



**Annual Report  
2019**

## SELECTED KEY FIGURES

	2019 (IFRS16)	2018 (IFRS15)
<b>NET INCOME (in € million)</b>		
Sales	5,194.1	5,102.9
EBITDA	1,265.7	1,201.3
EBIT <sup>(1)</sup>	791.7	811.0
EBT <sup>(1)</sup>	741.8	765.7
<b>BALANCE SHEET (in € million)</b>		
Current assets	1,371.2	1,364.7
Non-current assets	7,715.2	6,809.2
Equity	4,614.7	4,521.5
Total assets	9,086.4	8,173.8
<b>CASH FLOW (in € million)</b>		
Operative cash flow	935.0	889.5
Cash flow from operating activities	828.9	482.3
Cash flow from investing activities	87.2	-350.9
Free cash flow <sup>(2)</sup>	496.0	254.6
<b>EMPLOYEES (HEADCOUNT)</b>		
Employees, total	9,374	9,093
thereof in Germany	7,761	7,567
thereof abroad	1,613	1,526
Personnel expenses (in Mio. €)	552.8	538.8
<b>SHARE (in €)</b>		
Share price at year-end (Xetra)	29.28	38.20
Operating EPS <sup>(1)</sup>	1.99	1.96
EPS	2.13	0.94
<b>Customer contracts (in million)</b>		
	31.12.2019	31.12.2018
Fee-based customer contracts, total	24.74	23.85
Consumer Access, total contracts	14.33	13.54
thereof mobile internet	9.99	9.20
thereof broadband connections	4.34	4.34
Consumer Applications, total accounts	39.85	39.25
thereof with Premium Mail subscription (contracts)	1.54	1.54
thereof with Value-Added subscription (contracts)	0.72	0.71
thereof free accounts	37.59	37.00
Business Applications, total contracts	8.15	8.06
thereof Germany	3.90	3.82
thereof abroad	4.25	4.24

(1) 2019 without impairment reversals Tele Columbus (EBT effect: € +18.5 million; EPS effect: +0.09 €) and without trademark writeups Strato (EBIT/EBT effect: € +19.4 million; EPS effect: € +0.05); 2018 without impairment charges Tele Columbus (EBT effect: € -203.8 million; EPS effect: € -1.02)

(2) Free cash flow 2019 without consideration of tax payments from fiscal year 2017 and previous years (effect: € -22.1 million); incl. the repayment portion of lease liabilities (effect: € 111.0 million), which have been reported under cash flow from financing activities since the fiscal year 2019 (IFRS 16); Free cash flow 2018 without consideration of a tax payment from fiscal year 2016 (effect: € 34.7 million)

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## SIGNS AND SYMBOLS

 Internet Link

 Glossary

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## LETTER TO THE SHAREHOLDERS

### **Dear shareholders, employees, and friends of United Internet,**

In our fiscal year 2019, we made further significant investments in the acquisition of new customers and the expansion of existing customer relationships, and thus in sustainable growth. All in all, we raised the number of fee-based customer contracts by 890,000 to 24.75 million contracts. In our Consumer Access segment, we added 790,000 contracts, while 590,000 ad-financed free accounts and 10,000 pay accounts were added in the Consumer Applications segment. A further 90,000 contracts resulted from the Business Applications segment.

Consolidated sales grew by 1.8% in the fiscal year 2019, from € 5,102.9 million (like-for-like prior-year figure) to € 5,194.1 million. This at first glance only moderate growth was due in particular to fluctuations during the year in (low-margin) hardware sales (€ -41.9 million compared to previous year) in the Consumer Access segment. Sales were also influenced by a deliberate ad space reduction as part of our repositioning of the Consumer Applications segment (€ -8.4 million compared to previous year).

Consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) was positively influenced by the initial application of IFRS 16 (€ +87.0 million) in the fiscal year 2019. There was an opposing effect in particular from regulatory effects and additional costs (in total: € -97.5 million) for wholesale purchases in the Consumer Access segment after the time-limited adjustment mechanism of a wholesale agreement expired at the end of 2018. Contrary to original expectations, the expired arrangement could not be compensated for by a price reduction during the reporting period following arbitration proceedings.

In addition to these extra costs, our future investments (implemented as planned), such as the repositioning in the Consumer Applications segment and increased marketing expenses, especially in connection with the rebranding of the Business Applications segment, had an initial negative impact on earnings. EBITDA rose by 5.4% in the fiscal year 2019, from € 1,201.3 million to € 1,265.7 million (according to IFRS 16). The like-for-like development according to IFRS 15 amounted to -1.9%.

Due to the above mentioned burdens on earnings and one-offs, operating earnings before interest and taxes (EBIT) of € 791.7 million was down on the previous year (€ 811.0 million) and virtually unaffected by IFRS 16 accounting. We did not include a special item from trademark writeups on the "Strato" brand (EBIT effect: € +19.4 million) in this operating EBIT figure.

Earnings per share (EPS) rose from € 0.94 to € 2.13, or from € 1.46 to € 2.61 before PPA amortization. Without consideration of PPA amortization and impairment charges for Tele Columbus shares (EPS effect: € -1.02) in 2018, as well as impairment reversals for Tele Columbus shares (EPS effect: € +0.09), and trademark writeups for Strato (EPS effect: € +0.05) in 2019, operating EPS improved from € 1.96 to € 1.99.

**Letter to shareholders**

CEO Interview

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In addition to our operating business, we successfully participated – via 1&1 Drillisch – in the 5G spectrum auction ending on June 12, 2019 and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. The total auction price amounted to around € 1.07 billion. By acquiring these frequencies, we laid the foundation for a successful and permanent positioning of the 1&1 Drillisch Group as Germany's fourth mobile network provider. 1&1 Drillisch intends to use this basis to establish a powerful mobile communications network.

While the 3.6 GHz spectrum is already available, the acquired frequency blocks in the 2 GHz band will only be usable from January 1, 2026. With this in mind, 1&1 Drillisch has leased two frequency blocks of 10 MHz each in the 2.6 GHz band from Telefónica, which will be available until December 31, 2025. This agreement is based on the commitments given by Telefónica as part of the EU's clearance of its merger with E-Plus in 2014.

On September 5, 2019, 1&1 Drillisch also signed an agreement with the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Ministry of Finance (BMF) regarding the construction of mobile communication sites in so-called "not-spots". 1&1 Drillisch is thus helping to close existing supply gaps and improve the provision of mobile communications in rural regions by building hundreds of base stations. In return, 1&1 Drillisch benefits from an agreement allowing it to pay for the acquired 5G spectrum in installments. As a result, the license fees which were originally to be paid to the German government in 2019 and 2024 can now be spread over the period up to 2030. The credit line of originally € 2.8 billion arranged to finance the highest bids of the spectrum auction, among other things, was thus no longer required and "returned". The agreement with the BMVI and BMF is in line with 1&1 Drillisch's long-term financing strategy, which is geared toward paying the major share of expenses for the construction of its own mobile communications network from current revenue.

On December 30, 2019, 1&1 Drillisch finally exercised – as planned – the first prolongation option to extend the term of the MBA MVNO agreement with Telefónica Germany ending on June 30, 2020. As a result, the term of the agreement has now been extended until at least June 30, 2025. In combination with another prolongation option, 1&1 Drillisch has thus secured long-term access to the mobile communications network of Telefónica. In order to ensure continuous availability for its end customers during the build-up of its own nationwide network, negotiations are also being held in parallel regarding the conclusion of a national roaming agreement, based on the voluntary commitment of Telefónica Germany in connection with the EU clearance decision following the merger with E-Plus in 2014.

For the fiscal year 2019, the Management Board and Supervisory Board of United Internet AG will propose a dividend of € 0.50 per share (prior year: € 0.05) at the Annual Shareholders' Meeting 2020. On the basis of around 187.7 million shares with dividend entitlement (as of December 31, 2019), the total dividend payment for fiscal year 2019 would amount to € 93.9 million. The dividend payout ratio corresponds to 23.7% of adjusted consolidated net income for 2019 after minority interests (€ 396.4 million) and would thus lie – in view of the investments due to be made in the 5G mobile network of 1&1 Drillisch – within the lower range of our dividend policy.

Against the backdrop of uncertain macroeconomic conditions due to the growing spread of the coronavirus, we expect sales and EBITDA in the fiscal year 2020 to be approximately on a par with the previous year.

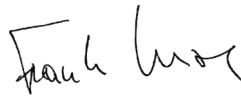
We are well prepared for the next steps in our company's development and are upbeat about our future prospects. In view of the past year and the challenges that lie ahead, we would like to express our particular gratitude to all employees for their dedicated efforts as well as to our shareholders and customers for the trust they continue to place in United Internet AG.

Montabaur, March 2020

The Management Board



Ralph Dommermuth



Frank Krause

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“By acquiring the 5G frequencies in 2019, we laid the foundation for a successful and permanent positioning of 1&1 Drillisch as Germany's fourth mobile network provider.”

RALPH DOMMERMUTH

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**Letter to shareholders**

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## THE MANAGEMENT BOARD

**RALPH DOMMERMUTH**  
**CEO (since 1988)**

Ralph Dommermuth (born in 1963) laid the foundation for today's United Internet AG with the formation of 1&1 EDV Marketing GmbH in 1988. He originally offered systemized marketing services for smaller software suppliers. He later developed additional marketing services for major clients, such as IBM, Compaq, and Deutsche Telekom. With the advent of the internet, Ralph Dommermuth subsequently phased out these marketing services for third parties and began developing the company's own internet services and direct customer relationships. In 1998 the qualified banker took 1&1 to the stock exchange. It was the first IPO of an internet company in Germany. In 2000, Ralph Dommermuth restructured 1&1 as United Internet AG and built the company into a leading European internet specialist.

**FRANK KRAUSE**  
**CFO (since 2015)**

Frank Krause (born in 1965) has been a member of the Management Board of United Internet AG since June 1, 2015 and is responsible as CFO for Finance, Corporate Controlling & Accounting, Tax, Investment Management, Investor Relations, Legal, Corporate Governance, Compliance & Sustainability, Risk Management, Corporate Audit, HR Management, Facility Management, Procurement, and Corporate IT. In his role as CFO, Frank Krause implemented the new group-wide employee stock ownership plan (ESOP) and managed the M&A processes for the investment of Warburg Pincus in the Business Applications division, the takeover of competitor Strato, and the merger with Drillisch.



## INTERVIEW WITH RALPH DOMMERMUTH

### **Mr. Dommermuth, how would you judge the past fiscal year 2019?**

2019 was a landmark year for us, in which we laid the foundation for our own mobile communications network. Following the successful participation of 1&1 Drillisch in the 5G spectrum auction, we now have the necessary spectrum to establish a powerful 5G network. This means that we have established the prerequisites for opening up new business fields and significantly extending our value chain in the Consumer Access segment.

There was also strong progress in our Applications division during the past year. We drove forward the independence of the Business Applications segment and documented this with the rebranding of our IONOS brand (formerly 1&1 Internet). In the Consumer Applications segment, we are focusing increasingly on big data and the further establishment of our netID log-in standard.

### **You mentioned extending the value chain – what are the benefits for your business model of having your own 5G network?**

Operating our own network opens up huge potential for our corporate development going forward. Especially as 5G is more than just a new mobile communications standard – 5G forms the basis for the further digitization and networking of Germany.

We currently purchase wholesale mobile services from Vodafone and Telefónica and – in contrast to our other business fields – this means a comparatively low level of vertical integration. Operating our own network offers four major benefits: we are less dependent on access to the networks of established providers; we can tailor our network to customer needs; we can differentiate our products even better; and we can tap new business fields. As a new player, we also have the opportunity to use state-of-the-art technology for the construction of our network right from the start – without having to worry about the complexity of legacy networks.

We are excellently positioned for this new chapter in our company's history. Because in addition to a large customer base, strong brands, and outstanding expertise in application development, we have access to one of Germany's largest fiber-optic networks. The approximately 50,000 km long network of our subsidiary 1&1 Versatel will form the backbone of our future 5G network.

### **After a historic 497 rounds, the spectrum auction ended on June 12, 2019. What has happened since then in terms of network construction?**

Quite a lot actually. The first step was to commence talks with the established network operators on the subject of national roaming – the use of third-party networks during the construction phase of our own network. At the same time, negotiations are underway with potential partners for construction of the network, whose 5G infrastructures we have now successfully tested.

In addition, and as announced, 1&1 Drillisch has leased two frequency blocks in the 2 GHz band from Telefónica which we can use to bridge the period until the spectrum we acquired in this range is available. The MBA MVNO agreement was also extended by five years to secure 1&1 Drillisch's long-term access to the Telefónica network. The MBA MVNO agreement allows 1&1 Drillisch to convert the contract to a national roaming agreement if it wants.

1&1 Drillisch also signed an agreement with the German Federal Ministry of Transport which enables it to spread the costs for the acquired 5G spectrum – € 1.07 billion – in installments. In return, we will build hundreds of base stations in rural regions, thus also helping as a newcomer to supply so-called "not-spots". The buildout will be undertaken in cooperation with the other network operators – proof that no network operator can build a powerful 5G network for the whole of Germany on its own.



Letter to shareholders

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**What do you still need to start your network? When is 1&1 Drillisch expected to commence construction?**

A prerequisite for the construction of the network is a fair national roaming agreement. After all, as a new market player we'll need to share existing mobile networks in the years until construction work is completed and we can ensure nationwide coverage with our own network. This is standard international practise.

So far, our negotiations with the incumbent network operators have not produced any economically viable offers. If negotiations fail to make constructive progress in the coming period, we will rely on the Federal Network Agency to quickly and effectively perform its function as arbitrator.

In the next step, we will then conclude our negotiations with potential network equipment suppliers and choose partners who can offer us high-performance network components at attractive terms, while at the same time, of course, also meeting all existing security requirements in Germany.

Operating our own network opens up huge potential for our company as 5G is more than just a new mobile communications standard – 5G forms the basis for the further digitization and networking of Germany

**A lot also happened in the Applications division in the past year – rebranding and big data were two key topics. What are your plans here?**

We already began making the Business Applications segment more independent and separate from the 1&1 brand two years ago. In the past year, we launched the second phase of our rebranding, from "1&1 IONOS" to "IONOS by 1&1". At the same time, we restructured the entire internal organization of the division. One area of focus is our cloud business, which we want to anchor even more strongly in the market and where we see enormous potential for future growth.

In the Consumer Applications segment, we will focus more on artificial intelligence and big data in the future. Naturally, we remain committed to Europe's strict data protection regulations. As one of the founders of the netID Foundation, our aim is to get more partners on board so we can roll out this European log-in standard across the continent.

**What are your expectations for the fiscal year 2020?**

In view of the coronavirus crisis, this year will be extremely challenging for our country and our entire economy. As an internet company with stable and robust subscription models, we are well positioned to master this exceptional situation. We therefore expect revenue and earnings for the fiscal year 2020 to be on a par with the previous year.

## REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

In the following, I would like to inform you about the work of the Supervisory Board in the fiscal year 2019.

In fiscal year 2019, the Supervisory Board of United Internet AG fulfilled its legal and statutory duties to regularly advise the Management Board and monitor its management of the Company. The Supervisory Board was directly involved in all decisions of fundamental significance for the Company. The Management Board provided the Supervisory Board with regular and comprehensive reports, both written and oral, and also between meetings, about all relevant questions concerning corporate strategy and planning, as well as the associated risks and opportunities, the development and progress of business, planned and current investments, the status of the Company, its exposure to risk, the risk management system, and issues of compliance. The Management Board discussed the Company's strategic alignment with the Supervisory Board and presented it with a comprehensive report every quarter about the state of business, the development of sales and earnings, and the position of the Company and its business policy. This also included information about deviations between planned and actual figures. With regard to both content and scope, these reports met all statutory requirements, the standards of good corporate governance, and the criteria set by the Supervisory Board. The Management Board's reports were made available to all members of the Supervisory Board. The Chairman of the Supervisory Board was also kept regularly informed by the Management Board on all business activities, also between the meetings, and gave advice on questions of business policy. The Supervisory Board examined the plausibility of the reports provided by the Management Board, discussed their content in detail, and gave a critical assessment.

The Supervisory Board was regularly informed by the Management Board about the internal control system, the Group-wide risk management system, and the Internal Audit system which it had introduced. On the basis of its own reviews, the Supervisory Board came to the conclusion that the internal control system, the Group-wide risk management system, and the internal audit system are fully functional and effective.

The Supervisory Board comprises three members and has formed no committees.

None of the Supervisory Board members holds any executive body or advisory positions with enterprises which the Company regards as its major competitors. There was no indication of any conflicts of interest involving members of the Supervisory Board or Management Board.

### Meetings and main topics

In addition to the regular statutory reports, the Supervisory Board discussed and reviewed the following issues in greater detail:

- The Annual Financial Statements and Consolidated Financial Statements for fiscal year 2018
- The Report of the Supervisory Board to the Annual Shareholders' Meeting for fiscal year 2018
- The Sustainability Report 2018
- Determining the Management Board's target achievement for fiscal year 2018 and approving the payment of variable compensation components, as well as agreeing new targets for the Management Board for fiscal year 2019
- The invitation to the Annual Shareholders' Meeting 2019, as well as the agenda, and motions for resolutions

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 Letter to shareholders
 

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 CEO Interview
 

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**Report of the  
Supervisory Board**


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- Examining the independence of the proposed auditor of the Annual Financial Statements and adopting the corresponding resolution proposal
- The dividend proposal for the Annual Shareholders' Meeting
- The updates to the Declaration of Conformity with the German Corporate Governance Code in February and December 2019
- Audit planning and the quarterly reports of the Internal Audit department
- The Compliance Report 2018
- The quarterly reports on risk management and the risk management strategy
- The development of the proportion of women and the implementation status of the agreed targets
- The development of the Company during the year
- Regular information on 5G and the spectrum auction
- The purchase of further shares in 1&1 Drillisch AG
- The purchase of further shares in Tele Columbus AG
- The sale of shares in Rocket Internet SE
- Further changes in investments
- The launch of a share buyback program for up to 6 million treasury shares or € 192 million in August 2019
- The public share buyback offer for up to 9 million treasury shares in December 2019 and the signing of purchase and tendering agreement with Rocket Internet SE, while simultaneously ending the current share buyback program of August 2019
- The adoption of new Rules of Procedure for the Management Board of United Internet AG
- The harmonization of Rules of Procedure for all Group companies
- The renewal of D&O insurance
- The possible changes to the German Corporate Governance Code and implementation of the second Shareholders' Rights Directive (ARUG II)
- The Supervisory Board's regular efficiency test
- The dates for future meetings and the financial calendar for the fiscal year 2020

The Supervisory Board held four meetings during fiscal year 2019 during which the Management Board presented detailed information about the business situation and the development of the Company and Group, as well as about significant business events. The meetings of the Supervisory Board were each attended by all members. In addition to the meetings, further resolutions on current topics were adopted by means of circular written consent and via conference call.

## Corporate Governance

The Supervisory Board once again discussed in detail the standards of good corporate governance in fiscal year 2019, and in this connection also the German Corporate Governance Code. The Management Board and Supervisory Board issued a Declaration of Conformity pursuant to section 161 AktG on February 19, 2019 and updated it on December 18, 2019. The declarations are permanently available on the corporate website and in the Federal Gazette (Bundesanzeiger). Declarations of Conformity of previous years can also be viewed here. Further details on corporate governance are provided in the Declaration on Company Management and the Corporate Governance Report on the fiscal year 2019.

## Discussion of the Annual Financial Statements 2019 for the Company and the Group

The Annual Shareholders' Meeting of United Internet AG on May 23, 2019 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, based in Eschborn/Frankfurt am Main, as auditors for the fiscal year

2019. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the accounting system, the Annual Financial Statements of United Internet AG, the Consolidated Financial Statements according to IFRS and the Combined Management Report for United Internet AG and the Group for the fiscal year 2019. In the course of the audit, the auditor focused in particular on the key audit matters. For the Consolidated Financial Statements in accordance with IFRS, these included the impairment of goodwill, revenue recognition in the retail business and, with regard to IFRS 15, the accounting and recognition of contract initiation and fulfillment costs. For the Annual Financial Statements in accordance with HGB, the auditor dealt in particular with the impairment of financial assets. The risk management system was also examined and analyzed as part of the audit of the Annual Financial Statements. The auditor did not detect any major weaknesses in the internal control system, Group-wide risk management system or Internal Audit system. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft awarded an unqualified certificate in each case.

The Supervisory Board satisfied itself as to the independence of the auditors and received a written declaration to this end. In addition, the Supervisory Board was informed about services rendered in the past fiscal year and the awarding of non-audit-related services.

The aforementioned Annual Financial Statement documents, the proposal for the appropriation of profit, and the auditor's report were presented to all members of the Supervisory Board in due time. The chief auditor participated in the balance sheet meeting via conference call of the Supervisory Board on March 25, 2020, where he reported on his audits and their results, elaborated on the audit report, and answered the Supervisory Board's questions. Following its own inspection, the Supervisory Board came to the conclusion that the Annual Financial Statements, the Combined Management Report, the Consolidated Financial Statements and the auditor's report gave no cause for objections. The Supervisory Board concurs with the auditor that there are no major weaknesses in the internal control and risk management system, especially with regard to the accounting process. With a resolution on March 25, 2020, the Supervisory Board approved the Annual Financial Statements of United Internet AG, as prepared by the Company on March 23, 2020 and the Consolidated Financial Statements according to IFRS for fiscal 2019, also prepared by the Company on March 23, 2020. The Annual Financial Statements are therefore adopted pursuant to section 172 AktG. The Supervisory Board supports the proposal of the Management Board concerning the allocation of retained earnings.

### **Audit of the Management Board's report on relations with affiliated companies**

The Management Board presented its report on relations with affiliated companies (Dependent Company Report) for fiscal year 2019 to the Supervisory Board in good time.

The report prepared by the Management Board about relations with affiliated companies was also audited by the external auditors. The following certificate was awarded in this respect:

"On the basis of our statutory examination and evaluation, we can confirm that

1. the details made in the report are accurate,
2. the Company was compensated adequately for each transaction mentioned in the report,
3. in the case of those measures mentioned in the report, there is no evidence to suggest a significantly different assessment to that provided by the Management Board."

The external auditors submitted the audit report to the Supervisory Board. The Dependent Company Report and Audit Report were made available to the Supervisory Board in good time. The Supervisory Board reviewed the Management Board's Dependent Company Report and the audit report. The

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Letter to shareholders

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CEO Interview

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**Report of the  
Supervisory Board**

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Supervisory Board performed the final review at its meeting held via conference call on March 25, 2020. The external auditors attended this meeting and reported on their audit of the Dependent Company Report and their main audit results, explained their audit report, and answered questions from members of the Supervisory Board. On the basis of our final examination, we concur with the Management Board's Dependent Company Report and the audit report and have no objections to raise regarding the Management Board's declaration at the end of the Dependent Company Report.

## Reporting for the Sustainability Report

United Internet AG submitted a non-financial statement for fiscal year 2019, which will be published as part of a separate non-financial report (Sustainability Report).

The Supervisory Board of United Internet already discussed the Sustainability Report during the course of the year. As part of its own final review, the Supervisory Board dealt in detail with the non-financial statement in its entirety. The Supervisory Board scrutinized the contents of the non-financial statement and discussed it at length with the Management Board, whose members were on hand to answer additional questions and provide further information. Following its own review, the Supervisory Board came to the conclusion that the non-financial statement did not give rise to any objections.

The Supervisory Board thanks the Management Board and all employees for their outstanding commitment to the Company in fiscal year 2019.

Montabaur, March 25, 2020



For the Supervisory Board

Kurt Dobitsch

The members of the Supervisory Board are

- **Kurt Dobitsch, Markt Schwaben**  
Chairman of the Supervisory Board of United Internet AG
- **Kai-Uwe Ricke, Stallikon/Switzerland**  
Member of the Board of Directors of Delta Partners/Dubai
- **Michael Scheeren, Frankfurt**  
Chairman of the Supervisory Board of 1&1 Drillisch AG



# UNITED INTERNET AT A GLANCE

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## UNITED INTERNET AT A GLANCE

The internet has firmly established itself with private users and companies as a universal medium for information, entertainment, communication, organization, and e-business. This development is being driven by broadband connections and mobile internet access.

### Our vision

Thanks to its permanent availability from any location and the relentless rise in access speeds, the internet has become the universal infrastructure that serves our information and entertainment needs, while also providing us with private and corporate applications.



Portal

At the same time, the internet opens up new kinds of sales and marketing channels. E-business is becoming an integral element of corporate strategy. Portals represent a universal home base and are increasingly becoming a central hub for news as well as the communication, information, and identity management needs of users.

This is exactly our vision: to supply private and commercial users with market-oriented information and communication products, as well as cloud and e-business applications, from our "Internet Factory" via increasingly powerful broadband landline or mobile internet connections.

### Our business model



Free account

With 24.74 million fee-based customer contracts and 37.59 million ad-financed free accounts, United Internet is a leading European internet specialist.

Our operating business is divided into the two business divisions "Access" and "Applications", which in turn are divided into the reporting segments "Consumer Access" and "Business Access", as well as "Consumer Applications" and "Business Applications".

#### Access division



IPTV

The Access division, with its two segments Consumer Access and Business Access, comprises our fee-based access products for consumers and business customers. In our consumer business, these include broadband and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand, or IPTV), while the business segment offers data and network solutions for small and medium-sized enterprises (SMEs), as well as infrastructure services for large corporations.



Vision

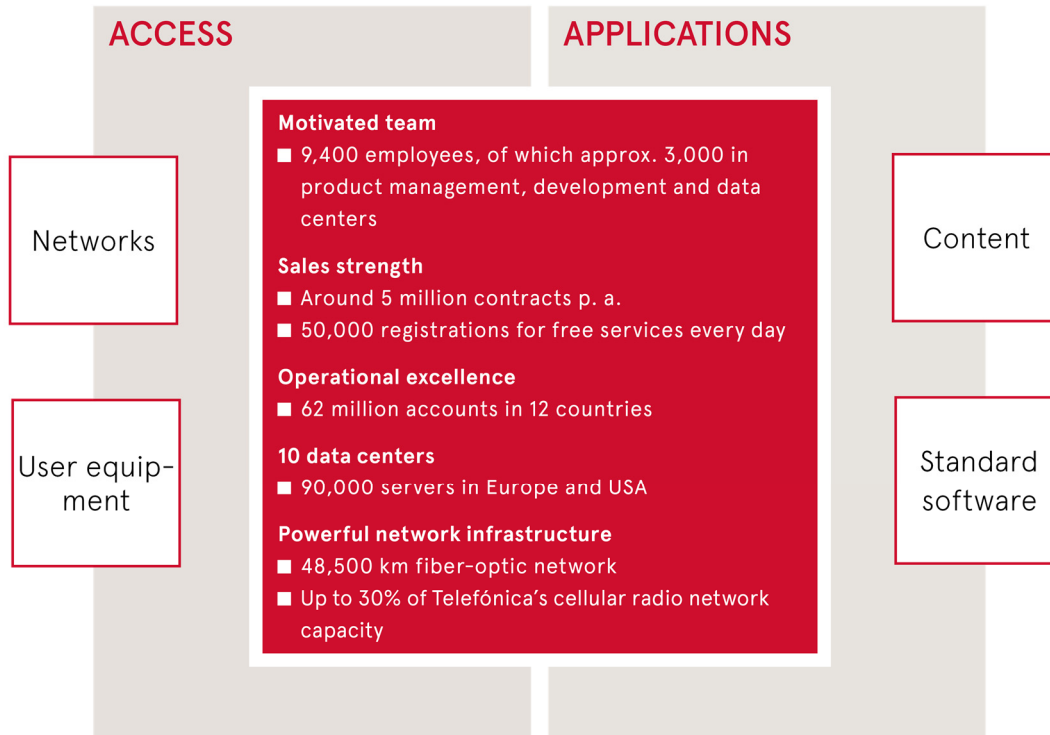
**Business model**

Internet Factory

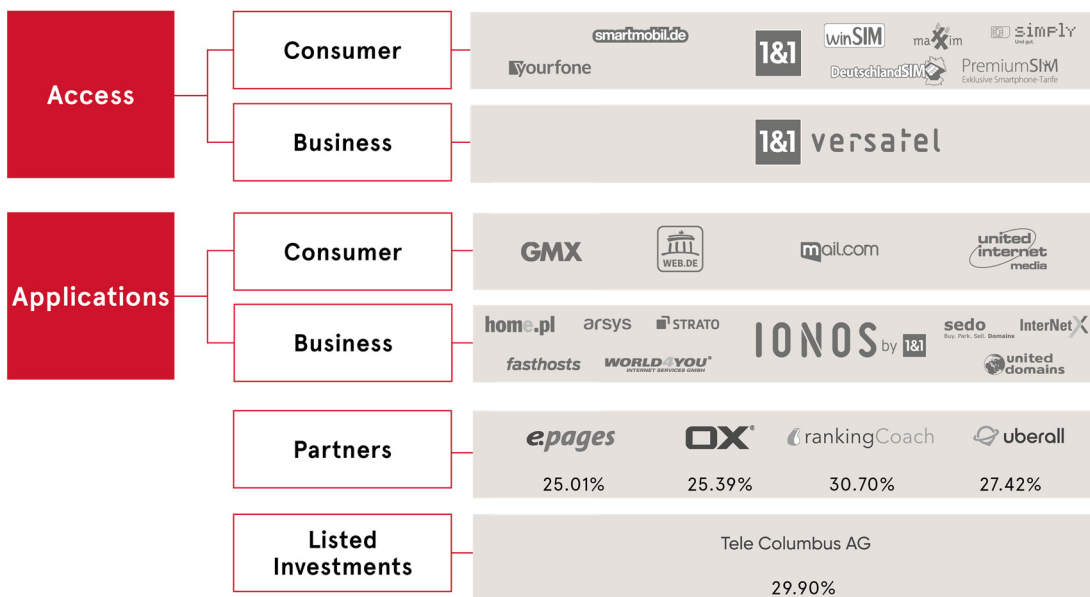
Success factors

Growth opportunities

## Business model



## Brands and investments (as of December 31, 2019)





MBA MVNO, 5G

With a length of 48,500 km, we own one of Germany's largest fiber-optic networks. Moreover, we are the only MBA MVNO in Germany – indirectly via 1&1 Drillisch AG, acquired in 2017 – with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany and thus extensive access to one of the largest mobile networks. In the fiscal year 2019, we also successfully participated in the 5G spectrum auction and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. This laid the foundation for the development of our own powerful mobile communications network. In addition to our own landline network and privileged access to the Telefónica network, we also use standardized network services from various providers. These wholesale services are enhanced with end-user devices, self-developed applications, and services from our "Internet Factory" in order to differentiate them from the competition.

In the Access division, we operate exclusively in Germany, where we are one of the leading providers.

Our Access products are marketed via well-known brands, such as 1&1, or discount brands, such as yourfone and smartmobile.de, which enable us to offer a comprehensive range of products while also targeting specific customer groups.

## Applications division

Domain, web hosting,  
e-shop, group work

The Applications division, with its two segments Consumer Applications and Business Applications, comprises our ad-financed and fee-based online applications for consumers and business customers. These include domains, websites, web hosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage, and office software.

The applications are developed at our "Internet Factory", or in cooperation with partner firms, and operated on around 90,000 servers at our 10 data centers.

In the Applications segment, we are also a leading global player with activities in Europe (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, and Spain) and North America (Canada, Mexico, and the USA).

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, IONOS, Arsys, Fasthosts, home.pl, InterNetX, Strato, united-domains, and World4You. We also offer customers professional services in the field of active domain management via the Sedo brand. Our free apps are monetized via advertising, which is offered by United Internet Media.

## Our “Internet Factory”

At the heart of our business is our powerful “Internet Factory” with around 9,400 employees, of which approx. 3,000 are engaged in product management, development, and at our data centers. Our “Internet Factory” applies the mechanisms of rationalized production to the internet business. Highly efficient development departments “manufacture” products which represent the backbone of our two business divisions, Access and Applications. These are then run on some 90,000 servers at 10 data centers. This “Internet Factory” enables us to extend, combine, and scale our product lines almost at will – and then to export them throughout the world.

United Internet also stands for high sales strength as well as for outstanding operational excellence with over 62 million customer accounts worldwide.

## Success factors of our business model

United Internet’s business model offers various benefits: the contractual commitment of our customers via fee-based, fixed-term subscriptions (over 24 million customer contracts at year-end 2019) secures long-lasting customer relationships and thus stable and predictable sales and earnings. In addition, over 37 million ad-financed free accounts provide a large reservoir for monetizing our applications via advertising and e-commerce as well as converting users to fee-based contracts.

Thanks to our existing business relationships with millions of customers and users, we have our ear close to the market. This often enables us to anticipate customer wishes and trends. We then consistently develop new business fields – at a national and international level.

We have already picked up a number of customer wishes and successfully transformed them into new solutions or new business fields:

- We meet the **privacy demands** of our customers with a variety of initiatives. Within the “E-mail made in Germany” alliance, for example, e-mails are automatically encrypted, while “De-Mail” and “eIDAS” also offer customers legally binding communication via e-mail in Germany and Europe. Our modern data centers meet the strictest security standards with largely geo-redundant operation, i.e., applications and data are constantly mirrored at geographically separate data centers.
- Our mobile internet products reflect the trend toward ever greater **mobility** in internet usage. A clear tariff structure offering great value for money and excellent service helps us achieve high customer retention rates and customer satisfaction, while securing a top-quality client base in a dynamic market environment.
- From our domestic market in Germany, our cloud and e-business solutions are now being marketed in new target markets as part of our **internationalization** strategy. As a result, the cultural diversity of our employees is also growing. The resulting potential for new ideas and innovation is strengthening our competitive edge and enhancing our long-term opportunities in future.

- For the Business Applications of IONOS, all customers have the opportunity to contact a personal consultant free of charge as a central point of contact for all questions relating to products, their contracts, and their online **business success**. In this way, IONOS can accompany companies through all phases of their development – from registering a domain and setting up a first website, to setting up shop systems and dedicated servers, to using enterprise cloud infrastructures.
- **Trust** is the basis for our customer relationships. Data protection, operational reliability, 24/7 availability of our competent contact partners, and 24-hour replacement of defective equipment are all exemplary elements of the so-called 1&1 Principle which ensure customers can rely on us at all times.

Wherever it makes good business sense, we cover large areas of the value chain – from product development and data center operation, to effective sales and marketing, and active customer support.

Economies of scale represent a further key success factor for our business: each new customer enhances the profitability of our “Internet Factory”. After making the necessary investments, developing the products, and providing them via our data centers and networks, it is then a question of marketing them as effectively as possible. The greater the number of customers using products created by our development teams and operated at our own data centers, and/or data transported in our networks, the greater the profit will be.

A further advantage is our marketing strategy tailored to specific target groups. Our brands such as GMX, Mail.com, WEB.DE, 1&1, yourfone, smartmobil.de, IONOS, Strato, united-domains, and InterNetX are positioned differently and target a wide variety of user groups.

Last but not least, the exportability of our applications is a further trump card. Our applications can often be used anywhere in the world and work on the same principle in Frankfurt as they do in London, Paris, or New York.

## Growth opportunities

In view of the dynamic market development of fiber-optic, mobile internet and cloud applications, our growth opportunities are clearly apparent: universally accessible, increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. These internet-based programs for end users and companies will remain our growth drivers over the coming years – both as stand-alone products in our Applications division as well as in combination with landline and mobile access products in our Access division.

With our many years of experience as an access and applications provider, our expertise in software development, the operation of telecommunications networks and data centers, marketing, sales, and customer support, as well as our strong and well-known brands, and our customer relationships with millions of private users, freelancers, and small companies in Germany and abroad, we are well placed to fully exploit the expected market growth in our business fields.

### Access division

The Access division, with its Consumer Access and Business Access segments, comprises our fee-based access products for consumers and business customers. In our consumer business, these include broadband and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand, or IPTV), while in the business segment these include data and

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 Vision
 

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 Business model
 

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 Internet Factory
 

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 Success factors
 

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**Growth opportunities**


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network solutions for SMEs, as well as infrastructure services for large corporations. In our Access division, we operate exclusively in Germany and are one of the leading providers.

## Consumer Access segment

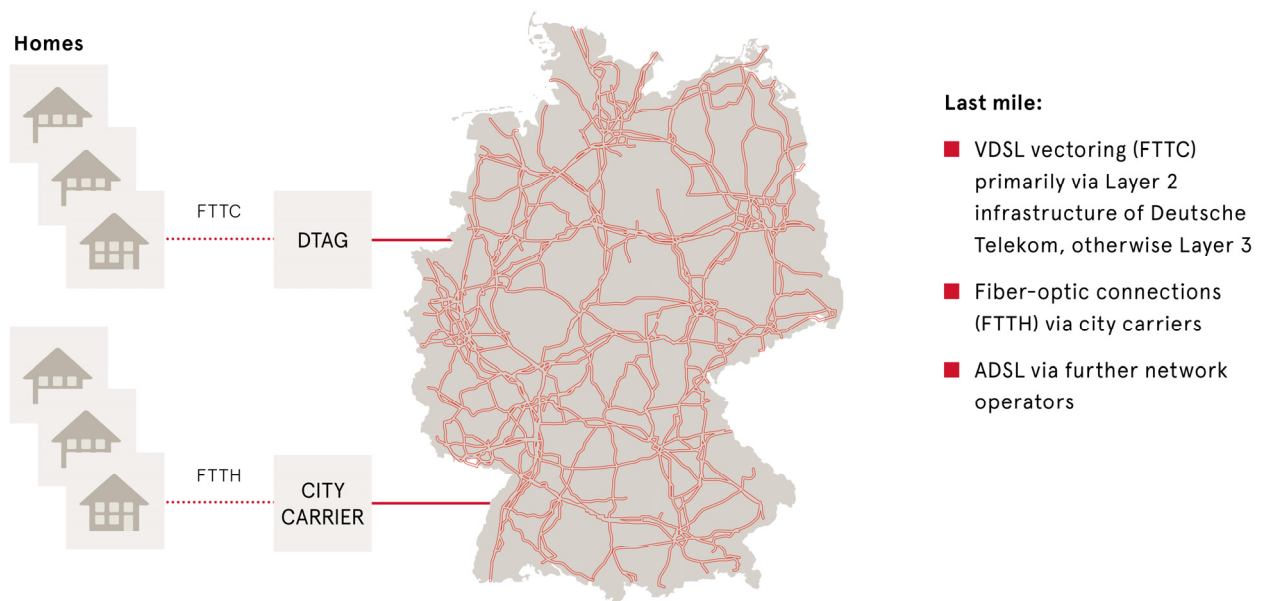
In the Consumer Access segment, we offer our customers both landline-based broadband products and Mobile Internet products.

With our broadband products under the 1&1 brand, we are one of the leading suppliers in Germany. We use our own fiber-optic network (1&1 Versatel) and connect the "last mile" of our VDSL/vectoring connections (FTTC = Fiber-to-the-Curb) mainly via the BNGs/Layer 2 infrastructure of Deutsche Telekom (or Layer 3 outside our own fiber-optic network). In the case of direct fiber-optic connections (FTTH = Fiber-to-the-Home), we connect the "last mile" via city carriers that are connected to our fiber-optic network via Open Access. In the case of ADSL, we use other network operators for the "last mile".



VDSL, vectoring,  
FTTC, FTTH, BNG,  
open access

## Consumer Access: landline infrastructure for consumers



With our Mobile Internet products, we are the leading MVNO in Germany.

We are the only MBA MVNO in Germany with long-term, guaranteed rights to up to 30% of the used network capacity of Telefónica Germany and thus to all future technologies, including 5G. In the fiscal year 2019, we also successfully participated in the 5G spectrum auction and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. By acquiring these frequencies, we laid the foundation for the development of our own powerful mobile communications network.

Apart from this privileged access to the Telefónica network, we also purchase standardized network services from Vodafone. These wholesale services are enhanced with end-user devices, self-developed applications and services from our "Internet Factory" in order to differentiate ourselves from the competition.

With our main brand 1&1 and discount brands such as yourfone or smartmobil.de, we achieve broad market coverage in the German mobile communications market.



In the fiscal year 2019, our Consumer Access segment completed further integration measures in connection with the merger of Drillisch AG (acquired in 2017, now 1&1 Drillisch) with 1&1 Telecommunication SE.

In addition to these integration measures, the segment also focused on adding further valuable broadband and mobile internet contracts. The total number of fee-based contracts in the Consumer Access segment rose by 790,000 contracts to 14.33 million in the fiscal year 2019. A total of 790,000 customer contracts were added in the Mobile Internet business, thus raising the total number of contracts to 9.99 million. The number of broadband connections remained steady at 4.34 million.

#### Development of Consumer Access contracts in fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Consumer Access, total contracts	14.33	13.54	+ 0.79
thereof Mobile Internet	9.99	9.20	+ 0.79
thereof broadband connections	4.34	4.34	0.00

In view of our strong brands, innovative products, customer-oriented services, flexible pricing policy, and our excellent value for money, we believe the Consumer Access segment is also very well positioned for the future. In 2020, the main focus will once again be on marketing mobile internet products

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 Vision
 

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 Business model
 

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 Internet Factory
 

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 Success factors
 

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**Growth opportunities**


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## Business Access segment

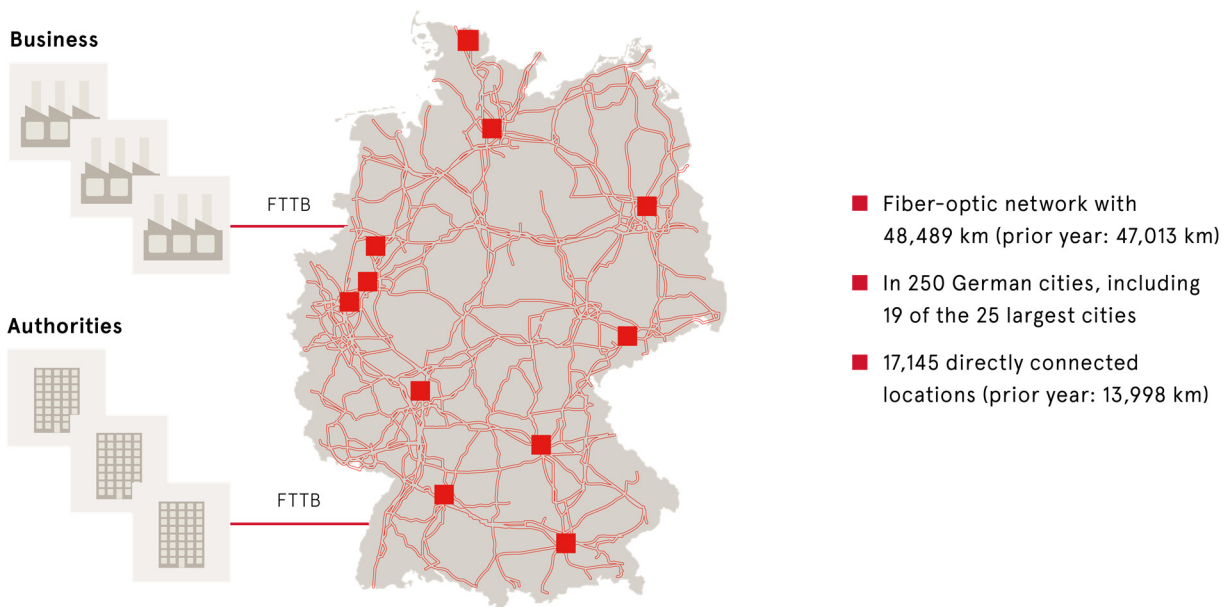
In the Business Access segment, we offer data and network solutions for SMEs, as well as infrastructure services for large corporations, via the 1&1 Versatel brand.

