1&1 DRILLISCH

Fiscal Year 2017 and Outlook 2018

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1&1 Drillisch AG

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Agenda

- The 1&1 Drillisch AG
- Financial Indicators 2017
- Outlook

The 1&1 Drillisch AG

KPIs

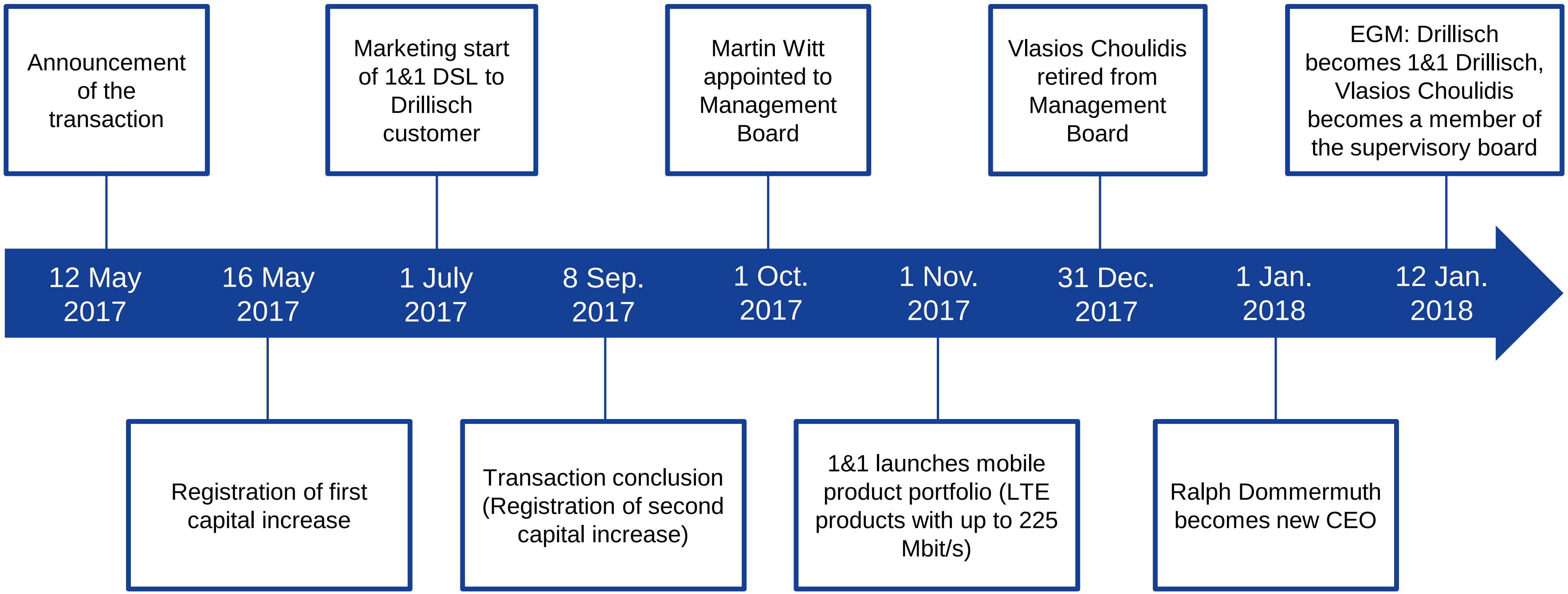
(in €m)	2016	2017	Change
Subscribers (total)	8.54	12.64	+4.10
Thereof subscribers in Mobile Internet	4.31	8.30	+3.99
Thereof DSL / VDSL	4.23	4.34	+0.11
Revenue	2,430.1	2,812.3	+15.7%
EBITDA adjusted(1)	387.9	532.2	+37.2%
Margin	*16.0%*	*18.9%*	
EBIT adjusted(1)	379.3	468.1	+23.4%
Margin	*15.6%*	*16.6%*	

Management Board and Supervisory Board propose a dividend of €1.60 per voting share to the Annual General Meeting.

Owing to the increase in the number of shares, the total disbursement rises to €282.8 million (2016: €98.6 million).

