Interim Statement
Q3 2018

DATA & FACTS

Selected Performance Indicators	30/9/2018	30/9/2017	Change	III/2018	II/2018	I/2018
PROFIT (IN €M)						
Revenue	2,719.4	1,992.0	36.5 %	900.4	914.7	904.3
EBITDA	524.8	352.7	48.8 %	184.7	174.5	165.5
EBITDA margin in % of revenue	19.3 %	17.7 %		20.5 %	19.1 %	18.3 %
EBIT	409.1	328.9	24.4 %	146.4	135.7	127.0
EBIT margin in % of revenue	15.0 %	16.5 %		16.3 %	14.8 %	14.0 %
EBT	407.7	321.2	26.9 %	145.3	135.5	127.0
EBT margin in % of revenue	15.0 %	16.1 %		16.1 %	14.8 %	14.0 %
Earnings per share (in €)	1.58	2.03*	-22.0 %	0.57	0.54	0.48
Earnings per share (in €) without ppa write-offs	1.92	2.08*	-7.8 %	0.68	0.65	0.59
CASH FLOW (IN €M)						
Net payments of operating activity from the ongoing division	121.1	295.3	-59.0 %	76.5	72.2	-27.6
Net payments and incoming payments from investments from the ongoing division	-25.6	20.9	-222.3 %	-12.8	-2.5	-10.2
Free cash flow	103.9	286.8	-63.8 %	63.8	69.7	-29.5
STAFF (INCL. MANAGEMENT BOARD)						
Total per end of September	3,130	3,494	-10.4 %	3,130	3,145	3,143
CUSTOMER CONTRACTS CURRENT PRODUCT LINES (IN MILLIONS)						
Access, contracts	13.33	12.39	0.94	13.33	13.11	12.91
thereof Mobile Internet	8.93	8.06	0.87	8.93	8.73	8.54
thereof DSL/VDSL	4.40	4.33	0.07	4.40	4.38	4.37

	30/9/2018	31/12/2017	Change	30/9/2018	30/6/2018	31/3/2018
BALANCE SHEET (IN €M)						
Short-term assets	905.8	656.6	38.0 %	905.8	784.9	814.8
Long-term asset	4,262.6	4,079.2	4.5 %	4,262.6	4,309.4	4,475.7
Shareholders' equity	4,175.8	3,805.1	9.7 %	4,175.8	4,074.2	4,261.2
Balance sheet total	5,168.5	4,735.7	9.1 %	5,168.5	5,094.3	5,290.6
Equity ratio	80.8 %	80.4 %		80.8 %	80.0 %	80.5 %

* Without the positive special effects from the sale of Versatel Group

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

1&1 Drillisch AG continued its course of profitable growth in the first nine months of 2018. Once again, we were able to improve the number of customer contracts, revenues and our operating profit figures. Parallel to these accomplishments, we have continued to invest in new customer acquisition and the strengthening of our customer relationships.

In concrete figures, we were able to increase our clientele in our current product lines by 690,000 to 13.33 million subscribers (31/12/2017: 12.64 million). Of this number, customer contracts in the mobile internet sector rose by 630,000 to 8.93 million (31/12/2017: 8.30 million) and the DSL lines by 60,000 to 4.40 million (31/12/2017: 4.34 million). In comparison with the previous year's closing date on 30/09/2017 (i.e. in the last 12 months), we have increased clientele by 940,000 contracts.

Our revenue rose in the first nine months of 2018 by 36.5% from €1.992 billion in the previous year (per IAS 18) to €2.719 billion (pursuant to IFRS 15). From the pro forma perspective (with the inclusion of Drillisch in the previous year), revenue rose by 12.7% from €2.413 billion (per IAS 18) to €2.719 billion (per IFRS 15). The rise in revenue includes on balance €202.2 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers). Total sales of €900.4 million in Q3 2018 represent a slight decline in comparison with the previous quarter (Q2 2018: €914.7 million). This decline results from the change in the low-margin hardware revenue that decreased by about €20 million in comparison with the previous quarter.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by 48.8% over the same period from €352.7 million (per IAS 18) to €524.8 million (per IFRS 15). From the pro forma perspective (with the inclusion of Drillisch in the previous year), EBITDA rose by 16.1% from €452.2 million (per IAS 18) to €524.8 million (per IFRS 15). The total of €198.9 from the initially positive effects from the first-time application of IFRS 15 contained in this figure is offset by additional investments (above all, from the increased use of smartphones) in the same amount so that the two items virtually balance each other out in the bottom line, and to this extent the figures are comparable with those of the previous year. Moreover, the EBITDA of the first nine months of 2018 contains realised synergies in the amount of about €31.3 million and offsetting one-off expenditures from ongoing integration projects in the amount of €12.4 million.

LETTER FROM THE MANAGEMENT BOARD

Earnings before interest and taxes (EBIT) rose by 24.4% from €328.9 million (comparable previous year's value per IAS 18) to €409.1 million (per IFRS 15). The one-offs from integration projects mentioned above are also included in the EBIT. The lower percentage growth in comparison with the EBITDA results essentially from the increase in write-offs on the assets determined within the scope of the purchase price allocation (PPA). Profit per share per 30 September 2018 came to €1.58 (from continued operation per 30 September 2017: €2.03).