We operate one of Germany's largest fiber-optic networks with a length of around 48,500 km – a figure that is constantly rising. Our fiber-optic network directly reaches mainly commercial buildings and local authority sites (FTTB).



FTTB

### Business Access: fiber-optic infrastructure for business customers



In the fiscal year 2019, the key topics in the Business Access segment were the expansion of the fiber-optic network and the addition of further sites. The network was expanded from 47,013 km in the previous year to a length of 48,489 km, while the number of connected sites was increased from 13,998 to 17,145.

The focus in 2020 will lie on voice, data, and network solutions for SMEs, as well as infrastructure services for large corporations. In addition, our fiber-optic network is to be expanded further in order to gain new customers.



Bitkom

The industry association Bitkom forecasts further growth for the German telecommunications market in 2020. Sales are expected to grow by 1.0% (prior year: 2.0%) to € 68.8 billion.

Slight growth of 0.4% (prior year: 0.0%) to € 48.8 billion is anticipated for telecommunication services. Sales of TC devices are set to grow by 2.5% (prior year: 11.1%) to € 12.8 billion, while the telecommunication infrastructure business is forecast to grow by 2.0% (prior year: + 1.5%) to € 7.2 billion.

#### Market forecast: telecommunications market in Germany

in € billion	2020e	2019	Change
Sales	68.8	68.1	+ 1.0%

Source: Bitkom, Annual press conference, January 2020

## Applications division

Our Applications division, with its two segments Consumer Applications and Business Applications, comprises our ad-financed and fee-based application products for consumers and business customers. These applications include domains, websites, web hosting, servers, and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage, and office software.

The applications are developed at our own "Internet Factory", or in cooperation with partner firms, and operated on around 90,000 servers at our 10 data centers.

In the Applications division, we are also a leading global player with activities in Europe (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, and Spain) and North America (Canada, Mexico, and the USA).

Our Applications business is broken down into ad-financed and fee-based applications, whereby the latter are in turn divided into Consumer and Business Applications.

## Consumer Applications segment

In the Consumer Applications segment, we offer a wide variety of ad-financed or fee-based applications. These include domains, website solutions tailored to consumer needs, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), online storage, and office software.

By steadily developing our portfolio over the past few years, we have expanded our brands – GMX, WEB.DE, and mail.com – from pure e-mail service providers to complete command centers for the communication, information, and identity management needs of our users.



Vision

Business model

Internet Factory

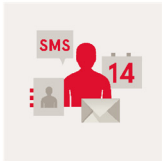
Success factors

**Growth opportunities**

## Consumer Applications: from e-mail service to command center for communication, information and identity management

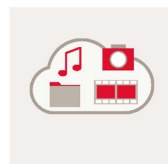
### Communication and organisation

E-mail, calendar, contacts, SMS, Fax



### Online office

Texts, spreadsheets, presentations



### Cloud storage

For photos, videos, music and documents




### De-Mail

Legally secure communication and identity management

Our ad-financed applications (free accounts) and fee-based Consumer Applications are marketed actively via the GMX and WEB.DE brands primarily in Germany, Austria, and Switzerland, where we are among the leading players.

Since the acquisition of the US provider mail.com in late 2010, we have been driving our internationalization. In addition to the USA, we also target other countries, such as the UK, France, and Spain.

## Consumer Applications: market standing in Germany

	E-mail <sup>(1)</sup>	eIDAS/ De-Mail	Cloud- storage <sup>(1)</sup>	Content <sup>(1)</sup>	ID
	#1	#1	#3	#1	#3
Google	#2	-	#1	-	#1
Microsoft	#3	-	#5	#4	n/a
Deutsche Telekom	#4	#2	#7	#2	n/a
Facebook	n/a	-	-	n/a	#2

■ Differentiation via data privacy and information security  
■ Ad space marketed by United Internet Media

(1) E-mail and cloud storage: representative survey of Convios Consulting commissioned by United Internet, 2019 (most-used e-mail and cloud suppliers for private users in Germany); Content: die medienanstalten, MedienVielfaltsMonitor 2019-I, market shares online media

Our free accounts are monetized via online advertising, which is marketed by United Internet Media (UIM). UIM also exclusively markets certain third-party sites, like "Das Telefonbuch", "Das Örtliche", and "Gelbe Seiten" (German telephone directories and yellow pages).

In the fiscal year 2019, activities in the Consumer Applications segment continued to focus on the repositioning and reconstruction of the GMX und WEB.DE portals (incl. the related reduction in ad space), as well as the simultaneous establishment of data-driven business models. Initial successes are already emerging from this transformation, as reflected by a return to more stable user numbers for fee-based Premium Mail accounts, and significant growth in free accounts.

Specifically, our ad-financed free accounts grew by 590,000 to 37.59 million in the fiscal year 2019. The number of our fee-based Consumer Applications contracts rose in total by 10,000 to 2.26 million in the reporting period. The total number of Consumer accounts therefore increased by 600,000 to 39.85 million.

### Development of Consumer Applications accounts in fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Consumer Applications, total accounts	39.85	39.25	+ 0.60
thereof with Premium Mail subscription	1.54	1.54	0.00
thereof with Value-Added subscription	0.72	0.71	+ 0.01
thereof free accounts	37.59	37.00	+ 0.59

With our strong and specialized brands, constantly growing portfolio of cloud applications, and already established business relationships with millions of home users, the Consumer Applications segment is well positioned to exploit the emerging opportunities in the cloud computing market for home users, as well as in the advertising-oriented big data business.

In fiscal year 2020, the key topic in the Consumer Applications segment will again be the establishment of data-driven business models.

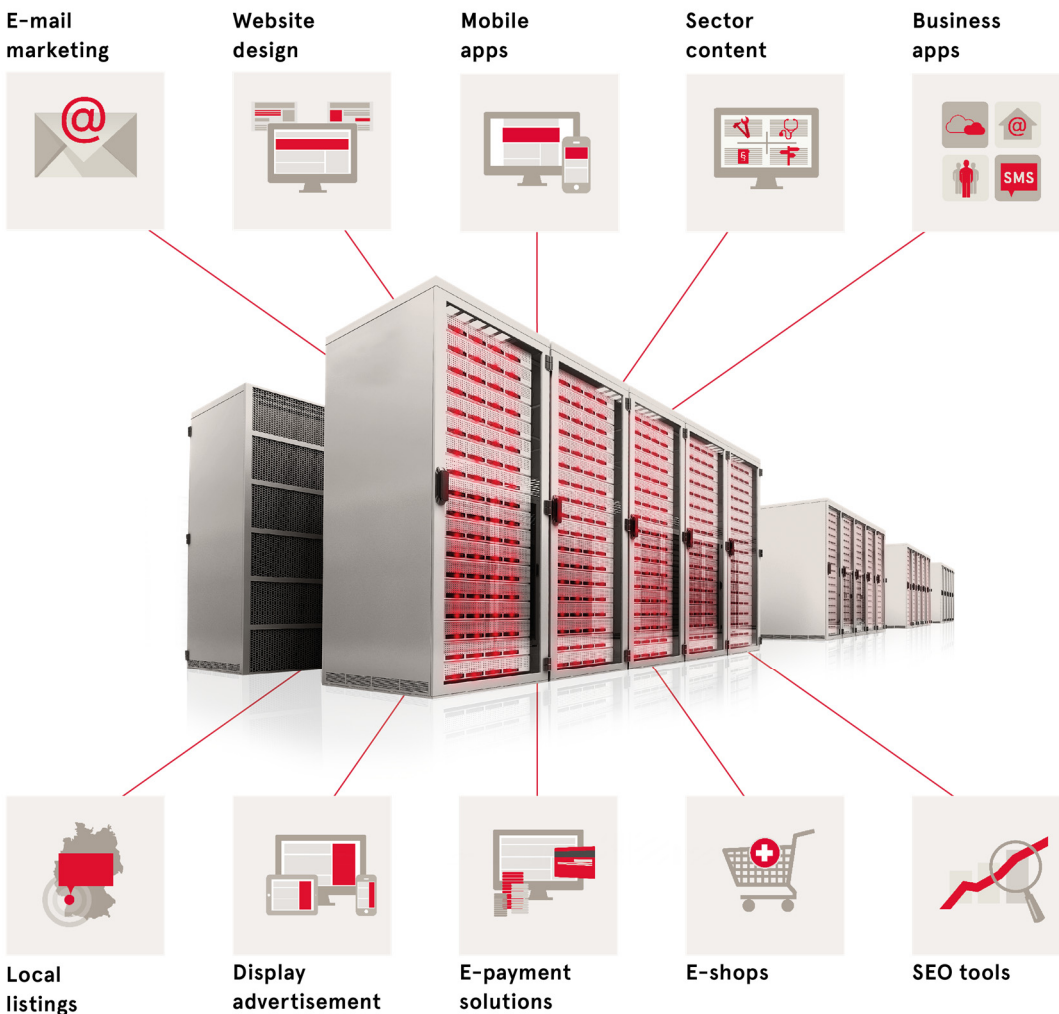
**AT A GLANCE**

- \_\_\_\_\_ Vision
- \_\_\_\_\_ Business model
- \_\_\_\_\_ Internet Factory
- \_\_\_\_\_ Success factors
- \_\_\_\_\_ **Growth opportunities**

**Business Applications segment**

In our Business Applications segment, we offer a comprehensive range of powerful applications, such as domains, websites, web hosting, servers, and e-shops, group work, online storage, and office software. These applications open up business opportunities on the internet for our customers and help them digitize their processes. Based on our proven hosting packages, our product range has therefore been steadily expanded over the past few years with the addition of numerous cloud-based e-business solutions.

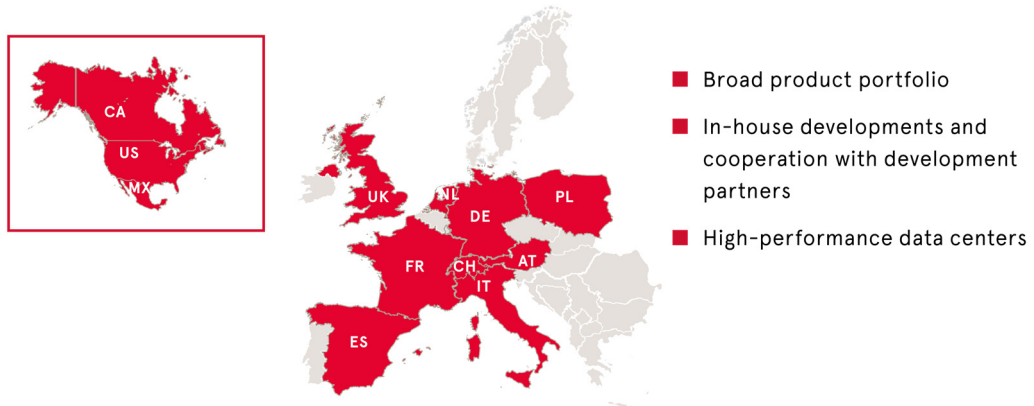
**Business Applications: from web host to e-business solutions provider**



Our applications are developed at our own "Internet Factory" or in cooperation with partner firms and operated on around 90,000 servers at 10 data centers.

In the Business Applications segment, we are also a leading global player with activities in European countries (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, and Spain) as well as in North America (Canada, Mexico, and the USA).

### Business Applications: international footprint



In addition to projects aimed at integrating Strato and ProfitBricks (both acquired in 2017), activities in the Business Applications segment during 2019 focused on driving the rebranding of "1&1 Internet" via the transitional brands "1&1 IONOS" and "IONOS by 1&1" – thus taking a further step toward the targeted IPO. Following a transition phase, the IPO is then to be held in future under the independent "IONOS" brand.

A further focus area in 2019 was once again the sale of additional features to existing customers (e.g., further domains, e-shops, and business apps), as well as the acquisition of high-value customer relationships. Nevertheless, the number of fee-based Business Applications contracts was also raised organically by 90,000 contracts in the fiscal year 2019 to a total of 8.15 million.

#### Development of Business Applications contracts in the fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Business Applications, total contracts	8.15	8.06	+ 0.09
thereof in Germany	3.90	3.82	+ 0.08
thereof abroad	4.25	4.24	+ 0.01

With our strong and specialized brands, a steadily growing portfolio of cloud applications, and existing relations with millions of home users, freelancers, and small businesses, we are also well positioned in our Business Applications segment to further exploit the opportunities offered by the cloud computing market for business clients.

In the Business Applications segment, the focus will continue to be on expanding business with existing customers and gaining new high-quality customer relationships in 2020.

**AT A GLANCE**

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The trend toward the increasing use of cloud applications is working in our favor for all activities of our Applications division – both for Consumer and Business Applications.

In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide", Gartner forecasts global growth for public cloud services of 16.9% (prior year: 15.8%), from \$ 227.80 billion to \$ 266.36 billion in 2020.

**Market forecast: global cloud computing**

in \$ billion	2020e	2019	Change
Global sales of public cloud services	266.36	227.80	+ 16.9%
thereof Application Infrastructure Services (PaaS)	39.69	32.23	+ 23.1%
thereof Application Services (SaaS)	115.97	99.53	+ 16.5%
thereof System Infrastructure Services (IaaS)	49.99	40.32	+ 24.0%
thereof Management and Security Services	13.85	12.03	+ 15.1%
thereof Business Process Services (BPaaS)	46.86	43.69	+ 7.3%

Source: Gartner, November 2019

The prospects for funding free applications via online advertising were also good – at least until the onset of the coronavirus crisis. For example, PricewaterhouseCoopers expected an increase of 6.6% (prior year: 6.9%) to € 9.07 billion. The strongest growth was expected for mobile online advertising and video advertising with increases of 22.7% and 10.1%, respectively. In view of the current uncertainty regarding the further development of macroeconomic conditions, it is impossible to predict to what extent these growth prospects will actually be fulfilled.

**Market forecast: online advertising in Germany**

in € billion	2020e	2019	Change
Online advertising revenues	9.07	8.51	+ 6.6%
thereof search marketing	4.02	3.86	+ 4.1%
thereof display advertising	1.69	1.66	+ 1.8%
thereof mobile online advertising	1.57	1.28	+ 22.7%
thereof affiliate / classifieds	1.03	1.02	+ 1.0%
thereof video advertising	0.76	0.69	+ 10.1%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2019 – 2023, October 2019

# MANAGEMENT REPORT

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## Notice of unaudited sections in the Combined Management Report of United Internet AG for the Company and the Group as of December 31, 2019

In addition to regular management report disclosures, it is possible that reporting may also include non-management report-related disclosures (those not required by law) which are not subject to a substantive audit by the auditor. Moreover, certain information may not be verifiable by the auditor: such "non-auditable information" cannot be assessed by the auditor due to the nature of the disclosures or the absence of suitable criteria.

In the Combined Management Report of United Internet AG for the Company and the Group, the following chapters or disclosures were identified as "non-audited management report disclosures":

- The disclosures made in the subsection "1.4 Research and development" are "non-audited management report disclosures", as the content of "non-management report-related disclosures" is not audited.
- The "quarterly development" tables contained in the subsections "2.2 Business development" and "2.3 Position of the Group" with key financial figures on a quarterly basis for the segments and the Group are "non-audited management report disclosures" as United Internet does not subject its Interim Financial Statements to a review or audit.
- The disclosures made about "Green IT" and "Social responsibility" in the subsection "2.4 Significant non-financial performance indicators" are "non-audited management report disclosures" as the content of "non-management report-related disclosures" is not audited.
- The disclosures made in chapter "7. Declaration on Company Management/Corporate Governance Report" are "non-audited management report disclosures" as an audit of the disclosures contained in the Declaration on Company Management in accordance with section 317 (2) sentence 6 HGB is limited to the fact that the information has been provided and the Corporate Governance Report in chapter 7 constitutes a "non-management report-related disclosure" which is not subject to a substantive audit.

# 1. GROUP AND COMPANY PROFILE

## 1.1 Business model

### Group structure

Founded in 1998 and based in Montabaur, Germany, United Internet AG is the **parent company** (hereinafter also referred to as "the Company") of the United Internet Group.

Together with its service company United Internet Corporate Services GmbH, United Internet AG focuses mainly on centralized functions such as Finance, Corporate Controlling & Accounting, Tax, Investment Management, Press Relations, Investor Relations, Legal, Corporate Governance, Compliance & Sustainability, Risk Management, Corporate Audit, HR Management, Facility Management, Procurement, and Corporate IT.

Compared to the previous year, there were only minor changes in the Group structure as of December 31, 2019.

Operating activities in the **Consumer Access segment** are mainly managed by the companies Drillisch Online GmbH and 1&1 Telecom GmbH – under the umbrella of 1&1 Drillisch AG.

In its **Business Access segment**, United Internet mainly operates via 1&1 Versatel GmbH – held by United Internet Service Holding GmbH.

Operating activities in the **Consumer Applications segment** are primarily managed via the companies 1&1 De-Mail GmbH, 1&1 Mail & Media GmbH and United Internet Media GmbH – pooled together under 1&1 Mail & Media Applications SE.

In its **Business Applications segment**, United Internet is primarily active via STRATO AG and its subsidiary Cronon GmbH (formerly: Cronon AG) – held by the holding companies 1&1 IONOS TopCo SE (formerly: 1&1 Internet TopCo SE) and 1&1 IONOS Holding SE (formerly: 1&1 Internet Holding SE) – as well as via 1&1 IONOS SE and its main domestic and foreign subsidiaries. These include – in addition to the foreign subsidiaries 1&1 IONOS Inc. (USA), 1&1 IONOS Ltd. (formerly: 1&1 Internet Ltd., UK), 1&1 IONOS S.A.R.L. (formerly: 1&1 Internet S.A.R.L., France), and 1&1 IONOS España S.L.U. (formerly: 1&1 Internet España S.L.U., Spain) – in particular Arsys Internet S.L.U. (Spain), Fasthosts Internet Ltd. (UK), home.pl S.A. (Poland), InterNetX GmbH, Sedo GmbH, united-domains AG, and World4You Internet Services GmbH (Austria).

In addition to these operative and fully consolidated subsidiaries, United Internet held a number of other **investments** as of December 31, 2019.

These mainly consist of equity interests – held by United Internet Investments Holding AG & Co. KG – in the listed company Tele Columbus AG, Berlin (29.90%), as well as investments in the strategic partners ePages GmbH, Hamburg (25.01%), Open-Xchange AG, Cologne (25.39%), rankingCoach International GmbH, Cologne (30.70%), and uberall GmbH, Berlin (27.42%). In addition, United Internet holds shares in AWIN AG, Berlin (20.00%), via 1&1 Mail & Media Applications SE – following the contribution of affilinet to AWIN in 2017.



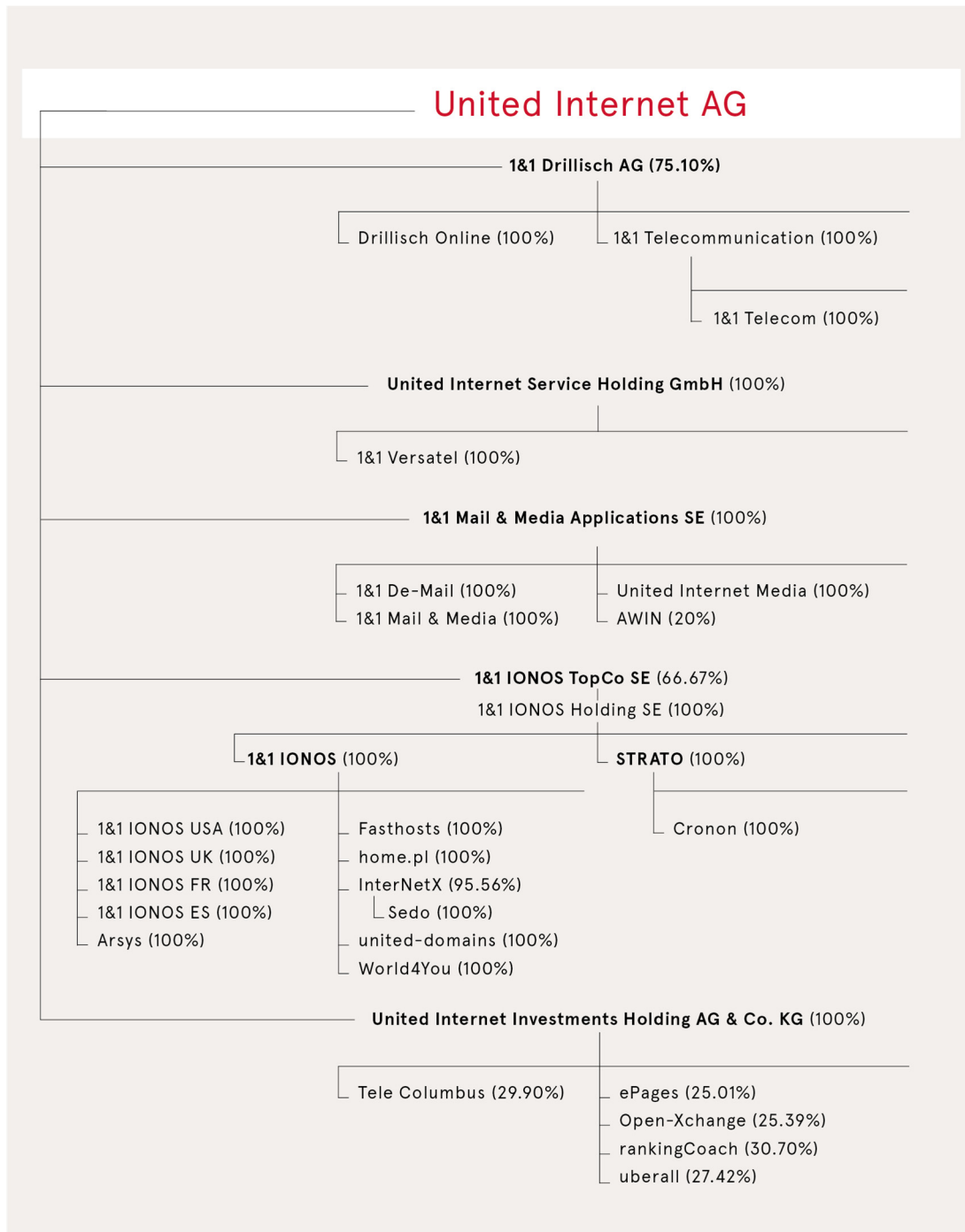
**MANAGEMENT REPORT**

<b>Company and Group profile</b>	Risk, opportunity and forecast report	Declaration of corporate governance
Economic report	ICS and RMS	Remuneration report
Subsequent events	Disclosures required by takeover law	Dependent company report

Further details on these investments and changes in investments are provided in section 2.2 "Business development" under "Group investments".

 see page 61

A simplified illustration of the Group structure of United Internet with its significant operating subsidiaries and investments – as of December 31, 2019 – is shown in the following chart.



## Business operations

With 24.74 million fee-based customer contracts (prior year: 23.85 million) and 37.59 million ad-financed free accounts (prior year: 37.00 million), United Internet is a leading European internet specialist.

The Group's operating business is divided into the two business divisions "Access" and "Applications", which in turn are divided into the reporting segments "Consumer Access" and "Business Access", as well as "Consumer Applications" and "Business Applications".

### Access division

The Access division, with its two segments Consumer Access and Business Access, comprises United Internet's fee-based access products for its consumer and business customers. In its consumer business, these include broadband and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand, or IPTV), while the business segment offers data and network solutions for small and medium-sized enterprises (SMEs), as well as infrastructure services for large corporations.

With a current length of around 48,500 km, United Internet operates one of Germany's largest fiber-optic networks. Moreover, the Company – indirectly via 1&1 Drillisch AG, acquired in 2017 – is the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany and thus extensive access to one of Germany's largest mobile networks. In the fiscal year 2019, United Internet also successfully participated in the 5G spectrum auction and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. By acquiring these frequencies, the foundation was laid for the development of the Company's own powerful mobile communications network. In addition to its own landline network and privileged access to the Telefónica network, the Company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications and services from the Company's own "Internet Factory" in order to differentiate them from the competition.

In its Access division, United Internet operates exclusively in Germany, where it is one of the leading providers – based on customer contracts and sales revenues.

Access products are marketed via well-known brands, such as 1&1, or discount brands, such as yourfone and smartmobile.de, which enable the Company to offer a comprehensive range of products while also targeting specific customer groups.

### Applications division

The Applications division, with its two segments Consumer Applications and Business Applications, comprises ad-financed and fee-based application products for consumer and business customers. These applications include domains, home pages, web hosting, servers and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage, and office software.

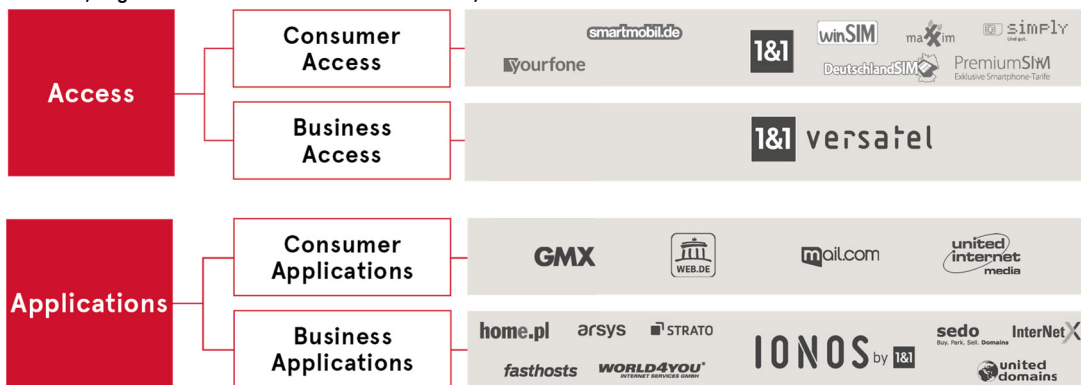
The applications are developed at the Company's own "Internet Factory", or in cooperation with partner firms, and operated on around 90,000 servers at the Company's 10 data centers.

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In its Applications division, United Internet is also a leading global player – based on domains, customer contracts, and sales revenues– with activities in Europe (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, and Spain) and North America (Canada, Mexico, and the USA).

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, IONOS, Arsys, Fasthosts, home.pl, InterNetX, STRATO, united-domains, and World4You. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by United Internet Media.

**Divisions, segments and brands (as of: December 31, 2019)**

## Management

The **Management Board** of United Internet AG comprised the following 2 members in fiscal year 2019:

- Ralph Dommermuth, founder and Chief Executive Officer (with the Company since 1988)
- Frank Krause, Chief Financial Officer (with the Company since 2015)

As in the previous year, the **Supervisory Board** of United Internet AG elected by the Annual Shareholders' Meeting 2015 comprised the following three members in fiscal year 2019:

- Kurt Dobitsch, chair
- Michael Scheeren, deputy chair
- Kai-Uwe Ricke

## Main markets and competition

Germany is the most important **sales market** of the United Internet Group by far and accounted for almost 92% of total global sales in the fiscal year 2019.

Besides Germany, the Group's most important sales markets are

- the UK,
- the USA,
- Spain,
- France,
- Poland and
- Austria.

### Competitive standing in the Consumer Access segment

Following the merger with Drillisch (now 1&1 Drillisch) in 2017, United Internet is the fourth force in Germany's telecommunications market with landline and mobile products in its purely domestic Consumer Access segment – based on customer contracts, sales revenues and profitability – after Deutsche Telekom, Vodafone and Telefónica Germany.

### Competitive standing in the Business Access segment

United Internet is also a leading company in its Business Access segment, whose operations are also limited to Germany. With the fiber-optic network of 1&1 Versatel spanning approximately 48,500 km, United Internet operates one of Germany's largest fiber-optic networks.

### Competitive standing in the Consumer Applications segment

In its Consumer Applications segment, United Internet operates in Germany, Switzerland, and Austria via the GMX and WEB.DE brands, as well as in countries such as the USA, UK, France, and Spain via the international brand mail.com. United Internet is the leading provider of e-mail services and one of the leaders in cloud services in its domestic German market – based on the number of users.

### Competitive standing in the Business Applications segment

In the globally aligned Business Applications segment, United Internet is active in a total of 12 countries with its hosting and cloud applications. The Company has long been the market leader in Germany – based on the number of managed country domains – and strengthened its position in 2017 with the takeover of its competitor STRATO. In other European countries, United Internet's hosting and cloud applications are now available in all major markets – either locally or from Germany. In addition to the domestic German market, these mainly include the major European economies of France, the UK, Italy, Poland, and Spain. With the exception of Italy, the Company is among the market leaders in the

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aforementioned countries. All in all, therefore, United Internet is also one of the leading European suppliers of hosting and cloud applications – based on the number of managed country domains. Further target markets outside Europe are the North American countries Canada, USA, and Mexico. In the most important of these markets, the USA, United Internet is also one of the leading players in this segment – based on the number of managed country domains. From a global perspective, United Internet is thus one of the leading companies for hosting and cloud applications.

## Main locations

As of December 31, 2019, the United Internet Group employed a total of 9,374 people at over 30 domestic and foreign facilities.

### Main locations (by headcount; > 50 employees)

Location	Segment	Main Company
Montabaur (HQ)	Corporate functions	United Internet
	Consumer Access	1&1 Telecommunication
Karlsruhe	Corporate functions	United Internet
	Consumer Access	1&1 Telecommunication
	Consumer Applications	1&1 Mail & Media Applications
	Business Applications	1&1 IONOS
Berlin	Consumer Access	1&1 Telecommunication
	Business Access	1&1 Versatel
	Business Applications	1&1 IONOS, STRATO
Zweibrücken	Consumer Access	1&1 Telecommunication
	Business Applications	1&1 IONOS
Cebu City (Philippines)	Business Applications	1&1 IONOS
Munich	Consumer Access	1&1 Drillisch
	Consumer Applications	1&1 Mail & Media Applications
Madrid / Logroño (Spain)	Business Applications	1&1 IONOS, Arsys
Stettin (Poland)	Business Applications	home.pl
Flensburg	Business Access	1&1 Versatel
Düsseldorf	Business Access	1&1 Versatel
Krefeld	Consumer Access	1&1 Drillisch
Gloucester (UK)	Business Applications	1&1 IONOS, Fasthosts
Dortmund	Business Access	1&1 Versatel
Bucharest (Romania)	Business Applications	1&1 IONOS
Maintal	Consumer Access	1&1 Drillisch
Essen	Business Access	1&1 Versatel
Chesterbrook / Lenexa (USA)	Business Access	1&1 IONOS
Regensburg	Business Applications	InterNetX
Stuttgart	Business Access	1&1 Versatel
Cologne	Business Applications	Sedo
Starnberg	Business Applications	united-domains

## 1.2 Strategy

United Internet's business model is based predominantly on customer contracts (electronic subscriptions) with fixed monthly amounts and contractually agreed terms. Such a business model ensures generally stable and plannable revenue and cash flows, protects against macroeconomic effects, and provides the financial scope to grasp opportunities in new/extended business fields and new/extended markets – organically, or via acquisitions and investments.

The large number of customer relationships helps the Company to utilize so-called economies of scale: the more customers using the products created by our development teams and operated at our own data centers, and/or transport data via our own networks, the greater our profit will be. These profits can then be invested in new customers, new developments, and new or extended business fields.

From the current perspective, Cloud Applications and Mobile Internet will be the growth markets over the coming years. With its clear positioning in the Access and Applications segments, United Internet is well placed to exploit the expected market potential.

In view of the dynamic market development of Cloud Applications and Mobile Internet, the Company's growth opportunities are clearly apparent: universally accessible, increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. These internet-based programs for private users and companies will also be United Internet's growth drivers in the years ahead – both as stand-alone products in the Applications division, as well as in combination with landline and mobile access products in the Access division.

With its many years of experience as an access and application provider, its expertise in software development and data center operation, marketing, sales and customer support, as well as its strong and well-known brands (such as 1&1, GMX and WEB.DE), and customer relationships with millions of private users, freelancers, and small companies in Germany and abroad (currently over 62 million user accounts world-wide), the Company is excellently positioned.

In order to leverage this positioning for further sustainable growth, United Internet will also invest heavily in new customers, new products, and new or extended business fields in the future, as well as in its further internationalization.

In addition to organic growth, United Internet also continuously seeks possibilities for company acquisitions, investments, and partnerships in order to extend its market positions and competencies.



see pages 48 and 69

Thanks to its high and plannable level of free cash flow, United Internet has a strong source of internal funding as well as good access to debt financing markets. Further information on the Company's equity strength and external financing is presented in section 2.2 "Business development" and 2.3 "Position of the Group".



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Further information on strategy, opportunities and targets is included in the "Risk, Opportunity and Forecast Report" in section 4.

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## 1.3 Control systems

The internal control systems help management steer and monitor the Group and its segments. The systems consist of planning, actual situation, and forecast calculations based on the Group's annually revised strategic planning. Particular attention is paid to market developments, technological developments, and trends, as well as their impact on the Group's own products and services, and the Group's financial possibilities. The corporate control system's aim is the continuous and sustainable development of United Internet and its subsidiaries.

The Group's reporting system comprises the monthly profit calculations and quarterly IFRS-compliant reports for all consolidated subsidiaries. It presents the financial position and performance of the Group and all divisions. Financial reporting also includes other detailed information which is required for the assessment and control of the operating business.



IFRS

The key performance indicators of the United Internet Group for chief corporate management are presented in "Segment reporting" under point 5 of the Notes to the Consolidated Financial Statements.



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Quarterly reports on significant risks for the Company represent a further component of the control systems.

The above mentioned reports are discussed at meetings of the Management Board and Supervisory Board and provide the fundamental basis for assessments and decisions.

In order to steer the Group's performance, United Internet AG uses in particular the key figures of the income statement (sales, EBITDA, EBIT, EPS), of the statement of cash flows (free cash flow), and of the statement of financial position (asset items, financial liabilities). The Company also employs non-financial key figures, in particular the number and growth of fee-based customer contracts, as well as ad-financed free accounts. The use and definition of the relevant key financial figures is shown in section 2.2 "Business Development".



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The key performance indicators (KPIs) used by management are sales and EBITDA. These figures are also used in forecast reporting.



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A comparison of the KPIs stated in the forecast and the actual figures is provided in this Management Report in 2.2 "Business Development" in the section "Actual and Forecast Development" as well as in 2.3 "Position of the Group".



see pages 50 and 69

The number of customer contracts, the gross and net sales figures, and the related customer acquisition costs in particular – compared to the Company's plans and forecast calculations – serve as an early warning system.

## 1.4 Research and development

As an internet service provider, the United Internet Group does not engage in research and development (R&D) on a scale comparable with manufacturing companies. Against this backdrop, United Internet does not disclose key figures for R&D.

At the same time, the United Internet brands stand for high-performance internet access, solutions, and innovative web-based products and applications which are mostly developed in-house. The success of United Internet is rooted in an ability to develop, combine, or adapt innovative products and services, and launch them on major markets.

Thanks to its high-performance development teams, United Internet is able to react swiftly and flexibly to new ideas and trends, and to continuously enhance its established products by adapting them to changing market needs – a key success factor in the fast-moving internet market. The Company's expertise in product development, enhancement, and roll-out minimizes its reliance on third party development work and supplies in many areas, and thus ensures decisive competitive and time-to-market advantages.

At United Internet's own development centers (especially in Karlsruhe, Berlin, and Bucharest), around 3,000 developers, product managers, and technical administrators (corresponding to around 32% of all employees) use mainly open source code in clearly defined and modeled development environments. Third-party programming services are also used to swiftly and efficiently implement specific projects. This enables the Company to quickly develop products and adapt them to changing customer needs. United Internet also procures solutions from partners, which are then modified according to needs and integrated into its systems. With the aid of its self-developed applications, United Internet has a set of modules which can be easily combined and provided with product-specific or country-specific user interfaces in order to create a variety of powerful and integrated applications – a huge benefit when tailoring products to varying target groups, or for international rollouts.

Due to the steady growth in customer figures, the demands placed on reliability and availability are constantly rising. In addition to the further development of existing products and continuous optimization of back-end operations, the Company also focuses on continuously enhancing existing processes in order to raise system reliability, and thus also customer satisfaction.

### Focus areas 2019

#### Consumer Access

- Introduction of "eSIM"
- Expansion of Open Access Platform for implementing FTTH connections with speeds of 1 GBit/s
- Roll-out of new set-top box for IPTV
- Development of new IPTV applications for smart TVs based on Android



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## Business Access

- Basic installation of a Software Defined Network (SDN) – enabling of dynamic products

## Consumer Applications

- Launch of “Smart Inbox” for GMX and WEB.DE
- Expansion of big data platform for AI-based smart data platform with self-service analytics
- Introduction of two-factor authentication for GMX and WEB.DE

## Business Applications

- Launch of “Private Cloud beta” on VMware basis
- Introduction of new managed Kubernetes product for IONOS Enterprise Cloud to administer container workloads
- Introduction of legally secure and GoBD-compliant e-mail archiving for IONOS customers
- Introduction of integrated eCommerce offering for website modules (MyWebsite) at IONOS
- Integration of Virtual Desktop Infrastructure (VDI) product for Enterprise customers of Arsys
- Introduction of new managed SAP-HANA product for Enterprise customers of Arsys
- Introduction of brand monitoring for over 140 trademark offices
- Introduction of OX App Suite as German alternative to Microsoft Office 365 and G-Suite
- Introduction of Hosted Exchange 2019 as professional e-mail solution for medium-sized and larger enterprises
- Introduction of WordPress pro hosting portfolio specially for professionals and agencies
- Introduction of new professional backup solution for all servers and cloud products of IONOS and IONOS Enterprise Cloud
- Introduction of new dedicated bare metal server with Intel Cascade Lake CPU

## 2. ECONOMIC REPORT

### 2.1 General economic and sector conditions

#### General economic development

The International Monetary Fund (IMF) downgraded its forecasts for the global economy several times in the course of 2019. In the latest update to its "World Economic Outlook" on January 20, 2020, the Fund reported preliminary growth for the **global economy** of 2.9% in 2019. Growth was thus well below the prior-year figure (3.6%) and also 0.6 percentage points below the IMF's outlook in January 2019 (3.5%).

Among other things, the Fund attributed this weaker-than-expected global economic trend to increasing trade barriers and growing uncertainty due to geopolitical risks.

From the point of view of United Internet, the economies of its current target markets all performed worse than originally expected. At the same time, the pace of economic growth in United Internet's target markets was also slower than in the previous year.

With growth of 2.3% in 2019, the **US economy** fell considerably short of its prior-year figure (2.9%) and of the IMF's expectations at the beginning of the year (outlook January 2019: 2.5%). Economic growth of 1.5% in **Canada** was also well below the prior-year figure (1.9%) and likewise failed to reach the IMF's original expectations (1.9%). The **Mexican** economy stagnated with growth of 0.0%, falling well short of the prior-year figure (2.1%) and the IMF forecast (2.1%).

At 1.2%, economic growth in the **eurozone** was much lower than in the previous year (1.9%) and also below the IMF's original expectations (1.6%).

In **France**, the 1.3% increase in economic output was both below the prior-year level (1.5%) and original expectations (1.7%). With economic growth of 2.0%, **Spain** failed to match its prior-year figure (2.4%) and the IMF's original forecast (2.2%). The same applies to **Italy**, where growth of just 0.2% was well below both the prior-year level (0.8%) and the original forecast of the IMF (0.6%).

With growth of 1.3%, the economic trend in the non-euro country **UK** was unchanged from the previous year but also below the IMF's original expectations (1.5%).

The IMF calculated economic growth of just 0.5% for **Germany**, United Internet's most important market (sales share 2019: almost 92%), for 2019. This is 1.0 percentage point less than in the previous year (1.5%) and 0.8 percentage points below the original expectations (1.3%). The IMF's calculations for Germany are also largely in line with the preliminary figures of the country's Federal Statistics Office (Destatis), which calculated growth (after price and calendar adjustments) in gross domestic product (GDP) of 0.6% (prior year: 1.5%).

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**Changes in growth forecasts made during 2019 for United Internet's key target countries and regions**

	January forecast	April forecast	July forecast	October forecast	Actual 2019	Change on January forecast
World	3.5%	3.3%	3.2%	3.0%	2.9%	-0.6%-points
USA	2.5%	2.3%	2.6%	2.4%	2.3%	-0.2%-points
Canada	1.9%	1.5%	1.5%	1.5%	1.5%	-0.4%-points
Mexico	2.1%	1.6%	0.9%	0.4%	0.0%	-2.1%-points
Eurozone	1.6%	1.3%	1.3%	1.2%	1.2%	-0.4%-points
France	1.5%	1.3%	1.3%	1.2%	1.3%	-0.2%-points
Spain	2.2%	2.1%	2.3%	2.2%	2.0%	-0.2%-points
Italy	0.6%	0.1%	0.1%	0.0%	0.2%	-0.4%-points
UK	1.5%	1.2%	1.3%	1.2%	1.3%	-0.2%-points
Germany	1.3%	0.8%	0.7%	0.5%	0.5%	-0.8%-points

Source: International Monetary Fund, World Economic Outlook (Update), January 2020

**Multi-period overview: GDP trend in United Internet's key target countries and regions**

	2015	2016	2017	2018	2019	YoY change
World	3.2%	3.2%	3.7%	3.6%	2.9%	-0.7%-points
USA	2.6%	1.5%	2.3%	2.9%	2.3%	-0.6%-points
Canada	0.9%	1.4%	3.0%	1.9%	1.5%	-0.4%-points
Mexico	2.6%	2.9%	2.0%	2.1%	0.0%	-2.1%-points
Eurozone	2.0%	1.8%	2.4%	1.9%	1.2%	-0.7%-points
France	1.3%	1.2%	1.8%	1.7%	1.3%	-0.4%-points
Spain	3.2%	3.3%	3.1%	2.4%	2.0%	-0.4%-points
Italy	0.7%	0.9%	1.6%	0.8%	0.2%	-0.6%-points
UK	2.2%	1.9%	1.7%	1.3%	1.3%	0.0%-points
Germany	1.5%	1.9%	2.5%	1.5%	0.5%	-1.0%-points

Source: International Monetary Fund, World Economic Outlook (Update), January 2020

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

	2015	2016	2017	2018	2019	YoY change
GDP	1.5%	2.1%	2.8%	1.5%	0.6%	-0.9%-points

Source: German Federal Statistical Office, January 2020

## Development of sector / core markets

At its annual press conference on January 14, 2020, the industry association Bitkom forecast that the **ICT market in Germany** had grown significantly by 2.0% (prior year: + 2.2%) to € 169.6 billion in 2019. At the beginning of 2019, the association had anticipated that growth would be 0.5 percentage points lower at 1.5%.