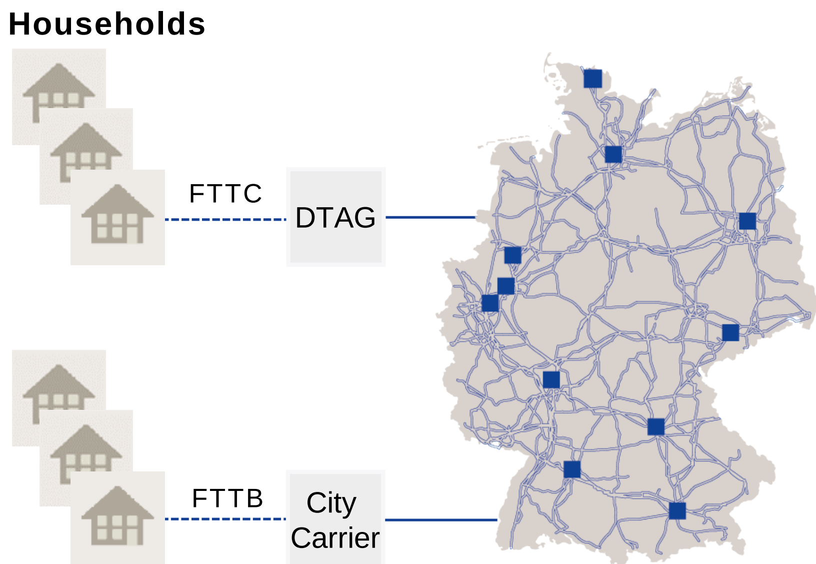
- * Adjusted for one-off expenses associated with the sale of the yourfone Shop GmbH and the restructuring of the dealer distribution in 2017 in the amount of €28.2 million

Development of 1&1 Drillisch AG



Product Portfolio: Landline Network

- Largest alternative DSL provider serving 4.34m DSL contracts
- connect Landline Network Test: #1 in 2015, #2 in 2016, #1 in 2017



- Stepwise migration from ADSL to VDSL/vectoring
- Target infrastructure:
  Last mile via VDSL/vectoring of Deutsche Telekom (Layer 3, parallel expansion Layer 2 infrastructure) and via optic fibre of regional networks, connected with network of the affiliate 1&1 Versatel

Product Portfolio: Mobile

1&1 DRILLISCH

- Germany's leading MVNO serving 8.30 million mobile services contracts
- Broad market coverage