Excluding the effects of the PPA write-offs, the profit per share per 30 September 2018 amounted to €1.92 (30 September 2017: €2.08). The comparison values of the previous year per 30 September 2017 contained pro rata temporis PPA write-offs for only one month. The calculation of the profit per share for the reporting period and after a major capital increase in September 2017 was based on 176.8 million shares and for the period of the previous year on the basis of 122.0 million shares.

1&1 Drillisch confirms its targets for the year 2018 as a whole and has not revised its projections of about 1 million new customers, a rise in revenue to about €3.7 billion and an increase in EBITDA to about €750 million. The Company is assuming at this time that the price adjustment negotiations with an advance services provider that have been in progress for several months will be concluded in the very near future.

We are in an excellent position to take the next steps in our Company's development and we are looking ahead into the future with confidence. Finally, we want to take this opportunity to thank our employees for their ongoing commitment and their tremendous willingness to perform. In addition, we want to express our gratitude to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal,

Ralph Dommermuth | André Driesen | Martin Witt

Maintal, 13 November 2018

QUARTERLY RELEASE PER 30 SEPTEMBER 2018

FIRST-TIME APPLICATION OF IFRS 15

First-time application of IFRS 15

In May 2014, the International Accounting Standards Board (IASB) promulgated the standard IFRS 15 “Revenue from Contracts with Customers”. Application is mandatory for reporting periods starting on 1 January 2018 and later and is therefore applicable for the first time to this quarterly release for Q3 2018. The new standard provides a uniform, five-step model based on certain principles that is to be used for the calculation and recognition of revenue and that is to be applied to all contracts with customers. It supersedes in particular the previous standards IAS 18 “Revenue” and IAS 11 “Construction Contracts”.

1&1 Drillisch has exercised the option in favour of the modified retrospective transition method, i.e. the figures of the previous year have not been adjusted within the scope of this quarterly release. The changeover effects were recognised as non-operating results in equity per 1 January 2018.

The application of IFRS 15 has significant effects on the assets and liabilities, financial position and earnings of 1&1 Drillisch. The new regulations impact especially the following circumstances:

- While previously sales revenues for hardware (e.g. mobile phones) within the framework of a multiple-component transaction (e.g. mobile services contract plus mobile phone) were realised as sales revenue solely in the amount of payment billed monthly to the customer, IFRS 15 requires a breakdown of the total payment from the customer contract on the basis of the relative separate selling prices of the various performance obligations. The share of sales revenue for the hardware allocated on this basis is recognised in full upon delivery to the customer. Since the allocated share of revenue as a rule exceeds the charges billed to the customers in the first month, the new regulations lead to the revenue realisation being brought forward to the periods in which the utilised hardware also becomes effective for expenditures
- Moreover, IFRS 15 requires the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the contract acquisition (e.g. sales commissions) as well as fulfilment of the contract (e.g. activation fees) must be capitalised and amortised over the estimated useful life.

In addition to the transition effects from the first-time application in the accounting of IFRS 15, the revenue and profit figures are marked by the increased offering of smartphones during new customer acquisition and retention measures for existing customers (no or only low one-time payment from customers at the time of the contract conclusion and return via higher rate prices during the term of the contract). Additional reports on the major effects are found in the comments on the course of business and the Group’s position so that comparability of the revenue and profit figures in the first nine months of 2018 determined in accordance with IFRS with the revenue and profit indicators of the first nine months of the previous year pursuant to IAS 18 is assured.

COURSE OF BUSINESS

Course of business

Development in the segment “Access”

The number of contracts subject to charge rose in the first nine months of 2018 by 0.69 million to 13.33 million contracts. In the mobile internet business, it was possible to acquire 0.63 million customer contracts, raising the number of contracts to 8.93 million. The number of DSL full-service contracts (ULL = unbundled local loop) rose as well by about sixty thousand contracts to 4.40 million.

Development of contracts during the first 9 months of 2018 (in millions)

	30/9/2018	31/12/2017	Change
Total contracts	13.33	12.64	+0.69
thereof mobile internet	8.93	8.30	+0.63
thereof DSL full-service packages (ULL)	4.40	4.34	+0.06

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.

During the first nine months of 2018, 1&1 Drillisch invested heavily in the acquisition of new customers and in the retention of current customer relationships. One of the focal points was on the marketing of mobile internet contracts and the related hardware. Two changes appear in comparison with the first nine months of 2017. One is that the first-time application of the IFRS 15 regulations (Revenue from Contracts with Customers) led to sales revenues from so-called multiple-component transactions. The other is that costs of contract renewals and of contract fulfilment are no longer recognised directly in expenses, but are instead capitalised and transferred proportionately to expenses over the average duration of the customers’ contracts. In the previous year, Drillisch was included as an acquired company solely pro rata temporis for about one month, which is a further impairment of the comparability with the values of the previous year.

Revenue in the segment “Access” increased in comparison with the first nine months of 2017 – also a consequence of the merger with Drillisch in September 2017 – by €727.2 million (36.5%) to €2,719.2 million (previous year: €1,992.0 million). The rise in revenue includes on balance €202.2 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers). These regulations affect mainly sales revenues in the reporting period for hardware deliveries within the framework of multiple-component transactions. In the previous year, sales revenues for hardware deliveries were recognised solely in the amount of the charges billed to the customers. As part of the transition in the accounting from IAS 18 to IFRS 15, the sales revenues from multiple-component transactions from previous periods that are to be given consideration pro rata temporis were recognised per 1 January 2018 as non-operating results in equity. The resultant contract asset will be reversed as operating results in the following periods, leading to a corresponding reduction in the sales revenues.