With sales of € 92.9 billion and growth of 2.9% (prior year: + 3.5%), the **IT sector** continued to display the strongest growth and also the largest market volume. Vendors of software (+ 6.3%) and IT services (+ 2.4%) once again posted the strongest growth in 2019.

The **telecommunications market** recorded growth once again in 2019 with an increase of 2.0% (prior year: + 1.9%) to € 68.1 billion. There were increases in sales of user devices (+ 11.1%) and telecommunication infrastructure (+ 1.5%), while telecommunication services stagnated at the prior-year level.

The **consumer electronics** market continued its decline with a strong decrease in sales of - 7.7% (prior year: - 6.6%) to € 8.6 billion.

The most important ICT markets for United Internet's business model are the German telecommunications market (broadband connections and mobile internet) in its mostly subscription-financed Access division, and the global cloud computing, and German online advertising markets for its subscription- and ad-financed Applications division.

### (Stationary) broadband market in Germany



VATM

In view of the high level of household coverage already achieved and the strong trend toward mobile internet usage, demand for new landline broadband connections in Germany has slowed in recent years. With expected growth of 1.0 million, or 2.9%, to 35.2 million in 2019, the number of new connections was again well below earlier record years. These figures were calculated by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten - VATM) and Dialog Consult in their joint "21<sup>st</sup> TC Market Analysis for Germany 2019" (October 2019). Within the above mentioned growth, the connections of relevance for United Internet in the two technology fields of DSL and FTTB/FTTH grew by 0.3 million to 25.3 million and by 0.4 million to 1.5 million. The number of cable connections rose by 0.3 million to 8.4 million. A further 0.1 million connections in Germany are still operated via satellite/powerline.

At € 32.8 billion, revenues generated in United Internet's landline business remained unchanged from the previous year. In addition to retail sales, these revenue figures also include wholesale, interconnection, and terminal device revenues.

According to calculations of Dialog Consult/VATM, the average volume of data used is rising much more strongly than the number of newly activated connections and landline revenues – as an indicator of continued growth in usage of e.g., IPTV and cloud applications – with growth of 26.0% to 137.1 GB (per connection and month). As a result, demand for more powerful broadband connections also developed strongly. For example, the proportion of switched broadband connections with speeds of at least 50 MBit/s increased by 7.0 percentage points, from 33.3% in the previous year to 40.3% in 2019.

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**Key market figures: fixed-line in Germany**

	2019	2018	Change
Fixed-line revenues (in € billion)	32.8	32.8	0.0%

Source: Dialog Consult / VATM, TC Market Analysis for Germany 2019, October 2019

**Mobile internet market in Germany**

According to estimates of Dialog Consult/VATM in their joint report "21<sup>st</sup> TC Market Analysis for Germany 2019", the number of active SIM cards in the German mobile communications market increased by 3.8 million, or 2.8%, to 140.8 million.

Mobile revenues also rose by 2.0% to € 25.6 billion. In addition to retail sales, these revenue figures also include interconnection, wholesale, and user device sales.

According to forecasts of Dialog Consult/VATM, the average volume of data used (per connection and month) – as an indicator of the growing use of mobile data services – grew much faster than the number of SIM cards and mobile revenues by 58.6% to 2.5 GB. At the same time, the number of SIM cards suitable for use in 4G/5G networks rose by 7.3 million to 57.5 million, while 2G/3G SIM cards fell by 3.5 million to 83.3 million.

**Key market figures: mobile communications in Germany**

	2019	2018	Change
Mobile revenues (in € billion)	25.6	25.1	+ 2.0%

Source: Dialog Consult / VATM, TC Market Analysis for Germany 2019, October 2019

**Global cloud computing market**

There was also further dynamic growth in the cloud computing market in 2019. In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide" (November 2019), Gartner Inc. forecast global growth for public cloud services of 15.8% in 2019, from \$ 196.71 billion to \$ 227.80 billion.

Cloud computing is no short-term trend, but represents a fundamental shift in the provision and use of IT services. The aforementioned figures indicate the dynamic potential of this market. IT users get better services for less money with cloud computing. Small and mid-size companies in particular can gain access to IT applications which only major corporations could afford in the past.

**Key market figures: cloud computing worldwide**

in \$ billion	2019	2018	Change
Global sales of public cloud services	227.80	196.71	+ 15.8%
thereof Application Infrastructure Services (PaaS)	32.23	26.35	+ 22.3%
thereof Application Services (SaaS)	99.53	85.72	+ 16.1%
thereof System Infrastructure Services (IaaS)	40.32	32.44	+ 24.3%
thereof Management and Security Services	12.03	10.49	+ 14.7%
thereof Business Process Services (BPaaS)	43.69	41.71	+ 4.7%

Source: Gartner, November 2019

## German online advertising market

In its study "German Entertainment and Media Outlook 2019-2023" (October 2019), the auditing and consultancy company PricewaterhouseCoopers forecasts an increase in (net) revenues of the German online advertising market of 6.9% to a total of € 8.51 billion in 2019.

With growth of 23.1%, mobile online advertising posted the strongest increase – due in particular to the further sharp rise in the use of mobile devices. However, video advertising and search word marketing also rose strongly once again, with growth of 9.5% and 5.5%, respectively.

### Key market figures: online advertising in Germany

in € billion	2019	2018	Change
Online advertising revenues	8.51	7.96	+ 6.9%
thereof search marketing	3.86	3.66	+ 5.5%
thereof display advertising	1.66	1.62	+ 2.5%
thereof mobile online advertising	1.28	1.04	+ 23.1%
thereof affiliate / classifieds	1.02	1.01	+ 1.0%
thereof video advertising	0.69	0.63	+ 9.5%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2019 – 2023, October 2019

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## Legal conditions / significant events

### Legal conditions

The legal parameters for United Internet's business activities remained largely unchanged from the previous year in 2019 and thus had no significant influence on the development of the United Internet Group.

### Significant events

- On July 1, 2019, the Federal Network Agency ("Bundesnetzagentur") responsible for regulatory issues in Germany raised prices for the provision of subscriber lines (local loops). This price increase resulted in a burden on EBITDA of € 8.8 million in the fiscal year 2019.
- In its financial reporting, United Internet subsidiary 1&1 Drillisch AG communicated that certain advance service prices are the subject of a number of expert proceedings initiated by 1&1 Drillisch and that, in these proceedings, 1&1 Drillisch expects binding decisions about the kind and amount of permanent price adjustments in the form of retroactively lower advance service prices. On October 24, 2019, 1&1 Drillisch received the draft of the expert determination in the first price adjustment procedure, which was initiated with effect as of September 2017 (Price Review 1). 1&1 Drillisch's application for the advance service prices to be reduced retroactively from this point in time was rejected. It follows from the draft of the expert determination that the financials of 2017 and – at least for the time being – that the 2018 and 2019 results of 1&1 Drillisch do not improve due to price decreases. Also, a price increase due to the lapse of a contractual adjustment mechanism for certain advance service prices that was limited in time to the end of 2018 remained at least for the time being valid. With the final expert determination received on December 19, 2019, the decision announced in the draft version was confirmed. 1&1 Drillisch did not include any price decreases for advance service prices in its annual forecast 2019. However, 1&1 Drillisch expected to be able to avert the price increase effective as of January 2019 in the context of continuously decreasing market prices for mobile data usage. Against this background, United Internet downgraded its EBITDA forecast for the fiscal year 2019 by approx. € 85 million to an EBITDA of around € 1,250 million after receiving the draft of the expert determination on October 24, 2019. 1&1 Drillisch believes the expert determination is wrong for various reasons and sees methodical mistakes and discrepancies in its content. 1&1 Drillisch is also of the opinion that essential characteristics of the MBA model, which was introduced in the context of the merger clearance of the E-Plus takeover, have not been adequately considered. This includes in particular the special privileges of the MBA MVNO. In the interests of its shareholders, 1&1 Drillisch will consider its legal options. The above mentioned price increase ultimately resulted in a burden on EBITDA of € 83.1 million in the fiscal year 2019.



Bundesnetzagentur, TAL

There were no other significant events in fiscal 2019 which had a material effect on the development of business.

## 2.2 Business development

### Initial application of IFRS 16

On January 13, 2016, the International Accounting Standards Board (IASB) published IFRS 16, a new standard for lease accounting. The new standard is to be applied in fiscal years beginning on or after January 1, 2019 – and thus also for these Annual Financial Statements 2019.

In its lease agreements, United Internet is mainly in the role of lessee and only to a minor extent in the role of lessor. The majority of the Group's leases are for renting network infrastructures, buildings, technical equipment, and vehicles.

According to IFRS 16, leases are no longer regarded as classic rental agreements but as financing transactions: the lessee acquires a right to use the leased asset and finances it via the lease installments. Consequently, the lessee must recognize an asset for the right to use the leased asset and a liability for the payments due for the leased asset in the balance sheet. In this way, every lease and rental relationship is stated in the balance sheet. Only lease or rental agreements with terms of up to twelve months and contracts with low-value assets are excluded from this obligation to be stated in the balance sheet.

On initial application of IFRS 16, United Internet opted to recognize the asset for the right of use granted at the value of the related lease liability as of January 1, 2019 and not to apply the standard retrospectively for each previous reporting period.

Application of the new standard led to an increase in non-current assets (for right-of-use assets) in the consolidated balance sheet of United Internet, and at the same time to an increase in financial liabilities (due to the payment obligation). In the income statement, this resulted in a reduction in rental payments, an increase in depreciation and interest expenses, and thus to a rise in EBITDA. However, other financial performance indicators "below" EBITDA, such as EBIT, EBT, or EPS, are either not affected by the new accounting standard, or only to a minor extent.

Specifically, the initial application of IFRS 16 in the fiscal year 2019 had a positive impact on consolidated EBITDA of around € 87.0 million. These EBITDA effects were mostly in the Business Access (€ +59.6 million) and Business Applications (€ +13.7 million) segments.

In order to provide comparability between the resulting EBITDA figures according to IFRS 16 in the fiscal year 2019 and the resulting EBITDA figures according to IFRS 15 in the fiscal year 2018, the most important effects are reported in the form of additional comments in the sections "Business development" and "Position of the Group".



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## Use and definition of relevant financial performance measures

In order to ensure the clear and transparent presentation of United Internet's business trend, the Group's Annual Financial Statements and Interim Financial Statements include key financial performance measures – in addition to the disclosures required by International Financial Reporting Standards (IFRS) – such as EBITDA, the EBITDA margin, EBIT, the EBIT margin, and free cash flow.

United Internet defines these measures as follows:

- **EBIT:** Earnings before interest and taxes represents the operating result disclosed in the statement of comprehensive income.
- **EBIT margin:** Presents the ratio of EBIT to sales.
- **EBITDA:** Earnings before interest, taxes, depreciation, and amortization are calculated as EBIT/operating result plus the depreciation and amortization (disclosed in the Consolidated Financial Statements) of intangible assets and property, plant, and equipment, as well as assets capitalized in the course of company acquisitions.
- **EBITDA margin:** Presents the ratio of EBITDA to sales.
- **Free cash flow:** Calculated as cash flow from operating activities (disclosed in the consolidated financial statement), less capital expenditure for intangible assets and property, plant, and equipment, plus payments from the disposal of intangible assets and property, plant, and equipment.

Insofar as necessary for a clear and transparent presentation, these indicators are adjusted for special items. Such special items usually refer solely to those effects capable of restricting the validity of the key financial performance measures with regard to the Group's financial and earnings performance – due to their nature, frequency, and/or magnitude. All special items are presented and explained for the purpose of reconciliation with the unadjusted financial figures in the relevant section of the financial statements. One-off amounts for integration and rebranding projects in the fiscal years 2018 and 2019 were not adjusted but are disclosed in the respective sections.

Currency-adjusted sales and earnings figures are calculated by converting sales and earnings figures with the average exchange rates of the comparative period, instead of the current period.

## Actual and forecast development 2019

United Internet AG maintained its growth trajectory in fiscal year 2019. The Company improved its sales and earnings figures once again, and reached its forecast of October 2019.

In the course of its ongoing integration measures in the Consumer Access segment, United Internet adjusted the disclosed sales figures of a Group subsidiary of 1&1 Drillisch acquired in 2017, which previously recognized revenue-reducing effects as cost of sales, and brought it in line with standard Group disclosure methods in the fourth quarter of 2019. To aid comparability, revenue and cost of sales figures for the fiscal year 2018 were also adjusted. As a result, disclosed revenue and cost of sales figures for the previous year in the Consumer Access segment and at Group level were both reduced by € 27.9 million. This merely resulted in a reclassification between these two items in the statement of comprehensive income. The adjustment has no effect on the key earnings figures (EBITDA and EBIT) of the segment or the Group.

### Forecast development

United Internet published its guidance for the fiscal year 2019 in its Annual Financial Statements 2018 and specified or adjusted them during 2019 as follows:

	Actual 2018	Forecast 2019 (March 2019)	Specification <sup>(1)</sup> (August 2019)	Adjustment <sup>(2)</sup> (October 2019)
Sales	€ 5.103 billion <sup>(3)</sup>	approx. + 4%	approx. + 2%	approx. + 2%
Sales excl. hardware revenues	€ 4.359 billion		approx. + 3%	approx. + 3%
EBITDA	€ 1.201 billion (IFRS 15)	approx. + 12% (IFRS 16) approx. + 8% (IFRS 15)	approx. + 11% (IFRS 16) approx. + 7% (IFRS 15)	approx. € 1.250 billion (IFRS 16)

(1) Specification of sales forecast due to weaker (low-margin) hardware business and increased demand for LTE mobile tariffs from existing customers during the year. At the same time, the EBITDA forecast has been specified in more detail due to the fact that subscriber line charges will not be newly regulated until after the 2019 plan is drawn up (increase from July 2019; approx. € -10 million expected impact in 2019) and initial costs in connection with planning and preparations for the 5G mobile communications network (approx. € -5 million expected impact in 2019).

(2) Correction of EBITDA forecast following receipt of the draft expert opinion in the first price adjustment procedure initiated with effect from September 2017 (Price Review 1). The application by 1&1 Drillisch for a retroactive reduction of wholesale prices as of this date was not granted. Moreover, a price increase due to the discontinuation of a contractual adjustment mechanism limited in time to the end of 2018 (approx. € -85 million expected effect in 2019) remained valid.

(3) After adjustment of 2018 sales figures for the Consumer Access segment and thus also for the Group as a whole

### Actual development

In fiscal year 2019, **consolidated sales** rose by 1.8%, from € 5.103 billion in the previous year to € 5.194 billion and were thus within the target range of the last forecast (approx. + 2%).

The same applies to **sales excluding hardware revenues**, which rose by 3.0%, from € 4.359 billion in the previous year to € 4.491 billion and were thus also within the target range of the forecast (approx. + 3%).

**Consolidated EBITDA** increased by 5.4% in fiscal year 2019, from € 1.201 billion in the previous year (acc. to IFRS 15) to € 1.266 billion (acc. to IFRS 16) and was thus also within the anticipated target range (approx. € 1.250 billion).

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**Summary: actual and forecast development of business in 2019**

	Actual 2018	Forecast 2019 (October 2019)	Actual 2019
Sales	€ 5.103 billion	approx. + 2%	+ 1.8%
Sales excl. hardware revenues	€ 4.359 billion	approx. + 3%	+ 3.0%
EBITDA	€ 1.201 billion (IFRS 15)	approx. € 1.250 billion (IFRS 16)	€ 1.266 billion (IFRS 16)

## Development of divisions and segments

The Group's operating activities are divided into the two business divisions Access and Applications, which in turn are divided into the segments Consumer Access and Business Access, as well as Consumer Applications and Business Applications.

### Access division

The Access division, with its two segments Consumer Access and Business Access, comprises United Internet's fee-based access products for its consumer and business customers. In its consumer business, these include broadband and mobile access products with the respective applications (such as home networks, online storage, telephony, video-on-demand, or IPTV), while in the business segment these include data and network solutions for SMEs, as well as infrastructure services for large corporations.

With a current length of around 48,500 km, United Internet operates one of Germany's largest fiber-optic networks. Moreover, the Company – indirectly via 1&1 Drillisch AG acquired in 2017 – is the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany and thus extensive access to one of Germany's largest mobile networks. In the fiscal year 2019, United Internet also successfully participated in the 5G spectrum auction and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. By acquiring these frequencies, the foundation was laid for the development of the Company's own powerful mobile communications network. In addition to its own landline network and privileged access to the Telefónica network, the Company also purchases standardized network services from various pre-service providers. These wholesale services are enhanced with end-user devices, self-developed applications, and services from the Company's own "Internet Factory" in order to differentiate them from the competition.

In its Access division, United Internet operates exclusively in Germany, where it is one of the leading providers – based on customer contracts and sales revenues.

Access products are marketed via well-known brands, such as 1&1, or the discount brands, such as yourfone and smartmobile.de, which enable the Company to offer a comprehensive range of products while also targeting specific customer groups.

### Consumer Access segment

In its operating business in 2019, the Consumer Access segment focused on further integration measures in connection with the merger of Drillisch AG (acquired in 2017, now 1&1 Drillisch AG) with 1&1 Telecommunication SE. In so doing, United Internet also adjusted the disclosed sales figures of a Group subsidiary of 1&1 Drillisch acquired in 2017, which previously recognized revenue-reducing effects as cost of sales, and brought it in line with standard Group disclosure methods in the fourth quarter of 2019. To aid comparability, revenue and cost of sales figures for the fiscal year 2018 were also adjusted. As a result, disclosed revenue and cost of sales figures for the previous year in the Consumer Access segment were reduced by € 27.9 million. The adjustment has no effect on the key earnings figures (EBITDA and EBIT) of the segment.

In addition to these integration measures, the segment also focused on adding further valuable broadband and mobile internet contracts. The total number of fee-based contracts in the Consumer Access segment rose by 790,000 contracts to 14.33 million in the fiscal year 2019. A total of 790,000

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customer contracts were added in the Mobile Internet business, thus raising the total number of contracts to 9.99 million. The number of broadband connections remained steady at 4.34 million.

#### Development of Consumer Access contracts in fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Consumer Access, total contracts	14.33	13.54	+ 0.79
thereof Mobile Internet	9.99	9.20	+ 0.79
thereof broadband connections	4.34	4.34	0.00

#### Development of Consumer Access contracts in fiscal year in the fourth quarter of 2019

in million	Dec. 31, 2019	Sept. 30, 2019	Change
Consumer Access, total contracts	14.33	14.12	+ 0.21
thereof Mobile Internet	9.99	9.78	+ 0.21
thereof broadband connections	4.34	4.34	0.00

**Sales of the Consumer Access segment** rose moderately by 1.3% in the fiscal year 2019, from € 3,600.8 million in the previous year to € 3,647.5 million.

Despite a highly competitive environment, high-margin **service revenues** – which represent the core business of the segment – improved by 3.1%, from € 2,854.4 million to € 2,943.0 million.

This at first glance only moderate overall sales growth was due in particular to fluctuations during the year in (low-margin) **hardware sales** (€ -41.9 million compared to the previous year). Such hardware sales (especially from the use of smartphones which customers acquire for no or only small one-off charges on signing new contracts and which are paid for via higher tariff prices over the contractual term) fluctuate seasonally and depend on the appeal of new devices and the model cycles of hardware manufacturers. Consequently, this effect may be reversed in the future. If this is not the case, however, it would have no significant impact on the segment's EBITDA trend.

At € 686.6 million, **segment EBITDA** fell short of the prior-year figure (€ 719.3 million). This decline is mainly due to additional costs for wholesale mobile telecommunications purchases (€ -83.1 million) after the time-limited adjustment mechanism of a wholesale agreement expired at the end of 2018. Contrary to original expectations, the expired arrangement could not be compensated for by a price reduction during the reporting period. However, the corresponding wholesale prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch which it expects to result in binding decisions on the requested permanent price adjustments. On October 24, 2019, 1&1 Drillisch received the draft arbitration report on the first price adjustment proceedings (Price Review 1), initiated with effect from September 2017, which rejected 1&1 Drillisch's application for the retroactive reduction of wholesale prices as of the aforementioned date. The consequence of the draft arbitration report was that the financial figures for 2017 and – at least for the time being – the 2018 and 2019 results of 1&1 Drillisch would not be improved by price reductions. Moreover, the aforementioned price increase remained valid – at least for the time being – due to the expiry of the time-limited contractual adjustment mechanism at the end of 2018. In the final expert opinion received on December 19, 2019, the decision announced in the draft version was confirmed.

EBITDA also contains one-off expenses (€ -3.2 million; prior year: € -25.1 million) for current integration projects, the reduction of regulated retail tariffs for calls and text messages to other EU countries since May 15, 2019 (€-5.6 million), the increase in regulated subscriber line charges as of July 1, 2019 (€ -8.8 million), and initial costs in connection with the planning and preparation of the 5G mobile communications network (€ -5.7 million). Without consideration of the above mentioned effects and an –opposing – positive IFRS 16 effect (€ +8.2 million), **like-for-like EBITDA** would have risen by 5.4% over the previous year.

**Segment EBIT** of € 536.1 million was virtually unaffected by IFRS 16 accounting and also fell short of the prior-year figure (€ 560.6 million). EBIT also includes the above mentioned burdens on earnings as well as one-off expenses.

The number of **employees** in this segment rose by 0.4% to 3,163 in 2019 (prior year: 3,150).

#### Key sales and earnings figures in the Consumer Access segment (in € million)

	2019 (IFRS 16)	2018 (IFRS 15)	
Sales	3,647.5	3,600.8	+ 1.3 %
<b>thereof service sales</b>	<b>2,943.0</b>	<b>2,854.4</b>	<b>+ 3.1 %</b>
thereof hardware sales <sup>(1)</sup>	704.5	746.4	- 5.6 %
EBITDA	686.6 <sup>(2)</sup>	719.3 <sup>(3)</sup>	- 4.5 %
EBIT	536.1 <sup>(2)</sup>	560.6 <sup>(3)</sup>	- 4.4 %

(1) Hardware sales incl. small amount of other sales

(2) Including one-off expenses for current integration projects (EBITDA and EBIT effect: €-3.2 million)

(3) Including one-off expenses for current integration projects (EBITDA and EBIT effect: € -25.1 million)

#### Quarterly development; change over prior-year quarter

in € million	Q1 2019 (IFRS 16)	Q2 2019 (IFRS 16)	Q3 2019 (IFRS 16)	Q4 2019 (IFRS 16)	Q4 2018 (IFRS 15)	Change
Sales	895.4	897.5	916.3	938.3	917.3	+ 2.3%
<b>thereof service sales</b>	<b>720.8</b>	<b>731.0</b>	<b>748.5</b>	<b>742.7</b>	<b>718.0</b>	<b>+ 3.4%</b>
thereof hardware sales <sup>(1)</sup>	174.6	166.5	167.8	195.6	199.3	- 1.9%
EBITDA	168.5 <sup>(2)</sup>	171.9 <sup>(3)</sup>	168.2 <sup>(4)</sup>	178.0 <sup>(5)</sup>	197.5 <sup>(6)</sup>	- 9.9%
EBIT	130.6 <sup>(2)</sup>	134.1 <sup>(3)</sup>	132.0 <sup>(4)</sup>	139.4 <sup>(5)</sup>	159.5 <sup>(6)</sup>	- 12.6%

(1) Hardware sales incl. small amount of other sales

(2) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -2.1 million)

(3) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -0.2 million)

(4) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -1.5 million)

(5) Including one-off expenses for integration projects (EBITDA and EBIT effect: € +0.6 million from reversal of provisions)

(6) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -12.7 million)

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### Multi-period overview<sup>(1)</sup>: Development of key sales and earnings figures

in € million	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	2,414.0	2,781.6	3,600.8	3,647.5
<b>thereof service sales</b>	<b>2,317.9</b>	<b>2,631.0</b>	<b>2,854.4</b>	<b>2,943.0</b>
thereof hardware sales <sup>(2)</sup>	96.1	150.6	746.4	704.5
EBITDA	395.2	541.2 <sup>(3)</sup>	719.3 <sup>(4)</sup>	686.6 <sup>(5)</sup>
EBITDA margin	16.4%	19.5%	20.0%	18.8%
EBIT	384.5	471.4 <sup>(3)</sup>	560.6 <sup>(4)</sup>	536.1 <sup>(5)</sup>
EBIT margin	15.9%	16.9%	15.6%	14.7%

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016–2019

(2) Hardware sales incl. small amount of other sales

(3) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million)

(4) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -25.1 million)

(5) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -3.2 million)

In addition to its operating business, United Internet successfully participated – via 1&1 Drillisch – in the 5G spectrum auction ending on June 12, 2019 and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. The total auction price amounted to around € 1.07 billion. By acquiring these frequencies, the foundation was laid for a successful and permanent positioning of the 1&1 Drillisch Group as Germany's fourth mobile network provider. The Company intends to use this basis to establish a powerful mobile communications network. While the 3.6 GHz spectrum is already available, the acquired frequency blocks in the 2 GHz band will only be usable from January 1, 2026. With this mind, 1&1 Drillisch has leased two frequency blocks of 10 MHz each in the 2.6 GHz band from Telefónica, which will be available until December 31, 2025. This agreement is based on the commitments given by Telefónica as part of the EU's clearance of its merger with E-Plus in 2014. On September 5, 2019, 1&1 Drillisch also signed an agreement with the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Ministry of Finance (BMF) regarding the construction of mobile communication sites in so-called "not-spots". 1&1 Drillisch is thus helping to close existing supply gaps and improve the provision of mobile communications in rural regions by building hundreds of base stations. In return, 1&1 Drillisch benefits from an agreement allowing it to pay for the acquired 5G spectrum in installments. As a result, the license fees which were originally to be paid to the German government in 2019 and 2024 can now be spread over the period up to 2030. The credit line of originally € 2.8 billion arranged to finance the highest bids of the spectrum auction, among other things, was thus no longer required and has been "returned". The agreement with the BMVI and BMF is in line with 1&1 Drillisch's long-term financing strategy, which is geared toward paying the major share of expenses for the construction of its own mobile communications network from current revenue.

On December 31, 2019, 1&1 Drillisch finally exercised – as planned – the first prolongation option for the extension of the term of the MBA MVNO agreement with Telefónica Deutschland ending on June 30, 2020. As a result, the term of the agreement has now been extended until at least June 30, 2025. In combination with another prolongation option, 1&1 Drillisch has thus secured long-term access to the mobile communications network of Telefónica. In addition, Drillisch continues to pursue the build-up of its own high-performance 5G mobile communications network. In order to ensure continuous availability for its end customers during the build-up of its own nationwide network, Drillisch is also currently negotiating the conclusion of a national roaming agreement based on the voluntary commitment of Telefónica Deutschland in connection with the EU clearance decision in relation to the merger with E-Plus in 2014.



National roaming

### Business Access segment

In the fiscal year 2019, the key topics in the Business Access segment were the expansion of the fiber-optic network and the addition of further sites. The network was expanded from 47,013 km in the previous year to a length of 48,489 km while the number of connected sites was increased from 13,998 to 17,145.

**Sales of the Business Access segment** rose by 2.3% in the fiscal year 2019, from € 465.9 million in the previous year to € 476.6 million.

**Segment EBITDA** improved by 102.8%, from € 72.6 million to € 147.2 million. This increase was also attributable to effects from the initial application of IFRS 16 (€ +59.6 million). Without consideration of these effects, **like-for-like EBITDA** rose by 20.7%.

The increases in sales and EBITDA demonstrate that 1&1 Versatel is increasingly succeeding in exploiting the potential of its fiber-optic network to an ever greater extent.

As a result of high depreciation charges in the field of network infrastructure due to customer growth and further Layer2 connections that will only be amortized in subsequent periods, **segment EBIT** amounted to € -51.2 million – compared to € -58.1 million in the previous year – and was virtually unaffected by IFRS 16 accounting.

The number of **employees** in this segment rose by 8.1% to 1,184 in 2019 (prior year: 1,095).

#### Key sales and earnings figures in the Business Access segment

	2019 (IFRS 16)	2018 (IFRS 15)	
Sales	476.6	465.9	+ 2.3 %
EBITDA	147.2	72.6	+ 102.8 %
EBIT	-51.2	-58.1	

#### Quarterly development; change over prior-year quarter

in € million	Q1 2019 (IFRS 16)	Q2 2019 (IFRS 16)	Q3 2019 (IFRS 16)	Q4 2019 (IFRS 16)	Q4 2018 (IFRS 15)	Change
Sales	119.3	115.0	118.2	124.1	131.3	- 5.5%
EBITDA	35.7	34.4	34.9	42.2	29.0	+ 45.5%
EBIT	-13.5	-15.3	-14.2	-8.2	-5.6	

#### Multi-period overview <sup>(1)</sup>: Development of key sales and earnings figures

in € million	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	513.7	447.9	465.9	476.6
EBITDA	124.0	81.5	72.6	147.2
EBITDA margin	24.1%	18.2%	15.6%	30.9%
EBIT	-1.0	-40.2	-58.1	-51.2
EBIT margin	-	-	-	-

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2019



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## Applications segment

The Applications division, with its two segments Consumer Applications and Business Applications, comprises ad-financed or fee-based application products for consumer and business customers. These applications include domains, home pages, web hosting, servers, and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software.

The applications are developed at the Company's own "Internet Factory" or in cooperation with partner firms and operated on around 90,000 servers at the Company's 10 data centers.

In its Applications division, United Internet is also a leading global player – based on domains, customer contracts, and sales revenues – with activities in European countries (Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, and Spain) as well as in North America (Canada, Mexico, and the USA).

Applications are marketed to specific home-user and business-user target groups via the differently positioned brands GMX, mail.com, WEB.DE, IONOS, Arsys, Fasthosts, home.pl, InterNetX, STRATO, united-domains, and World4You. Via the Sedo brand, United Internet also offers customers professional services in the field of active domain management. Free apps are monetized via advertising run by United Internet Media.

### Consumer Applications segment

In the Consumer Applications segment, ad-financed free accounts grew by 590,000 to 37.59 million in the fiscal year 2019. The number of fee-based Consumer Applications accounts (contracts) rose in total by 10,000 to 2.26 million. The total number of Consumer accounts therefore increased by 600,000 to 39.85 million accounts.

#### Development of Consumer Applications accounts in fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Consumer Applications, total accounts	39.85	39.25	+ 0.60
thereof with Premium Mail subscription	1.54	1.54	0.00
thereof with Value-Added subscription	0.72	0.71	+ 0.01
thereof free accounts	37.59	37.00	+ 0.59

#### Development of Consumer Applications accounts in the fourth quarter of 2019

in million	Dec. 31, 2019	Sept. 30, 2019	Change
Consumer Applications, total accounts	39.85	39.26	+ 0.59
thereof with Premium Mail subscription	1.54	1.54	0.00
thereof with Value-Added subscription	0.72	0.72	0.00
thereof free accounts	37.59	37.00	+ 0.59

As already announced in the Annual Financial Statements 2018, activities in the Consumer Applications segment continued to focus on the repositioning and reconstruction of the GMX und WEB.DE portals (incl. the related reduction in ad space), as well as the simultaneous establishment of data-driven business models. Initial successes are already emerging from this transformation, as reflected by a return to more stable user numbers for fee-based Premium Mail accounts, and growth of 590,000 free accounts compared to December 31, 2018. In addition, over 4.1 million users (as of December 31, 2019) had already opted in for the Smart Inbox around nine months after launch. The first data-driven ad marketing products on this basis were presented at DMEXCO in September 2019. As expected, the above mentioned measures had a negative impact on sales and earnings figures in the fiscal year 2019

and are due to gradually have a positive effect as of fiscal year 2020. Nevertheless, there was slight year-on-year growth in sales and EBITDA again in the fourth quarter of 2019.

Against this backdrop, and as expected, **sales in the segment's core business of pay accounts and the marketing of ad space on its own portals** amounted to € 242.2 million in the fiscal year 2019 and thus fell short of the prior-year figure (€ 250.6 million). This decline in sales is mainly attributable to the ongoing repositioning started in the second quarter of 2018 and the associated reduction in ad space (sales effect: € -25.4 million), which only affected sales in the previous year to a limited extent (€ -17.0 million).

At € 12.8 million, **sales in the field of low-margin, third-party marketing** were well below the prior-year figure (€ 23.6 million).

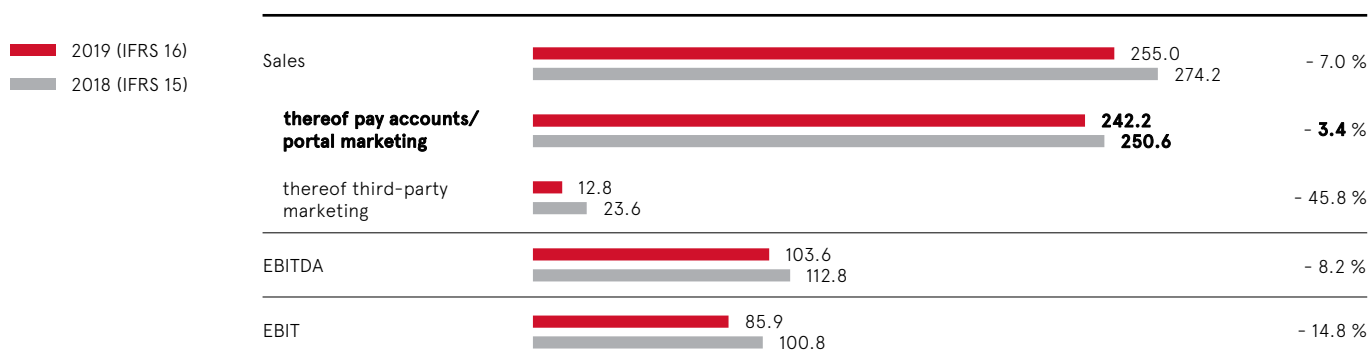
As a result, there was also an overall decline in **total segment sales** from € 274.2 million to € 255.0 million. Without consideration of the ad space reduction and the decline in third-party marketing, **like-for-like sales** remained constant.

Due to the reduction in ad space and investment in the expansion of data-driven business models (EBITDA and EBIT effect: € -24.3 million; prior year: € -15.9 million), **segment EBITDA** of € 103.6 million (prior year: € 112.8 million) was also down on the previous year. Without consideration of the ad space reduction and a positive IFRS 16 effect (€ +4.1 million), **like-for-like EBITDA** declined by -3.8%.

As a result, **segment EBIT** of € 85.9 million was also down on the previous year (prior year: € 100.8 million) and was virtually unaffected by IFRS 16 accounting.

The number of **employees** in this segment rose by 6.3% to 1,007 in 2019 (prior year: 947).

#### Key sales and earnings figures in the Consumer Applications segment (in € million)



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#### Quarterly development; change over prior-year quarter

in € million	Q1 2019 (IFRS 16)	Q2 2019 (IFRS 16)	Q3 2019 (IFRS 16)	Q4 2019 (IFRS 16)	Q4 2018 (IFRS 15)	Change
Sales	60.4	63.4	60.7	70.6	70.3	+ 0.4%
<b>thereof pay accounts/portal marketing</b>	<b>57.9</b>	<b>58.6</b>	<b>57.8</b>	<b>67.9</b>	<b>67.8</b>	<b>+ 0.1%</b>
thereof third-party marketing	2.5	4.8	2.9	2.7	2.5	+ 8.0%
EBITDA	21.4	25.9	23.3	33.1	32.9	+ 0.6%
EBIT	18.3	20.9	19.0	27.7	30.0	- 7.7%

#### Multi-period overview<sup>(1)</sup>: Development of key sales and earnings figures

in € million	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	283.6	284.2	274.2	255.0
<b>thereof pay accounts/portal marketing</b>	<b>269.3</b>	<b>264.6</b>	<b>250.6</b>	<b>242.2</b>
thereof third-party marketing	14.3	19.6	23.6	12.8
EBITDA	127.6	124.0	112.8	103.6
EBITDA margin	45.0%	43.6%	41.1%	40.6%
EBIT	115.0	112.1	100.8	85.9
EBIT margin	40.6%	39.4%	36.8%	33.7%

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016–2019

#### Business Applications segment

In addition to projects aimed at integrating STRATO and ProfitBricks (both acquired in 2017), activities in the Business Applications segment during 2019 focused on driving the rebranding of "1&1 Internet" via the transitional brands "1&1 IONOS" and "IONOS by 1&1" – thus taking a further step toward the targeted IPO. Following a transition phase, the IPO is then to be held in future under the independent "IONOS" brand.

A further focus area in 2019 was once again the sale of additional features to existing customers (e.g., further domains, e-shops, and business apps), as well as the acquisition of high-value customer relationships. Nevertheless, the number of fee-based Business Applications contracts was also raised organically by 90,000 contracts in the fiscal year 2019 to a total of 8.15 million.

#### Development of Business Applications contracts in the fiscal year 2019

in million	Dec. 31, 2019	Dec. 31, 2018	Change
Business Applications, total contracts	8.15	8.06	+ 0.09
thereof in Germany	3.90	3.82	+ 0.08
thereof abroad	4.25	4.24	+ 0.01

#### Development of Business Applications contracts in the fourth quarter of 2019

in million	Dec. 31, 2019	Sept. 30, 2019	Change
Business Applications, total contracts	8.15	8.13	+ 0.02
thereof in Germany	3.90	3.88	+ 0.02
thereof abroad	4.25	4.25	0.00

**Sales of the Business Applications segment** rose by 5.8% in the fiscal year 2019, from € 841.8 million in the previous year to € 890.6 million.

Despite increased marketing expenses (€ -26.7 million, including one-offs for rebranding measures of € -19.2 million (prior year: one-offs for integration projects of € -16.6 million)), **segment EBITDA** of € 306.2 million was 5.4% up on the previous year (€ 290.4 million). The strong increase in marketing expenses was opposed by positive effects from the initial application of IFRS 16 (€ +13.7 million). Without consideration of these effects, **like-for-like EBITDA** grew by 4.0%.

EBIT also includes the above mentioned burdens on earnings and one-offs. In addition, there was an increase in depreciation (due in part to the acquisition of World4You and the expansion of the server parks). Against this backdrop, **segment EBIT** of € 201.4 million was slightly below the prior-year figure (€ 202.1 million) and was virtually unaffected by IFRS 16 accounting. The above segment EBIT figure does not include a one-off effect from trademark writeups on the "STRATO" brand (€ +19.4 million).

The number of **employees** in this segment rose by 1.8% to 3,416 (prior year: 3,355).

#### Key sales and earnings figures in the Business Applications segment (in € million)

	2019 (IFRS 16)	2018 (IFRS 15)	
Sales	890.6	841.8	+ 5.8 %
EBITDA	306.2 <sup>(1)</sup>	290.4 <sup>(2)</sup>	+ 5.4 %
EBIT	201.4 <sup>(1)</sup>	202.1 <sup>(2)</sup>	- 0.3 %

(1) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -19.2 million); excluding trademark writeups for STRATO (EBIT effect: € +19.4 million)

(2) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -16.6 million)

#### Quarterly development; change over prior-year quarter

in € million	Q1 2019 (IFRS 16)	Q2 2019 (IFRS 16)	Q3 2019 (IFRS 16)	Q4 2019 (IFRS 16)	Q4 2018 (IFRS 15)	Change
Sales	220.2	223.1	222.4	224.9	207.1	+ 8.6%
EBITDA	73.7 <sup>(1)</sup>	74.6 <sup>(2)</sup>	88.5 <sup>(3)</sup>	69.4 <sup>(4)</sup>	56.5 <sup>(5)</sup>	+ 22.8%
EBIT	45.7 <sup>(1)</sup>	49.5 <sup>(2)</sup>	61.6 <sup>(3)</sup>	44.6 <sup>(4)</sup>	33.7 <sup>(5)</sup>	+ 32.3%

(1) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -7.0 million)

(2) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -6.7 million)

(3) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -1.4 million)

(4) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -4.1 million); excluding trademark writeups STRATO (EBIT effect: € +19.4 million)

(5) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -7.8 million)

#### Multi-period overview<sup>(1)</sup>: Development of key sales and earnings figures

in € million	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	638.9	762.1	841.8	890.6
EBITDA	202.5	247.3 <sup>(2)</sup>	290.4 <sup>(3)</sup>	306.2 <sup>(4)</sup>
EBITDA margin	31.7%	32.4%	34.5%	34.4%
EBIT	159.2	175.4 <sup>(2)</sup>	202.1 <sup>(3)</sup>	201.4 <sup>(4)</sup>
EBIT margin	24.9%	23.0%	24.0%	22.6%

(1) As the new segmentation was only introduced in the course of preparing the annual financial statements for 2018, the usual 5-year multi-period overview is limited to the financial years 2016-2019

(2) Without extraordinary income from revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), without internally allocated M&A costs (EBITDA and EBIT effect: € -8.7 million) and without trademark writedowns STRATO (EBIT effect: € -20.7 million)

(3) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -16.6 million)

(4) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -19.2 million); excluding trademark writeups STRATO (EBIT effect: € +19.4 million)

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## Group investments

United Internet AG continued to optimize its investment portfolio in the fiscal year 2019. In the course of these optimization measures, shares in virtual minds and Rocket Internet were sold.

