Report on the First Half-year 2018

DATA & FACTS

Selected Performance Indicators	H1/2018	H1/2017	Change	II/2018	I/2018
PROFIT (IN €M)					
Revenue	1,819.0	1,276.5	42.5 %	914.7	904.3
EBITDA	340.1	210.1	61.9 %	174.5	165.5
EBITDA margin in % of revenue	18.7 %	16.5 %		19.1 %	18.3 %
EBIT	262.7	202.0	30.0 %	135.7	127.0
EBIT margin in % of revenue	14.4 %	15.8 %		14.8 %	14.0 %
EBT	262.5	194.5	35.0 %	135.5	127.0
EBT margin in % of revenue	14.4 %	15.2 %		14.8 %	14.0 %
Earnings per share (in €)	1.01	1.36*	-25.4 %	0.54	0.48
Earnings per share (in €) without ppa write-offs	1.24	1.36*	-9.1 %	0.65	0.59
CASH FLOW (IN €M)					
Net payments of operating activity from the ongoing division	44.6	134.2	-66.8 %	72.2	-27.6
Net payments and incoming payments from investments from the ongoing division	-12.7	-9.7	31.0 %	-2.5	-10.2
Free cash flow	40.1	128.1	-68.7 %	69.7	-29.5
STAFF (INCL. MANAGEMENT BOARD)					
Total per end of June	3,145	2,489	26.4 %	3,145	3,143
CUSTOMER CONTRACTS CURRENT PRODUCT LINES (IN MILLIONS)					
Access, contracts	13.11	8.88	4.23	13.11	12.91
thereof Mobile Internet	8.73	4.57	4.16	8.73	8.54
thereof DSL/VDSL	4.38	4.31	0.07	4.38	4.37

	30/6/2018	31/12/2017	Change	30/6/2018	31/3/2018
BALANCE SHEET (IN €M)					
Short-term assets	784.9	656.6	19.5 %	784.9	814.8
Long-term asset	4,309.4	4,079.2	5.6 %	4,309.4	4,475.7
Shareholders' equity	4,074.2	3,805.1	7.1 %	4,074.2	4,261.2
Balance sheet total	5,094.3	4,735.7	7.6 %	5,094.3	5,290.6
Equity ratio	80.0 %	80,4 %		80.0 %	80.5 %

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

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LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,

1&1 Drillisch AG continued its course of profitable growth in HY1 2018, just as in the past. Once again, we were able to improve the number of customer contracts, revenues and our operating profit figures. Parallel to these accomplishments, we have continued to invest in new customer acquisition and the strengthening of our existing customer relationships.

Thanks to the positioning of our brands and products in the mobile internet and landline sectors, we can count ourselves among the leading providers offering comprehensive services and outstanding value for money in Germany.

We expect our customers' expectations and demands on their internet access to continue to increase in future as well and want to keep pace with this trend by offering powerful telecommunications infrastructures:

» Thanks to our MBA MVNO agreement with Telefónica Germany, our mobile products are always state of the art in terms of network technology.

» Moreover, we have access to the second-largest optical fibre network in Germany; it is operated by 1&1 Versatel GmbH, our affiliate in the United Internet corporate group, and is constantly being expanded. In combination with network advance services from Deutsche Telekom, Vodafone and the large municipal networks, we reach virtually the entire German population with DSL lines and cloud-based IPTV.

Before we examine the "numbers" of the first half of the year in detail, we would like to give you a brief overview of the status of the integration of 1&1 Telecommunication SE, which was acquired last year:

» We have successfully completed the bundling of the hardware procurement and initiated the merger process for logistics.

» For our discount brands, we have attracted new target groups since the beginning of 2018 by making greater use of smartphones in the acquisition of new customers and the retention of current customers (no or only low one-time payment of the customers when concluding/renewing contracts and return via higher rate prices during the term of the contracts).

» We have once again significantly improved as well the attractiveness of the smartphone offers at 1&1 for both new and existing customers.

» We are progressing on schedule in the optimisation of the mobile advance service procurement to secure more efficient utilisation of the capacities provided under the MBA MVNO contract with Telefónica.

» We have begun the streamlining of our brand portfolios and improvement in the retention process for discount brands.

» The crossover expansion of the current customer marketing is in the course of implementation.

And now the figures for the first half of the year and our forecast:

Our additional smartphone investments of about €300 million in 2018 represent our continued trust in high selling power and profitable growth. These investments will be amortised by customers over the minimum contractual terms in the form of higher package prices – in our business with both new and existing customers. Owing to the disclosures in the balance sheet in accordance with IFRS 15 that are now mandatory and require the distribution of such investments over the term of the customer contracts, however, our earnings indicators will not be adversely affected. We have provided detailed information about the impact of the application of IFRS 15 on pages 34 to 35 (Comparison information for the items of the financial statements affected by the initial application of IFRS 15) of this semi-annual financial report.

LETTER FROM THE MANAGEMENT BOARD

During the first six months of 2018, we were able to increase our clientele in our current product lines by 470,000 to 13.11 million contracts (31/12/2017: 12.64 million). Of this rise, customer contracts in the mobile internet sector increased by 430,000 to 8.73 million (31/12/2017: 8.30 million) and the DSL lines increased by 40,000 to 4.38 million (31/12/2017: 4.34 million). In comparison with the closing date of the previous year, the number of customer contracts – including the Drillisch customers per 30/06/2017 – rose by 990,000 (8.2%).

During HY1 2018, revenue rose in comparison with HY1 2017 by 42.5% from €1.276 billion (accounting in accordance with IAS 18) to €1.819 billion (accounting in accordance with IFRS 15). From the pro forma perspective (with the inclusion of Drillisch in the previous year), revenue rose by 14.5% from €1.588 billion (accounting in accordance with IAS 18) to €1.819 billion (accounting in accordance with IFRS 15).

During the same period, earnings before interest, taxes, depreciation and amortisation (EBITDA) rose by 61.9% from €210.1 million (accounting in accordance with IAS 18) to €340.1 million (accounting in accordance with IFRS 15). From the pro forma perspective (with the inclusion of Drillisch in the previous year), the EBITDA rose by 20.4% from €282.4 million (accounting in accordance with IAS 18) to €340.1 million (accounting in accordance with IFRS 15). The initially positive effects from the changeover to IFRS 15 contained in this figure totalling €158.3 million are offset by additional investment (above all, from the increased use of smartphones) in the same amount so that the two items balance each other out in the bottom line, and to this extent the figures are comparable with those of the previous year. Moreover, the EBITDA of HY1 2018 contains realised synergies in the amount of about €15.6 million and offsetting one-off expenditures from ongoing integration projects in the amount of €7.7 million.

In view of these figures, we can confirm our financial forecasts for the year 2018 as a whole and have no reason to adjust our expectation for revenue in the Group to grow to about €3.7 billion and the EBITDA to grow to about €750 million. Regarding the customer contracts we assume that the achieved growth of approximately 500 thousand contracts per half year following the business combination of 1&1 and Drillisch will continue. Therefore we expect an overall growth of approximately one million contracts to approximately 13.64 million contracts in 2018. We have decided not to participate in the fiercer price competition in the mobile discount segment since May 2018 and consequently not to further increase the sales performance this year.

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

Best regards from Maintal,

Ralph Dommermuth   André Driesen   Martin Witt

Maintal, 13 August 2018

INTERIM GROUP MANAGEMENT REPORT FOR THE FIRST SIX MONTHS OF 2018

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GENERAL INFORMATION ABOUT THE GROUP

Business model

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

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

In accordance with the concluded agreement, there are also the following options: (1) becoming a so-called full MVNO in the mobile network of Telefónica, that is, a mobile provider that operates its own full core network and uses solely the access network of Telefónica (“Full MVNO”), and/or (2) becoming a licensed mobile network operator (“MNO”).

Group structure, strategy and management

Reference is made to the explanatory comments in the consolidated management report for fiscal year 2017 relating to the group structure, strategy and management of the Company. There have not been any significant changes here from the perspective of the Group.

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

The operating business in the segment “Access” is essentially handled by 1&1 Telecommunication SE and its subsidiaries (in particular by 1&1 Telecom GmbH) and by Drillisch Online GmbH.

GENERAL INFORMATION ABOUT THE GROUP

Organisation Chart of 1&1 Drillisch AG

- **1&1 Drillisch 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 Berlin Telecom GmbH
  - 1&1 Logistik GmbH
- **Drillisch Online GmbH**
  - Mobile Ventures GmbH
- **IQ-optimize Software AG**
- **Drillisch Logistik GmbH**
- **Drillisch Netz AG**

GENERAL INFORMATION ABOUT THE GROUP

Business activities

Contracts subject to charge with 13.11 million subscribers make 1&1 Drillisch one of the leading providers of DSL and mobile services products in Germany.

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

The Access products are marketed via the well-known brand name 1&1 and discount brands such as winSIM, yourfone or smartmobile.de, which are used to address the market comprehensively and specifically to target groups.

General economic and industry-related conditions

Development of the overall economy

The International Monetary Fund (IMF) has projected economic growth of 2.2% for Germany in 2018 in its World Economic Outlook (Update July 2018). This is 0.1 percentage point lower than the original expectations (2.3%) issued in the January 2018 forecast. The economic barometer of the German Institute for Economic Research (DIW Berlin), adjusted for prices, season, and calendar period, also indicates a slight slowdown in economic development in Germany in the first half of 2018 with growth in gross domestic product (GDP) of 0.3% and 0.4% for Q1 and Q2 2018, respectively, contrasting with 0.6% in each of the first two quarters of the previous year.