COURSE OF BUSINESS

In the segment “Access”, the cost of materials rose by €557.5 million to €1,837.5 million (previous year: €1,280.0 million). In the first nine months of 2018, customer acquisition costs (e.g. sales commissions) and costs of contract fulfilment (e.g. activation fees) for mobile and DSL products were no longer recognised directly as expenses as was the case in the same reporting period of the previous year. Analogously to the procedure followed for sales revenues, customer acquisition and contract fulfilment costs from previous years were recognised per 1 January 2018 pro rata temporis as non-operating results in equity and now result in a corresponding increase in the cost of materials.

The segment EBITDA rose by 49.2% from €352.2 million in the previous year to €525.6 million. This includes on balance €199.0 million from the first-time application of the IFRS 15 regulations, which virtually offsets completely the increased investments in hardware, as well as one-off effects from expenditures in the amount of €12.4 million incurred as part of integration projects.

Major revenue and profit indicators in the segment “Access”

	9M 2018 IFRS 15	9M 2017 IAS 18	Change
Revenue (in €m)	2,719.2	1,992.0	+727.2
EBITDA (in €m)	525.6	352.2	+173.4
EBITDA margin (in %)	19.3	17.6	+1.7

Quarterly development: Change over same quarter of previous year

	Q3 2018 IFRS 15	Q3 2017 IAS 18	Change
Revenue (in €m)	900.4	715.5	+184.9
EBITDA (in €m)	185.6	142.1	+43.5
EBITDA margin (in %)	20.6	19.9	+0.7

Segment Miscellaneous

The segment Miscellaneous comprises all the activities related to the offering of custom software solutions and maintenance and support services (for details see page 25).

SITUATION IN THE GROUP

Earnings position

Growth in the first nine months of 2018 was driven above all by the contract customer business in the segment "Access". In this core business, the number of customer contracts subject to charge for the current product lines was increased by 0.69 million contracts to 13.33 million.

Revenues rose in the first nine months of 2018 by 36.5% from €1,992.0 million in the previous year to €2,719.4 million. The positive revenue development results primarily from the continuing increase in the number of customer contracts and the related monthly income as well as the early revenue realisation related to the application of IFRS 15 and from the first-time inclusion of Drillisch in the consolidated interim financial statements. Drillisch is included in the comparison figures of the previous year for only one month. The rise in revenue includes on balance €202.2 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers). Total sales of €900.4 million in Q3 2018 represent a slight decline in comparison with the previous quarter (Q2 2018: €914.7 million). This decline results from the change in the low-margin hardware revenue that decreased by about €20 million in comparison with the previous quarter.

In contrast to the previous year, contract acquisition and contract fulfilment costs are no longer posted directly as expenses, but are recognised pro rata temporis as expenses over the average duration of the customer contracts.

Cost of sales rose in the first nine months of 2018 by €547.7 million (40.3%) to €1,907.9 million (previous year: €1,360.2 million). As a consequence of the rise in the low-margin hardware sales and additional negative effects on revenue from the reversal of the hardware sales from previous periods recognised as non-operating results at the beginning of the year pursuant to the application of IFRS 15, the gross margin fell from 31.7% in the previous year to 29.8%. Gross profit rose by €179.7 million from €631.8 million in the previous year to €811.5 million.

Distribution costs rose from €249.7 million in the previous year to €303.7 million in the first nine months of 2018. The increase results mainly from the significant rise in write-offs on intangible assets that were identified in the course of the purchase price allocation related to the acquisition of Drillisch in 2017 and attributed to distribution. In relation to revenue, distribution costs amounted to 11.2% in the first nine months of 2018 (previous year: 12.5%). Administration costs increased, also a consequence of the inclusion of Drillisch, from €52.3 million in the previous year (2.6% of revenue) to €67.2 million (2.5% of revenue).