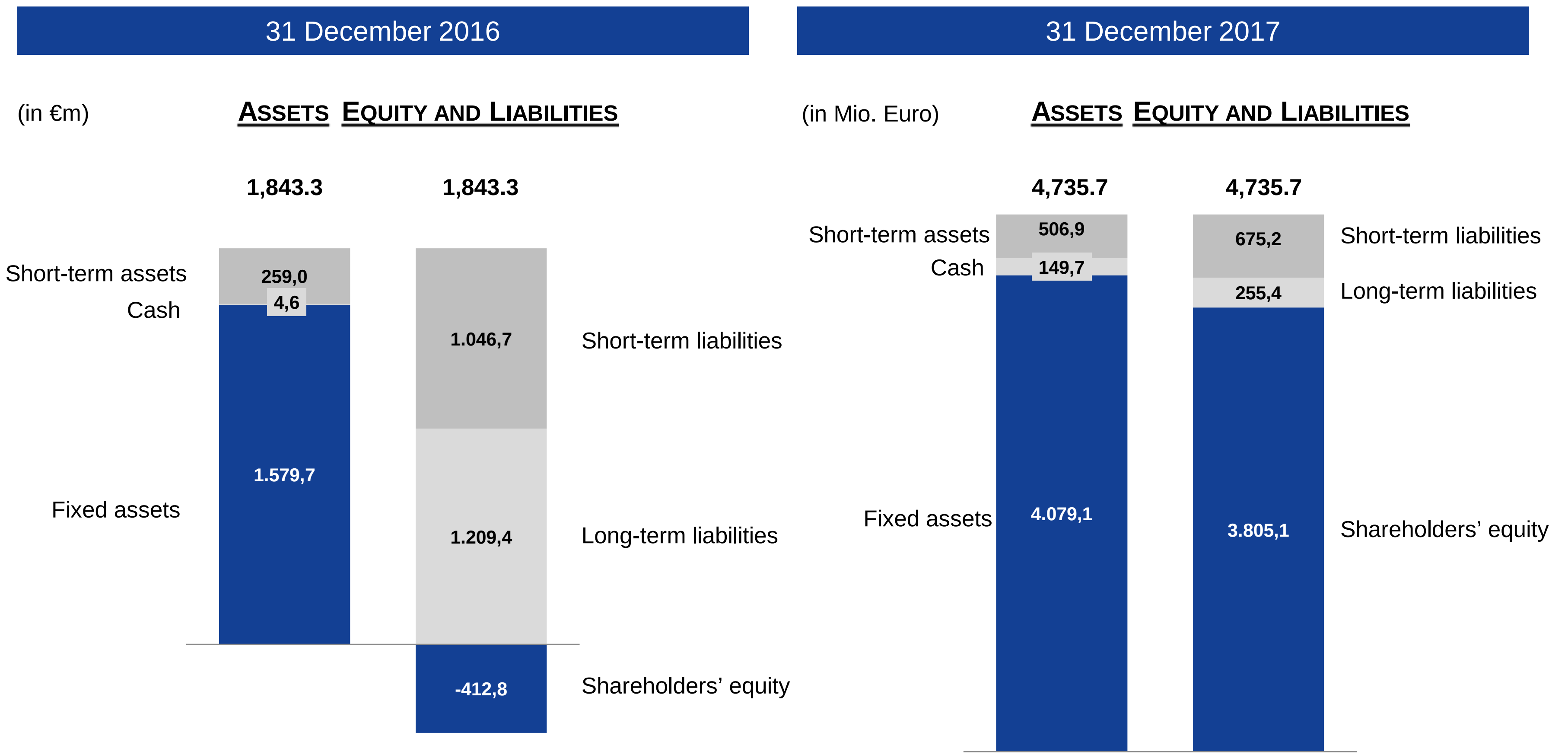
Primary brand	1&1
Secondary brands*	GMX, WEB.DE
Discount brands	smartmobil.de, yourfone, simply, DeutschlandSIM, maXim, winSIM, PremiumSIM

- Telefónica remedy partner with long-term guarantee of access to up to 30% of network capacity and all future technologies
- Additional procurement of advance service from Vodafone

*Positioning of offering comparable with the secondary brands of Deutsche Telekom, Vodafone and Telefónica

Financial Indicators 2017

Balance Sheet



Profitability

(in €m)	2016	2017	Change
Revenues	**2,430.1**	**2,812.3**	**+15.7%**
Cost of sales	-1,698.7	-1,887.7	-11.1%
Gross profit from turnover	**731.4**	**924.6**	**+26.4%**
Distribution costs	-294.3	-393.7	-33.8%
Administration costs	-61.6	-74.4	-20.8%
Other operating expenses	-19.2	-45.1	-134.9%
Other operating income	23.0	28.5	+23,9%
Profit/loss from operating activities	**379.3**	**439.9**	**+16.0%**
Financial result	**-24.7**	**-8.6**	**+65.2%**
Profit before taxes	**354.6**	**431.3**	**+21.6%**
Tax expenses	-111.7	-120.9	-8.2%
Consolidated results from continued operation	**242.9**	**310.4**	**+27.8%**

Cashflow from the continued operation

(in €m)	2016	2017	Change	Comment
Net inflow of funds from operating activity	65.4	294.1	+349.6%	
Cash flow from investment activities	[26.1]	9.3	+135.4%	▪ €33.1m inflow of funds from initial consolidation of Drillisch as reverse acquisition at beginning of September ▪ €15.6m outflow of funds – investments in intangible and tangible assets
Cash flow from financing activities	[55.9]	[146.0]	-161.1%	▪ €250m outflow of funds – repayment of financial loans ▪ €91.8m inflow of funds – reversal of cash pooling with United internet
Free cash flow(1)	39.1	278.6	+612.5%	

(1) Definition of free cash flow: Free cash flow is calculated as the net inflow of funds from operating activities from continued operation less the investments in intangible and tangible assets plus inflow of funds from disposals of intangible and tangible assets.