Development of gross domestic product (GDP) in Germany in comparison with the previous quarter

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	**Q2 2018**
GDP	+ 0.6 %	+ 0.6 %	+ 0.7 %	+ 0.6 %	+ 0.3 %	+ 0.4 %

Source: German Institute for Economic Research; issued 27 June 2018

Changes in growth forecasts during the year in 2018

	January forecast	April forecast	July forecast	Deviation from January forecast
World	3.9 %	3.9 %	3.9 %	+/- 0.0 percentage points
Germany	2.3 %	2.5 %	2.2 %	- 0.1 percentage point

Source: International Monetary Fund, World Economic Outlook (Update), July 2018

GENERAL INFORMATION ABOUT THE GROUP

General legal conditions/Major events

The general legal conditions for 1&1 Drillisch's business operations remained essentially constant in the first half of 2018 in comparison with fiscal year 2017, so there was no major impact on business development within 1&1 Drillisch Group.

First-time application of IFRS 15

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

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

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

» While previously sales revenues for hardware (e.g. mobile phones) within the framework of a multiple-component transaction (e.g. mobile services contract plus mobile phone) were realised as sales revenue solely in the amount of payment billed monthly to the customer, IFRS 15 requires a breakdown of the total payment from the customer contract on the basis of the relative separate selling prices of the various performance obligations. The share of sales revenue for the hardware allocated on this basis is recognised in full upon delivery to the customer. Since the allocated share of revenue as a rule exceeds the charges billed to the customers in the first month, the new regulations lead to the revenue realisation being brought forward to the periods in which the utilised hardware also becomes effective for expenditures

» Moreover, IFRS 15 requires the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the contract acquisition (e.g. sales commissions) as well as fulfilment of the contract (e.g. activation fees) must be capitalised and amortised over the estimated useful life.

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

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Development in the segment “Access”

The Group’s landline and mobile access products subject to charge, including the related applications (such as home networks, online storage, telephony, video on demand or IPTV), are grouped together in the segment “Access”.

1&1 Drillisch operates exclusively in Germany and 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 (1&1 Versatel), a member company of the United Internet 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 a distinctive 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 are employed to address comprehensively the market and specific target groups.

During the first half of 2018, 1&1 Drillisch invested heavily in the acquisition of new customers and in the retention of current customer relationships. One of the focal points was on the marketing of mobile internet contracts and the related hardware. Two changes appear in comparison with the first half of 2017. One is that the first-time application of the IFRS 15 regulations (Revenue from Contracts with Customers) led to sales revenues from so-called multiple-component transactions. The other is that costs of contract renewals and of contract fulfilment are no longer recognised directly in expenses, but are instead capitalised and transferred proportionately to expenses over the average duration of the customers’ contracts.

The number of these contracts, which are subject to charge, rose in the first half of 2018 by 0.47 million to 13.11 million contracts. In the mobile internet business, it was possible to acquire 0.43 million customer contracts, raising the number of contracts to 8.73 million. The number of DSL full-service contracts (ULL = unbundled local loop) rose as well by forty thousand contracts to 4.38 million.

Development of contracts during the first 6 months of 2018 (in millions)

	30/6/2018	31/3/2018	31/12/2017	Change HY1
Total contracts	13.11	12.91	12.64	+0.47
thereof mobile internet	8.73	8.54	8.30	+0.43
thereof DSL full-service packages (ULL)	4.38	4.37	4.34	+0.04

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

Revenue in the segment “Access” increased in comparison with HY1 2017 – also a consequence of the merger with Drillisch in September 2017 – by €542.3 million (42.5%) to €1,818.8 million (previous year: €1,276.5 million). The rise in revenue includes on balance €153.8 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers). These regulations affect mainly sales revenues in the reporting period for hardware deliveries within the framework of multiple-component transactions. In the previous year, sales revenues for hardware deliveries were recognised solely in the

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amount of the charges billed to the customers. As part of the transition in the accounting from IAS 18 to IFRS 15, the sales revenues from multiple-component transactions from previous periods that are to be given consideration pro rata temporis were recognised per 1 January 2018 as non-operating results in equity. The resultant contract asset will be reversed as operating results in the following periods, leading to a corresponding reduction in the sales revenues.

In the segment “Access”, the cost of materials rose by €371.9 million to €1,241.7 million (previous year: €869.9 million). In the first half of 2018, customer acquisition costs (e.g. sales commissions) and costs of contract fulfilment (e.g. activation fees) for mobile and DSL products were no longer recognised directly as expenses as was the case in the first half of 2017. Analogously to the procedure followed for sales revenues, customer acquisition and contract fulfilment costs from previous years were recognised per 1 January 2018 pro rata temporis as non-operating results in equity and now result in a corresponding increase in the cost of materials. The segment EBITDA rose by 61.8% from €210.1 million in the previous year to €339.9 million. This includes on balance €158.3 million from the first-time application of the IFRS 15 regulations, which virtually offsets completely the increased investments in hardware, as well as one-off effects from expenditures in the amount of €7.7 million incurred as part of integration projects.

Major revenue and profit indicators in the segment “Access”

	30/6/2018 IFRS 15	30/6/2017 IAS 18	Change
Revenue (in €m)	1,818.8	1,276.5	+542.3
EBITDA (in €m)	339.9	210.1	+129.8
EBITDA margin (in %)	18.7	16.5	+2.2

Quarterly development: Change over same quarter of previous year

	Q2 2018 IFRS 15	Q2 2017 IAS 18	Change
Revenue (in €m)	914.7	652.3	+262.4
EBITDA (in €m)	173.1	103.4	+69.7
EBITDA margin (in %)	18.9	15.9	+3.0

Segment Miscellaneous

The segment Miscellaneous comprises all the activities related to the offering of custom software solutions and maintenance and support services.

In the first half of 2018, an average of 3,145 (previous year: 2,489) persons, including the three Management Board members of 1&1 Drillisch AG, were employed at 1&1 Drillisch Group. The change over the previous year is primarily a consequence of the first-time inclusion of the former Drillisch AG in the consolidated annual financial statements since September 2017.

SITUATION IN THE GROUP

Profitability

Growth in HY1 2018 was driven above all by the contract customer business in the segment "Access". In this core business, the number of customer contracts subject to charge for the current product lines was increased by 0.47 million contracts to 13.11 million.

Sales revenues rose in the first six months of 2018 by 42.5% from €1,276.5 million in the previous year to €1,819.0 million. The positive revenue development results primarily from the continuing increase in the number of customer contracts and the related monthly income as well as the early revenue realisation related to the application of IFRS 15 and from the first-time inclusion of Drillisch in the consolidated interim financial statements. The rise in revenue includes on balance €153.8 million from the first-time application of IFRS 15 (Revenue from Contracts with Customers).

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

Cost of sales rose in the first six months of 2018 by €400.7 million (45.2%) to €1,287.7 million (previous year: €886.9 million). As a consequence of the rise in the low-margin hardware sales and additional negative effects on revenue from the reversal of the hardware sales from previous periods recognised as non-operating results at the beginning of the year pursuant to the application of IFRS 15, the gross margin fell from 30.5% in the previous year to 29.2%. Gross profit rose by €141.8 million from €389.6 million in the previous year to €531.3 million.

Distribution costs rose from €159.6 million in the previous year to €204.7 million in the first six months of 2018. The increase results mainly from the significant rise in write-offs on intangible assets that were identified in the course of the purchase price allocation related to the acquisition of Drillisch in 2017 and attributed to distribution. In relation to revenue, distribution costs amounted to 11.3% in the first six months of 2018 (previous year: 12.5%). Administration costs increased, also a consequence of the inclusion of Drillisch, from €32.3 million in the previous year (2.5% of revenue) to €45.1 million (2.5% of revenue).

The EBITDA from continued operation in the first six months of 2018 amounted to €340.1 million (previous year: €210.1 million). This includes on balance €158.3 million from the first-time application of the IFRS 15 regulations, which virtually offsets completely the increased investments in hardware, as well as one-off effects from expenditures in the amount of €7.7 million incurred as part of integration projects.

Earnings before taxes (EBT) rose by 35.0% from €194.5 million to €262.5 million. Tax expenses in in the first six months of 2018 amounted to €83.2 million (previous year: €35.5 million).

Consolidated profit from continued operation rose from €158.9 million in the previous year to €179.3 million in the first six months of 2018. A consolidated result of €0.0 comes from the discontinued operation (previous year: €170.9 million). The result from the discontinued operation in the previous year was essentially the consequence of the sale of Versatel Group. The consolidated profit and consolidated comprehensive results in the first six months of 2018 amounted to €179.3 million (previous year: €329.9 million). Profit per share per 30 June 2018 came to €1.01 (HY1 2017 from continued operation: €1.36). The calculation of the profit per share for the comparable figure of the previous year was based on 117.0 million shares. The number of shares has risen to

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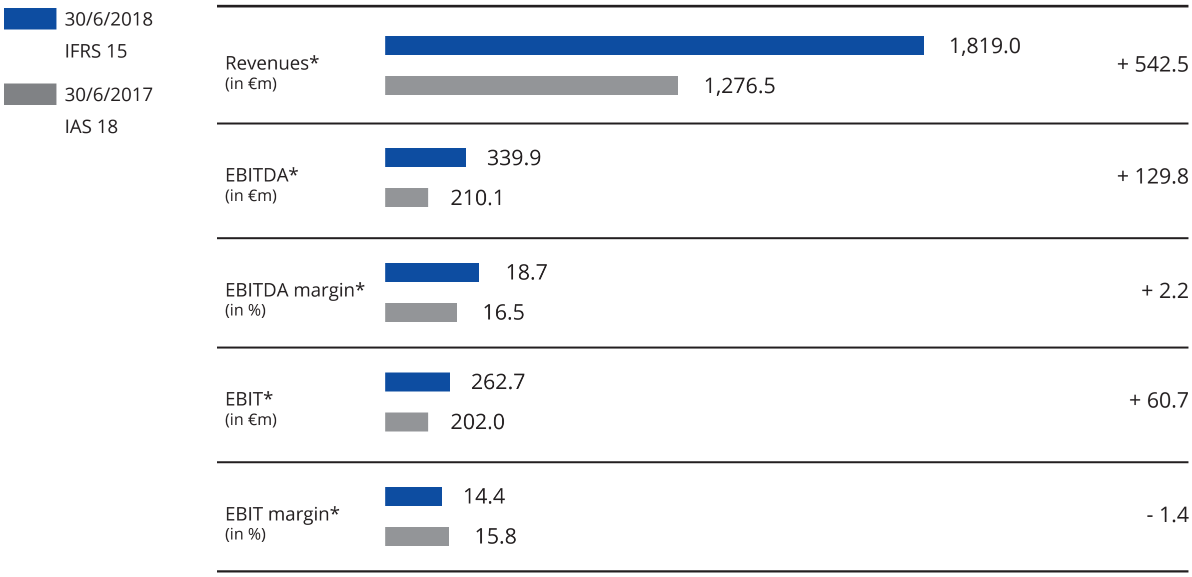
176.8 million shares, essentially a consequence of a major capital increase in September 2017. Without the effects of write-offs pursuant to the PPA, the profit per share per 30 June 2018 amounted to €1.24. No PPA write-offs were required in HY1 2017.