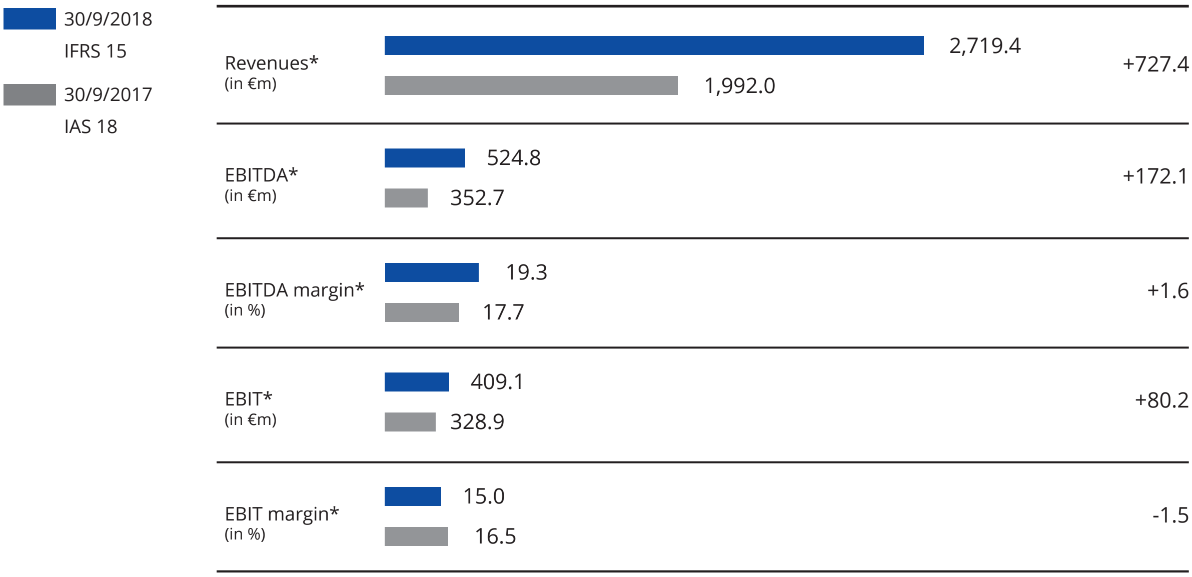
The EBITDA from ongoing business activities amounted to €524.8 million (previous year: €352.7 million). This includes on balance €198.9 million from the first-time application of the IFRS 15 regulations, which virtually offsets completely the increased investments in hardware, as well as one-off effects from expenditures in the amount of €12.4 million incurred as part of integration projects.

Earnings before taxes (EBT) rose in the first nine months of 2018 by 26.9% from €321.2 million to €407.7 million. Tax expenses amounted to €127.7 million (previous year: €72.9 million).

SITUATION IN THE GROUP

Consolidated profit from continued operation rose from €248.3 million in the previous year to €280.0 million in the first nine months of 2018. A consolidated result of €0.0 comes from the discontinued activities (previous year: €170.9 million). The result from the discontinued activities in the previous year was essentially the consequence of the sale of Versatel Group. The consolidated profit and consolidated comprehensive results in the first nine months of 2018 amounted to €280.0 million (previous year: €419.2 million). Profit per share per 30 September 2018 came to €1.58 (from continued operation per 30 September 2017: €2.03). The calculation of the profit per share for the comparable figure of the previous year was based on 122.0 million shares. The number of shares has risen to 176.8 million shares, essentially a consequence of a major capital increase in September 2017. The calculation of the profit per share per 30 September 2017 took into account the weighted average of the number of shares outstanding in the period from January to September. Excluding the effects of write-offs pursuant to the PPA, the profit per share per 30 September 2018 amounted to €1.92 (from continued operation per 30 September 2017: €2.08). The comparison values of the previous year per 30 September 2017 contained pro rata temporis PPA write-offs for only one month.

Major revenue and profit indicators (in €m)



* In previous year from continued operation

Financial position

Cash flow from operating activities declined from €247.2 million in the first nine months of 2017 to €187.0 million in the first nine months of 2018. The decrease in the amount of €60.2 million reflects the high hardware investments made in the first nine months of 2018 in customer growth and retention of existing customers; these investments will lead to higher revenue from customer contracts in subsequent periods. In contrast to the previous year, investments in rate plans with hardware (for instance) are no longer recognised directly as expenses. They nevertheless result in outflows of funds that are offset by inflows of funds in the subsequent periods.

SITUATION IN THE GROUP

Net inflow of funds from operating activities from continued operation in the first nine months of 2018 amounted to €121.1 million (previous year: €295.3 million). Besides the aforementioned negative influencing factors in cash flow from operating activities, increased advance payments for purchased services that will not be recognised as operating expenses until later periods and the increase in inventories led to outflows of funds that will to a major extent be reversed in the following periods.

Cash flow from investments from continued operation shows total net outflow of funds of €25.6 million during the reporting period (previous year: inflow of funds of €20.9 million). Outflow of funds of €17.9 million and inflow of funds of €0.7 million resulted from investments in tangible and intangible assets (previous year: outflow of funds of €9.0 million and inflow of funds of €0.4 million). Moreover, a retroactive outflow of funds in the amount of €8.3 million (previous year: €0.0) occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017. Inflow of funds in the amount of €33.1 million resulted from the initial consolidation of Drillisch in September 2017, reflecting the level of cash at Drillisch at the time of the initial consolidation.

Free cash flow from continued operation, defined as net inflow of funds from operating activities from continued operation less investments in tangible and intangible assets plus inflow of funds from disposals of intangible and tangible assets, amounted to €103.9 million in the first nine months of 2018 (previous year: €286.8 million). The change over the previous year results essentially from the outflows of funds relating to the investments in high-value customer contracts that will be reversed or amortised in subsequent periods.

The decisive elements for the cash flow from the financing sector from continued operation in the first nine months of 2018 were primarily the disbursement of dividends in May in the amount of €282.8 million (previous year: €0.0), outflow and inflow of funds relating to the short-term investment of free cash in the amount of €100 million (previous year: €0.0) and inflow and outflow of funds from the utilisation and repayment of loans from and to United Internet in the amount of €+200.0 million and €-158.0 million, respectively.

Cash and cash equivalents per 30 September 2018 amounted to €3.9 million in comparison with €149.7 million per 31 December 2017.