### Significant changes in investments

#### Sale of shares in virtual minds

In the second quarter of 2019, United Internet sold its shares in **virtual minds AG** (share of voting rights as of December 31, 2018: 25.10%) as the company no longer played a role in the strategic investment portfolio. Already prepared in the fiscal year 2018, the sale returned an amount of € 21.5 million.

#### Sale of shares in Rocket Internet

In the fiscal year 2019, United Internet sold its shares in Rocket Internet SE in several steps (share of voting rights as of December 31, 2018: 9.0%). Specifically, United Internet Investments Holding AG & Co. KG sold 2,500,000 shares at a price of € 25.00 per share in July 2019 and, in the fourth quarter of 2019, accepted the public share buyback offer of Rocket Internet amounting to 15,076,729 shares for the remaining 11,219,841 Rocket Internet shares held against payment of the offer price of € 21.50 per share. Due to the oversubscription of its buyback offer, Rocket Internet was only able to consider the acceptance declaration of United Internet Investments Holding for a total of 8,764,483 shares. The 2,455,358 Rocket Internet shares still held after the completion of the share buyback offer were acquired by Mr. Oliver Samwer at the end of 2019 as agreed at the offer price.

In addition to its (fully consolidated) core operating companies, United Internet also held investments in the following companies as of December 31, 2019.

### Minority holdings in listed companies

In February 2016, United Internet announced its investment in **Tele Columbus AG**. As of December 31, 2019, the share of voting rights amounted to 29.90% (prior year: 28.52%). The Company's market capitalization as of December 31, 2019 was around € 357 million in total (prior year: € 370 million).

### Minority holdings in partner companies

In July 2013, United Internet acquired a stake in **Open-Xchange AG** (main activity: e-mail and collaboration solutions). United Internet has already been working successfully with the company for many years in its Applications business. As of December 31, 2019, United Internet's share of voting rights amounted to 25.39%. Open-Xchange closed its fiscal year 2019 with a negative result.

In February 2014, United Internet acquired a stake of 25.10% in **ePages GmbH** (main activity: e-shop solutions). In addition to the equity stake, ePages and Group subsidiary 1&1 IONOS SE cooperate in the field of e-shop solutions. As of December 31, 2019, United Internet's share of voting rights amounted to 25.01%. ePages posted a positive result in its fiscal year 2019.

In April 2014, United Internet acquired a stake in **uberall GmbH** (main activity: online listings). In addition, uberall and 1&1 IONOS SE agreed a long-term cooperation contract for the use of uberall solutions. As of December 31, 2019, the share of voting rights held by United Internet amounted to 27.42%. uberall is still in the start-up phase and posted a negative result in its fiscal year 2019.

In April 2017, United Internet acquired a stake in **rankingCoach International GmbH** (main activity: online marketing solutions). In addition to the equity stake, rankingCoach and 1&1 IONOS SE signed a long-term cooperation agreement for 1&1 IONOS SE to use the online marketing solutions of rankingCoach as part of its hosting and cloud products marketed in Europe and North America. As of December 31, 2019, the share of voting rights amounted to 30.70%. rankingCoach is still in the start-up phase and posted a negative result in its fiscal year 2019.

Following the contribution of affilinet GmbH to AWIN in October 2017, United Internet also holds a stake in **AWIN AG** (main activity: affiliate marketing). Several United Internet subsidiaries are currently working together with AWIN and using the company's affiliate network as part of their marketing mix. As of December 31, 2019, United Internet's share of voting rights amounted to 20.00%. AWIN once again closed its fiscal year 2019 with a strongly positive result.

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## Share and dividend

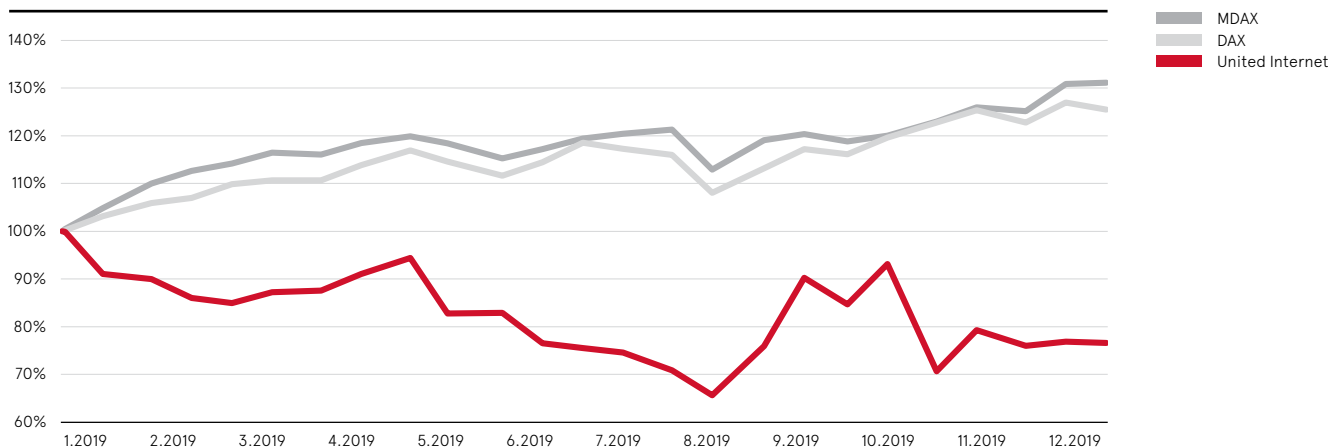
### Share

The United Internet share decreased in value during fiscal year 2019: the share price fell by 23.4% to € 29.28 as of December 31, 2019 (December 31, 2018: € 38.20). The share thus performed much worse than its comparative indices, which rose year on year (DAX + 25.5%; MDAX + 31.2%).



DAX, MDAX

#### Share performance 2019, indexed



There was a corresponding decline in the **market capitalization** of United Internet AG from around € 7.83 billion in the previous year to around € 6.00 billion as of December 31, 2019.

In fiscal year 2019, average daily trading via the XETRA electronic computer trading system amounted to around 523,000 shares (prior year: 405,000) with an average value of € 16.4 million (prior year: € 19.3 million).

#### Multi-period overview: share performance (in €; all stock exchange figures are based on Xetra trading)

	2015	2016	2017	2018	2019
Year-end	50.91	37.10	57.34	38.20	29.28
Performance	+ 35.8%	-27.1%	+ 54.6%	-33.4%	-23.4%
Year-high	51.94	49.89	59.17	59.80	40.42
Year-low	36.17	34.42	37.01	34.14	24.21
Average daily turnover	15,279,407	16,301,156	19,666,155	19,261,114	16,415,087
Average daily turnover (units)	354,904	407,372	418,771	404,956	522,809
Shares at year-end (units)	205 million	205 million	205 million	205 million	205 million
Market value at year-end	10.44 billion	7.61 billion	11.75 billion	7.83 billion	6.00 billion
EPS <sup>(1)</sup>	1.80	0.86	3.06	0.94	2.13
Adjusted EPS <sup>(2)</sup>	1.73	2.11	2.02	1.96	1.99

(1) EPS from continued operations

(2) EPS from continued operations and without special items: 2015 without effects from sale of Goldbach shares and part of stake in virtual minds (EPS effect: € +0.07); 2016 without negative one-off effect from impairment (EPS effect: € -1.25); 2017 without net positive one-off effects from valuation topics, transaction and restructuring costs, writedowns on brands, writedowns on financial assets / Rocket impairment charges, financing costs and one-off tax effects (EPS effect: € +1.04); 2018 without negative effect from Tele Columbus impairment charges (EPS effect: € -1.02); 2019 without positive effects from reversal of impairments Tele Columbus (EPS effect: € +0.09) and trademark writeups STRATO (EPS effect: € +0.05)



TecDAX

### Share data

Share type	Registered common stock
Notional share of capital stock	1.00 €
German Securities Identification Number (WKN)	508903
International Securities Identification Number (ISIN)	DE0005089031
Ticker symbol Xetra	UTDI
Reuters ticker symbol	UTDI.DE
Bloomberg ticker symbol	UTDI.GR
Segment	Prime Standard
Index	MDAX, TecDAX
Sector	Software

### Shareholder structure

Shareholder	Shareholding
Ralph Dommermuth - Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft (39.27%) - RD Holding GmbH & Co. KG (0.98%)	40.24%
United Internet (treasury stock)	8.46%
Allianz Global Investors	5.52%
Flossbach von Storch	5.01%
BlackRock	3.48%
Free float	37.29%

As of December 31, 2019; figures based on the last respective notification of voting rights

## Dividend

United Internet's **dividend policy** aims to pay a dividend to shareholders of approx. 20-40% of adjusted consolidated net income after minority interests (adjusted consolidated net income attributable to the "shareholders of United Internet AG" – according to the consolidated statement of comprehensive income), provided that funds are not needed for further Company development.

On January 24, 2019, the Group subsidiary 1&1 Drillisch AG announced that it intended to apply to the German Federal Network Agency ("Bundesnetzagentur") for admission to take part in the auction on the allocation of mobile frequencies ("5G spectrum auction") and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. The applicant was Drillisch Netz AG, a wholly-owned subsidiary of 1&1 Drillisch AG. Following admission by the Bundesnetzagentur on February 25, 2019, the 5G spectrum auction started on March 19, 2019.

Against the background of the 5G spectrum auction still ongoing at the time, and the necessary additional investments in the event of a successful acquisition of spectrum at the auction, the Management Board and Supervisory Board announced on March 27, 2019 that the dividend proposal at the Annual Shareholders' Meeting on May 23, 2019 would take into account the outcome of the ongoing auction on the allocation of mobile frequencies. Accordingly, a dividend of € 0.05 per United Internet share was proposed for the event that United Internet's subsidiary 1&1 Drillisch AG had successfully acquired spectrum at the auction by May 20, 2019.

As of May 20, 2019, the 5G spectrum auction had still not ended and – despite its historically long duration – it was still unclear on expiry of the deadline (May 20, 2019) whether 1&1 Drillisch AG would acquire spectrum at the auction.



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As the Company had already announced on May 7, 2019, in this event the Management Board and Supervisory Board resolved and announced on May 20, 2019 to make a dividend proposal of € 0.05 per share at the Annual Shareholders' Meeting. This precautionary measure was taken to ensure that the necessary additional investments could be made if 1&1 Drillisch was able to successfully bid for frequencies before the end of the 5G spectrum auction. The dividend proposal was based on the minimum dividend as prescribed by section 254 (1) of the German Stock Corporation Act (AktG).



AktG

At the Company's Annual Shareholders' Meeting on May 23, 2019, the proposal of the Management Board and Supervisory Board to pay a **dividend** of € 0.05 (prior year: € 0.85) per share for the fiscal year 2018 was approved with a majority of 99.8% of votes cast. A total dividend payment of € 10.0 million (prior year: € 170.0 million) was made on May 28, 2019. The payout ratio was thus 2.5% of the adjusted consolidated net income after minority interests for 2018 (€ 392.6 million).

For the fiscal year 2019, the Management Board of United Internet AG will propose to the Supervisory Board a dividend of € 0.50 per share (prior year: € 0.05). The Management Board and Supervisory Board will discuss this **dividend proposal** at the Supervisory Board meeting on March 25, 2020 (and thus after the preparation deadline for this Management Report). The Annual Shareholders' Meeting of United Internet AG 2020 will then vote on whether to adopt the joint proposal of the Management Board and Supervisory Board. In view of the corona crisis, the exact date of the Annual Shareholders' Meeting originally planned for May 20, 2020 is currently still open.

On the basis of around 187.7 million shares with dividend entitlement (as of December 31, 2019), the total dividend payment for fiscal year 2019 would amount to € 93.9 million. The dividend payout ratio would therefore amount to 23.7% of adjusted consolidated net income after minority interests for 2019 (€ 396.4 million) and thus lie – in view of the investments due to be made in the Company's own mobile communications network – within the lower range targeted by its dividend policy. Based on the closing price of the United Internet share on December 31, 2019, the dividend yield would be 1.7%.

#### Multi-period overview: dividend development

	For 2015	For 2016	For 2017	For 2018	For 2019 <sup>(1)</sup>
Dividend per share (in €)	0.70	0.80	0.85	0.05	0.50
Dividend payment (in € million)	142.9	161.3	169.9	10.0	93.9
Payout ratio	39.0%	90.0%	26.2%	5.3%	22.2%
Adjusted payout ratio <sup>(2)</sup>	39.0%	37.2%	42.1%	2.5%	23.7%
Dividend yield <sup>(3)</sup>	1.4%	2.2%	1.5%	0.1%	1.7%

(1) Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2020

(2) Without special items: writedowns on financial assets / Rocket impairment charges (2016); net positive one-off effects from non-cash-effective valuation topics, transaction and restructuring costs, writedowns on brands, writedowns on financial assets / Rocket impairment charges, financing costs, one-off tax effects, and discontinued operations (2017); impairment charges on Tele Columbus shares (2018); reversal of impairment charges on Tele Columbus shares and trademark writeups on STRATO (2019)

(3) As of: December 31

## Annual Shareholders' Meeting 2019

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 23, 2019. A total of 81.11% of capital stock (or 83.02% of capital stock less treasury shares) was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

## Capital stock and treasury shares

On August 14, 2019, the Management Board of United Internet AG resolved to launch a **new share buyback program**. The decision was approved by the Supervisory Board. United Internet AG thus utilized the authorization issued by the Company's Annual Shareholders' Meeting of May 18, 2017 to buy back treasury shares representing up to 10% of the Company's capital stock at the time of the resolution or, if the amount is lower, at the time of exercising the authorization. The authorization was issued for the period up to September 18, 2020 and had not been previously utilized.

In the course of the new share buyback program, up to six million Company shares (corresponding to approx. 2.93% of capital stock at the time) were to be bought back. The volume of the share buyback program amounted to € 192.0 million in total. The program was launched on August 16, 2019 and is to be completed by March 31, 2020 at the latest by buying shares back via the stock exchange. In the course of this share buyback program, which was prematurely ended with effect from the end of December 9, 2019, a total of 3,919,999 treasury shares were acquired at an average share price of € 29.38 and with a total volume of € 115.2 million.

At the same time as the termination of the aforementioned share buyback program, the Company's Management Board resolved – with the approval of the Supervisory Board – to make a **public share buyback offer** to the shareholders of United Internet AG for a total of up to 9,000,000 shares at a price per share of € 29.65. Concurrently, Rocket Internet SE irrevocably undertook to accept United Internet AG's public share buyback offer for 8,135,804 shares held by Rocket Internet SE. In the event of an oversubscription of the Company's public share buyback offer, a proportional allocation was to be made to Rocket Internet SE. With its public share buyback offer, United Internet AG once again made use of the authorization granted by the Annual Shareholders' Meeting of May 18, 2017. In the course of the public share buyback offer of United Internet AG, a total of 8,715,524 shares were tendered to the Company by the end of the acceptance period at a price of € 29.65 and with a total volume of € 258.4 million.

As of December 31, 2019, United Internet held 17,338,513 **treasury shares** (December 31, 2018: 4,702,990). This corresponded to approx. 8.46% of capital stock at the time of € 205,000,000 (December 31, 2018: 2.29%).

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## Investor Relations

In the fiscal year 2019, the Management Board and Investor Relations department of United Internet AG once again provided institutional and private investors with regular and comprehensive information. It was provided to the capital market via the quarterly statements, half-year financial report and annual report, press and analyst conferences, as well as via various webcasts. The Company's management and Investor Relations department explained the Company's strategy and financial results in numerous one-on-one discussions at the Company's offices in Montabaur, as well as at roadshows and conferences in Germany, France, UK, Spain, Switzerland, and the USA. Over 20 national and international investment banks are in contact with the Company's Investor Relations department and publish regular studies and comments on the Company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the Company around the clock via the Company's website ([www.united-internet.de](http://www.united-internet.de)).



[www.united-internet.de](http://www.united-internet.de)

## Liquidity and finance

The Group's financial strategy is primarily geared to the strategic business plans of its operating business units. In order to provide sufficient flexibility for further growth, United Internet therefore constantly monitors trends in funding opportunities arising on the financial markets. Various options for funding and potential for optimizing existing financial instruments are regularly reviewed. The main focus is on ensuring sufficient liquidity and the financial independence of the Group at all times. In addition to its own financial strength, the Group maintains sufficient liquidity reserves with core banks. The flexible use of these liquidity reserves enables efficient management of Group liquidity, optimal debt management to reduce interest costs, and the avoidance of negative interest on deposits.

As of December 31, 2019, the Group's bank liabilities amounted to € 1,738.4 million (prior year: € 1,939.1 million) and mainly comprise promissory note loans and syndicated loans.

### Promissory note loans

At the end of the reporting period on December 31, 2019, total liabilities from promissory note loans with maximum terms until March 2025 amounted to € 835.5 million (prior year: € 835.5 million).

### Syndicated loan facilities & syndicated loans

The Company has made use of a contractually agreed prolongation option and extended the term of its revolving syndicated loan facility totaling € 810 million agreed on December 21, 2018, by one year (originally five years) from January 2024 to January 2025.

As of December 31, 2019, € 700 million of the revolving syndicated loan facility had been drawn (prior year: € 700 million). As a result, funds of € 110 million (prior year: € 110 million) were still available to be drawn from the credit facility.

At the end of the reporting period on December 31, 2019, a syndicated loan totaling € 200 million redeemable on maturity with a term ending in August 2021 was also outstanding (prior year: € 200 million). The syndicated loan totaling € 200 million with a term until August 2019 was redeemed on schedule from current cash flow. Together with the above mentioned drawings from the revolving syndicated loan facility, total liabilities from syndicated loan facilities and syndicated loans outstanding as of the reporting period amounted to € 900 million.

In addition, a bilateral credit facility of € 200 million is available to the Company. The facility has been granted until further notice. No drawings had been made from the credit facility as at the end of the reporting period.

As of December 31, 2019, United Internet therefore had free credit lines totaling € 310 million.

The funding arranged by 1&1 Drillisch AG to participate in the 5G spectrum auction was returned in full due to an agreement made with the German government in September 2019 to pay for the acquired frequencies in installments.

Further disclosures on the various financial instruments, drawings, interest rates, and maturities are provided under point 31 of the Notes to the Consolidated Financial Statements.



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## 2.3 Position of the Group

### Earnings position

In the fiscal year 2019, the total number of **fee-based customer contracts in the United Internet Group** was raised by 890,000 to 24.74 million contracts. Ad-financed free accounts rose by 590,000 to 37.59 million.

**Consolidated sales** grew by 1.8% in the fiscal year 2019, from € 5,102.9 million in the previous year to € 5,194.1 million. In the course of its ongoing integration measures in the Consumer Access segment, United Internet adjusted the disclosed sales figures of a Group subsidiary of 1&1 Drillisch acquired in 2017, which previously recognized revenue-reducing effects as cost of sales, and brought it in line with standard Group disclosure methods in the fourth quarter of 2019. To aid comparability, revenue and cost of sales figures for the fiscal year 2018 were also adjusted. As a result, disclosed revenue and cost of sales figures for the previous year in the Consumer Access segment and at Group level were both reduced by € 27.9 million. This merely resulted in a reclassification between these two items in the statement of comprehensive income. The adjustment has no effect on the key earnings figures (EBITDA and EBIT) of the segment or the Group.

This at first glance only moderate growth was due in particular to fluctuations during the year in (low-margin) hardware sales (€ -41.9 million compared to the previous year) in the Consumer Access segment. Sales were also influenced by the ad space reduction initiated in April 2018 as part of a repositioning of the Consumer Applications segment (€ -25.4 million; prior year: € -17.0 million).

**Sales outside Germany** improved by 8.0% from € 401.0 million to € 433.0 million.

Due to additional costs for wholesale purchases, the **cost of sales** rose from € 3,350.1 million (65.7% of sales) in the previous year to € 3,427.0 million (66.0% of sales). There was a corresponding decrease in the **gross margin** from 34.3% to 34.0%. This resulted in a 0.8% increase in **gross profit** from € 1,752.8 million to € 1,767.1 million.

Largely as a result of increased marketing expenses in connection with rebranding in the Business Applications segment, there was a disproportionate rise in **sales and marketing expenses** from € 678.2 million (13.3% of sales) in the previous year to € 741.8 million (14.3% of sales). By contrast, **administrative expenses** fell from € 218.9 million in the previous year (4.3% of sales) to € 205.9 million (4.0% of sales).

#### Multi-period overview: Development of key cost items

in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Cost of sales	2,437.2	2,461.8	2,691.1	3,350.1	3,427.0
Cost of sales ratio	65.6%	64.6%	64.0%	65.7%	66.0%
Gross margin	34.4%	35.4%	36.0%	34.3%	34.0%
Selling expenses	557.2	521.2	638.3	678.2	741.8
Selling expenses ratio	15.0%	13.7%	15.2%	13.3%	14.3%
Administrative expenses	182.2	182.9	185.1	218.9	205.9
Administrative expenses ratio	4.9%	4.8%	4.4%	4.3%	4.0%

**Other operating expenses** fell from € 24.0 million to € 17.0 million, while **other operating income** rose from € 77.9 million to € 102.9 million. **Impairment losses on receivables and contract assets** amounted to € 94.2 million (prior year: € 98.5 million).

**Consolidated EBITDA** was positively influenced by the initial application of IFRS 16 (€ +87.0 million) in the fiscal year 2019. In addition to the one-off expenses already announced (€ -3.2 million; prior year: € -25.1 million), the regulatory decisions to reduce retail tariffs for calls and text messages to other EU countries as of May 15, 2019 (€ -5.6 million) and to increase subscriber line charges as of July 1, 2019 (€ -8.8 million), as well as initial costs in connection with the planning and preparation of the 5G mobile communications network (€ -5.7 million), there were opposing effects in the Consumer Access segment in particular from additional costs (€ -83.1 million) for wholesale purchases after the time-limited adjustment mechanism of a wholesale agreement expired at the end of 2018. Contrary to original expectations, the expired arrangement could not be compensated for by a price reduction during the reporting period. However, the corresponding wholesale prices are the subject of several arbitration proceedings initiated by 1&1 Drillisch which it expects to result in binding decisions on the requested permanent price adjustments. On October 24, 2019, 1&1 Drillisch received the draft arbitration report on the first price adjustment proceedings (Price Review 1), initiated with effect from September 2017, which rejected 1&1 Drillisch's application for the retroactive reduction of wholesale prices as of this date. The consequence of the draft arbitration report was that the financial figures for 2017 and – at least for the time being – the 2018 and 2019 results of 1&1 Drillisch would not be improved by price reductions. Moreover, the aforementioned price increase remained valid – at least for the time being – due to the expiry of the time-limited contractual adjustment mechanism at the end of 2018. In the final expert opinion received on December 19, 2019, the decision announced in the draft version was confirmed.

Apart from these additional costs, future investments (implemented as planned), such as the repositioning of the Consumer Applications segment (€ -24.3 million; prior year: € -15.9 million) and increased marketing expenses in the Business Applications segment (€ -26.7 million), had an initial negative effect on earnings. Increased marketing expenses included a one-off amount of € -19.2 million for rebranding measures (prior year: one-offs of € -16.6 million for integration projects). All in all, EBITDA rose by 5.4% in fiscal year 2019, from € 1,201.3 million to € 1,265.7 million (according to IFRS 16). Like-for-like growth according to IFRS 15 amounted to -1.9%.

Key earnings figures "below EBITDA" were influenced by various **special items** in the fiscal years 2018 and 2019.

- The special item "**Impairment charges Tele Columbus 2018**" results from the impairment of shares in Tele Columbus AG held by United Internet and disclosed in the result from associated companies. In the fiscal year 2018, it had a negative effect on EBT, net income and EPS.
- The special item "**Impairment reversals Tele Columbus 2019**" results from the impairment reversal of shares in Tele Columbus AG held by United Internet and disclosed in the result from associated companies. In the fiscal year 2019, it had a positive effect on EBT, net income and EPS.
- The special item "**Trademark writeups STRATO 2019**" results from trademark writeups on the STRATO brand and had a positive effect on EBIT, EBT, net income and EPS in the fiscal year 2019.

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### Reconciliation of EBIT, EBT, net income and EPS with figures adjusted for special items

in € million; EPS in €

	Fiscal year 2019	Fiscal year 2018
<b>EBIT</b>	<b>811.1</b>	<b>811.0</b>
Trademark writeups STRATO 2019	- 19.4	
<b>EBIT before special items (operating)</b>	<b>791.7</b>	<b>811.0</b>
<b>EBT</b>	<b>779.7</b>	<b>561.9</b>
Trademark writeups STRATO 2019	- 19.4	
Impairment reversals Tele Columbus 2019	- 18.5	
Impairment charges Tele Columbus 2018		+ 203.8
<b>EBT before special items (operating)</b>	<b>741.8</b>	<b>765.7</b>
<b>Net income</b>	<b>539.0</b>	<b>312.1</b>
Trademark writeups STRATO 2019	- 13.5	
Impairment reversals Tele Columbus 2019	- 18.5	
Impairment charges Tele Columbus 2018		+ 203.8
<b>Net income before special items (operating)</b>	<b>507.0</b>	<b>515.9</b>
<b>Net income "Shareholders United Internet"</b>	<b>423.9</b>	<b>188.8</b>
Trademark writeups STRATO 2019	-9.0	
Impairment reversals Tele Columbus 2019	-18.5	
Impairment charges Tele Columbus 2018		+ 203.8
<b>Net income "Shareholders United Internet" before special items (operating)</b>	<b>396.4</b>	<b>392.6</b>
<b>EPS</b>	<b>2.13</b>	<b>0.94</b>
Trademark writeups STRATO 2019	- 0.05	
Impairment reversals Tele Columbus 2019	- 0.09	
Impairment charges Tele Columbus 2018		+ 1.02
<b>EPS before special items (operating)</b>	<b>1.99</b>	<b>1.96</b>

Without consideration of the above mentioned opposing special items, the key performance measures EBIT, EBT, net income and EPS for the fiscal year 2019 developed as follows:

Due to the above mentioned burdens on earnings and one-offs, **consolidated operating EBIT** of € 791.7 million was down on the previous year (€ 811.0 million) and virtually unaffected by IFRS 16 accounting.

The same applies to **operating earnings before taxes (EBT)** and **operating net income**, which were also below the like-for-like figures of the previous year at € 741.8 million (prior year: € 765.7 million) and € 507.0 million (prior year: € 515.9 million), respectively.

By contrast, **operating net income attributable to shareholders of United Internet AG** improved from € 392.6 million to € 396.4 million.

There was a corresponding increase in **operating EPS** from € 1.96 to € 1.99.

### Key sales and earnings figures of the Group (in € million)

	2019 (IFRS 16)	2018 (IFRS 15)	
Sales	5,194.1	5,102.9	+ 1.8 %
EBITDA	1,265.7 <sup>(1)</sup>	1,201.3 <sup>(2)</sup>	+ 5.4 %
EBIT	791.7 <sup>(1)</sup>	811.0 <sup>(2)</sup>	-2.4 %

(1) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -22.4 million); excluding trademark writeups for STRATO (EBIT effect: € +19.4 million)

(2) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -41.7 million)

### Quarterly development; change on prior-year quarter

in € million	Q1 2019 (IFRS 16)	Q2 2019 (IFRS 16)	Q3 2019 (IFRS 16)	Q4 2019 (IFRS 16)	Q4 2018 (IFRS 15)	Change
Sales	1,276.5	1,280.0	1,298.5	1,339.1	1,302.5	+ 2.8%
EBITDA	299.7 <sup>(1)</sup>	330.3 <sup>(2)</sup>	314.0 <sup>(3)</sup>	321.7 <sup>(4)</sup>	326.7 <sup>(5)</sup>	- 1.5%
EBIT	181.1 <sup>(1)</sup>	209.7 <sup>(2)</sup>	196.8 <sup>(3)</sup>	204.1 <sup>(4)</sup>	228.2 <sup>(5)</sup>	- 10.6%

(1) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -9.1 million)

(2) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -6.9 million)

(3) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -2.9 million)

(4) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -3.5 million); excluding trademark writeups STRATO (EBIT effect: € +19.4 million)

(5) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -20.5 million)

### Multi-period overview: development of key sales and earnings figures

in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	3,715.7	3,808.1	4,206.3	5,102.9	5,194.1
EBITDA	757.2 <sup>(1)</sup>	835.4	979.6 <sup>(2)</sup>	1,201.3 <sup>(3)</sup>	1,265.7 <sup>(4)</sup>
EBITDA margin	20.4%	21.9%	23.3%	23.5%	24.4%
EBIT	541.7 <sup>(1)</sup>	642.7	704.0 <sup>(2)</sup>	811.0 <sup>(3)</sup>	791.7 <sup>(4)</sup>
EBIT margin	14.6%	16.9%	16.7%	15.9%	15.2%

(1) Without one-off income from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)

(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), as well as without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million) and without trademark writedowns STRATO (EBIT effect: € -20.7 million)

(3) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -41.7 million)

(4) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -22.4 million); excluding trademark writeups STRATO (EBIT effect: € +19.4 million)

## Group's financial position

Thanks to the positive trend in earnings, **operative cash flow** rose from € 889.5 million in the previous year to € 935.0 million in the fiscal year 2019.

**Cash flow from operating activities** in the fiscal year 2019 rose strongly from € 482.3 million in the previous year to € 828.9 million. This increase was mainly due to high prepayments to pre-service providers and a simultaneously strong increase in inventories in the previous year.

**Cash flow from investing activities** amounted to € 87.2 million in the reporting period (prior year: € -350.9 million). This resulted mainly from disbursements of € 252.8 million for capital expenditures (prior year: € 271.8 million). There was an opposing effect in particular from the sale of associated companies (mainly from concluding the sale of virtual minds shares already prepared in 2018) amounting



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to € 35.6 million (of which gain on disposal: € 21.5 million) as well as from the sale of financial assets (mainly Rocket Internet shares) totaling € 303.7 million. In addition to the aforementioned capital expenditures, cash flow from investing activities in the previous year was also shaped by the purchase of shares in affiliated companies (World4You), as well as a subsequent cash outflow from the sale of yourfone Shop GmbH.

United Internet's free cash flow is defined as cash flow from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant, and equipment. As a result of the strong increase in cash flow from operating activities and lower capital expenditures, **free cash flow** rose from € 254.6 million (without consideration of a tax payment of € 34.7 million from fiscal year 2016) to € 607.0 million (without consideration of tax payments from fiscal year 2017 and previous years of € 22.1 million). With the initial application of the accounting standard IFRS 16, the redemption share of lease liabilities is disclosed in cash flow from financing activities as of fiscal year 2019. After deducting the cash flow item "Redemption of finance lease liabilities and rights of use" (€ -111.0 million), free cash flow amounted to € 496.0 million.

**Cash flow from financing activities** in the fiscal year 2019 was dominated by the purchase of treasury shares totaling € 373.6 million (prior year: € 0), net loan repayments totaling € 200.8 million (prior year: € 22.9 million), the redemption of frequency liabilities totaling € 61.3 million (prior year: € 0), the redemption of lease liabilities totaling € 111.0 million (prior year: € 25.9 million), which increased strongly as a result of IFRS 16 accounting, the dividend payment of United Internet AG totaling € 10.0 million (prior year: € 170 million), dividend payments to minority shareholders (especially the dividend of 1&1 Drillisch AG) totaling € 2.6 million (prior year: € 75.4 million), and payments to minority shareholders (especially in connection with the increased stake in 1&1 Drillisch) totaling € 98.4 million (prior year: € 15.4 million).

**Cash and cash equivalents** amounted to € 117.6 million as of December 31, 2019, compared to € 58.1 million on the same date in the previous year.

#### Multi-period overview: Development of key cash flow figures

in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Operative cash flow	554.5	644.2	656.4	889.5	935.0
Cash flow from operating activities	533.2 <sup>(2)</sup>	587.0 <sup>(3)</sup>	655.7 <sup>(4)</sup>	482.3	828.9
Cash flow from investing activities	-766.0	-422.7	-897.7	-350.9	87.2
Free cash flow <sup>(1)</sup>	300.5 <sup>(2)</sup>	423.0 <sup>(3)</sup>	424.4 <sup>(4)</sup>	254.6 <sup>(5)</sup>	496.0 <sup>(6)</sup>
Cash flow from financing activities	23.1	-43.2	312.2	-312.6	-857.6
Cash and cash equivalents on December 31	84.3	101.7	238.5	58.1	117.6

(1) Free cash flow is defined as cash flow from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment

(2) 2015 without consideration of a capital gains tax refund (net: € 242.7 million) and including an income tax payment originally planned for the fourth quarter of 2015 (around € 100.0 million)

(3) 2016 without consideration of the aforementioned income tax payment (€ 100.0 million)

(4) 2017 without consideration of a capital gains tax refund originally planned for the fourth quarter of 2016 (€ 70.3 million)

(5) 2018 without consideration of a tax payment from fiscal year 2016 (€ 34.7 million)

(6) 2019 without consideration of tax payments from fiscal year 2017 and previous years (€ -22.1 million); incl. the repayment portion of lease liabilities (€ 111.0 million), which have been reported under cash flow from financing activities since the financial year 2019 (IFRS 16)

## Group's asset position

In the fiscal year 2018, United Internet carried out a detailed **impact assessment on accounting pursuant to IFRS 16**. In summary, the effects as of January 1, 2019 from the initial application of IFRS 16 with respect to lessee contracts previously accounted for as operating leases are as follows: the Group's balance sheet total increased by approximately € 275 million as of January 1, 2019. The capitalization of right-of-use assets amounting to approximately € 275 million is opposed by the recognition of lease liabilities in almost the same amount, which were offset against deferred prepayments for leases.

The **balance sheet total** rose in total from € 8.174 billion as of December 31, 2018 to € 9.086 billion on December 31, 2019. This increase is mainly due to the initial **recognition of the acquired 5G spectrum**, resulting in intangible assets of € 1,070.2 million and other financial liabilities of € 1,008.9 million as of December 31, 2019. Under IFRS regulations, intangible assets resulting from the acquisition are to be carried at cost and other financial liabilities at fair value.

**Current assets** increased slightly from € 1,364.7 million as of December 31, 2018 to € 1,371.2 million on December 31, 2019. **Cash and cash equivalents** disclosed under current assets increased from € 58.1 million to € 117.6 million due to closing-date effects. **Trade accounts receivable** fell from € 351.4 million to € 346.0 million. The item **contract assets** rose from € 427.0 million to € 507.8 million and includes current claims against customers due to accelerated revenue recognition from the application of IFRS 15. **Inventories** decreased from € 89.6 million to € 79.3 million. **Current prepaid expenses** rose from € 224.8 million to € 237.0 million and mainly comprise the short-term portion of expenses relating to contract acquisition and contract fulfillment according to IFRS 15. **Other financial assets** decreased from € 72.8 million to € 48.1 million and **income tax claims** from € 129.6 million to € 21.5 million.

**Non-current assets** increased strongly from € 6,809.2 million as of December 31, 2018 to € 7,715.2 million on December 31, 2019. Due to the earnings contribution of investments, **shares in associated companies** decreased from € 206.9 million to € 196.0 million. As a result of the sale of previously held shares in Rocket Internet SE, **other financial assets** fell from € 348.0 million to € 90.4 million. Largely as a result of the initial application of IFRS 16, **property, plant, and equipment** increased from € 818.0 million to € 1,118.2 million. **Intangible assets** rose strongly from € 1,244.6 million to € 2,167.4 million due to the above mentioned initial recognition of the acquired 5G spectrum. **Goodwill** remained almost unchanged at € 3,616.5 million. The item **contract assets** was also virtually unchanged at € 174.3 million and includes non-current claims against customers due to accelerated revenue recognition from the application of IFRS 15. **Prepaid expenses** decreased from € 341.2 million to € 284.3 million and mainly include the long-term portion of expenses relating to contract acquisition and contract fulfillment, as well as prepayments in connection with long-term purchasing agreements. **Deferred tax assets** of € 10.4 million were largely unchanged.

**Current liabilities** fell from € 1,299.7 million as of December 31, 2018 to € 1,269.0 million on December 31, 2019. Due to closing-date effects, current **trade accounts payable** decreased from € 557.7 million to € 475.5 million. Short-term **bank liabilities** rose from € 206.2 million to € 243.7 million as a result of reclassifying non-current to current liabilities in accordance with the maturity profile of liabilities. **Income tax liabilities** decreased from € 187.9 million to € 91.7 million. The item current **contract liabilities** was largely unchanged at € 149.9 million and mainly includes payments received from customer contracts for which the performance has not yet been completely rendered. The increase in current **other financial liabilities** from € 124.1 million to € 239.4 million results mainly from the initial application of IFRS 16.

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**Non-current liabilities** increased strongly from € 2,352.6 million as of December 31, 2018 to € 3,202.6 million on December 31, 2019. Long-term **bank liabilities** fell significantly from € 1,733.0 million to € 1,494.6 million. **Deferred tax liabilities** decreased from € 389.8 million to € 351.8 million. The item non-current **contract liabilities** was virtually unchanged at € 34.9 million and mainly includes payments received from customer contracts for which the performance has not yet been completely rendered. The increase in non-current **other financial liabilities** from € 87.0 million to € 1,247.5 million resulted mainly from the above mentioned acquisition of 5G spectrum as well as from their initial recognition according to IFRS 16.

The Group's **equity capital** rose from € 4,521.5 million as of December 31, 2018 to € 4,614.7 million on December 31, 2019. Due to the even stronger increase in the balance sheet total, however, the **equity ratio** declined from 55.3% to 50.8%.

On August 14, 2019, the Management Board of United Internet AG resolved to launch a **new share buyback program**. The decision was approved by the Supervisory Board. United Internet AG thus utilized the authorization issued by the Company's Annual Shareholders' Meeting of May 18, 2017 to buy back treasury shares representing up to 10% of the Company's capital stock at the time of the resolution or, if the amount is lower, at the time of exercising the authorization. The authorization was issued for the period up to September 18, 2020 and had not been previously utilized. In the course of the new share buyback program, up to six million Company shares (corresponding to approx. 2.93% of capital stock at the time) were to be bought back. The volume of the share buyback program amounted to € 192.0 million in total. The program was launched on August 16, 2019 and is to be completed by March 31, 2020 at the latest by buying shares back via the stock exchange. In the course of this share buyback program, which was prematurely ended with effect from the end of December 9, 2019, a total of 3,919,999 shares were acquired at an average share price of € 29.38 and with a total volume of € 115.2 million.

At the same time as the termination of the aforementioned share buyback program, the Company's Management Board resolved – with the approval of the Supervisory Board – to make a **public share buyback offer** to the shareholders of United Internet AG for a total of up to 9,000,000 shares at a price per share of € 29.65. Concurrently, Rocket Internet SE irrevocably undertook to accept United Internet AG's public share buyback offer for 8,135,804 shares held by Rocket Internet SE. In the event of an oversubscription of the Company's public share buyback offer, a proportional allocation was to be made to Rocket Internet SE. With its public share buyback offer, United Internet AG once again made use of the authorization granted by the Annual Shareholders' Meeting of May 18, 2017. In the course of the public share buyback offer of United Internet AG, a total of 8,715,524 shares were tendered to the Company by the end of the acceptance period at a price of € 29.65 and with a total volume of € 258.4 million.

As of December 31, 2019, United Internet held 17,338,513 **treasury shares** (December 31, 2018: 4,702,990). This corresponded to approx. 8.46% of capital stock at the time of € 205,000,000 (December 31, 2018: 2.29%).

On September 5, 2019, the United Internet subsidiary 1&1 Drillisch signed an agreement with the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Ministry of Finance (BMF) regarding the construction of mobile communication sites in so-called "not-spots". 1&1 Drillisch is thus helping to close existing supply gaps and improve the provision of mobile communications in rural regions by building hundreds of base stations. In return, 1&1 Drillisch benefits from an agreement that allows it to **pay for the acquired 5G spectrum in installments**. As a result, the license fees which were originally to be paid to the German government in 2019 and 2024 can now be spread over the period up to 2030. The credit line of originally € 2.8 billion arranged to finance the highest bids of the spectrum auction, among other things, was thus no longer required and has been

“returned”. The agreement with the ministries is in line with 1&1 Drillisch’s long-term financing strategy, which is geared toward paying the major share of expenses for the construction of its own mobile communications network from current revenue.

The Group’s **net bank liabilities** (i.e., the balance of bank liabilities and cash and cash equivalents) fell strongly from € 1,881.1 million as of December 31, 2018 to € 1,620.8 million on December 31, 2019.

#### Multi-period overview: development of relative indebtedness

	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Net bank liabilities <sup>(1)</sup> / EBITDA	1.88	1.98	1.37	1.57	1.28
Net bank liabilities <sup>(1)</sup> / free cash flow <sup>(2)</sup>	3.63	3.88	4.04	7.39	3.27

(1) Net bank liabilities = balance of bank liabilities and cash and cash equivalents

(2) Free cash flow without consideration of a capital gains tax refund (net) of € 242.7 million (2015), an income tax payment originally due in the fourth quarter of 2015 of around € 100.0 million (2016), a capital gains tax refund originally planned for the fourth quarter of 2016 of € 70.3 million (2017), a tax payment from fiscal year 2016 of € 34.7 million (2018) and tax payments from fiscal year 2017 and previous years of € -22.1 million (2019); Free cash flow 2019 incl. the repayment portion of lease liabilities of € 111.0 million, which have been reported under cash flow from financing activities since the financial year 2019 (IFRS 16)



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Further details on the objectives and methods of the Group’s financial risk management are provided under point 43 of the Notes to the Consolidated Financial Statements.