Major revenue and profit indicators in the segment "Access" (in €m)



* in previous year from continued operations

Financial position

Cash flow from operating activities declined from €140.9 million in HY1 2017 to €90.6 million in HY1 2018. The decrease in the amount of €50.4 million reflects the high hardware investments made in HY1 2018 in customer growth and retention of existing customers; these investments will lead to higher revenue from customer contracts in subsequent periods. In contrast to the previous year, investments in rate plans with hardware (for instance) are no longer recognised directly as expenses. They nevertheless result in outflows of funds that are offset by inflows of funds in the subsequent periods.

Net incoming payments of operating activity from continued operation in HY1 2018 amounted to €44.6 million (HY1 2017: €134.2 million). Besides the aforementioned negative influencing factors in cash flow from operating activities, increased advance payments for purchased services that will not be recognised as operating expenses until later periods and the increase in inventories led to outflows of funds that will to a major extent be reversed in the following periods.

Cash flow from investments from continued operation shows total net outgoing payments of €12.7 million during the reporting period (HY1 2017: outgoing payments of €9.7 million). Outgoing payments of €5.1 million and incoming payments of €0.7 million resulted from investments in tangible and intangible assets (HY1 2017: outgoing payments of €6.3 million and incoming payments of €0.2 million). Moreover, a retroactive outflow of funds in the amount of €8.3 million (HY1 2017: €0.0) occurred with respect to yourfone Shop GmbH, which was deconsolidated per 31 December 2017.

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Free cash flow from continued operation, defined as net incoming payments from operating activities from continued operation less investments in tangible and intangible assets plus incoming payments from disposals of intangible and tangible assets, amounted to €40.1 million in HY1 2018 (HY1 2017: €128.1 million). The change over the previous year results essentially from the outflows of funds relating to the investments in operating business that will be reversed or amortised in subsequent periods.

The decisive elements for the cash flow from the financing sector from continued operation in the first half of 2018 were primarily the disbursement of dividends in May in the amount of €282.8 million (HY1 2017: €0.0), outgoing and incoming payments relating to the short-term investment of free cash in the amount of €100 million each (HY1 2017: €0.0) and incoming and outgoing payments from the utilisation and repayment of loans from and to United Internet in the amount of €+200 million and €-93 million, respectively.

Cash and cash equivalents per 30 June 2018 amounted to €5.4 million in comparison with €149.7 million per 31 December 2017.

Assets and liabilities

The balance sheet total increased from €4,735.7 million per 31 December 2017 to €5,094.3 million per 30 June 2018. The first-time application of the IFRS 15 regulations in HY1 2018 results in long- and short-term assets in the amount of €764.5 million (31 December 2017: €0.00) and long- and short-term liabilities in the amount of €256.0 million (31 December 2017: €0.0) from items from previous periods that were to be recognised as non-operating results per 1 January 2018 and the adjustments of the current period effective on earnings.

Short-term assets rose from €656.6 million per 31 December 2017 to €784.9 million per 30 June 2018. The cash holdings disclosed in the short-term assets declined from €149.7 million to €5.4 million. The change results primarily from the dividend disbursement of May 2018 and the investments in smartphones made during HY1 2018, which will be amortised over the customers' contract terms. Trade accounts receivable increased from €182.6 million per 31 December 2017 to €201.4 million per 30 June 2018. Accounts due from associated companies declined from €168.3 million per 31 December 2017 to €5.2 million per 30 June 2018. Per 31 December 2017, accounts due from associated companies in the amount of €158 million arose primarily from the sale of Versatel Group that was realised in the first half of the year. Prepaid expenses rose slightly from €15.1 million to €16.8 million. The item contract assets in the amount of €334.1 million (31 December 2017: €0.0) includes short-term receivables due from customers related to early revenue realisation because of the application of IFRS 15; the revenue had been recognised as non-operating results from previous periods for all customers at the beginning of the year and has been carried forward effective on earnings since then. The items costs for contract acquisition and for contract fulfilment include the short-term expenditures, recognised as non-operating results at the beginning of the year and carried forward effective on earnings since then, related to customer acquisition and costs of contract fulfilment during the term of the contracts. Other financial assets declined from €80.1 million per 31 December 2017 to €28.5 million per 30 June 2018. In the previous year, these assets included mainly reimbursement claims against Deutsche Telekom for DSL connection fees paid in advance in previous years. The other non-financial assets increased from €14.4 million to €47.4 million and concern primarily income tax claims.

SITUATION IN THE GROUP

Long-term assets rose from €4,079.2 million per 31 December 2017 to €4,309.4 million per 30 June 2018. The increase of €230.2 million results basically here as well from the first-time application of the IFRS 15 regulations during HY1 2018. Intangible assets declined as planned from €901.4 million per 31 December 2017 to €815.1 million per 30 June 2018 and include primarily the assets determined as part of the purchase price allocation less the related depreciation and amortisation. The long-term prepaid expenses increased from €79.4 million per 31 December 2017 to €146.7 million and comprise basically advance payments made pursuant to long-term purchase contracts. The items contract assets and costs of contract acquisition and fulfilment include here, analogously to the short-term assets, the long-term receivables from customers resulting from the application of IFRS 15. The change in deferred tax assets from €144.6 million per 31 December 2017 to €0.0 per 30 June 2018 results from the first-time balancing of the deferred tax assets with the deferred tax liabilities.

Short-term liabilities increased from €675.2 million per 31 December 2017 to €691.3 million per 30 June 2018. Short-term trade accounts payable increased by €14.3 million to €243.8 million (31 December 2017: €229.5 million). Accounts due to associated companies declined from €221.9 million per 31 December 2017 to €175.7 million and are related, for one, to liabilities due to United Internet AG as part of the utilisation of cash and, for another, to liabilities due to other group undertakings of United Internet Group pursuant to the procurement of advance services. In the previous year, they basically concerned liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH; the option was exercised in January 2018. The contract liabilities include short-term liabilities from reimbursement obligations of one-time fees for revoked contracts and deferred income from one-time fees that were recognised as non-operating results in HY1 2018 pursuant to the application of IFRS 15 and that have since then been carried forward effective on earnings. Income tax liabilities rose from €47.0 million per 31 December 2017 to €101.6 million per 30 June 2018. This was primarily caused by the significant increase in profit before taxes.

Long-term liabilities rose from €255.4 million per 31 December 2017 to €328.8 million per 30 June 2018. Causes included in particular the creation and updating of deferred tax liabilities related to the initial application of the IFRS 15 regulations in the amount of €192.6 million (31 December 2017: €0.0) and the increase in Other provisions from €3.5 million per 31 December 2017 to €64.7 million per 30 June 2018. The increase in Other provisions results from the initial recognition of provisions for termination charges related to IFRS 15 accounting. Contract liabilities include long-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 equity in the Group rose from €3,805.1 million per 31 December 2017 to €4,074.2 million per 30 June 2018. The Company's unchanged share capital in the amount of €194.4 million is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 and is the equivalent of the share capital of 1&1 Drillisch AG. Cumulative consolidated profit rose by €269.2 million from €1,163.6 million per 31 December 2017 to €1,432.7 million per 30 June 2018. The change in the amount of €372.7 million reflects, for one, the adjustments recognised as non-operating results from the application of the modified retrospective transition method related to the initial application of IFRS 15 per 1 January 2018. For another, the offsetting of the consolidated profit per 30 June 2018 of €179.3 million and the dividend disbursement of €282.8 million in May 2018 leads to a reduction of the cumulative consolidated profit of €103.6 million. The equity ratio fell slightly from 80.4% to 80.0%.

RISKS, OPPORTUNITIES AND FORECAST REPORT

General statement from the Management Board regarding the economic position

1&1 Drillisch again invested heavily in new customer relationships and the retention of current customers in HY1 2018. The result was a total increase of 0.47 million contracts in the number of customer contracts subject to charge during the reporting period. The number of mobile internet contracts rose by 0.43 million from 8.30 million per 31 December 2017 to 8.73 million. DSL contracts grew by forty thousand from 4.34 million per 31 December 2017 to 4.38 million.

The growth in customers and revenues as well as the strong rise in EBITDA that were achieved are evidence that 1&1 Drillisch continued its dynamic development in HY1 2018 and has laid a solid foundation for future growth.

This successful corporate development documents once again the advantages of the 1&1 Drillisch business model that is primarily based on electronic subscriptions with fixed monthly charges and contractually fixed terms. This ensures stable and plannable revenues and cash flows, provides protection from economic fluctuations and opens up financial manoeuvring room for the exploitation of opportunities in current and new business fields and markets, whether organically or through participating interests and acquisitions.

The Company's Management Board views the figures for customer contracts, revenues and profit as well as for the investments made in new and current customers realised during the HY1 2018 as confirmation that the Company is staying solidly on course overall and is well positioned for continued corporate development.

