Annual Report 2021

Data & Facts

Selected Performance Indicators	2021	2020	Change	Q4 '21	Q4 '20	Change	Q3 '21	Q2 '21	Q1 '21
Profit (in €m)									
Revenues	3,909.7	3,786.8	3.2%	1,007.6	973.1	3.5%	971.3	957.0	973.7
Service revenues	3,123.4	3,020.0	3.4%	787.6	762.0	3.4%	794.1	779.6	762.1
Hardware and Other revenues	786.3	766.8	2.5%	220.0	211.1	4.2%	177.2	177.4	211.6
EBITDA	711.3	468.5	51.8%	159.3	11.9		176.5	173.2	202.3
EBITDA operating	**671.9**	**637.8**	**5.3%**	**159.3**	**162.0**	**-1.7%**	**176.5**	**168.2**	**167.9**
EBIT	546.7	313.1	74.6%	116.2	-28.0		134.2	133.7	162.6
EBIT operating	**507.3**	**482.4**	**5.2%**	**116.2**	**122.1**	**-4.8%**	**134.2**	**128.7**	**128.2**
EBIT excluding PPA write-offs	634.3	411.2	54.3%	140.4	-6.9		155.4	154.8	183.7
EBIT operating excluding PPA write-offs	**594.9**	**580.6**	**2.5%**	**140.4**	**143.2**	**0.2%**	**155.4**	**149.8**	**149.3**
EBT	535.1	312.6	71.2%	105.1	-28.3		133.9	133.7	162.4
EBT operating	**495.7**	**482.0**	**2.8%**	**105.1**	**121.8**	**-13.7%**	**133.9**	**128.7**	**128.0**
EBT operating excluding PPA write-offs	**583.3**	**580.2**	**0.5%**	**129.3**	**143.0**	**-9.5%**	**154.9**	**149.9**	**149.1**
Profit per share (in €)	2.10	1.25	68.5%	0.38	-0.12		0.55	0.53	0.64
Profit per share operating (in €)	**1.94**	**1.92**	**1.3%**	**0.38**	**0.48**	**-21.4%**	**0.55**	**0.51**	**0.51**
Profit per share excluding PPA write-offs (in €)	2.45	1.64	49.9%	0.48	-0.03		0.63	0.61	0.73
Profit per share operating excluding PPA write-offs (in €)	**2.29**	**2.31**	**-0.8%**	**0.47**	**0.56**	**-15.5%**	**0.63**	**0.59**	**0.59**
Cash flow (in €m)									
Net inflow of funds from operating activities	432.0	450.7	-4.2%	246.1	60.2	308.8%	53.5	84.6	101.2
Net outflow of funds in investment sector	-350.6	-397.4	11.8%	-182.2	2.8		-49.4	-72.6	-95.8
Free cash flow	394.8	243.7	62.0%	217.1	46.2	370.0%	41.2	80.0	97.6

	31/12/2021	31/12/2020	Change	31/12/2021	31/12/2020	Change	30/09/2021	30/06/2021	31/03/2021
Headcount (incl. management board)									
Total per end of December	3,167	3,191	-0.8%	3,167	3,191	-0.8%	3,170	3,184	3,183
Customer contracts (in millions)									
Access, contracts	15.43	14.83	4.0%	15.43	14.83	4.0%	15.27	15.11	14.97
of which mobile internet	11.19	10.52	6.4%	11.19	10.52	6.4%	11.01	10.83	10.66
of which broadband (ADSL, VDSL, FTTH)	4.24	4.31	-1.6%	4.24	4.31	-1.6%	4.26	4.28	4.31
Balance Sheet (in €m)									
Short-term assets	1,898.8	1,553.3	22.2%	1,898.8	1,553.3	22.2%	1,783.8	1,759.2	1,729.0
Long-term assets	5,164.9	5,137.0	0.5%	5,164.9	5,137.0	0.5%	5,170.5	5,215.5	5,105.8
Shareholders' equity	5,219.2	4,853.8	7.5%	5,219.2	4,853.8	7.5%	5,150.7	5,053.7	4,967.8
Balance sheet total	7,063.7	6,690.3	5.6%	7,063.7	6,690.3	5.6%	6,954.3	6,974.6	6,834.8
Equity ratio	73.9%	72.5%		73.9%	72.5%		74.1%	72.5%	72.7%

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To Our Shareholders

Letter from the Management Board

Dear Shareholders,

1&1 continued its path of growth in fiscal year 2021 and once again increased its customer base, service revenues and EBITDA.

At the same time, the number of our customer contracts increased by 600,000 to 15.43 million contracts (31/12/2020: 14.83 million). While the development of broadband lines declined slightly by -70,000, the mobile internet business grew significantly by 670,000 contracts.

The high-margin service revenues increased by €103.4 million (3.4 percent) to €3.123 billion (2020: €3.020 billion) in 2021. Total revenues increased by €122.9 million (3.2 percent) to €3.910 billion (2020: €3.787 billion).

Other sales revenues – 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 €19.5 million (2.5 percent) to €786.3 million (2020: €766.8 million). Hardware business fluctuates seasonally and its development depends heavily on the attractiveness of new devices and the model cycles of manufacturers.

Consolidated EBITDA (earnings before interest, taxes, depreciation and amortisation) increased in fiscal year 2021 by €242.8 million (51.8 percent) to €711.3 million (2020: €468.5 million). This includes €39.4 million in out-of-period income that is related to the terms and conditions of the new national roaming agreement applicable from July 2020 that have been led to retroactive corrections. In addition, the previous year's earnings were reduced by non-cash, one-off derecognition of prepaid expenses for VDSL allotments (2020: €129.9 million). Comparable operating EBITDA (excluding the aforementioned special effects in 2021 and 2020) at €671.9 million was 5.3 percent above the previous year (2020: €637.8 million). The EBITDA of the "5G" segment contained in the total EBITDA amounted to €-37.9 million in fiscal year 2021 (2020: €-13.9 million) due to planned increased startup costs related to the planning and realisation of the rollout of our 5G mobile network.

Earnings per share (EPS) in fiscal year 2021 came to €2.10 (previous year: €1.25). Excluding the effects of the PPA write-offs, the EPS came to €2.45 (previous year: €1.64). Adjusted for the aforementioned special effects, EPS 2021 amounted to €1.94 (previous year: €1.92).

Free cash flow in 2021 amounted to €394.8 million (previous year: €243.7 million). Adjusted for the one-off payment related to the extension of the MBA MVNO contract, the previous year's cash flow would amount to €408.7 million. The free cash flow of fiscal year 2021 would be €13.9 million below the free cash flow of 2020 adjusted for one-off effects, which results in particular from advance payments made as part of the new (combined) FTTH/VDSL allotment contract.

In addition to the operating business, the focus in 2021 was on preparations for the expansion of our 5G mobile network. We were able establish major prerequisites for the launch of the fourth mobile network in Germany. Following our conclusion of a long-term national roaming agreement with Telefónica Germany in May 2021 that assures us of the resources required to offer to our customers nationwide reception during the construction phase of our own mobile network infrastructure, we announced our extensive partnership with the Japanese technology group and OpenRAN expert Rakuten in August 2021. Together, we are building Europe's first fully virtualised mobile network based on the innovative OpenRAN technology, which we intend to use for the full exploitation of the potential of 5G.

All 1&1 antennas will be connected to fibre optic lines so that gigabit speeds are assured. We are realising this in cooperation with our affiliate 1&1 Versatel, which operates one of the largest fibre optic networks in Germany. In addition, 1&1 Versatel will be in charge of the construction and operation of our 5G data centres.

In December 2021, we announced a partnership with Vantage Towers, a leading radio tower company. Cooperative agreements with so-called tower companies give us access to thousands of existing masts for the installation of our 5G high-performance antennas, enabling construction of the network that will be environmentally friendly and sparing of resources while simultaneously accelerating the rate of expansion.

Our operations as the fourth network operator will benefit not only from our large customer base and established sales channels, but also from the strength and recognition of the 1&1 brand as one of Germany's leading providers of mobile internet and broadband lines. We were again delighted to receive prestigious awards in 2021 that emphatically highlight our high standards of quality and service. As in previous years, 1&1 received a top ranking with the rating "Excellent" in the highly respected connect landline network test. In the Mobile Communications Customer Barometer (Kundenbarometer Mobilfunk) of the same professional journal, 1&1 scored points as the brand with the highest likeability ratings and the best price/performance ratio and was the winner in the connect service app test as well. 1&1's service app stands out in particular for its transparency, functionality and security. The latter two areas were even rated "Outstanding", and their exemplary protection from identity theft and rights expansion as well as excellent security for the app source code are impressive. The title of "Fairest Internet Provider" from Focus Money, ntv and the German Institute for Service Quality in 2021 also strengthened our convictions that the pursuit of our goals of offering innovative and high-performance products and of serving as a trustworthy and transparent partner for our customers is the right path.

We expect the high-margin service revenues to increase to approximately €3.2 billion in fiscal year 2022 (2021: €3.1 billion). As for the EBITDA, we project a result in 2022 at the same level as in 2021 (€671.9 million, excluding out-of-period income). This EBITDA forecast includes as before increased initial costs for the 5G network rollout, which are expected to rise from approximately €38 million in 2021 to approximately €70 million in 2022. We also expect the operational growth of customer contracts in 2022 to be at approximately 650,000 (2021: 600,000 customer contracts). The usual industry shift effects because of the latest amendment to the Telecommunications Act (TKG), which we expect to affect a total of around -200,000 contracts this year, must be deducted from this operating development.

In view of the upcoming investments for 5G construction, 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 AG.

Best regards from Maintal,

The Management Board

Ralph Dommermuth	Markus Huhn	Alessandro Nava

Maintal, March 2022

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 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 to1&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 thetime 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 ofthe 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 AG Management Board since 1 July 2019.

Alessandro Nava, Chief Operations Officer

studied business administration at Heinrich-Heine-Universityin 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 AG (COO) since 1 July 2019.

Report of the Supervisory Board

Supervisory Board Members in Fiscal Year 2021

- **Kurt Dobitsch** (since 16 October 2017),
  Supervisory Board Chairman
  (since 16 March 2021)

- **Kai-Uwe Ricke**
  (since 16 October 2017),
  Supervisory Board Deputy Chairman
  (since 13 November 2017)

- **Matthias Baldermann**
  (since 26 May 2021)

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

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

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

- **Michael Scheeren**
  (from 16 October 2017 until 23 February 2021)

In fiscal year 2021, the Supervisory Board of 1&1 AG fulfilled the duties and responsibilities assigned to it by legal statutes, the articles of association and by-laws and rules of procedure; the Board regularly advised the Management Board in the latter's 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 (during periods between meetings as well), regarding all relevant questions of strategy and the related opportunities and risks, corporate planning, development and course of business, planned and ongoing investments and the group's position, including risks and risk management and the internal controlling and compliance system. 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, the group-wide risk management, the compliance system and the internal auditing system 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 six meetings of the full Supervisory Board were held in the reporting period 2021. In compliance with the restrictions imposed because of the coronavirus pandemic, three Supervisory Board meetings were held as hybrid meetings and three as virtual meetings.

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 2020

- 2021 revenue and profit budget of the Company

- Planning of the investment projects in the corporate group for fiscal year 2021

- The deliberations and planning for a 5G mobile network and the status of the negotiations for a national roaming agreement

- The deliberations and planning for a contingent contract with Deutsche Telekom (expansion of the fibre optic offer and expanded cooperation with 1&1 Versatel)

- The deliberations and planning for a contract with Rakuten as the general contractor for the construction of a 5G mobile network

- The deliberations and planning for contracts with a tower company for the network construction and rollout of a 5G mobile network

- The Supervisory Board's report to the Annual General Meeting for fiscal year 2020, the updating of the Declaration of Conformity pursuant to the German Corporate Governance Codex, the Declaration on Corporate Management

- The adoption of a resolution on the Company's revenue and earnings planning for 2022 and the planning of expenditures and investments for the 5G mobile network

- The announcement, the agenda and proposals for the adoption of resolutions for the Annual General Meeting 2021

- 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

- The audit planning and the quarterly reports of Internal Audit

- Monitoring of the effectiveness of the implemented compliance system

- Quarterly reports on risk management and risk management strategy

- Monitoring of the effectiveness of the internal controlling system that has been established

- Dependency Report 2020, review and approval of the Dependency Report 2020

- Corporate development during the year

- The review of the independence of Ernst & Young GmbH and the acting persons, including the additional services provided, and the coordination with the selected auditors Ernst & Young on the focal points of the audit

- Adoption of a resolution regarding the Sustainability Report

- Establishment of an audit and risk committee and determination of its specific structure and work methods

Personnel changes on the Management Board and Supervisory Board

There were no changes in the membership of the Management Board during fiscal year 2021. Members of the Management Board are Messrs Ralph Dommermuth (CEO), Markus Huhn and Alessandro Nava.

There were the following changes in the membership of the Supervisory Board during fiscal year 2021:

Mr Michael Scheeren, Supervisory Board Chairman, resigned from the Supervisory Board on 23 February 2021. We want to express our thanks to him for his work with us, which was at all times pleasant and conducted in an atmosphere of trust, and wish him all the best for his future.

Mr Matthias Baldermann was elected as a new member of the Supervisory Board during the Annual General Meeting on 26 May 2021.

During the period from 23 February 2021 to 25 May 2021, the Supervisory Board consisted of five members. 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 currently consists of six members and corresponds in its competence profile to its previous and current objective; in particular, the memberships of Mr Kurt Dobitsch, Mr Kai-Uwe Ricke and Mr Matthias Baldermann satisfy the requirement of a minimum of two independent members on the Board. The proportion of women on the Supervisory Board in fiscal year 2021 came to 16.66 percent. In the reporting year 2021, the Supervisory Board was chaired by Mr Michael Scheeren (until 23 February 2021) and Mr Kurt Dobitsch (since 16 March 2021); Mr Kai-Uwe Ricke held the position of Deputy Chairman.

During its meeting on 24 March 2021, the Supervisory Board decided to establish an audit and risk committee and determined its specific structure and work methods. The Audit and Risk Committee commenced its activities after the 2021 Annual General Meeting. The Supervisory Board elected Mr Nobert Lang, Mr Kurt Dobitsch and Ms Claudia Borgas-Herold from among its members as members of the Audit and Risk Committee. Mr Norbert Lang was elected chairman.

The committee is in charge of the tendering process for the audit of the financial statements, in particular of compliance with the formal requirements, assessment of the tender offers, participation in the presentation of the candidates and preparation of a proposal to the Supervisory Board.

In terms of content, the Audit and Risk Committee dealt with the topic of the risk report, the report from Internal Audit and the discussion of the financial reports in 2021.

Corporate Governance

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

Pursuant to D. 12 of the German Corporate Governance Code [Deutscher Corporate Governance Kodex; DCGK], the Company is expected to provide reasonable support to the members of the Supervisory Board when they take office and to offer training and advanced education measures.

A successful "onboarding" procedure means providing a new Supervisory Board member with all necessary documents in the form of an introductory, individually compiled information package. In addition, there is an introductory meeting on the most important processes and procedures and individual discussions with the Supervisory Board chairman and CFO in the form of coordination meetings.

Support in the form of training and advanced education measures is guaranteed and ensured in particular through the provision of information material on current topics, both at regular intervals and as required by specific circumstances, and external advanced education events.

In accordance with Recommendation D.13 of the DCGK, 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 last self-assessment was carried out in the period from 19 October 2021 to 31 October 2021 with the following result: In-depth evaluation has determined that the efficiency of the Supervisory Board's activities can be assumed.

Moreover, the assessments are used as a basis for a positive further development of the Supervisory Board's work.

The Supervisory Board did not conduct any talks with investors during the reporting period.

Supervisory Board member Dr Claudia Borgas- Herold is simultaneously a member of the United Internet AG Supervisory Board. No conflict of interest requiring attention has arisen for this Supervisory Board member. 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 07 December 2021, 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 to the statements in the Corporate Governance Statement 2021.

Discussion of separate and consolidated annual financial statements 2021

The separate annual financial statements and the consolidated annual financial statements per 31 December 2021, consolidated management report of 1&1 AG for fiscal year 2021 (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 26 May 2021 for this task, and an unqualified auditor's opinion was issued to the documents.

The separate and consolidated annual financial statements, the Company management report, the group management report and the related audit reports from the auditor were submitted to all of the Supervisory Board members. Focal points of the auditor's engagement were in particular the key audit matters (KAM), which included the following points (among others): for the consolidated annual financial statements, the realisation of earnings, recognition of the costs of obtaining and fulfilling contracts, and the impairment test for goodwill and 5G frequency licences; for the separate annual financial statements of 1&1 AG, the recoverability of the financial assets.

Finally, the concluding documents were examined and discussed during a meeting of the Supervisory Board on 16 March 2022 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 were discussed in detail with the auditor during the Supervisory Board meeting on 16 March 2022. 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 16 March 2022, the Supervisory Board approved the separate annual financial statements and consolidated annual financial statements 2021. The annual financial statements have been adopted pursuant to section 172 AktG. In its meeting on 16 March 2022, the Supervisory Board reviewed and adopted the remuneration report („Vergütungsbericht 2021").

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 2021 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 16 March 2022. 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 commitment to 1&1 Group in the past fiscal year, just as in previous years. Our special thanks go to our customers and shareholders for the trust they have placed in the Company.

Maintal, 16 March 2022

Kurt Dobitsch on behalf of the Supervisory Board

Declaration on Corporate Management

Fundamentals of Corporate Governance

The corporate governance of 1&1 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 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

1&1 Aktiengesellschaft

Declaration of the Management Board and Supervisory Board of 1&1 AG Regarding the Recommendations of the "Government Commission on the German Corporate Governance Code" Pursuant to Section 161 Stock Corporation Act [Aktiengesetz; AktG]

The Management Board and Supervisory Board of 1&1 Aktiengesellschaft declare that 1&1 Aktiengesellschaft has complied with the recommendations of the German Corporate Governance Code ("Code") as last revised on 16 December 2019, on which the last Declaration of Conformity of 24 March 2021 was based, with the declared exceptions, and will continue in future to comply with the recommendations of the Code as most recently revised on 16 December 2019, which became effective upon publication in the Federal Gazette on 20 March 2020, with the following exceptions:

Clauses D.5
Formation of a nomination committees

The Supervisory Board does not form any other committees in addition to the Audit and Risk Committee, but performs all other tasks as a whole. The Supervisory Board considers this to be appropriate, as efficient plenary discussions and an intensive exchange of opinions are possible even with a six-member Supervisory Board. Accordingly, the Supervisory Board sees no need to establish a Nomination Committee.

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

Taking into account the Act Implementing the Second Shareholders' Rights Directive („ARUG II") and the new German Corporate Governance Code ("DCGK"), the Supervisory Board developed and agreed changes to the compensation system for members of the Executive Board.

With the recommendation to the Annual General Meeting in May 2021, the compensation system became the basis for employment contracts with Executive Board members concluded in the future. The remuneration system developed takes into account the recommendations in G.1 up to and including G.5 of the Code without any restrictions. Existing employment contracts with Executive Board members remain unaffected by this, which is why the deviation from the recommendations in G.1 up to and including G.5 of the Code is explained.

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. After 5 years, full exercising of all SARs is possible for the first time.

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 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 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 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 employment contracts of the Management Board members do not contain such provisions. A claw-back clause for the reclaim of variable compensation has been included in the new compensation system and will be taken into account in future employment contracts to be concluded with Executive 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 activities 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 employment 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 employment 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 newly concluded employment contracts of the Management Board members (and any related termination agreements).

Maintal, 07 December 2021

On behalf of the Supervisory Board — The Management Board

Kurt Dobitsch — Ralph Dommermuth, Markus Huhn, Alessandro Nava

Management and corporate structure

As appropriate to its legal form, 1&1 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 2021 (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 AG Management Board consisted of the following three members in fiscal year 2021:

- 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 5 members in fiscal year 2021 in the period from February 23, 2021 to May 25, 2021, and since May 26, 2021, it has consisted of 6 members. 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 last self-assessment was conducted and evaluated in the period from October 19, 2021 to October 31, 2021. The efficiency of the Supervisory Board's activities can be assumed after thorough evaluation.

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 chai red 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 observed in the election of Mr. Matthias Baldermann by the Annual General Meeting on May 26, 2021:

- 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 AG Supervisory Board consisted of the following members in fiscal year 2021:

- **Kurt Dobitsch**
  Chairman of the Supervisory Board since July 2021
  (since October 2017 and Member of the Audit and Risk Committee since May 2021)

- **Kai-Uwe Ricke**
  (since October 2017)
  Deputy Chairman of the Supervisory Board

- **Dr Claudia Borgas-Herold**
  (since January 2018 and Member of the Audit and Risk Committee since May 2021)

- **Vlasios Choulidis**
  (since January 2018)

- **Norbert Lang**
  (since November 2015 and since May 2021 Chairman of the Audit and Risk Committee)

- **Matthias Baldermann**
  (since May 2021)

- **Michael Scheeren**
  (since October 2017 until February 2021)

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 who le, 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 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 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 also provides extensive information on the Company's website (www.1und1.ag). Documents and information about the Company's general meetings as well as other economically relevant information can be found on the site.

1&1 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 2021. 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 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 212 to 239 of the management report. The renumeration report will also be published on the homepage of 1&1 AG at www.1und1.ag/corporate-governance#verguetungsbericht. 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 179 of the notes to the consolidated financial statements. The basic features of the stock option program are described in the remuneration report on page 220. Further details can be found on page 162 et seqq. (point 38) of the notes to the consolidated financial statements.

Consolidated Management Report

1. General Information about the Company and Group

1.1 Business model

1&1 Group

1&1 Group, together with 1&1 Aktiengesellschaft (formerly 1&1 Drillisch Aktiengesellschaft), Maintal, the listed parent company (hereinafter: "1&1 AG" or, along with its subsidiaries, "1&1" or "Group"), is a telecommunications provider that operates solely and exclusively in Germany. Serving more than 15.4 million contracts, 1&1 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 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 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 is currently preparing to construct its own mobile network using the 5G mobile frequencies that were acquired in the auction in 2019.

1&1 – only MBA MVNO on the German mobile market and preparation for its own 5G mobile network

Pursuant to the MBA MVNO agreement concluded with Telefónica in June 2014, Telefónica grants to 1&1 (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 extends to all available technologies, including 5G. At the same time, 1&1 obtains access rights to Telefónica's so-called "Golden Grid Network" 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 customers. Owing to the exercise of the first option to extend the MBA MVNO contract, the contract now runs until 30 June 2025. At the end of this term, 1&1 has the unilateral option of a second five-year extension.

In 2019, 1&1 AG successfully participated in the Federal Network Agency's frequency auction and acquired 5G frequencies in the 2 GHz and 3.6 GHz bandwidths. Subsequently, the development of the Company's own mobile network was set in motion by the conclusion of major contracts with the pertinent advance services providers and equipment outfitters. The operation of its own network will decrease 1&1's dependence on access to external networks in the future, increase its own added value and open up opportunities to develop new business areas.

1&1 AG is the group's holding company

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

1&1 AG

- 1&1 Telecommunication SE
  - 1&1 Telecom Holding GmbH
    - 1&1 Telecom GmbH
  - 1&1 Telecom Sales GmbH
  - 1&1 Telecom Service Montabaur GmbH
  - 1&1 Telecom Service Zweibrücken GmbH
  - 1&1 Logistik GmbH
- Drillisch Online GmbH
  - 1&1 Mobilfunk GmbH (former Drillisch Netz AG)
- IQ-optimize Software AG
- Drillisch Logistik GmbH

Business activities

Chargeable contracts with 15.4 million subscribers make 1&1 one of the leading providers of broadband and mobile services products in Germany.

Company management and Group reporting encompass the segments "Access" and "5G".

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 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. 1&1 has access to Deutsche Telekom's broadband household connections thanks to the agreement concluded with 1&1 Versatel in fiscal year 2021, securing 1&1's participation in Deutsche Telekom's growth plans and considerable potential for future contract growth. 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".

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

On 5 September 2019, 1&1 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'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 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 is a good fit with 1&1'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.

Following 1&1's conclusion of a long-term national roaming agreement with Telefónica Germany in May 2021 that assures us of the resources we require to offer to our customers nationwide reception during the construction phase of our own network infrastructure, we announced our extensive partnership with the Japanese technology group and proven OpenRAN expert Rakuten in August 2021. In cooperation with Rakuten, 1&1 is building Europe's first fully virtualised mobile network based on the innovative OpenRAN technology that will exploit fully the potential of 5G. All 1&1 antennas will be connected to fibre optic lines that will guarantee gigabit speeds. We are realising this project in cooperation with our affiliate 1&1 Versatel, which has one of the largest and most powerful fibre optic transport networks in Germany and will also be in charge of the construction and operation of the 5G data centres. Finally, 1&1 announced its partnership with the first leading radio tower company, Vantage Towers, in December 2021. Cooperative agreements with so-called tower companies give 1& 1 access to thousands of existing antenna masts for the installation of high-performance 5G antennas, enabling construction of the network that will be environmentally friendly and sparing of resources while simultaneously accelerating the rate of expansion.

Major Sites

Location	Major activities	Company
Maintal	Headquarters, IR, accounting, financial controlling, risk management, legal matters, compliance, HR	1&1 AG
	IT	IQ-optimize Software AG
	Accounting, marketing, sales, customer service	Drillisch Online GmbH
Krefeld	Marketing, sales, logistics, customer service, financial controlling, receivables and risk management	Drillisch Online GmbH
	IT	IQ-optimize Software AG
Düsseldorf	Network planning, finances	1&1 AG, 1&1 Mobilfunk GmbH
Munich	Marketing, sales, logistics, sales controlling	Drillisch Online GmbH
Montabaur	Participating interests, finance, human resources, legal matters	1&1 AG
	Finance, accounting, financial controlling, PR, marketing, sales, logistics, customer service	1&1 Telecommunication SE ,1&1 Telecom GmbH, 1&1 Telecom Sales GmbH
	Human resources, legal matters	1&1 AG
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 2021, an average headcount of 3,176 (previous year: 3,177) was employed at 1&1 Group.

1.2 Strategy

The 1&1 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 and steadily rising number of customer relationships also helps the Company to take advantage of so-called scaling effects; the greater the demand from customers for the products, the better fixed costs can be covered and the higher the 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 (especially when based on 5G technology) and high-speed broadband lines along with their related applications represent the growth markets of the coming years. Thanks to its clear positioning on these markets, 1&1, 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 15.4 million subscribers in Germany.

1&1 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'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. The operation of its own 5G mobile network will decrease 1&1's dependence on access to external networks, increase its own added value and open up opportunities to develop new business areas.