#### Multi-period overview: development of key balance sheet items

in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Total assets	3,885.4	4,073.7	7,605.2	8,173.8	9,088.3
Cash and cash equivalents	84.3	101.7	238.5	58.1	117.6
Shares in associated companies	468.4	755.5 <sup>(1)</sup>	418.0 <sup>(1)</sup>	206.9 <sup>(1)</sup>	196.0
Other financial assets	449.0	287.7 <sup>(2)</sup>	333.7 <sup>(2)</sup>	348.1 <sup>(2)</sup>	90.4 <sup>(2)</sup>
Property, plant and equipment	665.2	655.0	747.4 <sup>(3)</sup>	818.0	1,118.2 <sup>(3)</sup>
Intangible assets	389.5	369.5	1,408.4 <sup>(3)</sup>	1,244.6	2,167.4 <sup>(4)</sup>
Goodwill	1,100.1	1,087.7	3,564.1 <sup>(5)</sup>	3,612.6 <sup>(5)</sup>	3,616.5
Liabilities due to banks	1,536.5	1,760.7 <sup>(6)</sup>	1,955.8 <sup>(6)</sup>	1,939.1	1,738.4
Capital stock	205.0	205.0	205.0	205.0	205.0
Equity	1,149.8	1,197.8	4,048.7 <sup>(7)</sup>	4,521.5 <sup>(7)</sup>	4,614.7
Equity ratio	29.6%	29.4%	53.2%	55.3%	50.8%

(1) Increase due to investment in Tele Columbus (2016); decrease due to takeover and consolidation of ProfitBricks and Drillisch (2017); decrease due to Tele Columbus impairment charges (2018)

(2) Decrease due to subsequent valuation of shares in listed companies (2016); increase due to subsequent valuation of shares in listed companies (2017); increase due to subsequent valuation of shares in listed companies (2018); decrease due to sale of Rocket Internet shares (2019)

(3) Increase due to STRATO, ProfitBricks and Drillisch takeovers (2017); increase due to initial application of IFRS 16 (2019)

(4) Increase due to initial recognition of acquired 5G frequencies (2019)

(5) Increase due to STRATO, ProfitBricks and Drillisch takeovers (2017); increase due to World4You takeover (2018)

(6) Increase due to Tele Columbus investment (2016); increase due to STRATO takeover and increased stakes in Drillisch and Tele Columbus (2017)

(7) Increase due to consolidation effects in connection with the investment of Warburg Pincus in the Business Applications segment and takeover of STRATO (2017); transitional effects from initial application of IFRS 15 (2018)

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## Management Board's overall assessment of the Group's business situation

Economic growth in the main target countries of the United Internet Group during the reporting period was slower than in the previous year and also below expectations. GDP in Germany – United Internet's most important market – grew by just 0.6%, compared to 1.5% in the previous year. With sales growth of 2.0%, the German ICT market also fell short of its prior-year growth rate of 2.2%.

With organic growth of 890,000 customer contracts to 24.74 million, a 1.8% increase in sales to € 5.194 billion and an improvement in EBITDA of 5.4% to € 1.266 billion, United Internet enjoyed further growth in fiscal year 2019 – despite some unexpected burdens on sales and earnings – and was ultimately also able to meet the targets it set itself.

This positive performance – especially when compared with the weakening macroeconomic and sector trends – highlights the benefits of United Internet's business model based predominantly on electronic subscriptions with fixed monthly payments and contractually fixed terms. This ensures stable and predictable revenues and cash flows, offers protection against cyclical influences and provides the financial scope to win new customers, expand existing customer relationships, and grasp opportunities in new business fields and new markets – organically or via investments and acquisitions.

In the fiscal year 2019, the Company once again invested heavily in gaining and expanding customer relationships, as well as in developing new products – thus laying the basis for future growth. In addition to strengthening the foundations for its operational business, United Internet also successfully participated – via 1&1 Drillisch – in the 5G spectrum auction ending on June 12, 2019 and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. By acquiring these frequencies, the foundation was laid for a successful and permanent positioning of the 1&1 Drillisch Group as Germany's fourth mobile network provider. The Company intends to use this basis to establish a powerful mobile communications network.

The financial position of United Internet AG remained strong in fiscal year 2019. Free cash flow adjusted for tax effects remained high at € 607.0 million, or € 496.0 million after leasing (like-for-like prior-year figure: € 254.6 million). This once again underlines the Group's ability to generate very healthy levels of cash while at the same time achieving stable and qualitative growth. Against this backdrop, the Company plans to finance the development of its own mobile communications network largely from current revenue.

As of the reporting date for the Annual Financial Statements 2019, and at the time of preparing this Management Report, the Management Board believes that the United Internet Group as a whole is well placed for its further development. It regards the financial position and performance – subject to possible special items – as positive and is optimistic about the Group's future prospects.

## 2.4 Position of the Company

### Earnings of United Internet AG

As a pure holding company, the earnings position of United Internet AG is usually dominated by its investment and financial result.

In the fiscal year 2019, **sales** of the parent company amounted to € 0.3 million (prior year: € 0.01 million) and result mainly from services rendered to the Group's subsidiaries.

**Other operating income** amounted to € 1.0 million (prior year: € 147.6 million) and mainly results from the reversal of accruals totaling € 0.6 million, as well as cost allocations within the Group of € 0.2 million. In the previous year, other operating income was dominated by extraordinary income in connection with the disposal of financial assets totaling € 143.8 million (scheduled exercise of a put option from 2017 for the preferred share of the former 1&1 Internet Holding SE (now: 1&1 IONOS Holding SE)), as well as from other operating income of € 2.3 million in connection with cost allocations within the Group, and income of € 1.6 million relating to other periods from the reversal of accruals.

Adjusted for effects from employee stock ownership programs, **personnel expenses** amounted to € 0.5 million (prior year: € 0.6 million).

**Other operating expenses** decreased to € 12.7 million (prior year: € 36.9 million) and mostly comprise internal Group charges of € 6.5 million (prior year: € 28.7 million), as well as legal, auditing and consulting fees of € 2.2 million (prior year: € 3.8 million).

**Income from profit transfer agreements** of € 122.3 million (prior year: € 117.7 million) result from the profit transfers of 1&1 Mail & Media Applications SE amounting to € 70.5 million (prior year: € 93.6 million), United Internet Investments Holding AG & Co. KG amounting to € 48.9 million, United Internet Corporate Services GmbH amounting to € 2.7 million (prior year: € 24.1 million), and United Internet Service SE amounting to € 0.2 million.

**Income from investments** amounted to € 6.5 million (prior year: € 209.6 million) and mainly comprise the dividend of 1&1 Drillisch AG (prior year: € 189.7 million). Income from investments in the previous year not only included the dividend of 1&1 Drillisch AG but also the dividend of the former 1&1 Internet TopCo SE (now: 1&1 IONOS TopCo SE) amounting to € 19.9 million.

**Expenses for loss assumptions** of € 37.4 million (prior year: € 263.6 million) mainly related to the compensation expense of United Internet Service Holding GmbH amounting to € 37.2 million (prior year: € 41.3 million). In the previous year, expenses for loss assumptions also included a compensation expense € 222.2 million for United Internet Investments Holding AG & Co. KG.

The parent company's **result before taxes** amounted to € 177.6 million (prior year: € 273.3 million).

**Income taxes** of € 58.9 million (prior year: € 68.4 million) comprise current taxes of 2019 of € 53.5 million (of which € 26.8 million corporation tax and the solidarity surcharge, and € 26.6 million trade tax), as well as € 6.8 million from previous years. Income from the reversal of deferred tax liabilities amounting to € 1.4 million had an opposing effect.

**Net income** in the separate financial statements of United Internet AG for the fiscal year 2019 amounted to € 118.7 million (prior year: € 204.9 million).

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## Assets and financial position of United Internet AG

The parent company's **balance sheet total** fell from € 6,233.8 million as of December 31, 2018 to € 5,944.6 million on December 31, 2019.

**Non-current assets** of the parent company amounting to € 5,670.9 million (prior year: € 5,981.3 million) were dominated by **financial assets**. **Shares in affiliated companies** increased to € 3,763.4 million (prior year: € 3,668.8 million). This was mainly due to the increased stake in 1&1 Drillisch AG. **Loans to affiliated companies** declined to € 1,907.6 million (prior year: € 2,312.5 million). The decrease results in particular from the redemption of loans within the Group.

**Current assets** of the parent company amounting to € 273.6 million (prior year: € 252.3 million) comprise receivables due from affiliated companies and other assets. The **receivables due from affiliated companies** rose to € 216.2 million (prior year: € 207.1 million). These mainly comprise receivables within the United Internet Group's internal cash management system. **Other assets** amounting to € 14.8 million (prior year: € 40.7 million) consist mainly of receivables due from the tax office.

**Shareholders' equity** of the parent company amounted to € 3,352.5 million as of December 31, 2019 (prior year: € 3,617.3 million). The decrease in equity during the reporting period is mainly due to the buyback of treasury shares (€ 373.6 million), which are subtracted from equity, and the dividend payout (€ 10 million), as well as an opposing effect from net income (€ 118.7 million). The equity ratio fell from 58.0% in the previous year to 56.4% as of December 31, 2019.

The parent company's **accruals** of € 54.7 million (prior year: € 80.8 million) mainly comprise **accrued taxes** amounting to € 51.8 million (prior year: € 76.9 million) as well as **other accrued liabilities** for employee stock ownership plans, legal, auditing and consulting fees, bonuses and other items totaling € 2.9 million (prior year: € 3.9 million).

The **liabilities** of the parent company are shaped in particular by liabilities to banks and liabilities due to affiliated companies. **Liabilities to banks** decreased to € 1,740.7 million in the fiscal year 2019 (prior year: € 1,943.8 million). Bank liabilities mainly comprise two promissory note loans totaling € 835.5 million, as well as syndicated loans totaling € 900.0 million. **Liabilities to affiliated companies** rose to € 783.9 million (prior year: € 575.0 million) and mainly comprise liabilities from balances within the United Internet Group's cash pooling system (€ 737.3 million), from service arrangements (€ 7.9 million), and from profit transfer agreements (€ 37.4 million). **Other liabilities** of € 3.6 million (prior year: € 5.4 million) are mainly sales tax liabilities.

**Cash flow** of the parent company's financial statements is dominated by cash flows from the profit transfer agreements, as well as the dividends of investments. There was an opposing effect under financial activities from the treasury shares purchased in the fiscal year 2019 and from the dividend payment.

## Management Board's overall assessment of the current business situation of the parent company

Due to its role as the Group's holding company, the economic position of United Internet AG at parent company level is mainly influenced by its investment and financial result. The above statements on the Group's economic position therefore also apply qualitatively for United Internet AG itself.

## 2.5 Significant non-financial performance indicators

United Internet AG believes that its entrepreneurial activities are not solely restricted to the pursuit and implementation of economic objectives, but also involve a commitment and responsibility to society and the environment. United Internet assumes this responsibility in a variety of ways. The most important aspects with regard to the Management Report, sustainable business policy, employees, green IT, and social responsibility, are summarized in the following sections.



[www.united-internet.de](http://www.united-internet.de)

Further information on these and other sustainability topics are included in the Non-Financial Statement 2019 (Sustainability Report) of United Internet AG – based on the Global Reporting Initiative (GRI) framework – which will be published at the beginning of April, 2020 at <https://www.united-internet.de/investor-relations/publikationen/berichte.html>.

### Sustainable business policy

United Internet AG is committed to pursuing a sustainable business policy. This sustainability is illustrated in particular by its high level of investment in customer relationships, in customer satisfaction, in service, product and network quality, in security and data privacy, and in customer trust/recommendation behavior – and thus also in sustainable growth.

#### Customer relationships and customer satisfaction

In its fiscal year 2019, United Internet once again invested heavily in customer growth and raised the number of fee-based customer contracts organically by 890,000 to 24.74 million (prior year: 23.85 million).



T-DSL, R-DSL

Apart from these customer contracts in the reported product lines, United Internet holds a further 0.37 (prior year: 0.41) million contracts without basic monthly fees and service provider contracts (volume-based tariffs/MSP tariffs), as well as 0.03 (prior year: 0.06) million broadband connections in the phased-out T-DSL/R-DSL product lines.

In addition to these fee-based contracts, United Internet operates 37.59 (prior year: 37.00) million active free accounts at its data centers that are refinanced via advertising revenue.

In total, therefore, United Internet operates 62.73 (prior year: 61.32) million customer accounts globally.

Over the past few years, the high-value contracts with basic fee of the reported product lines have been greatly expanded, while the less valuable contracts with no monthly fee, and the old contracts with T-DSL and R-DSL, have been reduced (exception: 2017 due to 0.49 million contracts without basic monthly fee/old contracts resulting from the Drillisch takeover). The number of customer relationships via ad-financed free accounts – which also offer United Internet potential for up- and cross-selling – were steadily improved over the past years.



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### Multi-period overview: development of customer relationships

Growth in million	2015 <sup>(1)</sup>	2016	2017 <sup>(2)</sup>	2018 <sup>(3)</sup>	2019
Contracts with basic fees	+ 1.25	+ 1.06	+ 6.10	+ 1.28	+ 0.89
Contracts without basic fees / old contracts	- 0.06	- 0.06	+ 0.40	- 0.11	- 0.07
Free accounts	+ 1.03	+ 1.14	+ 1.13	+ 1.33	+ 0.59
Total customer accounts	+ 2.22	+ 2.14	+ 7.63	+ 2.50	+ 1.41

(1) Including 0.34 million contracts with basic fees from the takeover of home.pl and an opposing 0.08 million from contract streamlining

(2) Including 3.35 million contracts with basic fees and 0.49 million contracts without basic fees / old contracts from the takeover of Drillisch as well as including 1.87 million contracts with basic fees from the takeover of STRATO

(3) Including 0.25 million contracts with basic fees from the takeover of World4You

In addition to attracting new customers, retaining existing customers and promoting customer loyalty are the most important factors for expanding our customer base. The key control criterion for United Internet is customer satisfaction. We have therefore established structures and processes in all segments to continuously and sustainably measure, analyze, and ultimately improve customer satisfaction with the aid of key performance indicators (KPIs). Customer surveys, market research, and analyses, e.g., of postings on social media platforms, are carried out on a regular basis in order to collect feedback from customers. Depending on the segment, customer satisfaction is measured and controlled using various KPIs such as customer sentiment or the recommendation rate/net promoter score (NPS).

The findings from these customer satisfaction analyses are used to identify areas for improvement and then translated into concrete measures to increase customer satisfaction (e.g., in the field of service or product quality).

As of October 2018, for example, all customers of the IONOS brand have the opportunity to contact a personal consultant free of charge as a central point of contact for all questions relating to products, their contracts, and their online business success. In this way, IONOS can accompany freelancers and companies through all phases of their development – from registering a domain and setting up a first website, to setting up shop systems and dedicated servers, to using enterprise cloud infrastructures. In addition, companies have the opportunity to use numerous cloud applications that support their business.

## Service quality

As part of the above measures, United Internet has also invested heavily in service quality over the past years, e.g., with the introduction of the so-called 1&1 Principle and further constant enhancements to it.

With the 1&1 Principle, broadband and mobile internet customers are given five clear product-related performance promises. These include, for example, a one-month test phase and highly available expert hotline, delivery of the ordered product within one working day, or on-site replacement of faulty equipment on the next working day.

As of 2017, the 1&1 Replacement Service offers additional all-round protection: in the event of damage, customers receive a new – and identical – mobile phone within 24 hours. If the model is not available, in exceptional cases, an equivalent smartphone is immediately delivered.

Since September 2018, this premium service has been free of charge for customers and included in all Mobile 1&1 All-Net Flat tariffs with smartphone on signing the contract. The special feature is that the 1&1 Replacement Service goes beyond the usual device warranty and also covers self-caused damage,

such as water damage or screen breakage. This all-round protection is valid for the entire minimum term.

The excellent scores achieved in customer service surveys during 2019 are proof that the investments in service quality are paying off.

As in previous years, the German newspaper DIE WELT, together with ServiceValue, systematically examined the service quality of German companies from the customer's point of view. ServiceValue is a Cologne-based analysis and consulting company specializing in relationship management between companies and stakeholders. Service ranking from the customer's perspective is based on the scientifically proven Service Experience Score (SES). This percentage value is determined in the same way as the well-known polling question "Which party would you vote for if the election were held this Sunday" and represents a clear, understandable and efficient measuring instrument.

As part of the SERVICE CHAMPIONS 2019 study (published in October 2019), customers were asked to judge the best companies with regard to service experienced from a total of 3,530 companies from 353 different industries.

The United Internet brand 1&1 (Consumer Access segment) won the "No. 1 in Customer Service Experience" award in both the "Telecommunications" and "Internet Provider" (DSL) sectors.

Other sector winners were the United Internet brands GMX (Consumer Applications segment) in the "E-mail Provider" sector and STRATO (Business Applications segment) – for the sixth time in a row – in the "Web Hosting Provider" sector, in which IONOS (Business Applications segment) followed in second position.

1&1 Versatel (Business Access segment) is one of the most popular telecommunications service providers for small to mid-sized companies (SMEs). This was proven by a ranking of the German magazine WirtschaftsWoche (published in February 2019). In cooperation with ServiceValue, WirtschaftsWoche identified the most popular service providers of Germany's SMEs once again in 2019. More than 9,000 decision-makers, buyers, and users of SMEs were surveyed. In addition to general customer satisfaction, seven other categories – such as consulting, value for money, and service quality – were evaluated. Overall, customer ratings were obtained for 356 providers from 33 industries. 1&1 Versatel achieved very good results in two categories (Telecommunications Telephony/Internet and Telecommunications Telephony/Internet/Mobile), finishing second in each.

The best customer service awards for IONOS in Spain and France (Business Applications) illustrate that these excellent service ratings are not limited to Germany. In Spain, the IONOS hotline won the coveted service award "Elegido servicio de atención al cliente" in the "Web products" category for the sixth time in a row in October 2019. The same applies to the IONOS hotline in France, which won the "Élu Service Client de l'Année" service award for the best customer service in the "Web products" category for the second year in a row in October 2019.

In 2019, the "Personal Consultant" service of IONOS was awarded gold for the best customer service initiative at the "European Contact Center & Customer Service Awards". IONOS thus took first place in this segment at one of the most prestigious awards of the customer contact industry with 30 participants.

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## Product quality

The product quality of the United Internet brands also received various accolades in the fiscal year 2019. For example, the United Internet brands IONOS and STRATO ranked first and second in the "Modular Website Kits for the SME sector" test held by "PC Magazin" (publication: April 2019). The testers focused on finding and testing web hosting packages which enable newcomers to quickly and easily create a website for their office community, crafts business, or law firm. The key factors were therefore simplicity, clarity, and good support. The test winner IONOS was ranked particularly highly for its comprehensive and personal customer service.

The Information Service Group (ISG) named IONOS its Rising Star 2019 in the IaaS market. The analysts thus honored the cloud computing provider's outstanding development over the past twelve months, as well as its high future potential. The analyst firm compared a total of twelve cloud infrastructure providers worldwide. IONOS was particularly compelling with regard to its price/performance, local data protection, easy access, and strong performance.

## Network quality

In terms of network quality, 1&1 Drillisch came third in the prestigious broadband and landline network test of Germany's "big players" conducted by respected German specialist magazine "connect" (published in August 2019). With a score of 872 from a maximum 1,000 points (prior year: first place), 1&1 was once again awarded the overall rating "Very Good".

In 2019, the German magazine "connect" once again examined test connections in the categories Voice, Data, Crowdsourcing, Web Services, and Web TV in its annual review of all well-known providers.

1&1 uses the fiber-optic network of its sister company 1&1 Versatel for the realization of broadband connections. At locations where the network is not yet available, 1&1 cooperates with other telecommunications companies. 1&1 provides its telephony services via its own voice-over-IP (VoIP) platform, which has proven its reliability for over 10 years now and is constantly being enhanced.

The latter once again impressed in the category Voice with its fast connection and voice runtimes. In the Voice or high-speed Internet category, 1&1 achieved the best performance results together with regional provider M-net. In the new category Crowdsourcing, 1&1 was among the middle-ranked. In terms of Web Services, 1&1 was one of the top three together with Telefónica and M-net, while 1&1 and M-net were rated second best in the Web TV category.

The landline test was carried out on behalf of "connect" by zafaco GmbH. According to "connect", about 4.6 million measurements were performed on test connections in a total of 52 cities throughout Germany over a period of around four weeks.

## Security and data privacy

With the launch of the "E-Mail made in Germany" initiative in 2013 (in cooperation with a network also comprising Deutsche Telekom and freenet), United Internet's e-mail services GMX and WEB.DE (Consumer Applications segment) also offer customers high standards with regard to the security and privacy of e-mail communication. This includes the encrypted transmission of all e-mails on all network routes, the processing and storage of all data in Germany according to German data protection regulations, and the identification of secure e-mail addresses within the e-mail applications.

As of April 2014, only SSL keys certified in Germany are used within the "E-Mail made in Germany" network and all transmission routes are fully encrypted. As an important enhancement of the security standard "E-Mail made in Germany", GMX and WEB.DE developed an encryption system based on the globally recognized "Pretty Good Privacy" (PGP) standard in 2015. The new e-mail security level works on all commonly used devices, is provided free to all customers of the two mail services, and is compatible with all previous PGP applications. In 2016, the PGP solution of GMX and WEB.DE was also rolled out in the foreign markets of France, Spain, and the UK via the international e-mail brand mail.com.

Following end-to-end encryption for e-mails in the past few years, GMX and WEB.DE also rolled out end-to-end encryption for the cloud content of its customers in the fiscal year 2017. In addition to the automatic uploading of photos from smartphones to the cloud and improved publishing and sharing functions, security has also been stepped up: all users of WEB.DE and GMX in Germany, Austria, and Switzerland (DACH) can use their "safe" for free end-to-end encryption of their cloud data, thus offering protection from third parties. As a result, the portal brands are strengthening their "Cloud Made in Germany" initiative and clearly differentiating themselves from non-European solutions.

In 2018, GMX and WEB.DE introduced a new protection against calendar spam – still a relatively new phenomenon. Spammers send fake appointment invitations to the mailbox and the digital calendar. GMX and WEB.DE allow customers to report and delete calendar spam. By clicking on a new "spam" button, the fake invitations with advertising, supposed discounts, or links to malware and phishing sites are deleted from the inbox.

As of 2019, GMX and WEB.DE offer users in Germany, Austria and Switzerland further protection against hackers with "two-factor authentication" (2FA). As soon as 2FA is activated and set up, not only the usual password (first factor) but also an additional confirmation code (second factor) is requested when logging in. This code is generated by an authentication app installed on the user's smartphone.

With the aid of these and other security features, WEB.DE secured its test victory in a test conducted by the German consumer organization "Stiftung Warentest" (test 05/2019). A total of eleven German-speaking cross-system cloud storage services with free variants were tested. Particular attention was paid to the security of data stored in the cloud. With its compliance to strict German data protection laws, WEB.DE online storage was ranked highly in this category. All data are stored on servers in German data centers. The testers were also impressed by the transparent design of the company's terms and conditions. Both the general terms and conditions and the data privacy declarations were 100 percent free of defects.

## Customer trust / recommendation behavior

A high level of service, product, and network quality combined with high standards of security and data privacy also have a positive impact on the aspect of customer trust, and ultimately on the recommendation behavior of customers.

For example, the United Internet brand GMX is the e-mail provider which Germans trust most. This was the result of a survey (September 2019) commissioned by the German magazine *WirtschaftsWoche* in which GMX once again received the "Highest Customer Trust" rating while WEB.DE was attested "Very High Customer Trust". Starting in 2014, *WirtschaftsWoche* has been examining the trust of German consumers in various companies once a year, in conjunction with ServiceValue. The results are published in "Germany's Largest Trust Ranking". In 2019, approx. 474,000 customers of 1,619 companies in 131 sectors were interviewed. 81.1% of all respondents stated that they trusted GMX. For the fifth year running, GMX was the top ranked e-mail provider and achieved a score in 2019 which was 16.3% above

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the average for all e-mail providers (64.8%). The survey's academic advisor is the Psychology Institute of Goethe University Frankfurt/Main.

Together with ServiceValue, Focus Money conducted a large-scale customer survey in 2019 on the recommendation behavior of customers across 82 industries and over 1,200 companies (June 2019). ServiceValue applied its scientific method to evaluate approx. 494,000 customer opinions. The recommendation rates for the United Internet brands GMX and IONOS put them in first place in the category "E-Mail" and "Webhosting". Second place in the "Webhosting" category went to another United Internet brand in the Business Applications segment, STRATO.

## Employees

The internet sector is a highly dynamic and globally networked industry with short innovation cycles. United Internet AG has risen to these challenges with great success over many years now. One of the key factors for the success and growth of the United Internet Group are its dedicated and highly competent employees and executives with their entrepreneurial and autonomous approach to work. The Company therefore attaches great importance to a sustainable and balanced strategy across all aspects of its HR activities: from employee recruitment, to targeted entry-level and vocational training formats, tailored skills training programs, support with individual career paths, through to sustainable management development programs, and the retention of high potentials and top performers.

United Internet AG was once again recognized as a top employer in 2019. Based on an independent study of the "Top Employers Institute", United Internet received the "TOP Employers Germany" award – as in the preceding years. Certification is only awarded to organizations which offer staff attractive working conditions. Assessment is based on career opportunities, employer benefits, working conditions, training and development opportunities, and the corporate culture.

### Headcount and key figures

In the highly competitive market for skilled workers in the ICT sector, United Internet once again succeeded in recruiting top staff for its key positions and thus meeting the needs of its growing business. In addition to targeted employer branding, partnerships with education and training providers, and the positive impact of the Company's product brands on candidates, our successful recruitment efforts center around a candidate-friendly, highly competitive acquisition and selection process.

The number of employees increased by 3.1% to 9,374 in the fiscal year 2019 (prior year: 9,093). Headcount in Germany rose by 2.6% to 7,761 as of December 31, 2019 (prior year: 7,567). The number of employees at the Group's non-German subsidiaries grew by 5.7% to 1,613 (prior year: 1,526).

From the segment perspective, there were 3,163 employees in the Consumer Access segment (prior year: 3,150), 1,184 in the Business Access segment (prior year: 1,095), 1,007 in the Consumer Applications segment (prior year: 947), and 3,416 in the Business Applications segment (prior year: 3,355). A further 604 people were employed at the Group's headquarters (Corporate/HQ) (prior year: 546). The gradual increase in Corporate/HQ staff resulted in particular from the transfer of employees from the segments who already worked in corporate functions in the past, as well as from the pooling of apprentices in a specially created company.

**Multi-period overview: headcount development by location<sup>(1)</sup>**

	2015	2016	2017	2018	2019	Change over 2018
Employees, total	8,239	7,897	9,414	9,093	9,374	+ 3.1%
thereof in Germany	6,502	6,322	7,890	7,567	7,761	+ 2.6%
thereof abroad	1,737	1,575	1,524	1,526	1,613	+ 5.7%

(1) Active employees as of December 31 of the respective fiscal year

**Multi-period overview: headcount development by segment<sup>(1)</sup>**

	2015	2016	2017	2018	2019	Change over 2018
Employees, total	8,239	7,897	9,414	9,093	9,374	+ 3.1%
thereof Consumer Access		2,401	3,457	3,150	3,163	+ 0.4%
thereof Business Access		1,077	1,069	1,095	1,184	+ 8.1%
thereof Consumer Applications		978	961	947	1,007	+ 6.3%
thereof Business Applications		3,243	3,586	3,355	3,416	+ 1.8%
thereof Corporate/HQ		198	341	546	604	+ 10.6%

(1) Active employees as of December 31 of the respective fiscal year; as the new segmentation was only carried out as of the annual financial statements 2018, the segment breakdown is limited to the fiscal years 2016 - 2019

**Personnel expenses** rose by 2.6% to € 552.8 million in fiscal year 2019 (prior year: € 538.8 million). The personnel expense ratio thus amounted to 10.6% (prior year: 10.5%).

**Multi-period overview: development of personnel expenses**

in € million	2015	2016	2017	2018	2019	Change over 2018
Personnel expenses	429.7	433.8	489.0	538.8	552.8	+ 2.6%
Personnel expense ratio	11.6%	11.4%	11.6%	10.5%	10.6%	

**Sales per employee**, based on annual average headcount, amounted to approx. € 563k in fiscal year 2019 (prior year: approx. € 551k).

**Targeted staff support and ongoing development**

In order to keep pace with or even anticipate new technologies, competitive ideas, and market trends, it is important to continuously develop the Company's employees. Pooling and retaining knowledge in-house requires a sustainable policy for aligning the Company and market requirements for various functions with the individual career objectives and prospects of staff.

United Internet attaches great importance to giving all employees at all locations – regardless of departments and functions – the same opportunities for development. A transparent, Group-wide framework for staff development was therefore defined from an early stage. The range comprises standard programs and support measures, as well as various function-based offerings which are tailored to the respective employee and skills profile. Specifically, this involves a gradual assumption of responsibility and an expansion of competencies within the specific field of work function – from beginner to expert.

Staff are supported both in their daily work ("on the job") as well as with targeted training measures. United Internet is also moving with the times in this respect by offering a wide range of training via a

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digital platform (1&1 Campus) in addition to its existing program. Everybody recognizes it on a day-to-day basis: learning is no longer restricted to school and vocational education. Social, economic and above all technological developments both call for and enable a permanent learning process. This platform offers flexible learning opportunities, a wide range of formats, easy usage possibilities, and requires users to display a high degree of inner drive during the learning process.

In addition to vertical development paths, horizontal development is also possible between different functions. In addition, the organization's permeability allows transfers between products or segments, and thus enables the interdisciplinary development of employees.

For employees who have reached the highest competency level ("senior") for their respective function and would like to assume more responsibility for a special topic or in a management role, the Company offers two career models: the "management track" and the "expert track". Whereas employees choosing the "management track" gradually assume more and more staff responsibility, "experts" have a high degree of specialist knowledge. However, they have no direct line responsibility, but are top performers, "know-how owners", and advisors on strategic questions in their specific field and act as multipliers for their knowledge inside and outside the Company. Both the management and expert tracks are "permeable", i.e., horizontal movement is also possible and an expert can become a manager and vice versa.

### Discovering and nurturing potential and performance from an early stage

With the aid of junior management programs, United Internet develops young talents fresh from university from an early stage. The main target is to be able to recruit and train future managers and specialists from within the Company.

Further development programs are offered for staff with exceptional abilities and potential in all areas of the Company. Such employees are then accompanied through a structured program of individual development and training plans in order to prepare them for their future personal challenges, and those of the Company (MyWay+ and Senior+ for staff at Advanced/Senior level).

### Specialist training by colleagues for colleagues

A particular training-on-the-job initiative in the United Internet Group's technical divisions is the TEC campus. This comprises a series of lectures ("Business Academy"), training on tools, processes, and methods, as well as e-learning, and two internal conferences, the cross-national and cross-locational TECDays. The program and content are jointly designed by Technology and Human Resources staff in coordination with the Management Board members responsible for "Technology". The aim is to create a framework in which staff can benefit from their mutual knowledge and networks.

PASK (Project/Agile/Scrum/Kanban methods) is a conference on all aspects of agility: technologies from development and operations are discussed here twice a year. Both events feature lectures and interactive formats, such as workshops, discussion rounds, and open spaces. The wide-ranging topics and intensive pooling of topics within two days attract colleagues from all locations and departments, and help expand networks and experience.

Thanks in part to the measures described above, the United Internet Group was able to recruit around 70% of managers from within its own ranks in fiscal year 2019 (prior year: around 65%).

### Training held in high regard

The United Internet Group also attaches great importance to apprenticeships and initial vocational training. The Company trains young people to meet its future needs and offers them a successful start to their professional lives. The Company currently offers apprenticeships in commercial and technical professions, including IT specialist (application development/systems integration),

IT systems clerk, dialogue marketing clerk, marketing communication clerk, and office management clerk. In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg - DHBW), United Internet also offers degree courses in Computer Sciences, Information Management, Accounting, Tax & Law/Accounting & Controlling, Business Administration/Marketing Management, and Business Administration/Digital Business Management at the universities of Karlsruhe, Stuttgart, and Mannheim.

During their three-year training or DHBW studies, all participants experience a wide variety of different Company departments. During these periods, they are fully integrated into the respective teams and daily processes. The apprentice workshops at the facilities in Karlsruhe and Montabaur have proved especially successful. Technical apprentices in particular spend part of their training period in the workshops in order to learn the basics for their later careers as early as possible. In addition to the provision of technical and methodological skills, the Company also attaches great importance during training to behavior which is compliant with its corporate culture. The internalization of corporate culture, expertise, methodological skills, and behavior in line with the corporate values form the basis for a successful transition to the post-training period. Many of those trained by the United Internet Group are thus ideally prepared for the transition to full-time employment.

In order to secure the number of high-caliber apprentices, in spite of dwindling school-leaver numbers, United Internet is now starting its efforts even earlier: in addition to cooperation and school events, the Company has also been offering one-on-one career advice for some time now. This service is being used by both the children of our employees and by young people without any direct personal link to the Company. On specific information days, trainers provide information on apprenticeships and career opportunities within the Company and are also available to give advice. In addition, internships are also offered to schoolchildren to give them an insight into working life.

At year-end 2019, around 227 young people were serving their apprenticeships or engaged in studies at Group companies (prior year: 239). After successfully passing their examinations, United Internet endeavors to take on as many apprentices as possible and to make an attractive job offer to every graduate. In fiscal year 2019, 48 apprentices and DHBW students were given full-time jobs (prior year: 58).

As part of the "Fair Company Initiative", United Internet is committed to providing fair conditions for interns and thus guaranteeing a high level of benefit from their internships. In addition to adequate financial compensation, interns receive dedicated personal support from their respective departments and HR. Interns and former interns regularly emphasize this aspect and stress the high learning effect achieved during their internships. Internships are offered every year for students of IT, Product Management and Online Marketing, as well as in the field of Finance and HR.

United Internet is also a sponsor of the "Germany Scholarship" program, in which companies and the state play an equal role in promoting future graduates and helping them complete successful and challenging degree courses. The scholarship program supports students whose achievements promise future excellence in their studies and careers. Since the program was launched in 2011, United Internet has sponsored students at the two elite universities LMU and TU Munich. However, United Internet does not limit its activities to financial support, but also offers the current three students (prior year: five) personal mentoring by colleagues in the respective departments. This often leads to internships or jobs as working students.



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## Diversity

Without the individual strengths of its employees, United Internet would not be what it is today – an internationally successful, innovative company on track for growth. United Internet attaches great importance to the constructive use of diversity management and the handling of social differences between its employees.

The United Internet Group's corporate culture is based on mutual respect and a positive attitude toward individual differences with regard to culture, nationality, gender, age, religion, sexual orientation, and disability – in other words, everything that makes the Company's employees unique and distinctive. A work force composed of diverse personalities offers ideal conditions for creativity and productivity. The resulting potential for new ideas and innovation strengthens United Internet's competitive position and enhances its opportunities in future markets. In accordance with this principle, the Company strives to find the field of activity and function for each employee which allows them to fully exploit their individual potential and talents. In addition to productivity, diversity also helps raise the general level of satisfaction among employees. These are key reasons for many applicants to select their future employer. As United Internet's customers also have a wide variety of needs and wishes, they appreciate a business partner who can live up to their own diversity.

However, the promotion of diversity is not simply a one-size-fits-all solution. Employees and applicants are recruited, employed, and promoted on the basis of objective criteria, such as skills, aptitude, and expertise. In corporate divisions in which women are structurally under-represented, United Internet seeks to raise their representation provided they have the same qualifications, skills, and suitability. However, the Company always decides on a case-by-case basis.

Since the previous year, the development of women in United Internet companies has been supported by a structured planning of activities such as lectures, collegial case consulting, topic-related exchange groups, and individual measures, such as coaching or mentoring.

### Multi-period overview: employees by gender<sup>(1)</sup>

	2015	2016	2017	2018	2019
Women	34%	34%	31%	32%	32%
Men	66%	66%	69%	68%	68%

(1) Active employees as of December 31 of the respective fiscal year

The average age of the United Internet Group's employees at the end of fiscal year 2019 was around 38 (prior year: 38).

### Multi-period overview: employee age profile<sup>(1)</sup>

	2015	2016	2017	2018	2019
< 30	27%	28%	24%	26%	23%
30 – 39	40%	41%	36%	38%	34%
40 – 49	25%	23%	27%	25%	27%
≥ 50	8%	8%	13%	11%	16%

(1) Active employees as of December 31 of the respective fiscal year

Employees of United Internet AG work in an international environment at over 30 sites around the world.

**Multi-period overview: employees by country<sup>(1)</sup>**

	2015	2016	2017	2018	2019
Employees, total	8,239	7,897	9,414	9,093	9,374
thereof Germany	6,502	6,322	7,890	7,567	7,761
thereof France	25	3	3	3	3
thereof UK	234	209	232	216	233
thereof Austria	8	6	5	37	43
thereof Philippines	390	386	366	351	360
thereof Poland	263	258	251	270	309
thereof Romania	229	194	174	176	195
thereof Spain	339	322	319	331	330
thereof USA	239	197	174	142	140
thereof Other	10	0	0	0	0

(1) Active employees as of December 31 of the respective fiscal year

## Green IT

In the wake of the global climate debate and rising energy consumption, the term "Green IT" is often used in the computer industry. The term basically comprises all measures that contribute toward reducing a company's CO<sub>2</sub> emissions and energy consumption.

The ICT sector makes a significant contribution to global added value and is thus a strong economic factor. At the same time, it also emits a significant amount of CO<sub>2</sub> and consumes a lot of electricity. For internet service providers like United Internet, this applies in particular to the data centers where millions of cloud applications are managed for private and commercial users.

United Internet has been using electricity from renewable sources at its data centers in Germany for more than ten years now. In all countries in which it operates data centers, e.g., the USA, the UK, and Spain, the Company now uses a mix of renewable energies and CO<sub>2</sub> offsetting via the use of certificates. This enables the climate-neutral operation of all data centers.

The Company also attaches importance to using renewable energy from geographically adjacent regions, i.e., mostly in the same country or in a nearby area (e.g., the Alpine region).

The main elements of the Company's energy-saving efforts at its data centers around the world are:

- The operation of a certified energy management system according to ISO 50001:2011 that ensures that energy efficiency is considered and implemented in line with sustainability aspects during the procurement, operation, and maintenance of all infrastructure components.
- Server hardware: a proportion of our servers are built-to-order for United Internet. We leave out unnecessary components and specify, for example, energy-saving processors and power supplies with low heat loss. This means that less heat is radiated and data rooms do not have to be cooled as much. The servers are sustainably recycled by certified companies at the end of their life cycle.
- Software used: the web hosting system used by United Internet is our own highly optimized development, based on Linux. The modification enables us to manage the data of several thousand customers on a single computer and at the same time, and thus utilize our resources as sensibly as possible.

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- Virtualization and use of containers: the server hardware used in data centers is often only utilized at an average rate of 15% to 25%. With the aid of virtualization, efficiency can be increased significantly – thus saving energy.
- Containers further optimize the virtualization principle by dispensing with redundant operation of operating systems. Instead, they are shared by several instances. This also enables even stronger “elastic” load-dependent scaling of the IT resources provided. Virtualization and containers are used both in internal operations and for customer products.

## Social responsibility

### “United Internet for UNICEF” foundation

The “United Internet for UNICEF” foundation was set up by Ralph Dommermuth in September 2006 as an independent foundation under German civil law. It primarily supports projects of UNICEF, the United Nations Children’s Fund.

Projects are carefully selected from the wide range of UNICEF topics and presented on the high-reach portals of the United Internet Group (1&1, GMX und WEB.DE) in order to attract as many donors as possible for the particular project or as sustaining members of UNICEF. During emergency situations, such as in March and April 2019 when 2.2 million people – including over a million children – were hit by the effects of the cyclones Idai and Kenneth, newsletters can reach over 30 million people within 24 hours and thus facilitate the effective collection of donations.

In 2019, the foundation mostly supported the crisis regions of South Sudan, Somalia, and Yemen and also supported projects in India and Venezuela. Moreover, it launched two emergency newsletters for the victims of the aforementioned Idai and Kenneth cyclones in Mozambique, whereby “United Internet for UNICEF” provided € 1.2 million for emergency aid in the country.

The single or repeat donations gained via United Internet’s portals are passed on 100% to UNICEF as all foundation staff work on a voluntary basis, or are not paid from “United Internet for UNICEF” donations.

There were several reasons to set up a foundation devoted principally to supporting UNICEF:

- UNICEF makes a sustainable improvement to the lives of children. True to the principle of “Helping People Help Themselves”, UNICEF develops national programs around the world focusing on education, health, child protection, and the fight against malnutrition. UNICEF involves the local population in its development work and supports them in such a way that they can look after themselves and their children.
- UNICEF provides long-term aid, but also offers fast and reliable help in emergency situations. In the wake of earthquakes, floods, or wars, UNICEF provides children with clean drinking water and drugs, sets up provisional schools and offers psycho-social care. UNICEF can draw on its many years of experience and global presence.
- UNICEF imposes strict controls on the use of donations. Both the UNICEF representatives in the program countries and the local partners are regularly inspected to ensure that funds are being used exactly as planned.

In the fiscal year 2019, a further € 4.7 million (prior year: € 3.5 million) was collected in donations and transferred to UNICEF – according to preliminary figures. Since its creation, the foundation has so far collected € 47.8 million.



[www.united-internet-for-unicef-stiftung.de](http://www.united-internet-for-unicef-stiftung.de)

Further information on the “United Internet for UNICEF” foundation can be found online at [www.united-internet-for-unicef-stiftung.de](http://www.united-internet-for-unicef-stiftung.de).

## Support for refugees

The integration of people who have fled war and destruction continues to pose challenges for society, such as care and language barriers, as well as their cultural and economic integration. In addition to the “United Internet for UNICEF” foundation, the United Internet Group has been active since 2015 in various activities to promote the sustainable integration of refugees in Germany. The Company’s integration measures are based on the current needs of the refugees and have therefore been constantly adapted over the past few years.

The initiative began with “1&1 Welcome” in 2015, when United Internet employees helped refugees settle in their initial accommodation with a variety of offers (e.g., music, sports, and leisure activities, decorating their rooms). This was soon followed by “1&1 Language” in which contact centers were set up near refugee homes to offer German language courses.

With the closure of the refugee homes, demand for the initiatives also changed. Since March 2016, the main focus has therefore been on the “1&1 Fit for Job” training program. In addition to the measures offered by the state and local authorities, refugees are given help to prepare for the German labor market. At United Internet’s facilities in Montabaur, Karlsruhe, and Munich, a modular program gives participants a general overview of office work, the cultural environment, and possible careers at the Company, as well as hands-on training units on job applications and PC skills. All courses are held by skilled employees of United Internet, who can devote up to 10% of their working hours to the program. In addition to a core team, over 190 employees have so far volunteered for the “1&1 Fit for Job” program.

Almost 400 refugees and immigrants have so far participated in the “1&1 Fit for Job” program. More than 130 participants subsequently completed an internship at companies of the United Internet Group.

In 2017, the focus of the initiative was once again adapted to the changing needs of the participants. For example, there were an increasing number of follow-up events, which focused more on working with PCs and job application training.

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In 2018, the formats (training program, follow-up events, internship program, individual internship, sponsor program, employer events, networking) were adapted once more as needs changed away from training and toward preparation for work, and assistance with reintegration into the labor environment.

