the discounting, provisions are discounted at an interest rate before taxes that (if required in the specific case) reflects the risks specific to the debt. In the event of a discount, the increase in the provisions required by the passing of time is recognised as financial expenses.

Share-based payment

The Group's employees receive in part share-based payment as remuneration for the work they have done in the form of equity instruments and in the form of the granting of appreciation rights that may, at of the Group's option, be settled in cash or by the issue of equity instruments.

Transactions with settlement through equity instruments

The costs incurred from the granting of equity instruments are measured at the fair value of these equity instruments at the time they are granted. The fair value is calculated by using a suitable option price model. Along with the appropriate measurement method, the value component for the subsequent measurement until the end of the term is also defined at the point in time of the commitment. Conversely, a new estimate of the exercise volume to be expected is made on every measurement date with the consequence of an appropriate restatement of the allocated contribution in consideration of the contribution of the past. Required restatements must be made in each of the periods in which new information about the exercise volume becomes known. The recognition of expenses resulting from the granting of the equity instruments and the corresponding increase in equity are undertaken over the period in which the exercise or performance conditions must be fulfilled (so-called vesting period). This period ends on the day of the first opportunity to exercise the instrument, i.e. at the point in time at which the pertinent employee irrevocably becomes entitled to draw the benefits. The cumulative expenses from the granting of the equity instruments disclosed on every balance sheet closing date until the first opportunity to exercise the instruments reflect the previously expired part of the vesting period and the number of equity instruments that will actually become exercisable upon the expiration of the vesting period in the best possible estimate of the Group. The income or expense recognised in the period result corresponds to the development of the expenses recognised cumulatively at the beginning and end of the reporting period. No expenses are recognised for rights to remuneration that are not exercisable.

When new equity instruments are granted pursuant to the cancellation of previously granted equity instruments, IFRS 2.28(c) requires an assessment of whether the newly granted equity instruments are a replacement of the previous or cancelled instruments.

If they are identified as a replacement, the new equity instruments are accounted for in the same way as a modification of the originally granted instruments. New equity instruments that were not granted as a replacement for cancelled equity instruments are recognised as newly granted equity instruments. The received benefits are recognised as a minimum at the fair value determined on the grant date (of the original instruments). If the changes are beneficial to the employee, the additional fair value of the new equity instruments is determined and allocated as an additional expense over the vesting period. The additional fair value is determined from the difference between the fair value of the equity instruments identified as replacements and the net fair value of the cancelled equity instruments on the date the replacement instruments were granted.

Transaction with cash settlement

A liability is recognised for the fair value of transactions with cash settlement. The fair value is measured at initial recognition and on every closing date and on the payment date. The provisions for both programmes are calculated as of the pertinent valuation closing date by multiplying the number of granted commitments from the SAR or MAP programme at the fair value on the valuation closing date, taking into account the share that has previously been earned by the employee. The valuation date is the equivalent of the relevant closing date. The fair value is calculated on the basis of financial mathematical models or option price models. Major parameters include in particular the stock price on the valuation closing date, the exercise price, the presumable term of the option, volatility, exercise behaviour and dividend rights.

Profit per share

The “undiluted” profit per share (basic earnings per share) is calculated by dividing the results attributable to the holders of registered shares by the average number of shares, weighted for the time period.

The “diluted” profit per share is calculated in a similar way to the profit per share with the exception that the average number of issued shares is increased by the number that would have resulted if the exercisable subscription rights from the issued employee share option programme had been exercised.

Financial income

Interest income is recognised when the interest accrues (using the effective interest rate, i.e. the calculation interest rate at which the estimated future payment inflows over the expected term of the financial instrument are discounted to the net carrying value of the financial asset).

Actual and deferred taxes

The tax expenses of a period comprise actual taxes and deferred taxes. Taxes are recognised in the profit and loss account unless they are related to transactions that are recognised in other results or directly in equity. In these cases, the taxes are recognised accordingly in other results or directly in equity.

Actual taxes are measured in the amount of an expected reimbursement from the tax authorities or an expected payment to the tax authorities. The calculation of the amount is based on the tax rates and tax laws applicable on the balance sheet date.

Deferred taxes are created, applying the liabilities method, on any temporary differences between the valuation of an asset or a debt in the balance sheet and the tax valuation existing on the balance sheet date.

Deferred tax liabilities are recognised for any and all taxable temporary differences with the following exceptions:

» Deferred tax liabilities from the initial recognition of goodwill or an asset or a liability related to a business incident that is not a corporate merger and that does not have any effect on the period result in accordance with IFRS or on the taxable profit at the point in time of the business incident; and

» Deferred tax liabilities from taxable temporary differences related to holdings in subsidiaries, associated companies and shares in joint ventures if the temporal course of the reversal of the temporary differences can be steered and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all temporary deductible differences, tax-related accumulated deficits carried forward that have not yet been utilised and tax credit notes that have not yet been utilised to the extent that it is likely that taxable income against which the deductible temporary differences and the tax-related accumulated deficits carried forward and tax credit notes that have not been utilised can be applied will be available, subject to these exceptions:

» Deferred tax assets from deductible temporary differences arising from the initial disclosure of an asset or a liability related to a business incident that is not a corporate merger and that does not have any effect on the period result in accordance with IFRS or on the taxable profit at the point in time of the business incident; and

» Deferred tax assets from taxable temporary differences related to holdings in subsidiaries, associated companies and shares in joint ventures if it is probable that the temporary differences will not reverse in the foreseeable future and there will not be sufficient taxable income against which the temporary differences can be utilised.

The carrying value of the deferred tax assets is reviewed on every balance sheet date and reduced by the amount for which sufficient taxable profit against which the deferred tax assets can be utilised, at least in part, is no longer likely to be available. Deferred tax assets that have not been recognised are reviewed on every balance sheet date and recognised in the amount to which it has become likely that a future taxable profit will make the realisation of the deferred asset possible.

The deferred tax assets and liabilities are measured at a tax rate which is expected to apply to the period in which an asset is realised or a liability is settled. The calculation of the amount is based on the tax rates (and tax laws) applicable on the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset against each other if the Company has an actionable claim to offsetting of the actual tax reimbursement claims against actual tax liabilities and they are related to taxes on income of the same tax subject that have been levied by the same tax authority.

Summary of valuation principles

The Group's valuation principles can be essentially summarised and simplified – insofar as there are no impairments – as shown below:

Balance sheet items	Measurement
ASSETS	
Cash and cash equivalents	At amortised cost
Trade accounts receivable	At amortised cost
Accounts due from associated companies	At amortised cost
Inventories	Lower of costs of acquisition or manufacture and net selling value
Contract assets	At amortised cost
Prepaid expenses	At amortised cost
Other financial assets	At amortised cost or at fair value through other comprehensive income in other results without reclassification cumulative gains and losses upon derecognition
Other non-financial assets	At amortised cost
Tangible assets	At amortised cost
Intangible assets	
With determinate useful life	At amortised cost
With indeterminate useful life	Impairment-only recognition
Not yet usable	Impairment-only recognition
Deferred tax assets	Undiscounted measurement at the tax rates applicable during the period in which an asset is realised or a liability is satisfied
LIABILITIES	
Trade accounts payable	At amortised cost
Liabilities due to associated companies	At amortised cost
Contract liabilities	At amortised cost
Other provisions	Expected discounted amount that will lead to outflow of resources
Other financial liabilities	At amortised cost
Other non-financial liabilities	At amortised cost
Income tax liabilities	Expected payment to fiscal authorities based on tax rates applicable on the closing date or that will apply in near future
Deferred tax liabilities	Undiscounted measurement at the tax rates applicable during the period in which an asset is realised or a liability is satisfied

Basic accounting principles

The consolidated comprehensive income statement is structured according to the cost-of-sales method. Estimates are required for the preparation of the consolidated financial statements. Moreover, the application of the corporation-wide accounting and valuation methods requires assessments by management. Areas in which there is greater freedom for assessments or a higher level of complexity or areas in which assumptions and estimates are of decisive importance for the consolidated financial statements are described in Section 3.

2.2 Effects of new or modified IFRS

In fiscal year 2020, application of the following standards and interpretations as revised or newly published by the IASB was mandatory and in part voluntary:

Standard		Mandatory application for fiscal years beginning as of	Adoption by EU Commission
Framework	Revised framework	01/01/2020	Yes
IFRS 3	Change: definition of a business	01/01/2020	Yes
IAS 1, IAS 8	Amendment: Definition of materiality	01/01/2020	Yes
IFRS 9, IAS 39, IFRS 7	Reform of reference interest rates	01/01/2020	Yes
IFRS 16	Rent concessions related to COVID-19	01/01/2020	Yes

Revised framework

The framework serves in particular the IASB in the development of accounting standards. In addition, the preparer of the financial statements is supported when including items in the accounting for which the standards and interpretations do not provide specific guidance. The revised framework includes a new chapter on evaluation, updated definitions and guidelines and clarification of some terms.

The changes in the framework did not have any impact on the consolidated annual financial statements.

IFRS 3: Amendment: Definition of a business

The amendment of the definition of a business clarifies that a business comprises an integrated group of activities and assets that may be used to produce goods and services, realise capital gains or generate other income from ordinary activities. A business consists of the utilisation of a resource, the processes to be used to generate the output and the result of the utilisation of the resource. The amendment of the definition did not have any impact on the consolidated annual financial statements. However, impacts may arise in future reporting periods if the Group combines companies.

IAS 1, IAS 8: Amendment: Definition of materiality

The term “material” has been redefined: “Information is material if its omission, misstatement or concealment could reasonably be expected to influence the decisions of the primary users of general purpose financial statements that include financial information about the reporting entity.” These amendments provide a more consistent and precise definition of materiality of financial statement information.

IFRS 9, IAS 39, IFRS 7: Reform of reference rates

The amendments to IFRS 9 and IAS 39 provide for various relief rules to be applied to all hedging relationships directly affected by the reform of the reference interest rates. Such hedging relationships can be recognised by the fact that the reform leads to uncertainties regarding the time of occurrence and/or the amount of the reference interest rate-based cash flows from the hedged item or the hedging instrument. These changes did not have any impact on the consolidated annual financial statements.

Amendments to IFRS 16: Lease concessions relating to COVID-19

The amendments provide lessees with relief in applying the rules in IFRS 16 on accounting for lease modifications due to lease concessions relating to the coronavirus pandemic. A lessee may decide to suspend the assessment of whether a lessor's lease concession because of the pandemic constitutes an amendment to the lease. If this option is exercised, the lessee recognises any qualified modification of the lease payments arising from the coronavirus pandemic lease concession in the same way as it would recognise the modification under IFRS 16 if it were not a lease modification. These changes apply for the first time to fiscal years beginning on or after 1 June 2020. Early application is permissible. These changes did not have any impact on the consolidated annual financial statements.

2.3 Announced accounting standards that have not yet become effective

In addition to the aforementioned IFRS for which application is mandatory, IASB has announced additional IFRS and IFRIC; some of them have already completed the EU endorsement procedure, but their application does not become mandatory until a later point in time. 1&1 Drillisch AG will presumably not begin application of these standards during preparation of the consolidated financial statements until their application becomes mandatory.

Standard		Mandatory application for fiscal years beginning as of	Adoption by EU Commission
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Reform of the reference interest rates (phase 2)	01/01/2021	Yes
IFRS 4	Postponement of the application of IFRS 9	01/01/2021	Yes
IFRS 16	Extension of rent concessions related to COVID-19	01/04/2021	No
IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual improvements (2018–2020 cycle)	01/01/2022	No
IFRS 3	Reference to the framework	01/01/2022	No
IAS 16	Revenue before the intended use	01/01/2022	No
IAS 37	Onerous contracts – costs for the fulfilment of a contract	01/01/2022	No
IAS 1	Classification of debt by maturity	01/01/2023	No
IAS 1	Disclosure of accounting and valuation methods	01/01/2023	No
IAS 8	Definition of accounting estimates	01/01/2023	No
IFRS 17	Accounting for insurance contracts	01/01/2023	No

No major effects are expected from the revisions of the IFRS.

3. Significant discretionary decisions and estimates

During preparation of the financial statements, management makes discretionary decisions, estimates and assumptions that affect the amounts of the income, expenses, assets and liabilities disclosed on the closing date and the disclosure of contingent liabilities. The uncertainty related to these assumptions and estimates may, however, lead to results that in future require substantial restatements in the carrying value of the relevant assets or liabilities.

Estimates and assumptions

The most important assumptions related to the future and other significant sources of estimate uncertainty on the closing date that give rise to substantial risk that a major restatement in the carrying values of assets and liabilities will become necessary within the next fiscal year are explained below.

Revenue realisation

The single-item sales prices for the hardware are determined on the basis of the so-called adjusted market assessment approach, which requires an assessment of the relevant market prices for the hardware. Changes in these assessments can affect the allocation of the transaction fees to the single performance obligations and consequently also have an impact on the amount and course of the revenue realisation over time.

Moreover, various other assumptions and assessments based on past experience and current knowledge at the point in time of the closing date made be made as part of the application of the portfolio approach. Changes in these assumptions and assessment may in their totality also have major effects on the amount and the course of the revenue realisation over time. For additional information, see items 2.1 and 4 of the notes.

Costs to fulfil and obtain contracts

The determination of the estimated useful amortisation terms for the costs of the contract are based on values from experience and is subject to major uncertainties, in particular with respect to unforeseen customer or technology development. A change in the estimated amortisation terms affects the recognition of the expenditure over time. The carrying value of the capitalised costs of obtaining contracts per 31 December 2020 amounts to €169,637k (previous year: €170,927k). The carrying value of the capitalised costs for fulfilling contracts per 31 December 2020 amounts to €93,426k (previous year: €104,331k). For additional information, see items 21 and 28 of the notes.

Impairment of non-financial assets

The Group reviews the goodwill and other intangible assets with an indeterminate useful life as well as those assets that are currently not yet available for use at least once a year as well as at any time there are indications of a possible impairment. During such a review, the realisable amount of the corresponding cash-generating unit to which the goodwill or the intangible assets are allocated is calculated either as “utilisation value” or as the fair value less selling costs.

Estimating the utilisation value or the fair value less selling costs requires management to estimate the presumable future cash flow of the asset or the cash-generating unit and to select a reasonable discount rate so that the present value of this cash flow can be determined. See item 27 of the notes for further details, including a sensitivity analysis of the major assumptions.

Among the major assumptions made by management regarding the determination of the realisable amount of cash-generating units are assumptions regarding development of revenue, development of margins and the discount interest rate.

The carrying value of the goodwill per 31 December 2020 amounts to €2,932,943k (previous year: €2,932,943k). The carrying value of intangible assets with indeterminate useful lives is €56,300k, just as in the previous year. The carrying value of intangible assets that are currently not yet available for use is €1,070,187k (previous year: €1,070,187k). For additional information, see item 27 of the notes.

Share-based payment

The expenses incurred from the granting of equity instruments to employees are measured in the Group at the fair value of these equity instrument at the time they are granted. A suitable measurement method for the granting of equity instruments must be determined so that the fair value can be estimated; the selection of the method is dependent on the terms and conditions of the agreements. It is also necessary to determine suitable data for use in this measurement method, including in particular the presumed term of the option, volatility, exercise behaviour, dividend returns and the corresponding assumptions.

During the fiscal year, expenses from share-based payment (Stock Appreciation Rights and Stock Appreciation Rights Drillisch) in the amount of €2,506k resulted (previous year: income of €277k). For additional information, see item 38 of the notes.

Taxes

There are uncertainties concerning the interpretation of complex tax law provisions as well as the amount and point in time at which taxable events will occur in future. It is possible that deviations between actual events and the assumptions that have been made or future changes in such assumptions will in future require restatements in the amount of tax income and tax expenses that have been recognised. The Group creates provisions for the possible effects of tax audits based on reasonable estimates.

The Group must determine whether to assess each uncertain tax treatment separately or together with one or more other uncertain tax treatments. At this time, it chooses the method that is more suitable for predicting the resolution of the uncertainty. The Group makes significant discretionary judgements in identifying uncertainties regarding the income tax treatment.

The amount of such provisions is based on various factors such as experience from previous tax audits and differences in interpretation of tax regulations by the company required to pay tax and the competent tax authority.

The carrying value of income tax liabilities per 31 December 2020 amounts to €25,933k (previous year: €24,469k) and relates mainly to current taxes for fiscal year 2020. For additional information, see item 32 of the notes.

Leases – determining the term of leases with renewal and termination options and estimating the incremental borrowing rate of interest

The Group determines the term of the lease on the basis of the non-cancellable basic term of the lease and including the periods resulting from an option to extend the lease if it is reasonably certain that it will exercise this option or the periods resulting from an option to terminate the lease if it is reasonably certain that it will not exercise this option.

The Group has included the extension period in the terms of leases for buildings with shorter non-cancellable terms. The Group usually exercises its option to extend these leases as they concern the Group's administrative buildings.

The Group cannot readily determine the interest rate underlying the lease, so it uses its incremental borrowing rate of interest to measure lease liabilities. The Group estimates the incremental borrowing rate of interest using observable input factors (e.g. market interest rates), if available, and must make certain company-specific estimates (e.g. individual credit rating of the subsidiary). For additional information, see items 2.1 and 46 of the notes.