While not neglecting organic growth, 1&1 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 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 annually revised strategic planning. 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 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 steering indicators are service revenue, gross profit and the comparable operating consolidated EBITDA based on IFRS (earnings before interest, taxes, depreciation and amortisation, adjusted for extraordinary-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 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 2021 focused on the following areas:

- Increase in surfing speed in the 1&1 all-network flat-rate products with 5G to a maximum of 500 Mbit/s in downloading
- Expansion of our “IPTV application” for smart TVs with new channels and VoD services
- Development of a new smart home app that offers broadband customers the user-friendly monitoring and control of their smart home devices
- Initial regional FTTH marketing campaigns
- Transferring customers to 4G when 3G network technology is discontinued in the Vodafone and Telefónica network
- Introduction of weekly packages in non-EU data roaming for mobile customers

2. Business report

2.1 General economic and industry-related conditions

Development of the overall economy

After the sharp slump in the global economy in 2020 due to the coronavirus pandemic, the figures of the International Monetary Fund (IMF) in its latest economic outlook (World Economic Outlook, Update January 2022) show economic growth again in 2021, which was ultimately higher than expected at the beginning of the year (January Forecast 2021).

Specifically, according to provisional calculations, the IMF has determined a plus of 5.9 percent for the global economy in 2021. Growth was significantly above the previous year's level (-3.1 percent) and at the same time 0.4 percentage points above the original IMF forecast of January 2021 (5.5 percent).

The economic recovery in Germany was slower than expected in 2021. The IMF, for example, projected growth in economic output of 2.7 percent (previous year: -4.6 percent), 0.8 percentage points less than expected at the beginning of the year.

The Fund's calculations for Germany are in line with the provisional calculations of the Federal Statistical Office (Destatis), which – as noted during the press conference "Gross Domestic Product 2021" on 14 January 2022 – concluded that (price-adjusted) gross domestic product (GDP) rose by 2.7 percent in 2021 (previous year: -4.6 percent). After the collapse of GDP because of the coronavirus pandemic in 2020, the Federal Statistical Office had also assumed stronger growth and a faster recovery at the beginning of 2021. However, supply bottlenecks, higher prices for raw materials and energy and the generally high inflation turned into economic burdens on companies and consumers. The third and fourth coronavirus waves with rising incidence numbers also dampened trade, tourism and the restaurant business, preventing the expected faster recovery.

Changes in growth forecasts during 2021

	January Forecast 2021	April Forecast 2021	July Forecast 2021	October Forecast 2021	Actual 2021	Deviation from January forecast
World	5.5 %	6.0 %	6.0 %	5.9 %	5.9 %	+ 0.4 percentage points
Germany	3.5 %	3.6 %	3.6 %	3.1 %	2.7 %	- 0.8 percentage points

Source: International Monetary Fund, World Economic Outlook (Update), January 2022

Multi-period overview: GDP development

	2017	2018	2019	2020	2021
World	3.7 %	3.6 %	2.8 %	- 3.1 %	5.9 %
Germany	2.5 %	1.5 %	0.6 %	- 4.6 %	2.7 %

Source: International Monetary Fund, World Economic Outlook (Update), January 2022

Development of the industry/core markets

As announced during its annual press conference on 11 January 2022, the industry association Bitkom presumed growth for the German ICT market of 3.9 percent (previous year: 0.6 percent) to €178.4 billion in 2021. At the beginning of 2021, the association had assumed revenue growth of 2.7 percent.

The rise in the overall ICT market is due in particular to strong revenue increases in information technology. According to the BITKOM forecast 2021, revenues in this largest submarket rose by 6.3 percent (previous year: 1.3 percent) to €102.5 billion, a significant change from the growth of 4.2 percent projected at the beginning of the year. Developments in all segments of the submarket were clearly positively, especially in the IT hardware and software segments. IT hardware grew by 8.3 percent (previous year: 3.1 percent), software by 8.0 percent (previous year: 5.1 percent) and IT services by 3.7 percent (previous year: -2.4 percent).

The ICT submarket telecommunications also posted positive development. The industry association expects this core market, which is relevant for 1&1, to increase by 1.2 percent (previous year: -1.1 percent) to €66.7 billion, although expectations at the beginning of the year were for growth of 1.0 percent. The various segments of the telecommunications market developed quite differently. Telecommunications services grew by 1.7 percent (previous year: -1.9 percent) and devices by 0.2 percent (previous year: 3.0 percent) while the infrastructure business declined by -0.9 percent (previous year: -2.1 percent).

(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 1.2 million new lines (3.3 percent) to 37.4 million in 2021 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 23. TK-Marktanalyse Deutschland 2021 [23rd TC Market Analysis Germany 2021] (October 2021). Of the growth described above, the lines relevant for 1&1 in the two technology sectors DSL and FTTB/FTTH rose by 0.3 million to 25.9 million and by 0.6 million to 2.5 million, respectively. The number of cable connections rose by 0.3 million to 9.0 million. The number of lines in Germany still operated via satellite/powerline is below 50,000.

Revenues generated in the landline business of €33.0 billion were higher by 1.2 percent in 2021 than the previous year's level (€32.6 billion). These revenue figures include inter alia revenues for advance services, interconnection and devices 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 30.2 percent to 230.7 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 3.5 percentage points from 48.9 percent in the previous year to 52.4 percent in 2021. Landlines with download speeds of at least 1 Gbit/s almost doubled to a share of 5.3 percent (of all broadband lines).

Key market figures: landlines in Germany

	2021	2020	Change
Landline revenues (in €bn)	33.0	32.6	+ 1.2 %

Source: Dialogue Consult/VATM, TK-Marktanalyse Deutschland 2021, October 2021

Mobile internet market in Germany

According to estimates from Dialog Consult/VATM, the number of active SIM cards on the German mobile market has increased by 7.8 million (5.2 percent) to 157.8 million in 2021. The growth is also a result of 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 4.1 million to 40.2 million. The number of personal SIM cards rose by 3.7 million to 117.6 million.

Revenues for mobile services increased at the same time by 0.8 percent to €26.1 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 26.5 percent to 3.27 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. Commensurate with this growing data use, the number of (personal) SIM cards suitable for the faster 4G/5G networks also increased by 16.7 million to 86.6 million while the number of 2G/3G SIM cards declined by 13.0 million to 31.0 million.

Key market figures: mobile services in Germany

	2021	2020	Change
Mobile revenues (in €bn)	26.1	25.9	+ 0.8 %

Source: Dialogue Consult/VATM, TK-Marktanalyse Deutschland 2021, October 2021

General legal conditions/Major events

Amendment of the Telecommunications Act

The updated Telecommunications Act [*Telekommunikationsgesetz; TKG*] entered into force on 1 December 2021. The TKG amendment transposes Directive (EU) 2018/1972 of 11 December 2018 on the European Electronic Communications Code into national law.

The focus of the revised legislation is on the faster expansion of FTTH and mobile networks and on consumer protection. For the first time, lawmakers have anchored in law citizens' right to fast internet and encouraged a faster expansion of the networks by introducing new framework conditions and simplified approval procedures. In the interest of consumer protection, the contract terms in particular were regulated; contracts can now be terminated at any time with one month's notice after expiry of the minimum contract term unless an extension of the contract has been actively requested.

For 1&1, the legal changes result in both opportunities and risks. Improved speed of FTTH coverage or mobile access for citizens offers potential for customer growth. The simplified opportunities to terminate contracts offer to all market participants opportunities for growth, but entail as well the risk of losing customers more quickly. The concrete effects for individual market participants are not foreseeable at present.

The other aspects of the legal framework for 1&1's business activities remained essentially unchanged in fiscal year 2021 compared to the previous year.

National roaming agreement

On 21 May 2021, 1&1 was able to conclude a long-term national roaming agreement with Telefónica, a step that created another essential prerequisite for the network rollout. The national roaming agreement has an initial term until 30 June 2025 that 1&1 can renew unilaterally until 30 June 2029; after this time, a further renewal of a maximum of five years is possible by negotiation. Thanks to this agreement and the MBA MVNO agreement, 1&1 secures long-term access to the Telefónica mobile network and guarantees seamless mobile services coverage during the rollout phase of its own nationwide network.

The national roaming agreement provides for annually decreasing prices that are determined according to set rules in the first renewal option until June 2029. After that time, Telefónica remains obligated to offer non-discriminatory prices. These advance services terms and conditions are again based on comparable pricing mechanisms as was the case during the first five years of the MBA MVNO contract. In future, 1&1 will be able to reduce or increase the required capacities several times a year within contractually defined bandwidths.

The prices agreed in the national roaming agreement will apply retroactively as well to the current MBA MVNO agreement from July 2020. In particular, it again provides for annual decreases in data prices that are lower than the prices that have been billed since July 2020 The result of the retroactive adjustment of the advance services prices since July 2020 can be seen in the positive effect on earnings of €39.4 million that is attributable to the second half of fiscal year 2020.

The national roaming agreement represented the achievement of another milestone on the way to the Company's own 5G mobile network as it ensures the necessary nationwide mobile coverage for 1&1 customers during the rollout phase of the Company's own network secured by sharing the Telefónica network.

General contractor agreement with Japanese technology expert Rakuten

In August 2021, 1&1 announced a far-reaching partnership with Rakuten, a Japanese technology group and proven OpenRAN expert. 1&1, the newcomer and fourth network operator in Germany, will be joined by Rakuten acting as the general contractor to build Europe's first fully virtualised mobile network based on the new OpenRAN technology – moving away from traditional proprietary networks, which are often provided in their entirety by a single network outfitter, towards a fully cloud-based, non-proprietary network architecture that exploits the potential of 5G to the full. Specifically, Rakuten will handle the installation of the active network equipment and will also be in charge of the overall performance of the 1&1 mobile network. 1&1 will have access to the Rakuten Communications Platform (RCP) with its access, core, cloud and operational solutions as well as Rakuten's partner network. Rakuten will also provide its specially developed orchestration software so that operation of the 1&1 network can be highly automated. Rakuten, a newcomer in Japan, has been successfully rolling out the world's first OpenRAN mobile network since April 2020.

Agreement on the provision of passive infrastructure

On 9 December 2021, 1&1 and Vantage Towers AG, one of Europe's leading radio tower infrastructure companies, signed a long-term contract to provide a maximum of 5,000 antenna sites across Germany. Vantage Towers is one of the largest radio mast owners in Germany. As such, the company will be of key importance for the provision of the passive network infrastructure in the 1&1 mobile network. The conclusion of this contract secures 1&1's access to several thousand existing radio masts of Vantage Towers and to additional antenna sites that will be constructed. Specifically, the joint use of 3,800 roof and mast locations until the end of 2025 has been agreed. In addition, there is a potential expansion to as many as 5,000 locations.

Moreover, Vantage Towers is in charge of the installation of 1&1's high-performance 5G antennas on its radio masts and the provision of services relating to approval procedures, construction preparation and construction of new antenna sites. The terms of the site leases is at least 20 years and 1&1 has a number of options for extensions.

Cooperation with 1&1 Versatel for connection of the 5G antennas

In a parallel action, a contract was concluded between 1&1 Mobilfunk GmbH and 1&1 Versatel GmbH governing their collaboration during the construction and operation of 1&1's completely virtualised mobile network based on the new OpenRAN technology. All 1&1 antennas of the planned 1&1 5G mobile network will be connected to fibre optic lines. Four central data centres are planned for the core network; more than five hundred local data centres, to which the antenna locations will be tied, will be built and connected to the central locations. This architecture offers the extremely short transmission paths that are indispensable for real-time applications.

Among other elements, the intercompany contract regulates the leasing of the access network (especially fibre optic lines) and data centres for the operation of the 1&1 mobile network provided by 1&1 Versatel. The contract has an initial term until the end of 2050 and can be terminated prematurely for good cause under certain conditions.

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

1&1 announced in its business report 2020 that it had 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. The contract represents an expansion of the optic fibre services offered by 1&1, which has obtained all FTTH/VDSL advance services from 1&1 Versatel since then.

The advance services contract covering VDSL advance services only that had previously been concluded between 1&1 and Deutsche Telekom with a term until 31 March 2024 was prematurely terminated by mutual agreement of the parties. As a result of the revision of the term of the contract, the item of prepaid expenses for VDSL existing customer allotments still available in the amount of €129.9 million was reversed. The derecognition led to a drop in earnings in fiscal year 2020.

Coronavirus pandemic

The coronavirus pandemic was the dominant topic in 2021, just as it had been in 2020. Once again, the business activities of 1&1 were affected.

The consequences of the coronavirus pandemic have an impact on the use behaviour of our customers, especially as a result of the travel restrictions and the extensive regulations for working from home. In fiscal year 2021, the first half of the year and the fourth quarter in particular were hampered by the restrictive measures. In Q3 2021, relaxed travel regulations in particular led to a slight easing of the tense situation so that the constraints, when viewed over the year as a whole, are comparable to those of the previous year. As in the previous year, 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 2021.

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, comparable operating EBITDA, 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's business development.

These performance indicators as used at 1&1 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.

- Comparable operating EBITDA: EBITDA adjusted for significant extraordinary effects. Extraordinary effects are any effects that make comparability with the previous year difficult, especially material effects unrelated to the accounting period.

- 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

1&1 published the forecast for fiscal year 2021 as part of its 2020 annual financial statements. During the year, figures were corrected for greater precision as shown below:

	Actual 2020	Forecast 2021 (March 2021)	Increase[2] (August 2021)	Actual 2021
Service revenues	€3,020.0m	€3,100.0m	Unchanged compared to March	€3,123.4m
EBITDA[1]	€468.5m	approximately €650.0m	approximately €670.0 m	€671.9m

(1) EBITDA forecast for fiscal year 2021 excluding the out-of-period income of €39.4 million related to the signing of the national roaming agreement.

(2) Increase based on actual course of business.

Actual course of business – 1&1

The number of chargeable contracts in the segment "Access" rose by 0.60 million to 15.43 million contracts in fiscal year 2021. In the mobile internet business, it was possible to acquire 0.67 million customer contracts, raising the number of contracts to 11.19 million. Broadband lines declined by 70,000 contracts to 4.24 million.

Revenues in the "Access" segment increased by €122.9 million (3.2 percent) to €3,909.7 million (2020: €3,786.8 million), and the high-margin service revenues included in this line item rose by 3.4 percent to €3,123.4 million (2020: €3,020.0 million). Fiscal year 2021 continued to be impacted by the effects of the coronavirus pandemic. The situation also affects the use behaviour of our customers, especially as a result of the travel restrictions and the extensive regulations for working from home. The negative impact on our revenue and earnings figures was at a level comparable to the previous year.

Whether and to what extent the use behaviour of customers will return to normal after the complete lifting of the restrictions in Germany is currently not foreseeable. The assumption, however, is still that normalisation will be slow and proceed one step at a time.

The EBITDA in the group rose from €468.5 million in the previous year to €711.3 million, The EBITDA includes positive effects of €39.4 million for the retroactive change in prices to be charged pursuant to the MBA MVNO agreement in fiscal year 2020. In addition, EBITDA for fiscal year 2020 was reduced by €129.9 million owing to the derecognition of prepaid expenses as a consequence of the new FTTH/VDSL agreement.

Adjusted for these special effects, the comparable operating EBITDA amounts to €671.9 million (previous year: €637.8 million).

Forecast course of business – 1&1 AG

The Management Board expected sales revenues for 1&1 AG in 2021 at the level of the separate financial statements to be of roughly the same magnitude as in fiscal year 2020, accompanied by a substantial improvement in the profit for the year.

Actual course of business – 1&1 AG

As it is the holding company within 1&1 Group, 1&1 AG's earnings are highly dependent on the development of the operating results of the subsidiaries. Sales revenues from intercompany services amount to €3.0 million (previous year: €2.3 million). Other operating expenses decreased from €13.8 million to €7.4 million. Since fiscal year 2021, the costs for the construction and operation of the 5G mobile network have been recognised in the subsidiary 1&1 Mobilfunk GmbH, whereas in the previous year these activities were still partly performed by 1&1 AG, increasing 1&1 AG's other operating expenses.

Income from profit and loss transfer agreements amounts to €549.6 million (previous year: €256.7 million), In the previous year, the contributions to earnings of the operating subsidiaries 1&1 Telekom GmbH and Drillisch Online GmbH were reduced by one-off effects (derecognition of a deferred item and increased costs for purchased mobile advance services). In addition to the non-period income of 39.4 million euros recognised in fiscal year 2021, the improvement is also due to the positive development of the contract figures and the operating results of the companies.

Profit for the year amounts to €364.8 million (previous year: €159.7 million). The expectation of a significantly improved profit for the year expressed in the previous year's forecast report has been confirmed.

Segment development

Segment "Access"

The Group's chargeable mobile 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 operates exclusively in Germany and its 15.4 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 2021, 1&1 again invested in the acquisition of new customers and in the retention of current customer relationships. Focus of activities has been on the marketing of mobile internet contracts.

The number of chargeable contracts in the segment "Access" rose in the current product lines by 0.60 million to 15.4 million contracts in fiscal year 2021. In the mobile internet business, it was possible to acquire 0.67 million customer contracts, raising the number of contracts to 11.19 million. Broadband lines declined by 70,000 contracts to 4.24 million.

Development of Access contracts in fiscal year 2021 (in millions)

	31/12/2021	31/12/2020	Change
Access, total contracts	15.43	14.83	+ 0.60
of which mobile internet	11.19	10.52	+ 0.67
of which broadband lines	4.24	4.31	- 0.07

Development of Access contracts in Q4 2021 (in millions)

	31/12/2021	30/09/2021	Change
Access, total contracts	15.43	15.27	+ 0.16
of which mobile internet	11.19	11.01	+ 0.18
of which broadband lines	4.24	4.26	- 0.02

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.

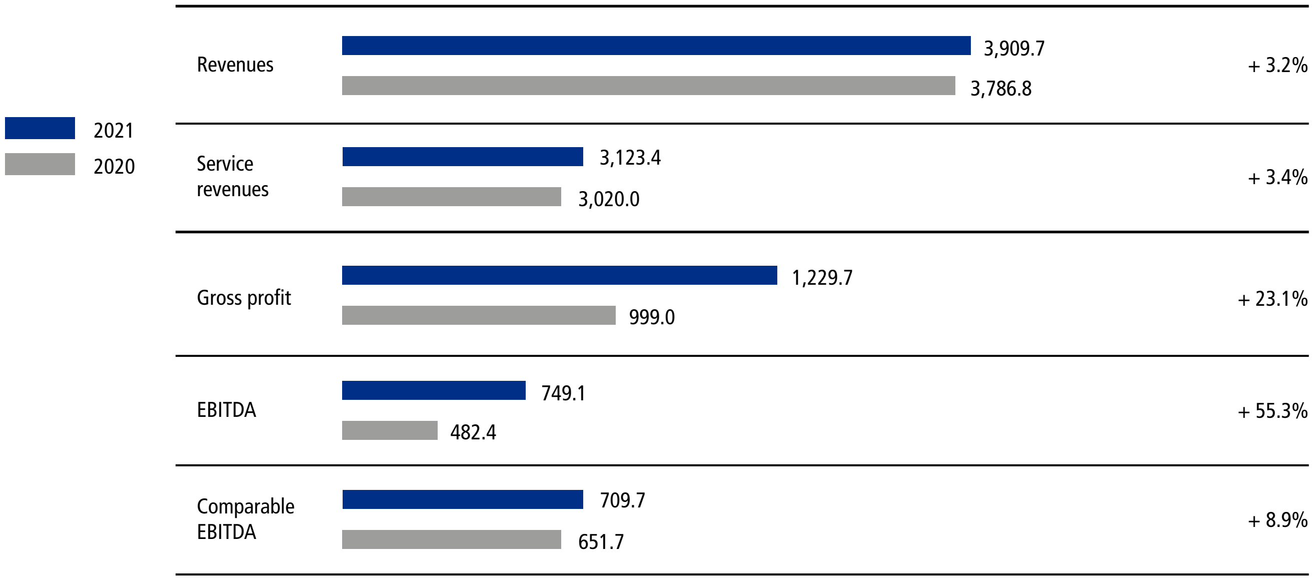
Revenues in the "Access" segment increased by €122.9 million (3.2 percent) to €3,909.7 million (previous year: €3,786.8 million), and the high-margin service revenues included in this line item rose by 3.4 percent to €3,123.4 million (previous year: €3,020.0 million). In the segment "Access", the cost of materials declined by €107.8 million to €2,680.0 million (previous year: €2,787.8 million). The gross profit in the "Access" segment increased from €999.0 million to €1,229.7 million.

Adjusted for the special effects of €39.4 million for the retroactive change in the prices to be charged under the MBA MVNO agreement in fiscal year 2020 and the derecognition of prepaid expenses resulting from the new FTTH/VDSL agreement (€129.9 million) in fiscal year 2020, a comparable operating gross profit of €1,190.3 million results in fiscal year 2021 compared to €1,168.3 million in the previous year.

The year 2021 continued to be impacted by the coronavirus pandemic. The situation also affects the use behaviour of our customers, especially as a result of the travel restrictions and the extensive regulations for working from home. The negative effects on our revenue and earnings figures were essentially unchanged in comparison with the previous year.

Segment EBITDA is €749.1 million (previous year: €482.4 million). Adjusted for the special effects, comparable operating EBITDA in 2021 would be €709.7 million, 8.9 percent above the previous year's level (comparable operating EBITDA 2020: €651.7 million).

Major revenue and profit indicators in the segment “Access”



“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 network are disclosed in the segment “5G”. Fiscal year 2021 was characterised by negotiations with the primary upstream providers and partners for the construction of the network infrastructure. A long-term national roaming agreement was reached, a strong technology partner in Rakuten was acquired as general contractor for the construction of the Company’s own 5G network and contracts were concluded with Vantage Tower for the leasing of the passive infrastructure. For a detailed description of the contracts, please refer to the section “Legal framework/ Significant events”.

The EBITDA in the “5G” segment in the amount of €-37.9 million (previous year: €-13.9 million) includes (unchanged) solely costs related to the preparations and realisation of the future construction and operation of the Company’s own 5G mobile network. In addition to our own planning activities, this includes successful contract negotiations with our partners. Initial costs from the cooperation with our partner Rakuten for the preparatory activities for the construction of our 5G mobile network were also incurred for the first time in fiscal year 2021. They include both network components that must be capitalised and costs for preparatory and planning activities that lower the segment result. Following the conclusion of the national roaming agreement, we were able to intensify our preparations for the construction of the mobile network, which is reflected in the worsening of results compared to the previous year. As in the previous year, no revenues were realised in the “5G” segment.

2.3 Position of the Group

Earnings position in the group

1&1 Group continued to grow in a highly competitive market environment in fiscal year 2021. 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 4.0 percent to 15.4 million contracts.

Sales revenues rose by 3.2 percent from €3,786.8 million in the previous year to €3,909.7 million in fiscal year 2021. Of this revenue increase, €103.4 million is attributable to service revenues and €19.5 million to other revenues.

Service revenues, which result essentially from the billing of current customer relationships, increased by 3.4 percent to €3,123.4 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 2.5 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.

Just as in the previous year, the consequences of the coronavirus pandemic had a negative impact on revenue development. In particular, the significantly reduced travel behaviour of customers because of travel restrictions is having a negative impact on revenue development because of a lack of international roaming revenues. The negative impact of the coronavirus pandemic is at the previous year's level.

Despite rising revenues, the cost of sales in 2021 declined by €171.9 million (6.0 percent) to €2,709.9 million (previous year: €2,881.8 million). The gross margin, 23.9 percent in the previous year, came to 30.7 percent. Gross profit increased by €294.8 million from €905.0 million in the previous year to €1,199.8 million. The reduction in the gross margin resulted in particular from the derecognition of prepaid expenses related to the premature termination of the VDSL advance services contract (€129.9 million) and to the increased costs for procured mobile advance services since the middle of the year. Positive effects of €39.4 million from retroactive change in prices to be charged pursuant to the MBA MVNO agreement in fiscal year 2020 were a consequence of the conclusion of the national roaming agreement. Furthermore, since the conclusion of the national roaming agreement, 1&1 has been entitled to reduce or increase the advance services capacities that were ordered within contractually defined bandwidths, which has had a positive effect on the cost of sales.

Distribution costs increased by €34.2 million to €476.5 million (previous year: €442.3 million). This was due in particular to targeted investments in our 1&1 brand in the form of increased marketing activities and the sponsorship agreement with Borussia Dortmund (since July 2020). In relation to revenue, distribution costs in 2021 amounted to 12.2 percent (previous year: 11.7 percent). Administration costs rose from €99.4 million in the previous year (2.6 percent of revenue) to €126.1 million (3.2 percent of revenue). The increase in administration costs relates to €24.0 million in higher costs incurred for the preparation and future construction and operation of the Company's own 5G mobile network.

The other result from other operating expenses of €1.8 million (previous year: €1.7 million) and other operating income of €29.7 million (previous year: €33.9 million) is lower than the other result from the previous year. Impairment losses from financial assets declined from €82.3 million in the previous year to €78.4 million in fiscal year 2021. In the course of procedural changes during the year, the dunning fees were partially reduced, which leads to lower other income on the one side and equally reduced impairments on receivables on the other, meaning there is no effect on earnings.

The EBITDA in 2021 amounted to €711.3 million (previous year: €468.5 million). The causes for the rise are in particular the derecognition of prepaid expenses as a result of the early termination of the VDSL advance services contract (€129.9 million) in the previous year as well as the retroactive adjustment of advance services prices from fiscal year 2020 in the amount of €39.4 million. The comparable operating EBITDA comes to €671.9 million (previous year: €637.8 million).

The EBITDA includes costs related to planning and preparations for our 5G mobile network of €-37.9 million (previous year: €-13.9 million).

The EBITDA margin came to 18.2 percent (previous year: 12.4 percent). The comparable operating EBITDA margin was 17.2 percent (previous year: 16.8 percent).

Earnings before interest and taxes (EBIT) in 2021 amounted to €546.7 million (previous year: €313.1 million). The EBIT margin came to 14.0 percent (previous year: 8.3 percent). The effects of PPA write-offs continue to weigh on the result. Excluding the effects from these write-offs, the EBIT amounted to €634.3 million and the EBIT margin to 16.2 percent (previous year: €411.2 million and 10.9 percent, respectively). Adjusted for the special effects described above, the comparable operating EBIT amounts to €507.3 million (previous year: €482.4 million) and the comparable operating EBIT without the PPA amortisation amounts to €594.9 million (previous year: €580.6 million).

Financing expenses in 2021 amounted to €13.0 million (previous year: €1.6 million). Financing expenses in fiscal year 2021 include expenses similar to interest incurred because of the acquisition of the 5G frequencies. 1&1 has agreed with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) to pay the costs of the acquired 5G frequencies in twelve annual instalments. In return for the deferral, 1&1 has committed to building hundreds of mobile sites in so-called „white spots", giving the investment costs a character similar to interest. The share of the total investment amount attributable to fiscal year 2021 is €11.0 million.