Although internships give an impression of working life in Germany, United Internet believes that apprenticeships are the only way to gain a firm professional foothold. 30 refugees are therefore currently doing an apprenticeship at Group companies and receiving intensive support in the form of learning assistance, language training, and personal mentors. The success of the initiative is demonstrated by the fact that seven refugees successfully completed their courses in 2019, and six of them have subsequently been given full-time employment by a company of the United Internet Group.

### 3. SUBSEQUENT EVENTS

United Internet AG has exercised its right to prematurely terminate a variable-rate tranche of promissory note loans totaling € 50 million and will repay it on the interest payment date of March 27, 2020. This tranche, which bore interest at 0.80% p.a., was originally due for repayment on March 27, 2023. As a result, the breakdown of liabilities into current and non-current bank liabilities disclosed in the consolidated balance sheet has been changed accordingly by the above mentioned amount.

Based on the authorization granted by the Annual Shareholders' Meeting on May 18, 2017 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board of United Internet AG resolved on March 12, 2020 to cancel 11,000,000 treasury shares and to reduce the capital stock of United Internet AG by € 11,000,000, from € 205,000,000 to € 194,000,000. The number of shares issued will decrease correspondingly by 11,000,000, from 205,000,000 to 194,000,000 shares. Issued shares will continue to represent a notional share of capital stock of € 1 each. The cancellation of treasury shares is aimed at raising the percentage stake of United Internet shareholders. On completion of the capital reduction, the Company's capital stock will return to the level prior to the capital increase for the Versatel acquisition in 2014. Following the cancellation of these 11,000,000 shares, United Internet AG will still hold 6,338,513 treasury shares.

The ongoing global spread of the coronavirus (SARS-CoV-2) is increasingly impacting the risk situation of the United Internet Group, for example in the risk areas of "Procurement market" and "Acts of God". Should the virus continue to spread over a longer period, this may also have a negative impact on demand, as well as on the usage and payment behavior of consumers and business owners, the purchase of pre-services (e.g. smartphones, routers, servers or network technology), or the health and fitness of employees, and thus ultimately on the performance of the United Internet Group. A precise risk assessment with regard to the duration and concrete effects of the corona crisis is not possible at present, as the assessments of health experts and political measures are also changing on an almost hourly basis.

There were no other significant events subsequent to the end of the reporting period on December 31, 2019 which had a material effect on the financial position and performance or the accounting and reporting of the parent company or the Group.



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Information on the economic position of the Group and Company at the time of preparing this Management Report are provided under point 4.3 in the "Forecast report".

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## 4. RISK, OPPORTUNITY AND FORECAST REPORT

The risk and opportunity policy of the United Internet Group is based on the objective of maintaining and sustainably enhancing the Company's values by utilizing opportunities while at the same time recognizing and managing risks from an early stage in their development. A risk and opportunity management system which is "lived" ensures that United Internet AG can exercise its business activities in a controlled company environment. The risk and opportunity management system regulates the responsible handling of those uncertainties which are always involved with economic activity.

### 4.1 Risk report

#### Risk management

The concept, organization, and task of United Internet AG's risk management system are defined by the Management Board and Supervisory Board, and documented in a risk management strategy and risk management manual which is valid for and available to all members of the Group. These requirements are regularly adapted to changing legal conditions and continuously developed. Corporate Risk Management coordinates the implementation and ongoing development of the risk management system and is responsible for the centrally managed risk management process on behalf of the Management Board. The risk management system covers only the Group's risks, while responsibility for the early and ongoing identification, evaluation, and management of opportunities lies directly with the Group Management Board and the operating management levels of the respective segments.

Corporate Risk Management is supported by the risk management teams of the respective segments (Company Risk Management). In order to support Company Risk Management, additional local risk managers have been installed in business fields of particular importance for the Company's business success (such as the areas "Technology & Development"). In order to facilitate the Group-wide exchange and comparison of risk information, regular Risk Manager Meetings are held between the various risk managers and also with the Company-wide, cross-functional managers.

The Corporate Audit department regularly examines the functioning and efficiency of the risk management system. As part of his statutory auditing obligations for the Annual Financial Statements and Consolidated Financial Statements, the external auditor also examines whether the risk early recognition system is generally suitable for the early identification of risks and developments which might endanger the Company so that suitable countermeasures can be swiftly introduced. The system complies with statutory requirements regarding risk early recognition systems, as well as with the version of the German Corporate Governance Code valid at the time of the last Declaration of Conformity. Its design is based on the specifications of the international ISO standard ISO/IEC 31000:2018. In accordance with the regulations of the German Stock Corporation Act, the Supervisory Board also examines the efficacy of the risk management system.

## Methods and objectives of risk management

The risk management system comprises those measures which enable United Internet to identify, classify in terms of money and scenario, steer, and monitor from an early stage all possible risks for the attainment of its corporate objectives with the aid of assessments and early warning systems. The aim of the Group-wide risk management system is to provide maximum transparency for management regarding the actual risk situation, its changes, and the available options for action so that a conscious decision can be taken to accept or avoid such risks. Risks endangering the Company must be avoided as a matter of principle. There is always an established indirect connection to central Group-wide risk management via the regular reporting channels throughout the Group and a direct connection for all major divisions. This ensures the completeness of registered risks in the risk management system.

The current status of the main risks is communicated to the Management Board and Supervisory Board four times per year. Identified important risks with an immediate impact or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately to the CFO of United Internet AG, who in turn reports it to the Supervisory Board where necessary. In this way, significant risks can be addressed as quickly as possible.

Risks are assessed with their net impact, i.e., effects from mitigating (corrective) measures are only considered in the risk assessment after implementation.

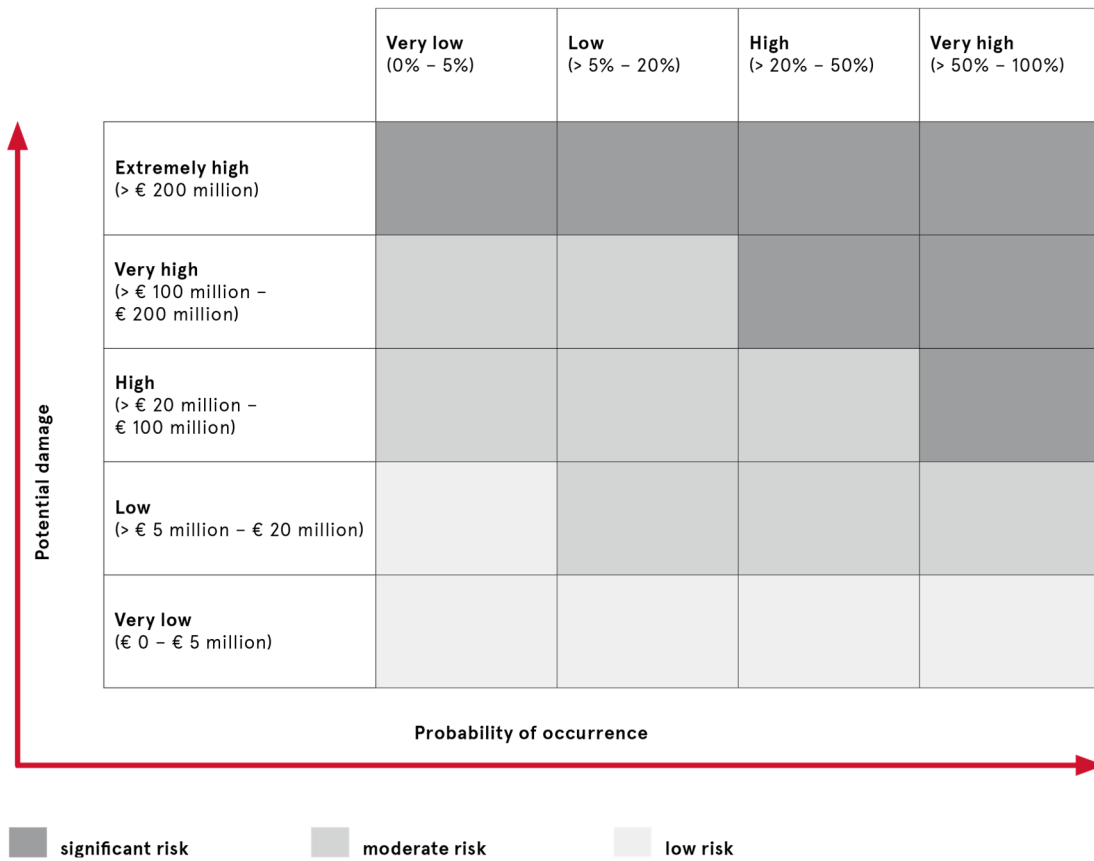


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## Risks for United Internet

The assessment of the overall risk situation is the result of a consolidated examination of all known material risks. Of the total risks identified for the Group, the following sections describe the main risk categories from the Company’s point of view.

The starting point for assessing the materiality of risks is provided by the characteristics “probability of occurrence” and “potential damage”. The potential damage comprises the potential loss of revenue, as well as potential external and internal expenses. Based on the combination of probability of occurrence and potential damage, the risks are assigned as follows to one of three risk categories: “significant”, “moderate”, and “low” risks.



Specific assessments of the Company’s Management Board regarding the Group’s risk situation, as well as the probability of occurrence, potential damage, and resulting categorization of the risks described below are provided at the end of this Risk Report.

## Strategy

### Shareholdings and investments

The acquisition and holding of shares in other companies and the making of strategic investments represent a key success factor for United Internet AG. In addition to improved access to existing and new growth markets, as well as to new technologies and know-how, investments also serve to exploit synergy and growth potential. However, these opportunities involve risks. For example, there is a risk that the targeted potential cannot be exploited as expected or that acquired shareholdings will not develop as expected (impairment losses, disposal losses, absence of dividend, or reduction of hidden reserves).

All investments are therefore subject to a continuous monitoring process by the Investment Management and are supported promptly if required. This risk is largely without relevance for EBITDA as, in the event of an incident, predominantly non-cash-effective impairments are incurred. The value of investments is continuously monitored by management and the Controlling division.

### Business development and innovations

A further key success factor for United Internet is also the development of new and constantly improved products and services in order to enhance sales and earnings, attract new customers, and expand existing customer relationships. There is always a risk, however, that new developments might be launched too late on the market or not be accepted by the target group as expected.

United Internet counters such risks by constantly and closely observing market, product, and competition trends, as well as by undertaking product development which constantly responds to customer feedback.

As part of its efforts to diversify the business model or expand its value chain, United Internet occasionally enters new markets, or upstream and downstream markets. On January 24, 2019, the management board of 1&1 Drillisch AG, a subsidiary of United Internet AG, decided with the approval of its supervisory board to apply for admission to the auction on the allocation of mobile frequencies in the 2 GHz and 3.6 GHz frequency bands and, in the event of a successful acquisition of spectrum at the auction, to establish and operate a 5G mobile network. At present, the company's mobile offerings are based on the use of third-party networks. Following its admission by the Federal Network Agency ("Bundesnetzagentur") on February 25, 2019, the 5G spectrum auction began on March 19, 2019. 1&1 Drillisch successfully completed its participation in the 5G spectrum auction on June 12, 2019 and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. The total auction price amounted to € 1.07 billion. By acquiring these frequencies, the company plans to gradually develop its own powerful mobile communications network, to further expand its value added in mobile communications, and to tap new business fields.

In addition to the resulting opportunities, such an entrepreneurial decision also entails risks. These may include, for example, the risk areas "technical plant operation", "procurement market" "litigation", "financing", and "liquidity". The Company attempts to minimize these risks by, among other things, cooperating with specialized partner companies as well as by preparing detailed and long-term plans in the risk areas "financing" and "liquidity".

### Cooperation and outsourcing

United Internet works together with specialized cooperation and outsourcing partners in certain areas of the Company. The focus here is on objectives such as focusing on the actual core business, reducing costs, or leveraging the expertise of partners. These opportunities also involve risks in the form of dependencies on external service providers, as well as contractual and default risks.

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In order to reduce these risks, detailed market analyses and due diligence reviews are carried out before major contracts are concluded with external service providers, and close and cooperative relationships are maintained with the cooperation and outsourcing partners after the contracts have been concluded.

### Organizational structure and decision-making

The choice of the appropriate organizational structure is essential for the efficiency and success of the Company. In addition to the organizational structure, business success also depends to a large extent on making the right decisions. The basis for such decisions can be negatively influenced by various factors, such as limited flexibility offered by existing business processes and structures, or misunderstandings caused by ambiguities in the definition of key figures. If efficiency is jeopardized by one or several factors, this represents a strategic risk for United Internet which should be avoided wherever it makes economic sense.

Due to the high degree of agility within the organization, United Internet considers itself to be generally well positioned in this respect and undertakes a number of measures to standardize and optimize processes, structures, and key figures.

### Personnel development and retention

Highly skilled and well trained employees form the basis for the economic success of United Internet. In addition to the successful recruitment of qualified personnel (see also the "personnel recruitment" risk), personnel development and the long-term retention of top performers within the Company are strategically important. If the Company fails to develop and retain executives and employees with specialist or technological knowledge, there is the danger that United Internet may not be able to effectively conduct its business and achieve its growth targets. The concentrated accumulation of strategic knowledge and skills (so-called head monopoly) can have a considerable impact on the performance of the Company if the corresponding employee is no longer available.



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United Internet counteracts this risk by continuously developing employee and management skills. For example, it offers targeted measures for professional development, mentoring and coaching programs, as well as special offers for high potentials geared to the further development of talent and leadership skills.

Further information on the topic of "personnel" is provided in section 2.5 "Significant non-financial performance indicators" of this Management Report under "Employees".



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## Market

### Sales market and competition

United Internet's markets are characterized by strong and sustained competition. Depending on the strategy of the parties involved in the market, different effects may occur which may lead also involve adjustments to the Company's own business models or pricing policy. The entry of new competitors might also jeopardize market shares, growth targets, or margins. In addition, United Internet itself occasionally enters new, additional markets with large competitors. Such an entrepreneurial decision is always associated with new risks.

United Internet attempts to minimize these risks by means of detailed planning based on internal experience and external market studies, as well as by constantly monitoring the market and the competition.

### **Procurement market**

A gap in the procurement or delivery of resources required for business operations may also lead to bottlenecks or outages at United Internet. This applies both to the purchase of hardware and the purchase of wholesale services. An increase in the price of purchased products and services also represents a risk for the targeted margins. Planned positive effects from contractually fixed price adjustment rounds can also become a risk for the achievement of the Company's periodic targets due to time delays.

United Internet counters these risks by cooperating with several long-term service providers and suppliers and – where it makes economic sense – by expanding its own value chain.

### **Financial market**

The activities of United Internet AG are fundamentally exposed to risks on the financial market. In particular, these include risks from changes in interest rates and exchange rates.

#### ■ **Interest**

The Company is exposed to interest risks as the major share of its borrowing bears variable interest rates with varying terms. As part of its liquidity planning, the Company constantly monitors the various investment possibilities and debt conditions. Any borrowing requirements are met by using suitable instruments to manage liquidity. Surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk remained largely unchanged. Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the balance sheet date.

#### ■ **Currency**

United Internet's currency risk mainly results from its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries.

### **Personnel recruitment**

It is therefore essential that human resources are effectively controlled so that the Company can ensure its short- and long-term needs for staff and the requisite expertise. If United Internet is not able to attract managers and employees with specialist and technological knowledge, it would not be able to effectively conduct its business and achieve its growth targets.

As an attractive employer, the Company believes it is well placed to hire highly skilled specialists and managers with the potential to drive its business success in the future. This was confirmed in the past years by the Top Employers Institute, which awarded United Internet the accolade "Top Employer 2019".

Further details on the topic of human resources are provided in section 2.5 of this Management Report "Significant non-financial performance indicators" under "Employees".



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## **Provision of services**

### **Work processes**

In view of the ever-increasing complexity and interoperability of the products offered, there are steadily growing demands placed on the development of internal work processes. This also involves an

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ever-higher degree of coordination. The particular challenge is to ensure quality standards especially in view of fast-changing market events – and on numerous differing domestic and foreign markets.

The Company counters these risks by continuously developing and enhancing its internal processes, pooling and retaining its experts and key personnel, and continuously optimizing its organizational structures.

### Information security

United Internet generates its commercial success largely in the telecommunications market and within the environment of the internet. In order to provide products and services, the Company uses information and telecommunication technologies (data centers, transmission systems, connection nodes, etc.) in its business processes which are closely networked with the internet and whose availability may be endangered by threats from the internet.

In order to deal with such risks more quickly, the existing monitoring and alarm system, together with the necessary processes and documentation, is continuously optimized.

There is also the risk of hacker attacks with the aim of stealing or deleting customer data, or using services fraudulently. In the fiscal year 2019, an increasing professionalization of the attackers and their attack methods was observed. According to the German Federal Office for Information Security (BSI), the number of known malicious program variants amounted to around 114 million new malware variants in the period June 2018 to May 2019.

United Internet counters this risk with the aid of virus scanners, firewalling concepts, self-initiated tests, and various technical monitoring mechanisms.

The threat potential of the internet is one of the largest threat groups for United Internet with regard to its effects, which are all monitored by numerous technical and organizational measures. Of particular relevance in this respect are the operation and continuous improvement of the security management system and the steady enhancement of system resilience.

### Capacity bottlenecks

Due to temporary or permanent shortages of technical resources, e.g., due to the temporary overloading of systems or a lack of resources to operate data centers, the planned provision of services may be jeopardized, threatening a corresponding loss of sales. Risks from the procurement of resources, such as products or services on the market, are not taken into account here.

In order to counter these risks, several internal stores are maintained. In addition, the Company is in close contact with energy suppliers, for example, in order to coordinate emergency concepts regarding the data centers. In the case of outages, these can be compensated for at short notice by implementing the aforementioned measures.

## **Projects**

The classic project objectives of quality, time, and budget are defined before or at the start of a project and are thus the subject of entrepreneurial planning. If potential risks already become apparent in the course of planning or project design (e.g., in the case of the planned construction of the Company's own mobile communications network) or if negative deviations from these plans become apparent in the course of a project's implementation, these are recorded as risks. Moreover, projects may also involve risks that do not affect the project itself but arise after the project has been completed (for example, security vulnerabilities in new software code).

In addition to maintaining the current professional project management, the Company reduces the aforementioned risks by holding regular specialist project management training courses, in order to improve such aspects as security or data privacy requirements. The project objectives of quality, time, and budget are also closely monitored by management and the Controlling division.

## **Technical plant operation**

United Internet's products and related business processes are based on a complex technical infrastructure and a number of success-critical software systems (servers, customer relationship databases, and statistics systems, etc.). Constantly adapting this infrastructure to changing customer needs leads to greater complexity and regular changes. In addition to major events, like the migration of databases, this may lead to various disruptions or defects. Should this affect our business systems or their databases, for example, daily account debiting may be delayed or no longer possible. Should this affect our performance systems, for example, United Internet may not be able to provide its customers with the promised service, on a temporary or longer-term basis.

The Company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing spatially separated (geo-redundant) core functionalities.

For the operation of systems, there is a risk of targeted attacks from inside and outside the Company, e.g., from hackers or manipulation by staff with access rights, which may result in non-availability or a deterioration of services.

In order to counter this risk, the Company takes a wide variety of software- and hardware-based safety precautions to protect the infrastructure and its availability. By dividing responsibilities, the Company has made sure that activities or business transactions involving risks are not carried out by single employees but on the basis of the "double-check principle". Manual and technical access restrictions also ensure that employees may only operate within their particular area of responsibility. As an additional precautionary measure against data loss, all data are regularly backed up and stored in separate, i.e., geo-redundant, data centers.

## **Compliance**

### **Data privacy**

It can never be fully ruled out that data privacy regulations may be contravened, for example by human error or technical weaknesses. In such cases, United Internet faces fines and the loss of customer confidence.

United Internet stores the data of its customers on servers according to international security standards at its own and at rented data centers. The handling of these data is subject to extensive legal regulations.

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The Company is aware of this great responsibility and attaches a high degree of importance and care to data privacy. By using state-of-the-art technologies, continuously monitoring all data-privacy and other legal regulations, providing extensive staff training on data protection regulations, and involving data protection aspects and requirements as early as possible in product development, United Internet continuously invests in improving the standard of its data privacy.

The new rules of the EU General Data Protection Regulation (GDPR) came into force in May 2018. Due to increased sanctions for breaches of duty, data protection risks have increased. In addition to higher sanctions, GDPR also includes new regulations regarding consent declarations, as well as new obligations for reporting to authorities and those affected in the case of data loss.

### Misconduct and irregularities

Non-compliance or non-observance of social norms, trends, and peculiarities can lead to misconduct and wrong decisions and thus to a loss of revenue. As an internationally operating company, United Internet also faces the challenge of countering such negative factors through adequate management in the area of internal processes and procedures. Not every decision or business practice that is unobjectionable from a legal point of view is also acceptable in the respective cultural, ethical, or social context.

United Internet counters the risks arising from misconduct and breaches of rules with its “culture of togetherness”, the provision of a Code of Conduct, country-specific management, and compliance as an integral part of corporate culture.

### Legislation and regulation

Changes in existing legislation, the enactment of new laws, and changes in government regulation issues may have unexpected negative effects on the business models pursued by United Internet and their further development. In the Consumer Access segment in particular, the decisions of the Federal Network Agency and the Federal Cartel Office have an influence on network access and the pricing of internet access tariffs. Price increases of network providers from whom United Internet purchases pre-services for its own customers can have a negative impact on the profitability of tariffs. In the same way, there is also the possibility that a lack of regulation may lead to a deterioration of market circumstances for United Internet.

United Internet attempts to counter this tendency toward an increasing regulation risk by cooperating with various pre-service providers and by actively participating in the activities of industry associations. With its complete takeover of Versatel in 2014, United Internet now also has its own landline network. This network infrastructure gives United Internet the possibility to gradually expand its vertical integration and to procure fewer broadband wholesale services. In addition, since the takeover of Drillisch (now 1&1 Drillisch) in 2017, United Internet has been the only MBA MVNO in Germany with long-term rights to a share of up to 30% of the used network capacity of Telefónica Germany. This gives United Internet extensive access to one of Germany’s largest mobile networks and to all available mobile communications technologies, such as 5G.

### Litigation

The United Internet Group is currently involved in various legal disputes and arbitration proceedings arising from its normal business activities. The outcome is by definition uncertain and thus represents a risk. Insofar as the size of the obligation can be reliably estimated, accruals are formed for such risks from litigation, where permissible.

**Tax risks**

As an internationally operating company, United Internet is subject to the tax laws applicable in the respective countries. Risks may arise from changes in tax laws or case law, as well as from differences in the interpretation of existing regulations.

United Internet counters these risks by continuously expanding its existing tax management system.

**Finance****Financing**

The main financial liabilities incurred by United Internet AG for the financing of its activities include bank loans, overdraft facilities, and other financial liabilities. United Internet holds various financial assets which result directly from its business activities. They consist mainly of shares in affiliated companies and investments, as well as receivables from affiliated companies. As of the balance sheet date, the Company mainly held primary financial instruments.

The aim of financial risk management is to limit risks through ongoing operating and financial activities.

**Fraud and credit default**

In order to meet the requirements of dynamic customer growth and provide services as quickly as possible in the interests of its customers, United Internet has largely automated its order and provision processes – as have many other companies in such mass market businesses. The nature of such automated processes provides possibilities for attacks from fraudsters. Due to the strong appeal of the products and services offered, not only the number of customers is increasing but also the number of non-payers and fraudsters. Consequently, the amount of credit default has risen. United Internet may suffer damage, for example, from hardware or automated domain orders which are ordered under false names and not paid for. The fraudulent use of SIM cards may also incur damage due to large-scale call forwarding or roaming calls, for example.

United Internet attempts to prevent such fraud attacks – or at least to recognize and end them at an early stage – by permanently expanding its fraud management capabilities, working closely with pre-service providers, and taking account of such risks in the design of its products.

**Liquidity**

The general liquidity risk of United Internet consists of the possibility that the Company may not be able to meet its financial obligations, such as the redemption of financial debts. The Company's objective is to continuously cover its financial needs and secure flexibility, for example by using overdraft facilities and loans.

Group-wide cash requirements and surpluses are managed centrally by the cash management system. By netting these cash requirements and surpluses within the Group, the amount of external bank transactions can be minimized. This is managed, for example, by using cash pooling processes. The Company has established standardized processes and systems to manage its bank accounts and internal netting accounts, as well as for the execution of automated payment transactions. In addition to operating liquidity, United Internet also holds other liquidity reserves, which are available at short notice.



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## Acts of God

External events such as natural disasters (earthquakes, floods, tsunamis, etc.), personnel crises (pandemics, strikes, etc.), infrastructure crises (power outages, road damage, etc.), or violent incidents (rampage, terrorist attacks, etc.) may affect United Internet's operations.

United Internet counters these risks as far as possible with a variety of measures. Examples include the establishment of building access restrictions, the operation of georedundant data centers, or (as in the current case of the coronavirus) hygiene precautions, location-independent workplaces, the use of modern communication media to avoid travel, and the elaboration of emergency concepts.

## Additional disclosures on risks, financial instruments, and financial risk management

Further details on risks, financial instruments, and financial risk management are provided in Note 43 "Objectives and methods of financial risk management" in the Notes to the Consolidated Financial Statements.



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## Management Board's overall assessment of the Group's risk position

The assessment of the overall level of risk is based on a consolidated view of all significant risk fields and individual risks, also taking account of their interdependencies.

From the current perspective, the main challenges are the risk fields "Information security", "Litigation", and "Business development & innovations". The risk classifications of the risk fields "Litigation" and "Business development & innovations" were raised during the year due to legal disputes with wholesale suppliers and the decision to establish the Company's own powerful mobile communications network.

The continuous expansion of its risk management system enables United Internet to limit these risks and other risks to a minimum, where sensible, by implementing specific measures.

Depending on the further share price development of listed United Internet investments in the Group's non-operating business, impairment charges may lead to (non-cash effective) burdens.

Compared to the previous year, the overall risk has risen in total. The main reason is the Company's decision to gradually establish its own powerful mobile communications network, thus also raising value added in the mobile communications business and tapping new business fields. In the assessment of the overall risk situation, the opportunities which exist for United Internet were not taken into consideration. There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2019, nor as of the preparation date for this Management Report, neither from individual risk positions nor from the overall risk situation.

The ongoing global spread of the coronavirus (SARS-CoV-2) is increasingly impacting the risk situation of the United Internet Group, for example in the risk areas of "Procurement market" and "Acts of God". Should the virus continue to spread over a longer period, this may also have a negative impact on demand, as well as on the usage and payment behavior of consumers and business owners, the purchase of pre-services (e.g. smartphones, routers, servers or network technology), or the health and fitness of employees, and thus ultimately on the performance of the United Internet Group. A precise risk assessment with regard to the duration and concrete effects of the corona crisis is not possible at present, as the assessments of health experts and political measures are also changing on an almost hourly basis.

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**Probability of occurrence, potential damage, and the classification of risks from the Group's perspective and their relevance for the various segments/divisions:**

	Main segment relevance	Probability of occurrence	Potential damage	Risk classification	Change over previous year
<b>Risks in the field of "Strategy"</b>					
Shareholdings & investments	Corporate	High	Low	Moderate	→
Business development & innovations	Consumer Access	Low	Extremely high	Significant	↗
Cooperation & outsourcing	Business Applications	Low	Very low	Low	→
Organizational structure & decision-making	Business Applications	Low	Very low	Low	→
Personnel development & retention	Business Applications	High	Low	Moderate	→
<b>Risks in the field of "Market"</b>					
Sales market & competition	Business Applications	High	High	Moderate	→
Procurement market	Business Applications	Low	Low	Moderate	→
Financial market	Business Applications	Very high	Very low	Low	→
Personnel recruitment	Business Access Business Applications	High	Very low	Low	→
<b>Risks in the field of "Service Provision"</b>					
Work processes	Business Applications	Low	Low	Moderate	→
Information security	Business Applications	Low	Extremely high	Significant	→
Capacity bottlenecks	Business Applications	Low	Very low	Low	→
Projects	Consumer Access	Low	High	Moderate	↗
Technical plant operation	Business Applications	Low	High	Moderate	→
<b>Risks in the field of "Compliance"</b>					
Data privacy	Consumer Applications Business Applications	High	High	Moderate	→
Misconduct & irregularities	Business Applications	Very low	Very low	Low	→
Legislation & regulation	Business Applications Consumer Applications	Low	High	Moderate	→
Litigation	Consumer Access	Low	Extremely high	Significant	↗
Tax risks	Business Applications	High	Very low	Low	→
<b>Risks in the field of "Finance"</b>					
Financing	Business Applications	Very low	Very low	Low	→
Fraud & credit default	Consumer Access	High	Low	Moderate	→
Liquidity	Business Applications	Low	Very low	Low	→
<b>Risks in the field of "Acts of God"</b>					
Acts of God	Business Access Business Applications	Very low	High	Moderate	→

**Legend:** ↗ improved → unchanged ↘ worsened

## 4.2 Opportunity report

### Opportunity management

Opportunity management is based on strategic planning and the resulting measures for the development of products and their positioning for various target groups, markets, and countries during the product life cycle.

The Group Management Board, as well as the operative management level of the respective business segments, have the direct responsibility for the early and continuous identification, assessment, and steering of opportunities.

The management team of United Internet AG makes extensive use of detailed evaluations, models, and scenarios on current and future trends regarding sectors, technologies, products, markets/market potential, and competitors in the Group's fields of activity. The potential opportunities identified during these strategic analyses are then examined with regard to the critical success factors and existing external conditions and possibilities of United Internet AG in planning discussions between the Management Board, Supervisory Board, and operational managers before being implemented in the form of specific measures, targets, and milestones.

The progress and success of these measures is continuously monitored by operational management, as well as the managing directors and management board members of the respective companies.

### Opportunities for United Internet

United Internet's stable and largely non-cyclical business model ensures predictable revenues and cash flows, thus providing the financial flexibility to grasp opportunities in new business fields and markets – organically or via investments and acquisitions.

#### Broad strategic positioning in growth markets

In view of its broad positioning in current growth markets, the Company's purely strategic growth opportunities are clearly apparent: universally accessible, permanently available, and increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. From the current perspective, these internet-based programs for home users, freelancers, and small companies are likely to be United Internet's growth drivers over the coming years – both as stand-alone products in the Consumer Applications and Business Applications segments, as well as in combination with landline and mobile access products in our Consumer Access segment.

#### Participation in market growth

Despite the uncertain macroeconomic conditions, United Internet – as well as many of the sector's leading analysts – expects further progress in those markets of importance to the Company. United Internet is one of the leading players in these markets. At home and abroad. With its highly competitive Access products, its growing portfolio of cloud applications, its strong and specialized brands, its high sales strength, and already established business relationships with millions of private and business customers (cross-selling and up-selling potential), United Internet is also well positioned to participate in the expected market growth of both its business divisions.

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## Expansion of market positions

United Internet AG is now one of the leaders in many of its business fields. Based on its existing technological know-how, its high level of product and service quality, the widespread popularity of Group brands such as 1&1, GMX or WEB.DE, its business relationships with millions of private and business customers, and its high customer retention ratio, United Internet sees good opportunities to build on its current market shares.

## Entry into new business fields

One of United Internet's core competencies is to recognize customer wishes, trends, and thus new markets at an early stage. With its broadly based value chain (from product development and data center operation, to effective marketing, powerful sales organization, and active customer support), United Internet is often faster at placing innovations on the market and – thanks to the high level of cash generation in its existing business fields – capable of providing them with strong marketing support.

When new opportunities appear on the horizon, United Internet is well prepared and also capable of financing many years of cost-intensive preparation thanks to its strong cash generation in existing business fields.

In 2018, for example, United Internet established the European netID Foundation (EnID) together with the media group RTL Germany and ProSiebenSat.1. The initiative's goal is to establish a European alternative to US providers with the single sign-on product netID. The Foundation has developed an open standard that enables users to access all partner websites of the European netID Foundation using the same login data. The Foundation reviews all standards, partners, and providers of user accounts within the initiative. With the open login standard netID, the Foundation focuses on the data sovereignty of each individual user. With the aid of netID, users can organize their consent to the use of online services via a privacy center which guarantees transparency and compliance with data protection regulations. netID is available to GMX and WEB.DE customers, as well as to customers of other netID partners, with the same log-in data. New users can create a netID account free of charge by using a combination of e-mail address and password. As part of the development of NetID, the United Internet brands GMX and WEB.DE have greatly reduced their ad space on the respective portals and at the same time are driving the expansion of data-driven business models for better advertising monetization.

## Own landline infrastructure

Since its acquisition of 1&1 Versatel (2014), United Internet operates its own telecommunications network. With a length of around 48,500 km, it is one of Germany's largest fiber-optic networks. This network infrastructure gives United Internet the opportunity to extend its vertical integration and also gradually reduce its purchases of wholesale broadband services.

In addition, having its own network also offers United Internet the opportunity to systematically expand its B2B data and infrastructure business with SMEs and large corporations. The scale of this opportunity is underlined by the considerable pent-up demand for direct fiber-optic connections in Germany. According to the latest survey of the OECD (Organization for Economic Co-operation and Development) in December 2018, only 3.2% (prior year: 2.3%) of all broadband connections in Germany are fiber-optic connections. Germany thus lags well behind in 32<sup>nd</sup> place (prior year: 33<sup>rd</sup> place) among the 37 OECD countries surveyed, and is also well below the OECD average of 26.0% (prior year: 23.3%).

## Access to Telefónica mobile network

Following the merger with Drillisch (2017), United Internet – indirectly via 1&1 Drillisch – is the only MBA MVNO in Germany with a long-term claim to a specific share (rising to 30%) of the used network capacity of Telefónica Germany, and thus has extensive access to one of Germany’s largest mobile networks. As a result, United Internet has contractually assured, unrestricted access not only to LTE (4G), but also to all further future technologies such as 5G.

As a consequence of the merger between 1&1 Telecommunication and Drillisch, United Internet can use its coordinated branding and customer targeting to address the German premium and discount segments more precisely, while achieving a high and comprehensive reach among its target groups with its differently positioned brands.

## Establishment of own mobile communications network

On June 12, 2019, 1&1 Drillisch successfully completed its participation in the 5G spectrum auction and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band. The total auction price amounted to € 1.07 billion. By acquiring these frequencies, the Company plans to gradually develop its own powerful mobile communications network, to further expand its value added in mobile communications, and to tap new business fields.

With around 10 million mobile and over 4.3 million broadband customers, one of Germany’s largest fiber-optic networks, and a leading European position in app development, the United Internet Group is well placed to exploit the tremendous potential of 5G in Germany.

## High degree of vertical integration for applications

In its Applications segment, United Internet covers the entire value creation chain. Applications are developed at the Company’s own “Internet Factories” or in cooperation with partner firms and operated on around 90,000 servers at the Company’s 10 data centers. This enables United Internet to maintain high quality standards and to respond quickly to customer needs and changing market situations in order to win new customers and retain existing ones.

## Internationalization

Cloud applications can be used anywhere in the world and work on the same principle in Frankfurt as they do in London, Rome, or New York. In the past, United Internet has already successfully adapted cloud products – such as 1&1 MyWebsite – to various languages and country-specific features and gradually rolled them out in different nations.

Thanks to the high degree of exportability which these products offer, United Internet is already active in its Applications segment in numerous European countries (Germany, Austria, Switzerland, the UK, France, Spain, Italy, Poland, and the Netherlands), as well as in North America (USA, Canada, and Mexico). Further countries and product roll-outs will gradually follow.

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## Acquisitions and investments

In addition to organic growth, United Internet also constantly examines the possibility of company acquisitions and strategic investments. Thanks to its high and plannable level of free cash flow, United Internet also has a strong source of internal funding and good access to debt financing markets in order to utilize opportunities in the form of acquisitions and investments.

United Internet has enhanced its market standing in Germany and abroad, for example, by making several acquisitions and strategic investments while gaining considerable expertise in the field of mergers and acquisitions (M&A) and company integration.

The most important M&A activities of the past include the acquisition of WEB.DE's portal business (in 2005), the acquisitions of Fasthosts (2006) and united-domains (2008), the acquisition of freenet's broadband business (2009), and the acquisitions of mail.com (2010), Arsys (2013), Versatel (2014; now 1&1 Versatel), home.pl (2015), STRATO (2017), ProfitBricks (2017; now IONOS Cloud), Drillisch (2017; now 1&1 Drillisch), and World4You (2018). The most important strategic investments include the investments in Open-Xchange (2013), ePages (2014), uberall (2014), Tele Columbus (2016), rankingCoach (2017), and Awin (2017 via the contribution of affilinet).

## 4.3 Forecast report

### Expectations for the economy

In its global economic outlook published in January 2020, the International Monetary Fund (IMF) updated its forecasts for the development of the global economies in 2020 and 2021. All in all, the IMF expects the **global economy** to recover in the current and following year with global growth of 3.3% and 3.4% in the years 2020 and 2021 – compared to 2.9% in 2019.

The IMF is thus more optimistic than other experts, although it remains slightly more pessimistic than in its own forecast of October 2019. The Fund justifies its cautious optimism with the de-escalation of the trade dispute between the USA and China, the strengthening of consumer spending due to the ongoing expansionary monetary policy of the central banks, and the fact that a disorderly exit from the EU by the UK government is currently less likely again. At the same time, however, the IMF points to numerous risks, such as a renewed escalation of the trade dispute, or geopolitical tensions such as those between the USA and Iran. Anti-government protests such as those in Chile could also be detrimental to the economy.

The latest IMF forecasts for United Internet's target markets in North America (the USA, Canada, and Mexico) are as follows: following growth of 2.3% in 2019, the **US economy** is expected to grow by just 2.0% in 2020 and by 1.7% in 2021. The **Canadian economy** is expected to grow by 1.8% in both 2020 and 2021 – following growth of 1.5% in 2019. The economy in **Mexico** is also expected to grow again, by 1.0% in 2020 and 1.6% in 2021, following a year of stagnation in 2019.

The IMF anticipates stronger growth of 1.3% and 1.4% in the **eurozone** in 2020 and 2021 – following growth of 1.2% in 2019.

The IMF expects diverging economic trends in United Internet's main European markets (France, Spain, Italy, and the non-euro country UK): following growth of 1.3% in 2019, the IMF forecasts a further increase of 1.3% in both 2020 and 2021 for **France**. Growth in **Spain** is expected to reach just 1.6% in 2020 and 2021, compared to growth of 2.0% in 2019. The IMF forecasts growth in **Italy** of 0.5% and 0.7% in 2020 and 2021, following growth of 0.2% in 2019. And after growing by 1.3% in 2019, the IMF forecasts growth for the **UK** of 1.4% and 1.5% in 2020 and 2021.

For United Internet's most important market, **Germany**, the IMF forecasts economic growth of 1.1% in 2020 and 1.4% in 2021 – following 0.5% in 2019. With expected growth of 1.1% for 2020, the IMF is in line with the German government's own forecast of 1.1% growth in price-adjusted GDP, as published in its Annual Economic Report 2020.



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**Market forecast: GDP development of most important economies for United Internet**

	2021e	2020e	2019
World	3.4%	3.3%	2.9%
USA	1.7%	2.0%	2.3%
Canada	1.8%	1.8%	1.5%
Mexico	1.6%	1.0%	0.0%
Eurozone	1.4%	1.3%	1.2%
France	1.3%	1.3%	1.3%
Spain	1.6%	1.6%	2.0%
Italy	0.7%	0.5%	0.2%
UK	1.5%	1.4%	1.3%
Germany	1.4%	1.1%	0.5%

Source: International Monetary Fund, World Economic Outlook (Update), January 2020

## Sector/market expectations

The industry association Bitkom expects the **ICT market in Germany** to grow by 1.5% (prior year: +2.0%) to € 172.2 billion in 2020.

With an increase of 2.7% (prior year: + 2.9%) to € 95.4 billion, the **IT market** is expected to show the strongest growth again in 2020. Within this sector, growth in the software segment will once again be the fastest with an increase of 6.4% (prior year: +6.3%) to € 27.6 billion. IT services – which include project business and IT consulting – are also expected to reach growth of 2.4% again (prior year: +2.4%) to € 41.9 billion. By contrast, the IT hardware segment is expected to decline by 0.4% (prior year: +0.5%) to € 25.9 billion.

A further strong decline of 7.0% (prior year: -7.7%) to € 8.0 billion is forecast for sales of **consumer electronics**.

The most important ICT markets for United Internet's business model are the German telecommunications market (broadband connections and mobile internet) for its mostly subscription-financed Access division, and the global cloud computing and German online advertising markets for its subscription- and ad-financed Applications division.

### Telecommunications market in Germany

The industry association Bitkom forecasts further growth for the German telecommunications market in 2020. Sales are expected to grow by 1.0% (prior year: 2.0%) to € 68.8 billion.

Slight growth of 0.4% (prior year: 0.0%) to € 48.8 billion is anticipated for telecommunication services. Sales of TC devices are set to grow by 2.5% (prior year: 11.1%) to € 12.8 billion, while the telecommunication infrastructure business is forecast to grow by 2.0% (prior year: + 1.5%) to € 7.2 billion.

**Market forecast: telecommunications market in Germany**

in € billion	2020e	2019	Change
Sales	68.8	68.1	+ 1.0%

Source: Bitkom, Annual press conference, January 2020

## Global cloud computing market

In an update of its study "Forecast Analysis: Public Cloud Services, Worldwide", Gartner forecasts global growth for public cloud services of 16.9% (prior year: 15.8%), from \$ 227.80 billion to \$ 266.36 billion in 2020.

### Market forecast: global cloud computing

in \$ billion	2020e	2019	Change
Global sales of public cloud services	266.36	227.80	+ 16.9%
thereof Application Infrastructure Services (PaaS)	39.69	32.23	+ 23.1%
thereof Application Services (SaaS)	115.97	99.53	+ 16.5%
thereof System Infrastructure Services (IaaS)	49.99	40.32	+ 24.0%
thereof Management and Security Services	13.85	12.03	+ 15.1%
thereof Business Process Services (BPaaS)	46.86	43.69	+ 7.3%

Source: Gartner, November 2019

## Online advertising market in Germany

Advertisers continued to display a strong willingness to invest in online advertising activities in 2019. And experts forecast further growth for 2020. PricewaterhouseCoopers expects an increase of 6.6% (prior year: 6.9%) to € 9.07 billion. The strongest growth is expected for mobile online advertising and video advertising with increases of 22.7% and 10.1%, respectively.