Risks, opportunities and forecast report

1&1 Drillisch Group pursues policies of risk and opportunity that are oriented o the objective of maintaining and raising sustainably the Company's value by taking advantage of opportunities and by recognising and managing risks at an early stage. The risk and opportunity management as practised ensures that 1&1 Drillisch can carry out its business operations in a controlled corporate environment.

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

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

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

The overall risks and opportunities situation in HY1 2018 remained largely stable in comparison with the reporting of risks and opportunities in the annual financial statements for 2017. Risks threatening the existence of 1&1 Drillisch from either specific risk positions or the overall risk situation were not discernible during the reporting period and at the point in time of preparation of this semi-annual financial report.

RISKS, OPPORTUNITIES AND FORECAST REPORT

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

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

Forecast report

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

Upon expiration of HY1 2018, the International Monetary Fund (IMF) adjusted its growth forecasts for the global economy. In its updated economic outlook (World Economic Outlook, Update July 2018), the Fund sees a slight damper on the state of the world economy. While the IMF has left its growth prediction for the global economy for this and next year unchanged at 3.9%, it is more sceptical about growth in major economies such as Great Britain, Japan and some of the member states of the euro zone.

Following economic growth of 2.5% in 2017, the IMF expects growth of 2.2% in 2018 and 2.1% in 2019 for Germany.

Market/industry expectations

According to figures from the industry association Bitkom released during its annual press conference on 14 February 2018, revenues on the German ITC market will rise by 1.7% to €164.0 billion in 2018.

Growth on the telecommunications market is expected to remain moderate. Revenues will presumably rise by 0.4% (previous year: + 0.1%) to €65.9 billion. TC devices are expected to increase by 1.3% (previous year: + 4.7%) to €10.7 billion, of which €10.1 billion will be attributable to smartphones. Business with telecommunications infrastructure is projected to grow by 1.4% (previous year +0.5%) to €6.7 billion. A plus of 0.1% (previous year: -1.0%) to €48.5 billion is expected for telecommunications services. Revenues realised from voice services will presumably display strongly declining developments in the sectors landline (-8.5%) and mobile (-8.3%). On the other hand, business with mobile services is expected to continue to grow (+6.0%).

In particular, the German broadband and mobile internet market in the segment "Access", financed primarily by subscriptions, is of special interest to 1&1 Drillisch.

RISKS, OPPORTUNITIES AND FORECAST REPORT

(Landline) broadband market in Germany

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

According to the study “German Entertainment and Media Outlook 2017–2021”, PricewaterhouseCoopers expects an increase in revenues realised from landline-based broadband connections of no more than 1.1% to €8.15 billion for 2018.

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

	2018e	2017	Change
Revenues	8.15	8.06	+ 1.1 %

Source: PricewaterhouseCoopers, October 2017

Mobile internet market in Germany

In contrast, all experts are predicting that growth on the mobile internet market will remain substantial. Following market growth by 6.6% to €7.77 billion in 2017, PricewaterhouseCoopers is projecting growth in 2018 as well of 5.8% to €8.22 billion for mobile data services.

Market forecast: mobile internet (mobile services) in Germany (in € billion)

	2018e	Change	Change
Revenues	8.22	7.77	+ 5.8%

Source: PricewaterhouseCoopers, October 2017

Forecast for fiscal year 2018

1&1 Drillisch has targeted a significant increase in clientele by about 1.0 million customer contracts and a related continuation of the positive development of gross profit in operating business and a rise in revenue to about €3.7 billion for fiscal year 2018 as a whole. For 2018, the Management Board expects an increase in adjusted EBITDA to about €750 million.

RISKS, OPPORTUNITIES AND FORECAST REPORT

General statement from the Management Board on presumable development

The 1&1 Drillisch AG Management Board remains optimistic in its outlook for the future. Thanks to a business model that is based for the most part on electronic subscriptions, 1&1 Drillisch views its position as by and large stable and secure from economic fluctuations.

Marketing and sales will focus in particular on the marketing of mobile internet products during HY2 2018. 1&1 Drillisch intends to claim its share of market growth and continue to grow. The Company wants to take advantage of its good position for DSL products and grow in this sector as well.

Following the successful start to HY2 2018 as well as at the later point in time of the preparation of this management report, the Management Board believes that the Company is well on its way to achieving the targets explained in greater detail in the above section “Forecast for fiscal year 2018”

Future-oriented statements and forecasts

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

Use of financial performance indicators relevant for business

Financial performance indicators such as EBITDA, EBITDA margin, EBIT, EBIT margin or free cash flow are used in addition to the disclosures required by the International Financial Reporting Standards (IFRS) in the Company’s annual and interim financial statements to ensure a clear and transparent presentation of 1&1 Drillisch’s business development. Information about the use, definition and calculation of these performance indicators is available in the Annual Report 2017 of 1&1 Drillisch AG from page 37.

The performance indicators used by 1&1 Drillisch have been adjusted for special effects to the extent this is necessary for a clear and transparent presentation. As a rule, the special effects are related solely to those effects that, because of their nature, frequency and/or scope, are capable of negatively affecting the meaningfulness of the financial performance indicators for the financial and income development of the Company. All special effects are pointed out and explained in the relevant chapter of the financial statements for the purpose of the rollover to the unadjusted financial performance indicators.

RISKS, OPPORTUNITIES AND FORECAST REPORT

Important events occurring after 30 June 2018

No important events occurred after the balance sheet date.

Maintal, 13 August 2018

The Management Board

Ralph Dommermuth | André Driesen | Martin Witt

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CONSOLIDATED BALANCE SHEET

Per 30 June 2018

	30 June 2018 €k	31 December 2017 €k
ASSETS		
Short-term assets		
Cash and cash equivalents	5,418	149,681
Trade accounts receivable	201,400	182,620
Receivables due from associated companies	5,147	168,261
Inventories	111,204	46,467
Prepaid expenses	16,839	15,052
Contract assets	334,111	0
Contract acquisition costs	17,262	0
Contract fulfilment costs	17,639	0
Other financial assets	28,458	80,120
Other non-financial assets	47,423	14,352
	784,901	**656,552**
Long-term assets		
Other financial assets	6,140	6,095
Tangible assets	12,999	14,702
Intangible assets	815,076	901,414
Goodwill	2,932,943	2,932,943
Contract assets	140,760	0
Contract acquisition costs	143,758	0
Contract fulfilment costs	111,012	0
Prepaid expenses	146,690	79,414
Deferred tax assets	0	144,586
	4,309,378	**4,079,155**
TOTAL ASSETS	**5,094,279**	**4,735,708**

CONSOLIDATED BALANCE SHEET

Per 30 June 2018

	30 June 2018 €k	31 December 2017 €k
LIABILITIES AND EQUITY		
Liabilities		
Short-term liabilities		
Trade accounts payable	243,829	229,549
Payments on account	6,255	5,976
Liabilities due to associated companies	175,675	221,861
Income tax liabilities	101,618	47,046
Deferred income	18,964	48,394
Contract liabilities	18,672	0
Other provisions	37,555	52,958
Other financial liabilities	58,379	45,704
Other non-financial liabilities	30,330	23,755
	691,277	**675,244**
Long-term liabilities		
Deferred tax liabilities	255,272	245,506
Contract liabilities	6,107	0
Other provisions	64,674	3,541
Other financial liabilities	2,717	6,338
	328,770	**255,384**
TOTAL LIABILITIES	**1,020,047**	**930,628**
Equity		
Share capital	194,441	194,441
Capital reserves	2,447,085	2,447,085
Cumulative consolidated results	1,432,706	1,163,554
TOTAL EQUITY	**4,074,232**	**3,805,080**
TOTAL LIABILITIES AND EQUITY	**5,094,279**	**4,735,708**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

from 1 January to 30 June 2018

	2018 January - June €k	2017 January - June €k
Sales	1,818,990	1,276,489
Cost of sales	-1,287,670	-886,938
GROSS PROFIT FROM TURNOVER	**531,320**	**389,551**
Distribution costs	-204,735	-159,614
Administration costs	-45,119	-32,255
Other operating expenses	-41,485	-6,553
Other operating income	22,690	10,880
RESULTS FROM OPERATING ACTIVITIES	**262,671**	**202,008**
Financing expenses	-468	-8,061
Financial income	274	537
RESULTS BEFORE TAXES	**262,477**	**194,484**
Tax expenses	-83,218	-35,535
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)	**179,259**	**158,949**
Results after taxes from discontinued operation	0	170,930
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)	**179,259**	**329,879**
Thereof attributable to		
- Non-controlling interests	0	0
- Shareholders of 1&1 Drillisch AG	**179,259**	**329,879**
Categories that may subsequently be reclassified in the profit and loss account	0	0
Categories that will not subsequently be reclassified in the profit and loss account	0	0
TOTAL CONSOLIDATED RESULTS	**179,259**	**329,879**
Thereof attributable to		
- Non-controlling interests	0	0
- Shareholders of 1&1 Drillisch AG	**179,259**	**329,879**
Profit per share of the shareholders of 1&1 Drillisch AG (in €)		
- undiluted	1.01	1.36*
- diluted	1.01	1.36*

* From continuing operations

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 30 June 2018

	2018 January - June €k	2017 January - June €k
Results from operating activities		
Consolidated results	179,259	329,879
Consolidated results from discontinued operation	0	170,930
Consolidated results from continued operation	179,259	158,949
Allowances for rollover of consolidated results to incoming and outgoing payments		
Depreciation on intangible and tangible assets	20,196	8,089
Depreciation on assets capitalised within the framework of corporate acquisitions	57,188	0
Changes in the adjustment items for deferred tax assets	-7,835	-26,070
Correction profit/loss from the sale of tangible assets	48	0
Effects from IFRS 15 accounting not affecting payment	-158,343	0
Other items not affecting payments	44	-52
CASH FLOW FROM OPERATING ACTIVITIES	**90,557**	**140,916**
Changes in assets and liabilities		
Change in receivables and other assets	2,648	-44,084
Change in inventories	-64,737	-25,587
Change in deferred expenditures	-69,063	15,302
Change in trade accounts payable	22,580	26,613
Change in payments on account	278	-118
Change in other provisions	-18,181	2,138
Change in income tax liabilities	54,572	37,996
Change in other liabilities	15,552	26,413
Change in receivables due from/liabilities due to associated companies	9,829	-44,753
Change in deferred earnings	536	-607
CHANGES IN ASSETS AND LIABILITIES, TOTAL	**-45,986**	**-6,687**
Net inflow of funds from operating activity from the continued operation	**44,571**	**134,229**
Net inflow of funds from operating activity from discontinued operation	**0**	**53,484**
Net inflow of funds from operating activities	**44,571**	**187,713**