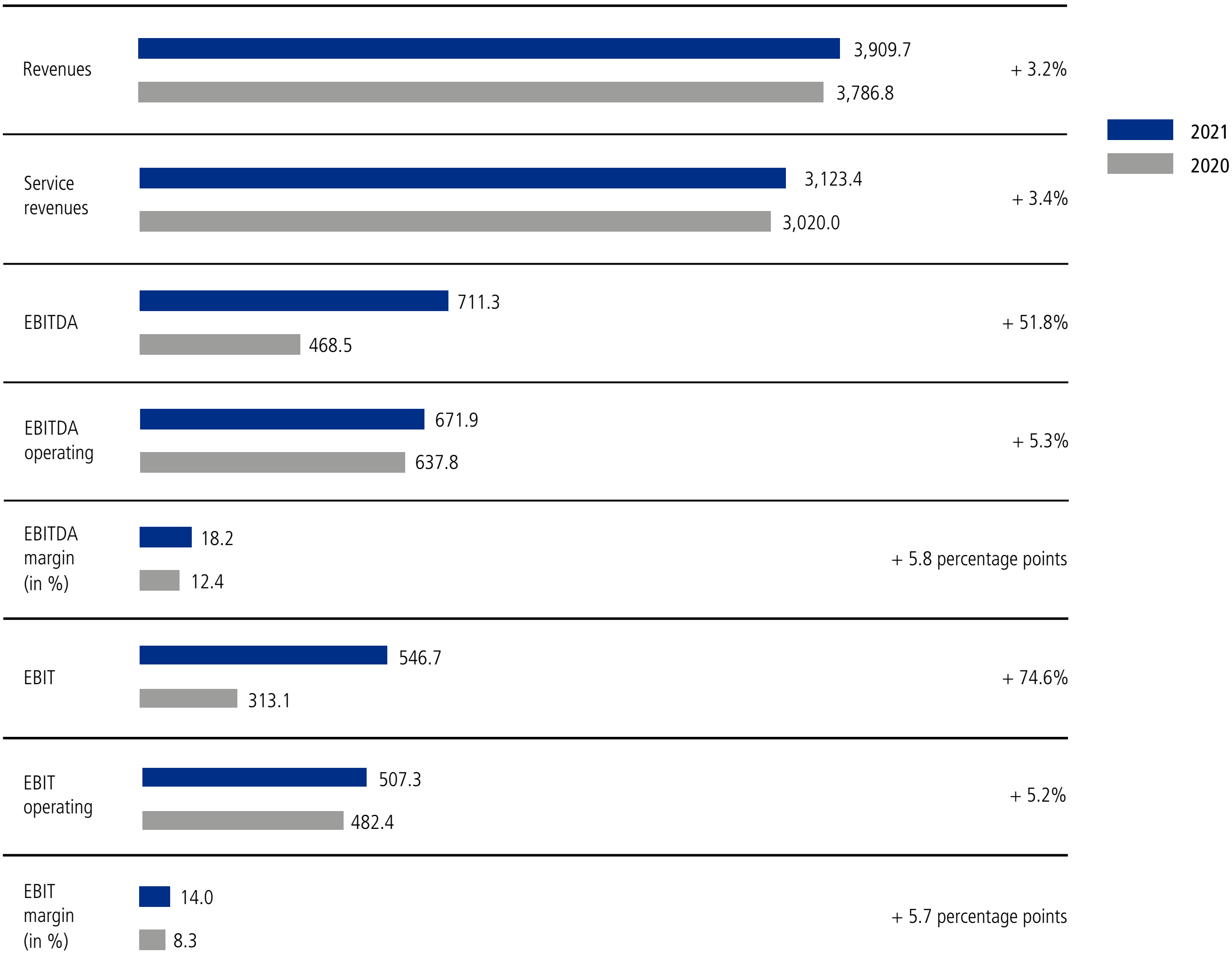
Financial income in 2021 amounted to €1.4 million (previous year: €1.1 million).

Earnings before taxes (EBT) in 2021 amounted to €535.1 million (previous year: €312.6 million). Comparable operating EBT was €495.7 million (previous year: €482.0 million). Tax expenses amounted to €165.1 million (previous year: €93.0 million), a tax rate of 30.9 percent (previous year: 29.7 percent).

Consolidated earnings amounted to €370.0 million (previous year: €219.6 million).

Undiluted profit per share in 2021 came to €2.10 (previous year: €1.25). Excluding the effects of the PPA write-offs, the undiluted profit per share in 2021 amounted to €2.45 (previous year: €1.64).

Major revenue and profit indicators (in €m)



Financial position in the group

Cash flow from operating activities amounted to €523.8 million in 2021, slightly above the previous year's figure of €511.3 million. Net inflow of funds from operating activities sank from €450.7 million in the previous year to €432.0 million. The cause for this decline is the advance payments made for the FTTH/VDSL allotment contract, which has been in effect since April 2021, in the amount of €213.4 million. Furthermore, rising hardware sales result in an increased commitment of funds, which are repaid over the term of the contracts, in the contract assets. However, the impact of liquidity tied up in contract assets decreased compared to the previous year. In addition, there was an increase in funds tied up in working capital, in particular due to an earlier receipt of an invoice for procurement of advance services.

Cash flow from investing activities includes in particular payments for investments in intangible and tangible assets of €37.4 million (previous year: €207.2 million) and the investment of free cash and cash equivalents of €313.0 million (previous year: €190.0 million). They relate to the short-term investment of free cash with United Internet AG. The investment cash flow of the previous year included the contractual one-off payment of €165.0 million related to the extension of the MBA MVNO contract.

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 €394.8 million in 2021 (previous year: €243.7 million). Adjusted for the one-off payment related to the extension of the MBA MVNO contract, the previous year's cash flow amounts to €408.7 million. The free cash flow of fiscal year 2021 is 3.4 percent below the free cash flow of the previous year adjusted for one-off effects resulting in particular from the advance services payments made as part of the FTTH/VDSL contract.

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 2021 amounted to €4.6 million (previous year: €4.4 million).

Assets and liabilities in the group

The balance sheet total increased from €6,690.3 million per 31 December 2020 to €7,063.7 million per 31 December 2021. On the assets side, current assets accounted for €345.5 million and fixed assets for €27.9 million of the increase.

At €4.6 million, cash and cash equivalents are essentially at the previous year's level of €4.4 million. Trade receivables increased by 6.7 percent over the previous year to €248.1 million. The change results in particular from the increased sales revenues and the increase in the VAT rate at the beginning of 2021.

The increase in current assets in the amount of €317.2 million is attributable primarily to accounts due from associated companies. The development results from the investment of free liquidity at United Internet AG, which increased by €313.0 million from €400.0 million to €713.0 million. Inventories increased to €96.5 million (previous year: €85.4 million), mainly as a result of the price development for hardware. The short-term contract assets include in particular receivables from the sale of hardware. The increase of €44.3 million is due above all to the increase in hardware sales, which are recognised as soon as contracts are concluded while the repayment is usually made over the terms of the contracts.

Prepaid expenses and the other financial assets are essentially at the same level as the previous year. The decrease in other non-financial assets by €40.5 million compared to the previous year results in particular from the reimbursement of tax receivables.

Fixed assets increased by €27.9 million to €5,164.9 million. The increase in tangible assets by €20.2 million results in particular from rights of use for rented office space and the investments made in the 5G mobile network. The reduction of €131.8 million in intangible assets compared to the previous year is primarily the result of scheduled amortisation on the assets identified as part of the 1&1 purchase price allocation. Goodwill remains unchanged from the previous year at €2,932.9 million. Long-term contract assets increased by €9.6 million in line with the development of revenues.

Long-term prepaid expenses increased from €130.0 million to €272.7 million. The change is related above all to the long-term prepayment on FTTH and VDSL allotments pursuant to the new agreement with 1&1 Versatel for the procurement of broadband advance services.

On the equity and liabilities side, €81.4 million of the increase in the balance sheet total is attributable to short-term liabilities and €365.4 million to equity. Long-term liabilities declined from €1,262.0 million in the previous year to €1,188.5 million.

Trade accounts payable fell from €319.9 million to €262.6 million. The cause for this is in particular the changed VAT regulations for telecommunication services, according to which 1&1 has to pay the VAT for purchased telecommunication services itself. The corresponding increase in other non-financial liabilities relates mainly to VAT that must be paid.

Liabilities to related parties relate to companies of the United Internet Group and amount to €85.2 million (prior year: €55.8 million). The increase is due to the later settlement of intra-group advance services payments and other service charges.

Current other financial liabilities increased by €14.5 million to €120.8 million. The change is due mainly to an increase in liabilities from marketing activities.

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.

The non-current other financial liabilities decreased by €56.5 million, which essentially resulted from the repayment of the frequency liability in the amount of €61.3 million.

Deferred tax liabilities fell by €14.6 million from €234.0 million per 31 December 2020 to €219.4 million per 31 December 2021. The long-term contract liabilities in the amount of €7.4 million (previous year: €6.9 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 €4,853.8 million per 31 December 2020 to €5,219.2 million per 31 December 2021. Following the disbursement of dividends of €8.8 million, the increase in equity by €365.4 million results in particular from the consolidated profit of €370.0 million.

In addition, shares of treasury stock were issued or sold in fiscal year 2021, which increased equity by €0.9 million. The treasury stock was issued to a senior employee on the occasion of his departure from the Company and his having achieved predefined targets.

The equity ratio rose from 72.5 percent in the previous year to 73.9 percent per 31 December 2021.

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 AG.

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

In the view of the 1&1 Management Board, the overall course of business in fiscal year 2021 was positive. The market environment remains challenging because of the continuing rise in competitive pressure, and the ongoing coronavirus pandemic has continued to be an impediment to economic growth. Despite these conditions, 1&1 was able to hold its own against competitors and to record an increase in its customer contracts of 0.6 million to 15.43 million. Service revenues increased beyond expectations by 3.4 percent to €3,123.4 million. Comparable operating EBITDA increased by €34.1 million to €671.9 million.

1&1's financial position was also positive in fiscal year 2021. Despite the advance payments pursuant to the FTTH/VDSL advance services contract, free cash flow is at a high level of €394.8 million.

The successful conclusion of contracts with our partners for the construction and operation of our 5G mobile network, the growth of our customer base and the targeted investments in our brands also broadened the foundations for sustainable growth in fiscal year 2021.

Overall, the Management Board regards 1&1 Group to be in an excellent position for its continued corporate development, both per the closing date of fiscal year 2021 and 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 position of 1&1 AG

At the level of the annual financial statements of 1&1 AG, sales revenues rose to €3.0 million (previous year: €2.3 million). The sales revenues result largely from intercompany services. Other operating income fell slightly compared to the previous year to €0.7 million (previous year: €1.0 million).

The increase in personnel expenses by €1.8 million to €5.3 million results in particular from the increase of €1.1 million in expenditures for allocated stock options.

Other operating expenses show a decrease of €6.4 million to €7.4 million (previous year: €13.8 million). Consulting costs incurred for the construction of our 5G mobile network were partially incurred by 1&1 AG in the previous year. In fiscal year 2021, these consulting services were utilised almost exclusively by the subsidiary 1&1 Mobilfunk GmbH, leading to declining expenses at 1&1 AG. In addition, there is a decrease in the separate value allowances of receivables as well as the CIC contributions.

The balance of income and expenses from profit and loss transfer agreements at €549.6 million is €292.9 million above the previous year's value (previous year: €256.7 million). In the previous year, the contributions to earnings of the operating subsidiaries 1&1 Telekom GmbH and Drillisch Online GmbH were reduced by one-off effects (derecognition of a deferred item and increased costs for purchased mobile advance services). In addition to the non-period income of 39.4 million euros recognised in fiscal year 2021, the improvement is also due to the positive development of the contract figures and the operating results of the companies.

Interest income amounts to €4.1 million (previous year: €5.8 million) and results primarily from interest income within the framework of group-wide cash management. Interest expenses remain unchanged at €0.4 million (previous year: €0.4 million) and include interest expenses within the framework of group-wide cash management.

The deduction of taxes on income of €179.3 million (previous year: €88.4 million) leaves a profit for the year of €364.8 million (previous year: €159.7 million).

Assets, liabilities and financial position

The balance sheet total for 1&1 AG rose by €353.3 million to €7,612.5 million in fiscal year 2021 (previous year: €7,259.2 million). Fixed assets, which consist almost entirely of shares in affiliated companies, are unchanged from the previous year at €6,496.7 million.

The increase in the balance sheet total on the assets side of €353.3 million is attributable in particular to current assets, above all to €399.2 million in accounts due from associated companies, which increased to €1,109.0 million (previous year: €709.8 million). This is due above all to the short-term investment of free cash and cash equivalents at United Internet AG (€713.0 million, previous year: €400.0 million) and to increased receivables from profit and loss transfer agreements compared to the previous year.

The liquidity of 1&1 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 AG and United Internet AG in fiscal year 2018, 1&1 can draw on a maximum of €200.0 million in cash from United Internet AG, securing 1&1's financing capability.

Other assets decreased from €48.1 million in the previous year to €2.5 million and essentially relate to the decrease in tax refund claims from the previous year.

Cash and cash equivalents amount to €3.3 million, down from €3.4 million in the previous year.

In comparison with the previous year, equity rose by a total of €356.9 million to €7,448.1 million (previous year: €7,091.2 million). The change results from the profit for the year of €364.8 million and the disbursement of dividends in the amount of €8.8 million. In addition, treasury shares were issued to a senior employee on the occasion of his departure from the Company and his having achieved predefined target figures, which increased equity by €0.9 million. An equity ratio of 97.8 percent (previous year: 97.7 percent) means that almost all assets continue to be financed by equity.

Tax provisions amount to €41.9 million per 31 December 2021 (previous year: €25.3 million). At €4.2 million (previous year: €2.0 million), other provisions are above the previous year's figure. The increase is due in particular to the increased provisions within the framework of the stock option programme.

The decrease in liabilities from €140.7 million to €118.2 million comes in particular from a decline by €84.6 million to €16.2 million (previous year: €100.8 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 Group. Other liabilities, which relate essentially to VAT liabilities, amount to €84.8 million (previous year: €14.4 million).

As in the previous year, there was a surplus of deferred tax assets in fiscal year 2021 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 significant improvement in the profit for the year from €159.7 million to €364.8 million is in line with the forecast for fiscal year 2021 made in the previous year's report. The Management Board is highly satisfied with the fiscal year, in particular due to the positive operational development of the subsidiaries, above all in terms of contract growth and profit for the year as well as the important steps taken to develop and operate the 5G mobile network.

Overall, the Management Board regards 1&1 AG to be in an excellent position for its continued corporate development, both per the closing date of fiscal year 2021 and 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 and is optimistic in its outlook for the future.

In view of the additional investments that will be still be required for the construction and expansion of the Company's own 5G mobile network, the 1&1 AG Management Board is submitting the following dividend proposal (which is in harmony with the dividend policy) for fiscal year 2021 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) AktG. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2021.

Management Board and Supervisory Board will discuss this dividend proposal in the Supervisory Board meeting on 16 March 2022. The Annual General Meeting of 1&1 AG will adopt a decision about the motion proposed jointly by Management Board and Supervisory Board on 18 May 2022.

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 AG. The top priority of the financial management at 1&1 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.

In view of the construction of its own 5G mobile network, 1&1 is planning a significant increase in investments in the coming years. The Management Board expects to be able to finance the majority of these investments from current operating cash flows and free cash and cash equivalents. Wanting to achieve this goal and to be able to build sustainably the 5G mobile network without resorting to external financing, 1&1 has retained as much of its profits as possible over the past three years. In this vein, the 1&1 AG Management Board will propose to the Annual General Meeting the adoption of a resolution for the disbursement of a minimum dividend for fiscal year 2021 as well. Whether and when liquidity will become available for a disbursement in excess of this amount in the course of the construction of the mobile network will become apparent solely as construction proceeds and the required funds are invested.

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 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'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 fulfils its commitment to this responsibility in various ways.

1&1 AG exercises the option to prepare the non-financial statement 2021 (Sustainability Report) outside the combined management report in accordance with Sections 315b and 315c in conjunction with Sections 289c–289e HGB. The non-financial statement will be published in April 2022 at https://www.1und1.ag/unternehmen#nachhaltigkeit.

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's success.

Customer loyalty: Along with the acquisition of new customers, the most important factor in expanding the customer base is retaining and securing the loyalty of current customers. Customer satisfaction is a steering criterion at 1&1. 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 represent continuous investments in the optimisation of service quality. This investment pays off. 1&1's service app took first place in a test conducted by the renowned trade magazine connect. Second place in this test is shared by the service apps from Smartmobil and Yourfone. In other words, the three 1&1 brands participating in the test take the first three places in the test and score points in particular with functional diversity, transparency and security.

The title of "Fairest Internet Provider" for 1&1 from Focus Money, ntv and the German Institute for Service Quality also confirms the high quality of customer service.

Network quality: In the broadband and landline test of the trade magazine connect, 1&1 once again took one of the top places. Having won this test three times since 2015, most recently in 2020, 1&1 ended up in an excellent second place in 2021 with a score of 912 points, just 2 points behind the test winner. 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 the data tests, 1&1 posts an outstanding score, and the provider also performs well in crowdsourcing. In the web services, fast web page load times are offset by somewhat slower uploads to hosting providers in the lower bandwidth classes. 1&1's performance in Web TV is excellent.

Knowledge of the markets: Thanks to 1&1'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 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's success in offering at an early stage products that meet the needs of the customers.

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

3. Supplementary report

In February 2022, Russia launched a major attack on the territory of Ukraine. These acts of war are triggering a humanitarian catastrophe in the middle of Europe. This is also associated with negative consequences for the overall economy, among other things, as a result of the uncertainties triggered by the war and the sanctions imposed against Russia. No effects on the economic position of 1&1 Group are expected.

4. Risks, opportunities and forecast report

The risk and opportunity policy of 1&1 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 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 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 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 risk management process utilises the following building blocks for the exploitation of opportunities without delay and the early discovery of risks:

- The internal financial controlling system

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

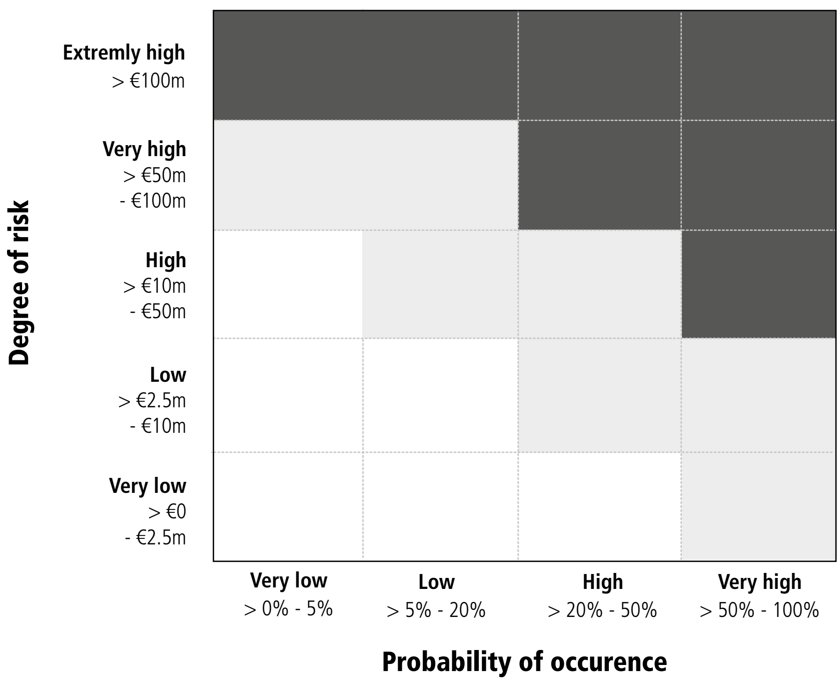
- The continuous monitoring of the market

- 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 and are based on the corporate structure of 1&1 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 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 financial controlling and risk management with respect to the accounting process

The internal controlling system in 1&1 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 Group as a component of the internal controlling system is oriented, with respect to the accounting, to the risk of misrepresentation 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 Group and at 1&1 AG 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 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 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 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 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 added-value chain, 1&1 occasionally enters new markets or upstream or downstream markets. For example, the Management Board of 1&1 AG, with the approval of its Supervisory Board, has decided to build and operate a high-performance 5G mobile network based on the mobile frequencies in the 2 GHz and 3.6 GHz bandwidths acquired in 2019. By constructing and operating its own network, the Company plans to further increase the added value in the mobile communications business, to open up new business areas and to obtain greater independence from the procurement of advance services from other network operators. In the previous year, the Company reported the risk of a possible failure to conclude a national roaming agreement with an established network operator, which is indispensable for building its own network. The conclusion of the national roaming agreement of 27 May 2021 eliminated this risk.

In addition, because of the limited capacities relating to available network outfitters, there were risks with regard to time, quality and budget arising from the construction and expansion of a proprietary 5G mobile network. In August 2021, 1&1 was able to obtain a partner for the construction of the mobile network: the Japanese technology group and proven OpenRAN expert Rakuten. Together, Rakuten and 1&1 are building Europe's first fully virtualised mobile network based on the innovative OpenRAN technology. The use of OpenRAN technology increases independence from network outfitters. There are still risks that the network cannot be built at the expected speed. A delay could be caused by supply issues for the required hardware or delays in finding locations.

1&1 has placed great emphasis on minimising these risks during the selection of its partners for network construction. For example, Rakuten, the general contractor partner for active network technology, was the first and only network outfitter in the world to build a mobile network based on the new OpenRAN technology in Japan, so we can benefit from the experience and learning curve from this project. Our partners for the passive technology are established leaders for radio tower infrastructure in Europe so that we can benefit from an infrastructure that is already in place.

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 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 participating interests and strategic investment activities represent a significant success factor for 1&1 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 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 that, insofar as economically justifiable, should be avoided.

1&1 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. 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. 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 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 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 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. 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 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 added-value chain.

The future operation of the 5G mobile network will be accompanied by increased power requirements. Rising energy prices as a result of political measures or for ecological reasons can have a negative impact on added value. 1&1 will define and implement appropriate countermeasures as soon as these risks become more concrete.

Personnel recruitment

The effective management of personnel resources is of key importance for 1&1 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 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 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 realises its corporate success almost exclusively 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 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 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 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 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 would be at risk of having to pay fines and of losing the trust of its customers.

1&1 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 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 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 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 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 to worsen.

1&1 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 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 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 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.

As it develops a high-performance 5G mobile network, 1&1 is dependent on the allocation of required frequencies by the Federal Network Agency. For example, the low-band frequencies (800 MHz) are expected to be reallocated in 2026. There is a risk that 1&1 will not be considered in the allocation of these frequencies and that instead there will be an extension of the frequency allocation to the incumbent network operators. In this case, 1&1 would have to rely on buying advance services to an increased extent, which would have a negative impact on added value. Owing to their physical properties, the low-band frequencies have a greater range and better penetration capacity (than high-band frequencies), enabling cost-effective coverage in rural areas with mobile masts that are far apart and also contributing to good reception inside buildings.

Legal disputes

1&1 is currently involved in various litigation and arbitration proceedings that result from its normal business activities. In 2019, one advance services provider filed claims in the low three-digit million range (the Company's internal classification defines amounts up to €333 million as a low three-digit million amount; even the total of the filed claims does not exceed this amount). 1&1 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 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 counters these risks by continuously expanding the scope of its tax management.

Finances

Financing

Financial liabilities that are primarily incurred by 1&1 AG as part of the financing of its business activities include loans, overdraft facilities and other financial liabilities. 1&1 has 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 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 – 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 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.

In fiscal year 2021 in particular, so-called „smishing" attacks on mobile subscribers increased. "Smishing" is a phishing attempt carried out by sending text or short messages (SMS). In the process, malware is installed on customers' mobile devices without their awareness; the software, in addition to querying personal information or spying on online banking information, triggers a mass text message mailing. A significantly higher number of sent text messages has a direct effect on 1&1's costs for advance services.

1&1 is developing technical solutions that will enable the Company to recognise immediately conspicuous behaviour patterns of customers caused by such attacks and to react to them specifically so that it is prepared in future to defend itself from any harm.

1&1 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'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 1&1's business operations. 1&1 counters these risks as far as possible with a variety of different measures; their scope is being even 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 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.

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

The assessment of the overall risk situation for 1&1 AG and 1&1 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 AG and 1&1 Group is represented by the risk areas "Legislation and regulation", "Legal disputes" and "Fraud and bad debt losses".

The conclusion of the national roaming agreement with Telefónica in fiscal year 2021 eliminated the risk that 1&1 will lack an essential fundamental requirement for the 5G network construction. The assessed risk in the risk field "Business development and innovation" has been appropriately reduced. At the same time, this agreement (following the auction acquisition of the necessary 5G mobile frequencies in 2019) establishes the transformation of the business model from a virtual mobile network operator to a genuine mobile network operator. The development of this business field is accompanied by significant risks typical for a mobile network operator. The most significant risk at this time is to be found in the risk field "Legislation and regulation", which subsequently increased from "Moderate" to "Significant" in fiscal year 2021. One reason for this is that the Federal Network Agency (BNetzA) could consider suspending the upcoming low-band frequency auction (800 MHz). The lack of access would present a significant risk for 1&1 AG.

The risk in the risk field „Fraud and bad debt" was increased to „Significant" because of the increasing number of attacks on our customers using malware in fiscal year 2021.

By continually expanding the scope of its risk management, 1&1 counters these risks and limits them, in so far as reasonable, 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 2021 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 AG and 1&1 Group has increased compared to the previous year because of the concretisation of the transformation into a mobile network operator and the associated risks. In assessing the overall risk situation, the opportunities available to 1&1 AG and to 1&1 Group are not taken into account. Risks threatening the existence of 1&1 AG and 1&1 Group from either specific risk positions or the overall risk situation were not discernible during fiscal year 2021 nor on the date of preparation of this report.

The situation relating to the spread of the coronavirus (Sars-CoV-2) has not become any less tense since the previous year. This continues to have an impact on the risk situation in the risk fields "Procurement market", "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. We expect the situation to ease slightly in fiscal year 2022 because of the rising vaccination rate. However, precise forecasts are not possible at the time this report is issued owing to the many and varied uncertainties.

The probability of their occurrence, potential losses and the classification of the risks from the Group perspective and their relevance:

	Probability of occurrence	Degree of risk	Risk classification	Development in comparison with previous year
Risks in the area of "Strategy"				
Business development and innovation	Low	High	Moderate	↘
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	→
Cyber and 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	Extremely high	Significant	↗
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	High	Significant	↗
Liquidity	Low	Very low	Low	→
External events – Force majeure	Low	Very low	Low	→

↘ improved → unchanged ↗ worsened

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 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 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'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 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 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 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 is today one of the leading companies in Germany, serving more than 15.4 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 believes that its chances to expand its current market shares are good.

Entry into new business fields

The core competencies at 1&1 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 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 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 bandwidth and five frequency blocks of 10 MHz each in the 3.6 GHz bandwidth for a total price of €1.07 billion. In addition, 1&1 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 bandwidths. The two frequency blocks will be available to 1&1 until 31 December 2025. The Company plans to use these frequencies for the step-by-step buildup of a high-performance 5G mobile network, increasing its added value in the mobile communications business as well and developing new business areas.