Assets and liabilities

The balance sheet total increased from €4,735.7 million per 31 December 2017 to €5,168.5 million per 30 September 2018. The first-time application of the IFRS 15 regulations in the first nine months of 2018 results in long- and short-term assets in the amount of €809.9 million (31 December 2017: €0.0) and long- and short-term liabilities in the amount of €263.3 million (31 December 2017: €0.0) from items from previous periods that were to be recognised as non-operating results per 1 January 2018 and the adjustments of the current period effective on earnings.

SITUATION IN THE GROUP

Short-term assets rose from €656.6 million per 31 December 2017 to €905.8 million per 30 September 2018. The cash holdings disclosed in the short-term assets declined from €149.7 million to €3.9 million. The change results primarily from the dividend disbursement of May 2018 and the investments in smartphones made during the first nine months of 2018, which will be amortised over the customers' contract terms.

Trade accounts receivable increased from €182.6 million per 31 December 2017 to €216.9 million per 30 September 2018. Accounts due from associated companies declined from €168.3 million per 31 December 2017 to €5.1 million per 30 September 2018. Per 31 December 2017, accounts due from associated companies in the amount of €158 million arose primarily from the sale of Versatel Group that was realised in the first quarter 2018.

Prepaid expenses increased from €15.1 million to €45.4 million and concern essentially prepaid utilisation fees that will not be recognised as effective expenditures until later periods. The item contract assets in the amount of €369.4 million (31 December 2017: €0.0) includes short-term receivables due from customers related to early revenue realisation because of the application of IFRS 15; the revenue had been recognised as non-operating results from previous periods for all customers at the beginning of the year and has been carried forward effective on earnings since then. The items costs for contract acquisition and costs for contract fulfilment include the short-term expenditures, recognised as non-operating results at the beginning of the year and carried forward effective on earnings since then, related to customer acquisition and costs of contract fulfilment during the term of the contracts.

Other financial assets declined from €80.1 million per 31 December 2017 to €28.5 million per 30 September 2018. In the previous year, these assets included mainly reimbursement claims against Deutsche Telekom for DSL connection fees paid in advance in previous years. The other non-financial assets increased from €14.4 million to €17.4 million and concern primarily income tax claims.

Long-term assets rose from €4,079.2 million per 31 December 2017 to €4,262.6 million per 30 September 2018. The increase of €183.4 million results basically here as well from the first-time application of the IFRS 15 regulations during the first nine months of 2018. Intangible assets declined as planned from €901.4 million per 31 December 2017 to €779.6 million per 30 September 2018 and include primarily the assets determined as part of the purchase price allocation less the related amortisation. The long-term prepaid expenses increased from €79.4 million per 31 December 2017 to €193.7 million and comprise basically advance payments made pursuant to long-term purchase contracts. The items contract assets and costs of contract acquisition and fulfilment include here, analogously to the short-term assets, the long-term receivables from customers resulting from the application of IFRS 15. The change in deferred tax assets from million €144.6 million per 31 December 2017 to €51.8 per 30 September 2018 results essentially from the partial balancing of the deferred tax assets against the deferred tax liabilities.

SITUATION IN THE GROUP

Short-term liabilities decreased from €675.2 million per 31 December 2017 to €615.4 million per 30 September 2018. Short-term trade accounts payable increased by €79.9 million to €309.4 million (31 December 2017: €229.5 million). Accounts due to associated companies declined from €221.9 million per 31 December 2017 to €85.4 million and are related, for one, to liabilities due to United Internet AG as part of the utilisation of cash and, for another, to liabilities due to other group undertakings of United Internet Group pursuant to the procurement of advance services. In the previous year, they basically concerned liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH; the option was exercised in January 2018.

The contract liabilities include short-term liabilities from reimbursement obligations of one-time fees for revoked contracts and deferred income from one-time fees that were recognised as non-operating results in the first nine months of 2018 pursuant to the application of IFRS 15 and that have since then been carried forward effective on earnings. Income tax liabilities rose from €47.0 million per 31 December 2017 to €70.2 million per 30 September 2018. This was primarily caused by the significant increase in profit before taxes.

Long-term liabilities rose from €255.4 million per 31 December 2017 to €377.2 million per 30 September 2018. Causes included in particular the creation and updating of deferred tax liabilities related to the initial application of the IFRS 15 regulations in the amount of €206.9 million (31 December 2017: €0.0) and the increase in Other provisions from €3.5 million per 31 December 2017 to €64.6 million per 30 September 2018. The increase in Other provisions results from the initial recognition of provisions for termination charges related to IFRS 15 accounting. Contract liabilities include deferred income from one-time fees related to the application of IFRS 15.

The equity in the Group rose from €3,805.1 million per 31 December 2017 to €4,175.8 million per 30 September 2018. The Company's unchanged share capital in the amount of €194.4 million is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 and is the equivalent of the share capital of 1&1 Drillisch AG. Cumulative consolidated profit rose by €369.9 million from €1,163.6 million per 31 December 2017 to €1,533.5 million per 30 September 2018. The change is caused by two factors. For one, the amount of €372.7 million reflects the adjustments recognised as non-operating results from the application of the modified retrospective transition method related to the initial application of IFRS 15 per 1 January 2018. For another, the offsetting of the consolidated profit per 30 September 2018 of €280.0 million and the dividend disbursement of €282.8 million in May 2018 leads to a reduction of the cumulative consolidated profit of €2.8 million. The equity ratio increased from 80.4% to 80.8%.