Trade accounts receivable and contract assets

Trade accounts receivable and contract assets are disclosed in the balance sheet less the valuation allowances that have been taken. Valuation allowances are taken on the basis of expected credit losses pursuant to regular reviews and measurements within the scope of credit monitoring. The assumptions made here about the payment behaviour and the creditworthiness of customers are subject to substantial uncertainties. The carrying value of trade receivables per 31 December 2020 is €232,437k (previous year: €228,261k). The carrying value of the contract assets per 31 December 2020 amounts to €761,842k (previous year: €671,858k). For additional information, see items 17 and 18 of the notes.

Inventories

Inventories are measured at the lower of cost of acquisition or manufacture and net selling value. The net selling value is the estimated income from the sale less the expected required costs up to the point in time of the sale. The measurement is based, among other factors, on marketability discounts. The amount of the discounts represents the best possible estimate of the net selling value and is consequently subject to estimate uncertainties.

The carrying values of the inventories per the balance sheet date 31 December 2020 come to €85,366k (previous year: €79,227k). For additional information, see item 20 of the notes.

Tangible and intangible assets

Tangible and intangible assets are measured at cost of acquisition or manufacture at the time of initial recognition. After initial recognition, tangible and intangible assets with a limited useful life are depreciated and amortised by the straight-line method over the presumed economic useful life. The presumed useful life is based on experience and is subject to substantial uncertainties, particularly with respect to unforeseen technological development. Discretionary decisions were made in determining the timing of capitalisation and the start of amortisation for the 5G spectrum.

The carrying value of the tangible assets (including rights of use) and intangible assets (excluding goodwill) per 31 December 2020 amounts to €1,863,391k (previous year: €1,750,523k). For additional information, see items 25 and 26 of the notes.

Provisions

A provision is created if the Group has an obligation (legal or factual) arising from a past event, the outflow of resources with economic benefits for fulfilment of the obligation is probable and a reliable estimate of the amount of the obligation is possible. Estimates of this type are vulnerable to significant uncertainty.

The carrying value of the other provisions per 31 December 2020 amounts to €51,743k (previous year: €52,229k). For additional information, see item 33 of the notes.

4. Sales revenues/Segment reporting

Segment reporting

Pursuant to IFRS 8, the identification of reporting operating segments is based on the so-called management approach. External reports are prepared on the basis of the internal organisational and management structure of the Group and of the internal financial reporting to the chief operating decision-maker. In 1&1 Drillisch Group, the Management Board of 1&1 Drillisch AG is responsible for the assessment and management of the segments' business success.

Company management and Group reporting encompass the segments “Access” and “5G”. The “Miscellaneous” segment that was reported as well in the previous year was merged into the “Access” segment due to its minor importance and is no longer presented separately.

In the segment “Access”, revenues are generated from the offered access services to telecommunication networks, one-time provision fees and the sale of devices and accessories. Revenues include monthly service fees, charges for special features and connection and roaming charges. Revenues are realised on the basis of utilisation units actually used and contract fees less any credit notes and restatements pursuant to reduced prices. The revenues from the sale of hardware and accessories and the related expenditures are realised as soon as the products have been delivered and accepted by the customers.

The monitoring of goodwill in the amount of €2,932,943k (previous year: €2,932,943k) is the responsibility of the CODM at the level of the reporting segment "Access".

The expenditures and income relating to the acquisition of the 5G frequencies and to the preparations for and the future expansion and operation of the Company's own 5G mobile network are disclosed in the segment "5G". In fiscal year 2020, no revenues were recognised in the segment 5G.

Management by the 1&1 Drillisch AG Management Board is based primarily on performance indicators. The 1&1 Drillisch AG Management Board measures the success of the segment "Access" primarily in terms of sales, of the gross profit based on segment cost of materials, the number of subscribers and the adjusted earnings before interest, taxes and depreciation and amortisation (adjusted EBITDA) determined on the basis of IFRS accounting methods (IFRS as they are to be applied in the EU). The segment cost of materials is determined by application of the cost summary method. The sales commissions and the costs to obtain contracts pursuant to IFRS 15 are disclosed under segment cost of materials or expenditures for purchased services. Transactions between the segments are charged at market prices.

The new segment reporting of 1&1 Drillisch for fiscal year 2020 as adapted to the new structure is presented below:

	Access €k	**5G** €k	**2020 Total** €k
Revenues with third parties	3,786,788	0	3,786,788
SEGMENT REVENUES	**3,786,788**	**0**	**3,786,788**
Cost of materials external third parties	-2,787,768	0	-2,787,768
COST OF MATERIALS FOR SEGMENT	**-2,787,768**	**0**	**-2,787,768**
GROSS PROFIT FOR SEGMENT	**999,020**	**0**	**999,020**
SEGMENT EBITDA	**482,401**	**-13,924**	**468,477**
CUSTOMER CONTRACTS (IN MILLIONS)	**14.83**	**-**	**14.83**

All revenues were realised in Germany. The "Consolidation" column disclosed in the previous year is no longer applicable as there are no cross-segment interdependencies between the "Access" and "5G" segments requiring elimination.

The new segment reporting of 1&1 Drillisch for fiscal year 2019* as adapted to the new structure is presented below:

	Access €k	5G €k	2019 Total €k
Revenues with third parties	3,674,846	0	3,674,846
SEGMENT REVENUES	**3,674,846**	**0**	**3,674,846**
Cost of materials external third parties	-2,480,836	0	-2,480,836
COST OF MATERIALS FOR SEGMENT	**-2,480,836**	**0**	**-2,480,836**
GROSS PROFIT FOR SEGMENT	**1,194,010**	**0**	**1,194,010**
SEGMENT EBITDA	**689,176**	**-5,677**	**683,499**
CUSTOMER CONTRACTS (IN MILLIONS)	**14.33**	**-**	**14.33**

* For better comparability, the segment reporting for 2019 was also restated in accordance with the new structure. The “Miscellaneous” segment that was presented separately in fiscal year 2019 and the column “Consolidation” have been merged into the “Access” segment. As a result, the segment turnover increased by €115k and the segment EBITDA by €188k.

The rollover of the total of the segment earnings (EBITDA) to the profit before taxes on income is determined as shown below:

	2020 €k	2019 €k
Total segment profits (EBITDA)	468,476	683,499
Write-offs	-155,395	-155,014
Operating results	**313,081**	**528,485**
Financial Results	-494	-6,049
PROFIT BEFORE TAXES ON INCOME	**312,587**	**522,436**

The customer structure during the reporting period did not reveal any significant concentration on individual customers. There are no customers in 1&1 Drillisch Group with whom more than 10 percent of the total external sales revenues are generated.

Additional information on sales revenues

Group sales revenues break down as shown below:

	2020 €m	2019 €m
Service revenues	3,020	2,943
Hardware and Other revenues	767	732
TOTAL	3,787	3,675

The Group discloses valuation allowances on trade accounts receivable and contract assets from contracts with customers in the reporting period. The figures are disclosed as gross amounts under the impairment losses from receivables and contract assets and amount to €82,374k (previous year: €83,341k).

Contract balances developed as shown below during fiscal year 2020:

	2020 €k	2019 €k
Trade accounts receivable (item 17 of the notes)	232,437	228,261
Contract assets (item 18 of the notes)	761,842	671,858
Contractual liabilities (note 31)	51,027	45,274

In fiscal year 2020, the amount of €10,844k (previous year: €17,515k) that was included in the contract liabilities at the beginning of the fiscal year was realised as sales.

The total amount of the transaction price of the performance obligations not fulfilled at the end of the reporting period amounts to €1,290,973k per 31 December 2020 (previous year: €1,177,144k). Contract renewals were not taken into account here and, in accordance with IFRS 15.121, contract terms of less than one year are not included. The following table shows the time frames indicating when a realisation of the transaction prices from not yet satisfied or partially unsatisfied performance obligations is to be expected:

31 December 2020

in €k			**Summe**
2021	**2022**	**> 2023**	
945,336	345,637	0	1,290,973

31 December 2019

in €k			**Summe**
2020	**2021**	**> 2022**	
887,640	289,504	0	1,177,144

The transaction prices shown relate to unfulfilled service obligations pursuant to contracts with customers with an original contract term of more than 12 months. They relate to service components with revenue recognition over time and to contracts for which a one-time fee was invoiced and which is now recognised as revenue over the relevant original minimum contract term.

5. Cost of sales

The cost of sales developed as follows:

	2020 €k	2019 €k
Expenditures for purchased services	1,929,031	1,679,356
Expenditures for purchased goods	753,189	701,418
Personnel expenses	74,080	73,397
Write-offs	46,553	47,391
Miscellaneous	78,944	73,115
TOTAL	**2,881,797**	**2,574,677**

Cost of sales rose in relation to the sales revenues in comparison with the previous year to 76.1 percent (previous year: 70.1 percent), leading to a decline in the gross margin to 23.9 percent (previous year: 29.9 percent).

The cost of purchased services includes an unscheduled reversal of deferred advance payments for an advance services contract in the amount of €129.9 million. The advance services contract strictly for VDSL services previously in place between 1&1 Drillisch and Deutsche Telekom was prematurely terminated by agreement of the parties in view of the benefits of the new combined VDSL/FTTH agreement. This led to the reassessment of the contract term and consequently to the derecognition of the long-term prepaid expenses. An adjustment of these special effects leads to a gross margin of 27.3 percent.

Other costs of sales encompass primarily data centre and logistics costs.

6. Distribution costs

Distribution costs increased over the previous year from €426,467k (11.6 percent of revenues) to €442,338k (11.7 percent of revenues). They include personnel expenses in the amount of €93,836k (previous year: €87,161k), write-offs in the amount of €101,440k (previous year: €99,328k) and other distribution costs in the amount of €247,062k (previous year: €239,978k). Expenses for purchased services or segment costs of materials in the amount of €105,548k (previous year: €100,062k) are disclosed under distribution costs. Other distribution costs comprise essentially customer acquisition costs, advertising, customer care and product management.

7. Administration costs

Administration costs in the fiscal year rose from €92,165k (2.5 percent of revenues) to €99,371k (2.6 percent of revenues). They include personnel expenses in the amount of €28,868k (previous year: €25,071k), write-offs in the amount of €7,402k (previous year: €8,295k) and other administration costs in the amount of €63,101k (previous year: €58,799k). Other administration costs comprise essentially expenditures for third-party works, receivables management, rent and legal and professional fees.

8. Other operating expenses

Other operating expenses break down as follows:

	2020 €k	2019 €k
Other expenses associated companies	460	459
Other taxes	139	42
Miscellaneous	1,136	2,844
GESAMT	**1,735**	**3,345**

Other operating expenses in the reporting period are related primarily to expenses from other periods, just as in the previous year.

9. Other operating income

Other operating income breaks down as follows:

	2020 €k	2019 €k
Income from dunning charges and return debit notes	23,085	24,339
Damages	6,197	4,965
Rent income	615	713
Income from translation of foreign currencies	285	414
Miscellaneous	3,726	3,203
TOTAL	**33,908**	**33,634**

10. Impairment losses from receivables and contract assets

Impairment losses from receivables and contract assets comprise the following:

	2020 €k	2019 €k
Trade accounts receivable	45,752	54,848
Contract assets	33,049	28,493
Miscellaneous	3,573	0
TOTAL	**82,374**	**83,341**

Reference is made to item 2.1 “Impairment of financial assets” in the notes regarding impairment expenses.

11. Write-offs

The development of fixed assets, including write-offs, is presented in the consolidated analysis of fixed assets movement (exhibit to consolidated notes).

Write-offs on intangible and tangible assets (including rights of use from IFRS 16 accounting) break down as follows:

	2020 €k	2019 €k
Cost of sales	46,553	47,391
Distribution costs	101,440	99,328
Administration costs	7,402	8,295
TOTAL	**155,395**	**155,014**

The write-offs also include write-offs on assets capitalised within the framework of corporate acquisitions. The write-off figures break down among the capitalised assets as shown below:

	2020 €k	2019 €k
Clientele	95,742	95,742
Licences	12,530	25,061
Software	1,720	5,120
TOTAL	**109,992**	**125,923**

This figure includes depreciation and amortisation of €98,136k (previous year: €113,322k) attributable to the additional assets capitalised as part of purchase price allocation.

The write-offs are distributed among the assets capitalised among the various business divisions within the framework of corporate acquisitions as follows:

	2020 €k	2019 €k
Cost of sales	14,250	30,181
Distribution costs	95,742	95,742
TOTAL	**109,992**	**125,923**

12. Personnel expenses

Personnel expenses are distributed among the business divisions as follows:

	2020 €k	2019 €k
Cost of sales	74,080	73,397
Distribution costs	93,836	87,161
Administration costs	28,868	25,071
TOTAL	**196,784**	**185,629**

Personnel expenses comprise the expenses for wages and salaries in the amount of €168,527k (previous year: €158,695k) and the expenses for social security in the amount of €28,257k (previous year: €26,934k).

Per the balance sheet date 31 December 2020, the number of employees (headcount) was 3,191 (previous year: 3,163). The average number of employees during fiscal year 2020 was 3,177 (previous year: 3,119).

There are contribution-oriented commitments in the Group regarding company pension plans. In the case of the contribution-oriented commitments (defined contribution plans), the Company pays contributions to the government pension insurer pursuant to statutory provisions. There are no further performance obligations for the Company when the contributions have been paid. The ongoing contribution payments are disclosed as expenses in the relevant year. In fiscal year 2020, they total €13,733k (previous year: €13,088k) and include primarily the contributions paid to the government pension insurer in Germany.

13. Financing expenses

The financing expenditures break down as follows:

	2020 €k	2019 €k
Interest from leasing liabilities	1,145	387
Interest expenses from tax audits	348	43
Guarantee commissions	92	173
One-off fees and expenses from the provision of credit lines	0	6,347
Interest and similar expenses associated companies	0	265
Miscellaneous	19	47
TOTAL	**1,604**	**7,262**

The credit line of originally €2.8 billion agreed with a European banking syndicate on 24 January 2019 was terminated by 1&1 Drillisch AG during fiscal year 2019. One-time fees and expenses from the provision of credit lines amounted to €6,347k in fiscal year 2019.

Interest paid to associated companies of the previous year concerns primarily interest on loans with companies of United Internet AG or with group companies that are not included in the consolidation of the Group.

Reference is made here to the disclosure under point 43 of the notes concerning the interest paid to associated companies.

14. Financial income

The financial income breaks down as follows:

	2020 €k	2019 €k
Interest income from tax audits	419	828
Interest and similar income associated companies	543	242
Miscellaneous	148	143
TOTAL	**1,110**	**1,213**

Interest income from associated companies concerns primarily interest from intragroup lending/loans with companies of United Internet AG or with companies that are not included in the consolidation of the Group.

Reference is made here to the disclosure under point 43 of the notes concerning the interest income from associated companies.

15. Tax expenses

Tax expenses in the Group break down as follows:

	2020 €k	2019 €k
Current taxes on income	88,730	166,834
Deferred taxes	4,264	-18,018
DISCLOSED EXPENSES FOR INCOME TAXES	**92,994**	**148,816**

In accordance with German tax laws, taxes on income comprise corporate income tax and trade tax plus the solidarity surcharge.

Regardless of whether the profit is re-invested or disbursed, the corporate income tax rate in Germany is unchanged at 15 percent. In addition, a solidarity surcharge of 5.5 percent is levied on the corporate income tax that has been determined.

Trade tax in Germany is levied on the Company's taxable income, corrected by reductions of certain income that is not subject to trade tax and by additions of certain expenses that are not deductible for trade tax purposes.

The effective trade tax rate is dependent on the community where the Company operates. The average trade tax rate in fiscal year 2020 was about 14.18 percent (previous year: 14.20 percent). This led to a reduction in the Group tax rate to 30.01 percent (previous year: 30.03 percent).

The current taxes on income include tax income from other periods in the amount of €34k (previous year: €6,341k).

Deferred tax assets from temporary differences are recognised as long as it is probable that a taxable profit against which the deductible temporary differences can be utilised will be available.

Deferred taxes are determined from the following items:

	2020		2019	
	Deferred tax assets €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
Intangible assets	44,580	-160,289	45,641	-170,031
Tangible assets	0	-26,387	0	-13,895
Inventories	58	-88	57	-168
Contract assets	14,845	-218,278	11,637	-181,511
Other assets	2,172	-3,140	1,437	-1,377
Prepaid expenses*	152,763	-79,032	140,698	-82,747
Other provisions	16,219	-3,463	15,204	-6
Contract liabilities	5,541	-8,676	4,750	-9,426
Other liabilities	29,258	-88	14,373	-4,384
GROSS VALUE	**265,436**	**-499,440**	**233,797**	**-463,545**
Balance	-265,436	265,436	-233,797	233,797
CONSOLIDATED BALANCE SHEET	**0**	**-234,005**	**0**	**-229,748**

* The item "Prepaid expenses" combines the items "Costs to fulfil contracts", "Costs to obtain contracts" and "Prepaid expenses" that were disclosed separately in the previous year.

The net liability position of deferred taxes per the balance sheet date 31 December 2020 totalled €234,005k (previous year: €229,748k).

The total amount of the change in the balance of deferred taxes amounts to €4,257k (previous year: €18,132k).

The deferred taxes on intangible and tangible assets result essentially from the differing treatment of intangible assets capitalised in the course of corporate acquisitions in the consolidated annual financial statements and in the tax balance sheet.

Deferred tax liabilities on tangible assets and deferred tax assets on other liabilities result mainly from the IFRS 16 accounting.

The deferred taxes on contract assets, contract liabilities and prepaid expenses result in particular from the IFRS 15 accounting.

Latent tax assets on other provisions result essentially from the recognition of provisions for termination charges related to IFRS 15 accounting.