CONSOLIDATED CASH FLOW STATEMENT

from 1 January to 30 June 2018

	2018 January - June €k	2017 January - June €k
CASH FLOW FROM INVESTMENTS		
Investments in intangible and tangible assets	-5,144	-6,277
Inflow of funds from disposal of intangible and tangible assets	692	189
Outflow of funds from disposal of financial assets	-8,300	-3,641
Investments in other financial assets	3	0
Net outflow of funds in investment sector continued operation	**-12,749**	**-9,729**
Net outflow of funds in investment sector discontinued operation	**0**	**-58,649**
Net outflow of funds in investment sector	**-12,749**	**-68,378**
CASH FLOW FROM FINANCING SECTOR		
Inflow of funds from the assumption of losses by United Internet AG	0	12,498
In-/outflow of funds from changes in the cash pool balances with associated companies	0	71,091
Repayment of finance leasing liabilities	-262	0
Dividend payment	-282,823	0
Outgoing payments for the grant of loans to associated companies	-100,000	0
Incoming payments from associated companies in repayment of loans	100,000	0
Incoming payments from loans from associated companies	200,000	0
Outgoing payments to associated companies in repayment of loans	-93,000	-200,000
Net outflow of funds in financing sector continued operation	**-176,085**	**-116,411**
Net outflow of funds in financing sector discontinued operation	**0**	**-7,105**
Net outflow of funds in financing sector	**-176,085**	**-123,516**
Net decrease in cash and cash equivalents	-144,263	-4,181
Cash and cash equivalents at beginning of fiscal year	149,681	4,562
Cash and cash equivalents at end of reporting period	**5,418**	**381**

CONSOLIDATED CHANGE IN EQUITY STATEMENT

in Fiscal Years 2018 and 2017

	Share capital		Capital reserves	Cumulative consolidated results	Equity attributable to the 1&1 Drillisch AG shareholders	Non-controlling interests	Total equity
	Denomination	€k	€k	€k	€k	€k	€k
Per 1 January 2017	**121,000**	**121**	**-1,067,670**	**615,289**	**-452,260**	**39,442**	**-412,818**
Consolidated results		0	0	329,879	329,879	0	329,879
Total Results				**329,879**	**329,879**	**0**	**329,879**
Other contributions		0	360,710	83,586	444,296	0	444,296
Change in holding ratios		0	-98,573	0	-98,573	-39,442	-138,015
Per 30 June 2017	**121,000**	**121**	**-805,533**	**1,028,754**	**223,342**	**0**	**223,342**
Per 1 January 2018	**176,764,649**	**194,441**	**2,447,085**	**1,163,554**	**3,805,080**	**0**	**3,805,080**
Consolidated results		0	0	179,259	179,259	0	179,259
Total Results				**179,259**	**179,259**	**0**	**179,259**
Dividend payments		0	0	-282,823	-282,823	0	-282,823
Effect on capital from IFRS 15 accounting		0	0	372,716	372,716	0	372,716
PER 30 JUNE 2018	**176,764,649**	**194,441**	**2,447,085**	**1,432,706**	**4,074,232**	**0**	**4,074,232**

SEGMENT REPORTING

1. General information about the Company and the financial statements

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

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

1&1 Drillisch AG is included in the consolidated interim financial statements of United Internet AG, Montabaur.

2. Major accounting, valuation and consolidation principles

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

The abbreviated consolidated interim financial statements for the period from 1 January 2018 to 30 June 2018 were prepared in accordance with IAS 34 "Interim Financial Reporting".

The reporting scope chosen for the presentation of these consolidated interim financial statements is abbreviated in comparison with the consolidated annual financial statements and should therefore be read in association with the consolidated annual financial statements per 31 December 2017. The accounting and valuation methods applied in the abbreviated consolidated interim financial statements are the same as the methods used in the previous year with the exception of the standards whose application has in the interim become mandatory; they are briefly designated below.

Pursuant to IAS 1.32, the offsetting of assets and liabilities or of income and expenses is not permitted unless the offset is required or permitted by a standard or an interpretation. The deferred tax assets and deferred tax liabilities were offset in accordance with IAS 12.74. The conditions for the offsetting of deferred taxes were fulfilled for the first time during the reporting period 2018 by virtue of the created fiscal unity.

SEGMENT REPORTING

2.1 Mandatory application of new accounting standards

The application of the following standards became mandatory in the EU for the first time for fiscal years beginning on or after 1 January 2018:

Standard		**Mandatory application for fiscal years beginning as of**	**adoption by EU Commission**
IFRS 2	Share-based Payment	1/1/2018	Yes
IFRS 9	Financial Instruments (standard and further additions)	1/1/2018	Yes
IFRS 15	Revenue from Contracts with Customers	1/1/2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	Yes
IAS 40	Investment Property (Amendment)	1/1/2018	Yes
Various	Improvement to IFRS 2014-2016	1/1/2018	Yes

In July 2014, the IASB adopted the final version of IFRS 9 – Financial Instruments, which supersedes IAS 39 – Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. With the entry into force of IFRS 9 in its final form, the three project phases for disclosure of financial instruments in the balance sheet ("Classification and Measurement", "Impairment" and "Balance Sheet Disclosure for Hedge Transactions") were merged. The application of IFRS 9 first became mandatory for fiscal years beginning on or after 1 January 2018. With the exception of the balance sheet disclosure for hedge transactions, the standard must be applied retroactively, whereby no additional comments on the comparison information are required. With only a few exceptions, the provisions for disclosure of hedging transactions in the balance sheet are generally to be observed prospectively. The initial application of IFRS 9 did not reveal as a whole any significant impacts on the balance sheet and equity of the Group.

The effects on the accounting of 1&1 Drillisch Group arise essentially from the reclassification and mea-surement of financial assets that were available for sale in the previous year. All of the Group's financial assets held at fair value continued to be measured at fair value. Assets that were held as available for sale and whose profits or losses were recognised in other results, however, were measured on a case-by-case basis as either effective on earnings at fair value or as non-operating results. In the latter case, these assets continued to be recognised in other results, but were later no longer reclassified as profit or loss. On the other hand, the volatility of the disclosed profit or loss was increased by the recognition effective on earnings. The reserve for the financial assets available for sale previously disclosed in the cumulative other results is reclassified, in so far as it is to be measured in future at fair value effective on earnings, in the earnings reserves.

SEGMENT REPORTING

1&1 Drillisch decided to exercise the accounting option right in favour of the simplified initial application of IFRS 9. The changeover to IFRS 9 did not have any effects.

IFRS 15 – Revenue from Contracts with Customers provides a standard, five-level model based on principles for the determination and recognition of revenues that is to be applied to all contracts with customers. The new standard supersedes the existing standards IAS 18 – Revenue and IAS 11 – Construction Contracts. Application of IFRS 15 is mandatory for the first time to fiscal years beginning on or after 1 January 2018. The transition to the new standard can be either modified or fully retrospective. 1&1 Drillisch Group exercised the option right to apply the modified retrospective transition method. The figures of the previous year were therefore not adjusted in the consolidated interim financial statements per 30 June 2018. The changeover effects were recognised as non-operating results in equity per 1 January 2018.

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

» While previously sales revenues for hardware (e.g. mobile phones) within the framework of a multiple-component transaction (e.g. mobile services contract plus mobile phone) were realised as sales revenue solely in the amount of payment billed monthly to the customer, IFRS 15 requires a breakdown of the total payment from the customer contract on the basis of the relative separate selling prices of the various performance obligations. The share of sales revenue for the hardware allocated on this basis is recognised in full upon delivery to the customer. Since the allocated share of revenue as a rule exceeds the charges billed to the customers in the first month, the new regulations lead to the revenue realisation being brought forward to the periods in which the utilised hardware also becomes effective on expenditures.

» Moreover, IFRS 15 requires the capitalisation of contract costs. If and when certain prerequisites are met, the costs for the contract acquisition (e.g. sales commissions) as well as fulfilment of the contract (e.g. activation fees) must be capitalised and amortised over the estimated useful life.