1&1 was able to conclude a long-term national roaming agreement with Telefónica in May 2021, an essential fundamental prerequisite for the start of the network construction. The conclusion of contracts with Rakuten, which will participate as general contractor alongside 1&1 in the network construction, and the agreements with the partners for the passive network infrastructure have created further important prerequisites for the commencement of network construction.

More than 11.2 million mobile customers and 4.2 million broadband customers together with access to one of the largest fibre optic networks in Germany indicate that 1&1 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 has access to the 1&1 Versatel telecommunications network, one of the largest and most powerful fibre optic networks in Germany. In addition, 1&1 has had access to Deutsche Telekom's fibre optic network via 1&1 Versatel since April 2021. The network infrastructure provided by 1&1 Versatel GmbH or purchased via Deutsche Telekom gives 1&1 the opportunity to increase its added value and the number of its customers on the growth market of fibre optics.

According to a study by Dialog Consult/VATM, the number of customers with 1 Gbit/s line bandwidth has almost doubled compared to the previous year. This indicates the tremendous opportunity that access to Deutsche Telekom's fibre optic network represents for 1&1.

Access to Telefónica mobile network

1&1, 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 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 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 the opportunity for further long-term and continued successful corporate development as well as a high degree of planning security.

Moreover, 1&1 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.

1&1 was able to conclude a national roaming agreement with Telefónica Germany based on the MBA MVNO contract, bringing it one step closer to its goal of becoming a licensed mobile network operator. As part of the conclusion of the national roaming contract, the advance services prices pursuant to the MBA MVNO contract were also newly agreed. The price reduction mechanism familiar from the initial term of the contract has now been reinstated in the first renewal phase. In addition, 1&1 is able to cancel capacity on a quarterly basis.

Acquisitions and participations

Along with its organic growth, 1&1 continuously examines opportunities to acquire companies and to obtain strategic participations. Thanks to the plannable and high cash flow, 1&1 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

The opportunity and risk situation for current business remains unchanged compared to the previous year. The progressive development of the mobile network has led to both opportunities and risks, whereby the overall risk has increased as described. 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.

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 2.7 percent in 2021, the IMF expects economic growth for Germany of 3.8 percent in 2022 and 2.5 percent in 2023. In projecting growth of 3.8 percent for 2022, the Fund is higher than the forecast of the German government, which assumed growth of the price-adjusted gross domestic product of 3.6 percent in its Annual Economic Report 2022 on 26 January 2022 after issuing a prediction of 4.1 percent in the autumn of 2021. The reason for the lowered expectations are the consequences of the coronavirus pandemic and the related supply bottlenecks of the moment. Supply bottlenecks, especially for intermediate goods such as semiconductors, also remain a key price-driving factor. The federal government expects that this situation will only gradually begin to ease during the course of 2022. Overall, the increase in the consumer price level is expected to be significant again this year with an annual average of 3.3 percent (2021: 3.1 percent).

Industry/market expectations

Despite the challenges posed by pandemic, supply bottlenecks, inflation and a shortage of skilled workers, the industry association Bitkom expects the German ICT market as a whole to grow by 3.6 percent in 2022 (previous year: 3.9 percent) to €184.9 billion. The market for information technology is expected to grow at an above-average rate in 2022, as in the previous year, and further expand its importance as the largest industry segment. Revenues exceeded the mark of €100 billion for the first time in 2021 and are expected to increase by 5.9 percent this year (previous year: 6.3 percent) to €108.6 billion, according to Bitkom calculations. The software segment, which is especially driven by cloud business, is expected to post the strongest growth, rising by a robust 9.0 percent (previous year: 8.0 percent) to €32.4 billion. Sales in IT hardware are also expected to increase significantly by 5.7 percent (previous year: 8.3 percent) to €33.2 billion. The IT services business, which includes IT consulting and other segments, is expected to post stable growth of 3.9 percent (previous year: 3.7 percent) to €43.0 billion.

The consumer electronics market, on the other hand, remains under pressure. The Bitkom forecast foresees a return to declining sales in 2022 after dissipation of the special coronavirus effects that led to an interim increase in 2020. This segment, the smallest ICT submarket ,is expected to shrink by 2.3 percent to €9.0 billion.

The most important ITC market in the sense of 1&1'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

The industry association Bitkom expects the moderate growth on the German telecommunications market from the previous year to continue. The market is projected to rise in total by 0.9 percent (previous year: 1.2 percent) to €67.3 billion.

Bitkom calculates that telecommunications services will generate revenues of €49.2 billion, an increase of 1.7 percent (previous year: 1.7 percent). Business with telecommunications devices, especially smartphones, is projected to decline sharply by -3.1 percent (previous year: 0.2 percent) to €11.2 billion. A plus of 2.2 percent (previous year: -0.9 percent) to €6.9 billion is expected for investments in telecommunications services.

Market forecast: telecommunications market in Germany (in €bn)

	2022	2021	Change
Revenues	67.3	66.7	+ 0.9 %

Source: Bitkom, Annual Press Conference, January 2022

Forecast for fiscal year 2022

The 1&1 Management Board expects the telecommunications market to remain highly relevant for the German economy because it stimulates growth. Although there is still a high level of price sensitivity among customers and the market is also showing a certain saturation in terms of lines, increasing usage and rising data volumes will continue to offer opportunities for 1&1 in the future.

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.

In the 5G segment, the Management Board expects that the planning and expansion of the 5G mobile network will continue to progress. The construction of approximately one thousand locations and an investment volume of approximately €400 million are expected as early as 2022.

1&1 will once again strive to achieve additional customer growth in the coming fiscal year. For the year 2022, 1&1 expects an increase in the high-margin service revenues to approximately €3,200 million as well as the equivalent development of total revenues. The 1&1 Management Board is assuming that it will be able to confirm the result of approximately €670 million for the EBITDA in 2022. The forecast result includes negative effects on earnings from the construction of the 5G mobile network amounting to approximately €70 million.

This planning assumes a depressing impact on revenue and earnings comparable to fiscal years 2020 and 2021 resulting from the changed usage behaviour caused by the coronavirus pandemic.

At the level of the separate financial statements, the Management Board expects sales revenues and profit for the year 2022 to be approximately at the level of fiscal year 2021.

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

In 2021, further milestones were reached on the road to the establishment of our own high-performance mobile network. The 1&1 Management Board expects the operation of our own mobile network to secure greater independence from advance services providers and, as a result of the more in-depth added value, to lay a solid foundation for the successful development of the group. Thanks to its excellent current position on the telecommunications market with more than 15.4 million customers and to the opportunity to respond even more precisely to customer needs with individualised products and offers that will come with its own network operation, the Management Board believes that 1&1 is well positioned for the future steps of the Company's development and is optimistic about the future.

The acquisition of the 5G frequencies imposed an ambitious expansion obligation on 1&1. The Management Board firmly expects to be able to realise its plans and fulfil its commitment on the basis of the contracts concluded in fiscal year 2021.

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 plan for the broadband segment is to stabilise the development of the contract portfolio.

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

1&1 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 2022".

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 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 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.

5. Supplementary information

5.1 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 2021, United Internet AG, Montabaur, held 78.32 percent of the 1& 1 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:

- 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 Sections 15 et seqq. Stock Corporation Act [*Aktiengesetz; 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 treasury 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 2021, 1&1 AG held 465,000 shares of its treasury stock.

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the 1&1 AG Management Board to acquire treasury stock totalling up to 10 percent 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 treasury 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 2021, United Internet AG, Montabaur, Germany, held 78.32 percent of the stock in 1&1 AG. Per 31 December 2021, Mr Ralph Dommermuth; Montabaur, Germany, in turn holds indirectly through holding companies 50.10 percent of the share capital of United Internet AG as reduced by his treasury shares of United Internet AG.

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

1&1 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, beginning on page 17 of the annual report. The annual report is published on the Company's website at https://www.1und1.ag/investor-relations#e-tabs-id-berichte. 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 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.

5.3 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 AG at www.1und1.ag/corporate-governance → Nachhaltigkeitsbericht [Sustainability Report].

5.4 Report on the Remuneration of the Management Board and the Supervisory Board Pursuant to Section 162 AktG

The Act Implementing the Second Shareholders' Rights Directive (ARUG II) transposed Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 into national law. At this time, lawmakers introduced new statutory regulations on remuneration reporting for listed companies that apply to fiscal years beginning on or after 1 January 2021.

The "new" remuneration report is a separate report from the financial statements. Significant disclosures that were previously required, in particular individualised reporting on management board remuneration and the basic principles of the remuneration system, have been removed from the (group) management report and moved to the new remuneration report in accordance with Section 162 AktG.

The remuneration system and the disclosure of the remuneration of Management Board and Supervisory Board members for fiscal year 2021 pursuant to Section 162 AktG can be found in the „Remuneration Report 2021", which is published on the 1&1 AG website at www.1und1.ag/corporate-governance#verguetungsbericht.

Information on Management Board and Supervisory Board remuneration can also be found in the notes to the consolidated financial statements under note 43.

6. 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, 10 March 2022

Ralph Dommermuth | Markus Huhn | Alessandro Nava

The Mangement Board

Consolidated Annual Accounts

Consolidated Comprehensive Income Statement

from 1 January to 31 December 2021

	Remarks	2021 January - December €k	2020 January - December €k
Sales	4	3,909,659	3,786,788
Cost of sales	5,11,12	-2,709,892	-2,881,797
Gross profit from revenues		**1,199,767**	**904,991**
Distribution costs	6,11,12	-476,467	-442,338
Administration costs	7,11,12	-126,074	-99,371
Other operating income / expenses	8,9	27,840	32,173
Impairment losses from receivables and contract assets	10	-78,356	-82,374
Results from operating activities		**546,710**	**313,081**
Financing expenses	13	-12,968	-1,604
Financial income	14	1,375	1,110
Profit before taxes		**535,117**	**312,587**
Tax expenses	15	-165,095	-92,994
Consolidated profit		**370,022**	**219,593**
Profit per share (in €)			
- undiluted	49	2.10	1.25
- diluted	49	2.10	1.24
Weighted average number of shares outstanding (in millions)			
- undiluted	49	176,27	176,27
- diluted	49	176,56	176,47
Rollover to total consolidated profit			
Consolidated profit		**370,022**	**219,593**
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 resultsin other results	40	141	-44
Other results	40	141	-44
Total consolidated profit		**370,163**	**219,549**

Consolidated Balance Sheet

Per 31 December 2021

	Remarks	31/12/2021 €k	31/12/2020 €k
Assets			
Short-term assets			
Cash and cash equivalents	16	4,555	4,360
Trade accounts receivable	17	248,106	232,437
Receivables due from associated companies	19	718,091	400,885
Inventories	20	96,469	85,366
Contract assets	18	610,046	565,793
Prepaid expenses	21	183,410	187,081
Other financial assets	22	24,926	23,639
Other non-financial assets	23	13,192	53,736
		1,898,795	**1,553,297**
Long-term assets			
Other financial assets	24	1,935	1,992
Tangible assets	25	142,978	122,800
Intangible assets	26	1,608,742	1,740,591
Goodwill	26,27	2,932,943	2,932,943
Contract assets	18	205,665	196,049
Prepaid expenses	28	272,672	142,665
		5,164,935	**5,137,040**
Total assets		**7,063,730**	**6,690,337**

	Remarks	31/12/2021 €k	31/12/2020 €k
Liabilities and equity			
Short-term liabilities			
Trade accounts payable	29,37	262,592	319,866
Liabilities due to associated companies	30,37	85,162	55,800
Contract liabilities	31,37	48,701	44,110
Other provisions	33,37	6,777	5,299
Other financial liabilities	34,37	120,812	106,283
Other non-financial liabilities	35,37	89,940	17,269
Income tax liabilities	32,37	42,017	25,933
		656,001	**574,560**
Long-term liabilities			
Contract liabilities	31,37	7,447	6,917
Other provisions	33,37	43,576	46,444
Other financial liabilities	36,37	918,122	974,651
Deferred tax liabilities	15	219,383	234,005
		1,188,528	**1,262,017**
Total liabilities		**1,844,529**	**1,836,577**
Equity			
Share capital	39	193,930	193,891
Capital reserves	40	2,436,106	2,432,054
Cumulative consolidated results		2,590,044	2,228,835
Other equity	40	-879	-1,020
Total equity		**5,219,201**	**4,853,760**
Total liabilities and equity		**7,063,730**	**6,690,337**

Consolidated Cash Flow Statement

from 1 January to 31 December 2021

	Remarks	2021 January - December €k	2020 January - December €k
Results from operating activities	**47**		
Consolidated profit		370,022	219,593
Allowances for rollover of consolidated profit to incoming and outgoing payments			
Amortisation and depreciation on intangible and tangible assets	11	65,388	45,403
Depreciation on assets capitalised within the framework of corporate acquisitions	11	99,162	109,992
Personnel expenses from employee stock ownership programmes	38	3,164	2,178
Changes in the adjustment items for deferred tax assets	15	-14,682	4,264
Correction profits/losses from the sale of tangible assets		15	2
Other items not affecting payments		760	129,828
Cash flow from operating activities		**523,829**	**511,260**
Changes in assets and liabilities			
Change in receivables and other assets		23,629	-37,098
Change in contract assets		-53,869	-89,983
Change in inventories		-11,103	-6,139
Change in prepaid expenses		-126,336	45,935
Change in trade accounts payable		-57,275	53,502
Change in other provisions		-1,391	-241
Change in income tax liabilities		16,084	1,463
Change in other liabilities		87,842	-14,619
Change in receivables due from/liabilities due to associated companies		25,425	-19,161
Change in contract liabilities		5,122	5,753
Changes in assets and liabilities, total		**-91,872**	**-60,588**
Net inflow of funds from operating activities		**431,957**	**450,672**

	Remarks	2021 January - December €k	2020 January - December €k
Cash flow from investments	**47**		
Investments in intangible and tangible assets		-37,398	-207,245
Inflow of funds from disposal of intangible and tangible assets		200	233
Investments in other financial assets		-368	-390
Outflow of short-term investment	43	-313,000	-190,000
Repayments from other financial assets		0	50
Net outflow of funds in investment sector		**-350,566**	**-397,352**
Cash flow from financing sector	**47**		
Dividend payment	50	-8,813	-8,813
Repayment of leasing liabilities and rights of use	34,46	-11,592	-10,666
Disposal of treasury shares	41	475	0
Repayment of liabilities related to the acquisition of 5G spectrum	47	-61,266	-61,266
Net outflow of funds in financing sector		**-81,196**	**-80,745**
Net increase/decline in cash and cash equivalents		195	-27,425
Cash and cash equivalents at beginning of fiscal year		4,360	31,785
Cash and cash equivalents at end of reporting period		**4,555**	**4,360**

Consolidated Change in Equity Statement

in Fiscal Years 2021 und 2020

		Share capital		Capital reserve	Cumulative consolidated results	Other equity	Total equity
	Remarks		39,41	40,41		40	
		Denomination	€k	€k	€k	€k	€k
Per 1 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					-8,813		-8,813
Employee stock ownership programme				2,178			2,178
Per 31 December 2020		**176,264,649**	**193,891**	**2,432,054**	**2,228,835**	**-1,020**	**4,853,760**
Per 1 January 2021		**176,264,649**	**193,891**	**2,432,054**	**2,228,835**	**-1,020**	**4,853,760**
Consolidated profit					370,022		370,022
Other consolidated results						141	141
Total results					**370,022**	**141**	**370,163**
Dividend payments	50				-8,813		-8,813
Employee stock ownership programme	38			3,164			3,164
Disposal of treasury shares	41	18,000	20	455			475
Issue of treasury shares	41	17,000	19	433			452
Per 31 December 2021		**176,299,649**	**193,930**	**2,436,106**	**2,590,044**	**-879**	**5,219,201**

Consolidated Notes per 31 December 2021

1. General information about the Company and the financial statements

1&1 Group, together with 1&1 Aktiengesellschaft (formerly 1&1 Drillisch Aktiengesellschaft), Maintal, the listed parent company (hereinafter: "1&1 AG" or, along with its subsidiaries, "1&1" or "Group"), is a telecommunications provider that operates solely and exclusively in Germany. With more than 15.43 million contracts, 1&1 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 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 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 is currently preparing to construct its own mobile network using the 5G mobile frequencies that were acquired in the auction in 2019.

Company headquarters of 1&1 AG 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 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) Commercial Code [Handelsgesetzbuch; HGB].

1&1 AG is included in the consolidated annual 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 2021.

In its meeting on 24 March 2021, the Supervisory Board approved the consolidated annual financial statements for 2020. The consolidated annual financial statements for 2020 were made public in the Federal Gazette on 23 June 2021.

The consolidated annual financial statements for 2021 were prepared by the Management Board on 10 March 2022 and subsequently submitted to the Supervisory Board. The consolidated annual financial statements will be presented to the Supervisory Board for approval on 16 March 2022. 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 17 March 2022.

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

The Group includes per 31 December 2021 the following companies in which 1&1 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
1&1 Mobilfunk GmbH, Düsseldorf[3] (formerly Drillisch Netz AG, Düsseldorf)	100
Drillisch Logistik GmbH, Münster	100
Blitz 17-665 SE, Maintal	100
Blitz 17-666 SE, Maintal	100
CA BG AlphaPi AG, Vienna/Austria	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 essentially remained unchanged in comparison with 31 December 2020. The following holdings, which were previously not fully consolidated due to their minor importance, were included in the consolidated annual financial statements for the first time per 31 December 2021:

	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

This did not have any significant effects on the Group's earnings or financial position or on its assets and liabilities.

In addition, 1&1 holds equity interests that are disclosed under the other long-term financial assets:

	Capital share
Name and registered office of the company	%
High-Tech Gründerfonds III GmbH & Co. KG, Bonn (unchanged from previous year)	1

During the fiscal year, 1&1 held about 1 percent of the shares in POSpulse GmbH, Berlin. In October 2021, 1&1 ceased to be a shareholder pursuant to a mutual agreement on the redemption of shares by POSpulse GmbH. 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 principles

The consolidated financial statements include 1&1 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 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 wireless 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 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 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 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 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 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.

1&1 follows the portfolio approach allowed in accordance with IFRS 15.4 for some of its current contracts. Similar customer contracts are grouped together and average values are assumed for certain valuation-relevant parameters, in particular transaction prices, individual sales prices and amortisation periods.

It is reasonable to assume that there is no material impact on the financial statements regardless of whether a portfolio or the individual contracts or performance obligations within that portfolio are assessed.

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 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.

Transactions from the investment of cash in the cash flow statement

Pursuant to a cash management agreement with United Internet AG, 1&1 is entitled to accept liquidity from United Internet AG at short notice or to invest free liquidity with United Internet AG. The financing granted within the scope of this business relationship is disclosed as an account due to or an account due from associated companies and is generally due or available on a daily basis. A borrowing of liquidity to finance current business must be classified as a financing activity and reported as such in the cash flow statement under cash flow from financing activities. An investment of free liquidity at United Internet AG as well as any changes up to a receivables balance of zero, on the other hand, must be shown in the cash flow statement as from investing activities. Interest at market rates is paid on resulting receivables and liabilities.

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 through profit and loss in the profit and loss statement.

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, operating and office 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 intends to complete the intangible asset and use or sell it;
- 1&1 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 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 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	Until 19
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;
- 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.

Costs of obtaining and fulfilling contracts are disclosed in 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;

- 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;
- 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;
- The liability is held primarily for trading;
- The payment of the liability is expected within twelve months after the closing date;
- 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 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
- Fixtures, fittings 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. Reference is made here 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 assets (equity instruments) 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;

- 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.

Treasury stock

Treasury stock is deducted from equity. Purchase, sale, issue or redemption of treasury 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 in accordance with IFRS 2.28. 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;

- 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;

- 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

Balance sheet items	Measurement
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 amended IFRS

In fiscal year 2021, 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
Amendment of: IFRS 9, IFRS 39, IFRS 7, IFRS 4, IFRS 16	Reform of the reference interest rates (phase 2)	01/01/2021	Yes
Amendment of: IFRS 4	Temporary exemption of insurers from application of the regulations of IFRS 9	01/01/2021	Yes
Amendments of: IFRS 16	Extension of rent concessions related to COVID 19 after 30/06/2021	01/04/2021	Yes

Reform of the reference interest rates (phase 2)

The purpose of the amendments in this second phase of the IBOR project is to mitigate the impact on financial reporting that results because of the change from an existing reference interest rate to an alternative interest rate. The changes impact the following areas:

- Modification of financial assets, financial liabilities and lease liabilities
- Hedge accounting
- Disclosures pursuant to IFRS 7

The amendment standard "Reform of Reference Interest Rates (Phase 2)" had no impact on the consolidated financial statements.

IFRS 4: Amendment: Deferral of IFRS 9 for insurers

The change concerns the temporary exemption of insurers from application of the regulations of IFRS 9 "Financial Instruments".

The change in the IFRS 4 did not have any impact on the consolidated annual financial statements.

Amendments to IFRS 16: Extension of rental concessions relating to COVID-19

The EU Commission has extended the temporary changes for coronavirus pandemic-related rental concessions until 30 June 2022. The amendments provide lessees with relief in applying the rules in IFRS 16 on accounting for lease modifications due to rental 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 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 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
Änderungen an: IFRS 1, IFRS 9, IFRS 16, IAS 41	Annual improvements (2018–2020 cycle)	01/01/2022	Yes
Amendments of: IFRS 3	Reference to the framework	01/01/2022	Yes
Amendments of: IAS 16	Revenue before the intended use	01/01/2022	Yes
Amendments of: IAS 37	Onerous contracts – costs for the fulfilment of a contract	01/01/2022	Yes
Amendments of: IAS 1	Classification of debt by maturity	01/01/2023	No
Amendments of: IAS 1	Disclosure of accounting and valuation methods	01/01/2023	No
Amendments of: IAS 8	Definition of accounting estimates	01/01/2023	No
Amendments of: IAS 12	Deferred taxes relating to assets and liabilities from a single transaction	01/01/2023	No
Amendments of: IFRS 17	Accounting for insurance contracts	01/01/2023	Yes

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.

Impacts related to the coronavirus pandemic

As in 2020, 2021 was dominated by the coronavirus pandemic. Once again, the business activities of 1&1 were affected.

The consequences of the coronavirus pandemic have an impact on the use behaviour of our customers, especially as a result of the travel restrictions and the extensive regulations for working from home. In fiscal year 2021, the first half of the year and the fourth quarter in particular were hampered by the restrictive measures. In Q3 2021, relaxed travel regulations in particular led to a slight easing of the tense situation so that the constraints, when viewed over the year as a whole, are comparable to those of the previous year. As in the previous year, there were no negative effects in the form of increased bad debts.

The coronavirus pandemic did not have a significant impact on the valuation of the assets recognised in the balance sheet.

Effects of climate change

Environmental and social concerns can have an impact on the recoverability of the Group's assets in various ways. Such risks include in particular rising energy prices for renewable energies used in the operation of our 5G mobile network. The recoverability of the 5G radio spectrum was reviewed as part of the annual impairment test (note 27).

The Company currently assumes that impacts caused by environmental and social concerns will not have a material effect on the assumed cost structure, the impairment tests and (consequently) the consolidated annual financial statements.

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 2021 amounts to €155,715k (previous year: €169,637k). The carrying value of the capitalised costs for fulfilling contracts per 31 December 2021 amounts to €80,026k (previous year: €93,426k). 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 2021 amounts to €2,932,943k (previous year: €2,932,943k). The carrying value of intangible assets with indeterminate useful lives is €53,200k (previous year: €56,300k). 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 stock-based remuneration (Stock Appreciation Rights and Stock Appreciation Rights Drillisch) in the amount of €2,746k resulted (previous year: €2,506k). 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 judgments 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 2021 amounts to €42,017k (previous year: €25,933k) and relates mainly to current taxes for fiscal year 2021. 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 extension period in the term of leases for buildings is taken into account in the calculation as the options to extend these leases are usually exercised.

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 2021 is €248,106k (previous year: €232,437k). The carrying value of the contract assets per 31 December 2021 amounts to €815,711k (previous year: €761,842k). 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 2021 come to €96,469k (previous year: €85,366k). 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 of intangible assets with limited useful life per 31 December 2021 amounts to €1,751,720k (previous year: €1,863,391k; of which frequency licences €1,070,187k, previous year: €1,070,187k). 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 2021 amounts to €50,353k (previous year: €51,743k). 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 Group, the Management Board of 1&1 AG is responsible for the assessment and management of the segments' business success.

Company management and Group reporting encompass the segments "Access" and "5G".

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 2021, no revenues were recognised in the segment 5G.

Management by the 1&1 AG Management Board is based primarily on performance indicators. The 1&1 AG Management Board measures the success of the segment "Access" primarily in terms of service revenues, of the segment cost of materials, the number of subscribers and the adjusted earnings before interest, taxes and depreciation and amortisation (comparable operating EBITDA) determined on the basis of IFRS accounting methods (IFRS as they are to be applied in the EU). Transactions between the segments are charged at market prices.

The Group's segment reporting for fiscal year 2021 is presented below:

	Access €k	5G €k	Total €k
Service revenues	3,123,379	0	3,123,379
Hardware and Other revenues	786,280	0	786,280
Segment revenues	**3,909,659**	**0**	**3,909,659**
Cost of materials for segment	**-2,679,985**	**0**	**-2,679,985**
Gross profit for segment	**1,229,674**	**0**	**1,229,674**
Segment EBITDA	**749,117**	**-37,857**	**711,260**
Segment EBITDA operational[1]	**709,717**	**-37,857**	**671,860**
Customer contracts (in millions)	**15.43**	**-**	**15.43**

The Group's segment reporting for fiscal year 2020 is presented below:

	Access €k	5G €k	Total €k
Service revenues	3,019,966	0	3,019,966
Hardware and Other revenues	766,822	0	766,822
Segment revenues	**3,786,788**	**0**	**3,786,788**
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**
Segment EBITDA operational[1]	**651,701**	**-13,924**	**637,777**
Customer contracts (in millions)	**14.83**	**-**	**14.83**

(1) Comparable operating EBITDA: EBITDA adjusted for significant extraordinary effects (2021: €-39.4 million; 2020: €+169.3 million), see note 5.

All revenues were realised in Germany. There are no interrelationships between the “Access” and “5G” segments requiring elimination.

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

	2021 €k	2020 €k
Total segment profits (EBITDA)	711,260	468,476
Write-offs	-164,550	-155,395
Operating results	**546,710**	**313,081**
Financial results	-11,593	-494
Earnings before income taxes	**535,117**	**312,587**

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

Additional information on sales revenues

Group sales revenues break down as shown below:

	2021 €m	2020 €m
Service revenues	3,123	3,020
Hardware and Other revenues	787	767
Total	**3,910**	**3,787**

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 €78,356k (previous year: €82,374k).