Bridge EBITDA to FCF

IFRS 15

- Objective: Allocation of expenditures and revenues to the correct period
- Major consequences for TC companies
  - Customer acquisition costs are distributed over the minimum term of contract
  - Proportionate hardware revenues contained in bundled rate plans are realised upon delivery
- No impact on profit and loss for long-term utilisation and steady business.
  For fluctuating business, in comparison with conventional accounting, temporary differences result => credit for strong growth, charges for declining new growth
- During first-time application No direct impact on profit or loss (no positive “one-off effect”) because the balance carried forward is posted as non-operating result in equity. Proportionate hardware revenues from bundle contracts concluded before 01/01/2018 will also be neutralised in 2018 and later years and will consequently no longer contribute to profit in future.

Difference - IAS18 and IFRS 15 – Sample Customer[(1)]

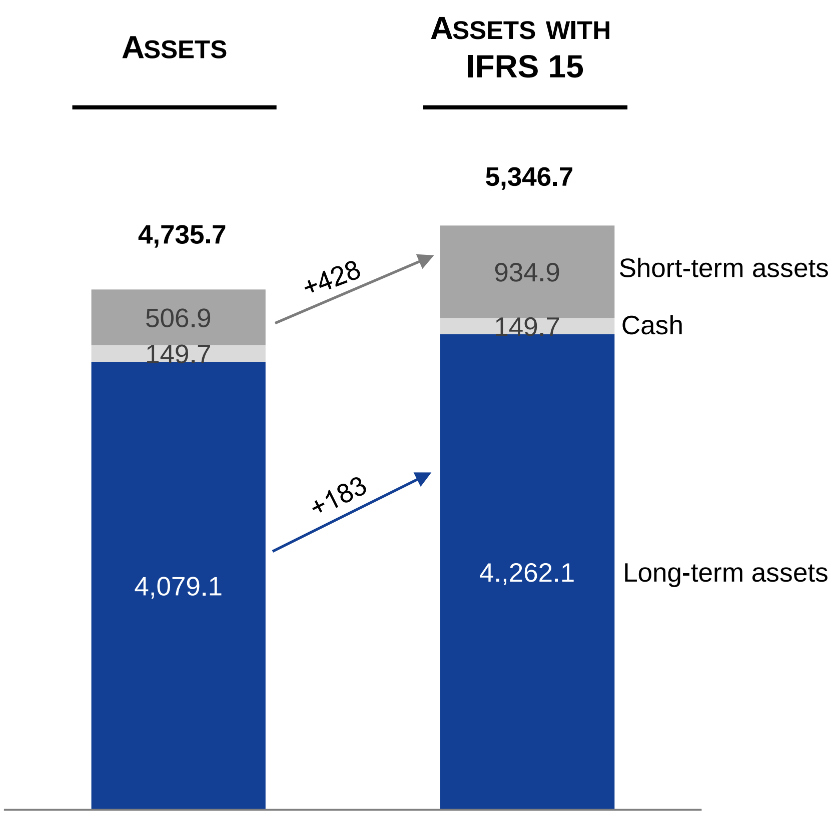
	IAS 18					IFRS 15				
	Month 1	Month 2		Month 24	Total	Month 1	Month 2	…	Month 24	Total
Monthly rate payment	€20.00	€20.00		€20.00	€480.00	€20.00	€20.00		€20.00	€480.00
Monthly payment device	€25.00	€25.00		€25.00	€600.00	€25.00	€25.00		€25.00	€600.00
Connection charge	€24.00	0		0	€24.00	€1.00	€1.00		€1.00	€24.00
Activation MKG [2] (hardware subsidy)						€600.00	-		-	€600.00
Reversal MKG [2] (hardware subsidy)						€-25,00	€-25,00		€-25,00	€-600.00
Total Revenue					**∑€1,104.00**					**∑€1,104.00**
Expenditures from device purchasing	€600.00	0		0	€600.00	€600.00	0		0	€600.00
Expenditures from brokerage commission	€240.00	0		0	€240.00	€10.00	€10.00		€10.00	€240.00
Total Expenditures					**∑€840.00**					**∑€840.00**
Contribution margin	€-771.00	€45.00		€45.00	∑€264.00	€11,00	€11,00		€11,00	∑€264.00