### Market forecast: online advertising in Germany

in € billion	2020e	2019	Change
Online advertising revenues	9.07	8.51	+ 6.6%
thereof search marketing	4.02	3.86	+ 4.1%
thereof display advertising	1.69	1.66	+ 1.8%
thereof mobile online advertising	1.57	1.28	+ 22.7%
thereof affiliate / classifieds	1.03	1.02	+ 1.0%
thereof video advertising	0.76	0.69	+ 10.1%

Source: PricewaterhouseCoopers, German Entertainment and Media Outlook 2019 – 2023, October 2019

## Expectations for the Company in 2020

### Forecast for the fiscal year 2020



see pages 94 and 95

Against the backdrop of uncertain macroeconomic conditions due to the growing spread of the coronavirus (see comments in sections 4.1 "Risk Report" and 3 "Subsequent Events"), United Internet expects sales and EBITDA in the fiscal year 2020 to be approximately on a par with the previous year. This forecast is subject to considerable uncertainty, as an exact assessment of the duration and impact of the corona crisis is not currently possible.

Due to its role as a holding company, the earnings of United Internet AG at **parent company level** are mainly influenced by its investment result (profit transfers and dividends) and the interest result.

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Against this backdrop, the Management Board expects strongly positive net income for fiscal year 2020 (subject to possible special items).

United Internet AG intends to maintain its shareholder-friendly **dividend policy** based on continuity in the coming years. Dividend payouts will continue to represent approx. 20-40% of adjusted net income from continued operations after minority interests (adjusted net income attributable to "shareholders of United Internet AG" – according to the consolidated statement of comprehensive income) in the future. The prerequisite, however, is that funds are not required for further Company development.

### Management Board's overall statement on the anticipated development

The Management Board of United Internet AG is upbeat about its prospects for the future. Thanks to a business model based predominantly on electronic subscriptions, United Internet believes it is largely stable enough to withstand cyclical influences. And with the investments made over the past few years in customer relationships, new business fields and internationalization, as well as via acquisitions and investments, the Company has laid a broad foundation for its planned future growth.

United Internet will continue to pursue this sustainable business policy in the coming years.

- In the Consumer Access segment, the main focus in 2020 will be on marketing mobile internet products and winning high-quality customer relationships. The Company also plans to leverage the strong positioning of its broadband products to generate further growth.
- In the Business Access segment, the Company's own fiber-optic network is to be expanded in 2020 with the connection of further locations. Activities for business and wholesale customers will also be expanded.
- In fiscal year 2020, the key topics in the Consumer Applications segment will again be the repositioning and revamping of the GMX and WEB.DE portals (including the associated reduction in ad space), as well as the concurrent establishment of data-driven business models.
- In the Business Applications segment, the focus will continue to be on expanding business with existing customers and gaining new high-quality customer relationships in 2020.

Following a successful start to the year (at the time of preparing this Management Report), the Company's Management Board believes that the Company is on track to reach the forecast presented above in the section "Forecast for the fiscal year 2020".

### Forward-looking statements

This Management Report contains forward-looking statements based on current expectations, assumptions, and projections of the Management Board of United Internet AG and currently available information. These forward-looking statements are subject to various risks and uncertainties and are based upon expectations, assumptions, and projections that may not prove to be accurate. United Internet AG does not guarantee that these forward-looking statements will prove to be accurate and does not accept any obligation, nor have the intention, to adjust or update the forward-looking statements contained in this report.



## 5. ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In accordance with section 289 (4) and section 315 (4) German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report.

United Internet AG regards risk management as part of its internal control system (ICS). The ICS is understood as an ongoing process comprising organizational, controlling, and monitoring structures to ensure permanent compliance with legal and corporate requirements.

The Management Board of United Internet AG is responsible for the scope and structure of its ICS and takes account of the Company's specific requirements. The monitoring of the ICS's effectiveness is one of the duties of the Supervisory Board of United Internet AG, which is regularly informed by the Management Board about the status of the ICS and the findings of the Company's Internal Audit system. Within the United Internet Group, the Corporate Audit department is responsible for independently auditing the appropriateness, effectiveness, and functionality of the ICS and has been granted extensive rights with regard to information, examination, and access in order to exercise its duties. Its audits are based on a risk-oriented audit plan which also includes regular audits of subsidiaries. In addition, the Corporate Audit department conducts fundamental audits regarding the proper functioning of important asset and inventory stock-taking. In addition, those areas of ICS of relevance for financial reporting are audited with regard to efficiency by the external auditors as part of their risk-oriented audit approach.

The accounting-related ICS is continuously being developed and comprises principles, procedures, and measures to secure the effectiveness, economic efficiency, and compliance of the accounting system and to ensure that the relevant laws and standards are observed. During preparation of the Consolidated Financial Statements, the ICS is used in particular to ensure the application of International Financial Reporting Standards (IFRS), as endorsed by the European Union, and the additional provisions under commercial law pursuant to section 315e of the German Commercial Code (HGB). When preparing the Annual Financial Statements and Management Report, the ICS also helps ensure that regulations under commercial law are observed.

However, a fundamental aspect of every ICS, irrespective of its particular design, is that it cannot provide absolute safety that material misstatements in accounting are avoided or detected. This may be due, for example, to incorrect discretionary decisions of individuals, faulty controls, or criminal acts.

The following statements refer solely to the fully consolidated subsidiaries included in the Annual Financial Statements of United Internet AG, for which United Internet AG has the direct or indirect possibility of determining their financial and monetary policy in order to derive a benefit from the activity of these companies.

The task of United Internet AG's risk management system includes setting measures to detect and assess risks, reduce them to an acceptable level, and monitor recognized risks. A risk management system requires organized action to deal suitably with uncertainty and threats and urges employees to utilize the regulations and instruments required to ensure compliance with the risk management principles. In addition to operative risk management, it also includes the systematic early recognition, management, and monitoring of risks. The accounting-related risk management system focuses on the risk of false statements in accounting and external reporting.

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Specific accounting-related risks may arise, for example, from the conclusion of unusual or complex transactions. Business transactions which cannot be processed in a routine manner are also exposed to latent risks. It is necessary to grant a limited circle of people certain scope for discretion in the recognition and measurement of assets and liabilities, which may result in further accounting-related risks.

The accounting-related ICS comprises internal controls, defined on the basis of risk aspects, for those processes which are relevant for financial reporting as well as those processes that support the IT systems. Special emphasis is placed on IT security, change management, and operational IT processes. Organizational, preventive, and detective controls are applied, which can be conducted manually or with the aid of IT. The effectiveness and efficiency of the accounting-related ICS requires highly developed employee skills. Regular training, the "four-eye principle", and the functional separation of administrative, executive, and approval processes are indispensable for the United Internet Group. The Corporate Accounting division and other accounting departments are responsible for the management of the accounting processes. Laws, accounting standards, and other pronouncements are continuously analyzed with regard to their relevance and impact on accounting. The Group companies are responsible for the orderly and timely execution of the accounting-related processes and systems and are supported by the accounting departments accordingly.

If significant control weaknesses or opportunities for improvement are detected, they are assessed and countermeasures are developed with the persons responsible to improve the effectiveness of the ICS. Implementation of the measures is monitored by the Corporate Audit department and may be the subject of subsequent audits. In order to ensure the high quality of the accounting-related ICS, the Corporate Audit department is closely involved during all stages.

## 6. DISCLOSURES REQUIRED BY TAKEOVER LAW

The following disclosures according to sections 289a and 315a German Commercial Code (HGB) represent conditions as of the balance sheet date. As required by section 176 (1) sentence 1 AktG, the disclosures are explained in the sections below.

### Composition of capital

The subscribed capital of United Internet AG as of December 31, 2019 amounts to € 205,000,000 divided into 205,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution. All shares are listed on the stock exchange.

### Limitations affecting voting rights or the transfer of shares

There are legal limitations affecting voting rights of certain shares pursuant to section 71b AktG and section 71d S. 4 in conjunction with section 71b AktG. As of the balance sheet date, United Internet holds 17,338,513 treasury shares representing 8.46% of capital stock.

There are also legal limitations affecting voting rights regarding a conflict of interests pursuant to section 136 (1) AktG for shares held by the Management Board and Supervisory Board.

Among the members of the Management Board, Mr. Ralph Dommermuth held 82,500,000 shares of United Internet AG (40.24% of capital stock) as of December 31, 2019. Moreover, Mr. Frank Krause held 5,482 shares (0.00% of capital stock).

As of December 31, 2019, no members of the Supervisory Board held shares in United Internet AG.

There are no limitations affecting the transfer of shares.

### Direct and indirect participations in capital with over 10% of voting rights

On December 31, 2019, the Company's CEO, Mr. Ralph Dommermuth, residing in Germany, held 82,500,000 shares or 40.24% of the 205,000,000 shares in United Internet AG. The Management Board is not aware of further participations in capital exceeding 10% of voting rights.

### Special rights

Mr. Ralph Dommermuth is personally entitled to nominate a member of the Supervisory Board. This right is exercised by naming a person for the Supervisory Board to the Company's Management Board. The nomination becomes effective as soon as the nominated person declares his acceptance of the Supervisory Board seat to the Management Board. A requirement for the aforementioned nomination right is that Mr. Ralph Dommermuth holds shares himself or via affiliated companies pursuant to section 15ff. German Stock Corporation Law (AktG) representing at least 25% of the Company's voting capital

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and can prove as much to the Management Board on nomination of the Supervisory Board member by providing depository account statements or similar documents. Mr. Dommermuth has so far not made use of this nomination right. The Management Board is not aware of any further shares with special rights.

## Appointment and dismissal of Management Board members, amendments to Company articles

The appointment and dismissal of Management Board members is determined by sections 84, 85 AktG in conjunction with section 1 of the rules of procedure for the Supervisory Board. According to section 6 (1) of the Company's articles, the Management Board consists of at least one person. The Supervisory Board appoints and dismisses the members of the Management Board, determines their number and can appoint one member of the Management Board as Chairman.

Each amendment of the Company's articles requires the adoption of a shareholders' meeting resolution with a majority of at least three quarters of capital represented at the vote. Pursuant to section 22 of the Company's articles in conjunction with section 179 (1) sentence 2 AktG (Changes in capital stock and number of shares), the Supervisory Board is authorized to make amendments to the Company's articles insofar as they only concern formulation.

## Powers of the Management Board to issue new shares

The Management Board is entitled to issue new shares under the following circumstances:

The Management Board is authorized, subject to approval by the Company's Supervisory Board, to increase the Company's capital stock on one or more occasions before May 20, 2020 by a total of € 102,500,000.00 by issuing new no-par shares for cash and/or non-cash contributions (Authorized Capital 2015). The Management Board is also authorized, in certain cases stated in section 5.4 of the Company's articles, to exclude the statutory right of shareholders to subscribe to new shares. This applies in particular in the case of fractional amounts and when granting subscription rights for new shares to bearers of warrants, convertible bonds, or warrant bonds. The Management Board is also authorized, subject to the approval of the Supervisory Board, to restrict subscription rights in the case that the issue price of the new shares is not substantially lower than the quoted market price and the issued shares do not exceed in total 10% of capital stock. The Management Board is authorized, subject to the approval of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for non-cash contributions, especially in connection with the acquisition of companies, investments, or assets.

Capital stock has been conditionally increased by up to a further € 25,000,000.00, divided into 25,000,000 no-par shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on May 21, 2015 authorized the Company or a subordinated Group company to issue in the period ending May 20, 2020, providing the issue is in return for cash and no cash settlement is granted or the warrant or convertible bonds are serviced from the stock of treasury shares or approved capital.

## Powers of the Management Board to buy and use treasury shares

The Annual Shareholders' Meeting of May 18, 2017 issued a new authorization limited to September 18, 2020 and pursuant to section 71 (1) number 8 AktG, to acquire, sell or otherwise use or cancel treasury shares.

The Management Board was authorized, for every permissible purpose within the scope of legal restrictions, to purchase treasury shares in the amount of up to ten percent of the current capital stock (or if this value is lower, the existing capital stock at the time the stated authorization was implemented). The Company may implement the authorization for the pursuit of one or more purposes. It can also be exercised by dependent or majority-owned corporations of the Company or by third parties for the Company's or their own account. At no point in time may more than ten percent of capital stock be accounted for by the respective purchased treasury shares in combination with other treasury shares held by the Company or attributable to it pursuant to section 71a et seq. AktG. The authorization may not be used for the purposes of trading with Company shares.

The purchase of treasury shares is made at the discretion of the Management Board by way of repurchase via the stock exchange and/or (bb) by means of a public purchase offer issued to all shareholders.

- In the event of a purchase through the stock exchange, the counter value for the purchase of United Internet shares (without ancillary purchase costs) may not exceed, or fall below, ten percent of the Company's average share price, as listed on the last five trading days preceding the due date in the closing auction of the Frankfurt stock exchange's XETRA trading system (or any functionally equivalent successor of the XETRA system). The due date is deemed to be the day on which an obligation to purchase is incurred.
- When acquiring treasury shares by way of a public purchase offer to all shareholders, the Company may publish an offer aimed at all shareholders or publicly request the submission of offers. The exclusion and/or limitation of the shareholder's right to tender requires a Management Board resolution and consent of the Supervisory Board.

In addition to a sale via the stock exchange or in another manner that ensures the equal treatment of all shareholders, the Management Board is also authorized, subject to the approval of the Supervisory Board, to use the treasury shares purchased based on this or any prior authorizations, pursuant to section 71 (1) number 8 AktG, for the following purposes:

- Sale for cash consideration that is not significantly below the Company's share price listed on the stock exchange at the time of sale (without ancillary purchase costs). The Company's XETRA opening share price (or one of any functionally equivalent successor to the XETRA system) on the Frankfurt Stock Exchange on the day when the United Internet shares are sold is considered as the significant stock market price in terms of the above sales rule. This authorization, however, shall only apply on condition that this is a proportional amount of no more than ten percent, or if this value is lower, of the existing capital stock accounted for by the total sold shares when this authorization is implemented. Those shares with a subscription right which was excluded, by the direct or corresponding application of section 186 (3) sentence 4 AktG, for this authorization's duration at the same time should be counted toward the above-stated maximum threshold.
- Sale for payment in kind, particularly within the scope of the direct or indirect purchase of companies, parts of a company or equity shares therein, or other assets including receivables from



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the company, or entitlements to purchase assets, or as part of corporate combinations as a (partial) consideration.

- The granting of treasury shares as part of remuneration and/or employee stock ownership programs by which United Internet offers or transfers shares to United Internet AG Management Board members and/or to individuals who are in an employment relationship with the Company or with one of its current or former affiliates and/or management board members of corporations affiliated with the Company. Insofar as United Internet shares are to be transferred to members of the Company's Management Board, the decision on this shall be incumbent upon the Company's Supervisory Board.
- The fulfilment of conversion or option rights and/or conversion obligations stemming from convertible bonds or warrant bonds issued by the Company or by corporations which are controlled or majority held by the Company.
- Whole or partial cancellation without any further resolution of the Annual Shareholders' Meeting. The Management Board is authorized, subject to the approval of the Supervisory Board, to reduce the Company's capital stock by the capital stock proportion attributable to the redeemed shares. Subject to the approval of the Supervisory Board, the Management Board may determine, in derogation herefrom, that the capital stock shall remain unchanged upon cancellation and that instead, by way of cancellation, the proportional ratio of remaining shares to the capital stock shall increase. The Supervisory Board is authorized to amend section 5 of the Company's by-laws in accordance with the respective utilization of its authorization to cancel shares.

The right of shareholders to subscribe to United Internet shares shall be excluded to the extent that these shares are used in accordance with the above authorizations. Furthermore, the Management Board may, with the approval of the Supervisory Board, exclude the subscription right of shareholders for fractional amounts, in the event of a disposal of treasury shares by way of an offer to all shareholders.

The authorization to purchase, sell, or otherwise use, or cancel treasury shares, may be exercised independently of one another, on a one-off basis or multiple times, in whole or in part.

## Material agreements conditional to a change of control following a takeover bid

A bank consortium has granted United Internet AG a syndicated loan facility of € 810 million and a syndicated loan of € 200 million until January 2025. The members of the consortium were granted the right to terminate their share of the syndicated loan facility or the syndicated loan if a third party or a group of third parties acting in concert acquired a majority of the shares in United Internet AG or held the majority of voting shares at an Annual Shareholders' Meeting of the Company. The right of termination is available to each member of the bank consortium individually within 30 days of the announcement of the change of control by the Company. However, this right of termination does not apply if the majority of shares or voting rights at an Annual Shareholders' Meeting are acquired by Mr. Ralph Dommermuth or his direct relatives.

Furthermore, several promissory note loans of United Internet AG totaling € 835.5 million are outstanding as of the reporting date. The lenders of the promissory notes were granted the right to terminate their share of the respective promissory note loans if a third party or a group of third parties acting in concert acquired a majority interest in United Internet AG. The right of termination is available to each lender individually within 30 days of the announcement of the change of control by the

Company. However, this right of termination does not apply if the majority of the shares are acquired by Mr. Ralph Dommermuth.

## **Compensation agreements in the event of a change of control following a takeover bid**

No compensation agreements have been concluded with members of the Management Board or employees of the Company in the event of a change of control following a takeover bid.

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## 7. DECLARATION ON COMPANY MANAGEMENT / CORPORATE GOVERNANCE REPORT

As a German public company listed on the stock exchange, the management of United Internet AG is primarily determined by the German Stock Corporation Act (AktG) and the rules of the German Corporate Governance Code (the "Code").

The term Corporate Governance stands for responsible corporate management and control geared to long-term value creation. Efficient cooperation between Management Board and Supervisory Board, respect for stockholder interests, openness and transparency of corporate communications are key aspects of good corporate governance.

The Management Board and Supervisory Board of United Internet AG regard it as their duty to secure the Company's continued existence and sustainable value creation through responsible corporate governance focused on the long term.

The following report contains the "Declaration on company management", in accordance with section 289f HGB for the parent company and in accordance with section 315d HGB for the Group, as well as the "Corporate Governance Report" of the Management Board and Supervisory Board pursuant to section 3.10 of the Code.

### Management and corporate structure

In accordance with its legal status, United Internet AG operates a dual management and monitoring structure comprising two corporate bodies: the Management Board and the Supervisory Board. The third body is the Shareholders' Meeting. All three bodies are committed to serving the Company's interests.

### Supervisory Board

#### Working procedures of the Supervisory Board

The Supervisory Board is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2019. The members of the Supervisory Board are generally elected for a period of five years.

In accordance with German law, the Company's articles, its rules of procedure, and the corresponding recommendations of the Code – unless deviations are declared pursuant to section 161 AktG – the Supervisory Board is in regular contact with the Management Board and monitors and advises it with regard to the management of business, and the Company's risk and opportunity management system.

The Supervisory Board meets at regular intervals to discuss with the Management Board all matters of relevance to the Company regarding strategy and its implementation, as well as planning, the development of business, the risk position, risk management, and compliance. Together with the Management Board, it discusses the quarterly statements and half-year reports before publication and approves annual budgets. It examines the Annual Financial Statements of the parent company and the Group and adopts them if it has no reservations. In doing so, it also takes the reports of the Company's external auditors into account.

The Supervisory Board's responsibilities also include appointing members of the Management Board, as well as determining and regularly monitoring their remuneration in compliance with the latest legal regulations and recommendations of the Code – unless deviations are declared pursuant to section 161 AktG.

The Supervisory Board conducts regular tests to assess its own efficiency.

The members of the Supervisory Board complete the training and further education measures required for their tasks on their own, but receive appropriate support in this context from the Company.

The Supervisory Board is convened at least once every quarter of a calendar year.

Supervisory Board meetings are convened in writing by its Chairman at least 14 days in advance.

With meetings are convened, the Supervisory Board members are informed of the agenda items. If an agenda item has not been properly announced, a resolution concerning it may only be adopted if no Supervisory Board member objects prior to the vote.

Resolutions of the Supervisory Board are generally adopted at meetings. Meetings are chaired by the Chairman of the Supervisory Board. If so arranged by the Chairman, resolutions may also be adopted outside of meetings by other means, for example by phone or e-mail, if no member objects to this procedure.

The Supervisory Board has a quorum if all three members have been officially invited and participate in the resolution. A member shall also be deemed to participate in a resolution if he abstains from voting.

Unless the law prescribes otherwise, resolutions of the Supervisory Board are adopted with a simple majority.

Minutes are kept of the Supervisory Board's discussions and resolutions.

The Chairman of the Supervisory Board is authorized to submit on behalf of the Supervisory Board the declarations of intent required for the implementation of the Supervisory Board's resolutions.

### **Targets for the composition of the Supervisory Board / status of implementation**

The Company's Supervisory Board aims to achieve a composition of the Supervisory Board that enables qualified supervision and advice for the Company's Management Board.

In view of

- the size of the Supervisory Board (three members),
- the business in which the Company operates,
- the size and structure of the Company,
- the scope of the Company's international activities, and
- its current shareholder structure,

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the Company's Supervisory Board has adopted the following targets for its future composition. These take into account the statutory requirements both with regard to the requirements placed on individual Supervisory Board members and with regard to the composition of the entire Supervisory Board and – unless expressly stated otherwise – the requirements of the Code. In particular, a skills profile is planned with regard to the overall body.

The Supervisory Board will take these targets into account in the case of nomination proposals and make sure that the candidates meet the respective requirements. The specific situation of the Company must be taken into consideration.

## Requirements for individual members

The Company's Supervisory Board aims to ensure that each Supervisory Board member meets the following requirements:

### General requirement profile

Each member of the Supervisory Board should have the requisite knowledge and experience to enable them to carefully monitor and advise the Company and to assess any risks for the Company's business. Moreover, the Supervisory Board will ensure that all its members have a personal profile that enables them to maintain the Company's public reputation.

### Time availability

All members of the Supervisory Board must have sufficient time to exercise their duties with due care throughout the entire period of office. In particular, the members of the Supervisory Board should observe the legal requirements and those of the Code regarding the permissible number of Supervisory Board mandates.

### Conflicts of interest

Supervisory Board members should not engage in any other activities likely to cause frequent conflicts of interest. These include management positions with key competitors.

### Age limit for Supervisory Board members

As a rule, members of the Supervisory Board should not have reached the age of 70 at the time of their election or re-election.

### No regular limit for duration of membership

There is no standard time limit to membership of the Supervisory Board – a recommendation of the current Code – as the Supervisory Board believes that such a restriction is inappropriate compared to other criteria for nominating Supervisory Board members, and that it is ultimately at the discretion of the Annual Shareholders' Meeting to elect those candidates to the Supervisory Board whom they believe are best suited to represent their interests.

## Requirements regarding the composition of the Supervisory Board as a whole

In addition to the individual requirements for Supervisory Board members, the Company's Supervisory Board aims to ensure that the Supervisory Board as a whole meets the following requirements:

### Skills profile for the Supervisory Board as a whole

The members of the Supervisory Board must collectively have the knowledge, skills, and professional experience necessary for them to carry out their tasks as required. The Supervisory Board strives to ensure that the Supervisory Board as a whole covers the widest possible range of knowledge and experience relevant to the Company, and in particular meets the following requirements:

- In-depth knowledge and experience of the telecommunications and internet sector;
- Expertise or experience from other sectors of the economy;
- Entrepreneurial or operational experience;
- At least one member with several years of experience working abroad or working for a company with international activities;
- At least one member with special knowledge and experience in the application of accounting principles and internal control processes;
- In-depth knowledge and experience of controlling and risk management;
- In-depth knowledge and experience in the field of governance and compliance.

### Diversity

The Supervisory Board aims to ensure that the Supervisory Board is composed of a wide variety of members so that the Supervisory Board as a whole has sufficient diversity of opinion and knowledge. In its nominations, the Supervisory Board will take into account the diversity concept established by the Company.

### Independence

The Supervisory Board aims to ensure that at least two of its three members are independent within the meaning of the criteria set out in section 5.4.2 of the Code.

## Current composition of the Supervisory Board/implementation status

The Company's Supervisory Board is of the opinion that the stated targets for the composition of the Supervisory Board are currently fulfilled. The Supervisory Board re-elected by the Annual Shareholders' Meeting 2015 continued to comprise the following three independent members – as defined by the criteria of section 5.4.2 of the Code – in fiscal year 2019:

- Kurt Dobitsch, chair
- Michael Scheeren, deputy chair
- Kai-Uwe Ricke

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Subject to the formation of short fiscal years, the current term of office of the Supervisory Board members ends on expiry of the Annual Shareholders' Meeting of the year 2020.

## Management Board

### Working procedures of the Management Board

The Management Board is the body charged with managing the Group's operations. In fiscal year 2019, it consisted of two persons. The Management Board conducts operations in accordance with its legal and statutory obligations, as well as the rules of procedure approved by the Supervisory Board, and the corresponding recommendations of the Code – unless deviations are declared pursuant to section 161 AktG.

It is responsible for preparing the Interim and Annual Financial Statements as well as for appointing key managers within the Company.

Decisions of fundamental importance require the approval of the Supervisory Board. The Management Board reports to the Supervisory Board in accordance with the statutory provisions of section 90 AktG and provides the Chairman of the Supervisory Board at least once a month with an oral overview – and at the request of the Chairman of the Supervisory Board also in writing – of the current status of relevant reporting items pursuant to section 90a AktG. The Chairman of the Supervisory Board is thus informed without delay by the Chairman or Speaker of the Management Board, or the Chief Financial Officer, about important events that are essential for assessing the Company's situation and development, as well as for the management of the Company. Important items also include any substantial deviation from the budget or other forecasts of the Company. The Chairman or Speaker of the Management Board, or Chief Financial Officer, shall also inform the Chairman of the Supervisory Board, in advance where possible otherwise immediately thereafter, about all ad hoc announcements of the Company pursuant to Art. 17 MAR.

There is also an age limit of 70 for members of the Management Board. This requirement is also currently complied with in full.

The Management Board conducts the Company's business with joint responsibility and according to common objectives, plans, and policies. Irrespective of the joint responsibility of the Management Board, each member bears responsibility for his assigned division, but is required to subordinate the interests of his assigned division to the overall good of the Company.

The full Executive Board regulates the division of responsibilities in a business distribution plan.

The Management Board members inform each other about important events within their divisions. Matters of greater importance which are not approved in the budget must be discussed and decided by at least two Management Board members, whereby one of the two Management Board members must be responsible for the Finance division.

Irrespective of their areas of responsibility, all Management Board members constantly monitor those data which are crucial for the Company's business development so they are always able to help avert potential disadvantages, or implement desirable improvements and expedient changes by drawing them to the attention of the full Management Board.

The full Management Board resolves on all matters of particular importance and scope for the Company or its subsidiaries and investment companies.

Resolutions are adopted by the full Management Board with a simple majority. Should the vote result in a tie, the Chairman of the Management Board has a casting vote. The resolutions of the Management Board are recorded in the minutes.

The full Management Board meets regularly once a month and otherwise as required.

Each Management Board member immediately discloses any conflict of interest to the Supervisory Board.

### Current composition of the Management Board

The Management Board of United Internet AG comprised the following two members in fiscal year 2019:

- Ralph Dommermuth, Company founder and Chief Executive Officer  
(with the Company since 1988)
- Frank Krause, Chief Financial Officer  
(with the Company since 2015)

## Targets for the share of women on the Supervisory Board, Management Board, and in management positions / implementation status

The "Law on Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions" (FührposGleichberG) of April 24, 2015 resulted in amendments to the German Stock Corporation Law and a number of other laws.

The new legislation has led to the following obligations in particular for United Internet AG:

- setting of targets by the Supervisory Board for the share of women on the Supervisory Board of United Internet AG
- setting of targets by the Supervisory Board for the share of women on the Management Board of United Internet AG
- setting of targets by the Management Board for the share of women on the first and second management levels below the Management Board of United Internet AG

The first targets had to be set by September 30, 2015 for a period ending no later than June 30, 2017, during which time the targets should be met. The following targets are to be set for a period of no more than five years.



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After careful examination, the Supervisory Board and Management Board of United Internet AG adopted the following based on a resolution of May 18, 2017:

- The Supervisory Board sets the deadline for the attainment of the targets for the share of women on the Supervisory Board and Management Board as the expiry of the Annual Shareholders' Meeting that decides on the discharge of the Supervisory Board for the fiscal year 2019 (probably May 2020). The Supervisory Board is to be re-elected at this Annual Shareholders' Meeting.
- A target of "0" is set for the Supervisory Board. The Supervisory Board currently comprises only men. No personnel changes or expansion of the Supervisory Board are planned or envisaged.
- A target of "0" is set for the Management Board. The Management Board also currently comprises only men. No personnel changes or expansion of the Management Board are planned or envisaged. The Supervisory Board believes that the government's aim to raise the share of women is subordinate to the interests of the Company to continue the successful work conducted by experienced Management Board members and a Management Board size which is tailored to the needs of the Company.
- With regard to the share of women on the Supervisory Board and Management Board, the Supervisory Board reserves the right to resolve again on the target within the deadline period for attainment should there be any indication of a new appointment.

No target was set for the first and second management levels as United Internet AG does not have any management levels below the Management Board due to its holding structure.

The Supervisory Board and Management Board of United Internet AG regard the above mentioned targets as fulfilled without exemption at present.

## Diversity concept (sections 289f (2) number 6, 315d HGB)

The Company aims to ensure that the Management Board and Supervisory Board are composed of many different types of people and that the bodies as a whole have a sufficiently wide variety of opinions and knowledge.

In particular, the following criteria should be taken into account:

- The members of the Management Board and Supervisory Board should complement each other within their respective committees with regard to their experience, education, and professional background in order to develop a good understanding of the current status and the longer term opportunities and risks associated with the Company's business activities.
- For the reference period up to the expiry of the Annual Shareholders' Meeting that decides on the discharge of the Supervisory Board for the fiscal year 2019 (probably May 2020), the Management Board and Supervisory Board have each set a target value of "0" for the share of women, since at present both bodies are composed exclusively of men. In principle, however, both sexes should be treated equally on the basis of their qualifications, and in the case of new appointments the aim is to achieve a balanced composition of the Management Board and Supervisory Board.
- With the exception of an age limit of 70, no differentiation is made according to age for the members of the Management Board and Supervisory Board, and the sole differentiation should be according to the required knowledge and experience.

- In view of the current size of the Management Board and Supervisory Board, consisting of just two and three members respectively, no targets have been set with regard to geographical origin. In order to ensure international experience, the Supervisory Board already stipulates that at least one member of the Supervisory Board should have several years of experience abroad or have gained operational experience with an internationally active company.

The Management Board and Supervisory Board believe that the above diversity requirements for the Management Board and Supervisory Board are currently fulfilled. The Company considers additional or more specific criteria to be inappropriate. In view of the size of the Management Board and Supervisory Board, consisting of two and three members respectively, more or more specific diversity aspects would create considerable difficulties to fill the positions taking into account all diversity criteria.

## Annual Shareholders' Meeting

The Annual Shareholders' Meeting is the body which formulates and expresses the interests of the shareholders of United Internet AG. At the ordinary Annual Shareholders' Meeting, the Annual Financial Statements of the parent company and Consolidated Financial Statements are presented to the shareholders. The shareholders decide on the appropriation of the balance sheet profit and vote on resolutions concerning other statutory topics, such as releasing the Management Board members from their responsibility for the past fiscal year and appointing external auditors. Each share entitles the owner to one vote. All shareholders who register in time and are listed in the Share Register on the day of the Annual Shareholders' Meeting are entitled to attend. Shareholders may also exercise their rights at the Annual Shareholders' Meeting by means of a proxy vote. The Company provides a proxy who votes according to the shareholder's instructions, providing he receives the required order.

## Compliance

Compliance is an integral component of corporate and management culture throughout the United Internet Group. For United Internet AG, compliance means ensuring its activities comply with all relevant laws for its business, as well as with its own principles and regulations.

This includes open and fair communication with our employees, customers, business partners, shareholders, and the public. As an internet service provider with several million customers and a large number of business partners, United Internet's legally and ethically compliant behavior is vital for retaining the trust of its customers and business associates.

To ensure conduct in line with our corporate culture, the Management Board has created a binding framework for the Company's ethical principles and values. Moreover, it has defined values and management guidelines, and compiled the most important rules of behavior in a Code of Conduct. This "culture of cooperation" provides guidance for employees in their everyday work and creates a secure framework for making the correct decisions. The framework applies equally to the Management Board, directors, managers, and all employees.

The Management Board has established a Compliance Organization to ensure adherence to the legal and internal regulations.

The Compliance Organization is part of an holistic risk management system which not only includes the "GRC" functions Corporate Governance, Risk Management & Compliance, but also the Corporate Audit and Legal Department. These risk-mitigating functions are headed by the Group General Counsel, who reports directly to the CFO of United Internet AG.

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The Compliance Organization is responsible for the creation of suitable structures and processes to support the implementation of compliance throughout the Company and to align measures with the respective risks. The compliance processes include release procedures in the field of corruption prevention and trustworthy reporting paths that give employees the possibility to highlight possible misconduct or legal violations within the Company.

The compliance organization is present and anchored in the business units via functional and local Compliance Managers (FCMs and LCMs). In addition to their normal functions, the FCMs and LCMs support the area of compliance.

The overarching element of the compliance system remains the responsibility of all managers for compliance. This includes acting as a role model, as enshrined in the Company's management guidelines, and goes beyond this: all managers of the Company must set an example with regard to compliance and ensure that decisions and actions in their area of responsibility are always in line with the relevant legal provisions and the Company's own values and rules.

## Financial disclosures / transparency

It is the declared aim of United Internet to inform institutional investors, private shareholders, financial analysts, employees, and the public simultaneously and with equal treatment about the Company's situation by means of regular, open, and up-to-date communication.

To this end, all important information, such as press releases, ad-hoc announcements, and other mandatory disclosures (e.g., directors' dealings and notifications of voting rights), as well as all financial reports, are published in accordance with statutory regulations. In addition, United Internet provides extensive information on its corporate website ([www.united-internet.de](http://www.united-internet.de)), where documents and information on Annual Shareholders' Meetings and other economically relevant facts can be found.



[www.united-internet.de](http://www.united-internet.de)

United Internet provides shareholders, analysts, and the press with four reports each fiscal year on the Company's business development and its financial and earnings position. The publication dates of these reports are stated in a binding financial calendar, which the Company posts on its website and regularly updates in accordance with legal obligations.

The Management Board also provides immediate information in the form of ad-hoc announcements about any events not known to the public which might significantly affect the share price.

As part of its investor relations activities, the Company's management team regularly meets with analysts and institutional investors. We also hold analyst conferences to announce our semi-annual and annual figures, which investors and analysts can also participate in via telephone.

## Accounting and auditing

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS, as applicable in the EU) with consideration of section 315e HGB. However, the Annual Financial Statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The Annual Financial Statements and the Consolidated Financial Statements are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, was elected to audit the Annual Financial

Statements for the fiscal year 2019. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee, and examines the independence of the auditors.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft has audited the Annual Financial Statements of United Internet AG and the Group since the fiscal year 2002. Mr. Jens Kemmerich has been the chief auditor since fiscal year 2019.

## Remuneration of Management Board and Supervisory Board

The principles of remuneration for the Management Board and Supervisory Board are presented in section 8 of this Management Report. The disclosure of remuneration for members of the Management Board and Supervisory Board, according to person and its fixed and variable components (in line with legal regulations and the recommendations of the German Corporate Governance Code), is to be found in the Remuneration Report and section 42 of the Notes to the Consolidated Financial Statements.

## Stock option plans

The principles of the stock-based compensation plan of United Internet AG are described in the Remuneration Report in section 8 of this Management Report. Further details are provided in section 36 of the Notes to the Consolidated Financial Statements.

## Declaration of conformity with regard to the recommendations of the German Corporate Governance Code in accordance with section 161 German Stock Corporation Act (AktG)

The corporate governance of United Internet is based on the German Corporate Governance Code (the "Code"), which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002.

In addition to formulating current best practice with regard to corporate governance, the Code aims to make the German corporate governance system transparent and understandable. It strives to promote confidence in the management and supervision of listed German companies among international and national investors, customers, employees and the public.

The Government Commission reviews the Code annually to check whether it still complies with current corporate governance best practice and, where necessary, adjusts it accordingly.

The 14th version of the Code valid at the time of United Internet's last declaration was finalized on February 7, 2017. This version of the Code was published on April 24, 2017 by the Federal Ministry of Justice and Consumer Protection in the Federal Gazette (<http://www.bundesanzeiger.de>).



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The Code contains three different elements:

- regulations describing currently valid legal standards in Germany
- recommendations which comply with internationally and nationally recognized standards of good and responsible corporate governance
- suggestions which comply with internationally and nationally recognized standards of good and responsible corporate governance

German corporations are obliged to observe the legal regulations.

With regard to the recommendations, the German Stock Corporation Act (section 161) requires listed companies to publish a declaration of conformity once per year.

Companies are allowed to deviate from the suggestions without the need for disclosure.

The recommendations and suggestions of the Code become valid on publication in the Federal Gazette.

On December 18, 2019, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity (presented below) in accordance with section 161 AktG and immediately published it on the Company's website ([www.united-internet.de](http://www.united-internet.de)), as well as in the Federal Gazette.



[www.united-internet.de](http://www.united-internet.de)

In accordance with section 161 German Stock Corporation Act (AktG), the Management Board and Supervisory Board of United Internet AG declare that:

Since its last Declaration of Conformity issued on February 19, 2019, United Internet AG complied with the recommendations of the German Corporate Governance Code (the "Code") in the version dated February 7, 2017 with the stated exceptions, and will comply with the recommendations of the Code in the currently valid version dated February 7, 2017, which came into force with publication in the Federal Gazette on April 24, 2017, with the following exceptions:

#### **Deductibles in the case of D&O insurance policies for Supervisory Board members (section 3.8 para. 3 of the Code)**

The D&O insurance policy for Supervisory Board members does not include any deductible. This is also not planned in the future as United Internet AG does not generally believe that the motivation and responsibility with which the members of the Supervisory Board conduct their duties can be improved by such a deductible.



D&O insurance

#### **Capping Management Board compensation (section 4.2.3 para. 2 sentence 6 of the Code)**

The agreements regarding Management Board compensation do not include payment caps for the total amount. Although provision is made for caps on variable components, these are not expressed as a total but as a percentage of a fixed amount. As the Supervisory Board believes that the general capping of Management Board compensation intended by the Code's recommendation is already suitably reflected by the provisions of the current compensation agreements, it does not intend to comply in full with the Code's recommendation acc. to section 4.2.3 para. 2 sentence 6 in the future.

**Formation of committees****(section 5.3 of the Code)**

In view of its current size with only three members, the Supervisory Board has not formed any committees and fulfills all its duties as a whole. Under these circumstances, the Supervisory Board cannot recognize how the formation of committees would improve the efficiency of its work.

**Targets for the composition of the Supervisory Board****(section 5.4.1 para. 2 and 3 of the Code)**

Following the resolution of past uncertainties in the regulatory environment, the Supervisory Board specified first concrete objectives regarding its composition in a resolution adopted on December 16, 2015 and will take these objectives into consideration when making election proposals at future Annual Shareholders' Meetings. It was decided not to set a regular limit for the duration of membership to the Supervisory Board as the Supervisory Board believes that such a limitation is not appropriate compared to other criteria for nominating Supervisory Board members and that it is ultimately at the discretion of the Annual Shareholders' Meeting to elect those candidates to the Supervisory Board whom they believe are best suited to representing their interests. The specific objectives of the Supervisory Board and the status of their implementation are published in the Company's Corporate Governance Report.

**Consideration of the Deputy Chair when setting compensation for Supervisory Board members****(section 5.4.6 para. 1 sentence 2 of the Code)**

When setting compensation for Supervisory Board members, the position of the Deputy Chair of the Supervisory Board is not considered. The Deputy Chair of the Supervisory Board does not currently undertake any additional duties which would represent a greater burden compared to those of a regular Supervisory Board member.

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## 8. REMUNERATION REPORT

### Principles of the Management Board remuneration system

The Supervisory Board is responsible for determining the remuneration of Management Board members. The total compensation of individual members of the Management Board is determined by the Supervisory Board based on a performance assessment, taking into account any payments made by Group companies. Criteria for determining the appropriateness of remuneration are based on the responsibilities of the individual Management Board member, their personal performance, the economic situation, the performance and outlook of the Company, as well as a review of the comparability of compensation with peer companies, and the remuneration structure in place in other areas of the Company.

The size of the remuneration components is regularly reviewed, whereby the Supervisory Board also takes account of Management Board remuneration in relation to compensation for senior management and the workforce of United Internet AG as a whole over time.

The remuneration received by the members of the Management Board of United Internet AG is performance-oriented and consists of fixed and variable elements.

The fixed remuneration component is paid monthly as a salary.

The size of the variable remuneration component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on key sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation is capped at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets. No minimum payment of the variable remuneration component is guaranteed.

There is a component providing long-term incentives in the form of a compensation program based on virtual shares (SARs). The exercise hurdle of this program is 120% of the share price. Payment of value growth is capped at 100% of the calculated share price when the virtual options were granted.

Fringe benefits generally include a company car commensurate with the respective position, which is taxable as a benefit in kind.

There are no retirement benefits from the Company to members of the Management Board.

Management Board members do not receive compensation for seats on supervisory boards of subsidiaries.

With regard to severance pay for members of the Management Board, United Internet AG bases its regulations on the recommendations of the Code:

- Payments made to a Management Board member on premature termination of their contract, including fringe benefits, are limited to the value of two years' compensation (severance pay cap) and to the remaining term of the employment contract.
- The severance pay cap is calculated on the basis of total compensation for the past fiscal year and the expected total compensation for the current fiscal year.

- If the employment contract is terminated for a serious cause for which the Management Board member is responsible, no payments are made to the Management Board member.

For the duration of the 12-month prohibition to compete on termination of the service contract, the respective Management Board member receives compensation up to the amount of their fixed remuneration.

The following tables provide details on Management Board remuneration in accordance with the recommendations of the Code.

### Value of benefits granted for the reporting period

The following table shows the value of benefits granted for the reporting period. It also shows the minimum and maximum values that can be achieved. For the one-year variable compensation, the target value (i.e., the value in the event of 100% target achievement) granted for the reporting period is stated. In addition, the multi-year variable compensation granted in the reporting period – insofar as compensation was paid – is broken down into different plans and the relevant periods of time are stated. For subscription rights and other share-based payments, the fair value at the time of granting is calculated.