Contract balances developed as shown below during fiscal year 2021:

	2021 €k	2020 €k
Trade accounts receivable (item 17 of the notes)	248,106	232,437
Contract assets (item 18 of the notes)	815,711	761,842
Contractual liabilities (item 31 of the notes)	56,148	51,027

In fiscal year 2021, the amount of €11,538k (previous year: €10,844k) that was included in the contract liabilities at the beginning of the fiscal year was realised as sales revenues.

The total amount of the transaction price of the performance obligations not fulfilled at the end of the reporting period amounts to €1,285,197k per 31 December 2021 (previous year: €1,290,973k). 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 2021:

in €k			**Total**
2022	2023	>2023	
966,552	318,645	0	1,285,197

31 December 2020:

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

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:

	2021 €k	**2020** €k
Expenditures for purchased services	1,737,606	1,929,031
Expenditures for purchased goods	780,885	753,189
Personnel expenses	77,533	74,080
Write-offs	54,702	46,553
Miscellaneous	59,166	78,944
Total	**2,709,892**	**2,881,797**

Cost of sales declined in relation to the sales revenues in comparison with the previous year to 69.3 percent (previous year: 76.1 percent), leading to an increase in the gross margin to 30.7 percent (previous year: 23.9 percent).

During the fiscal year, the expenses for purchased services decreased due to the prices agreed in national roaming, which are based on comparable price mechanisms as in the first five years of the MBA MVNO contract. The agreed lower prices apply retroactively from July 2020. The retroactive adjustment of the advance services prices results in a positive effect on earnings of €39.4 million from other periods in the fiscal year that is attributable to the second half of fiscal year 2020.

In the previous year, the expenses for purchased services were depressed by the derecognition of prepaid expenses related to the premature termination of the VDSL advance services contract (€129.9 million) and to the increased costs for procured mobile advance services since the middle of the year. Precluding the aforementioned effects, the gross margin increased to 29.7 percent in fiscal year 2021 (previous year: 28.4 percent).

In addition, more flexible purchasing mechanisms were negotiated within the framework of the national roaming agreement, resulting in further positive effects on the cost of sales.

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

6. Distribution costs

Distribution costs increased over the previous year from €442,338k (11.7 percent of revenues) to €476,467k (12.2 percent of revenues). They include personnel expenses in the amount of €98,482k (previous year: €93,836k), write-offs in the amount of €101,577k (previous year: €101,440k) and other distribution costs in the amount of €276,408k (previous year: €247,062k). 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 €99,371k (2.6 percent of revenues) to €126,074k (3.2 percent of revenues). They include personnel expenses in the amount of €31,155k (previous year: €28,868k), write-offs in the amount of €8,271k (previous year: €7,402k) and other administration costs in the amount of €86,648k (previous year: €63,101k). The other administrative expenses mainly relate to expenses from legal and professional expenses, third-party work, accounts receivable management and rental expenses.

8. Other operating expenses

Other operating expenses break down as follows:

	2021 €k	2020 €k
Expenses related to other periods	418	412
Expenses from foreign currency translation	25	14
Expenses for damages	20	48
Other expenses associated companies	4	460
Miscellaneous	1,363	801
Total	**1,830**	**1,735**

9. Other operating income

Other operating income breaks down as follows:

	2021 €k	2020 €k
Income from dunning charges and return debit notes	18,398	23,085
Damages	7,674	6,197
Rent income	434	615
Income from translation of foreign currencies	224	285
Miscellaneous	2,940	3,726
Total	**29,670**	**33,908**

10. Impairment losses from receivables and contract assets

Impairment losses from receivables and contract assets comprise the following:

	2021 €k	2020 €k
Trade accounts receivable	46,314	45,752
Contract assets	32,042	33,049
Miscellaneous	0	3,573
Total	**78,356**	**82,374**

For impairment losses, please refer to notes 2.1 „Impairment of financial assets", 17 „Trade receivables" and 18 „Contract assets".

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:

	2021 €k	2020 €k
Cost of sales	54,702	46,553
Distribution costs	101,577	101,440
Administration costs	8,271	7,402
Total	**164,550**	**155,395**

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:

	2021 €k	2020 €k
Clientele	95,742	95,742
Trademarks	3,100	0
Licences	0	12,530
Software	320	1,720
Total	**99,162**	**109,992**

This figure includes depreciation and amortisation of €87,613k (previous year: €98,136k) attributable to the assets additionally capitalised as part of purchase price allocation.

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. In fiscal year 2021, trademark rights with a carrying value of €3.1 million were devalued as there are currently no plans for the active use of these trademarks.

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

	2021 €k	2020 €k
Cost of sales	3,420	14,250
Distribution costs	95,742	95,742
Total	**99,162**	**109,992**

12. Personnel expenses

Personnel expenses are distributed among the business divisions as follows:

	2021 €k	2020 €k
Cost of sales	77,533	74,080
Distribution costs	98,482	93,836
Administration costs	31,155	28,868
Total	**207,170**	**196,784**

Personnel expenses comprise the expenses for wages and salaries in the amount of €176,388k (previous year: €168,527k) and the expenses for social security in the amount of €30,782k (previous year: €28,257k).

Per the balance sheet date 31 December 2021, the number of employees (headcount) was 3,167 (previous year: 3,191). The average number of employees during fiscal year 2021 was 3,176 (previous year: 3,177).

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 2021, they total €14,344k (previous year: €13,733k) and include primarily the contributions paid to the government pension insurer in Germany.

13. Financing expenses

The financing expenditures break down as follows:

	2021 €k	2020 €k
Interest expenses from deferral of frequency liabilities	11,000	0
Interest from leasing liabilities	1,406	1,145
Interest expenses from tax audits	503	348
Guarantee commissions	37	92
Miscellaneous	22	19
Total	**12,968**	**1,604**

The interest expense from the deferral of frequency liabilities results from the agreement with the Federal Ministry of Transport and Digital Network Infrastructure, pursuant to which the payment obligation for mobile radio frequencies was extended until 2030.

14. Financial income

The financial income breaks down as follows:

	2021 €k	2020 €k
Interest and similar income associated companies	843	543
Interest income from tax audits	263	419
Miscellaneous	269	148
Total	**1,375**	**1,110**

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:

	2021 €k	2020 €k
Current taxes on income	179,777	88,730
Deferred taxes	-14,682	4,264
Disclosed expenses for income taxes	**165,095**	**92,994**

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 2021 was about 14.19 percent (previous year: 14.18 percent). This led to an increase in the Group tax rate to 30.02 percent (previous year: 30.01 percent).

The current taxes on income include tax expenses from other periods in the amount of €2,562k (previous year tax income from other periods: €34k).

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:

	2021		2020	
	Deferred tax assets €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
Intangible assets	39,580	-140,165	44,580	-160,289
Tangible assets	0	-28,799	0	-26,387
Inventories	68	-139	58	-88
Contract assets	16,015	-234,496	14,845	-218,278
Other assets	3,633	-3,466	2,172	-3,140
Prepaid expenses	164,640	-70,875	152,763	-79,032
Other provisions	15,194	-7,739	16,219	-3,463
Contract liabilities	6,505	-9,641	5,541	-8,676
Other liabilities	30,324	-22	29,258	-88
Gross value	**275,959**	**-495,342**	**265,436**	**-499,440**
Balance	-275,959	275,959	-265,436	265,436
Consolidated balance sheet	**0**	**-219,383**	**0**	**-234,005**

The net liability position of deferred taxes per the balance sheet date 31 December 2021 totalled €219,383k (previous year: €234,005k).

The total amount of the change in the balance of deferred taxes amounts to €-14,622k (previous year: €4,257k).

The deferred taxes on intangible assets result essentially from the differing treatment of 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 result essentially from IFRS 16 accounting. Deferred taxes on other liabilities, both assets and liabilities, also result primarily from IFRS 16 accounting.

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

Deferred 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 2020 can be determined as shown below:

	2021 €k	2020 €k
Deferred tax income	14,682	-4,264
Changes recognised through other comprehensive income:		
- Directly through other equity	-60	7
Change in the balance of deferred taxes	**14,622**	**-4,257**

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

	2021	2020
Expected tax rate	30.0%	30.0%
	€k	**€k**
Profit before income taxes from continued operations	535,117	312,587
- Tax expenses from application of the income tax rate	160,642	93,804
- Tax rate changes	86	-94
- Actual and deferred taxes previous years	2,562	-704
- Balance of other tax-exempt income and non-deductible expenses as well as trade tax additions and deductions	1,805	-13
Tax expenses pursuant to comprehensive income statement	**165.095**	**92.993**
Effective tax rate	**30.9%**	**29.7%**

The increase in the balance of other tax-exempt income and non-deductible expenses as well as trade tax additions and deductions is due mainly to the increased trade tax additions.

The expected tax rate corresponds to the tax rate of the parent company, 1&1 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, which is currently in fact 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 3 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 2021, net trade accounts receivable amounted to €248,106k (previous year: €232,437k) and break down as follows:

	31/12/2021 €k	31/12/2020 €k
Trade accounts receivable, gross	303,656	295,009
Less		
Valuation allowances	-55,550	-62,572
Trade accounts receivable, net	**248,106**	**232,437**
of which trade receivables – **short-term**	248,106	232,437
of which trade receivables – **long-term**	0	0

The development of the valuation allowances account is presented below:

	2021 €k	2020 €k
Per 1 January	62,572	67,057
Utilisation	-53,336	-50,237
Additions through expenses	49,367	48,866
Reversal	-3,053	-3,114
Per 31 December	**55,550**	**62,572**

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:

	31/12/2021 €k	31/12/2020 €k
Trade accounts receivable, net		
0-5 days	221,480	206,065
6-15 days	5,662	4,942
16-30 days	3,844	3,025
31-180 days	14,047	12,889
181-365 days	3,046	5,461
> 365 days	27	55
Total	**248,106**	**232,437**

18. Contract assets

Per the balance sheet date 31 December 2021, net contract assets amount to €815,711k (previous year: €761,842k) and break down as follows:

	31/12/2021 €k	31/12/2020 €k
Contract assets, gross	875,542	819,710
Less		
Valuation allowances	-59,831	-57,868
Contract assets, net	**815,711**	**761,842**
of which contract assets – **short-term**	610,046	565,793
of which contract assets – **long-term**	205,665	196,049

The increase in contract assets results in particular from the increased hardware sales in the financial year, especially as a result of rising demand for higher-quality mobile devices.

The development of the valuation allowances account is presented below:

	2021 €k	2020 €k
Per 1 January	57,868	46,983
Additions through expenses	32,042	33,049
Utilisation	-30,079	-22,164
Per 31 December	**59,831**	**57,868**

19. Accounts due from associated companies

Receivables due from associated companies per the balance sheet date amount to €718,091k (previous year: €400,885k) 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:

	31/12/2021 €k	31/12/2020 €k
Merchandise (gross)		
- Mobile services/Mobile internet	80,551	75,151
- Broadband hardware	12,014	6,277
- SIM cards	4,299	4,680
- Miscellaneous	4,811	3,509
	101,675	**89,617**
Less		
Valuation allowances	-6,538	-6,525
Inventories, net	**95,137**	**83,092**
Payments on account	1,332	2,274
Inventories	96,469	85,366

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

The cost of goods sold recognised in fiscal year 2021 as cost of materials under cost of sales from the sale of inventories amounts to €780,885k (previous year: €753,189k).

21. Short-term deferred expenses

Short-term deferred expenses of €183,410k (previous year: €187,081k) include essentially costs to obtain contracts of €79,440k (previous year: €88,013k), costs to fulfil contracts of €47,149k (previous year: €55,441k) and prepayments for advance services of €56,821k (previous year: €43,627k), 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 €161,625k (previous year: €173,564k). Of this amount, €102,727k (previous year: €105,403k) relates to costs to obtain contracts and €58,898k (previous year: €68,161k) to costs to fulfil contracts.

22. Other short-term financial assets

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

	31/12/2021 €k	31/12/2020 €k
Receivables for promotion rebates	21,166	14,591
Creditors with debit balances	2,522	4,748
Claim for repayment from company acquisitions from previous years	0	3,082
Miscellaneous	1,238	1,218
Other financial assets	**24,926**	**23,639**

23. Other short-term non-financial assets

	31/12/2021 €k	31/12/2020 €k
Value-added tax	7,207	5,600
Refund claims from return of hardware	4,336	4,410
Trade tax	737	33,419
Corporate income tax	473	10,307
Capital gains tax	439	0
Other non-financial assets	**13,192**	**53,736**

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:

	31/12/2021 €k	31/12/2020 €k
Participating interests	1,243	1,259
Other loans	692	733
Total	**1,935**	**1,992**

25. Tangible assets

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

	31/12/2021 €k	31/12/2020 €k
Cost of acquisition		
Land and buildings	302	302
Rights of use for land and buildings	113,700	100,733
Rights of use for fixtures, fittings and equipment	6,218	5,167
Fixtures, fittings and equipment	51,267	41,869
Payments on account	16,666	6,011
	188,153	**154,082**
Less		
Accrued amortisation	-45,175	-31,282
Tangible assets, net	**142,978**	**122,800**

An alternative presentation of the development of tangible assets in fiscal years 2021 and 2020 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 €23,229k (previous year: €55,399k).

The increase in rights of use is essentially due to the conclusion of new long-term leases at the Karlsruhe and Düsseldorf sites.

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:

	31/12/2021 €k	31/12/2020 €k
Cost of acquisition		
Spectrum	1,070,187	1,070,187
Clientele	776,975	776,975
Rights similar to concessions	165,000	165,000
Purchased software and licences	149,538	138,536
Trademarks	56,300	56,300
Own produced software	17,135	18,262
Rights of use to licences	9,282	9,281
Payments on account	6,185	3,136
	2,250,602	**2,237,677**
Less		
Accrued amortisation	-641,860	-497,086
Intangible assets, net	**1,608,742**	**1,740,591**

An alternative presentation of the development of intangible assets in fiscal years 2021 and 2020 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 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 fiscal year 2020. 1&1 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 bandwidth. The two frequency blocks will be available to 1&1 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 €53,200k (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. In fiscal year 2021, trademark rights with a carrying value of €3.1 million were devalued as there are currently no plans for the continued active use of these trademarks.

The following table gives an overview of the trademark rights attributed to the CGU Access of 1&1:

	31/12/2021 €k	31/12/2020 €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
PremiumSIM	2,200	2,200
maXXim	0	2,700
BildConnect	0	200
Tecol	0	200
Total	**53,200**	**56,300**

Per the balance sheet date, there are purchase obligations for intangible assets in the amount of €1k (previous year: €7k).

Spectrum

1&1 participated in 5G auction frequency auction that ended on 12 June 2019 and acquired two frequency blocks à 2 x 5 MHz in the 2 GHz bandwidth and five frequency blocks à 10 MHz in the 3.6 GHz bandwidth; the usability of each block is limited 31 December 2040. The frequency blocks in the 3.6 GHz bandwidth are available immediately and the frequency blocks in the 2 GHz bandwidth will be available from 1 January 2026.

The intangible assets resulting from the acquisition were recognised at their cost of acquisition. Per 31 December 2021, 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
2.0 GHz	334,997
Total	1,070,187

There were no write-downs in fiscal year 2021. 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 and for more specific address of 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 Access (formerly: 1&1). The integration measures and the related interdependencies in the strategic orientation have resulted in the cash-generating unit Access becoming the smallest segment for which management monitors goodwill. The impairment test of the goodwill of Access is carried out at the level of the reporting segment of the same name.

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 Access. The frequency licences that currently are not yet usable are allocated to the 5G cash-generating unit. There are no other cash-generating units.

In fiscal year 2021 and in the previous year, there were no indications of any impairments after completion of the impairment tests.

Scheduled impairment test per 31 December 2021

The realisable amounts of the cash-generating unit Access is determined on the basis of the calculation of the utilisation value (in the previous year, based on the fair value less costs of the disposal) using cash flow forecasts. The hierarchy of the utilisation value within the sense of IFRS 13 is classified as Level 3 for this impairment test.

As in the previous year, the impairment test for goodwill of the cash-generating unit Access in fiscal year 2021 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 Access and the determination of the utilisation value:

	Reporting year	Total share of goodwill	Long-term growth rate	Discount factor before taxes**	Turnover growth rate*
Access	2021	100%	0.05%	6.9%	1.6%
	2020	100%	0.00%	4.3%	1.1%

*Detailed planning period until the end of fiscal year 2027

**The discount factor in the previous year was determined after taxes because the impairment test was conducted on the basis of the fair value less the costs of the disposal; the comparable discount fact after taxes for fiscal year 2021 amounts to 4.7 percent.

The cash flow forecasts are based on a Group budget calculation for fiscal year 2022 and a planning calculation for fiscal years 2023 to 2027. 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 (2027) 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 2028 to and including 2032, 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 1.6 percent (previous year: 1.1 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 utilisation value 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 0.05 percent (previous year: 0.00 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 before taxes used in the fiscal year for the cash flow forecasts are at 6.9 percent (previous year: 4.3 percent after taxes).

Sensitivity of the applied assumptions

The sensitivity of the applied assumptions concerning an impairment in goodwill is dependent on the fundamental assumptions for the pertinent cash-generating unit.

Within the framework of the sensitivity analyses for the cash-generating unit Access, an increase in the discount rate (before taxes) of 0.5 percentage points and a decline in the long-term growth rate in the perpetual annuity of 0.05 percentage points 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 utilisation value of a cash-generating unit could, according to reasonable judgement, lead to a carrying value that is significantly higher than the utilisation value.

Intangible assets not yet usable (spectrum)

The recognised 5G spectrum results from the 5G frequency auction of 2019. 1&1 acquired two frequency blocks à 2 x 5 MHz in the 2 GHz bandwidth and five frequency blocks à 10 MHz in the 3.6 GHz bandwidth; the usability of each block is limited to 31 December 2040. The frequency blocks in the 3.6 GHz bandwidth are available immediately and the frequency blocks in the 2 GHz bandwidth will be available from 1 January 2026. The spectrum cannot yet be used as long as the Group does not have its own network. This prompted the conduct of an impairment test of the 5G cash-generating unit in fiscal year 2021 at the level of the reporting segment of the same name.

The realisable amount of the cash-generating unit 5G is determined on the basis of the calculation of the utilisation value and application of cash flow forecasts. The hierarchy of the utilisation value 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 2022 to 2040. As the spectrum runs until 2040, the measurement was carried out over the period from 2022 to 2040.

The cash flow forecasts depend to a large extent on the estimate of future sales revenues, assumptions about investments in the network infrastructure and the ongoing operating costs of network operations. The main revenue driver for the 5G cash-generating unit is the growth of the subscriber base in the 1&1 network and the planning of future data consumption by customers. The planning calculations were based on the subscriber development in the Access cash-generating unit; the assumptions about the future data consumption of customers are derived from values based on experience. The plans for investments in the network infrastructure are based on concrete expansion plans that are essentially founded on the expansion obligations from the frequency acquisition and the contractually agreed construction costs. The planning for the ongoing costs of grid operation is based on contracts already concluded and assumptions about the development of energy costs based on experience. Another important basic assumption for the planning of the cash-generating unit is the underlying discount rates.

The pre-tax discount rate used for the cash flow forecast in the fiscal year is 3.9 percent (previous year: 3.0 percent after tax, the comparable post-tax discount rate for fiscal year 2021 is 2.9 per cent). There was no need for impairment in the fiscal year. This also qualitatively reflects the expectation of the Management Board due to the high strategic importance.

Sensitivity of the applied assumptions

The sensitivity of the applied assumptions concerning an impairment in goodwill is dependent on the fundamental assumptions for the pertinent cash-generating unit.

Within the scope of sensitivity analyses for the 5G cash-generating unit, an increase of 10 percent in operating costs for active network technology (especially energy costs) was assumed. No changes in the impairment test would arise from these assumptions. According to current knowledge, the Company management does not expect any significant deviations for the planned costs for passive infrastructure as well as for the costs of network construction because of the contractual structures with the partners for network expansion.

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 utilisation value of a cash-generating unit could, according to reasonable judgement, lead to a carrying value that is significantly higher than the utilisation value.

28. Long-term deferred expenses

Long-term deferred expenses of €272,672k (previous year: €142,665k) include largely costs to obtain contracts of €76,275k (previous year: €81,624k), costs to fulfil contracts of €32,877k (previous year: €37,985k) and advance payments made under long-term purchase contracts of €163,520k (previous year: €23,055k).

29. Trade accounts payable

Trade accounts payable amount to €262,592k (previous year: €319,866k) per the balance sheet date 31 December 2021. 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 accounts due to associated companies

Short-term liabilities due to associated companies per the balance sheet date 31 December 2021 amount to €85,162k (previous year: €55,800k) 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

	31/12/2021 €k	31/12/2020 €k
Contract liabilities	56,148	51,027
of which short-term	48,701	44,110
of which long-term	7,447	6,917
Total	**56,148**	**51,027**

Contract liabilities consist of advance payments received of €9,519k (previous year: €7,576k), deferred revenue of €24,962k (previous year: €24,997k) and deferred income from one-off fees of €21,667k (previous year: €18,454k) that are updated through profit and loss.

32. Income tax liabilities

The income tax liabilities in the amount of €42,017k (previous year: €25,933k) 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 €k	Restructuring €k	Litigation risks €k	Termination fees €k	Miscellaneous €k	**Total €k**
01 January 2021	593	480	2,677	46,168	1,825	51,743
Utilisation	0	0	1,202	8,521	1,645	11,368
Reversal	418	0	1,373	0	0	1,791
Allocation	0	0	471	5,828	5,470	11,769
31 December 2021	**175**	**480**	**573**	**43,475**	**5,650**	**50,353**

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 termination.

The provision for restructuring concerns the costs relating to the sale of yourfone Shop GmbH.

The other provisions are mainly warranty provisions.

Provisions of €43,576k (previous year: €46,444k) 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:

	31/12/2021 €k	31/12/2020 €k
Other short-term financial liabilities		
Frequency liabilities	61,266	61,266
Marketing and distribution costs/distribution commissions	15,065	8,842
Obligations pursuant to leases	11,595	12,477
Liabilities from salaries/personnel	11,823	11,252
Customers with credit balances	6,146	5,880
Legal and professional fees, closing expenses	2,737	1,126
Miscellaneous	12,180	5,440
Total	**120,812**	**106,283**

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:

	31/12/2021 €k	31/12/2020 €k
Other short-term non-financial liabilities		
Value-added tax	87,414	14,910
Income and church tax due	2,526	2,359
Total	**89,940**	**17,269**

The cause for the increase in the value-added tax is in particular the changed VAT regulations for telecommunication services, according to which 1&1 has to pay the VAT for purchased telecommunication services itself.

36. Other long-term financial liabilities

The other long-term financial liabilities break down as follows:

	31/12/2021 €k	31/12/2020 €k
Other long-term financial liabilities		
Frequency liabilities	825,124	886,389
Obligations pursuant to leases	90,690	85,702
Miscellaneous	2,308	2,560
Total	**918,122**	**974,651**

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	262,592	0	0	262,592
Liabilities due to associated companies	85,162	0	0	85,162
Contract liabilities	48,701	7,447	0	56,148
Other financial liabilities	120,812	418,700	499,422	1,038,934
Other non-financial liabilities	89,940	0	0	89,940
Other provisions	6,777	43,576	0	50,353
Income tax liabilities	42,017	0	0	42,017
Total	**656,001**	**469,723**	**499,422**	**1,625,146**

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	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**

38. Share-based payment

There are two different employee stock ownership programmes in the reporting year 2021: A new employee participation model oriented to the long term, the so-called Stock Appreciation Rights Drillisch (SAR Drillisch programme), which was launched in the reporting year 2020, and a previous employee participation model, the so-called Stock Appreciation Rights (SAR United Internet).

Stock Appreciation Rights (SAR United Internet)

The 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 stock 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 AG Group is presented as a provision in accordance with the regulations of IFRS 2. In fiscal year 2021, this resulted in income of €418k (previous year: expense of €328k). Per 31 December 2021, the carrying value of the provisions from stock-based remuneration amounts to €175k (previous year: €593k). Per 31 December 2021, 100,000 virtual stock options (previous year: 175,000 options) at an average exercise price of €41.26 (previous year: €36.93) were outstanding.

Stock Appreciation Rights Drillisch (SAR Drillisch)

A programme introduced in the first half of 2018, the Stock Appreciation Rights Drillisch (SAR Drillisch), remained in effect until 17/04/2020. The programme was aimed at managers and key employees and was based on virtual stock options of 1&1 AG.

An SAR Drillisch encompassed the commitment of 1&1 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 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 AG stock, but was not a share right and consequently was not a (genuine) option for the purchase of 1&1 AG stock. The claim pursuant to one SAR was dependent on the development of the stock price and of the EBIT.

In fiscal year 2020, expenses of €299k were recognised for the programme.

The previous SAR Drillisch programme was discontinued during fiscal year 2020. At the time of cancellation, 77,400 share options were outstanding and were replaced by new equity instruments.

The new employee stock ownership model, the so-called Stock Appreciation Rights Drillisch (SAR Drillisch), is aimed at executives and employees in key positions and is based on virtual stock options of 1&1 AG. One SAR Drillisch encompasses the commitment of 1&1 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 allocation) 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 AG stock, but is not a share right and consequently is not a (genuine) option for the purchase of 1&1 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 allocation is calculated as the average of the closing prices in XETRA trading for the stock of 1&1 AG on the Frankfurt Stock Exchange during the last 10 trading days prior to the time of allocation 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 AG 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 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 2.10, the goods and services received must be measured directly at the fair value of the received services in the case of stock-based remuneration that is equity settled.

The 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 allocated options was calculated as follows:

Valuation parameters in fiscal year 2021

Allocation date	01/06/2021		01/10/2021	
Fair value	1,105	€k	118	€k
SAR	228,400	Number	28,000	Number
Option value	4.84	€	4.21	€
Share price	26.30	€	25.70	€
Exercise price	26.27	€	25.98	€
Exercise price 200%	52.54	€	51.96	€
Exercise hurdle	120	%	120	%
Exercise hurdle	31.52	€	31.18	€
Dividend per share	0.05	€	0.05	€
Dividend return	0.19	%	0.19	%
Volatility of the stock	47.68	%	31.36	%
Term	5	Years	5	Years

Valuation parameters in fiscal year 2020

Allocation date	17/04/2020		01/06/2020		01/10/2020	
Fair value	6,930	€k	1,111	€k	1,042	€k
SAR	1,904,600	Number	270,000	Number	314,000	Number
Option value	3.64	€	4.12	€	3.32	€
Share price	19.84	€	22.95	€	18.85	€
Exercise price	19.07	€	23.20	€	19.80	€
Exercise price 200%	38.14	€	46.40	€	39.60	€
Exercise hurdle	20	%	20	%	20	%
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	5	Years	5	Years	5	Years

The exercise price is calculated on the basis of the average stock price of the last 10 days before the allocation date. The volatilities of the 1&1 stock correspond to the volatilities for the cut-off dates relevant for each evaluation.