The change in the balance of the deferred taxes in comparison with their status per 31 December 2019 can be determined as shown below:

	2020 €k	2019 €k
Deferred tax income (previous year: tax expense)	-4,264	18,018
Changes recognised through other comprehensive income:		
- Directly through other equity	7	114
CHANGE IN THE BALANCE OF DEFERRED TAXES	**-4,257**	**18,132**

The transition from the overall tax rate to the effective tax rate of the ongoing activities is shown in simplified form below:

	2020	2019
Expected tax rate	**30.0 %**	**30.0 %**

	2020 €k	2019 €k
Profit before income taxes from continued operations	**312,587**	**522,436**
- Tax expenses from application of the income tax rate	93,804	156,872
- Tax rate changes	-94	-1,787
- Actual and deferred taxes previous years	-704	-6,675
- Tax effects from other deferred taxes	-19	-323
- Balance of other tax-free income and non-deductible expenses	6	729
Tax expenses pursuant to comprehensive income statement	**92,993**	**148,816**
Effective tax rate	**29.7 %**	**28.5 %**

The expected tax rate corresponds to the tax rate of the parent company, 1&1 Drillisch AG.

16. Cash and cash equivalents

Cash and cash equivalents comprise cash in banks, short-term investments, cheques and cash on hand. Interest is paid on credit balances in banks at variable interest rates for credit balances that can be terminated daily. Owing to the low interest rate at this time, that is currently even negative for credit balances denominated in euros, no interest is paid for credit balances in banks.

Short-term deposits are made for varying time periods between one day and three months depending on the Group's need for cash.

The development of cash and cash equivalents can be seen in the consolidated cash flow statement.

As in the previous year, there were no restrictions on disposal of bank credit balances in the reporting period.

17. Trade accounts receivable

Per the balance sheet date 31 December 2020, net trade accounts receivable amounted to €232,437k (previous year: €228,261k) and break down as follows:

	31/12/2020 €k	31/12/2019 €k
Trade accounts receivable	295,009	295,318
Less		
Valuation allowances	-62,572	-67,057
TRADE ACCOUNTS RECEIVABLE, NET	**232,437**	**228,261**
of which trade receivables – **short-term**	232,437	228,261
of which trade receivables – **long-term**	0	0

The development of the valuation allowances account is presented below:

	2020 €k	2019 €k
Per 1 January	67,057	58,139
Utilisation	-50,237	-45,930
Additions through expenses	48,866	57,312
Reversal	-3,114	-2,464
PER 31 DECEMBER	**62,572**	**67,057**

The additions of valuation allowances through expenditures do not include the receivables that were derecognised before the balance sheet date.

The maximum default risk on the balance sheet date corresponds to the net carrying value of the above-mentioned trade receivables.

As of the balance sheet date, there are no indications that the payment obligations for the receivables for which no valuation allowances have been created will not be satisfied.

Overdue receivables are reviewed to determine if there is any need for valuation allowances. The determination of the separate valuation allowances is essentially dependent on the age structure of the receivables. Reference is made to item 44 of the notes.

Any and all overdue receivables for which separate valuation allowances have not been created are encompassed in a lump-sum valuation allowance based on expected credit losses.

Per 31 December, the age structure of the trade receivables after consideration of the aforementioned valuation allowances corresponds to the following:

	31/12/2020 €k	31/12/2019 €k
Trade accounts receivable, net		
0-5 days	206,065	198,501
6-15 days	4,942	4,105
16-30 days	3,025	3,414
31-180 days	12,889	16,402
181-365 days	5,461	5,674
> 365 days	55	165
TOTAL	**232,437**	**228,261**

18. Contract assets

Per the balance sheet date 31 December 2020, net contract assets amount to €761,842k (previous year: €671,858k) and break down as follows:

	31/12/2020 €k	31/12/2019 €k
Contract assets, gross	819,710	718,841
Less		
Valuation allowances	-57,868	-46,983
CONTRACT ASSETS, NET	**761,842**	**671,858**
of which contract assets – short-term	565,793	498,111
of which contract assets – long-term	196,049	173,747

The development of the valuation allowances account is presented below:

	2020 €k	2019 €k
Per 1 January	46,983	33,083
Additions through expenses	33,049	28,493
Utilisation	-22,164	-14,593
PER 31 DECEMBER	**57,868**	**46,983**

19. Accounts due from associated companies

Accounts due from associated companies per the balance sheet date amount to €400,885k (previous year: €215,329k) and are related to member companies of United Internet Group that are not included in the Group's consolidated accounts. Reference is made here to item 43 of the notes concerning the accounts receivable from associated companies.

20. Inventories

Inventories comprise the following items:

	31/12/2020 €k	31/12/2019 €k
Merchandise (gross)		
- Mobile services/Mobile internet	75,151	72,327
- Broadband hardware	6,277	8,408
- SIM cards	4,680	3,323
- Miscellaneous	3,509	1,224
	89,617	**85,282**
Less		
Valuation allowances	-6,525	-8,157
INVENTORIES, NET	**83,092**	**77,125**
Payments on account	2,274	2,102
INVENTORIES	**85,366**	**79,227**

As in the previous year, valuation allowances apply here solely to mobile services/mobile internet.

The cost of goods sold recognised as cost of materials under cost of sales from the sale of inventories in fiscal year 2020 amounts to €753,189k (previous year: €701,418k).

21. Short-term deferred expenses

Short-term deferred expenses of €187,081k (previous year: €211,745k) include essentially costs to obtain contracts of €88,013k (previous year: €88,942k), costs to fulfil contracts of €55,441k (previous year: €60,747k) and prepayments for advance services of €43,627k (previous year: €62,052k), which are deferred on the basis of the underlying contract period and recognised as an expense in the appropriate period.

In the reporting period, the Group recognised expenses from deferred contract costs in the amount of €173,564k (previous year: €186,083k). Of this amount, €105,403k (previous year: €101,199k) relates to costs to obtain contracts and €68,161k (previous year: €84,884k) to costs to fulfil contracts.

22. Other short-term financial assets

The other short-term financial assets break down as follows:

	31/12/2020 €k	31/12/2019 €k
Receivables for promotion rebates	14,591	11,939
Creditors with debit balances	4,748	8,227
Claim for repayment from company acquisitions from previous years	3,082	8,062
Miscellaneous	1,218	695
OTHER FINANCIAL ASSETS	**23,639**	**28,923**

23. Other short-term non-financial assets

	31/12/2020 €k	31/12/2019 €k
Trade tax	33,419	1,295
Value-added tax	5,600	7,952
Refund claims from return of hardware	4,410	3,825
Corporate income tax	10,307	2,772
OTHER NON-FINANCIAL ASSETS	**53,736**	**15,844**

The change results in particular from the refund claim for fiscal year 2020 as the balance of trade tax prepayments and the actual tax burden.

24. Other long-term financial assets

The composition of the other long-term financial assets can be seen in the following overview:

	31/12/2020 €k	31/12/2019 €k
Participating interests	1,259	904
Other loans	733	774
TOTAL	**1,992**	**1,678**

25. Tangible assets

Tangible assets per the balance sheet date 31 December break down as follows:

	31/12/2020 €k	31/12/2019 €k
Cost of acquisition		
Land and buildings	302	302
Rights of use for land and buildings	100,733	50,344
Rights of use for fixtures, fittings and equipment	5,167	3,807
Fixtures, fittings and equipment	41,869	27,822
Payments on account	6,011	2,478
	154,082	**84,753**
Less		
Accrued amortisation	-31,282	-20,257
ACCRUED AMORTISATION	**122,800**	**64,496**

An alternative presentation of the development of tangible assets in fiscal years 2020 and 2019 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Per the balance sheet date, there are purchase obligations for the fixed assets in the amount of €55,399k (previous year: €64,164k).

The increase in rights of use is essentially due to the conclusion of new long-term leases at the Karlsruhe site.

For more detailed information concerning rights of use to land and buildings and to fixtures, fittings and equipment, please refer to note 46.

26. Intangible assets (excluding goodwill)

Intangible assets excluding goodwill per 31 December break down as follows:

	31/12/2020 €k	31/12/2019 €k
Cost of acquisition		
Spectrum	1,070,187	1,070,187
Clientele	776,975	776,975
Rights similar to concessions	165,000	0
Purchased software and licences	138,536	158,772
Trademark	56,300	56,300
Own produced software	18,262	8,369
Rights of use to licences	9,281	0
Payments on account	3,136	3,228
	2,237,677	**2,073,831**
Less		
Accrued amortisation	-497,086	-387,803
INTANGIBLE ASSETS, NET	**1,740,591**	**1,686,027**

An alternative presentation of the development of intangible assets in fiscal years 2020 and 2019 is shown in the exhibit to the consolidated notes (consolidated analysis of fixed assets movement).

Rights similar to concessions result from a one-off payment in the course of exercising the first extension option of the MBA MVNO contract to secure direct access to 5G technology and as a necessary building block for the construction of the Company's own mobile network.

The rights of use for licences result from the frequency transfer agreement concluded with Telefónica in 2020. 1&1 Drillisch has leased frequencies from Telefónica for the construction of its own 5G mobile network. The agreement covers two frequency blocks of 10 MHz each in the 2.6 GHz range. The two frequency blocks will be available to 1&1 Drillisch until 31 December 2025.

For further information on rights to use intangible assets, please refer to note 46.

Cost of acquisition of customers in the amount of €776,975k (previous year: €776,975k) relate to the clientele capitalised within the framework of corporate acquisitions.

The carrying values of the intangible assets with an indeterminate useful life (trademark rights) amount to €56,300k (previous year: €56,300k). The useful life of the trademark rights is classified as indeterminate because there are no indications that the inflow of benefits will end in the future.

The recoverability test of the intangible assets with an indeterminate useful life was carried out at the level of the cash-generating units per the balance sheet date. The test did not result in any impairment in the fiscal year, just as in the previous year.

The following table gives an overview of the trademark rights attributed to the CGU of 1&1 Drillisch AG:

	31/12/2020 €k	31/12/2019 €k
yourfone	16,600	16,600
smartmobil.de	15,000	15,000
WinSim	9,800	9,800
simply	5,200	5,200
DeutschlandSIM	4,400	4,400
maXXim	2,700	2,700
PremiumSIM	2,200	2,200
BildConnect	200	200
Tecol	200	200
TOTAL	**56,300**	**56,300**

Per the balance sheet date, there are purchase obligations for intangible assets in the amount of €7k (previous year: €165,256k).

Spectrum

1&1 Drillisch participated in the 5G frequency auction that ended on 12 June 2019 and acquired two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range; the usability of each block is limited 31 December 2040. The frequency blocks in the 3.6 GHz range are available immediately and the frequency blocks in the 2 GHz range will be available from 1 January 2026.

The intangible assets resulting from the acquisition were recognised at their cost of acquisition. Per 31 December 2020, the carrying values of the frequency blocks, unchanged from the previous year, are as follows:

Frequency block	Amount in €k
3.6 GHz	735,190
2 GHz	334,997
Total	**1,070,187**

There were no write-downs in fiscal year 2020. The acquired frequency blocks will not be amortised until actual network operation using the spectrum begins. The impairment test was performed per the balance sheet date at the level of the cash-generating unit "5G". The test did not result in any impairment in the fiscal year.

Own produced intangible assets

Own produced intangible assets include mainly capitalised development costs for software used for the management of our customers.

27. Goodwill and impairment of goodwill and intangible assets with indeterminate useful lives as well as intangible assets currently not yet available for use (spectrum)

The goodwill and intangible assets with an indeterminate useful life are subjected to an impairment test at least once a year. The Company has designated the final quarter of the fiscal year for conduct of the impairment test required annually parallel to the in-company budgetary process.

The goodwill acquired during corporate mergers was allocated to the cash-generating units for the purpose of the impairment test.

Following the conclusion of extensive integration measures in fiscal year 2018, the two cash-generating units 1&1 Drillisch and 1&1 Telecom were merged into the one cash-generating unit 1&1 Drillisch. The integration measures and the related interdependencies in the strategic orientation have resulted in the cash-generating unit 1&1 Drillisch becoming the smallest sector for which management monitors goodwill. The impairment test of the goodwill of 1&1 Drillisch is carried out at the level of the "Access" reporting segment.

Insofar as the impairment tests result in impairment losses, they are disclosed separately in the profit and loss statement and in the consolidated analysis of fixed assets movement.

The goodwill has been attributed completely to the cash-generating unit 1&1 Drillisch.

There were no indications of any impairment in fiscal year 2020 or in the previous year.

Scheduled recoverability test per 31 December 2020

The realisable amounts of the cash-generating unit 1&1 Drillisch is determined on the basis of the calculation of the fair value less costs of the disposal with application of cash flow forecasts. The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 3 for this impairment test.

Disposal costs of approximately 0.2 percent (previous year: 0.2 percent) were assumed for the determination of the fair value less costs of disposal.

As in the previous year, the impairment test for goodwill of 1&1 Drillisch in fiscal year 2020 did not result in any impairment loss.

The table below presents the underlying assumptions that were used for the impairment test of the cash-generating unit 1&1 Drillisch and the determination of the fair value less costs of disposal:

	Reporting year	Share of total goodwill	Long-term growth rate	Discount factor after taxes	Revenue growth rate*
1&1 Drillisch	2020	100 %	0.0 %	4.3 %	1.1 %
	2019	100 %	0.1 %	3.8 %	2.1 %

* End of detailed planning period 2026

The cash flow forecasts are based on a Group budget calculation for fiscal year 2021 and a planning calculation for fiscal years 2022 to 2026. These planning calculations were extrapolated for the cash-generating unit by management on the basis of external market studies and internal assumptions. Since the expectation for the end of the detailed planning period (2026) is that a sustained revenue and result level will not have been reached, the detailed planning period has been extended by an interim phase for the years from 2027 to and including 2031, at which time a sustained revenue and result level should be reached.

The cash flow forecasts are essentially dependent on the estimates of future sales revenues. The values of the sales revenues over the detailed planning period of the cash-generating unit are based on average annual growth rates of 1.1 percent (previous year: 2.1 percent). Another major fundamental assumption for the planning of the cash-generating units is the number of subscribers, the gross profit planning based on this subscriber number, our experience and discounting rates assumed for this purpose. Rising subscriber numbers and a slight decline in gross profits are expected in the coming years.

The fair value less costs of disposal is determined primarily by the present value of the perpetual annuity, which reacts especially sensitively to changes in the assumptions about long-term growth rates and the discount rate. Management assumes an annual increase in cash flow of 0.0 percent (previous year: 0.1 percent) for the period of the perpetual annuity. This growth rate corresponds to the long-term average growth rate in the industry. The discount rates after taxes used in the fiscal year for the cash flow forecasts are at 4.3 percent (previous year: 3.8 percent).

The trademark rights disclosed in the balance sheet result from the acquisition of Drillisch Group and were measured at fair value less disposal costs by application of suitable measurement methods (licence price analogy method) and reviewed for recoverability on the balance sheet closing date in the course of the corporate merger. At this time, the cash flows relevant for the trademark were multiplied by the licence rates relevant for the trademark. These rates range between 0.25 percent and 0.5 percent (previous year: between 0.25 percent and 0.5 percent). The forecasts of the cash flows relevant for the trademarks were based on the same assumptions concerning market development and discount rates that were previously used in the calculation of the fair value of the cash-generating unit.

No impairment was required for any of the trademarks in the fiscal year.

Sensitivity of the applied assumptions

The sensitivity of the assumptions concerning an impairment in goodwill or the trademark values is dependent on the fundamental assumptions for the pertinent cash-generating unit.

Within the framework of the sensitivity analyses for the cash-generating unit 1&1 Drillisch, an increase in the discount rate (after taxes) of one percentage point and a decline in the long-term growth rate in the perpetual annuity of 0.1 percentage point were assumed. No changes in the impairment test would arise from these assumptions.

As in the previous year, the Company management is of the opinion that none of the fundamentally possible changes in one of the basic assumptions used for determination of the fair value less costs of disposal of a cash-generating unit could, according to reasonable judgement, lead to a carrying value that is significantly higher than the realisable amount.

Intangible assets not yet usable (spectrum)

The recognised 5G spectrum results from the 5G frequency auction of 2019. 1&1 Drillisch acquired two frequency blocks à 2 x 5 MHz in the 2 GHz range and five frequency blocks à 10 MHz in the 3.6 GHz range; the usability of each block is limited to 31 December 2040. The frequency blocks in the 3.6 GHz range are available immediately and the frequency blocks in the 2 GHz range will be available from 1 January 2026. The spectrum cannot yet be used as long as the Group does not have its own network and was therefore subjected to an impairment test in fiscal year 2020 at the level of the cash-generating unit “5G” in the newly created “5G” segment.

The realisable amounts of the cash-generating unit “5G” is determined on the basis of the calculation of the fair value less costs of the disposal with application of cash flow forecasts. The hierarchy of the fair value less costs of disposal within the sense of IFRS 13 is classified as Level 3 for this impairment test.

The planning calculation on which the impairment test was based includes profit and loss planning and an investment plan for fiscal years 2021 to 2040. As the spectrum runs until 2040, the measurement was carried out over the period from 2021 to 2040. Disposal costs of approximately 3 percent were assumed for the determination of the fair value less costs of disposal, unchanged from the previous year. The discount rate after taxes used in the fiscal year for the cash flow forecasts is at 3 percent. There was no need for impairment in the fiscal year. This also reflects qualitatively (there are no internal or external indications of impairment) the expectations of the Management Board based on the high strategic significance.