REPORT ON RISKS AND OPPORTUNITIES

Report on Risks and Opportunities

1&1 Drillisch Group pursues policies of risk and opportunity that are oriented o the objective of maintaining and raising sustainably the Company's value by taking advantage of opportunities and by recognising and managing 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.

General statement from the Management Board regarding the Group's risks and opportunities position

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

The overall risks and opportunities situation in the first nine months of 2018 remained largely stable in comparison with the reporting of risks and opportunities in the annual financial statements for 2017. Risks threatening the existence of 1&1 Drillisch from either specific risk positions or the overall risk situation were not discernible during the reporting period and at the point in time of preparation of this quarterly release.

Positive contributions to results are expected from the price adjustment negotiations currently being conducted with an advance services provider. Otherwise, the risk and opportunity situation has not changed since 31 December 2017.

By expanding even further the scope of its risk management, 1&1 Drillisch counters the identified risks and limits them, in so far as sensible, to a minimum by implement specific actions.

FORECAST REPORT

Forecast report

1&1 Drillisch has targeted a significant increase in clientele by about 1.0 million customer contracts and a related continuation of the positive development of gross profit in operating business and a rise in revenue to about €3.7 billion for fiscal year 2018 as a whole. For 2018, the Management Board expects an increase in adjusted EBITDA to about €750 million. The Company is assuming at this time that the price adjustment negotiations with an advance services provider that have been in progress for several months will be concluded in the very near future.

Future-oriented statements and forecasts

This quarterly release contains future-oriented statements that are based on the current expectations, assumptions and forecasts of the 1&1 Drillisch AG Management Board and 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 AG does not guarantee that the future-oriented statements will prove to be true, and it neither assumes any obligation nor has the intention to adjust or update any future-oriented statements made in this quarterly release.

EXPLANATORY COMMENTS ON THE QUARTERLY RELEASE

Information about the Company

1&1 Drillisch Aktiengesellschaft, Maintal ("1&1 Drillisch AG" or, along with its subsidiaries, "1&1 Drillisch"), is a telecommunications provider that operates solely and exclusively in Germany. The Group, a leading German internet specialist and virtual mobile network operator with guaranteed access to a specific share of the network capacity of Telefónica in Germany (so-called mobile bitstream access mobile virtual network operator = MBA MVNO), offers landline and mobile network-based internet access products. These products are supplemented by fast DSL connections that 1&1 Drillisch procures as advance service from network operators, especially from Telekom Deutschland and 1&1 Versatel GmbH. These DSL connections are combined with additional services, including (among others) applications for home networks, online storage, telephony, video on demand or IPTV.

The address and registered office of 1&1 Drillisch AG as the parent company of the Group is Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, Germany. The Company is registered at Hanau Local Court under HRB 7384.

EXPLANATORY COMMENTS ON THE QUARTERLY RELEASE

Major accounting, valuation and consolidation principles

The quarterly release from 1&1 Drillisch AG per 30 September 2018 was prepared, just as the consolidated annual financial statements per 31 December 2017, in compliance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU).

The quarterly release does not represent an interim report within the sense of IAS 34. The accounting and valuation principles applied in the quarterly release are consistent with the methods applied per 31 December 2017 with the exception of the standards whose application has newly been mandated and must be viewed in the context of the consolidated annual financial statements per 31 December 2017.

Application of assumptions and estimates

During preparation of the quarterly release, 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 lead to results that in future require substantial adjustments in the book value of the relevant assets or liabilities.

Use of financial performance indicators relevant for business

Financial performance indicators such as 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 Company's annual and interim financial statements to ensure a clear and transparent presentation of 1&1 Drillisch's business development. Information about the use, definition and calculation of these performance indicators is available in the Annual Report 2017 of 1&1 Drillisch AG from page 37.

The performance indicators used by 1&1 Drillisch have been adjusted for special effects to the extent this is necessary for 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 Company. 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.

Miscellaneous

All of the subsidiaries are included in the consolidated financial statements. The group of consolidated companies has essentially remained unchanged over the consolidated annual financial statements per 31 December 2017.

No enterprises have been acquired or sold during the reporting period 2018.

The quarterly release has not been audited pursuant to Section 317 HGB [German Commercial Code] or subjected to a review by an independent accountant.

CONSOLIDATED FINANCIAL STATEMENTS PER 30 SEPTEMBER 2018

CONSOLIDATED BALANCE SHEET

Per 30 September 2018

	30 September 2018 €k	31 December 2017 €k
ASSETS		
Short-term assets		
Cash and cash equivalents	3,929	149,681
Trade accounts receivable	216,882	182,620
Receivables due from associated companies	5,132	168,261
Inventories	66,830	46,467
Prepaid expenses	45,359	15,052
Contract assets	369,366	0
Contract acquisition costs	80,605	0
Contract fulfilment costs	71,883	0
Other financial assets	28,464	80,120
Other non-financial assets	17,399	14,352
	905,849	**656,552**
Long-term assets		
Other financial assets	6,237	6,095
Tangible assets	12,820	14,702
Intangible assets	779,586	901,414
Goodwill	2,932,943	2,932,943
Contract assets	150,699	0
Contract acquisition costs	80,765	0
Contract fulfilment costs	54,113	0
Prepaid expenses	193,687	79,414
Deferred tax assets	51,772	144,586
	4,262,622	**4,079,155**
TOTAL ASSETS	**5,168,471**	**4,735,708**