SEGMENT REPORTING

The application of IFRS 15 along with IFRS 9 has essentially the following effects on the assets and liabilities, financial position and earnings of 1&1 Drillisch Group:

in €m		IFRS 15 Adjustments		IFRS 9 Adjustments					
ASSETS	**Book value per IAS 18 31/12/2017**	Revaluation	Reclas-sification	Revaluation	**Book value per IFRS 9/ IFRS 15 1/1/2018**	Constant change per IFRS 15	**Book value per IFRS 9/ IFRS 15 30/6/2018**	**Book value per IAS 18 30/6/2018**	Difference IAS 18 vs. IFRS 15
SHORT-TERM ASSETS									
Trade accounts receivable	**182.6**	0.0	0.0	0.0	**182.6**	0.0	**201.4**	201.4	0.0
Short-term contract assets	**0.0**	270.5	0.0	0.0	**270.5**	63.6	**334.1**	0.0	334.1
Short-term contract acquisition costs	**0.0**	13.7	0.0	0.0	**13.7**	3.6	**17.3**	0.0	17.3
Short-term contract fulfilment costs	**0.0**	16.3	0.0	0.0	**16.3**	1.3	**17.6**	0.0	17.6
Other non-financial assets	**14.4**	2.2	0.0	0.0	**16.6**	0.6	**47.4**	44.6	2.8
LONG-TERM ASSETS									
Intangible assets	**901.4**	-15.0	0.0	0.0	**886.4**	0.0	**815.1**	830.1	-15.0
Long-term contract assets	**0.0**	70.5	0.0	0.0	**70.5**	70.3	**140.8**	0.0	140.8
Long-term contract acquisition costs	**0.0**	135.3	0.0	0.0	**135.3**	8.5	**143.8**	0.0	143.8
Long-term contract fulfilment costs	**0.0**	108.3	0.0	0.0	**108.3**	2.7	**111.0**	0.0	111.0
Deferred tax assets	**144.6**	-7.2	-108.4	0.0	**29.0**	0.0	**0.0**	0.0	0.0
SHAREHOLDERS' EQUITY AND LIABILITIES									
SHORT-TERM LIABILITIES									
Deferred income	**48.4**	-29.3	0.0	0.0	**19.1**	-0.6	**19.0**	48.9	-30.0
Short-term contract liabilities	**0.0**	30.2	0.0	0.0	**30.2**	-11.5	**18.7**	0.0	18.7
Other financial liabilities	**45.7**	0.6	0.0	0.0	**46.3**	-0.3	**58.4**	58.0	0.3
LONG-TERM LIABILITIES									
Deferred tax liabilities	**245.5**	155.0	-108.4	0.0	**292.1**	37.2	**255.3**	55.9	199.4
Long-term contract liabilities	**0.0**	4.5	0.0	0.0	**4.5**	1.6	**6.1**	0.0	6.1
Other provisions	**3.5**	60.8	0.0	0.0	**64.4**	3.1	**64.7**	0.8	63.9
SHAREHOLDERS' EQUITY									
Earnings reserves, including earnings brought forward / Consolidated results	**1,163.6**	372.7	0.0	0.0	**1,536.3**	107.8	**1,432.7**	952.2	480.5

SEGMENT REPORTING

The revaluation effects pursuant to IFRS 15 result primarily from the following circumstances:

- Recognition of contract assets of €341.0 million from the sale of goods and merchandise that pursuant to IFRS 15 lead to an early revenue realisation in comparison with IAS 18.
- The contract costs resulting from the first-time capitalisation in the amount of €273.6 million lead to a later recognition of expenses under IFRS 15. Costs of contract acquisition and of contract fulfilment are recognised effective on earnings linearly over the course of the amortisation term on which they are based in each case.
- The effects from the revaluation of the short-term other non-financial assets in the amount of €2.2 million relate to the restitution claims for hardware from revoked contracts based on the 1&1 principle.
- The short-term deferred earnings disclosed pursuant to IAS 18 are disclosed pursuant to IFRS 15 in the short-term contract liabilities. The recognition of the contract liabilities pursuant to IFRS 15 results from service-only contracts without any hardware for which a one-time charge (e.g. in the form of an activation fee) was billed and now leads to a linearised revenue recognition over the pertinent contract term.
- Recognition of contact liabilities in the amount of €34.7 million that pursuant to IFRS 15 lead to a later recognition of revenues.
- The revaluation of the deferred tax liabilities in the amount of €155.0 million is essentially a consequence of the early revenues from the sale of hardware. The disclosure is a gross figure and, as appropriate, is to be offset against the deferred tax assets from the delineation of the hardware subsidies (€108.4 million).
- The recognition of the other long-term provisions in the amount of €60.8 million is a consequence of the change in recognition of the provisions for termination charges pursuant to IFRS 15. According to IAS 18, short-term provisions for termination charges were created solely for contracts that had already been terminated. In accordance with IFRS 15, a provision in the amount of the present value of the expected termination charges was created and the termination charges in the same amount were capitalised as costs of contract fulfilment. The provisions for the termination charges are compounded at the expected performance value over a term equivalent to the term of the reversal of the corresponding capitalised costs of contract fulfilment.

Taking into account deferred taxes, the conversion of 1 January 2018 results in an increased cumulative effect totalling €372.7 million to be recognised in the earnings reserves.

There were no significant effects for the fiscal year as a result of the other changes in IFRS.

SEGMENT REPORTING

2.2 Application of assumptions and estimates

During preparation of the abbreviated consolidated interim 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 adjustments in the book value of the relevant assets or liabilities.

2.3 Miscellaneous

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

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

These consolidated interim financial statements have not been audited pursuant to Section 317 HGB [German Commercial Code] or subjected to a review by an independent accountant.

Explanatory Comments on Comprehensive Income Statement

The comparability of the comprehensive income statement from 1 January 2018 to 30 June 2018 with the statement of the previous year is limited because the comprehensive income statement from 1 January to 30 June 2017 includes only the figures of 1&1 Telecommunication SE and its subsidiaries. This is a consequence of the IFRS regulations because the acquisition of the 1&1 Telecommunication SE shares by 1&1 Drillisch AG in September 2017 was assessed as a reverse acquisition.

3. Comparison information for the items of the financial statements affected by the initial application of IFRS 15

The following major effects per 30 June 2018 resulted from the disclosures in the balance sheet pursuant to IFRS 15 in comparison with IAS 18:

» From the initial recognition and carrying forward of contract assets, of costs of contract acquisition and of contract fulfilment and other non-financial assets that were recognised for the first time as a consequence of the conversion to IFRS 15.

» The value differences during recognition of the deferred tax assets and deferred tax liabilities resulting from the IFRS revaluation effects in the context of the initial application and their being carried forward in HY1 2018.

SEGMENT REPORTING

Relevant items of the financial statements pursuant to IFRS 15 and pursuant to IAS 18:

in €m	IFRS 15 HY 2018	IAS 18 HY 2018	Change
Sales	1,819.0	1,665.2	153.8
Cost of sales	-1,287.7	-1,249.9	-37.7
Distribution costs	-204.7	-256.1	51.4
Administration costs	-45.1	-45.1	0.0
Other operating expenses	-41.5	-32.4	-9.1
Other operating income	22.7	22.7	0.0
OPERATING RESULT	**262.7**	**104.3**	**158.3**
Result from interest	-0.2	-0.3	0.1
FINANCIAL RESULT	**-0.2**	**-0.3**	**0.1**
EARNINGS BEFORE TAXES ON INCOME	**262.5**	**104.1**	**158.4**
Taxes on income	-83.2	-32.6	-50.6
PROFIT/(LOSS)	**179.3**	**71.5**	**107.8**

If IFRS 15 were not taken into account, sales revenues would amount to €1,665.2 million and would be €153.8 million lower. This effect results essentially from the early recognition of hardware sales. The carrying forward of capitalised contract assets and contract liabilities carried on the liabilities side from previous periods during HY1 2018 has the contrary effect of lowering the revenues over the (remaining) contract term.

Cost of sales, if IFRS 15 were not taken into account, would amount to €1,249.9 million and would be in total €37.7 million lower. This effect results essentially from the reversal of the capitalised costs of contract fulfilment.

Distribution and administration costs, if IFRS 15 were not taken into account, would amount to €256.1 million and €45.1 million, respectively, and would be in total €51.4 million higher. This effect results primarily from the capitalised expenses related to the costs of customer acquisition.

In the reporting period 2018, the Group realised earnings from contracts with customers in the amount of €29.3 million that, in the previous period, had been disclosed as contract liabilities.

In the reporting period, the Group reversed pro rata the costs of contract in the amount of €76.8 million, of which €33.1 million is attributed to costs of contract renewals and €43.7 million to costs of contact fulfilment.

4. Sales revenues/Segment reporting

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

The corporate management and consolidated reporting concerns the segments "Access" and "Miscellaneous".

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In the segment "Access", revenues are generated from the offered access services to telecommunication networks, one-time activation 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 contractual fees less any credit notes and adjustments 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 sub-divisions "Drillisch Online" and "1&1 SE" are grouped together into one reportable segment in the segment "Access" because the products and services within these segments do not differ significantly.

In the segment "Miscellaneous", revenues are generated from the portfolio of tailored software solutions and from maintenance and support services. The revenues from software solutions and the revenues from maintenance and support services are based on contractual provisions.

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

The segment reporting of 1&1 Drillisch for the reporting period from 1 January to 30 June 2018 is presented below:

	Access €k	Miscellaneous €k	Consolidation €k	Total €k
Revenues with third parties	1,818,820	170	0	1,818,990
Intercompany revenues	0	5,597	-5,597	0
SEGMENT REVENUES	**1,818,820**	**5,767**	**-5,597**	**1,818,990**
Cost of materials external third parties	-1,241,736	-12	0	-1,241,748
Cost of materials from intercompany relationships	0	-6	6	0
COST OF MATERIALS FOR SEGMENT	**-1,241,736**	**-18**	**6**	**-1,241,748**
GROSS PROFIT FOR SEGMENT	**577,084**	**5,749**	**-5,591**	**577,242**
SEGMENT EBITDA	**339,870**	**1,440**	**-1,255**	**340,055**

The segment sales revenues also include certain revenues between the segments, but do not include internal allocations and charged-on costs within the Group. All revenues were realised in Germany.

SEGMENT REPORTING

The segment reporting of 1&1 Drillisch for the reporting period from 1 January to 30 June 2017 is presented below:

	Access €k	Miscellaneous €k	Consolidation €k	Total €k
Revenues with third parties	1,276,489	0	0	1,276,489
Intercompany revenues	0	0	0	0
SEGMENT REVENUES	**1,276,489**	**0**	**0**	**1,276,489**
Cost of materials external third parties	-869,879	0	0	-869,879
Cost of materials from intercompany relationships	0	0	0	0
COST OF MATERIALS FOR SEGMENT	**-869,879**	**0**	**0**	**-869,879**
GROSS PROFIT FOR SEGMENT	**406,610**	**0**	**0**	**406,610**
SEGMENT EBITDA	**210,097**	**0**	**0**	**210,097**

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

	January - June 2018 €k	January - June 2017 €k
Total segment profits (EBITDA)	340,055	210,097
Depreciation and amortisation	-77,384	-8,089
Operating results	**262,671**	**202,008**
Financial results	-194	-7,524
PROFIT BEFORE TAXES ON INCOME	**262,477**	**194,484**

5. Depreciation and amortisation

Amortisation of intangible assets and depreciation on tangible assets amounted to €20,196k (previous year: €8,089k).