28. Long-term deferred expenses

Long-term deferred expenses of €142,665k (previous year: €293,827k) include largely costs to obtain contracts of €81,624k (previous year: €81,985k), costs to fulfil contracts of €37,985k (previous year: €43,584k) and advance payments made under long-term purchase contracts of €23,055k (previous year: €168,259k).

In the previous year, the long-term deferred expenses in the amount of €136,444k resulted essentially from prepayments made for VDSL advance services payments. The advance services contract strictly for VDSL services previously in place between 1&1 Drillisch and Deutsche Telekom was prematurely terminated by agreement of the parties in view of the benefits of the new combined VDSL/FTTH agreement. This led to the derecognition of the long-term deferred expenses.

29. Trade accounts payable

Trade accounts payable amount to €319,866k (previous year: €266,369k) per the balance sheet date 31 December 2020. Trade accounts payable include all of the liabilities due to suppliers related to the delivery of goods and the performances of services by third parties.

30. Short-term liabilities due to associated companies

Short-term liabilities due to associated companies per the balance sheet date 31 December 2020 amount to €55,800k (previous year: €79,294k) and are related to member companies of United Internet Group that are not included in the Group's consolidated accounts.

Reference is made here to item 43 of the notes concerning liabilities due to associated companies.

31. Contract liabilities

	31/12/2020 €k	31/12/2019 €k
Contract liabilities	51,027	45,274
- of which short-term	44,110	40,314
- of which long-term	6,917	4,960
TOTAL	**51,027**	**45,274**

Contract liabilities include liabilities from reimbursement obligations for one-time fees for revoked contracts and deferred income from one-time fees updated through profit and loss.

32. Income tax liabilities

The income tax liabilities in the amount of €25,933k (previous year: €24,469k) are related as in the previous year to income liabilities due to fiscal authorities in Germany.

33. Other provisions

The development of the provisions is presented below:

	Share-based payment	Restructuring	Litigation risks	Termination fees	Miscellaneous	Total
	€k	€k	€k	€k	€k	€k
1 JANUARY 2020	**265**	**1,200**	**3,454**	**45,319**	**1,991**	**52,229**
Utilisation	0	720	154	8,872	1,640	11,386
Reversal	35	0	2,300	0	86	2,421
Allocation	363	0	1,677	9,721	1,560	13,321
31 DECEMBER 2020	**593**	**480**	**2,677**	**46,168**	**1,825**	**51,743**

Reference is made to the remarks under item 38 of the notes, Share-based remuneration, for information regarding the provision for share-based remuneration.

Litigation risks comprise various legal disputes in various companies of the Group.

The provision for termination fees relates to the payments to be made to the network operators in the event of the termination of a line.

The provision for restructuring concerns the costs relating to the sale of yourfone Shop GmbH.

The other provisions are mainly warranty provisions.

Provisions of €46,444k (previous year: €45,670k) have a term of one to five years. As in the previous year, there are no provisions with a term of more than five years.

34. Other short-term financial liabilities

The other short-term financial liabilities break down as follows:

	31/12/2020 €k	31/12/2019 €k
Other short-term financial liabilities		
Frequency liabilities	61,266	61,266
Obligations pursuant to leases	12,477	7,573
Liabilities from salaries/personnel	11,252	11,188
Marketing and distribution costs/distribution commissions	8,842	12,168
Customers with credit balances	5,880	3,401
Legal and professional fees, closing expenses	1,126	1,945
Miscellaneous	5,440	5,093
TOTAL	**106,283**	**102,634**

Reference is made here to item 44 of the notes concerning frequency liabilities.

35. Other short-term non-financial liabilities

The other short-term non-financial liabilities break down as follows:

	31/12/2020 €k	31/12/2019 €k
Other short-term non-financial liabilities		
Value-added tax	14,910	27,012
Income and church tax due	2,359	2,244
TOTAL	**17,269**	**29,256**

36. Other long-term financial liabilities

The other long-term financial liabilities break down as follows:

	31/12/2020 €k	31/12/2019 €k
Other long-term financial liabilities		
Frequency liabilities	886,389	947,655
Obligations pursuant to leases	85,702	40,215
Miscellaneous	2,560	3,955
TOTAL	**974,651**	**991,825**

Reference is made here to item 44 of the notes concerning frequency liabilities.

37. Maturity structure of the liabilities

The maturity structure of the liabilities is presented below:

The frequency liabilities, which are disclosed under other financial liabilities, have a term until 2030.

	Up to 1 year €k	1 to 5 years €k	More than 5 years €k	Total €k
Trade accounts payable	319,866	0	0	**319,866**
Liabilities due to associated companies	55,800	0	0	**55,800**
Contract liabilities	44,110	6,917	0	**51,027**
Other financial liabilities	106,283	350,395	624,256	**1,080,934**
Other non-financial liabilities	17,269	0	0	**17,269**
Other provisions	5,299	46,444	0	**51,743**
Income tax liabilities	25,933	0	0	**25,933**
TOTAL	**574,560**	**403,756**	**624,256**	**1,602,572**

The liabilities in the previous year displayed the following maturity structure:

	Up to 1 year €k	1 to 5 years €k	More than 5 years €k	Total €k
Trade accounts payable	266,369	0	0	**266,369**
Liabilities due to associated companies	79,294	0	0	**79,294**
Contract liabilities	40,314	4,960	0	**45,274**
Other financial liabilities	102,634	328,667	663,158	**1,094,459**
Other non-financial liabilities	29,256	0	0	**29,256**
Other provisions	6,559	45,670	0	**52,229**
Income tax liabilities	24,469	0	0	**24,469**
TOTAL	**548,895**	**379,297**	**663,158**	**1,591,350**

38. Share-based payment

There are two different employee stock ownership programmes in the reporting year 2020. A new employee stock ownership model oriented to the long term, the so-called Stock Appreciation Rights Drillisch (SAR Drillisch programme) was launched in the reporting year 2020. The model addresses the group of managers and executive employees of 1&1 Drillisch Group and is based on virtual stock options of 1&1 Drillisch AG. The employee programme initiated in 2018 was previously terminated.

Stock Appreciation Rights (SAR United Internet)

An older employee stock ownership model, the so-called Stock Appreciation Rights (SAR) programme, is aimed at executives and executive employees of many years' standing and is based on virtual share options of United Internet AG. From the perspective of the Group, this share-based remuneration is to be presented as share-based remuneration with cash settlement ("cash-settled"). The obligation of 1&1 Drillisch AG Group is presented as a provision in accordance with the regulations of IFRS 2. In fiscal year 2020, this resulted in an expenditure of €328k (previous year: income of €356k). Per 31 December 2020, the carrying value of the provisions from share-based remuneration amounts to €593k (previous year: €265k). Per 31 December 2020, 175,000 virtual stock options (previous year: 200,000 options) at an average exercise price of €36.93 (previous year: €36.41) were outstanding. The range of the exercise prices for the share options outstanding on the closing date is unchanged between € 31.15 and € 41.26.

Stock Appreciation Rights Drillisch (SAR Drillisch)

Stock option programme until 17/04/2020

The previous programme, the Stock Appreciation Rights Drillisch (SAR Drillisch) that was implemented in the first half of 2018, addressed managers and executive employees in key positions and was based on virtual stock options of 1&1 Drillisch AG.

An SAR Drillisch encompassed the commitment of 1&1 Drillisch AG (or one of its subsidiaries) to make payments to a person eligible for the option, the amount of which resulted from the development of the stock price and the operating results (EBIT) of 1&1 Drillisch AG (consolidated). So-called SARs were allocated to the participants in the SAR programme and allotted over a vesting period. One SAR corresponded to a virtual subscription right to one share of 1&1 Drillisch AG stock, but was not a share right and consequently was not a (genuine) option for the purchase of 1&1 Drillisch AG stock. The claim pursuant to one SAR was dependent on the development of the stock price and of the EBIT.

Using an option price model based on a so-called Monte Carlo simulation in compliance with IFRS 2, the fair value of the vested options was calculated in the previous year as follows:

Valuation parameters in fiscal year 2019

Vesting date	01/01/2019	01/01/2019	01/10/2019
Fair value	196 €k	434 €k	3.252 €k
Number of SARs	4,500	8,600	64,300
Initial price	44.10 €	45.00 €	45.00 €
Closing date price	44.50 €	43.60 €	43.60 €
Dividend return	3.7 %	3.7 %	3.7 %
Volatility of the stock	37.8 %	32.6 %	32.6 %
Expected term (years)	5	5	5
Exercise threshold (EBIT factor)	80.0 %	80.0 %	80.0 %
CAP (EBIT factor)	120.0 %	120.0 %	120.0 %

The volatility assumed for the determination of the fair value was determined on the basis of the historic volatility for the last 12 months before the measurement date. The exercise price was calculated on the basis of the average share price of the last 10 days before the vesting date.

The previous SAR Drillisch programme was cancelled during the business year. At the time of cancellation, 77,400 share options were outstanding and were replaced by new equity instruments.

The cumulative expense recognised to date from the programme replaced in the first half of the year amounted to €1,735k (previous year: €1,436k) until it was replaced by the new programme. In fiscal year 2020, expenses of €299k (previous year: €79k) were recognised for this programme.

New stock option programme per 17/04/2020

An SAR Drillisch encompasses the commitment of 1&1 Drillisch AG (or one of its subsidiaries) to make payments to the beneficiary of the option, the amount of which is calculated as the difference between the exercise price (set at the time of the vesting) and the stock exchange price of one share of 1&1 Drillisch stock when the option is exercised. One SAR corresponds to a virtual subscription right to one share of 1&1 Drillisch AG stock, but is not a share right and consequently is not a (genuine) option for the purchase of 1&1 Drillisch AG stock.

The exercise hurdle is 120 percent of the share price at the time of vesting. The stock market price at the time of vesting is calculated as the average of the closing prices in XETRA trading for the stock of 1&1 Drillisch AG on the Frankfurt Stock Exchange during the last 10 trading days prior to the time of vesting of the option. The payment of the appreciation for the beneficiary is at the same time limited to 100 percent of the stock exchange price determined at the time of vesting (CAP).

Persons entitled to an option have an exercise window of 10 days to exercise their options. It begins on the third day after the Annual General Meeting or after the publication of the 9-month report.

The blocking period for exercise is two years. The virtual share options can be exercised in instalments of up to 25 percent at the earliest after 24 months from the date of vesting of the option, a maximum of 50 percent after 36 months from the date of vesting of the option, a maximum of 75 percent after 48 months from the date of vesting of the option and 100 percent after 60 months from the date of vesting of the option.

Tranches that cannot be exercised in the available exercise window due to the exercise hurdle not being reached can be exercised in the next regular exercise window of the tranche.

The SAR Drillisch programme provides for settlement by cash payment. However, in accordance with the terms and conditions of the SAR Drillisch programme, 1&1 Drillisch AG also reserves the right to fulfil its obligation (or the obligation of the subsidiaries) to pay out the SAR in cash by transferring (at its own discretion) shares of 1&1 Drillisch AG from its treasury stock to the beneficiaries. As the intention is to pay out by transfer of shares, the commitment is recognised as equity-settled share-based remuneration.

According to IFRS 2.28 (c), three commitments are a replacement of the previous SAR programme. The additional fair value was determined for the valuation of the replacement programmes. It is determined as the difference between the fair value of the equity instruments identified as replacements and the net fair value of the cancelled equity instruments on the date the replacement instruments were granted.

The additional expenses resulting from the allocation of new equity instruments are distributed over the vesting period in accordance with IFRS 2.

Using an option price model based on a so-called Black-Scholes evaluation model in compliance with IFRS 2, the fair value of the vested options was calculated as follows:

Valuation parameters in fiscal year 2020

Vesting date	17/04/2020	01/06/2020	01/10/2020
Fair value	6,930 €k	1,111 €k	1,042 €k
Number of SARs	1,904,600	270,000	314,000
Option value	3.64 €	4.12 €	3.32 €
Share price	19.84 €	22.95 €	18.95 €
Exercise price	19.07 €	23.20 €	19.80 €
Exercise price 200 %	38.14 €	46.40 €	39.60 €
Exercise hurdle	20.0 %	20.0 %	20.0 %
Exercise hurdle	22.88 €	27.84 €	23.76 €
Dividend per share	0.05 €	0.05 €	0.05 €
Dividend return	0.25 %	0.22 %	0.26 %
Volatility of the stock	55.34 %	53.95 %	58.43 %
Term (years)	6	6	6

The exercise price is calculated on the basis of the average share price of the last 10 days before the vesting date. The volatilities of the 1&1 Drillisch stock correspond to the volatilities for the cut-off dates relevant for each evaluation.

In fiscal year 2020, the total expenditures from the new employee stock ownership programme came to €9,083k. The previously recognised cumulative expenditure per 31 December 2020 for SARs not yet exercised on the balance sheet date comes to €1,879k. Expenditures for future years will amount to €7,204k.

The average weighted exercise price for the share options issued per 31 December 2020 amounts to €19.61.

The changes in the vested or outstanding virtual share options can be seen in the following table:

	Number
OUTSTANDING ON 1 JANUARY 2019	**180,000**
lapsed/forfeited	-180,000
Newly vested	64,300
Newly vested	4,500
Newly vested	8,600
OUTSTANDING ON 31 DECEMBER 2019	**77,400**
lapsed/forfeited	-77,400
Replacement	534,800
Newly vested	1,369,800
Newly vested	270,000
Newly vested	314,000
OUTSTANDING ON 31 DECEMBER 2020	**2,488,600**

39. Share capital

The share capital remains unchanged at €193.9 million. The share capital is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 each and represents the share capital of 1&1 Drillisch AG. In fiscal years 2018 and 2019, a total of 500,000 1&1 Drillisch AG shares were acquired as part of the stock repurchase programme, reducing the number of shares outstanding to 176,264,649 shares.

Approved Capital 2018

Pursuant to a resolution adopted by the extraordinary General Meeting on 12 January 2018, the Management Board was authorised, subject to the consent of the Supervisory Board, to increase the Company’s share capital by a total of €97,220,556.40 by single or multiple issue of new no-par shares against cash and/or contributions in kind (Approved Capital 2018) by 11 January 2023.

In the event of cash contributions, the new shares issued by the Management Board may, subject to the consent of the Supervisory Board, also be taken over by one or more banks or other companies fulfilling the prerequisites of Section 186 (5) first sentence AktG, subject to the obligation to offer them for subscription solely and exclusively to the shareholders (indirect subscription right). As a matter of principle, a subscription right is to be granted to the shareholders. However, the Management Board is authorised, subject to the consent of the Supervisory Board, to exclude shareholders' subscription rights:

- So that fractional amounts are excluded from the subscription right;
- If the capital increase is achieved by cash contributions and the issue price of the new shares is not significantly lower than that of the shares already traded on the

exchange at the time of the final determination of the issue price, which should take place as contemporaneously as possible with the placement of the shares. The number of shares issued subject to exclusion of the subscription pursuant to Section 186 (3) fourth sentence AktG may not exceed 10 percent of the share capital, neither at the point in time at which this authorisation becomes effective nor at the point in time that it is exercised. Any shares that are issued or that are to be issued pursuant to options or convertible bonds must be attributed to this figure to the extent that the bonds are issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG in exclusion of subscription rights; moreover, any shares that are issued or sold during the term of this authorisation in direct application or application mutatis mutandis of Section 186 (3) fourth sentence AktG must be attributed to this figure;

» To the extent required to ensure that a subscription right can be granted to holders or creditors of option and/or conversion rights or of equivalent option and/or conversion obligations from bonds that have been or are issued by the Company and/or by companies dependent on the Company or in which the Company holds a majority interest, either directly or indirectly, equivalent to the subscription right to which such holders or creditors would be entitled after exercise of their option and/or conversion right or after fulfilment of the option and/or conversion obligation;

» If the capital increase against contributions in kind is carried out for the purpose of issuing shares within the framework of corporate mergers or of acquiring companies or parts of companies, holdings in companies or other assets;

» So that new shares up to a proportionate amount of the share capital totalling €9,722,055.20 may be issued as staff shares to employees of the Company or of affiliated companies within the sense of Section 15 et seqq. AktG.

Furthermore, the Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further content of the stock rights and the terms and conditions of the issue of the shares. The Supervisory Board is authorised to amend the current version of the Company by-laws in accordance with the specific utilisation of the Approved Capital 2018 or after the expiration of the authorisation.

Contingent Capital 2018

The share capital has been contingently raised by up to €96,800,000.00 by the issue of up to 88,000,000 new no-par shares issued to the bearer (Contingent Capital 2018). The contingent capital increase will be carried out solely to the extent that the holders or creditors of option and/or convertible bonds, profit sharing rights and/or income bonds (or combinations of these instruments) that include option and/or conversion rights and/or option and/or conversion obligations or tender rights of the Company and that are issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, pursuant to the authorisation resolution of the extraordinary General Meeting of 12 January 2018, by no later than 11 January 2023, exercise their option or conversion rights pursuant to these bonds or fulfil their obligation to exercise the option or for conversion; or, to the extent the Company exercises an option, to grant no-par shares of the Company in lieu of the payment of a cash amount that is due and to the extent that no cash compensation is granted or that own shares or shares of another company listed on the stock exchange are not used to satisfy the claims. The new shares will be issued in each case at the option or conversion price to be determined in accordance with the authorisation resolution stipulated above. The new shares participate in profits as of the beginning of the fiscal year in which they are issued; insofar as legally permissible, the Management Board, subject to the Supervisory Board's consent, may also determine the participation in profits for a previously expired fiscal year for new shares in abrogation of this provision and of Section 60 (2) AktG. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the details of the conduct of the contingent capital increase.