CONSOLIDATED BALANCE SHEET

Per 30 September 2018

	30 September 2018 €k	31 December 2017 €k
LIABILITIES AND EQUITY		
Liabilities		
Short-term liabilities		
Trade accounts payable	309,414	229,549
Payments received on account	6,260	5,976
Liabilities due to associated companies	85,422	221,861
Income tax liabilities	70,239	47,046
Deferred income	19,523	48,394
Contract liabilities	20,107	0
Other provisions	34,095	52,958
Other financial liabilities	59,763	45,704
Other non-financial liabilities	10,610	23,755
	615,433	**675,244**
Long-term liabilities		
Deferred tax liabilities	304,090	245,506
Contract liabilities	5,830	0
Other provisions	64,583	3,541
Other financial liabilities	2,710	6,338
	377,213	**255,384**
SUMME SCHULDEN	**992,646**	**930,628**
Equity		
Share capital	194,441	194,441
Capital reserves	2,447,919	2,447,085
Cumulative consolidated results	1,533,465	1,163,554
TOTAL EQUITY	**4,175,825**	**3,805,080**
TOTAL LIABILITIES AND EQUITY	**5,168,471**	**4,735,708**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 30 September 2018

	2018 Jan. - Sept. €k	2017 Jan. - Sept. €k
Sales	2,719,385	1,991,986[1]
Cost of sales	-1,907,904	-1,360,198
GROSS PROFIT FROM REVENUES	**811,481**	**631,788**
Distribution costs	-303,676	-249,678
Administration costs	-67,181	-52,249
Other operating expenses	-66,940	-17,120
Other operating income	35,380	16,169
RESULTS FROM OPERATING ACTIVITIES	**409,064**	**328,910**
Financing expenses	-1,626	-8,327
Financial income	306	624
RESULTS BEFORE TAXES	**407,744**	**321,207**
Tax expenses	-127,725	-72,942[2]
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)	**280,019**	**248,265[2]**
Results after taxes from discontinued operation	0	170,930[2]
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)	**280,019**	**419,195**
Thereof attributable to		
- Non-controlling interests	0	0
- Shareholders of 1&1 Drillisch AG	**280,019**	**419,195**
Statement of comprehensive income		
Categories that may subsequently be reclassified in the profit and loss account	0	0
Categories that will not subsequently be reclassified in the profit and loss account	0	0
TOTAL CONSOLIDATED RESULTS	**280,019**	**419,195**
Thereof attributable to		
- Non-controlling interests	0	0
- Shareholders of 1&1 Drillisch AG	**280,019**	**419,195**
Profit per share of the shareholders of 1&1 Drillisch AG (in €)		
- undiluted	1.58	2.03[3]
- diluted	1.58	2.03[3]

[1] Including income from affiliated companies from Quarterly Report Q3 2017
[2] Retroactive adjustment of profit from sales
[3] From continued operation

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 30 September 2018

	2018 Jan. - Sept. €k	2017* Jan. - Sept. €k
Results from operating activities		
Consolidated earnings	280,019	419,195
Consolidated results from discontinued operation	0	170,930
Consolidated results from continued operation	280,019	248,265
Allowances for rollover of consolidated results to incoming and outgoing payments		
Amortisation and depreciation on intangible and tangible assets	29,926	16,465
Depreciation on assets capitalised within the framework of corporate acquisitions	85,782	7,300
Personnel expenses from employee stock ownership programmes	834	0
Changes in the adjustment items for deferred tax assets	-10,789	-24,821
Correction profits/losses from the sale of tangible assets	48	0
Effects from IFRS 15 accounting not affecting payment	-198,849	0
Other items not affecting payments	29	0
CASH FLOW FROM OPERATING ACTIVITIES	**187,000**	**247,209**
Changes in assets and liabilities		
Change in receivables and other assets	16,821	-1,916
Change in inventories	-20,363	-5,461
Change in deferred expenditures	-144,581	-26,450
Change in trade accounts payable	88,165	-13,873
Change in payments on account	284	-208
Change in other provisions	-22,285	2,067
Change in income tax liabilities	23,193	49,503
Change in other liabilities	7,384	5,180
Change in receivables due from/liabilities due to associated companies	-15,310	39,299
Change in deferred earnings	742	-27
CHANGES IN ASSETS AND LIABILITIES, TOTAL	**-65,950**	**48,114**
Net inflow of funds from operating activity from continued operation	**121,050**	**295,323**
Net outflow of funds from operating activity from discontinued operation	**0**	**-38,379**
Net inflow of funds from operating activities	**121,050**	**256,944**

* The presentation of the consolidated cash flow statement Q3 2017 has been adjusted for comparison purposes.