In fiscal year 2021, the total expenditures from the employee stock ownership programme came to €10,306k (previous year: €9,083k). The expenditures for fiscal year 2021 for SARs not yet exercised on the balance sheet date come to €3,164k (previous year: €1,879k). The cumulative expense per 31 December 2021 amount to €5,043k (previous year: €1,879k). Expenditures for future years will amount to €5,263k (previous year: €7,204k).

The changes in the vested or outstanding virtual share options can be seen in the following table:

	SAR	Average exercise price (€)
Outstanding per 1 January 2020	**77,400**	**0**
lapsed/forfeited	-77,400	0
Replacement	534,800	19.07
Newly vested	1,369,800	19.07
Newly vested	270,000	23.20
Newly vested	314,000	19.80
Outstanding per 31 December 2020	**2,488,600**	**19.61**
Newly vested	228,400	26.27
Newly vested	28,000	25.98
Outstanding per 31 December 2021	**2,745,000**	**20.23**

39. Share capital

The share capital amounts to €193.9 million. The share capital is distributed in 176,299,649 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 AG. In fiscal years 2018 and 2019, a total of 500,000 1&1 AG shares were acquired as part of the stock repurchase programme, reducing the number of shares outstanding to 176,264,649 shares.

During fiscal year 2021, 17,000 shares were issued from treasury stock and 18,000 shares were sold, bringing the number of shares in circulation to 176,299,649 per 31 December 2021.

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 Stock Corporation Act [Aktiengesetz; 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 Sections 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 treasury 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 in which they are issued; to the extent 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 2021 came to €2,436,106k (previous year: €2,432,054k). The increase in the capital reserve results from the allocation of €3,164k within the framework of employee participation programmes and from the issue of treasury shares in the amount of €888k.

Other equity per the balance sheet date comprises the following:

	2021 €k	2020 €k
Participating interests		
PipesBox GmbH, Rostock	-411	-411
POSpulse, Berlin	-317	-317
Miscellaneous	-151	-292
Total	**-879**	**-1,020**

The Other equity in the amount of €879k (previous year: €1,020k) 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.

During the fiscal year, 1&1 held about 1 percent of the shares in POSpulse GmbH, Berlin. In October 2021, 1&1 ceased to be a shareholder pursuant to a mutual agreement on the redemption of shares by POSpulse GmbH. The carrying value of the participation, which had already been fully written down per 31 December 2020, was consequently derecognised.

41. Treasury stock

The extraordinary General Meeting on 12 January 2018 authorised the Management Board of 1&1 AG to acquire shares of the Company's treasury 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.

As in the previous year, the repurchase right was not exercised during 2021.

In fiscal year 2021, 35,000 shares of treasury stock were issued and sold, increasing the Company's share capital by €38,500.00 to €193,929,613.90. Per 31 December 2021, 1&1 AG held 465,000 treasury shares representing €511,500 (0.26 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 2021:

	Measu-rement category per IFRS 9	Carrying value per 31/12/2021 €k	At amortised cost €k	Fair value through other compre-hensive income without recycling to profit and loss €k	Valuation according to IFRS 16 €k	Fair value per 31/12/2021 €k
Financial assets						
Cash and cash equivalents	ac	4,555	4,555			4,555
Trade accounts receivable	ac	248,106	248,106			248,106
Accounts due from associated companies	ac	718,091	718,091			718,091
Other short-term financial assets	ac	24,926	24,926			24,926
Other long-term financial assets						
- Participations	fvoci	1,243		1,243		1,243
- Miscellaneous	ac	692	692			692
Financial liabilities						
Trade accounts payable	ac	-262,592	-262,592			-262,592
Accounts due to associated companies	ac	-85,162	-85,162			-85,162
Other short-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-11,595			-11,595	
- Miscellaneous	ac	-109,217	-109,217			-109,217
Other long-term financial liabilities	ac/n/a					
- Lease obligations	n/a	-90,690			-90,690	
- Miscellaneous	ac	-827,432	-827,432			-827,432
of which aggregated per classification categories:						
- Financial assets at amortised cost	ac	996,370	996,370			996,370
- Financial assets at fair value through other comprehensive income without recycling to profit and loss	fvoci	1,243		1,243		1,243
- Financial liabilities at amor-tised cost	ac	-1,284,403	-1,284,403			-1,284,403
Lease obligations	n/a	-102,285			-102,285	

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in fiscal year 2021:

2021 **Net result according to measurement categories**	**Measurement category per IFRS 9**	**From interest and dividends** **€k**	**Currency translation** **€k**	**Valuation allowance** **€k**	**Net result** **€k**
Financial assets calculated at amortised cost	ac	1,112	140	-46,314	-45,062
Financial assets measured at fair value (through other comprehensive income)	fvoci	0	0	0	0
Financial liabilities measured at amortised cost	ac	-12,428	60	0	-12,368
Total		-11,316	200	-46,314	-57,430

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 2020.

	Measu-rement category per IFRS 9	Carrying value per 31/12/2020 €k	Amortised cost €k	Fair value through other compre-hensive 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						
- Participations	fvoci	1,259		1,259		1,259
- Miscellaneous	ac	733	733			733
Financial liabilities						
Trade accounts payable	ac	-319,866	-319,866			-319,866
Accounts 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 amorti-sed 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 category per IFRS 9**	**From interest and dividends** **€k**	**Currency translation** **€k**	**Valuation allowance** **€k**	**Net result** **€k**
Financial assets calculated 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

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 €1,243k (previous year: €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 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

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, until 27 May 2021)
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board chairman)
- IONOS Holding SE (formerly 1&1 IONOS Holding SE), Montabaur
- Nemetschek SE, Munich (Supervisory Board chairman)
- Bechtle AG, Gaildorf
- Graphisoft S.E., Budapest/Hungary (until 31 May 2021)
- Singhammer IT Consulting AG, Munich
- Vectorworks Inc, Columbia/USA (until 31 May 2021)

Michael Scheeren
Banker, Frankfurt am Main
– Chairman –
(Supervisory Board member and chairman until 23 February 2021)

Seats held on supervisory boards required by law or other supervisory bodies:

- United Internet AG, Montabaur (Supervisory Board deputy chairman, until 24 March 2021)
- 1&1 Telecommunication SE, Montabaur (Supervisory Board chairman, until 23 February 2021)
- 1&1 Mail & Media Applications SE, Montabaur (Supervisory Board deputy chairman, until 23 February 2021)
- IONOS Holding SE (formerly 1&1 IONOS Holding SE), Montabaur (until 23 February 2021)
- Tele Columbus AG, Berlin (until 31 December 2021)

Kai-Uwe Ricke
Entrepreneur, Stallikon/Switzerland
– Deputy Chairman –

Seats held on supervisory boards required by law or other supervisory bodies:

- 1&1 Telecommunication SE, Montabaur (until 10 September 2021)
- Cash Credit Limited, Cayman Islands
- 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 LLC, Cayman Islands
- Virgin Mobile CEE B.V., Amsterdam/Netherlands (until 13 January 2021)

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 (until 10 September 2021)

Vlasios Choulidis
Entrepreneur, Gelnhausen

Seats held on supervisory boards required by law or other supervisory bodies:

- 1&1 Telecommunication SE, Montabaur (until 10 September 2021)

Dr Claudia Borgas-Herold
Entrepreneur, Kilchberg/Switzerland

Seats held on supervisory boards required by law or other supervisory bodies:

- 1&1 Telecommunication SE, Montabaur (until 10 September 2021)
- United Internet AG, Montabaur
- Tele Columbus AG, Berlin (since 28 May 2021)

Matthias Baldermann
Entrepreneur, Dresden
(Supervisory Board member since 26 May 2021)

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)
- IONOS SE (formerly: 1&1 IONOS Holding SE), Montabaur
  (since 4 March 2021; Supervisory Board chairman since 1 October 2021)
- 1&1 Mobilfunk GmbH (formerly Drillisch Netz AG), Düsseldorf
  (Supervisory Board deputy chairman, until 8 November 2021)
- 1&1 Mail and Media Applications SE, Montabaur (since 9 March 2021)
- 1&1 Telecommunication SE, Montabaur (since 10 September 2021)
- Tele Columbus AG, Berlin (since 07 June 2021)

Markus Huhn
Management Board, Neuerkirch

Seats held on supervisory boards required by law or other supervisory bodies:

- 1&1 Mobilfunk GmbH (formerly Drillisch Netz AG), Düsseldorf (until 21 January 2021)
- 1&1 Versatel Deutschland GmbH, Düsseldorf
- 1&1 Versatel GmbH, Düsseldorf
- IQ-optimize Software AG, Maintal (Supervisory Board deputy chairman until 11 January 2021, subsequently Supervisory Board member)

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)
- 1&1 Mobilfunk GmbH (formerly Drillisch Netz AG), Düsseldorf (Supervisory Board deputy chairman, until 8 November 2021)
- 1&1 Versatel GmbH, Düsseldorf

Remuneration paid to management executives in key positions and to the Supervisory Board

Ongoing remuneration paid to Management Board members in fiscal year 2021 totalled €1,331k, of which €256k was variable (previous year: €4,637k, of which €3,743k was 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. The fair value is included in the above disclosure of the previous year's remuneration as a variable component.

Expenses from the programme amounted to €1,135k in fiscal year 2021 (previous year: €799k). Taking these expenses into account, the total remuneration amounts to €2,466k (previous year: €5,436k).

Remuneration paid to the Supervisory Board in 2021 totalled €324k (previous year: €304k).

The description of the remuneration system and the itemised disclosures of the remuneration paid to the officers and directors of 1&1 AG are shown in the remuneration report that is a issued separately.

Directors' Holdings

Per 31 December 2021, Management Board members held the following shares in 1&1 AG: United Internet AG, Montabaur, held 78.32 percent of the stock in 1&1 AG per the closing date 31 December 2021. Per 31 December 2021, Mr Ralph Dommermuth in turn holds indirectly through holding companies 50.10 percent of the share capital of United Internet AG as reduced by his treasury shares of United Internet AG.

Supervisory Board members held the following shares in 1&1 AG per 31 December 2021: 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 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 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:

	31/12/2021 €k	31/12/2020 €k
United Internet AG	713,269	399,602
IONOS Group	1,658	592
1&1 Mail & Media Group	1,580	156
Miscellaneous	1,584	535
Total	**718,091**	**400,885**

The short-term accounts receivable result from the short-term investment of cash as parent well as from trade. Of the disclosed receivables, €713,269k (previous year: €399,602k) 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 2021. 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:

	31/12/2021 €k	31/12/2020 €k
Versatel Group	67,788	41,130
1&1 Mail & Media GmbH	7,111	5,032
United Internet Corporate Services GmbH	3,699	4,887
IONOS Group	2,839	1,421
A1 Marketing, Kommunikation und neue Medien GmbH	2,267	2,311
Miscellaneous	1,458	1019
Total	**85,162**	**55,800**

Accounts due to associated companies result above all from trade. Of the disclosed liabilities, €92k (previous year: €458k) comprise liabilities due to the parent company (United Internet AG). The open balances existing at the end of the fiscal year are unsecured and, with the exception of liabilities owed to United Internet AG, interest-free and are settled by cash payment. There are no guarantees.

The parent company, United Internet AG, has granted to 1&1 AG a credit line with an indefinite 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 2021 €k	Purchases/services to associated companies/related parties 2021 €k	Purchases/services from associated companies/related parties 2020 €k	Purchases/services to associated companies/related parties 2020 €k
197,123	27,978	172,822	29,315

The transactions with associated companies concern primarily issues from internal offsets of performances.

Of the disclosed expenses, €169k (previous year: €191k) are related to the parent company, United Internet AG.

In addition to the transactions shown in the table above, there are also transactions with associated companies that are strictly cost recharges without a profit mark-up. These business transactions are carried out primarily to bundle purchasing volumes.

Mr Ralph Dommermuth leases the business premises in Montabaur and Karlsruhe to 1&1. The resulting payment obligations are at the usual local level.

The leases for office buildings used by several subsidiaries of 1&1 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 2021 amounts to €59,673k (previous year: €61,549k) and that of the lease liabilities to €60,485k (previous year: €61,970k). Write-offs in fiscal year 2021 amounted to €5,748k (previous year: €4,408k) and interest expenses to €941k (previous year: €806k). The payment commitments incurred during the reporting period amounted to €6,293k (previous year: €5,131k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (shareholder of VPM and member of the Supervisory Board of 1&1 AG – Mr Vlasios Choulidis) has leased office space in Maintal 1&1. The resulting payment obligations are at the usual local level. The carrying value of the right of use per 31 December 2021 amounts to €691k (previous year: €864k) and that of the lease liabilities to €701k (previous year: €872k). Write-offs in fiscal year 2021 amounted to €173k (previous year: €173k) and interest expenses to €8k (previous year: €10k). The resulting payment commitments incurred during the reporting period amounted to €179k (previous year: €179k).

Per 31 December 2021, 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 2021 €k	Interest and similar expenses 2021 €k	Interest income 2020 €k	Interest and similar expenses 2020 €k
843	0	543	0

Interest income concerns above all interest paid 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 Group 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, 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. Particularly in view of the cost-intensive expansion of the mobile network over the next few years, a longer-term financial plan as well as a short-term liquidity forecast will be drawn up so that the solvency and financial flexibility of 1&1 Group at all times is ensured. We expect to be able to service the investments in the mobile network largely from existing liquidity and future cash flows from operations. In addition, 1&1 has access to a credit balance of € 713 million, which is due at any time, and a credit line of € 200 million pursuant to the cash management agreement with United Internet AG.

The Group 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 2021 and 31 December 2020. The repayment plus the contractually determined minimum interest payment are shown in the specific year columns within the table.

Cash outflow for repayment and interest in the fiscal year

	Carrying value 31/12/2021 €k	2022 €k	2023 €k	2024 €k	2025 €k	>2025 €k	Total €k
Trade accounts payable	262,592	262,592	0	0	0	0	262,592
Liabilities due to associated companies	85,162	85,162	0	0	0	0	85,162
Other financial liabilities	1,038,934	120,812	72,687	72,419	139,449	638,649	1,044,016

The payments from other financial liabilities essentially comprise the payments for spectrum. On 5 September 2019, 1&1 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 will help to close existing coverage gaps and by building antenna sites will contribute to the improvement of mobile communications coverage in rural regions. In return, the Group 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.

Liquiditätsabfluss von Tilgung und Zinsen im Geschäftsjahr

	Carrying value 31/12/2020 €k	2021 €k	2023 €k	2023 €k	2024 €k	>2024 €k	Total €k
Trade accounts payable	319,866	319,866	0	0	0	0	319,866
Liabilities due to associated companies	55,800	55,800	0	0	0	0	55,800
Other financial liabilities	1,080,934	106,283	72,483	72,236	71,985	767,307	1,090,294

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 "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. The Group does not expect any significant change in the risk surcharges in the foreseeable future.

1&1 is not vulnerable to any significant interest rate 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 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 and after netting to the extent there is a counterbalancing situation. Reference is made to the information under 17 of the notes regarding overdue, unimpaired trade receivables.

Accounts due from and loans to associated companies

The accounts due from and loans to associated companies are continually monitored by management. The financial position of the associated company and the development of the market on which it operates are subject to ongoing assessment by 1&1’s management. There are currently no indications that existing receivables may not be recoverable.

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 AG is not subject to any obligations in the Company charter 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 treasury 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 2021 or per 31 December 2020.

At present, it is not expected that a significant amount of borrowing will be necessary for the upcoming construction of the 5G mobile network. For further information, please refer to the disclosures on liquidity risk.

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.

As in the previous year, advance services providers have filed claims in the low hundreds of millions range (the Company's internal classification defines amounts up to €333 million as low hundreds of millions range; even the total of the filed claims does not exceed this amount). 1&1 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 2021 are presented below:

	2021 €k	2020 €k
Write-offs on rights of use:		
Land and buildings	9,171	8,811
Fixtures, fittings and equipment	1,417	1,364
Licences	1,591	1,326
Total write-offs on rights of use	**12,179**	**11,501**
Interest expenses from leases	**1,406**	**1,145**
Expenses for short-term leasing liabilities	**315**	**81**
Expenses for leases for a low-value asset	**43**	**17**

There was an outflow of funds in the amount of €11,592k (previous year: €10,666k) related to lease liabilities during the reporting period.

The rights of use for licences result from the frequency transfer agreement concluded with Telefónica in fiscal year 2020. 1&1 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 bandwidth. The two frequency blocks will be available to 1&1 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 2021:

	Carrying value per 31/12/2021 €k	Carrying value per 31/12/2020 €k
Land and buildings	92,442	86,968
Fixtures, fittings and equipment	2,206	2,572
Licences	6,365	7,956

The additions to the rights of use for fiscal year 2021 are as follows:

	Additions according to IFRS 16
Land and buildings	29,093
Fixtures, fittings and equipment	1,052
Licences	0

Leasing obligations existing per 31 December 2021 will result in outgoing payments in the following years:

	31/12/2021 €k	31/12/2020 €k
Up to 1 year	11,595	12,477
1 to 5 years	39,638	38,333
More than 5 years	51,053	47,369
Total	**102,285**	**98,179**

The extension options not included in the valuation according to IFRS 16 result in future payment obligations of €1.7 million (previous year: €0.2 million) if they are exercised.

Other financial obligations

The following minimum payment obligations for the future existed per 31 December:

	31/12/2021 €k	31/12/2020 €k
Other miscellaneous obligations	193,399	476,150

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 €315k per 31/12/2021 (previous year: €155k).

The Group 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 term of the agreement to June 2025. The capacity that must be purchased is 20 percent to 30 percent of the used capacity of the Telefónica network. With the conclusion of the national roaming agreement, 1&1 is able to reduce or increase the acquired quotas on a quarterly basis to a certain extent. The annual payments for the service components of the agreement are in the middle hundreds of millions range. An exact amount cannot be determined as the payments are dependent on various contractual variables as well as the future reduction or increase in capacity.

Investment expenditures for which there are contractual obligations in subsequent years per the balance sheet date amount to €23,230k (previous year: €55,406k). There are such obligations for the fixed assets in the amount of €23,229k (previous year: €55,399k). Cash outflows are expected mainly in fiscal years 2022 and 2023.

In addition, a purchase contract results in purchase obligations until 31 December 2022 in an expected range of €84.0 million to €86.3 million.

In fiscal year 2021, there are also other financial obligations from procurements of goods and services amounting to approximately €85.9 million (previous year: approximately €82.7 million). These obligations relate to obligations from advertising contracts that are expected to fall due in equal payments until 2026.

On 5 September 2019, 1&1 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”. Accordingly, 1&1 has covenanted to invest a total of €50 million. By taking this action, 1&1 will help to close existing coverage gaps and by building antenna sites will contribute to the improvement of mobile communications coverage in rural regions. These obligations are not included in the other miscellaneous obligations listed above as they are of a nature similar to interest.

47. Consolidated cash flow statement

The net payments from operating activities in fiscal year 2021 include interest paid in the amount of €3,343k (previous year: €90k) and interest received in the amount of €213k (previous year: €1,125k). Interest payments include payments similar to interest in the amount of €2,787k that are related to the acquisition of the 5G frequencies. 1&1 has agreed with the Federal Ministry of Transport and Digital Infrastructure (BMVI) and the Federal Ministry of Finance (BMF) to pay the costs of the acquired 5G frequencies in twelve annual instalments. In return for the deferral, 1&1 has committed to building hundreds of mobile sites in so-called “white spots”, giving the investment costs a character similar to interest. The share of the total investment amount attributable to fiscal year 2021 is €11.0 million.

Taxes paid for fiscal year 2021 in the amount of €167,387k (previous year: €150,755k) concern the ongoing corporate income tax, including solidarity surcharge, and ongoing trade tax. Payments for taxes on income amount to €45,860k (previous year: €23,445k).

The initial recognition of the 5G spectrum in fiscal year 2019 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 2021 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 €313 million (previous year: €190 million) are included in the cash flow from investing activities. With regard to the change in other financial liabilities, payments in the amount of €73 million (previous year: €72 million) are included in the cash flow from financing activities. In the reporting year 2021 as in the previous year, 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 2020 and 2021 is shown below:

	01/01/2020 €k	**Changes in cash effective for payments** €k	**Changes in cash not effective for payments** €k	**31/12/2020** €k
Frequency liabilities	1,008,921	-61,266	0	**947,655**
Lease liabilities	47,788	-10,666	61,056	**98,178**
Total liabilities from financing activities	**1,056,709**	**-71,932**	**61,056**	**1,045,833**

	01/01/2021 €k	**Changes in cash effective for payments** €k	**Changes in cash not effective for payments** €k	**31/12/2021** €k
Frequency liabilities	947,655	-61,266	0	**886,389**
Lease liabilities	98,178	-11,592	15,699	**102,285**
Total liabilities from financing activities	**1,045,833**	**-72,858**	**15,699**	**988,674**

48. Auditor's fees

In fiscal year 2021, auditor's fees in the amount of €1,228k were calculated in the consolidated financial statements. They include €1,104k for the audit of the financial statements, €60k for other confirmation services, €11k for tax accountant services and €53k for other services.

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.

Undiluted consolidated earnings per share	**2021**	**2020**
Consolidated earnings in €k	370,022	219,593
Ordinary shares (number)	176,764,649	176,764,649
Weighted average of treasury shares held in the fiscal year (number)	-492,926	-500,000
Weighted average less treasury shares (number)	176,271,723	176,264,649
Undiluted consolidated earnings per share in €	**2.10**	**1.25**

Diluted consolidated earnings per share	**2021**	**2020**
Consolidated earnings in €k	370,022	219,593
Ordinary shares (number)	176,764,649	176,764,649
Weighted average of treasury shares held in the fiscal year (number)	-492,926	-500,000
Average number of shares to be included from SARs	288,590	208,047
Weighted average less treasury shares (number)	176,560,313	176,472,696
Diluted consolidated earnings per share in €	**2.10**	**1.24**

The calculation of the share options included in the dilution effect was adjusted in fiscal year 2021. This results in a changed value of the weighted average number of shares outstanding in the previous year, but has no effect on the diluted earnings per share.

50. Dividend per share

The Annual General Meeting of 1&1 AG on 26 May 2021 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 31 May 2021.

In accordance with Section 21 of the 1&1 AG charter, 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 2021 as follows:

- Payment of a dividend of €0.05 per share. This proposal is oriented to the minimum dividend required by Section 254 (1) AktG. Assuming 176.3 million shares entitled to dividends, this would result in a total disbursement of €8.8 million for fiscal year 2021.

Management Board and Supervisory Board discuss this dividend proposal for fiscal year 2021 in the Supervisory Board meeting on 16 March 2022.

Pursuant to Section 71b AktG, the Company is not entitled to any rights from treasury stock and consequently is not entitled to a proportionate disbursement. As of the date of the signing of the consolidated financial statements, 1&1 Group holds 465,000 shares (previous year: 500,000 shares) of treasury stock.

51. Declaration in accordance with Section 161 AktG

Management Board and Supervisory Board of 1&1 AG submitted the declaration required by Section 161 of the Stock Corporation Law on 7 December 2021 and made it permanently accessible to shareholders at the Internet address www.1und1.ag.

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 2021:

- 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
- IQ-optimize Software AG, Maintal
- 1&1 Mobilfunk GmbH, Düsseldorf (formerly Drillisch Netz AG, Düsseldorf)
- Blitz 17-665 SE, Maintal
- Blitz 17-666 SE, Maintal

53. Incidents after the balance sheet date

In February 2022, Russia launched a major attack on the territory of Ukraine. These acts of war are triggering a humanitarian catastrophe in the middle of Europe. This is also associated with negative consequences for the overall economy, among other things, as a result of the uncertainties triggered by the war and the sanctions imposed against Russia. No effects on the economic position of 1&1 Group are expected.

Maintal, 10 March 2022

Ralph Dommermuth | Markus Huhn | Alessandro Nava

1&1 Aktiengesellschaft

Change in intangible Assets and Fixed Assets

2021	Cost of acquisition and manufacturing					
	01/01/2021 €	Additions €	Disposals €	Transfers €	Change of consolidation scope €	31/12/2021 €
Intangible assets						
Purchased software and licences	138,536	8,537	259	2,724	0	149,538
Rights similar to concessions	165,000	0	0	0	0	165,000
Own produced software	18,262	1,411	2,532	-6	0	17,135
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	9,282	0	0	0	0	9,282
Payments on account	3,136	5,712	0	-2,663	0	6,185
Goodwill	2,932,943	0	0	0	0	2,932,943
Subtotal (I)	**5,170,621**	**15,660**	**2,791**	**55**	**0**	**5,183,545**
Tangible assets						
Land and buildings	302	0	0	0	0	302
Right of use	105,899	30,145	16,126	0	0	119,918
Fixtures, fittings and equipment	41,870	8,756	1,630	2,271	0	51,267
Payments on account	6,011	12,981	0	-2,326	0	16,666
Subtotal (II)	**154,082**	**51,882**	**17,756**	**-55**	**0**	**188,153**
Total	**5,324,703**	**67,543**	**20,547**	**0**	**0**	**5,371,698**

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**

Accrued amortisation						Net carrying value	
01/01/2021 €	Additions €	Disposals €	Transfers €	Change of consolidation scope €	31/12/2021 €	31/12/2020 €	31/12/2021 €
122,728	8,594	259	0	0	131,063	15,808	18,475
16,500	33,000	0	0	0	49,500	148,500	115,500
3,810	5,537	2,532	0	0	6,815	14,452	10,320
0	0	0	0	0	0	1,070,187	1,070,187
0	3,100	0	0	0	3,100	56,300	53,200
352,710	95,742	0	0	0	448,452	424,265	328,523
1,326	1,591	0	0	0	2,917	7,956	6,365
13	0	0	0	0	13	3,123	6,172
0	0	0	0	0	0	2,932,943	2,932,943
497,086	**147,564**	**2,791**	**0**	**0**	**641,860**	**4,673,534**	**4,541,685**
111	16	0	0	0	127	191	175
16,360	10,588	1,678	0	0	25,270	89,539	94,648
14,811	6,382	1,415	0	0	19,778	27,059	31,489
0	0	0	0	0	0	6,011	16,666
31,282	**16,986**	**3,093**	**0**	**0**	**45,175**	**122,800**	**142,978**
528,368	**164,550**	**5,884**	**0**	**0**	**687,035**	**4,796,334**	**4,684,663**

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**

Responsibility Statement

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the 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, 10 March 2022

Ralph Dommermuth   Markus Huhn   Alessandro Nava

Independent Auditors' report

To 1&1 Aktiengesellschaft (formerly 1&1 Drillisch Aktiengesellschaft)

Report on the audit of the consolidated financial statements and the management report of the Company and the Group

Opinions

We have audited the consolidated financial statements of 1&1 Aktiengesellschaft (formerly 1&1 Drillisch Aktiengesellschaft), Maintal, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 Aktiengesellschaft for the fiscal year from 1 January to 31 December 2021. 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 2021, and of its financial performance for the fiscal year from 1 January to 31 December 2021, 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 2021. 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 and intangible assets which are not yet usable (frequency licenses)

Reasons why the matter was determined to be a key audit matter

The goodwill and intangible assets not yet usable presented in the consolidated financial statements of 1&1 AG comprises 57% of total assets. Goodwill is tested for impairment at least once every fiscal year. The radio spectrum band acquired in fiscal year 2019 in the form of 5G frequency licenses will not be usable until the actual start of network operation. Up to this point, the frequency licenses have to be classified as intangible assets not yet usable and therefore also have to be tested for impairment once a year.