40. Capital reserves and other equity

Capital reserves per 31 December 2020 came to €2,432,054k (previous year: €2,429,876k). The increase in the capital reserves results from the addition of €2,178k within the framework of employee stock option programmes.

Other equity per the balance sheet date comprises the following:

	2020 €k	2019 €k
Participating interests:		
- PipesBox GmbH, Rostock	-411	-411
- POSpulse GmbH, Berlin	-317	-292
Miscellaneous	-292	-273
TOTAL	**-1.020**	**-976**

Other equity in the amount of €1,020k (previous year €976k) includes the result from categories that are not subsequently reclassified in the profit and loss statement and results essentially from the application of the IFRS 9 regulations for the measurement of financial assets. In this case, changes in the fair market value of these financial assets are recognised as non-operating items in other equity.

1&1 Drillisch held 15 percent of the shares in PipesBox GmbH, Rostock. In the reporting year, bankruptcy proceedings against the company's assets were initiated and the company was dissolved. The carrying value of the participation, which had already been fully written down per 31 December 2019, was consequently derecognised.

41. Treasury stock

The extraordinary General Meeting on 12 January 2018 authorised the Management Board of 1&1 Drillisch AG to acquire shares of the Company's own stock in an amount totalling no more than 10 percent of the share capital at the time of the adoption of the resolution or – if this value is lower – at the time of the exercise of the authorisation; this authorisation expires on 11 January 2023. Any shares acquired pursuant to this authorisation, together with any other treasury stock in the Company's possession or attributable to the Company pursuant to Sections 71a et seqq. AktG, may not exceed at any time a value of 10 percent of the share capital.

The authorisation may be exercised in one full amount or in partial amounts, once or on multiple occasions, in pursuit of one or multiple objectives, directly by the Company or also by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, or by third parties instructed by the Company or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest.

At the option of the Management Board, the shares may be acquired on the stock exchange or on the basis of a public purchase offer or by means of a public invitation to submit offers to sell.

The Management Board is authorised, subject to the Supervisory Board’s consent, to sell any Company shares acquired pursuant to this authorisation on the stock exchange or by offer to all shareholders in the ratio of their holdings. Moreover, Company shares acquired pursuant to this authorisation may be used for any and all other legally permissible purposes, including in particular, but not limited to, the following purposes:

» The shares may be sold to third parties against cash payment at a price that does not fall significantly short of the stock exchange price of shares of an equivalent nature at the point in time of the sale. In this case, the number of shares to be sold may not exceed in total 10 percent of the share capital at the time of the adoption of the resolution by the General Meeting or – if this amount is lower – 10 percent of the share capital at the time of the sale of the Company’s shares. Any shares issued or sold in application, whether direct or mutatis mutandis, of Section 186 (3) fourth sentence AktG during the term of this authorisation must be attributed to this limitation of 10 percent of the share capital. Furthermore, any shares that must be issued to satisfy option and/or convertible bonds must be attributed to this limit of 10 percent of the share capital, provided that the bonds have been issued during the term of this authorisation in application mutatis mutandis of Section 186 (3) fourth sentence AktG and excluding the subscription right.

» The shares may be used for the fulfilment of obligations pursuant to bonds with option and/or conversion right or option and/or conversion obligation issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest,

» The shares may be issued against assets, including claims against the Company, in particular, but not solely, in relation to the acquisition of companies, holdings in companies or parts of companies, or corporate mergers.

» The shares may be used in relation to stock-based compensation or employee stock option programmes of the Company or of its affiliates and may be offered and transferred to persons who are or were in an employment relationship with the Company or one of its affiliates as well as to directors and officers of the Company’s affiliates.

- » The shares may be redeemed without requiring any additional General Meeting resolution for the redemption or the execution of the redemption. The Management Board may determine that the share capital will be decreased during the redemption; in this case, the Management Board is authorised to reduce the share capital by the proportionate amount of share capital attributable to the redeemed shares and to adjust the information regarding the number of shares and the share capital in the Company Charter. The Management Board may also determine that the share capital will remain unchanged by the redemption and that instead the share of the other shares in the share capital is increased by the redemption pursuant to Section 8 (3) AktG. The Management Board is authorised is this case as well to adjust the information regarding the number of shares in the Company by-laws.

The Supervisory Board is authorised to assign treasury stock acquired pursuant to this authorisation to the members of the Company's Management Board in fulfilment of applicable remuneration agreements.

The subscription right of the shareholders is excluded to the extent that treasury stock is utilised in accordance with the authorisations described above. Furthermore, the Management Board, subject to the Supervisory Board's consent, is authorised, in the event of the sale of acquired treasury stock based on an offer to the shareholders, to grant to the holders or creditors of bonds with option and/or conversion rights or corresponding option and/or conversion obligations issued by the Company, or by companies dependent on the Company or in which the Company, directly or indirectly, holds a majority interest, a subscription right to the shares in the scope to which they would be entitled after exercise of the option or conversion right or fulfilment of the option or conversion obligation; the shareholders' subscription right is precluded in the same scope.

The repurchase right was not exercised during fiscal year 2020. During fiscal year 2019, 99,296 shares were acquired on the stock exchange at an average price of €38.71. As a result of this repurchase, the share capital of the Company decreased by €109,225.60, corresponding to about 0.06 percent of the 1&1 Drillisch AG share capital. The amount of €1.10 of the purchase price per share was attributed to subscribed capital. Per 31 December 2020, 1&1 Drillisch AG held 500,000 own shares representing €550,000 (0.28 percent) of the share capital.

42. Additional disclosures about the financial instruments

The table below presents the book value of each category of financial assets and liabilities per 31 December 2020:

	Measurement category per IFRS 9	Carrying value per 31/12/2020 €k	Amortised costs €k	Fair value through other comprehensive income without recycling to profit and loss €k	Valuation according to IFRS 16 €k	Fair Value per 31/12/2020 €k
Financial assets						
Cash and cash equivalents	ac	4,360	4,360			4,360
Trade accounts receivable	ac	232,437	232,437			232,437
Accounts due from associated companies	ac	400,885	400,885			400,885
Other short-term financial assets	ac	23,639	23,639			23,639
Other long-term financial assets						
- Participating interests	fvoci	1,259		1,259		1,259
- Miscellaneous	ac	733	733			733
Financial liabilities						
Trade accounts payable	ac	-319,866	-319,866			-319,866
Liabilities due to associated companies	ac	-55,800	-55,800			-55,800
Other short-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-12,477			-12,477	
- Miscellaneous	ac	-93,806	-93,806			-93,806
Other long-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-85,702			-85,702	
- Miscellaneous	ac	-888,949	-888,949			-888,949
of which aggregated per classification categories:						
- Financial assets at amortised cost	ac	662,054	662,054			662,054
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	1,259		1,259		1,259
- Financial liabilities at amortised cost	ac	-1,358,421	-1,358,421			-1,358,421
Lease obligations	n/a	-98,179			-98,179	

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in fiscal year 2020:

2020 Net result according to measurement categories	Measurement categories pursuant to IFRS 9	From interest and dividends €k	Currency conversion €k	Valuation allowance €k	Net result €k
Financial assets measured at amortised cost	ac	1,110	190	-49,325	-48,025
Financial assets measured at fair value (through other comprehensive income)	fvoci	0	0	-44	-44
Financial liabilities measured at amortised cost	ac	-1,604	-81	0	-1,685
TOTAL		**-494**	**109**	**-49,369**	**-49,754**

Cash and cash equivalents, trade accounts receivable, accounts due from associated companies and other short-term financial assets have short remaining terms. Their carrying values on the closing date are consequently close to fair value.

Participations are disclosed at fair value. It is assumed for the remaining other long-term assets, which are disclosed in the balance sheet at amortised cost, that their carrying value is equivalent to fair value.

Trade accounts payable, liabilities due to associated companies and other short-term financial liabilities have short remaining terms; the disclosed values represent approximately the fair values.

It is assumed for the remaining other long-term liabilities, which are disclosed in the balance sheet at amortised cost, that their carrying value is equivalent to fair value.

The measurement of financial assets measured at fair value is based on appropriate valuation techniques. Insofar as available, stock exchange prices on active markets are used. Option price models are primarily used to measure purchase price liabilities.

The table below presents the carrying values and fair values of each category of financial assets and liabilities per 31 December 2019.

	Measurement category per IFRS 9	Carrying value per 31/12/2019 €k	Amortised costs €k	Fair value through other comprehensive income without recycling to profit and loss €k	Valuation according to IFRS 16 €k	Fair Value per 31/12/2019 €k
Financial assets						
Cash and cash equivalents	ac	31,785	31,785			31,785
Trade accounts receivable	ac	228,261	228,261			228,261
Accounts due from associated companies	ac	215,328	215,328			215,328
Other short-term financial assets	ac	28,923	28,923			28,923
Other long-term financial assets						
- Participating interests	fvoci	904		904		904
- Miscellaneous	ac	774	774			774
Financial liabilities						
Trade accounts payable	ac	-266,369	-266,369			-266,369
Liabilities due to associated companies	ac	-79,294	-79,294			-79,294
Other short-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-7,573			-7,573	
- Miscellaneous	ac	-95,061	-95,061			-95,061
Other long-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-40,215			-40,215	
- Miscellaneous	ac	-951,610	-951,610			-951,610
of which aggregated per classification categories:						
- Financial assets at amortised cost	ac	505,071	505,071			505,071
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	904		904		904
- Financial liabilities at amortised cost	ac	-1,392,334	-1,392,334			-1,392,334
Lease obligations	n/a	-47,788			-47,788	

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in fiscal year 2019:

2019 Net result according to measurement categories	Measurement categories pursuant to IFRS 9	From interest and dividends €k	Currency conversion €k	Valuation allowance €k	Net result €k
Financial assets measured at amortised cost	ac	1,213	274	-56,761	-55,274
Financial assets measured at fair value (through other comprehensive income)	fvoci	0	0	-272	-272
Financial liabilities measured at amortised cost	ac	-7,262	-117	0	-7,379
TOTAL		**-6,049**	**157**	**-57,033**	**-62,925**

Hierarchy of fair values

The Group uses the following hierarchy for the determination and disclosure of fair values of financial instruments in each valuation method:

Level 1: Quoted prices (unadjusted) on active markets for identical assets or liabilities.

Level 2: Methods during which all input parameters that have significant effect on the recognised fair value are observable, either directly or indirectly.

Level 3: Methods that use input parameters that have significant effect on the recognised fair value and are not based on observable market data.

Assets and liabilities measured at fair value

Long-term financial assets include participations of €1,259k that were measured at fair value (Level 3).

As in the previous year, there were no transfers between the valuation levels during the reporting period.

43. Related party disclosures

Pursuant to IAS 24, persons and companies are regarded as related parties if one of the parties has the possibility to control the other party or to exercise a significant influence. Related parties of the Group include Management and Supervisory Boards of 1&1 Drillisch AG and the group companies of United Internet Group that are not included in the consolidation of the Group. Moreover, participations on which the Group companies can exercise significant influence (associated companies) are classified as related parties. In addition, Mr Ralph Dommermuth as the principal shareholder of United Internet AG is classified as a related party (and the ultimate controlling company within the sense of IAS 24.13).

Supervisory Board

Michael Scheeren,
banker, Frankfurt am Main
– Chairman – (member and chairman of the Supervisory Board until 23 February 2021)

Seats held on supervisory boards required by law or other supervisory bodies:

- United Internet AG, Montabaur
  - Member and Supervisory Board deputy chairman until 20 May 2020
  - Supervisory Board member since 24 July 2020 (Supervisory Board deputy chairman since 12 August 2020)
- 1&1 Telecommunication SE, Montabaur (Supervisory Board chairman)
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board deputy chairman since 1 October 2020)
- 1&1 IONOS Holding SE, Montabaur
- Tele Columbus AG, Berlin

Kai-Uwe Ricke,
entrepreneur, Stallikon/Switzerland
– Deputy Chairman –

Seats held on supervisory boards required by law or other supervisory bodies:

- United Internet AG, Montabaur (until 20 May 2020)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board chairman) (until 30 September 2020)
- Delta Partners, Dubai/Emirate of Dubai (until 1 July 2020)
- Delta Partners Limited, Dubai/Emirate of Dubai (until 28 January 2021)
- Delta Partners Growth Fund II GP Limited, Cayman Islands
- Delta Partners Growth Fund II (Carry) General Partner Limited, Cayman Islands
- EUNetworks Group Limited, London/UK
- Virgin Mobile CEE B.V., Amsterdam/Netherlands (until 13 January 2021)
- Virgin Mobile Polska sp.z.o.o, Warsaw/Poland (Administration Board chairman) (until 23 July 2020)
- Cash Credit Limited, Cayman Islands

Kurt Dobitsch,
entrepreneur, Markt Schwaben
– Chairman – (since 16 March 2021)

Seats held on supervisory boards required by law or other supervisory bodies:

- » United Internet AG, Montabaur (Supervisory Board chairman)
- » 1&1 Telecommunication SE, Montabaur
(Supervisory Board deputy chairman) (until 30 September 2020)
- » 1&1 Mail & Media Applications SE, Montabaur
(Supervisory Board chairman since 1 October 2020)
- » 1&1 IONOS Holding SE, Montabaur
- » Nemetschek SE, Munich (Supervisory Board chairman)
- » Bechtle AG, Gaildorf
- » Graphisoft S.E., Budapest/Hungary
- » Singhammer IT Consulting AG, Munich
- » Vectorworks Inc., Columbia/USA

Norbert Lang,
merchant, Waldbrunn

Seats held on supervisory boards required by law or other supervisory bodies:

- » Rocket Internet SE, Berlin
- » 1&1 Telecommunication SE, Montabaur

Vlasios Choulidis,
entrepreneur, Gelnhausen

Seats held on supervisory boards required by law or other supervisory bodies:

- » 1&1 Telecommunication SE, Montabaur

Dr Claudia Borgas-Herold,
entrepreneur, Kilchberg/Switzerland

Seats held on supervisory boards required by law or other supervisory bodies:

- » 1&1 Telecommunication SE, Montabaur
- » United Internet AG, Montabaur (since 20 May 2020)

Management Board

Ralph Dommermuth,
Management Board chairman, Montabaur

Seats held on supervisory boards required by law or other supervisory bodies:

» 1& 1 Versatel GmbH, Düsseldorf
(Advisory Board chairman)

» 1&1 IONOS Holding SE, Montabaur
(Supervisory Board deputy chairman) (until 3 December 2020)

» Drillisch Netz AG, Düsseldorf (formerly Drillisch Netz AG, Krefeld)
(since 1 January 2020, Supervisory Board chairman since 16 January 2020)

» 1&1 Mail & Media Applications SE, Montabaur
(from 1 October 2020 until 7 December 2020)

Markus Huhn,
Management Board, Neuerkirch

Seats held on supervisory boards required by law or other supervisory bodies:

» Drillisch Netz AG, Düsseldorf (formerly Drillisch Netz AG, Krefeld)
(until 21 January 2021) (Supervisory Board chairman until 16 January 2020)

» 1&1 Versatel Deutschland GmbH, Düsseldorf

» 1&1 Versatel GmbH, Düsseldorf

» IQ-optimize Software AG, Maintal (since 1 January 2020)
(Supervisory Board deputy chairman from 16 January 2020 to 11 January 2021)

Alessandro Nava,
Management Board, Essen

Seats held on supervisory boards required by law or other supervisory bodies:

» IQ-optimize Software AG, Maintal
(Supervisory Board chairman until 11 January 2021, subsequently Supervisory Board deputy chairman)

» Drillisch Netz AG, Düsseldorf
(formerly Drillisch Netz AG, Krefeld) (Supervisory Board deputy chairman)

Remuneration paid to management executives in key positions and to the Supervisory Board

Remuneration paid to Management Board members in 2020 totalled €4,637k, of which €3,743k variable (previous year: €1,716k, of which €700k variable).

The Management Board members receive their remuneration partly in the form of virtual stock options. In fiscal year 2020, 960,000 stock options with a fair value of €3,493k were vested to Management Board members.

Remuneration paid to the Supervisory Board in 2020 totalled €304k (previous year: €322k).

The description of the remuneration system and the itemised disclosures of the remuneration paid to the officers and directors of 1&1 Drillisch AG are shown in the remuneration report that is a component of the Company and Group management report.

Directors' Holdings

Per 31 December 2020, Management Board members held the following shares in 1&1 Drillisch AG. United Internet AG, Montabaur, held 75.10 percent of the stock in 1&1 Drillisch AG per the closing date 31 December 2020. Per 31 December 2020, Mr Ralph Dommermuth in turn holds indirectly through holding companies more than 43 percent of the share capital of United Internet AG as reduced by his own shares of United Internet AG.

Supervisory Board members held the following shares in 1&1 Drillisch AG per 31 December 2020: Supervisory Board member Vlasios Choulidis, 273,333 no-par shares (of which 65,000 shares via MV Beteiligungs GmbH) totalling 0.16 percent of the stock of 1&1 Drillisch AG.

Transactions with associated companies

All of the companies included in the consolidated financial statements of United Internet AG that are not included in the consolidation of 1&1 Drillisch AG Group as well as associated companies of United Internet AG have been identified as associated companies of the Group.

Short-term accounts due from associated companies break down as shown below:

	31/12/2020 €k	31/12/2019 €k
United Internet AG	399,602	209,646
United Internet Services Holding GmbH	0	2,087
1&1 IONOS Group	592	1,792
Miscellaneous	691	1,804
TOTAL	**400,885**	**215,329**

The short-term accounts receivable result from the short-term investment of cash as well as from trade. Of the disclosed receivables, €399,602k (previous year: €209,646k) are accounts due from the parent company (United Internet AG).