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 30 September 2018

	2018 Jan. - Sept. €k	2017* Jan. - Sept. €k
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-17,848	-8,988
Inflow of funds from disposal of intangible and tangible assets	739	431
Outflow of funds for acquisitions less acquired cash	-182	0
Outflow of funds from disposal of financial assets	-8,300	-3,641
Inflow of funds from the initial consolidation of 1&1 Drillisch related to the reverse acquisition	0	33,125
Reimbursements from other financial assets	7	0
Net in-/outflow of funds in the investment sector from continued operation	**-25,584**	**20,927**
Net outflow of funds in investment sector from discontinued operation	**0**	**-58,639**
Net outflow of funds in investment sector	**-25,584**	**-37,712**
CASH FLOW FROM FINANCING SECTOR		
Repayment of finance leasing liabilities	-395	-86
Inflow of funds from the assumption of losses by United Internet AG	0	12,498
Inflow of funds from changes in the cash pool balances with associated companies	0	10,129
Dividend payment	-282,823	0
Outflow of funds for the grant of loans to associated companies	-100,000	0
Inflow of funds from associated companies in repayment of loans	100,000	0
Inflow of funds from loans received from associated companies	200,000	0
Outflow of funds to associated companies in repayment of loans	-158,000	-200,000
Net outflow of funds in financing sector from continued operation	**-241,218**	**-177,459**
Net outflow of funds in financing sector from discontinued operation	**0**	**-7,105**
Net outflow of funds in financing sector	**-241,218**	**-184,564**
Net decrease/increase in cash and cash equivalents	-145,752	34,668
Cash and cash equivalents at beginning of fiscal year	149,681	4,562
Cash and cash equivalents at end of reporting period	**3,929**	**39,230**

* The presentation of the consolidated cash flow statement Q3 2017 has been adjusted for comparison purposes.

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Years 2018 and 2017

	Share capital		Capital reserves	Cumulative consolidated results	Equity attributable to the 1&1 Drillisch AG shareholders	Non-controlling interests	Total equity
	Denomination	€k	€k	€k	€k	€k	€k
Per 1 January 2017	**121,000**	**121**	**-1,067,670**	**615,289**	**-452,260**	**39,442**	**-412,818**
Consolidated earnings		0	0	419,195	419,195	0	419,195
Total Results		**0**	**0**	**419,195**	**419,195**	**0**	**419,195**
Other contributions/withdrawals		0	362,617	67,160	429,777	0	429,777
Issue of own stock	176,643,649	194,320	0	0	194,320	0	194,320
Corporate merger		0	3,253,893	0	3,253,893	0	3,253,893
Change in holding ratios		0	-99,755	0	-99,755	-39,442	-139,197
Per 30 September 2017*	**176,764,649**	**194,441**	**2,449,085**	**1,101,645**	**3,745,171**	**0**	**3,745,171**
Per 31 December 2017	**176,764,649**	**194,441**	**2,447,085**	**1,163,554**	**3,805,080**	**0**	**3,805,080**
Effects recognised in equity on the basis of new IFRS standards		0	0	372,716	372,716	0	372,716
Per 1 January 2018	**176,764,649**	**194,441**	**2,447,085**	**1,536,270**	**4,177,796**	**0**	**4,177,796**
Consolidated earnings		0	0	280,019	280,019	0	280,019
Total Results		**0**	**0**	**280,019**	**280,019**	**0**	**280,019**
Dividend payments		0	0	-282,823	-282,823	0	-282,823
Employee stock ownership programme:		0	834	0	834	0	834
PER 30 SEPTEMBER 2018	**176,764,649**	**194,441**	**2,447,919**	**1,533,465**	**4,175,825**	**0**	**4,175,825**

* The presentation of the consolidated statement of change in equity Q3 2017 has been adjusted for comparison purposes.

SEGMENT REPORTING

30 September 2018	Access	Miscellaneous	Consolidation	Total
	€k	€k	€k	€k
Revenues with third parties	2,719,178	207	0	2,719,385
Intercompany revenues	0	8,494	-8,494	0
SEGMENT REVENUES	**2,719,178**	**8,701**	**-8,494**	**2,719,385**
Cost of materials external third parties	-1,837,506	-19	0	-1,837,525
Cost of materials from intercompany relationships	0	-8	8	0
COST OF MATERIALS FOR SEGMENT	**-1,837,506**	**-27**	**8**	**-1,837,525**
GROSS PROFIT FOR SEGMENT	**881,671**	**8,674**	**-8,485**	**881,860**
SEGMENT EBITDA	**525,547**	**1,875**	**-2,649**	**524,772**

30 September 2017*	Access	Miscellaneous	Consolidation	Total
	€k	€k	€k	€k
Revenues with third parties	1,991,967	18	0	1,991,985
Intercompany revenues	0	0	0	0
SEGMENT REVENUES	**1,991,967**	**18**	**0**	**1,991,985**
Cost of materials external third parties	-1,279,265	-2	0	-1,279,267
Cost of materials from intercompany relationships	-731	-1	732	0
COST OF MATERIALS FOR SEGMENT	**-1,279,996**	**-3**	**732**	**-1,279,267**
GROSS PROFIT FOR SEGMENT	**711,971**	**15**	**732**	**712,718**
SEGMENT EBITDA	**352,222**	**229**	**224**	**352,674**

* The presentation of the Segment Report Q3 2017 has been adjusted for comparison purposes.

OTHER

FINANCE CALENDAR

Tuesday, 13 November 2018	Quarterly Statement Q3 2018

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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Offenbach City Tax Office

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» André Driesen

» Martin Witt

Supervisory Board:

» Michael Scheeren (Chairman)

» Kai-Uwe Ricke (Deputy Chairman)

» Dr Claudia Borgas-Herold

» Vlasios Choulidis

» Kurt Dobitsch

» Norbert Lang

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