The impairment tests comprise valuations of the cash-generating units to which the goodwill or the frequency licenses are allocated and are regularly based on the present value of the future cash flows of the cash-generating units. The cash flows used for the purpose of impairment testing of goodwill 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. The forecasts underlying the impairment tests of the frequency licenses include expected capital expenditures to build up the network infrastructure, the projected cash inflows and outflows from operating activities and the related cost-reduction potential associating with buying in network capacities from third parties. The planning horizon ends when the licenses expire in 2040 and takes into account the proceeds from the sale of existing infrastructure as well as restoration costs for leased sites estimated at that time.

In light of the magnitude of the goodwill and the frequency licenses, the underlying complexity of the valuation and the judgment exercised during valuation, the corresponding impairment tests were 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 reperformed the calculations in the underlying valuation models. 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.

For the purpose of reviewing the impairment testing of goodwill and frequency licenses, 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 used in the valuation models 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 and the frequency licenses 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 remuneration report pursuant to Sec. 162 AktG
- 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.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report of the Company and the Group or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the management report of 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 on the electronic rendering of the consolidated financial statements and the management report of the Company and the Group prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the management report of the Company and the Group (hereinafter the "ESEF documents") contained in the file 5299003VKVD-CUPSS5X23-20202021-12-31.de(1).zip (SHA-256 checksum: 98f736403055d57e5863667d5ed01fb98a87c18b-da93728507fb8882f2fc09f6) 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 work extends only 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 within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the management report of the Company and the Group contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying management report of the Company and the Group for the fiscal year from 1 January to 31 December 2021 contained in the "Report on the audit of the consolidated financial statements and of the management report of the Company and the Group" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the management report of the Company and the Group contained in the accompanying file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (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 rendering 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 determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process for preparing 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 intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, 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 file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.

- Evaluate whether the ESEF documents enable an XHTML rendering 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) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 26 May 2021. We were engaged by the supervisory board on 21 June 2021. We have been the group auditor of 1&1 Aktiengesellschaft since fiscal year 2018.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the supervisory board pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

Other matter – Use of the auditor’s report

Our auditor’s report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Bundesanzeiger [German Federal Gazette] – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr. Jens Kemmerich.

Eschborn / Frankfurt am Main, 14 March 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Hanft	Kemmerich
German Public Auditor	German Public Auditor

Remuneration Report

The following Remuneration Report explains the principles of the remuneration system for members of the Management Board and Supervisory Board of 1&1 AG and describes the amount and structure of remuneration for members of the Company's executive bodies for fiscal year 2021. The report is based on the requirements of section 162 of the German Stock Corporation Act (AktG), which has been mandatory since fiscal year 2021.

The Report comprises two parts:

- The first part presents the remuneration system for members of the Management Board and Supervisory Board, as approved and adopted by the Company's Annual Shareholders' Meeting of May 26, 2021.

- The second part, from page 14 onward, contains the actual Remuneration Report for the Management Board and Supervisory Board and complies with the requirements of section 162 AktG.

For reasons of better readability, the additional use of the female form is omitted in this report. 1&1 would like to stress that the use of the masculine form is to be understood purely as the gender-neutral form.

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

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1&1 AG Remuneration System

Management Board Remuneration

The 1&1 AG Supervisory Board presented the current remuneration system for Management Board members during the Annual General Meeting on 26 May 2021 and requested its approval. The remuneration system was adopted by 92.82 percent of the votes cast.

Management Board Remuneration System

Introduction

The 1&1 AG remuneration system described below sets forth the basic principles for the conclusion of new Management Board service contracts as of the Annual General Meeting 2021. It does not have any impact on service contracts concluded prior to that time, however, these contracts essentially comply with the requirements of the remuneration system.

The remuneration for members of the Company's Management Board is oriented toward sustainable and long-term corporate development. Management Board members should be remunerated reasonably and as appropriate for their responsibilities and duties. The economic situation, the Company's success, the personal performance of each Management Board member, the interests of persons associated with the Company and social issues must be taken into account for the assessment of the remuneration. The remuneration should create an incentive to be successful with respect to all these perspectives. Success should be targeted as a long-term achievement, which is why the remuneration must not encourage the taking of short-term risks.

Remuneration system, procedures, comparative groups and remuneration structure

The Supervisory Board establishes and regularly reviews the Management Board remuneration system in compliance with legal requirements. The system is in compliance with the regulations of the Stock Corporation Act (AktG) and the German Corporate Governance Code (DCGK) applicable to the handling of conflicts of interest. The remuneration of the individual Management Board members is calculated on the basis of the remuneration system.

The individual total remuneration ("target total remuneration") of a Management Board member is determined by the Supervisory Board at a level appropriate to performance assessment and expectation. Criteria for the appropriateness of an individual's remuneration are the tasks of the specific Management Board member, the performance of the Management Board as a whole, the personal performance of the Management Board member and his or her experience, the economic position of the Company, the success and future prospects of the Company and the customary level of remuneration in view of comparative data from other companies and from within the Company. The internal (vertical) comparison is realised by the Supervisory Board's consideration of the relationship of the Management Board remuneration to the remuneration of the Company's senior management and workforce, including its affiliated companies, and the development of this relationship over time. The external (horizontal) comparison is based on data from companies regarded as operating in comparable industries and/or that are also listed on the TecDAX and comparable with the Company in terms of market position, revenue and number of employees. When comparing the data from various sources, the Supervisory Board consults inter alia the findings of independent providers of remuneration studies and the published business and remuneration reports of comparable companies; furthermore, it obtains support from experienced and independent remuneration consultants. The Supervisory Board also makes these comparisons when determining the structure of the remuneration system as a whole.

The total remuneration of the Company's Management Board members consists of (i) a fixed, non-performance-related basic salary, (ii) fringe benefits and (iii) a variable, performance-related component. The variable component in turn consists of short-term and long-term components. The remuneration system provides bandwidths and limits within which the Supervisory Board moves in making the concrete assessments of each of the remuneration components and in determining the final total remuneration that includes the variable component.

Overview of the remuneration structure

Non-performance-related remuneration components	
Basic remuneration	Fixed salary, paid monthly
Fringe benefits/other remuneration	Insurance cover (D&O etc.); company car; housing, relocation, brokerage, home travel and tax accountant expenses to a certain extent; special allowances and signing bonus, if applicable

Performance-related remuneration components	
Short-term variable remuneration (STI)	Based on the achievement of certain targets (revenue and earnings ratios; operational/strategic aspects; personal performance; non-financial performance criteria (ESG))
Long-term variable remuneration (LTI)	Participation in the SAR programme; participation in the increase in value of the Company's stock; 5-year term

The total remuneration includes compensation for activities for and board positions in companies affiliated with the Company, associated companies and holding companies.

Insofar as any such positions have been assumed, any remuneration paid for these activities (e.g. attendance fees) is generally offset against the total remuneration and – taking into account tax requirements – is usually deducted from the short-term variable remuneration that must be paid. The Supervisory Board may conclude deviating agreements concerning the remuneration for official positions in associated companies and holding companies with the pertinent Management Board member.

Remuneration and business strategy / Long-term development of the Company

The remuneration of the members of the Company's Management Board promotes its business strategy in multiple ways.

- The structure of the short-term variable remuneration provides for the setting of targets in agreement with the members of the Management Board that, for one, secure economic success through the achievement of certain key figures. For another, individual targets, which may also include concrete strategic targets, are agreed. The inclusion of target criteria with environmental and social aspects is also intended to reward social successes.

- The long-term variable remuneration with its orientation to the stock price and its term of several years ensures that there is an incentive for sustainable economic success. Moreover, the interests of the Company and its shareholders are linked to those of the Management Board in the long term. Every member of the Management Board participates in the sustainable success of the Company, but must also shoulder economically negative developments together with the Company. This bonus/malus system prompts Board members to act as entrepreneurs and to pursue the interest of the Company from a long-term perspective.

Non-performance-related remuneration components

Fixed remuneration

The fixed remuneration serves as a guaranteed basic remuneration and is paid monthly as a salary. The fixed remuneration is reviewed at regular intervals and adjusted as expedient. Every review includes a comparison with in-company structures and figures from other companies.

Fringe benefits/Other remuneration

The following fringe benefits are offered as standard:

- D&O and accident insurance cover

- Company car with private use option (alternatively, a car allowance or a BahnCard)

In addition, the following fringe benefits may be granted as part of the “onboarding” of new Management Board members:

- Assumption of reasonable relocation and/or estate agent expenses

- Assumption of local housing costs (e.g. as an allowance for costs of two households) for a reasonable period of time

- Payment of a monthly allowance in line with the market for travel to home/family (return journey) for a reasonable period of time

- Assumption of standard market tax accountant expenses relevant for the establishment of the employment relationship

- Assumption of standard market tax accountant expenses for special matters (e.g. matters involving foreign countries) in the current employment relationship

In addition, the Supervisory Board may grant a signing bonus to new Management Board members when they transfer from another employment relationship; the bonus serves to compensate lost remuneration from the previous employment relationship. The amount of the signing bonus must in any case be offset against any payment claims from the long-term variable remuneration. Should the Management Board member leave the Company at his/her request before the signing bonus has been fully credited, the Management Board member must repay the outstanding amount of the signing bonus to the Company. In these cases, the Supervisory Board is permitted to conclude an agreement with the Management Board member according to which the amount to be repaid is reduced pro rata temporis over a longer period of time, whereby the period of time should be less than 24 months after commencing work for the Company solely in justified exceptional cases.

In addition, in justified exceptional cases – e.g. if a member of the Management Board assumes further division responsibilities in addition to his/her actual division responsibilities (e.g. due to illness or absence of a fellow Management Board member or a reassignment of divisions) – a reasonable increase in the fixed remuneration appropriate to the change is also permissible.

Retirement benefits are not granted.

Performance-related remuneration components

Short-term variable incentive (short-term incentive: "STI")

In addition to the basic remuneration, every Management Board member receives an STI; the payment period corresponds to the fiscal year of the specific company. A target figure for the STI is set that is earned if the agreed targets are met in full on average (= 100 percent). The targets are set by the Supervisory Board at the beginning of every fiscal year. Possible targets:

STI Targets	Proportion of STI (Minimum/Maximum)
Growth in sales and earnings ratios (such as EBITDA) and capital efficiency ratios (such as ROI) of the 1&1 Group	50 % - 70 %
Operational/strategic goals (e.g. business development, efficiency increase, market exploitation)	5 % - 20 %
Personal performance targets (e.g. responsibility for specific projects; achievement of individual/divisional performance indicators)	5% - 20 %
Non-financial performance criteria such as concerns of groups connected with the Company (so-called stakeholders), environmental and social issues ("ESG elements")	5% - 20 %

The Supervisory Board may deviate from the above-mentioned recommended proportions for the weighting of the separate targets.

The various categories enable the Company to create optimal alignment of the short-term variable remuneration with its interests.

- Revenue (growth) and earnings (especially EBITDA) of the 1&1 Group are the key criteria for assessing its economic success in the past fiscal year. For this reason, this category should comprise the largest proportion among the STI targets. This is in recognition of the commitment and contribution of the individual Board member to the benefit of the Company and the corporate group. Lack of economic success has a direct negative impact on the remuneration of the Board member.

- Operational and strategic goals, on the other hand, set specific incentives for the achievement of certain short-term parameters or the implementation of measures, and can more accurately reflect certain operational and strategic decisions than the revenue and profit of the corporate group. These targets should be set for the Management Board as a whole.

- Personal performance targets can be set for each individual Management Board member, thereby creating an incentive for the successful completion of certain projects for which the specific Management Board member is responsible, the solving of individual division-related challenges and the achievement of certain division-specific key figures (e.g. customer satisfaction).

- ESG elements are mandatory and, in contrast to the previous categories, primarily serve the interests of groups associated with the Company and environmental objectives. This target component gives the Supervisory Board the opportunity to focus the attention of the Board members on social issues and to create an incentive to address such issues. The scope of possible topics for these targets is broad because of the diversity of interests that might come into question. In setting targets, the Supervisory Board should consequently respond dynamically to social and environmental challenges. The ESG elements are not limited to issues outside the corporate group; they should also serve to master parallel challenges within the Company and its associated companies (e.g. diversity).

As a rule, a range of 90 percent to 120 percent applies to target achievement. If the average achievement of the targets is less than 90 percent, the entitlement to payment of the STI lapses completely. If average achievement of the targets overall is greater than 120 percent, the overachievement is capped at 120 percent of the STI target. In the year of a member's hiring, especially in stub periods, the Supervisory Board can guarantee a minimum amount of STI for the first six to twelve months of the term of office to the Management Board member. A part of this minimum amount may also be paid to the Management Board member on a monthly basis.

The Supervisory Board discusses and determines the assessment of the degree of achievement of the STI in a meeting after the adoption of the annual financial statements for the 1&1 Group. The Supervisory Board prepares this meeting together with the Management Board members and the competent departments so that the governing body has access to the complete information necessary for an assessment and, if necessary, to additional expertise.

The revenue and earnings category is based on the key figures determined by Corporate Financial Affairs & Investor Relations. Revenue and profit targets are part of the forecast and the target/actual comparison is based on the audited annual financial statements.

The Supervisory Board determines the degree of achievement of the operational and strategic targets by evaluating the concepts submitted by the Management Board and any other materials that may be required. The achievement of personal performance targets is also determined by the Supervisory Board on the basis of documents submitted by the Management Board (and any additional external expertise that may be required). The Supervisory Board takes into account the defined key figures and success criteria in determining the target achievement of ESG elements.

After the conclusion of this Supervisory Board meeting, the STI will be paid out with the following salary payment round unless further circumstances must still be examined.

Long-term variable remuneration (long term incentive: "LTI")

A programme based on virtual stock options (Stock Appreciation Rights ("SAR") programme) serves as an LTI. An SAR corresponds to a virtual subscription right to a share in the Company, i.e. it does not represent a (real) option to acquire shares in the Company. However, the Company reserves the right at its own discretion to fulfil its obligation to pay out the SARs in cash by instead transferring one share per SAR from its treasury stock to the participant at the exercise price.

SAR programme of 1&1 AG

Subject	Participation in the increase in value of the 1&1 AG stock
Systematics	Issue of a number of SARs that can be exercised in a specified scope at specified points in time. Vesting takes place in four steps: 1. 25% of the SARs exercisable for the first time after two years 2. Another 25% of the SARs exercisable for the first time after three years 3. Another 25% of the SARs exercisable for the first time after four years 4. The remaining 25% of the SARs exercisable for the first time after five years.
Term/Fulfilment	Term: 5 years. Full vesting of all SARs after five years. The vested shares must be exercised no later than six years after the start of the programme; payment entitlement in cash or shares at the Company's discretion.
Calculation parameters	Difference between the initial price (closing price of the share when issued) and the closing price of the share when the SARs are exercised (arithmetic mean of the last ten trading days in each case).
Restrictions	- Waiting period of two years - Two exercise windows per year - Exercise of previously awarded SARs only - Exercise hurdle: exercisability of a vested SAR solely if at the time of exercise there has been a price increase of at least 20% on the initial price
Cap	100% of the initial price

The number of SARs issued to a member of the Management Board (on average per year of the programme) is based on the intended total remuneration for that Management Board member, assuming that the internal forecasts for the development of the stock are achieved. Taking into account the requirements of the remuneration system, in particular the maximum remuneration, it is also possible to conclude another SAR agreement during the term of an SAR agreement.

Since the value development of the SARs is linked directly to the performance of the Company's stock price and vesting takes place over a total period of five years, the SAR programme creates an incentive to influence positively the Company's long-term performance in the interest of the shareholders. At the same time, the Management Board member not only participates in a positive development of the Company, but is also affected by a negative development of the stock price because of the exercise hurdle and the calculation of the amount that is paid out. As the SAR programme has proven its value as a remuneration component to tie the Management Board members to the successful sustainable development of the Company's stock price, it should be retained unchanged.

Maximum remuneration

The maximum remuneration that an ordinary member of the Management Board can receive arithmetically from the sum of all remuneration components, i.e. basic salary, STI, LTI (remuneration from SAR programme/ term in years) and fringe benefits, may not amount to a total gross sum higher than €3.5 million euros p.a. (maximum remuneration).

The maximum remuneration for the Management Board chairperson may be a maximum of twice the maximum remuneration for an ordinary member of the Management Board.

The maximum remuneration is not a target total remuneration for the Management Board members deemed appropriate by the Supervisory Board, but solely an absolute upper limit that may not be exceeded under any circumstances. Should the payment of the LTI result in the maximum remuneration being exceeded, the entitlement from the LTI for the year in question in excess of the amount of the maximum remuneration will be forfeited. When payments are made on the basis of the LTI, however, the term of the LTI must be taken into account in each case when calculating the maximum remuneration. Payments from the programme must be distributed evenly over the years of the programme’s term when assessing compliance with the annual maximum remuneration.

Ratio of fixed remuneration, STI and LTI and measurement of individual total remuneration

The following framework applies to the ratio of the separate remuneration components to the individual total target remuneration:

Relative proportion of separate remuneration elements in total individual remuneration (calculated p. a.)		**Absolute proportion of separate remuneration elements in total individual remuneration (calculated p. a.)**
Fixed remuneration:	20% to 40%	€400,000 to €800,000
STI (target amount):	10 % to 30 %	€200,000 to €800,000
LTI (target amount p.a.):	40 % to 70 %	€400,000 to €2,250,000

The individual total target remuneration is determined by the Supervisory Board with regard to

- the duties of the Management Board member,
- his/her responsibility in the Company,
- his/her experience,

- the question of whether the Management Board member has been appointed chairperson of the Management Board, and

- the internal/vertical and external/horizontal comparison

and, at the same time, it must be ensured that the proportion of variable, performance-based remuneration (STI and LTI) together must amount to at least 60 percent of the target total remuneration.

Pension commitments / insurance

The Company maintains a D&O insurance policy as well as group accident and travel insurance policies. During the performance of their activities, the members of the Management Board are also included in these framework agreements. Should additional insurance policies valid throughout the Group be taken out, these will also cover all members of the Company's Management Board.

A company pension scheme is offered exclusively on the basis of deferred compensation. A pension scheme financed by the Company is not provided unless the Company is obligated to do so by law.

The Company pays to each member of the Management Board contributions to health and long-term care insurance that as a maximum correspond to the employer's contributions that would be incurred for mandatorily insured employees. Should a member of the Management Board decide to join voluntarily the statutory pension scheme or to be insured under the statutory pension scheme upon joining the Company, the Company will also pay the related contributions up to a maximum of the employer's contributions that would be incurred by mandatorily insured employees.

In addition, in the event that the Management Board member is prevented from working because of illness, the Company will continue to pay the remuneration for a period of six months, offsetting any and all benefits paid to the Management Board member by a statutory or private health insurance for the loss of earnings.

Remuneration-related legal transactions and severance payment regulations/Post-contractual non-competition clauses/Claw-back clause/Extraordinary developments/Change of control regulations

Remuneration-related legal transactions and severance arrangements

The term of the service contracts of the Management Board members is linked to their term of office. If the appointment of a member of the Management Board is revoked, the service contract also terminates. If the revocation is not based on good cause within the sense of Section 626 BGB, the employment contract does not end until a period of 12 months or the original term of office has expired, whichever happens first. Entitlements to payment of severance compensation in the event of resignation are not granted to the Management Board members. In all other respects, the Company observes the requirements of the DCGK for payments in the event of premature termination of the activity. According to the Code, payments to a Management Board member in the event of premature termination of Management Board activities 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 prohibition of competition, any severance payments will also be offset against the waiting period compensation.

Post-contractual non-competition clause

The Management Board contracts contain a post-contractual non-competition clause with a term of up to one year. Unless the non-competition clause is waived by the Supervisory Board, the Management Board member is entitled to waiting period compensation in the amount of 75 percent to 100 percent of the last fixed remuneration he/she received. The Management Board member must accept the offset in full of any other income from a new activity against the waiting period compensation.

Claw-back clause

Employment contracts also contain a so-called "claw-back" clause that can be invoked to request reimbursement, in whole or in part, of any short-term variable remuneration granted to the Management Board member if and when it is determined that the necessary prerequisites for the payment were in actual fact not fulfilled (e.g. manipulated or incorrectly calculated key figures). Similar provisions for long-term variable remuneration have been included in the contracts. These provisions are without prejudice to claims for damages and claims for unjustified enrichment.

Extraordinary developments

The Supervisory Board will take extraordinary developments into account when measuring the achievement of the STI target. There may be a need for corrections, especially in the economic key figures, due to special influences. In addition, the Supervisory Board can counteract extraordinarily bad developments on the basis of Section 87(2) AktG. In such cases, it may reduce the remuneration of the Management Board members to an appropriate amount if the Company's position after the determination of the remuneration deteriorates to such a degree that the further granting of the remuneration without any changes would be inequitable for the Company.

Change of control regulations

Commitments for benefits in the event of premature termination of the employment contract by the Management Board member consequent to a change of control have not been agreed.

Supervisory Board Remuneration

The 1&1 AG Supervisory Board presented the current remuneration system for Supervisory Board members during the Annual General Meeting on 26 May 2021 and requested a resolution for its adoption. The remuneration system was approved by 99.95 percent of the votes cast and applies from fiscal year 2021.

Remuneration system of the Supervisory Board

The system for the remuneration of Supervisory Board members is based on legal statutes and takes into account the requirements of the German Corporate Governance Code.

- The Supervisory Board members receive a fixed remuneration plus an attendance fee without any variable or stock-based remuneration. The granting of fixed remuneration corresponds to the common predominant practice in other listed companies and has proved its value. The Management Board and the Supervisory Board are of the opinion that a fixed remuneration of the Supervisory Board members is best suited to strengthen the independence of the Supervisory Board and to take into account the advisory and supervisory function of the Supervisory Board that must be fulfilled independently of the Company's success. The suggestion G.18 first sentence of the DCGK also provides for fixed remuneration of the Supervisory Board members.

- The Supervisory Board members receive a fixed annual remuneration of €45k. In accordance with recommendation G.17 DCGK, the remuneration for the Supervisory Board chairman and the deputy Supervisory Board chairman is higher to compensate for the greater time requirements associated with these positions. The fixed annual remuneration for the Supervisory Board chairman is €55k; the remuneration for the deputy chairman is €50k. Also in accordance with recommendation G.17 DCGK, the chairman of the Audit and Risk Committee receives an additional €20k per year; every other member of the Audit and Risk Committee receives an additional €15k per year. The Company must support the members of the Audit and Risk Committee in obtaining any necessary advanced training and education and must also assume any costs incurred for these measures in a reasonable scope.

- In addition to the aforementioned remuneration, the chairman of the Audit and Risk Committee receives further remuneration of as much as €15k per fiscal year that may be used for the engagement of accountants and/or tax accountants whose support the chairman requires in the performance of his duties as chairman of the Audit and Risk Committee and that cannot be provided on a priority basis through the resources and consulting opportunities available to the Company.

- Remuneration for Supervisory Board members who have been members of the Supervisory Board or the Audit and Risk Committee for only part of a fiscal year receive remuneration calculated pro rata temporis for each month or part thereof of their membership.

- Every member of the Supervisory Board also receives an attendance fee of €1,000 for each participation in in-person meetings of the Supervisory Board. Insofar as meetings of the Supervisory Board do not take place in-person, but only virtually (in particular, if a meeting takes place only by telephone or only by video conference), the members of the Supervisory Board do not receive any attendance fee if the meeting did not last longer than one hour; half of the attendance fee if the meeting lasted longer than one hour, but less than two hours; and the full attendance fee if the meeting lasted two hours or more. Members who do not personally attend in-person meetings of the Supervisory Board (such as participation by telephone or video conference) always receive only 25 percent of the attendance fee; participation solely in the form of submission of a voting message does not give rise to any entitlement to an attendance fee. No attendance fee is paid for participation in meetings of the Audit and Risk Committee. Participation in meetings of the Audit and Risk Committee is compensated by the additional annual remuneration.

The total remuneration is due after the end of the fiscal year. Out-of-pocket expenses are reimbursed immediately. In addition, the members of the Supervisory Board are reimbursed for value-added tax.

Remuneration Report of 1&1 AG

Remuneration Report of 1&1 AG

There were three members of the 1&1 AG Management Board in fiscal year 2021:

Members of the Management Board per 31 December 2021

- Ralph Dommermuth, Company founder and Chief Executive Officer (CEO)
  (with the Company since 1988)

- Markus Huhn (CFO)

- Alessandro Nava (COO)

The 1&1 AG remuneration system approved by the Annual General Meeting of 26 May 2021 sets forth the basic principles for the conclusion of new Management Board service contracts as of the Annual General Meeting 2021. The service contracts with the Management Board members Ralph Dommermuth, Markus Huhn and Alessandro Nava that were already in place at that time ("legacy contracts") are not governed by these requirements, but they are nevertheless compliant with the requirements of the remuneration system in their essential elements. Any deviations are explained in the pertinent sections.

As stipulated in the 1&1 AG remuneration system, the members of the Company's Management Board receive total remuneration consisting of a fixed, non-performance-related basic or fixed salary, fringe benefits and a variable, performance-related component. The variable component in turn consists of a short-term (STI) and a long-term (LTI) component.

One exception is the Management Board chairman, Mr Ralph Dommermuth, who, in consultation with the Supervisory Board, has waived his right to Management Board remuneration.

The following framework applies to the ratio of the separate remuneration components to the individual target total remuneration in accordance with the 1&1 AG remuneration system:

Relative proportion of separate remuneration elements in total individual remuneration (calculated p. a.)		Absolute proportion of separate remuneration elements in total individual remuneration (calculated p. a.)
Fixed remuneration:	20% to 40%	€400,000 to €800,000
STI (target amount):	10 % to 30 %	€200,000 to €800,000
LTI (target amount p.a.):	40 % to 70 %	€400,000 to €2,250,000

Pursuant to the remuneration system, there must be provisions ensuring that the proportion of variable, performance-based remuneration (STI and LTI) together amount to a minimum of 60 percent of the target total remuneration. Such a provision is not included in the current legacy contracts of Mr Huhn and Mr Nava.