Depreciation and amortisation of assets capitalised in relation to company acquisitions amounted to €57,188k (previous year: €0k).

Total amortisation of intangible assets and depreciation on tangible assets during the reporting period 2018 amounted to €77,384k (previous year: €8,089k).

6. Personnel expenses

Personnel expenses for the reporting period 2018 amounted to €88,584k (previous year: €68,100k). At the end of June 2018, 1&1 Drillisch employed a workforce of 3,145 (previous year: 2,489) and 43 vocational trainees (previous year: 0).

SEGMENT REPORTING

Explanatory Comments on the Consolidated Balance Sheet

Explanatory comments are provided solely on the items that display noteworthy differences to the amounts disclosed in the consolidated annual financial statements of 31 December 2017.

7. Receivables due from associated companies

Receivables due from associated companies in the amount of €5,147k (31 December 2017: €168,261k) are related to member companies of United Internet Group that are not included in the 1&1 Drillisch Group's consolidated financial statements. Per 31 December 2017, accounts due from associated companies arose primarily in the amount of €157,897k from the sale of Versatel Group that was realised at the beginning of 2018.

8. Contract assets

The item contract assets in the amount of €474,871k (31 December 2017: €0.0) includes short-term and long-term receivables due from customers related to early revenue realisation from the reporting period 2018 pursuant to the application of IFRS 15; the revenue was recognised as non-operating results at the beginning of the year and has been carried forward effective on earnings since then.

9. Costs of contract acquisition and of contract fulfilment

The items costs of contract acquisition and of contract fulfilment in the amount of €289,671k include the short-term and long-term expenditures, recognised as non-operating results at the beginning of the year and carried forward effective on earnings since then, related to customer acquisition and costs of contract fulfilment during the term of the contracts.

10. Other short-term financial assets

Other short-term financial assets declined from €80,120k per 31 December 2017 to €28,458k per 30 June 2018. Per 31 December 2017, these assets included mainly reimbursement claims against Deutsche Telekom for DSL connection fees paid in advance in previous years. Per 30 June 2018, they concern primarily claims relating to advertising costs subsidies.

11. Short-term liabilities due to associated companies

Short-term liabilities due to associated companies per 30 June 2018 amount to €175,675k (31 December 2017: €221,861k) and are related to member companies of United Internet Group that are not included in the 1&1 Drillisch Group's consolidated

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financial statements. Per 30 June 2018, they relate essentially to liabilities from a loan from the parent company United Internet AG. Per 31 December 2017, they basically concerned liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH; the option was exercised in January 2018.

12. Contract liabilities

The contract liabilities of €24,779k include short-term and long-term liabilities from reimbursement obligations of one-time fees for revoked contracts and deferred income from one-time fees that were recognised in the reporting period 2018 as non-operating results at the beginning of the year pursuant to the application of IFRS 15 and that have since then been carried forward effective on earnings.

13. Other provisions

The rise in Other provisions from €56,499k per 31 December 2017 to €102,229k per 30 June 2018 results basically from the initial recognition of provisions for termination charges within the scope of the IFRS 15 accounting. Contrary to the long-term other provisions, the short-term other provisions declined essentially because of the utilisation of the restructuring provisions.

14. Share capital/Treasury stock

The fully paid-in share capital per 30 June 2018, just as per 31 December 2017, amounted to €194,441,113.90, distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10.

The Annual General Meeting on 21 May 2015 adopted a resolution authorising the 1&1 Drillisch AG Management Board to acquire treasury stock totalling up to 10% of the share capital at the time of the Annual General Meeting 2015 on or before 20 May 2020 (including the use of derivatives). The granted authorisation for the acquisition and utilisation of treasury stock was revoked by the General Meeting of 12 January 2018 and superseded by the new authorisation below.

The Company is authorised to acquire shares of the Company's own stock in an amount totalling no more than 10% 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 in excess of 10% of the share capital.

Per the closing date 30 June 2018, 1&1 Drillisch AG did not hold any shares of its own stock.

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15. Additional disclosures about the financial instruments

The table below presents the book value of each category of financial assets and liabilities per 30 June 2018:

	Measure-ment category per IFRS 9	Book value per 30/6/2018	Cost of acquisition carried forward	At fair value through other comprehensive income without recycling to profit and loss	At fair value through other comprehensive income with recycling to profit and loss	At fair value through profit or loss	Fair value per 30/6/2018
		€k	€k	€k	€k	€k	€k
Financial assets							
Cash and cash equivalents	ac	5,418	5,418	0	0	0	5,418
Trade accounts receivable	ac	201,400	201,400	0	0	0	201,400
Receivables due from associated companies	ac	5,147	5,147	0	0	0	5,147
Contract assets, costs of contract acquisition and contract fulfilment	ac	764,542	764,542	0	0	0	764,542
Other short-term financial assets	ac	28,458	28,458	0	0	0	28,458
Other long-term financial assets							
- Participating interests	fvoci	1,116	0	1,116	0	0	1,116
- Miscellaneous	ac	5,024	5,024	0	0	0	5,024
Financial liabilities							
Trade accounts payable	ac	-243,829	-243,829	0	0	0	-243,829
Liabilities due to associated companies	ac	-175,675	-175,675	0	0	0	-175,675
Contract liabilities	ac	-24,779	-24,779	0	0	0	-24,779
Other financial liabilities	ac	-61,096	-61,096	0	0	0	-61,096
thereof aggregated per classification categories:							
- at amortised cost	ac	504,610	504,610	0	0	0	504,610
- at fair value through other comprehensive income without recycling to profit and loss	fvoci	1,116	0	1,116	0	0	1,116
- at fair value through profit or loss	fvtpl	0	0	0	0	0	0

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The table below presents the classes of the financial assets and liabilities. An overview that takes into account the provisions of the new standard compares here the previously applied IAS 39 with regard to the classification categories and book values per 31/12/2017 and 1/1/2018:

	Classification categories		**Book values 31/12/2017 / 1/1/2018**	
	IAS 39	**IFRS 9**	**IAS 39** €k	**IFRS 9** €k
Financial assets				
Cash and cash equivalents	lar	ac	149,681	149,681
Trade accounts receivable	lar	ac	182,620	182,620
Receivables due from associated companies	lar	ac	168,261	168,261
Contract assets, costs of contract acquisition and contract fulfilment	lar	ac	614,531	614,531
Other short-term financial assets	lar	ac	80,120	80,120
Other long-term financial assets				
- Participating interests	afs	fvoci	1,071	1,071
- Miscellaneous	lar	ac	5,025	5,025
Financial liabilities				
Trade accounts payable	flac	ac	-229,549	-229,549
Liabilities due to associated companies	flac	ac	-221,861	-221,861
Contract liabilities	flac	ac	-34,702	-34,702
Other financial liabilities	flac	ac	-52,042	-52,042

The fair value of the trade accounts receivable corresponds by and large to the book value.

Adjustments must also be made in the classification in the classification categories of IFRS 9 for the other long-term financial assets as well. Previously, held equity instruments were recognised in the category “Available-for-Sale Financial Assets” in accordance with the provisions of IAS 39. The Group’s equity instruments, which now fall in the scope of application of IFRS 9, are classified in the category “At Fair Value Through Other Comprehensive Income Without Recycling to Profit and Loss”.

The Group’s debt instruments were previously classified in the categories “Available-for-Sale Financial Assets”, “Held-to-Maturity Investments” and “Loans and Receivables”. In accordance with IFRS 9, debt instruments are now classified in new categories, taking into consideration the underlying business model and the characteristics of the payment flows of the instruments being used. The new categories are these: “At Amortised Cost”, “At Fair Value Through Other Comprehensive Income Without Recycling to Profit or Loss” or “At Fair Value Through Profit or Loss”.

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No changes in classification occur within the framework of the classification of financial liabilities in the new classification categories of IFRS 9. The specific names of the classification categories were merely adapted to the new designations of IFRS 9. Just as before, a distinction is made between two classification categories for financial liabilities: classification "At Fair Value Through Profit or Loss” and “At Amortised Cost”.

The following net results were disclosed for the specific categories of financial instruments pursuant to IFRS 9 in the reporting period 2018.

		Net profits and losses from subsequent valuation				
Net result according to classification categories	**Classification categories pursuant to IFRS 9**	**From interest and dividends** €k	**At fair value** €k	**Currency translation** €k	**Valuation allowance** €k	**Net result** €k
Financial assets at amortised cost	ac	274	0	107	-36,713	-36,332
Financial liabilities at amortised cost	ac	-468	0	-9	0	-477
At fair value through other comprehensive income without recycling to profit and loss	fvoci	0	0	0	0	0
At fair value through profit or loss	fvtpl	0	0	0	0	0
		-194	**0**	**98**	**-36,713**	**-36,809**

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16. Relations to relatives and companies

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 companies and persons of the Group include Management and Supervisory Boards of 1&1 Drillisch AG and the member companies of United Internet Group that are not included in the consolidation of 1&1 Drillisch 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).

The group of related persons and companies remained unchanged in comparison with the consolidated annual financial statements per 31 December 2017.

Of the disclosed sales revenues, €14,187k (previous year: €14,843k) was realised during the reporting period with member companies of United Internet Group that are not members of the consolidation of 1&1 Drillisch Group.

Moreover, the expenditures in the reporting period of €87,410k (previous year: €59,777k) include expenditures with member companies of United Internet Group that are not members of the consolidation of 1&1 Drillisch Group.