(1) Assumptions: Rate of €20 per month + €25 hardware/month / MSRP €699 / Sale customer €0 / Purchase price €640 / Activation fee €24 / Broker commission €240

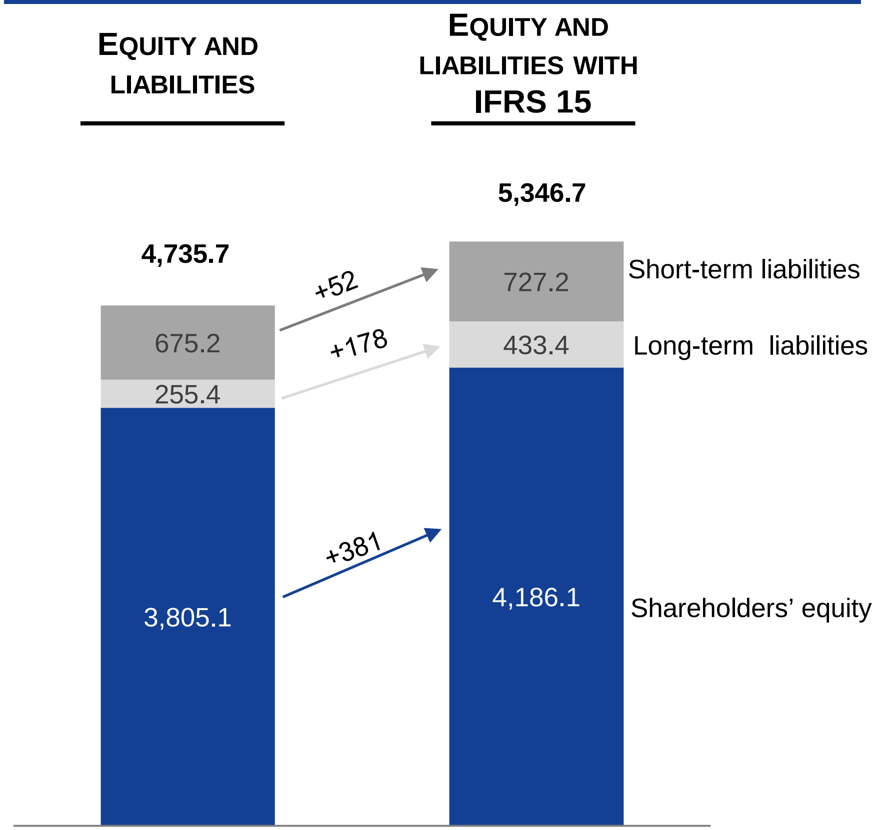
(2) MKG: Multi Component Transaction

Influence of IFRS 15 on Balance Sheet (in €m)