When payments are made on the basis of an LTI programme, the term of each LTI must be taken into account when calculating the relative proportion of separate remuneration components. Accordingly, payments from such programmes must be distributed evenly over the years of the term when assessing the relative proportion.

Individual remuneration of the Management Board members

The table below shows the remuneration granted and owed individually to the Management Board members. The various remuneration components are disclosed according to the following principles:

- Basic remuneration and fringe benefits are disclosed as "granted" in the fiscal year in which the activity/service on which the remuneration is based was fully performed, regardless of the time of inflow or payment.
- The same procedure applies to the short-term variable remuneration (STI). The STIs are also disclosed as "granted" in the fiscal year in which the activity/service on which the remuneration is based was fully performed, regardless of the time of inflow or payment.
- The long-term variable remuneration (LTI) is disclosed as "granted" in the fiscal year in which the conversion rights for stock appreciation rights (SARs) are exercised, within the framework of the defined exercise dates and exercise scope and subject to the achievement of the defined exercise hurdles/targets.

In accordance with the aforementioned principles, 1&1 does not disclose any owed remuneration.

Remuneration granted in the pertinent reporting year

	Year	Basic remuneration (Fix)		Variable remuneration (Var)		Total	Proportion Fix/Var
in €k		**Fixed salary**	**Fringe benefits**	**STI**	**LTI**		
Ralph Dommermuth (CEO)	2021	0	0	0	0	0	-
Since 1988	2020	0	0	0	0	0	-
Markus Huhn (CFO)	2021	550	11	51	0	612	92 % / 8 %
	2020	450	11	50	0	511	90 % / 10 %
Alessandro Nava (COO)	2021	500	14	205	0	719	71 % / 29 %
	2020	400	14	200	0	614	67 % / 33 %
Total	**2021**	**1,050**	**25**	**256**	**0**	**1,331**	**81 % / 19 %**
	2020	**850**	**25**	**250**	**0**	**1,125**	**76 % / 24 %**

Remuneration components in detail

Non-performance-related remuneration components

Fixed salary

The members of the Management Board receive a fixed salary that is paid monthly in twelve equal instalments.

Fringe benefits

The fringe benefits usually consist of a company car appropriate to the position, the non-cash benefit of which is taxable.

Performance-related remuneration components

The performance-related variable remuneration components serve to promote the short- and long-term development of the Company.

STI

The structure of the short-term variable remuneration (STI) provides for the setting of targets in agreement with the members of the Management Board that, for one, secure economic success through the achievement of certain key figures. For another, individual targets, which may also include concrete strategic targets, are agreed. The inclusion of target criteria with environmental and social aspects is also intended to reward social successes.

The amount of the short-term variable remuneration depends on the achievement of specific targets established at the beginning of the fiscal year. A target figure (target amount) for the short-term variable remuneration is set that is achieved if the agreed targets are met in full on average (= 100 percent). The targets are set by the Supervisory Board at the beginning of every fiscal year. As a rule, a range of 90 percent to 120 percent applies to target achievement. If the average achievement of the targets is less than 90 percent, the entitlement to payment of the STI lapses completely. If average achievement of the targets overall is greater than 120 percent, the overachievement is capped at 120 percent of the STI target. In the year of a member’s hiring, especially in stub periods, the Supervisory Board can guarantee a minimum amount of STI for the first six to twelve months of the term of office to the Management Board member. A part of this minimum amount may also be paid to the Management Board member on a monthly basis.

Mr Huhn's target amount for short-term variable remuneration was €50k p.a. in fiscal year 2021.

Mr Nava's target amount for short-term variable remuneration was €200k p.a. in fiscal year 2021.

The following STI targets have been set for Mr Huhn and Mr Nava for fiscal year 2021:

STI Targets	**Proportion of STI for each target**
Growth Target I: Increase of Group's service revenues to €3,070m	30 %
Growth Target II: Increase in Group operating EBITDA to €653m	30 %
Growth Target III: Net contract growth of 600,000 contracts	17.5 %
Customer value	22.5 %
Total	100 %

Target achievement was 101.7 percent for Growth Target I (service revenue 2021 = €3,123 million), 102.9 percent for Growth Target II (operating EBITDA = €672 million), 100.0 percent for Growth Target III (customer growth = 600,000) and 105.1 percent for the target Customer Value, resulting in a mean target achievement of 102.5 percent and a total of €51.3k to be paid out to Mr Markus Huhn and €205.1k to Mr Alessandro Nava.

The STI targets agreed with Messrs Huhn and Nava in the 2021 target agreement (before the new remuneration system entered into effect) relate to the deviations of the planned operating revenue and earnings targets in 2021 from the operating revenue and earnings figures and non-financial performance criteria actually achieved in fiscal year 2021 and do not yet include any operating/strategic targets, any personal performance targets or any of the recommendations for the proportions of the various STI targets defined in the new remuneration system. Consequently, the percentage weighting of the STI targets is also not in line with the recommended proportions of the remuneration system, which provide for proportions of the STI of 50 percent to 70 percent for growth targets (turnover/earnings) and 5 percent to 20 percent for each of the categories operational/strategic targets, personal targets and non-financial performance criteria.

In accordance with the service contracts of Mr Nava and Mr Huhn, the targets for each fiscal year are set by the Supervisory Board in agreement with the individual Management Board member. The Supervisory Board and the individual Management Board members agree that the targets for fiscal year 2022 will be established in accordance with the specifications of the new remuneration system.

LTI

There is a participation programme based on virtual stock options (Stock Appreciation Rights ("SAR") programme) that acts as a remuneration component with a long-term incentive effect (LTI). An SAR corresponds to a virtual subscription right to a share in the Company, i.e. it does not represent a (real) option to acquire shares in the Company. However, the Company reserves the right at its own discretion to fulfil its obligation to pay out the SARs in cash by instead transferring one share per SAR from its treasury stock to the participant at the exercise price. The exercise threshold of the programme is 120 percent of the exercise price. The payment of the value increase is limited to 100 percent of the stock exchange price determined at the time the virtual options were awarded.

The option right can be exercised for a partial amount of up to 25 percent at the earliest upon expiration of 24 months from the point in time of the awarding of the option; for a partial amount totalling up to 50 percent at the earliest 36 months from the point in time of the awarding of the option; for a partial amount totalling up to 75 percent at the earliest 48 months from the point in time of the awarding of the option; and for the full amount at the earliest upon the expiration of 60 months after the point in time of the awarding of the option.

The number of SARs issued to a member of the Management Board (on average per year of the programme) is based on the intended total remuneration for that Management Board member, assuming that the internal forecasts for the development of the stock are achieved. Taking into account the requirements of the remuneration system, in particular the maximum remuneration, it is also possible to conclude another SAR agreement during the term of an SAR agreement.

Since the value development of the SARs is linked directly to the performance of the Company's stock price and vesting takes place over a total period of five years, the SAR programme creates an incentive to influence positively the Company's long-term performance in the interest of the shareholders. At the same time, the Management Board member not only participates in a positive development of the Company, but is also affected by a negative development of the stock price because of the exercise hurdle and the calculation of the amount that is paid out.

As the SAR programme has proven its value as a remuneration component to tie the Management Board members to the successful sustainable development of the Company's stock price, it was retained unchanged as part of the new remuneration system.

Mr Markus Huhn received a total of 360,000 SARs from the 2020 SAR tranche in fiscal year 2020. The issue price was €19.07 per option. The average market value per option was €22.71. The total value of the stock-based remuneration awarded in 2020 amounted to €1,310k.

Mr Alessandro Nava received a total of 600,000 SARs from the 2020 SAR tranche in fiscal year 2020. The issue price was €19,07 per option. The average market value per option was €22.71. The total value of the stock-based remuneration awarded in 2020 amounted to €2,184k.

No new options were awarded, no options were exercised and no SARs lapsed in fiscal year 2021.

SAR Tranche 2020	Number of SARs per 31/12/2020	Awarded in 2021	Exercised in 2021	Expired in 2021	Number of SARs per 31/12/2021
Markus Huhn	360,000	0	0	0	360,000
Alessandro Nava	600,000	0	0	0	600,000

There are no company-financed pension commitments to Management Board members or other remuneration components. No remuneration is paid to Management Board members for Supervisory Board positions at subsidiaries, nor were any benefits promised or granted by a third party to any Management Board member related to his/her activities as a Management Board member in the fiscal year. No advances or loans were granted to the Management Board members.

Adjustment of remuneration due to assumption of additional divisional responsibilities

In fiscal year 2021, the purviews of the Management Board members Mr. Huhn and Mr. Nava expanded because of a change in the assignment of responsibilities in the business distribution plan. The remuneration system explicitly allows for an appropriate adjustment of the remuneration under these circumstances. In view of this justified exceptional case within the sense of the remuneration system, the Supervisory Board has decided to increase the remuneration of the two Management Board members by €100k each as of fiscal year 2022. The increase for 2021 is one-time total payment for each and applied to the fixed remuneration because the extended divisional responsibilities could no longer be taken into account within the framework of the previously concluded target agreements. As of fiscal year 2022, the permanent distribution of the decided increase will be €50k to the fixed salary and €50k to the STI.

Claw-back clause

The remuneration system provides that “new employment contracts” should also include a so-called claw-back clause that can be invoked to request reimbursement, in whole or in part, of any short-term variable remuneration granted to the Management Board member if and when it is determined that the necessary prerequisites for the payment were in actual fact not fulfilled (e.g. manipulated or incorrectly calculated key figures). Similar provisions for long-term variable remuneration should be included in the contracts. These provisions are without prejudice to claims for damages and claims for unjustified enrichment.

There are no claw-back clauses in the current legacy contracts of the 1&1 Management Board members. However, there were also no grounds for 1&1 AG to request reimbursement or reduce variable remuneration in fiscal year 2021.

Remuneration-related legal transactions and severance arrangements

The term of the service contracts of the Management Board members is linked to their term of office. If the appointment of a member of the Management Board is revoked, the service contract also terminates. If the revocation is not based on good cause within the sense of Section 626 BGB, the employment contract does not end until a period of 12 months or the original term of office has expired, whichever happens first. Entitlements to payment of severance compensation in the event of resignation are not granted to the Management Board members. In all other respects, the Company observes the requirements of the DCGK for payments in the event of premature termination of the activity. According to the Code, payments to a Management Board member in the event of premature termination of Management Board activities 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. According to the remuneration system, if and when there is a post-contractual non-competition clause, any severance payment should also be offset against the waiting period compensation. Such a provision is not included in the current legacy contracts of the 1&1 Management Board.

There were no changes to these regulations in fiscal year 2021.

Post-contractual non-competition clause

The Management Board contracts contain a post-contractual non-competition clause with a term of up to one year. Unless the non-competition clause is waived by the Supervisory Board, the Management Board member is entitled to waiting period compensation in the amount of 75 percent to 100 percent of the last fixed remuneration he/she received. The Management Board member must accept the offset in full of any other income from a new activity against the waiting period compensation.

There were no changes to these regulations in fiscal year 2021.

Change of control regulations

Commitments for benefits in the event of premature termination of the employment contract by the Management Board member consequent to a change of control have not been agreed.

There were no changes to these regulations in fiscal year 2021.

Maximum remuneration

In accordance with the 1&1 remuneration system, the maximum remuneration that an ordinary Management Board member may receive arithmetically from the sum of all remuneration components, i.e. basic salary, STI, LTI (remuneration from SAR programme/term in years) and fringe benefits, may not amount to a total sum higher than €3.5 million euros p.a. (maximum remuneration).

The maximum remuneration for the Management Board chairperson may be a maximum of twice the maximum remuneration for an ordinary member of the Management Board.

The maximum remuneration is not a target total remuneration for the Management Board members deemed appropriate by the Supervisory Board, but solely an absolute upper limit that may not be exceeded under any circumstances. Should the payment of the LTI result in the maximum remuneration being exceeded, the entitlement from the LTI for the year in question in excess of the amount of the maximum remuneration will be forfeited. When payments are made on the basis of the LTI, however, the term of the LTI must be taken into account in each case when calculating the maximum remuneration. Payments from the programme must be distributed evenly over the years of the programme's term when assessing compliance with the annual maximum remuneration.

Both the STI and the LTI have an "upper limit" (cap) to ensure compliance with the maximum remuneration.

The current legacy contracts of the 1&1 Management Board members do not contain any limits for maximum remuneration, but they do contain "upper limits" for the STI and the LTI. The maximum remuneration (granted remuneration) was not reached in fiscal year 2021.

Remuneration of the Supervisory Board Members in Fiscal Year 2021

The members of the 1&1 AG Supervisory Board in fiscal year 2021 were as follows:

Supervisory Board members per 31 December 2021

- Kurt Dobitsch, Supervisory Board Chairman
  (since 16 October 2017; Supervisory Board chairman since 16 March 2021; member of "Audit and Risk Committee" since May 2021)

- Kai-Uwe Ricke, Supervisory Board Deputy Chairman
  (since 16 October 2017; deputy chairman since 13 November 2017)

- Matthias Baldermann
  (since 26 May 2021)

- Dr Claudia Borgas-Herold
  (since 12 January 2018; member "Audit and Risk Committee" since May 2021)

- Vlasios Choulidis
  (since 12 January 2018)

- Norbert Lang
  (since 12 November 2015; chairman "Audit and Risk Committee" since May 2021)

Resignation in fiscal year 2021

- Michael Scheeren
  (until 23 February 2021; Supervisory Board chairman until 23 February 2021)

In accordance with the resolution of the Annual General Meeting, every member of the Supervisory Board receives a fixed remuneration of €45k per fiscal year. The Supervisory Board chairman receives €55k, and the deputy chairman receives €50. Supervisory Board members who belong to the Supervisory Board or act as Supervisory Board chairperson or deputy chairperson for only part of the fiscal year receive the fixed remuneration pro rata temporis, rounded up to full months.

Every member of the Supervisory Board also receives an attendance fee of €1,000 for each participation in in-person meetings of the Supervisory Board. Insofar as meetings of the Supervisory Board do not take place in-person, but only virtually (in particular, if a meeting takes place only by telephone or only by video conference), the members of the Supervisory Board do not receive any attendance fee if the meeting does not last longer than one hour; half of the attendance fee if the meeting lasts longer than one hour, but less than two hours; and the full attendance fee if the meeting lasts two hours or more. Members who do not personally attend in-person meetings of the Supervisory Board (such as participation by telephone or video conference) always receive only 25 percent of the attendance fee; participation solely in the form of submission of a voting message does not give rise to any entitlement to an attendance fee.

The chairman of the Audit and Risk Committee receives an additional €20k per year and every other member of the Audit and Risk Committee receives an additional €15k per year for their service on the Audit and Risk Committee. A member of the Supervisory Board who is a member of the Audit and Risk Committee or has chaired the Audit and Risk Committee for only part of the fiscal year receives the additional remuneration pro rata temporis, rounding up to full months. The Company must support the members of the Audit and Risk Committee in obtaining necessary training and further education and must also bear the costs incurred for any such measures in a reasonable scope.

The table below shows the remuneration granted and owed individually to the Supervisory Board members. The remuneration components are disclosed according to the following principles:

- The fixed remuneration for the Supervisory Board and for membership in any committees is disclosed as "granted" in the fiscal year in which the activity/service on which the remuneration is based was fully performed, regardless of the time of inflow or payment.

- The same applies to the attendance fee. The attendance fee granted for Supervisory Board meetings is also disclosed as "granted" in the fiscal year in which the activity/service on which the remuneration is based was fully performed, regardless of the time of inflow or payment. The attendance fee is regarded as variable remuneration.

In accordance with the aforementioned principles, 1&1 does not disclose any owed remuneration.

Remuneration Granted to the Supervisory Board Members

in €k		Fix	Attendance fee	Total	Proportion Fix/Var
Kurt Dobitsch	2021	62	4	66	94 % / 6 %
	2020	45	4	49	92 % / 8 %
Kai-Uwe Ricke	2021	48	4	52	92 % / 8 %
	2020	45	4	49	92 % / 8 %
Matthias Baldermann	2021	26	2	28	93 % / 7 %
	2020	0	0	0	0 % / 0 %
Dr Claudia Borgas-Herold	2021	54	4	58	93 % / 7 %
	2020	45	4	49	92 % / 8 %
Vlasios Choulidis	2021	45	4	49	92 % / 8 %
	2020	45	4	49	92 % / 8 %
Norbert Lang	2021	57	4	61	93 % / 7 %
	2020	45	4	49	92 % / 8 %
Michael Scheeren	2021	9	1	10	90 % / 10 %
	2020	55	4	59	93 % / 7 %
Total	2021	**301**	**23**	**324**	**93 % / 7 %**
	2020	**280**	**24**	**304**	**92 % / 8 %**

Comparative Presentation of the Remuneration Development

In compliance with the requirements of Section 162 (1) second sentence, no. 2 AktG, the following table shows the annual change in the remuneration of the Management Board members, the Supervisory Board members and the total workforce (employees of the 1&1 Group worldwide, excluding the members of the Management Board of the (single) company 1&1 AG) as well as the annual change in the revenue and earnings figures of the group and the earnings of the (single) company.

Comparative Presentation

	Change 2021 over 2020
Remuneration of the Management Board members	
Ralph Dommermuth	0.0 %
Markus Huhn	+ 19.8%
Alessandro Nava	+ 17.1%
Remuneration of the Supervisory Board Members	
Kurt Dobitsch	+ 34.7%
Kai-Uwe Ricke	+ 6.1%
Matthias Baldermann	(a)
Dr Claudia Borgas-Herold	+ 18.4%
Vlasios Choulidis	0%
Norbert Lang	+ 24.5%
Michael Scheeren	- 83.1%
Remuneration of employees	
Ø Remuneration of the total workforce (on an FTE basis)	+ 4.3%
Corporate Development	
Revenue in the Group	+ 3.2 %
EBITDA (operating) in the Group	+ 5.3 %
Annual result of the single company	+ 128.4 %

(a) New member in the current fiscal year

External (horizontal) comparison

According to DCGK (Recommendation G.3), the Supervisory Board should select a suitable peer group of companies (and disclose the companies in the selected group) to assess the customary nature of the specific total remuneration of the members of the Management Board in comparison to other companies.

The 1&1 AG Supervisory Board uses all companies that are also listed on the TecDax as comparative companies to assess the specific total remuneration of the members of the Management Board.

At the last review, these companies were: Aixtron SE, Bechtle AG, Cancom SE, Carl Zeiss Meditec AG, Compugroup Medical SE &Co. KGaA, Deutsche Telekom AG, Drägerwerk AG & Co. KGaA, Eckert & Ziegler Strahlen- und Medizintechnik AG, Evotec SE, freenet AG, Infineon Technologies AG, Jenoptik AG, LPKF Laser & Electronics AG, MorphoSys AG, Nemetschek SE, New Work SE, Nordex SE, Pfeiffer Vacuum Technology AG, QIAGEN NV, S&T AG, SAP SE, Sartorius Aktiengesellschaft, Siemens Healthineers AG, Siltronic AG, Software Aktiengesellschaft, TeamViewer AG, Telefónica Deutschland Holding AG and Varta AG.

Maintal, 10 March 2022

Ralph Dommermuth | Markus Huhn | Alessandro Nava

1&1 Aktiengesellschaft

Investor Relations Corner

1. Investor Relations

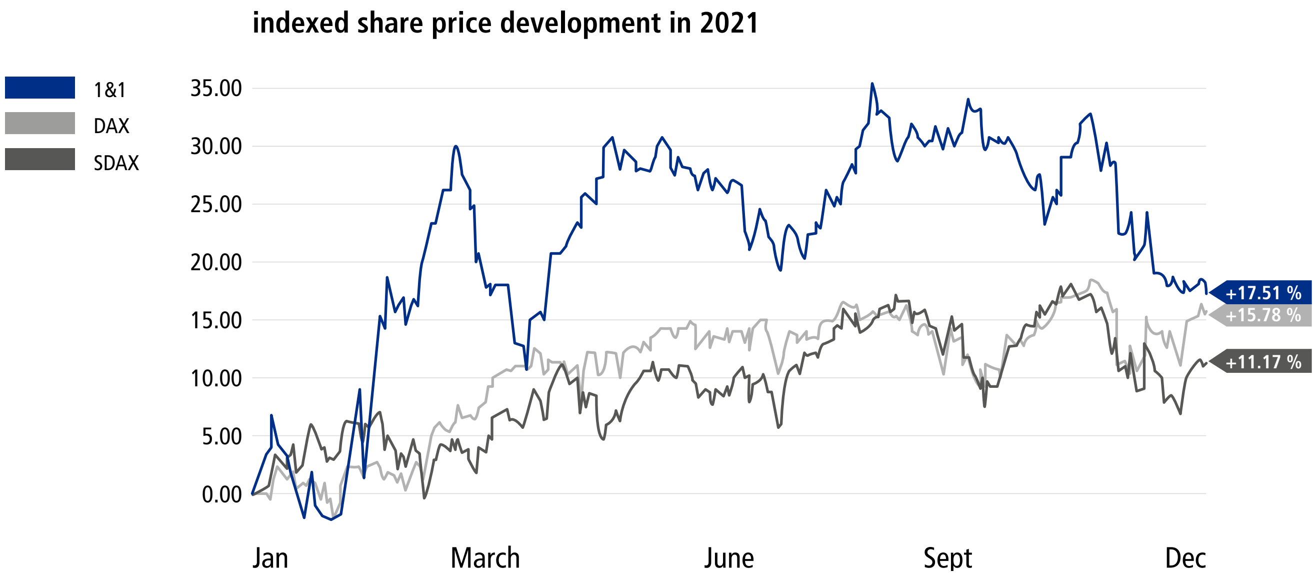
The capital market communications of 1&1 AG are conducted in conformity with the fair disclosure principle, i.e. all shareholders and interested parties are simultaneously provided with the same type of information about all important developments. The ongoing work can be followed and tracked equally 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

in Trading Year 2021

	2020 year end	2021 year end	% change
1&1	€20.44	€24.02	+ 17.51
DAX	13,718.78	15,884,86	+ 15.78
SDAX	14,764.89	16,414.67	+ 11.17
TecDAX	3,212.77	3,920.17	+ 22.01

Performance of the 1&1 Share compared to DAX and SDAX*



* Indices and the 1&1 Share show a dividend adjusted performace

3. Latest research notes

Current Analyst Assessments (Last revised 16 March 2022)

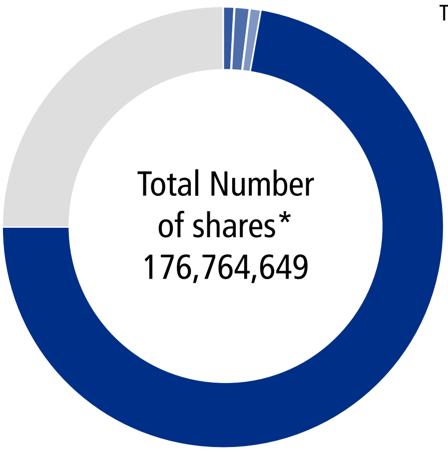
Overall, the capital market views the 1&1 stock as promising because of our long-term dividend policy and good strategic positioning on the German mobile network market.

Analysis	Rating	Price target	Date
Berenberg	„Buy"	€38.00	16/03/2022
Warburg	„Buy"	€44.00	25/02/2022
Jefferies	„Hold"	€23.00	22/02/2022
ODDO	„Neutral"	€27.00	16/02/2022
BofA	„Buy"	€28.00	12/02/2022

A current overview of the analysts' recommendations can be found on the IR homepage of 1&1 AG.
https://www.1und1.ag/investor-relations-en

4. Shareholder Structure

(Last revised 31 December 2021)



Treasury Shares: 0.26 % | 1&1 AG
0.26 % | shs. 465,000

Supervisory Board: 0.12 % | V. Choulidis
0.04 % | MV Beteiligungs GmbH
0.16 % | shs. 273,333

78.32 % | United Internet AG
78.32 % | shs. 138,437,357

Other Shareholders: 21.26 % | shs. 37,588,959

Free Float as per definition of Dt. Boerse AG 21.42 %

* Per voting rights publications

Source: https://www.1und1.ag/investor-relations-en

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. The 3G networks were shut down in summer 2021 to make room for faster technologies.

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 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 corporation. 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 network 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 com-

munication 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 initiation, 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."

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.

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 accounting 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.

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 System
Automation of production and business processes using IT systems and special software.

Publications, Information and Order Service

This Annual Report 2021 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 AG at: www.1und1.ag/investor-relations-en.

Please use our online order service on our website: www.1und1.ag/investor-relations-en#bestellservice.

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 Event Calendar*

17 March 2022	Annual Report 2021, Press and Analyst Conference
12 May 2022	Quarterly Statement Q1 2022
18 May 2022	Annual General Meeting (virtual)
4 August 2022	6-Month Report 2022, Press and Analyst Conference
10 November 2022	Quarterly Statement Q3 2022

* These provisional dates are subject to change.

Contact

Our Investor Relations and Press Department will be glad to answer any questions you may have concerning 1&1 AG and the report.

Investor Relations
Wilhelm-Röntgen-Str. 1-5
D - 63477 Maintal

Telephone: +49 (0) 61 81 / 412 200
Telefax: +49 (0) 61 81 / 412 183
E-Mail: ir@1und1.de

Press
Wilhelm-Röntgen-Str. 1-5
D - 63477 Maintal

Telephone: +49 (0) 61 81 / 412 620
Telefax: +49 (0) 61 81 / 412 183
E-Mail: presse@1und1.de

Legal information

1&1 AG is a member of the United Internet Group.

Company headquarters
Wilhelm-Röntgen-Str. 1-5
D - 63477 Maintal

Telephone: +49 (0) 61 81 / 412 3
Telefax: +49 (0) 61 81 / 412 183

Responsible
1&1 AG

Investor Relations contact
Telephone: +49 (0) 61 81 / 412 200
Telefax: +49 (0) 61 81 / 412 183
E-Mail: ir@1und1.de

Commercial Register Entry:
HRB 7384 Hanau
VAT ID No: DE 812458592
Tax No.: 03522506037
Offenbach City Tax Office

Management Board
Ralph Dommermuth (CEO)
Markus Huhn
Alessandro Nava

Supervisory Board
Kurt Dobitsch (Chairman since March 16, 2021)
Kai-Uwe Ricke (Deputy Chairman)
Matthias Baldermann (since May 26, 2021)
Dr. Claudia Borgas-Herold
Vlasios Choulidis
Norbert Lang
Michael Scheeren (until February 23, 2021)

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

This Interim Statement is available in German and English. Both versions can also be downloaded from www.1und1.ag/investor-relations. 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 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 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 AG. 1&1 does not intend to revise or update any forward-looking statements set out in this Interim Statement.

Brand portfolio of 1&1

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Galaxy EXPERTE

Additional information as contact details, can be found on the homepage:
https://www.1und1.ag/contact-us

1&1 AG
Wilhelm-Röntgen-Str. 1-5
63477 Maintal
Deutschland

www.1und1.ag