The business premises of 1&1 Drillisch in Montabaur and Karlsruhe are leased to 1&1 Drillisch by 1&1 Internet SE, a member company of United Internet Group. 1&1 Internet SE has leased the premises in part from Mr Ralph Dommermuth. The resulting rent costs are charged forward proportionately to 1&1 Drillisch and are at a level usual in the area. The resulting rent expenses incurred during the reporting period amounted to €3,540k (previous year: €2,742k).

The company VPM Immobilien Verwaltungs GmbH, Maintal (member of 1&1 Drillisch AG Supervisory Board – Mr Vlasios Choulidis) has leased office space in Maintal to 1&1 Drillisch. The lease runs until 31 December 2020. The rent expenses during the reporting period amounted to €89k (previous year: period from September 2017 to December 2017: €60k).

17. Profit per share

The undiluted profit per share is calculated in accordance with IAS 33.9 et seqq. by dividing the consolidated profit from continuing business activities 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 from ongoing business 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.

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We refer to the remarks in the Annual Report per 31 December 2017, Section 2.1 "Explanatory Comments on Principle Accounting and Valuation Methods", regarding the calculation of the average of issued shares in the comparative period.

UNDILUTED CONSOLIDATED PROFIT PER SHARE	January - June 2018	January - June 2017
Consolidated results from continued operation in €k	179,259	158,949
Consolidated results from discontinued operation in €k	0	170,930
Weighted average less own shares held (number)	176,764,649	117,007,000
UNDILUTED CONSOLIDATED PROFIT PER SHARE FROM CONTINUED OPERATION IN €	**1,01**	**1,36**
UNDILUTED CONSOLIDATED PROFIT PER SHARE FROM DISCONTINUED OPERATION IN €	**0,00**	**1,46**

DILUTED CONSOLIDATED PROFIT PER SHARE	January - June 2018	January - June 2017
Consolidated results from continued operation in €k	179,259	158,949
Consolidated results from discontinued operation in €k	0	170,930
Net effect from conversion bond in €k	0	0
ADJUSTED CONSOLIDATED RESULTS FROM CONTINUED OPERATION IN €K	**179,259**	**158,949**
ADJUSTED CONSOLIDATED RESULTS FROM DISCONTINUED OPERATION IN €K	**0**	**170,930**
Weighted average less own shares held (number)	176,764,649	117,007,000
Shares from convertible bond to be included as average (number)	0	0
ADJUSTED WEIGHTED AVERAGE LESS OWN SHARES HELD (NUMBER)	**176,764,649**	**117,007,000**
DILUTED CONSOLIDATED PROFIT PER SHARE FROM CONTINUED OPERATION IN €	**1.01**	**1.36**
DILUTED CONSOLIDATED PROFIT PER SHARE FROM DISCONTINUED OPERATION IN €	**0.00**	**1.46**

18. Incidents after the balance sheet date

No important events occurred after the balance sheet date.

Maintal, 13 August 2018

1&1 Drillisch Aktiengesellschaft

Ralph Dommermuth André Driesen Martin Witt

INCOME STATEMENT (QUARTERLY DEVELOPMENT)

in €m

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2017 Q2
Sales	715.5	820.3	904.3	914.7	652.3
Cost of sales	-473.3	-527.5	-640.8*1	-646.8	-464.2
GROSS PROFIT FROM TURNOVER	**242.2**	**292.8**	**263.5**	**267.9**	**188.1**
Distribution costs	-90.0	-144.1	-104.5*1	-100.2	-74.5
Administration costs	-20.0	-22.2	-21.8	-23.4	-16.0
Other operating income/expenses	-5.3	-15.6	-10.2	-8.6	0.7
RESULTS FROM OPERATING ACTIVITIES	**126.9**	**111.0**	**127.0**	**135.7**	**98.3**
Financial results	-0.2	-0.9	0.0	-0.2	-2.2
RESULTS BEFORE TAXES	**126.7**	**110.1**	**127.0**	**135.5**	**96.1**
Tax expenses	-37.4	-48.0	-42.3	-40.9	-7.2
CONSOLIDATED RESULTS (FROM CONTINUED OPERATION)	**89.3**	**62.1**	**84.7**	**94.6**	**88.9**
Results after taxes from discontinued operation	0.0	0.0	0.0	0.0	175.2
CONSOLIDATED RESULTS (FROM DISCONTINUED OPERATION)	**89.3**	**62.1**	**84.7**	**94.6**	**264.2**
Thereof attributable to					
- Non-controlling interests	0.0	6.1	0.0	0.0	0.0
- Shareholders of 1&1 Drillisch AG	**89.3**	**56.0**	**84.7**	**94.6**	**264.2**
Categories that may subsequently be reclassified in the profit and loss account	0.0	0.0	0.0	0.0	0.0
Categories that will not subsequently be reclassified in the profit and loss account	0.0	0.0	0.0	0.0	0.0
TOTAL CONSOLIDATED RESULTS	**89.3**	**62.1**	**84.7**	**94.6**	**264.2**
Thereof attributable to					
- Non-controlling interests	0.0	6.1	0.0	0.0	0.0
- Shareholders of 1&1 Drillisch AG	**89.3**	**56.0**	**84.7**	**94.6**	**264.2**
Profit per share of the shareholders of 1&1 Drillisch AG (in €)					
- undiluted	0.66	0.26	0.48	0.54	0.76*2
- diluted	0.66	0.26	0.48	0.54	0.76*2

*1 Change in the amount of disclosure of €7.2 million in comparison with the quarterly release Q1 2018
*2 From continuing operations

AFFIRMATION STATEMENT OF THE LEGAL REPRESENTATIVES

Declaration according § 37y WpHG in connection with § 37w Sec. 2 Nr. 3 WpHG

To the best of our knowledge, and in accordance with the applicable accounting principles for interim reporting, the consolidated interim financial statements give, in compliance with generally accepted accounting principles, a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim 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 in the remaining fiscal year.

Maintal, 13 August 2018

Ralph Dommermuth	André Driesen	Martin Witt

OTHER

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INVESTOR RELATIONS CORNER

1. Investor Relations

Communications 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 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 2018

	2017 year end	30 June 2018	% change
1&1 Drillisch	€68.83	€48.76	-29.2
TecDAX	2,529.04	2,691.38	+6.4
DAX	12,917.64	12,306.00	-4.7

3. Current Analyst Assessments (Last Revised 31 July 2018)

Overall, the capital market views the 1&1 Drillisch stock as promising because of a dividend policy oriented to the long term and good strategic positioning on the German telecommunications market.

Analyse	Votum	Kursziel	Datum
UBS	„Buy“	€77.00	31 July 2018
Commerzbank	„Hold“	€60.00	24 July 2018
Goldman	„Buy“	€60.00	23 July 2018
DZ Bank	„Buy“	€63.00	18 July 2018
Berenberg	„Buy“	€69.00	13 July 2018
HSBC	„Buy“	€60.00	6 July 2018

A constantly updated overview of the analysts' recommendations can be found on the 1&1 Drillisch AG IR home page.
Source: https://www.1und1-drillisch.de/investor-relations/research-notes

LATEST RESEARCH NOTES , SHAREHOLDER STRUCTURE

4. Shareholder Structure (as of 12 January 2018)

Supervisory Board:

0.12 % | V. Choulidis

0.04 % | MV Beteiligungs GmbH

0.16 % | shs. 273,333

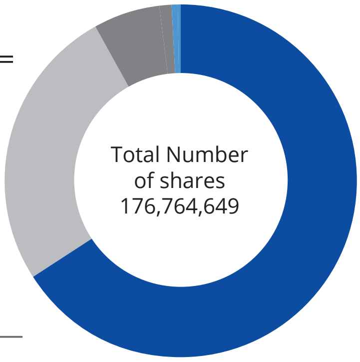
6.23 % | United Internet Investments Holding GmbH

67.06 % | United Internet AG

73.29 % | shs. 129,558,378

Other Shareholders:

26.55 % | shs. 46,932,938



Free Float as per definition of Dt. Boerse AG: 26.55 %

Per voting rights publications

A constantly updated overview of the shareholder structure can be found on the 1&1 Drillisch AG IR home page.
Source: https://www.1und1-drillisch.de/investor-relations/shareholder-structure

FINANCIAL CALENDAR*

Monday, 13 August 2018	6-Month Report 2018, Press and Analyst Meeting
Tuesday, 13 November 2018	Quarterly Statement Q3 2018

* These provisional dates are subject to change.

CONTACTS

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

Investor Relations

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal

Telephone: +49 (0) 6181 / 412 200
Fax: +49 (0) 6181 / 412 183
E-Mail: ir@1und1-drillisch.de

Press

Wilhelm-Röntgen-Straße 1-5
D – 63477 Maintal

Telephone: +49 (0) 6181 / 412 124
Fax: +49 (0) 6181 / 412 183
E-Mail: presse@1und1-drillisch.de

LEGAL INFORMATION

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

Company Headquarters:

Wilhelm-Röntgen-Straße 1-5
63477 Maintal
Deutschland

Telephone: +49 (0) 6181 / 412 3
Fax: +49 (0) 6181 / 412 183

Responsible:

1&1 Drillisch AG

Investor Relations Contact:

Telephone: +49 (0) 6181 / 412 200
Fax: +49 (0) 6181 / 412 183
E-Mail: ir@1und1-drillisch.de

Commercial Register Entry:

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

Management Board:

» Ralph Dommermuth (CEO)
» André Driesen
» Martin Witt

Supervisory Board:

» Michael Scheeren (Chairman)
» Kai-Uwe Ricke (Deputy Chairman)
» Dr Claudia Borgas-Herold
» Vlasios Choulidis
» Kurt Dobitsch
» Norbert Lang

Future-oriented Statements:
This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of 1&1 Drillisch. 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 assessments shown here. The factors described in our reports to the Frankfurt Stock Exchange are among such factors. The Company does not undertake any obligation to update such future-oriented statements and to adapt them to future events or developments.

1&1 DRILLISCH AG
Wilhelm-Röntgen-Str. 1-5
63477 Maintal
Germany

www.1und1-drillisch.de