Open balances existing at the end of the fiscal year are unsecured, interest-free and will be settled by cash payment. There are no guarantees for accounts due from associated companies. Accounts due from related parties were not value-adjusted in fiscal year 2020. A recoverability test is conducted annually. This includes an assessment of the financial position of the associated company as well as of the development of the market on which it operates. All of the receivables are due within one year, just as in the previous year.

Liabilities due to associated companies break down as shown below:

	31/12/2020 €k	31/12/2019 €k
Versatel Group	41,130	56,466
United Internet Corporate Services GmbH	4,887	8,190
1&1 Mail & Media GmbH	5,032	4,990
A1 Marketing, Kommunikation und neue Medien GmbH	2,311	3,422
1&1 IONOS Group	1,421	1,585
Miscellaneous	1,019	4,641
TOTAL	**55,800**	**79,294**

Accounts due to associated companies result above all from trade. The open balances existing at the end of the financial year are unsecured.

The parent company, United Internet AG, has granted to 1&1 Drillisch AG a credit line with an indeterminate term totalling €200 million. No loans had been utilised per the balance sheet date.

The liabilities are due within one year.

The following table presents the total amount of the transactions with associated companies:

Purchases/services from associated companies/related parties 2020 T€	Purchases/services to associated companies/related parties 2020 T€	Purchases/services from associated companies/related parties 2019 T€	Purchases/services to associated companies/related parties 2019 T€
172,822	29,315	163,514	29,264

The transactions with associated companies concern primarily issues from internal offsets of performances.

Of the disclosed expenses, €191k (previous year: €89k) are related to the parent company, United Internet AG.

In addition, there are transactions with related parties that are strictly cost recharges without a profit mark-up. These business transactions are carried out primarily to bundle purchasing volumes.

The business premises in Montabaur and Karlsruhe are leased by Mr Ralph Dommermuth to 1&1 Drillisch. The resulting payment obligations are at the usual local level.

The leases for office buildings used by several subsidiaries of 1&1 Drillisch Group have been set up so that all companies using the buildings are tenants of equal standing in the buildings.

The tenants under the leases act as a joint operation in accordance with IFRS 11 "Joint Arrangements". The leases constitute a lease relationship that entitles the tenants to control the use of the office buildings during the term of the lease. The subsidiaries disclose their shares of the rights of use and lease liabilities as well as the related depreciation and interest in their own accounting.

The carrying value of the right of use per 31 December 2020 amounts to €61,549k (previous year: €22,586k) and that of the lease liabilities to €61,970k (previous year: €22,646k). Write-offs in fiscal year 2020 amounted to €4,408k (previous year: €1,301k) and interest expenses to €806k (previous year: €148k). The payment commitments incurred during the reporting period amounted to €5,131k (previous year: €4,888k). The additions relate in particular to long-term leases for office buildings at the Karlsruhe site and amount to €39,308k.

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholder of VPM and member of the Supervisory Board of 1&1 Drillisch AG – Mr Vlasios Choulidis) has leased office space in Maintal to 1&1 Drillisch. The resulting payment obligations are at the usual local level. The carrying value of the right of use per 31 December 2020 amounts to €864k (previous year: €1,037k) and that of the lease liabilities to €872k (previous year: €1,042k). Write-offs in fiscal year 2020 amounted to €173k (previous year: €173k) and interest expenses to €10k (previous year: €11k). The resulting payment commitments incurred during the reporting period amounted to €179k (previous year: €179k).

Per 31 December 2020, there are no receivables or liabilities pursuant to the aforementioned leases with related parties.

The interest expenses and interest income (excluding the interest effects pursuant to IFRS 16 accounting described above) realised with associated companies in each fiscal year are presented in the table below:

Interest income 2020 €k	Interest and similar expenses 2020 €k	Interest income 2019 €k	Interest and similar expenses 2019 €k
543	0	242	265

Interest income concerns above all interest received on the investment of free cash at United Internet AG.

44. Objectives and methods of financial risk management

Basic principles of risk management

The systematics of the risk management system at 1&1 Drillisch is described in detail in the report on the position of the Company and the Group. The essential features of financial policies are defined by the Management Board and monitored by the Supervisory Board. Certain transactions are subject to the prior consent of the Supervisory Board.

The primary financial liabilities used by the Group encompass liabilities due to associated companies, trade accounts payable and other financial liabilities. The Group has at its disposal various financial assets that result immediately from its business activities. They encompass primarily trade receivables and short-term accounts due from associated companies. As of the balance sheet date, the Group has at its disposal exclusively original financial instruments.

The goal of the financial risk management is to limit these risks through ongoing operating and finance-oriented activities. The Group is vulnerable in particular to liquidity risks and market risks related to its assets, liabilities and planned transactions; these risks are presented below.

Liquidity risk

The liquidity risk represents the risk that a company will have difficulties fulfilling its payment obligations arising from its financial liabilities. For 1&1 Drillisch, the liquidity risk, unchanged from the previous year, is the fundamental possibility that the companies will be unable to meet their ongoing financial obligations in good time. Along with short-term liquidity outlook, longer-term financial planning is carried out to ensure the solvency and financial flexibility of 1&1 Drillisch Group at all times.

1&1 Drillisch has established standardised processes and systems for the management of its bank accounts and the internal clearing accounts and for the execution of automated payment transactions. In addition to the operating liquidity, the Group maintains additional liquidity reserves that are available on short notice.

There is no significant concentration of liquidity risks in the Group.

The table below shows the maturity structure of the liabilities pursuant to the agreements concluded between the Group and outside third parties or associated companies per 31 December 2020 and 31 December 2019. The repayment plus the contractually determined minimum interest payment are shown in the specific year columns within the table.

	Carrying value	Cash outflow for repayment and interest in the fiscal year					
	31/12/2020 €k	2021 €k	2022 €k	2023 €k	2024 €k	> 2024 €k	Total €k
Trade accounts payable	319,866	319,866					**319,866**
Liabilities due to associated companies	55,800	55,800					**55,800**
Other financial liabilities	1,080,934	106,283	70,557	70,983	70,854	762,257	**1,080,934**

The payments from other financial liabilities essentially comprise the payments for spectrum. On 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of mobile communications sites in so-called "white spots." By taking this action, 1&1 Drillisch helps to close existing coverage gaps and, by building antenna sites, is making a contribution to improving mobile communications coverage in rural regions. In return, 1&1 Drillisch will benefit from the agreement of instalment payments for the costs of the acquired 5G frequencies. This means that the licence costs originally due and payable in 2019 and 2024 can now be transferred to the federal government in instalments until 2030. Payment obligations to the federal government do not follow a linear pattern and will increase from €61 million in fiscal year 2025 to €128 million.

	Carrying value	Cash outflow for repayment and interest in the fiscal year					
	31/12/2019 €k	2020 €k	2021 €k	2022 €k	2023 €k	> 2023 €k	Total €k
Trade accounts payable	266,369	266,369					**266,369**
Liabilities due to associated companies	79,294	79,294					**79,294**
Other financial liabilities	1,094,459	102,634	68,179	67,028	66,771	789,847	**1,094,459**

Market risk

The market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate owing to changes in market prices. There are three types of risk in the market risk: interest risk, currency risk and other risks such as the stock price risk. The financial instruments vulnerable to market risk include (among others) interest-bearing loans, deposits, financial assets available for sale and derivative financial instruments.

There are no significant currency risks or other price risks within the Group.

Interest risk

The interest risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate owing to changes in market interest rates.

The Group is fundamentally vulnerable to risks from changes in interest rates. The variable interest rates are based on the EURIBOR. Please refer to the remarks under note

43. See “Information regarding relations with associated companies and related parties“.

Owing to the continuing expansive interest rate policy of the European Central Bank, the relevant EURIBOR interest rate per the closing date is negative. 1&1 Drillisch does not expect any significant change in the risk surcharges in the foreseeable future.

The Group is not vulnerable to any significant interest risks from other circumstances. There are no bank loans and overdrafts.

Risk of default

Trade accounts receivable

Risk of default is the risk that a business partner will not fulfil its obligations related to a financial instrument or customer (framework) agreement and that this leads to a financial loss. The Group is vulnerable to risks of defaults within the framework of its operating business activities (especially trade receivables) and within the framework of its financial activities, including from deposits in banks and financial institutes.

Consequently, an extensive fraud management system that includes a preventive element has been established and is constantly being developed further. Moreover, outstanding payments are continuously monitored on a division basis, i.e. locally. Risks of default are given due consideration by means of valuation allowances and lump-sum valuation allowances. The calculation is based on historical data from actual incidents. In comparison with the previous year, the Group sees a slight decline in the risk of default.

A pre-contract fraud check is conducted in the 1&1 Drillisch mass customer business and the receivables management is handled by engaging the services of collection agencies. The valuation allowances for overdue receivables are determined essentially in dependency on the age structure of the receivables with differing measurement discounts that are basically derived from the success quota of the collection agencies engaged to collect overdue receivables. Receivables that are overdue by more than 365 days are restated at a valuation allowance of 97.5 percent to 100 percent.

Regarding the trade receivables, the maximum credit risk consists of the gross amount of the receivable shown in the balance sheet before valuation allowances, but after netting, to the extent there is a counterbalancing situation. Reference is made to the information under 17 of the notes regarding overdue, but not impaired trade receivables.

Accounts due from and loans to associated companies

The accounts due from and loans to associated companies are continually monitored by management. An impairment test is conducted annually. This includes an assessment of the financial position of the associated company as well as of the development of the market on which it operates.

The ongoing coronavirus pandemic did not result in a deterioration of the default risk for trade receivables or accounts due from and loans to associated companies.

Capital management

1&1 Drillisch AG is not subject to any obligations in the Company by-laws or from contractual obligations to maintain capital beyond the regulations of securities law. The financial performance indicators used for the corporate management of the Company are primarily success-oriented. Objectives, methods and processes of capital management are subordinated to the success-oriented financial performance indicators.

The Company may undertake adjustments to the dividend payments to the shareholders or a capital repayment to shareholders, acquire own stock and release it again as needed or issue new shares for the purpose of maintaining or adjusting the capital structure. Reference is made on this subject to the consolidated change in equity statement. No changes were made in the objectives, regulations and methods per 31 December 2020 or per 31 December 2019.

45. Contingencies and other obligations

Contingent liabilities

Contingent liabilities represent a possible obligation that may arise because of the occurrence of one or more uncertain future events or a current liability for which payment will likely not be required or for which the amount of the obligation cannot be estimated with adequate certainty.

Advance services providers have asserted claims in the low range of hundreds of millions (no change over previous year). 1&1 Drillisch AG regards the claims from each of the opposing parties to be unfounded and does not consider an outflow of resources for these contingent debts to be likely.

Legal disputes

The litigation consists primarily of various legal disputes involving the Group. Provisions for litigation risks have been created for contingent obligations arising from these disputes (see note disclosure 33).

Guarantees

The Group had not issued any guarantees per the balance sheet date.

46. Disclosures of lease obligations, other financial obligations, contingent liabilities and contingent debts

Obligations pursuant to leases

The effects on the profit and loss statement from January to December 2020 are presented below:

	2020 €k	2019 €k
Write-offs on rights of use		
- Land and buildings	8,811	5,267
- Fixtures, fittings and equipment	1,364	1,525
- Licences	1,326	0
Total write-offs on rights of use	**11,501**	**6,792**
Interest expenses from leases	1,145	387
Expenses for short-term leases	81	272
Expenses for leases for a low-value asset	17	15

There was an outflow of funds in the amount of €10,666k (previous year: €6,418k) related to lease liabilities during the reporting period.

The rights of use for licences result from the frequency transfer agreement concluded with Telefónica in 2020. 1&1 Drillisch has leased frequencies from Telefónica for the construction of its own 5G mobile network. The agreement covers two frequency blocks of 10 MHz each in the 2.6 GHz range. The two frequency blocks will be available to 1&1 Drillisch until 31 December 2025.

The following carrying values of the rights of use according to the classes of the underlying assets resulted per 31 December 2020:

	Carrying value per 31/12/2020 €k	Carrying value per 31/12/2019 €k
Land and buildings	86,968	45,104
Fixtures, fittings and equipment	2,572	2,577
Licences	7,956	0

The additions to the rights of use for fiscal year 2020 are as follows:

	Additions according to IFRS 16
Land and buildings	51,181
Fixtures, fittings and equipment	1,359
Licences	9,282

Leasing obligations existing per 31 December 2020 will result in outgoing payments in the following years:

	31/12/2020 €k	31/12/2019 €k
Up to 1 year	12,477	7,573
1 to 5 years	38,333	22,320
More than 5 years	47,369	19,160
TOTAL	**98,179**	**49,053**

Other financial obligations

There were the following future payment obligations per 31 December:

	31/12/2020 €k	31/12/2019 €k
Other miscellaneous obligations	476,150	257,229

The Group exercises the exemption provided in the standard IFRS 16 for leases with a term that expires within 12 months from the point in time of the initial application and the exemption for leases for which the underlying asset is of low value. Lease obligations not recognised in the balance sheet due to application simplifications amounted to €155k per 31 December 2020 (previous year: €48k).

1&1 Drillisch has acquired network capacities comprising data volume as well as voice and text message allotments from Telefónica pursuant to binding provisions of the MBA MVNO agreement for the basic term of the agreement (July 2015 to June 2020). The first option to extend the MBA MVNO contract with Telefónica that was set to expire on 30 June 2020 was exercised on 30 December 2019; with the renewal, the contract will remain effective until 30 June 2025. The capacity that must be purchased is 20 percent to 30 percent of the used capacity of the Telefónica network. Moreover, Drillisch has accepted an obligation to purchase a fixed allotment for existing clientele independently of network utilisation. The annual payments for the service components of the agreement during the first extended term are in the middle range of hundreds of millions. An exact amount cannot be specified because the payments are dependent on a number of contractual variables. Among other factors, the payment obligation is dependent on the future actual utilisation of all subscribers on the Telefónica network.

On 5 September 2019, 1&1 Drillisch concluded an agreement with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) regarding the construction of mobile communications sites in so-called “white spots.” By taking this action, 1&1 Drillisch helps to close existing coverage gaps and, by building antenna sites, is making a contribution to improving mobile communications coverage in rural regions. Per the balance sheet date, there are contractual obligations that will result in investment expenditures in subsequent years.

Investment expenditures for which there are contractual obligations in subsequent years per the balance sheet date amount to €55,406k (previous year: €229,420k). They concern tangible assets in the amount of €55,399k (previous year: €64,164k) and intangible assets of €7k (previous year: €165,256k). Cash outflows are expected mainly in fiscal years 2021 and 2022.

In addition, a purchase contract results in purchase obligations until 31 December 2022 in an expected range of €337.9 million to €349.4 million. Of these purchase commitments, amounts in an expected range of €135.6 million to €140.2 million will become due by 31 December 2021.

In fiscal year 2020, there are also other financial obligations from trade relationships amounting to approximately €82.7 million (previous year: €27.8 million). €79.7 million of these obligations relate to obligations from advertising contracts that are expected to become due in equal instalments until 2025.

47. Consolidated cash flow statement

The net payments from operating activities in fiscal year 2020 include interest paid in the amount of €90k (previous year: €9,739k) and interest received in the amount of €1,125k (previous year: €842k).

The other non-cash items are mainly the unscheduled reversal of deferred advance payments for an advance services contract in the amount of €129.9 million.

Taxes paid for fiscal year 2020 in the amount of €150,755k (previous year: €187,973k) concern the ongoing corporate income tax, including solidarity surcharge, and ongoing trade tax. Payments for taxes on income amount to €23,445k (previous year: €33,253k).

The initial recognition of the 5G spectrum in the previous year took into account the deferral and instalment payments with the federal government as a balance sheet extension and were therefore non-cash. The instalment payment of €61,266k (previous year: €61,266k) due in fiscal year 2020 was reported in cash flow from financing activities.

As a matter of principle, leases are disclosed with no effect on cash upon initial recognition. Current payments include interest and repayment components. The latter are disclosed under cash flow from financing activities.

Outgoing payments relating to dividend disbursements amount to €8.8 million, as in the previous year, and are reported in cash flow from financing activities.

Regarding the change in accounts due from/to associated companies, payments from the short-term investment of cash amounting to €190 million (previous year: €210 million) are included in the cash flow from investing activities. In the previous year, cash flow from financing activities included payments from loan repayments amounting to €32 million. Regarding the change in other financial liabilities, payments in the amount of €72 million (previous year: €73 million) are included in the cash flow from financing activities. In the reporting year 2020, these payments were related mainly to payments for liabilities from the 5G frequency spectrum.

The composition of the cash corresponds to the item “Cash and cash equivalents” in the balance sheet.

The change in liabilities from financing activities for fiscal years 2019 and 2020 is shown below:

	Frequencies €k	Leasing/ Rights of use €k	Loans €k	Total €k
Per 1 January 2019	**0**	**5,267**	**32,000**	**37,267**
Acquisition of frequencies	1,070,187	0	0	1,070,187
Repayment (cash-effective)	-61,266	-11,418	-32,000	-104,684
Non-cash changes	0	53,939	0	53,939
Per 31 December 2019	**1,008,921**	**47,788**	**0**	**1,056,709**

	Frequencies €k	Leasing/ €k	Loans €k	Total €k
Per 1 January 2020	**1,008,921**	**47,788**	**0**	**1,056,709**
Repayment (cash-effective)	-61,266	-10,666	0	-71,932
Non-cash changes	0	61,056	0	61,056
Per 31 December 2020	**947,655**	**98,178**	**0**	**1,045,833**

48. Auditor’s fees

In fiscal year 2020, auditor’s fees in the amount of €1,269k were calculated in the consolidated financial statements. They include €1,068k for the audit of the financial statements, €60k for other confirmation services and €141k for tax accountant services. The audit services comprise exclusively statutory audits.

49. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit by the weighted average of the number of ordinary shares outstanding.

The diluted profit per share is calculated in accordance with IAS 33.30 et seqq. by dividing the consolidated results activities, adjusted for the after-tax effects of any interest recognised in the period related to potential ordinary shares, by the weighted average number of shares outstanding plus the weighted number of shares which would be issued on the conversion of all dilutive potential shares into ordinary shares.

50. Dividend per share

The Annual General Meeting of 1&1 Drillisch AG on 19 May 2020 agreed to the resolution proposal submitted by Management Board and Supervisory Board for the disbursement of a dividend in the amount of €0.05 per share. The dividend disbursement totalling €8.8 million was carried out on 20 May 2020.

In accordance with Section 21 of the Charter of 1&1 Drillisch AG, the General Meeting decides on the utilisation of the unappropriated retained earnings. The Management Board proposes to the Supervisory Board a dividend for fiscal year 2020 as follows:

- Payment of a dividend of €0.05 per share. This proposal is oriented to the minimum dividend required by Section 254 (1) Stock Corporation Act [Aktiengesetz; AktG]. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2020.

Management Board and Supervisory Board discuss this dividend proposal for fiscal year 2020 in the Supervisory Board meeting on 24 March 2021.

Pursuant to Section 71b AktG, the Company is not entitled to any rights from own stock and consequently is not entitled to a proportionate disbursement. As of the date of the signing of the consolidated financial statements, 1&1 Drillisch Group holds 500,000 shares (previous year: 500,000 shares) of own stock.

51. Declaration in accordance with Section 161 AktG

Management Board and Supervisory Board of 1&1 Drillisch AG submitted the declaration required by Section 161 of the German Company Law on 16 December 2020 and made it permanently accessible to shareholders at the Internet address www.1und1-drillisch.de.

52. Exemption from the obligation to disclose the financial statements pursuant to Section 264 (3) HGB

The following German subsidiaries in the legal form of a stock corporation fulfilled the conditions required pursuant to Section 264 (3) HGB for the exercise of the exemption provision in fiscal year 2020:

- 1&1 Telecommunication SE, Montabaur
- 1&1 Telecom Holding GmbH, Montabaur
- 1&1 Telecom Sales GmbH, Montabaur
- 1&1 Telecom Service Montabaur GmbH, Montabaur
- 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken
- 1&1 Logistik GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur
- Drillisch Online GmbH, Maintal
- IQ-optimize Software AG, Maintal

- Drillisch Netz AG, Düsseldorf
- Blitz 17-665 SE, Maintal
- Blitz 17-666 SE, Maintal

53. Incidents after the balance sheet date

In 2021, a framework agreement regarding the procurement of FTTH/VDSL advance services was concluded with 1&1 Versatel. The agreement has a term of ten years and was intended to increase the number of FTTH lines available to 1&1 Drillisch.

On 15 February 2021, 1&1 Drillisch accepted the improved offer for national roaming submitted by Telefónica. The offer also has an effect on the prices that have been billed pursuant to the MBA MVNO agreement since July 2020, which is expected to result in income related to other periods of approximately €34.4 million in fiscal year 2021.

Maintal, 19 March 2021

1&1 Drillisch Aktiengesellschaft

Ralph Dommermuth | Markus Huhn | Alessandro Nava

CHANGE IN INTANGIBLE ASSETS AND FIXED ASSETS

in fiscal year 2020 and 2019 in €k

2020	Cost of acquisition and manufacturing					
	01/01/2020 €	Additions €	Disposals €	Transfers €	Change of consolidation scope €	31/12/2020 €
Intangible assets						
Purchased software and licences	158,772	8,267	30,523	2,020	0	138,536
Rights similar to concessions	0	165,000	0	0	0	165,000
Own produced software	8,369	9,893	0	0	0	18,262
Spectrum	1,070,187	0	0	0	0	1,070,187
Trademark	56,300	0	0	0	0	56,300
Clientele	776,975	0	0	0	0	776,975
Right of use	0	9,282	0	0	0	9,282
Payments on account	3,228	1,976	0	-2,068	0	3,136
Goodwill	2,932,943	0	0	0	0	2,932,943
Subtotal (I)	**5,006,774**	**194,418**	**30,523**	**-48**	**0**	**5,170,621**
Tangible assets						
Land and buildings	302	0	0	0	0	302
Right of use	54,151	52,540	792	0	0	105,899
Fixtures, fittings and equipment	27,822	16,800	4,265	1,825	312	41,870
Payments on account	2,478	5,310	0	-1,777	0	6,011
Subtotal (II)	**84,753**	**74,650**	**5,057**	**48**	**312**	**154,082**
TOTAL	**5,091,527**	**269,068**	**35,580**	**0**	**312**	**5,324,703**

2019	Cost of acquisition and manufacturing					
	01/01/2019 €	Additions €	Disposals €	Transfers €	Change of consolidation scope €	31/12/2019 €
Intangible assets						
Purchased software and licences	152,749	5,101	4	926	0	158,772
Own produced software	3,094	5,275	0	0	0	8,369
Spectrum	0	1,070,187	0	0	0	1,070,187
Trademark	56,300	0	0	0	0	56,300
Clientele	776,975	0	0	0	0	776,975
Payments on account	1,789	2,557	192	-926	0	3,228
Goodwill	2,932,943	0	0	0	0	2,932,943
Subtotal (I)	**3,923,850**	**1,083,120**	**196**	**0**	**0**	**5,006,774**
Tangible assets						
Land and buildings	111	185	0	6	0	302
Right of use	0	55,188	1,037	0	0	54,151
Fixtures, fittings and equipment	24,414	5,111	1,859	156	0	27,822
Payments on account	417	2,223	0	-162	0	2,478
Subtotal (II)	**24,942**	**62,707**	**2,896**	**0**	**0**	**84,753**
TOTAL	**3,948,792**	**1,145,827**	**3,092**	**0**	**0**	**5,091,527**

Accrued amortisation						Net carrying value	
01/01/2020 €	**Additions €**	**Disposals €**	**Transfers €**	**Change of consolidation scope €**	**31/12/2020 €**	**31/12/2019 €**	**31/12/2020 €**
129,171	24,080	30,523	0	0	122,728	29,601	15,808
0	16,500	0	0	0	16,500	0	148,500
1,652	2,158	0	0	0	3,810	6,717	14,452
0	0	0	0	0	0	1,070,187	1,070,187
0	0	0	0	0	0	56,300	56,300
256,968	95,742	0	0	0	352,710	520,007	424,265
0	1,326	0	0	0	1,326	0	7,956
13	0	0	0	0	13	3,215	3,123
0	0	0	0	0	0	2,932,943	2,932,943
387,803	**139,806**	**30,523**	**0**	**0**	**497,086**	**4,618,970**	**4,673,534**
95	17	0	0	0	111	207	191
6,470	10,176	286	0	0	16,360	47,681	89,539
13,692	5,397	4,124	0	154	14,811	14,130	27,059
0	0	0	0	0	0	2,478	6,011
20,257	**15,590**	**4,410**	**0**	**154**	**31,282**	**64,496**	**122,800**
408,060	**155,395**	**34,933**	**0**	**154**	**528,368**	**4,683,466**	**4,796,334**

Accrued amortisation						Net carrying value	
01/01/2019 €	**Additions €**	**Disposals €**	**Transfers €**	**Change of consolidation scope €**	**31/12/2019 €**	**31/12/2018 €**	**31/12/2019 €**
82,536	46,640	0	-5	0	129,171	70,214	29,601
322	1,330	0	0	0	1,652	2,772	6,717
0	0	0	0	0	0	0	1,070,187
0	0	0	0	0	0	56,300	56,300
161,226	95,742	0	0	0	256,968	615,749	520,007
8	0	0	5	0	13	1,781	3,215
0	0	0	0	0	0	2,932,943	2,932,943
244,091	**143,712**	**0**	**0**	**0**	**387,803**	**3,679,759**	**4,618,970**
86	9	0	0	0	95	25	207
0	6,525	55	0	0	6,470	0	47,681
10,597	4,769	1,674	0	0	13,692	13,817	14,130
0	0	0	0	0	0	417	2,478
10,683	**11,303**	**1,729**	**0**	**0**	**20,257**	**14,259**	**64,496**
254,774	**155,014**	**1,729**	**0**	**0**	**408,060**	**3,694,019**	**4,683,466**

AFFIDAVIT BY LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

AFFIDAVIT BY LEGAL REPRESENTATIVES (BALANCE SHEET OATH)

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 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.

Maintal, 19 March 2021

Ralph Dommermuth | Markus Huhn | Alessandro Nava

AUDITOR'S OPINION

To 1&1 Drillisch Aktiengesellschaft

Report on the audit of the consolidated financial statements and of the management report of the Company and the Group

Opinions

We have audited the consolidated financial statements of 1&1 Drillisch Aktiengesellschaft, Maintal, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of the Company and the Group of 1&1 Drillisch Aktiengesellschaft for the fiscal year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance published on the website referred to in the management report of the Company and the Group that is a part of the management report of the Company and the Group.

In our opinion, on the basis of the knowledge obtained in the audit,

» the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the fiscal year from 1 January to 31 December 2020, and

» the accompanying management report of the Company and the Group as a whole provides an appropriate view of the Group's position. In all material respects, this management report of 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 of the Company and the Group does not cover the content of the aforementioned statement on corporate governance.

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 the management report of the Company and the Group.

Basis for the opinions

We conducted our audit of the consolidated financial statements and the management report of 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 the management report of 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 the management report of 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 2020. 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 1&1 Drillisch Aktiengesellschaft 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 and a subsequent interim 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 for the determination of fair values. The focus of our audit was on appraising the key assumptions used for the valuation, such as planning assumptions and discount rates.

We assessed the financial planning in terms of the reliability of previous forecasts and verified that the key assumptions were derived plausibly. 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 27 "Goodwill and impairment of goodwill and intangible assets with an indefinite useful life and currently unusable intangible assets (radio spectrum)" 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 manual postings which entail an inherently higher risk of errors. As part of the revenue recognition pursuant to IFRS 15, 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, 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 IT systems and interfaces 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 in particular the allocation of the transaction price to each performance obligation on a relative stand-alone selling price basis. Within the scope of the resetting and amendment of rates and products, we evaluated the process used to determine stand-alone selling prices for hardware and services as well as 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 is contained in Note 4 “Revenue/segment reporting” and in Note 2.1 “Explanation of significant accounting policies” 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

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, there are relevant posting logic and processes. In addition, assumptions are 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

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 is contained in Note 21 "Short-term accrued expenses," Note 28 "Long-term accrued expenses" and in Note 2.1 "Explanation of significant accounting policies" in the notes to the consolidated financial statements.

Other information

The supervisory board is responsible for the Report of the supervisory board. In all other respects, the executive directors are responsible for the other information. The other information comprises the statement on corporate governance referred to above and the following other components of the annual report, of which we obtained a version prior to issuing this auditor's report, including, in particular:

- the "responsibility statement" pursuant to Sec. 297 (2) Sentence 4 HGB and the "Responsibility statement pursuant to Sec. 315 (1) Sentence 5 HGB on the management report of the Company and the Group"
- the supervisory board's report pursuant to Sec. 171 (2) AktG ["Aktiengesetz": German Stock Corporation Act]
- the Corporate Governance Report pursuant to No. 3.10 of the German Corporate Governance Code
- the "Letter to the shareholders" section
- the non-financial group report

but excluding the consolidated financial statements, the content in the management report of the Company and the Group we have audited and our auditor's report.

Our opinions on the consolidated financial statements and on the management report of 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.

- 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 in this regard.

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the management report for the Company and the Group

Responsibilities of the executive directors and the supervisory board for the consolidated financial statements and the management report of 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 of 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 of the Company and the Group that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report of 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 the management report of 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 of 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 of 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 the management report of 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 the management report of 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 of 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 of 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 of 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 of 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 of 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

Report on the assurance in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the management report of the Company and the Group prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the management report of the Company and the Group (hereinafter the "ESEF documents") contained in the attached electronic file 5299003VKVDCUPS-S5X23-2020-12-31 and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the management report of the Company and the Group into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file. In accordance with these provisions, our audit does not cover the voluntary tagging of the individual disclosures to the notes to the consolidated financial statements.

In our opinion, the reproduction of the consolidated financial statements and the management report of the Company and the Group contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying management report of the Company and the Group for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and the management report of the Company and the Group" above. Additionally, we do not issue any opinion on Company's voluntary tagging of the individual disclosures to the notes of the consolidated financial statements.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the management report of the Company and the Group contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the “Group auditor’s responsibilities for the assurance work on the ESEF documents” section. Our audit firm applied the standards for the quality assurance system set forth in IDW Standard on Quality Control: “Requirements for Quality Control in Audit Firms” (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the management report of the Company and the Group in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor’s report and the attached audited consolidated financial statements and the audited management report of the Company and the Group as well as other documents to be published to the operator of the *Bundesanzeiger* [German Federal Gazette].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group auditor’s responsibilities for the assurance work on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

» Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited management report of the Company and the Group.

Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual Shareholders' Meeting on 19 May 2020. We were engaged by the supervisory board on 13 August 2020. We have been the group auditor of 1&1 Drillisch Aktiengesellschaft since fiscal year 2018.

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 Mr Jens Kemmerich

Eschborn / Frankfurt am Main, 23 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Kemmerich	Eichenauer
German Public Auditor	German Public Auditor

INVESTOR RELATIONS CORNER

INVESTOR RELATIONS, PRICE PERFORMANCE OF THE SHARE

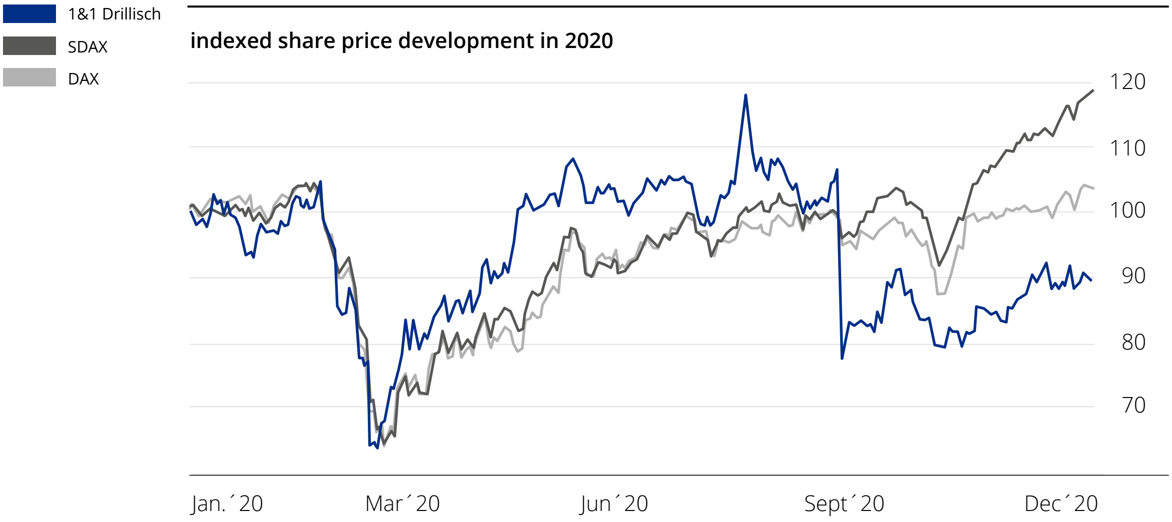
1. Investor Relations

The capital market communications of 1&1 Drillisch AG are conducted in conformity with the fair disclosure principle, i.e. all shareholders and interested parties are simultaneously provided with the same type of information about all important developments. The ongoing work can be followed and tracked equally by all investor groups on our investor relations home page where all of our relevant reports and publications can be viewed. Many of the people interested in our Company also take advantage of the opportunity for personal contact via email and/or telephone.

2. Share Price Development

	2019 year end	2020 year end	% change
1&1 Drillisch	€22.88	€20.44	- 10.66
DAX	13,249.01	13,718.78	+ 3.55
MDax	28,312.80	30,796.26	+ 8.77
SDax	12,511.89	14,764.89	+ 18.01
TecDAX	3,014.94	3,212.77	+ 6.56

Performance of the 1&1 Drillisch-Share compared to DAX and SDAX*



* Indices and the 1&1 Drillisch-Share show a dividend adjusted performace

LATEST RESEARCH NOTES, SHAREHOLDER STRUCTURE

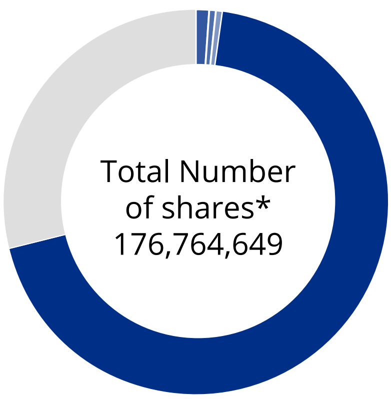
3. Current Analyst Assessments (Last Revised 02 March 2021)

Overall, the capital market views the Drillisch stock as promising because of our long-term dividend policy and good strategic positioning on the German mobile network market.