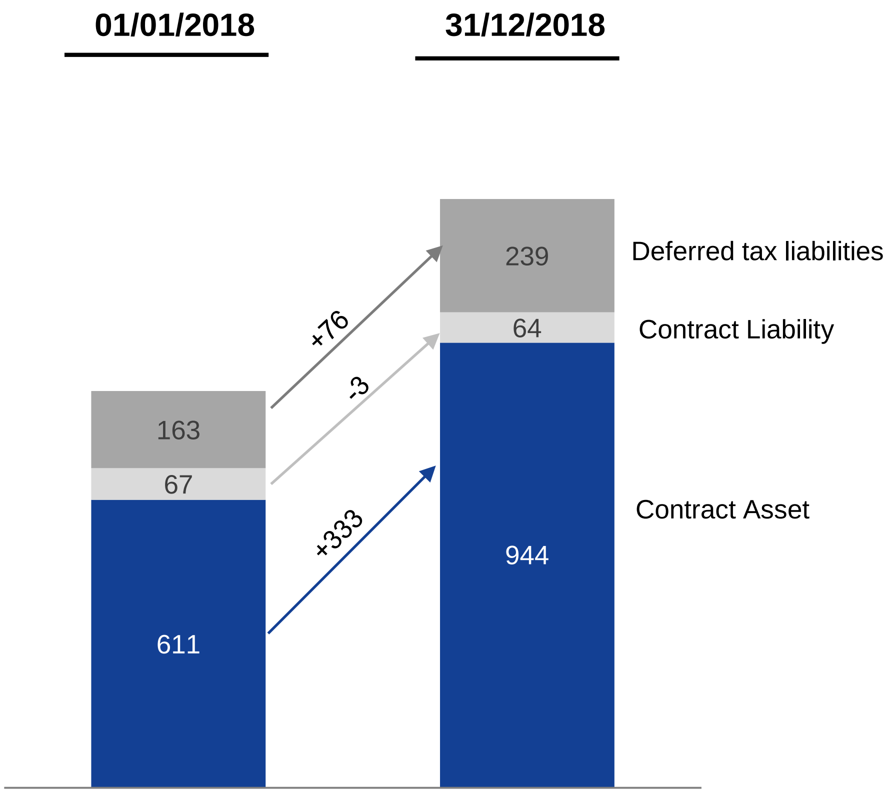
31/12/2017 Assets with IFRS change



31/12/2017 Equity and liabilities with IFRS change



IFRS 15 – Impact on Balance Sheet (in €m)



- Growth in contract assets results primarily from the investment in subscriber growth (allocation of hardware subsidies over the term of the contract)
- Relief for profit in 2018 from the allocation of customer acquisition costs over the term of the contract

Major Points from the Acquisition of Drillisch

Purchase price per PPA: €3,450 million*

- Major identified assets and liabilities
  - €742m customer relationships
    (depreciation over about 8 years totalling about €96m per year)
  - €56m trademark rights
  - €254m deferred tax liabilities
  - €81m other assets and liabilities

Goodwill: €2,825m

*Corresponding to 59,764,649 shares of Drillisch AG x €57.73 (closing price of Drillisch stock on 7 Sept. 2017)

Outlook

Roadmap 2017 / 2018

Top priorities following the merger: mine synergies and increase performance power

Q4/2017

- Bundling of hardware purchasing
- Optimisation of procurement of mobile advance services

Focal points of 2018

- Unified management team
- Merger of the organisations previously operating separately
- Tightening of the trademark portfolio
- Expansion of current clientele marketing
- New retention process for discount brands

Planned Impact from the Transaction 2018

Cost savings

- Approx. €50 million in cost savings from joint purchasing, especially of network advance services and smartphones

One-off costs

- Contrary effect, about €20 million in one-offs, especially for brand consolidation, improved current customer marketing and measures for optimisation of capacity utilisation

Customer Development 2018

Approx. 1.2 million new customer contracts

- approx. €30 million increase in marketing budget
- Approx. €300 million additionally for smartphone subsidisation (return from higher rate prices)
  - Enhancement of the attractiveness of the 1&1 smartphone offers
  - New target groups for WEB.DE/GMX (previously SIM-only)
  - New target groups for the discount brands (previously no subsidised hardware)
  - Better churn prevention
  - Increase in retention saves

We Have Made a Good Start into the New Year

Forecast 2018

- Approx. 1.2 million new customer contracts
- Approx. €3.7 billion revenues (IFRS 15)
  - + approx. €200 million balance in accordance with IFRS 15
- Approx. €750 million EBITDA (IFRS 15), which includes
  - – approx. €300 million additional smartphone-subsidies
  - + approx. €300 million in accordance with IFRS 15
  - + approx. €50 million synergies form transaction with 1&1
  - – approx. €30 million increased marketing budget
  - Also included:

    – approx. €20 million one-offs for projects of integration

Our Success Story Continues!