Analyse	Rating	Price Target	Date
Warburg	Buy	€44.00	23 February 2021
Kepler	Hold	€24.00	22 February 2021
Barclays	Buy	€29.00	16 February 2021
Berenberg	Buy	€40.00	16 February 2021
Newstreet	Buy	€29.00	16 February 2021
Warburg	Buy	€39.00	16 February 2021

A current overview of the analysts' recommendations can be found on the IR homepage of 1&1 Drillisch AG.
www.1und1-drillisch.de/investor-relations/research-notes

4. Shareholder Structurer (Last Revised 02 March 2021)



Treasury Shares: 0.28 % | 1&1 Drillisch AG
0.28 % | shs. 500,000

Supervisory Board: 0.12 % | V. Choulidis
0.04 % | MV Beteiligungs GmbH
0.16 % | shs. 273,333

75.10 % | United Internet AG
75.10 % | shs. 132,746,378

Other Shareholders: 24.46 % | shs. 43,244,938

Free Float as per definition of Dt. Boerse AG: 24.62 %

* Per voting rights publications

Quelle: www.1und1-drillisch.de/investor-relations/shareholder-structure

OTHER

GLOSSARY

3G
Abbreviation for the mobile communications standard of the 3rd generation, also known as ➔ UMTS. The analogue A, B and C networks (until the end of 2000) are known as the first generation; the digital GSM standard introduced in 1992 is called the 2nd generation. 3G networks are scheduled to be partly switched off as early as 2021.

4G
Successor to ➔ UMTS (See also -> LTE).

5G
The 5th generation mobile communications standard, which was launched as successor to ➔ 4G in various big cities in Germany in 2020 enabling data transfer rates of up to 10 Gbps.

5G antenna
Device for transmitting and receiving 5G frequencies. It is located on the housing of the transmitter mast and consists of up to 64 individual antennas (so-called multi beams), which can be individually controlled to provide very high transmission performance. This technology is called "Massive Multiple Input, Multiple Output", in short "Massive MIMO".

ADSL (= Asymmetric Digital Subscriber Line)
ADSL is the most common DSL variation in Germany and is commonly called DSL. ADSL is realized over the existing telephone line (subscriber line).

Aktiengesetz (German Company Law)
The German Company Law (Aktiengesetz, AktG) regulates the structure and governing bodies of stock corporations, e.g. Supervisory Board, Management Board and shareholder rights.

Apps
Apps (or mobile apps) is the short form for applications and refers to small software programs for mobile devices, such as ➔ smartphones or ➔ tablet computers. These programs range from the simplest tools and fun applications with just one function right up to entire program packages offering a comprehensive range of functions.

ARPU
(Abbreviation for average revenue per user) Shows the average revenue from each customer.

Bandwidth
The bandwidth is the frequency range in which electrical signals are transmitted. Each transmission channel has a lower (1) and an upper (2) cut-off frequency. The unit of the bandwidth (B= 2-1) is that of the frequency in Hertz (Hz). The higher the bandwidth, the more data can be transmitted in parallel.

Campus network
Exclusive mobile network for a defined local company site. The Federal Network Agency assigns own 5G frequencies to industrial companies for the construction of campus networks.

Cash Flow
Net inflow of all of the cash which results from sales activities and other ongoing activities during a specific period.

Cloud
A network of multiple servers which are globally connected. One of the purposes is to store or manage data. Instead of accessing data and files on a personal computer, content in the cloud can be accessed from any Internet-enabled device. For example, you have mobile access to your data.

Cloud Computing
Use of IT infrastructures and services that are not kept on local computers but are rented as a service and can be accessed via a network (e.g. the Internet).

Consolidated Cash Flow Statement
The consolidated cash flow statement is the liquidity-oriented part of accounting. It represents a determination of the value of payment flows over the course of a fiscal year, broken down into the categories of current business operations, investment activities and financing activities. Incoming and outgoing payments during the relevant reporting period are compared with one another; on this basis, the changes in cash inventory are determined and explained.

Corporate Governance
Name of guidelines (code of conduct) for good management.

Credit Customer
Customer who has concluded a contract with a rate schedule designed by 1&1 Drillisch and who is billed once a month in the company's own billing system.

DCF
(Abbreviation for discounted cash flow) A DCF analysis is based on the total of all of the cash flows projected for the future and discounts them to the present value.

Debit Customer
Customer who is billed in a network operator system in accordance with a prepaid rate schedule set by the network operator, requiring the prior top-up of the card with credit.

Directors' Dealings
Stock transactions undertaken by the Management Board or Supervisory Board or the relevant report of holdings.

Dividends
The dividend is the profit which is distributed proportionally for each share of stock in the stock corpora-tion. The General Meeting of the stock corporation decides about the amount of the dividend and its distribution.

EBIT
Abbreviation for earnings before interest and taxes.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortisation, the most important performance indicator.

EDGE
(Abbreviation for enhanced data rates for GSM evolution) This special modulation protocol increases the transmission speed in GSM mobile telephony networks to as much as 220 kbit/s (in comparison: GPRS 114 kbit/s).

E-Health
(Abbreviation for Electronic Health) Collective term for the use of digital technologies in health care. Information and communication technologies (ICT) are used here for prevention, diagnosis, treatment, monitoring and management. 5G is considered the driver of these developments.

EPG
Electronic Program Guide

Federal Network Agency
Germany's highest regulatory authority – responsible for competition in the five network markets of electricity, gas, telecommunications, postal and rail transport. In addition to moderating conciliation procedures, its tasks also include the allocation of mobile radio frequencies.

Fibre optics
The connection to fiber optics offers the currently highest transmission rates of up to 100 GBit/s and is therefore the basis for the success of 5G. The data is transmitted by means of light particles (photons). In contrast to copper cables, which require electrical impulses for data transmission, there is no signal loss due to distance or weather conditions.

Free Float
Number or proportion of shares which can be freely traded on the stock market rather than being held by strategic investors.

Frequency
Number of repetitions per time unit for an operation. In telecommunications technology, repetitions take place in the form of radio waves and are measured in the unit Hertz (Hz).

Frequency Auction
Procedure by which the Federal Network Agency awards licenses for the use of frequency ranges to mobile communications providers. The auction of the frequencies ends with the last bid of the participating companies. The 2019 5G auction lasted a historically long three months and generated a total of 6.5 billion euros for the state.

Frequency spectrum
The frequency spectrum, usually simply spectrum, of a signal indicates its composition from different frequencies

GHz
(Abbreviation for gigahertz) Hertz is the number of repetitive operations per second in a periodic signal. One kilohertz (kHz) corresponds to 1,000 hertz, one megahertz (MHz) to 1,000,000 hertz and one gigahertz to 1,000,000,000 hertz. The frequencies used for 5G, which were auctioned off in the 2019 frequency auction, are in the 3.6 GHz range.

g~paid
Virtual cash card system which makes possible the secure distribution of activation codes for topping up → pre-paid cards (e.g. in wireless networks, for online payment systems).

GPRS
(Abbreviation for general packet radio service) Technology providing higher data transmission rates in GSM networks (up to 114 kbit/s).

GSM
(Abbreviation for global system for mobile communications) Pan-European standard in the range of 900 and 1,800 MHz for digital mobile telephone networks.

HSDPA
(Abbreviation for high-speed downlink packet access) This special transmission protocol within the mobile telephone standard -> UMTS makes it possible to increase data rates between telecommunications net¬work and end device (downlink) to up to 7.2 Mbit/s.

HSUPA
(Abbreviation for high-speed uplink packet access) This transmission protocol within the mobile telephone standard UMTS makes it possible to increase data rates between end device and telecommunications network (uplink) to up to 5.8 Mbit/s.

IFRS
(Abbreviation for International Financial Reporting Standards) Body of international accounting standards.

IoT
(Abbreviation for Internet of Things) Collective term for the increasing physical and virtual networking of objects with the Internet. Everyday objects, objects or machines are equipped with processors and sensors and can thus communicate with each other via IP networks. Especially in industry, connecting intelligent machines is an essential driver of digital transformation (Industry 4.0). 5G is considered the key to future technologies in the field of IoT.

IPTV
(Abbreviation for international protocol television) Transmission of television programs via an internet connection.

Issuer
An issuer is the party who issues securities.

Latency
Dwell time of data within a network – the time it takes for

a data packet to travel from sender to receiver. While 4G has a latency of about 60 milliseconds, 5G offers a latency of less than one millisecond.

LTE
LTE stands for Long Term Evolution and describes the internationally coordinated development of existing wireless communication technology. It offers higher data rates than GSM or UMTS. LTE is classified as the 3rd wireless communication generation with the chronological name 3.9 G. Only the further development LTE-Advanced is referred to as 4G. As with the other wireless communication generations, operation requires a network comprised of base stations that service a specific area and appropriately compatible end appliances. (*Source: http://emf2.bundesnetzagentur.de/tech_lte. html*)

MBA MVNO
(Mobile Bitstream Access Mobile Virtual Network Operator) A MBA MVNO is a telephone company that is comparable to a MVNO (see MVNO); however, in contrast to a MVNO, it has entered into an obligation to purchase network capacity (percentage share of the utilised network capacity of a network operator).

MIMO
(Abbreviation for Multiple Input, Multiple Output) Transmission method for the communication of several antennas in transmitters and receivers. MIMO uses intelligent antenna technology that combines available antennas to minimize potential errors in data transmission and optimize transmission speeds. 5G uses Massive MIMO, which helps providers prepare their networks to support higher data volumes.

Mobile Payment
Mobile payment (or m-payment) refers to the initi¬ation, authorization or realisation of payment (on the part of the debtor as a minimum) using a mobile electronic means of communication, e.g. cash card purchase using ➜ g~paid, payment of parking fees using a mobile phone or bank transfers via SMS.

MVNO (Mobile Virtual Network Operator)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, -> SIM cards and wireless end devices as well as value-added services (e.g. ➜ SMS, SMS Premium, ➜ MMS). These services are based on standardised, unbundled advance services on the procurement side, allowing a MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with a MSP.

National Roaming Agreement
Negotiations on nationwide access to networks of incumbent network operators during the construction phase of a new network infrastructure by a new entrant.

Near Field Communication (NFC)
Near Field Communication, or NFC for short, enables the contactless exchange of data over short distances of a few centimeters via electromagnetic induction. The technology is used, for example, for cashless payments or the purchase of tickets. (*Source: http://www.elektronik-kompendium.de/sites/kom/1107181.htm*)

Network slicing
Refers to the division of a physical network infrastructure into various virtual network elements. This technology serves to increase the flexibility of networks, in which special functions can be offered on an application-specific basis.

No-frills Provider
These are products which are offered at comparatively low prices, but with very few options or additional features. On the wireless services market, the discounters are frequently referred to as “no-frills providers.”

PIN
(Abbreviation for personal identification number) A number, usually consisting of four digits, saved on a data carrier, entered as verification when the holder uses a machine. The best-known examples are bank debit cards and cash points or ➜ SIM cards in a mobile phone. If no authentication is possible due to multiple incorrect entries, the card will be blocked. Further use is only possible after entering the ➜ PUK

Post-paid
Payment model; the customer does not pay for the services he/she has used until the end of the account¬ing period, when an invoice is issued.

Pre-paid
Payment model; the customer cannot use the services until a (pre-paid) account has been topped up.

Profit per Share
This figure shows the amount of the realised consolidated profit or deficit which can be appropriated to a single share of stock. The figure is calculated by dividing the results for the year (consolidated profit/ deficit) by the weighted average of the number of issued shares.

PUK
(Abbreviation for personal unblocking key) A number, usually consisting of 8 digits, which can be used to unblock a blocked ➜ PIN (also called super PIN).

Radio cell
A radio cell is the area in which the signal transmitted by a transmitting device of a mobile radio network can be received and decoded without error.

RAN / Open RAN
(Abbreviation stands for Radio Access Network). In mobile communications, base stations communicate with terminals using certain transmission technologies such as LTE or UMTS through radio signals. The link between terminals and the core network is referred to as the radio access network – RAN. Open RAN approach: In contrast to a traditional closed RAN, Open RAN separates hardware from software and antenna. The advantage is that this allows vendor-mixed neutral networks. This means that any network components from different manufacturers can be combined with each other, thus

enabling the best solutions to be used at all times. Furthermore, complex retrofitting of base stations will no longer be necessary in the future, since an exchange update of the software will suffice.

Roaming
Process allowing telephone calls to be placed using the networks of various network operators, such as international roaming in the pan-European GSM system.

Security Identification Number
The six-place combination of digits and letters used in Germany (WKN) identifies each security uniquely.

SIM
(Abbreviation for subscriber identity module) Chip card which is placed in a mobile telephone or other mobile end device. It identifies the device with the user, verifies his/her identity via a ➔ PIN and authorises the use of the offered services (e.g. mobile telephone services). In addition to network-related data, data such as address book entries or text messages can also be stored on a SIM card.

Smartphone
A mobile phone with more advanced computer functions and connectivity than offered by a standard mobile phone. Equipped with high-resolution touch screen and internet connection via mobile broadband or WLAN, smartphones can display web pages, for example, or receive and send e-mails.

SMS
(Abbreviation for short message service) Digital short message, e.g., texts, graphics sent via a mobile communications end device (“text message”).

Smart City
Development concepts aimed at making cities more efficient and digital through technological innovation. Here, too, 5G is to serve as the key to numerous applications.

Stock Index
A stock index provides comprehensive information regarding the development of prices on the stock markets. One example for the German stock market is the Deutsche Aktienindex (DAX); changes in stock prices as well as dividend payments are integrated into the calculation of its values.

Supervisory Board
The Supervisory Board is responsible for monitoring the management of the corporation. The Supervisory Board of a stock corporation consists of a minimum of three members, who may not simultaneously be members of the Management Board. The Supervisory Board is elected by the general meeting

Tablet-Computer
A tablet computer or tablet PC is a portable flat and particularly lightweight computer that is equipped only with a touch screen, but does not have a mechanical keyboard. As with a ➔ smartphone, it accesses the internet via mobile broadband or wireless LAN. Tablet computers are mainly used for studying media while on the move, as e-readers and for mobile internet access.

TecDAX
Stock index introduced on 24/03/2003 compiling the 30 most important German technology stocks. It is the successor of the Nemax50.

UMTS
(Abbreviation for universal mobile telecommunications system) International mobile telephone standard of the 3rd generation.

Value-Added Services (VAS)
Services which produce additional value, such as ring tones for mobile phones.

VDSL
(Abbreviation for very high speed digital subscriber line) VDSL is a DSL technique that provides higher data rates over telephone lines such as ADSL.

Video-on-Demand (VoD)
Possibility to download digital videos on demand from an online platform or to watch them directly via streaming.

Wireless Services Discounter (No Frills)
Provider of very low wireless services rates which do not include subsidisation of the device and offer transparent terms and conditions. As a rule, no basic fee, minimum turnover or term of contract.

Wireless Service Provider (WSP) or Mobile Service Provider (MSP)
Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, ➔ SIM cards and wireless end devices as well as value-added services (e.g. SMS, SMS Premium, ➔ MMS).

Workflow Management
Automation of production and business processes using IT systems and special software.

PUBLICATIONS, INFORMATION AND ORDER SERVICE

This Annual Report 2020 is also available in German.

You can view and download our business and quarterly reports, ad-hoc announcements, press releases and other publications about 1&1 Drillisch AG at www.1und1-drillisch.de/welcome → Investor Relations.

Please use our online order service on our website
www.1und1-drillisch.de → Order service

Naturally, we would also be happy to send you the desired information by post or by mail. We will be glad to help you with any personal queries by telephone.

FINANCIAL CALENDAR*

25 March 2021	Annual Report 2020
11 May 2021	Quarterly Statement Q1 2021
26 May 2021	Annual General Meeting
05 August 2021	6-Month Report 2021
09 November 2021	Quarterly Statement Q3 2021

* These provisional dates are subject to change.

CONTACTS

Our Investor Relations and Press Department will be glad to answer any questions you may have concerning 1&1 Drillisch AG and the report.

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LEGAL INFORMATION

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Management Board:

» Ralph Dommermuth (CEO)

» Markus Huhn

» Alessandro Nava

Supervisory Board:

» Michael Scheeren
(Chairman until February 23, 2021)

» Kai-Uwe Ricke (Deputy Chairman)

» Dr Claudia Borgas-Herold

» Vlasios Choulidis

» Kurt Dobitsch
(Chairman since March 16, 2021)

» Norbert Lang

Disclaimer:

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

Both versions can also be downloaded from www.1und1-drillisch.de/welcome → Investor Relations → Reports.
In all cases of doubt, the German version shall prevail.

Future-oriented Statements:

This Report contains certain forward-looking statements which reflect the current views of 1&1 Drillisch AG's management with regard to future events. These forward looking statements are based on our currently valid plans, estimates and expectations.
The forward-looking statements made in this Interim Statement are only based on those facts valid at the time when the statements were made. Such statements are subject to certain risks and uncertainties, as well as other factors which 1&1 Drillisch often cannot influence but which might cause our actual results to be materially different from any future results expressed or implied by these statements. Such risks, uncertainties and other factors are described in detail in the Risk Report section of the Annual Reports of 1&1 Drillisch AG. 1&1 Drillisch does not intend to revise or update any forward-looking statements set out in this Interim Statement.

BRAND PORTFOLIO OF 1&1 DRILLISCH AG

Additional information as contact details, can be found on the homepage:
www.1und1-drillisch.de/contact-us

MEMBER OF united internet

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