Benefits granted (in €k)	Ralph Dommermuth CEO Since 2000				Frank Krause CFO Since June 1, 2015			
	2018	2019	2019 (Min.)	2019 (Max.)	2018	2019	2019 (Min.)	2019 (Max.)
Fixed compensation	0	0	0	0	360	360	360	360
Fringe benefits	0	0	0	0	11	11	11	11
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>371</b>	<b>371</b>	<b>371</b>	<b>371</b>
One-year variable compensation	0	0	0	0	140	132	0	168
Multi-year variable compensation	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>511</b>	<b>503</b>	<b>371</b>	<b>539</b>
Service costs	0	0	0	0	0	0	0	0
<b>Total compensation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>511</b>	<b>503</b>	<b>371</b>	<b>539</b>



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### Allocation for the reporting period

The following table contains the allocation for the reporting period (disbursement) for fixed compensation and the one-year variable compensation. The table also shows the allocation (disbursement) of multi-year variable compensation exercised in the reporting period. The amounts are broken down into different plans.

Allocation (in €k)	Ralph Domermuth CEO Since 2000		Frank Krause CFO Since June 1, 2015	
	2019	2018	2019	2018
Fixed compensation	0	0	360	360
Fringe benefits	0	0	11	11
<b>Total</b>	<b>0</b>	<b>0</b>	<b>371</b>	<b>371</b>
One-year variable compensation	0	0	132	140
Multi-year variable compensation	0	0	0	0
Other	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>503</b>	<b>511</b>
Service costs	0	0	0	0
<b>Total compensation</b>	<b>0</b>	<b>0</b>	<b>503</b>	<b>511</b>

In the IFRS Consolidated Financial Statements of the United Internet Group, the following expenses were recognized for share-based payments to Management Board members: Mr. Ralph Domermuth (€ 0k, prior year: € 0k), Mr. Frank Krause: € 194k (prior year: € 334k).

Further details on Management Board remuneration are provided in section 42.



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## Principles of the Supervisory Board remuneration system

In the fiscal year 2019, the members of the Supervisory Board of United Internet AG also served – in different constellations – on the supervisory boards of United Internet AG's most important subsidiaries, i.e., the supervisory boards of 1&1 Drillisch AG, 1&1 Telecommunication SE, 1&1 IONOS SE, as well as 1&1 Mail & Media Applications SE. The Supervisory Board members each receive separate compensation for their work on behalf of the companies mentioned.

In each case, this compensation consists of a fixed element and an attendance fee. The fixed remuneration refers in each case to a full fiscal year. For parts of a fiscal year, compensation is paid on a prorated basis.

The remuneration system for the Supervisory Board of United Internet AG adopted by the Annual Shareholders' Meeting 2015 consists of a fixed remuneration component for an ordinary member and the Deputy Chairman of the Supervisory Board of € 15,000 each per full fiscal year and for the Chairman of the Supervisory Board of € 30,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference, or corresponding connection. There are no stock option plans for members of the Supervisory Board.

The new remuneration system for the Supervisory Board of 1&1 Drillisch AG adopted by the Annual Shareholders' Meeting 2018 consists of a fixed remuneration component for an ordinary member of the Supervisory Board of € 45,000 each per full fiscal year and for the Chairman of the Supervisory Board of € 55,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference, or corresponding connection. There are no stock option plans for members of the Supervisory Board.

In the course of their duties for 1&1 Telecommunication SE, the fixed remuneration component for an ordinary member of the Supervisory Board, for the Deputy Chairman of the Supervisory Board, and for the Chairman of the Supervisory Board is € 10,000 per full fiscal year in each case. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference, or corresponding connection.

In the course of their duties for 1&1 IONOS SE, the fixed remuneration component for an ordinary member and the Deputy Chairman of the Supervisory Board is € 30,000 each per full fiscal year, and for the Chairman of the Supervisory Board € 35,000 per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference, or corresponding connection.

In the course of their duties for 1&1 Mail & Media Applications SE, the fixed remuneration component for an ordinary member of the Supervisory Board is € 15,000 per full fiscal year, and for the Deputy Chairman and Chairman of the Supervisory Board € 25,000 each per full fiscal year. In addition, each member of the Supervisory Board receives a payment of € 1,000 for each meeting they attend in person, or via telephone, video conference, or corresponding connection.



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Specific details on Supervisory Board compensation is provided in section 42 of the Notes to the Consolidated Financial Statements.

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## Employee stock ownership plans

### Virtual stock option program for management (SAR)

For many years now, United Internet AG has operated a stock-based compensation plan which enables its managers to participate in the Company's success and is aimed at enhancing staff loyalty. The plan takes the form of a virtual stock option program.

Virtual stock options, or Stock Appreciation Rights (SARs), refer to the commitment of United Internet AG to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price when the virtual options were granted.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right to fulfill its commitment to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion. Employees may exercise their option rights after expiry of certain minimum retention periods. The increase in value represents a taxable gain for employees. The SARs have a maturity of no more than six years.

Option rights can be exercised as follows: up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option; a total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

### Stock-based compensation for employees

In addition to its long-standing employee stock ownership program for management, United Internet AG introduced a wide-ranging program for its employees in Germany in the fiscal year 2016, which ended in mid-2018.

The aim of the program was to

- involve employees more directly in the development of the Company and its share,
- raise staff motivation and performance,
- honor the loyalty of staff to the United Internet Group,
- and at the same time support the development of the Company.

Against this backdrop, the employee stock ownership program ("ESOP") was designed in the form of a stock-based compensation plan. The program consisted of two components:

- Firstly, qualifying employees received the option to buy a specific number of shares in United Internet AG at a reduced price, which they then had to hold for a period of two years (vesting period).
- On completion of the vesting period, participants were granted further shares for free, provided they were still working for the Company – whereby employees of companies participating in "performance matching" received additional shares if certain pre-defined targets were reached.

Both the discounted acquisition of the shares and the free allocation of additional shares after the end of the vesting period represented a taxable benefit in kind.

Employees at international locations were offered a different (non-stock-based) incentive system for tax reasons.



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Further details on employee stock ownership plans are provided in section 36 of the Notes to the Consolidated Financial Statements.

**MANAGEMENT REPORT**

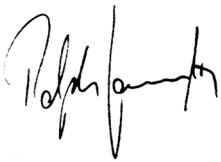
Company and Group profile	Risk, opportunity and forecast report	Declaration of corporate governance
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## 9. DEPENDENT COMPANY REPORT

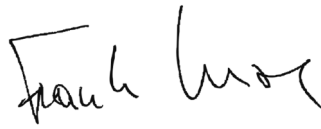
In compliance with section 312 (1) AktG, the Management Board declares that the Company received adequate compensation (quid pro quo) for all legal transactions and measures listed in the report on relations with affiliated companies, in accordance with the circumstances known at the time when such transactions or measures were carried out, or the measure involved was executed or omitted, and that the Company was not disadvantaged by such measures being executed or omitted.

Montabaur, March 23, 2020

The Management Board



Ralph Dommermuth



Frank Krause

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## BALANCE SHEET

as of December 31, 2019 in €k

ASSETS	Note	December 31, 2019	December 31, 2018
<b>Current assets</b>			
Cash and cash equivalents	18	117,573	58,066
Trade accounts receivable	19	346,004	351,427
Contract assets	20	507,829	426,992
Inventories	21	79,268	89,617
Prepaid expenses	22	237,036	224,840
Other financial assets	23.1	48,141	72,774
Income tax claims	15	21,546	129,611
Other non-financial assets	23.2	13,772	11,330
		<b>1,371,168</b>	<b>1,364,657</b>
<b>Non-current assets</b>			
Shares in associated companies	24	196,037	206,856
Other financial assets	25	90,413	348,046
Property, plant, and equipment	26	1,118,192	818,010
Intangible assets	27, 29	2,167,392	1,244,578
Goodwill	28, 29	3,616,515	3,612,634
Trade accounts receivable	19	57,697	58,229
Contract assets	20	174,251	168,792
Prepaid expenses	22	284,252	341,220
Deferred tax assets	15	10,437	10,797
		<b>7,715,186</b>	<b>6,809,162</b>
<b>Total assets</b>		<b>9,086,354</b>	<b>8,173,819</b>



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LIABILITIES	Note	December 31, 2019	December 31, 2018
<b>Current liabilities</b>			
Trade accounts payable	30, 35	475,535	557,730
Liabilities due to banks	31, 35	243,733	206,175
Income tax liabilities	15, 35	91,680	187,938
Contract liabilities	32, 35	149,930	154,290
Other accrued liabilities	33, 35	18,372	24,468
Other financial liabilities	34.1, 35	239,435	124,092
Other non-financial liabilities	34.2, 35	50,337	45,047
		<b>1,269,022</b>	<b>1,299,740</b>
<b>Non-current liabilities</b>			
Liabilities due to banks	31, 35	1,494,635	1,732,968
Deferred tax liabilities	15	351,824	389,829
Trade accounts payable	30, 35	6,092	9,024
Contract liabilities	32	34,893	33,838
Other accrued liabilities	33, 35	67,650	99,972
Other financial liabilities	34.3, 35	1,247,507	86,976
		<b>3,202,601</b>	<b>2,352,607</b>
<b>Total liabilities</b>		<b>4,471,623</b>	<b>3,652,347</b>
<b>EQUITY</b>			
Capital stock	37	205,000	205,000
Capital reserves	38	2,643,946	2,703,141
Accumulated profit	38	1,993,860	1,496,154
Treasury shares	39	-548,443	-174,858
Revaluation reserves	38	25,173	83,023
Currency translation adjustment	38	-9,558	-14,314
<b>Equity attributable to shareholders of the parent company</b>		<b>4,309,977</b>	<b>4,298,146</b>
Non-controlling interests	40	304,753	223,326
<b>Total equity</b>		<b>4,614,730</b>	<b>4,521,472</b>
<b>Total liabilities and equity</b>		<b>9,086,354</b>	<b>8,173,819</b>

## NET INCOME

from January 1 to December 31, 2019 in €k

	Note	2019 January - December	2018 January - December*
Sales	5	5,194,092	5,102,876
Cost of sales	6, 11, 12	-3,427,008	-3,350,056
<b>Gross profit</b>		<b>1,767,084</b>	<b>1,752,820</b>
Selling expenses	7, 11, 12	-741,754	-678,231
General and administrative expenses	8, 11, 12	-205,899	-218,943
Other operating expenses	9.1	-16,998	-23,966
Other operating income	9.2	102,890	77,871
Impairment of receivables and contract assets	10	-94,238	-98,540
<b>Operating result</b>		<b>811,086</b>	<b>811,011</b>
Financial expenses	13	-45,014	-34,676
Financial income	14	21,852	7,114
Result from associated companies	24	-8,225	-221,526
<b>Pre-tax result</b>		<b>779,699</b>	<b>561,923</b>
Income taxes	15	-240,742	-249,832
<b>Net income</b>		<b>538,956</b>	<b>312,091</b>
<b>thereof attributable to</b>			
non-controlling interests		115,018	123,297
Shareholders of United Internet AG		423,937	188,794

\* Prior year figures adjusted; see note 5

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	Note	2019 January - December	2018 January - December
<b>Result per share of shareholders of United Internet AG (in €)</b>			
basic	16	2.13	0.94
diluted	16	2.13	0.94
<b>Weighted average of outstanding shares (in million units)</b>			
basic	16	199.27	200.17
diluted	16	199.27	200.29
<b>Reconciliation to total comprehensive income</b>			
Net income		538,956	312,091
Items that may be reclassified subsequently to profit or loss			
Currency translation adjustment - unrealized	38	7,099	-1,793
Currency translation adjustment - realized	38	0	0
Items that are not reclassified subsequently to profit or loss			
Market value changes of financial assets measured at fair value through other comprehensive income	38	26,713	-13,539
Tax effect	38	92	-1,230
Share in other comprehensive income of associated companies	38	-286	208
<b>Other comprehensive income</b>		<b>33,617</b>	<b>-16,354</b>
<b>Total comprehensive income</b>		<b>572,574</b>	<b>295,737</b>
thereof attributable to non-controlling interests		117,946	122,325
<b>Shareholders of United Internet AG</b>		<b>454,628</b>	<b>173,413</b>

## CASH FLOW

from January 1 to December 31, 2019 in €k

	Note	2019 January - December	2018 January - December
<b>Result from operating activities</b>			
Net income		538,956	312,091
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Depreciation and amortization of intangible assets and property, plant and equipment	11	292,665	193,780
Depreciation and amortization of assets resulting from company acquisitions	11	181,436	196,528
Write-ups on intangible assets	28	-19,438	0
Employee expenses from employee shareholdings	36	8,510	7,182
Result from associated companies	24	8,225	221,525
Income from the sale of associated companies	9.2, 24	-21,512	0
Other non-cash items from tax adjustments	15	-37,645	-42,358
Other non-cash items	13,14	-16,165	784
Other adjustments		0	2
<b>Operative cash flow</b>		<b>935,032</b>	<b>889,534</b>
<b>Change in assets and liabilities</b>			
Change in receivables and other assets		21,346	-45,825
Change in inventories		10,349	-44,945
Change in contract assets		-89,578	-244,742
Change in income tax claims		108,065	-72,302
Change in deferred expenses		34,749	-168,453
Change in trade accounts payable		-81,041	160,813
Change in other accrued liabilities		-29,491	-16,503
Change in income tax liabilities		-96,258	57,663
Change in other liabilities		18,589	-21,449
Change in contract liabilities		-2,835	-11,511
<b>Change in assets and liabilities, total</b>		<b>-106,104</b>	<b>-407,254</b>
<b>Cash flow from operating activities</b>		<b>828,928</b>	<b>482,280</b>

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	Note	2019 January - December	2018 January - December
<b>Cash flow from investing activities</b>			
Capital expenditure for intangible assets and property, plant and equipment		-252,776	-271,761
Payments from disposals of intangible assets and property, plant and equipment		8,775	9,386
Payments for company acquisitions less cash received	4.1	0	-72,045
Purchase of shares in associated companies	4.1, 24	-5,037	-8,260
Payments received from the sale of associated companies		35,627	0
Payments in connection with company transactions	4.3	0	-8,300
Payments for loans granted		-3,630	-1,291
Payments from the sale of financial assets		303,727	1,326
Payments received from the repayment of other financial assets		525	0
<b>Cash flow from investment activities</b>		<b>87,211</b>	<b>-350,945</b>
<b>Cash flow from financing activities</b>			
Purchase of treasury stock	39	-373,584	0
Taking out loans	45	15,453	225,267
Repayment of loans	45	-216,228	-248,185
Redemption of spectrum liabilities		-61,266	0
Redemption of finance lease liabilities and rights of use	44, 45	-111,023	-25,864
Dividend payments	17	-10,015	-170,006
Dividend payments to non-controlling interests		-2,557	-75,360
Payments from the redemption of a bond		0	-3,100
Payments from/to minority interests		-98,384	-15,353
<b>Cash flow from financing activities</b>		<b>-857,604</b>	<b>-312,601</b>
Net increase/decrease in cash and cash equivalents		58,535	-181,266
Cash and cash equivalents			
at beginning of fiscal year		58,066	238,522
Currency translation adjustments of cash and cash equivalents		973	810
<b>Cash and cash equivalents at end of fiscal year</b>		<b>117,573</b>	<b>58,066</b>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the fiscal year 2019 and 2018 in €k

Note		Capital stock	Capital reserves	Accumulated profit	Treasury shares		
		37	38	38		39	
	Share	€k	€k	€k	Share	€k	
	<b>Balance as of January 1, 2018</b>	<b>205,000,000</b>	<b>205,000</b>	<b>2,709,203</b>	<b>1,491,184</b>	<b>5,093,289</b>	<b>-189,384</b>
	Net income			188,794			
	Other comprehensive income						
	<b>Total comprehensive income</b>			<b>188,794</b>			
	Issue of treasury shares			-14,526	-390,299	14,526	
	Employee stock ownership program		662				
	Dividend payments			-170,006			
	Profit distributions						
	Transactions with shareholders		-6,724	707			
	<b>Balance as of December 31, 2018*</b>	<b>205,000,000</b>	<b>205,000</b>	<b>2,703,141</b>	<b>1,496,154</b>	<b>4,702,990</b>	<b>-174,858</b>
	Effects recognized in equity pursuant to new IFRS standards						
	<b>Balance as of January 1, 2019</b>	<b>205,000,000</b>	<b>205,000</b>	<b>2,703,141</b>	<b>1,496,154</b>	<b>4,702,990</b>	<b>-174,858</b>
	Net income			423,937			
	Other comprehensive income						
	<b>Total comprehensive income</b>			<b>423,937</b>			
	Purchase of treasury shares				12,635,523	-373,584	
	Employee stock ownership program		6,008				
	Dividend payments			-10,015			
	Profit distributions						
	Disposal of financial assets measured at fair value through other comprehensive income			83,784			
	Transactions with shareholders		-63,072				
	Other transactions		-2,131				
	<b>Balance as of December 31, 2019</b>	<b>205,000,000</b>	<b>205,000</b>	<b>2,643,946</b>	<b>1,993,860</b>	<b>17,338,513</b>	<b>-548,442</b>

**FINANCIAL STATEMENTS**

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	Revaluation reserves	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
	€k	€k	€k	€k	€k
	38,25	38		40	
	<b>97,209</b>	<b>-13,120</b>	<b>4,300,092</b>	<b>186,393</b>	<b>4,486,485</b>
			188,794	123,297	312,091
	-14,186	-1,194	-15,380	-972	-16,352
	<b>-14,186</b>	<b>-1,194</b>	<b>173,414</b>	<b>122,325</b>	<b>295,739</b>
			0		0
			662	1,461	2,123
			-170,006		-170,006
			0	-75,360	-75,360
			-6,017	-11,493	-17,510
	<b>83,023</b>	<b>-14,314</b>	<b>4,298,146</b>	<b>223,326</b>	<b>4,521,472</b>
			0		0
	<b>83,023</b>	<b>-14,314</b>	<b>4,298,146</b>	<b>223,326</b>	<b>4,521,472</b>
			423,937	115,018	538,955
	25,933	4,756	30,689	2,928	33,617
	<b>25,933</b>	<b>4,756</b>	<b>454,626</b>	<b>117,946</b>	<b>572,572</b>
			-373,584		-373,584
			6,008	2,502	8,510
			-10,015		-10,015
			0	-2,557	-2,557
	-83,784		0	0	0
			-63,072	-35,312	-98,384
			-2,131	-1,152	-3,283
	<b>25,173</b>	<b>-9,558</b>	<b>4,309,977</b>	<b>304,753</b>	<b>4,614,730</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019

## Basis of preparation and accounting policies

### 1. General information on the company and accounting

United Internet AG (hereinafter referred to as the "United Internet Group" or the "Company") is Europe's leading internet specialist with its business divisions Access (landline and mobile internet access products) and Applications (applications for using the internet), which are each divided into Business and Consumer segments.

United Internet AG is domiciled in 56410 Montabaur, Elgendorfer Strasse 57, Germany and is registered there at the District Court under HR B 5762. The Group has numerous branches and subsidiaries in Germany and around the world.

The Consolidated Financial Statements of United Internet AG were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant supplementary regulations of section 315e (1) German Commercial Code (HGB).

The reporting currency is euro (€). Amounts stated in the Notes to the Consolidated Financial Statements are in euro (€), thousand euro (€k) or million euro (€m). The Consolidated Financial Statements are always drawn up on the basis of historical costs. The exception to this rule are individual financial instruments which are stated at fair value.

The reporting date is December 31, 2019.

The Supervisory Board approved the Consolidated Financial Statements for 2018 at its meeting on March 27, 2019. The Consolidated Financial Statements were published in the German Federal Gazette ("Bundesanzeiger") on March 28, 2019.

The Consolidated Financial Statements for 2019 were prepared by the Company's Management Board on March 23, 2020 and subsequently submitted to the Supervisory Board. The Consolidated Financial Statements will be presented to the Supervisory Board for approval on March 25, 2020. Theoretically, there may still be changes until the Consolidated Financial Statements are approved and released for publication by the Supervisory Board. However, the Management Board expects that the Consolidated Financial Statements will be approved in the present version. They are to be published on March 26, 2020.

### 2. Accounting and measurement principles

This section first presents all accounting policies which have been applied consistently in the periods presented in these Consolidated Financial Statements. Following this, those accounting standards applied for the first time in these financial statements are explained, as are those accounting standards recently published but not yet applied.



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## 2.1 Explanation of main accounting and measurement methods

### Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. Control exists when the Group is exposed to fluctuating returns from its involvement in a company, or has rights to such returns, and is able to influence these returns through its power over the investee. The annual financial statements of subsidiaries are prepared as of the same reporting date and using the same standardized accounting and measurement methods as those applied by the parent company. Where necessary, adjustments are made to the financial statements of subsidiaries in order to bring their accounting methods into line with those of the Group.

All intercompany assets and liabilities, equity, income, and expenses, as well as cash flows from business transactions conducted between Group companies are fully eliminated during consolidation.

A subsidiary is consolidated from the date on which the Group obtains control over the subsidiary. It ends when the Group loses control over the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the reporting period are recognized in the Consolidated Financial Statements from the date on which the Group obtains control over the subsidiary until the date on which control ends.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the Consolidated Statement of Comprehensive Income. This gain or loss is calculated as the difference between (i) the proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

A change in the stake held in a subsidiary without loss of control is accounted for as an equity transaction.

Non-controlling interests represent the proportion of the result and net assets which is not attributable to the Group's shareholders. Non-controlling interests are disclosed separately in the Consolidated Balance Sheet. They are disclosed in the Consolidated Balance Sheet as part of shareholders' equity, but separate to the equity capital attributable to the shareholders of United Internet AG. For purchases of shares without a controlling influence (minority shareholding) or disposals of shares with a controlling influence but without loss of the controlling influence, the carrying amounts of shares with or without a controlling influence are adjusted to reflect the change in the respective shareholding. The amount by which compensation paid or received for the change in shareholding exceeds the carrying value of the respective share without a controlling influence is recognized directly in equity as a transaction with the shareholders.

The Group regularly checks whether it controls investments over which it exercises a significant influence, despite a minority of voting rights (de facto control). This is the case if the Group has the ability to influence the variable cash flows through its power over the investee. This assessment must be considered within the framework of the necessary overall evaluation. In the case of corporations, the shareholders' meeting decides on variable returns. In the case of listed investments, de facto control may result from having the majority when attending general meetings. The Group bases its assessment of whether there is control due to majority presence on the average attendance at the general meetings of the past three years. There is currently no such case.

## Revenue recognition

### Revenue from contracts with customers

Revenue from contracts with customers is accounted for using the following five steps:

- Identification of the contract or contracts with a customer
- Identification of distinct performance obligations in the contract
- Determination of the transaction price
- Allocation of transaction price to the performance obligations
- Revenue recognition on fulfillment of performance obligations



see page 185

Revenue is recognized separately for each of the Group's different segments (see also explanations on segment reporting in Note 5).

Revenues in the separate segments are recognized according to the following principles:

#### ■ Consumer Access segment

The Consumer Access segment mainly comprises landline-based and mobile-based internet access products. The range comprises "Mobile Internet" and "Broadband".

In these product lines, the Group generates revenue from the provision of the aforementioned access products, as well as from additional services such as internet and mobile telephony. The transaction price consists of fixed monthly basic fees, as well as variable additional usage fees for certain services (e.g., for foreign calls and mobile phone connections not covered by any flat-rate), and proceeds from the sale of the respective hardware.

Revenue recognition is based on a separation of the transaction price for the customer contract on the basis of the relative standalone selling prices of the individual performance obligations. The United Internet Group generally offers comparable tariffs both with and without hardware. In these cases, the standalone selling price for the service component is therefore based on the tariff conditions of a service tariff without hardware. By contrast, the standalone selling prices for hardware are determined on the basis of the adjusted market assessment approach, as only a very small amount of the relevant hardware is sold to customers without a mobile contract.

The resulting revenue share allocated to hardware is recognized on delivery to the customer (time-related revenue recognition). It usually exceeds the fee invoiced to the customer and then results in the recognition of a contract asset. This contract asset value is reduced by the customer's payments over the contract period. The revenue share allocated to the service component is recognized over the minimum term of the customer contract (period-related revenue recognition).

If the one-off fees invoiced to the customer on conclusion of the contract, such as activation fees, do not represent a material right (e.g., favorable renewal option), these are not recognized as a separate performance obligation but are allocated to the identified performance obligations as part of the transaction price and recognized in accordance with their performance. If the customer is granted material rights in the form of options to use additional goods or services, these represent an additional performance obligation to which part of the transaction price is allocated, taking into account the expected utilization. The corresponding revenue is recognized when these future goods or services are transferred or when the option expires. If one-off fees qualify as a favorable renewal option, revenue is recognized over the expected duration of the customer contract.

The United Internet Group grants its customers time-limited promotion discounts at the time of contract conclusion. These discounts are included in the calculation of the transaction price and are allocated to the performance obligations by means of an allocation mechanism.

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Within the context of the 1&1 Principle, United Internet grants its customers a voluntary 30-day right of cancellation. If customers make use of the 1&1 Principle and cancel their contracts, they have the right to be reimbursed for individual transaction components, such as one-off fees and basic fees which have been invoiced. Any usage fees are excluded from the reimbursement claim. In return, United Internet has the right to demand the return of any hardware supplied. No revenue is recognized for expected customer cancellations. The payments received from the customer and to be reimbursed are carried as reimbursement liabilities and the claims for reimbursement resulting from the 1&1 Principle for delivered hardware are disclosed as non-financial assets.

In determining the transaction price, United Internet reviewed the materiality of a financing component. An analysis of the current customer contracts determined that no material benefit is to be assumed at present. However, a change in the assumed interest rates or tariffs could lead to a significant financing component in the future. The financing effect is therefore reviewed for materiality at regular intervals.

#### ■ Business Access segment

The Business Access segment comprises revenue from various standardized and customized telecommunications products for business and wholesale customers. In addition to the provision of traditional landline connections, the telecommunications services also include broadband services, network solutions as telecommunications infrastructure (leased lines) or VPN, added-value services, interconnection, IP services, and cloud solutions.

In the case of products that do not meet the definition of a finance lease pursuant to IAS 17, the transaction price consists of fixed monthly basic fees and/or variable, additional per-minute usage fees for certain services (which are not covered by a flat rate) and, to an insignificant extent, revenue from the sale of related hardware. Revenue recognition is based on a separation of the transaction price for the customer contract on the basis of the relative standalone selling prices of the individual performance obligations. The transaction price for the sale of hardware is based on standard market prices. The standalone selling price for the service component is based on the tariff conditions of a comparable service tariff without hardware.

Temporary discounts or basic fee exemptions are also granted to a lesser extent at the beginning of the term. These discounts are included in the transaction price and allocated on a straight-line basis in the course of revenue recognition.

Certain products are provided on a lease basis. If all material opportunities and risks from a lease are transferred to the lessee, the present value of the minimum lease payments from this economic sale is recognized as revenue on commencement of the lease; as part of the subsequent accounting of finance lease receivables, interest income is recognized in subsequent periods. Leased assets are derecognized through cost of sales. In addition to the monthly payments, the minimum lease payments include any customer activation fees payable at the beginning of the lease term.

In the case of operating leases, where the lessor retains the material opportunities and risks, the lease payments are recognized as revenue on a straight-line basis over the lease term. Activation fees for operating leases are deferred and amortized over the lease term.

#### ■ Consumer Applications segment

The Consumer Applications segment comprises United Internet's consumer application business – whether ad-financed or via fee-based subscriptions – as well as the sales platforms for fee-based partner products.

Besides Germany, the United Internet Group also operates in Austria and the USA in this segment.

In the field of ad-financed applications (generally free e-mail solutions from GMX and WEB.DE), the Group generates advertising income and e-commerce commission mainly via the WEB.DE, 1&1, GMX, and smartshopping portals. This business is based on the frequent use of free applications and the correspondingly high number of hits for the portals. In the field of online advertising, space is offered on the websites of portals. Revenues are generated depending on the placing of advertising and number of screenings or according to click rates. In its e-commerce business, the Group receives commissions for the sale of products or brokerage of customers. For these products, revenue is recognized at a specific point in time.

In the field of fee-based subscriptions for the WEB.DE, 1&1, GMX, and smartshopping portals, revenue is mainly generated from fixed monthly fees for the use of extended applications, as well as for administration and storage. Customers generally pay in advance for a contractually fixed time period for the services to be provided by the Company. Revenue is recognized pro rata over the period of service provision. The payments received in advance result in contractual liabilities which are reduced accordingly over the performance period.

Revenues from partner products (affiliates) are recognized and measured according to the Group's intermediary function. A distinction is made as to whether the delivery or service provided to the end customer results in delivery revenue and the Group is thus acting on its own account (principal) or whether the Group's services are limited to brokerage or commission (agent). Acting as a principal is assumed if the Group controls the goods or services owed to the end customer before they are transferred to the customer. Acting as an agent is assumed if the Group's performance obligation is basically to broker the supply of goods and services of another company.

#### ■ Business Applications segment

In the Business Applications segment, a wide range of e-mail, hosting, cloud, and e-business applications are offered for freelancers, small and medium-sized businesses, and home users. These applications include domains, websites, and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage, and office software. The Group also offers its customers performance-based advertising and sales opportunities via Sedo.

In this segment, the United Internet Group is active in Germany, as well as in France, the UK, Spain, Austria, Switzerland, Poland, Italy, Canada, Mexico, and the USA. It is one of the leading companies in all the countries mentioned. The services are rendered by various subsidiaries of the United Internet Group in Germany and abroad.

Customers generally pay in advance for a contractually fixed time period for the services to be provided by the Company. The main service in the product group Domains consists of domain registration for the end customer with the respective registry. With regard to the time-related recognition of revenue from domain registration, the special regulations regarding licenses are applied. As in the case of domains, a right of use is granted to an intellectual property existing at the time the license is granted (static), revenue is recognized at a specific moment in time.

Product groups that contain domains as part of multiple-element arrangements primarily relate to web hosting products. The web hosting packages offered usually combine domain registrations with further services, such as storage capacity (Webspace) and software-as-a-service (SaaS). The service Webspace concerns the provision of storage space on servers at the data centers of the United Internet Group. SaaS refers to the customer's use of software (e.g., to create websites) hosted on servers of the United Internet Group. Both the Webspace and SaaS services are performance obligations based on time periods, as the customer benefits continuously from the corresponding flow of benefits.

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Customer contracts in the web hosting product category generally comprise several separate performance obligations, which are recognized both on a time-related basis (domain registration performance obligation) and a period-related basis (Webspace and SaaS performance obligation). The total fee for the customer contract is therefore allocated to the various performance obligations. In the absence of separate standalone selling prices for Webspace and SaaS, and a high degree of price variability, the residual method is used to allocate the total fee. The revenue share attributable to the period-related services is therefore determined on the basis of the total fee less the standalone selling price of the included domains.

In addition to application revenue, this segment also includes revenue from the performance-based advertising form of domain marketing.

In Domain Marketing, United Internet operates (via Sedo GmbH) a trading platform for the secondary domain market (domain trading). At the same time, the Group offers domain owners the possibility to market unused domains to advertisers (domain parking). In addition to these customer domains, the Group also holds its own portfolio of marketable and salable domains. In domain trading, the Group receives sales commission from the successful sale of domains via the platform and also generates revenue from services relating to domain value assessments and transfers. The sales commissions and services are generally based on a percentage of the sales price achieved, whereas fixed prices are generally charged for the other services. In domain parking, domains are mainly marketed using text links, i.e., links on the parked domains to offers of the advertisers (primarily via cooperation agreements with search engines). The Group receives performance-based payment on a monthly basis from the cooperation partner on a pay-per-click basis, according to the number of clicks registered by the cooperation partner.

The Group recognizes sales commissions as revenue when the service is rendered. Revenue is thus recognized on completion of the transaction or provision of the service. In the case of domain parking, the monthly payments credited by cooperation partners are recognized as revenue.

## Disclosure of disposal gains and losses from the sale of investments

Insofar as they concern effects on the income statement, regular carrying amounts and valuations of investments in associated companies are disclosed in the financial result (see explanations on the financial result).

Gains from the sale of such investments are always disclosed under other operating income, losses under other operating expenses.

## Foreign currency translation

The Consolidated Financial Statements are prepared in euro, the Company's functional and presentation currency. Each company within the Group determines its own functional currency. The items in the annual financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated to the functional currency at the prevailing spot rate on the day of transaction. Monetary assets and liabilities in a foreign currency are translated to the functional currency on every reporting date using the closing rate. All currency differences are expensed in the income statement. The exception to this rule are currency differences resulting from foreign currency loans, providing they are used to hedge against a net investment in a foreign operation. These are recognized directly in equity until the net investment is sold and only recognized in profit or loss on disposal. Deferred taxes arising from such currency differences are also

recognized directly in equity. Non-monetary items valued at historical cost in a foreign currency, are translated at the exchange rate prevailing on the day of the transaction. Non-monetary items stated at fair value in a foreign currency are translated at the ex-change rate prevailing at the time fair value was assessed. All goodwill items resulting from the acquisition of a foreign operation and all adjustments to fair value of the carrying amounts of assets and liabilities resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into euro at the closing rate. Income and expenditure is translated at the exchange rate prevailing on the date of the transaction (for practical considerations, a weighted average rate is used for translation). The resulting translation differences are recognized separately in equity. The cumulative amount for a foreign operation which is stated in equity is reversed with an effect on the income statement when the foreign operation is sold.

The exchange rates of major currencies developed as follows:

(in relation to 1 €)	Closing rate		Average rate	
	Dec. 31, 2019	Dec. 31, 2018	2019	2018
US Dollar	1.123	1.145	1.119	1.181
UK Pound	0.850	0.897	0.877	0.885

## Property, plant, and equipment

Property, plant, and equipment is always carried at cost less cumulative scheduled depreciation.

Items of property, plant, and equipment are eliminated either on their disposal or when no further economic use is expected from the continued use or sale of the asset. Gains and losses from the disposal of an asset are recognized in the income statement.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Property, plant, and equipment assets are depreciated over their expected economic useful life using the straight-line method.

The useful life periods can be found in the following summary:

	Useful life in years
Leasehold improvements	up to 10
Buildings	10 or 50
Vehicles	5 to 6
Telecommunication equipment	7 to 10
Distribution networks	20
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13
Servers	3 to 5

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For property, plant, and equipment acquired in connection with company acquisitions, the applicable remaining useful life is determined primarily on the basis of the aforementioned useful lives and the useful lives elapsed at the time of acquisition.

Impairment tests and the recognition of impairment losses or reversals are conducted in the same way as for intangible assets with limited useful lives (see below).

## Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are connected with the production or purchase of a qualifying asset. As in the previous year, there was no need to capitalize borrowing costs during the reporting period.

## Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves the recognition of all identifiable assets and liabilities of the acquired operation at fair value.

Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities, and contingent liabilities acquired. Following initial recognition, goodwill is valued at amortized cost. Goodwill is subjected to an impairment test at least once annually or whenever there is any event or change in circumstances which might indicate impairment.

In order to test whether there is any impairment, goodwill acquired in the course of a business combination must be allocated from the date of acquisition to each of the cash-generating units of the Group which are to profit from the synergy effects of the combination. This does not depend on whether other assets and liabilities of the Group are already allocated to these cash-generating units.

The impairment need is determined by comparing the recoverable amount of the cash-generating units to which goodwill refers with their carrying value. The recoverable amount of an asset, or a cash-generating unit, is the higher of fair value of the asset or cash-generating unit less transaction costs and its value-in-use. In order to determine the value-in-use, expected future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market expectations regarding the interest effect and the specific risks of the asset. A suitable measurement model is used to determine fair value less sales costs. This is based on DCF models, valuation multipliers, the share prices of listed subsidiaries or other available indicators for fair value. If the carrying amount of an asset, or cash-generating unit, exceeds its recoverable amount, the asset, or cash-generating unit, is regarded as impaired and is written down to the recoverable amount. An impairment loss recognized for goodwill may not be reversed in the following reporting periods. The Group performs its annual impairment test for goodwill at the end of the reporting period.

## Intangible assets

The Group has control over an asset if it is able to obtain the future economic benefits flowing from the underlying resource and can restrict the access of third parties to these benefits. Individually acquired intangible assets are carried at cost on initial recognition. The acquisition cost of intangible assets resulting from the business combination corresponds to its fair value at the time of acquisition. In the following periods, intangible assets are valued at cost less cumulative amortization and cumulative

impairment charges. With the exception of those development costs which can be capitalized, costs for internally generated intangible assets are expensed in the period incurred.

Development costs for a single project are only capitalized as intangible assets if the Group can demonstrate the following:

- The completion of the intangible asset can be technically realized to the extent that it can be used or sold;
- United Internet intends to complete the intangible asset and to use or sell it;
- United Internet has the ability to use or sell the intangible asset;
- The way in which the intangible asset is expected to generate future economic benefits; United Internet may demonstrate, for example, the existence of a market for the products of the intangible asset or for the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- Adequate technical, financial, and other resources are available so that the development can be completed and the intangible asset can be used or sold;
- United Internet has the ability to reliably measure the expenditure attributable to the intangible asset during its development.

A distinction is made between usable intangible assets with finite and indefinite useful lives and intangible assets which are not yet usable (spectrum licenses).

Intangible assets with limited useful lives are amortized over their economic useful life and tested for possible impairment if there is any indication that the asset may be impaired. Intangible assets that are not yet usable are also tested for possible impairment. The impairment test is conducted in the same way as for goodwill. The useful lives and amortization methods of intangible assets with limited useful lives are reviewed at least at the end of each fiscal year. Necessary changes to the depreciation method and useful life are treated as changes to assumptions. Amortization of intangible assets with limited useful lives are recognized in the income statement under the expense category corresponding to the function of the intangible asset in the Company.

Amortization of capitalized development costs begins from the point in time at which the asset can be used. It is recognized in cost of sales over the period during which future benefits are expected. An impairment test is performed annually during the development phase.

Intangible assets with indefinite useful lives, as well as intangible assets not yet usable, are not amortized in scheduled amounts. Instead, an impairment test is performed at least once annually at the end of the reporting period for the individual asset or on the level of the cash-generating unit. The impairment test is conducted in the same way as for goodwill. The useful life of an intangible asset with an indefinite useful life is reviewed annually to ascertain whether the assumption of an indefinite useful life is still justified. If this is not the case, a prospective change is made from indefinite useful life to limited useful life. Amortization of intangible assets which are not yet usable (spectrum licenses) will begin at the time of actual network operation.



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The useful life periods can be found in the following summary:

	Useful life in years
Trademarks	Indefinite <sup>1)</sup>
Customer base	4 to 25
Spectrum licenses	up to 21
Other rights and licenses	2 to 15
Software	3 to 5
Internally generated intangible assets	3 to 5

1) In deviation from the previous year, the Strato brand has been classified as indefinite. As of December 31, 2018, the expected remaining useful life amounted to 1.5 years.

A review is also conducted on each reporting date to determine whether there is any indication that a previously recognized impairment loss no longer exists or has decreased in size. In the case of such an indication, the Group makes an estimate of the recoverable amount. A previously recognized impairment loss is only reversed if there has been a change in the assumption used to determine the recoverable amount since recognition of the last impairment loss. If this is the case, the asset's carrying value is raised to its recoverable amount. This amount may not exceed the carrying amount, less depreciation, that would have been determined had no impairment loss been recognized for the asset in prior years.

## Investments in associated companies

Investments in associated companies are valued according to the equity method. An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associated company, but not to control or jointly steer the decision-making processes.

In the case of successive acquisition of company shares, the carrying amount is measured using the equity method as of the date on which the prerequisites for accounting as an associated company are met. United Internet measures the old shares in the case of successive share purchases according to the retrospective method (cost-based approach). The original purchase cost of the old shares is included as acquisition cost using the equity method. Unrealized gains or losses previously recognized in the revaluation reserve are not considered.

Using the equity method, investments in associated companies are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company. Goodwill connected with an associated company is included in the carrying value of the investment and not subjected to scheduled amortization. The income statement includes the Company's portion of the success of the associated company. Changes recognized directly in the equity capital of the associated company are recognized by the Company in proportion to its shareholding and – where applicable – reported in "Changes in shareholders' equity". Profits and losses from transactions between the Company and the associated company are eliminated in proportion to the shareholding in the associated company.

Upon loss of significant influence, a gain or loss from the disposal of the associated company is recognized in the amount of the difference between (i) the proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the associated company, and (ii) the carrying amount of the investment to be disposed of.

The annual financial statements of the associated company are generally prepared as to the same reporting date as those of the parent company. Where necessary, adjustments are made to bring the methods in line with standard group-wide accounting and measurement methods.

After application of the equity method, the Group ascertains whether it is necessary to recognize an additional impairment loss for the Company's investments in associated companies. If there is objective evidence that an impairment has occurred, an impairment test is carried out in the same way as for goodwill. Objective evidence exists, for example, if an associate is experiencing significant financial difficulties, has committed breaches of contract, is highly likely to become insolvent, requires restructuring, or an active market for the net investment ceases to exist because of the financial difficulties of the associate. A significant or prolonged decline in the fair value of an associate below cost also constitutes objective evidence of impairment. A significant decline is assumed if the decrease in the fair value of an associate at the end of the reporting period is more than 25% of cost. This shall not apply if in exceptional cases the circumstances at that time clearly indicate that there is no impairment.

An impairment loss is recognized when the recoverable amount is less than the associate's total carrying amount. Impairment losses are recognized in the statement of comprehensive income in the result from companies accounted for using the equity method. If the recoverable amount increases in future periods, the impairment loss is reversed accordingly.

### **Contract assets**

A contract asset is the Group's right to consideration in exchange for goods or services it has transferred to a customer when that right is conditioned on something other than the passage of time. Every unconditional right to consideration is disclosed separately as a receivable. Contract assets are regularly assessed for impairment. The procedure is the same as for financial assets.

### **Contract liabilities**

A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount is due) from the customer. If a customer provides consideration before the Group has transferred goods or services to the customer, a contractual liability is recognized at the time of payment or at the latest at the time when the payment becomes due. Contractual liabilities are recognized as revenue as soon as the Group fulfills the contractual obligations.

### **Contract initiation and contract fulfillment costs**

Additional costs incurred in initiating a contract with a customer (e.g., sales commissions) are capitalized if the Group expects to recover these costs.

In addition, the Group capitalizes the costs incurred in fulfilling a contract with a customer (e.g., customer activation fees and expected termination fees) if these costs are

- not within the scope of a standard other than IFRS 15 (e.g., IAS 2 Inventories, IAS 16 Property, Plant, and Equipment or IAS 38 Intangible Assets),
- related to an existing or expected contract,
- for the creation of resources or the improvement of resources of the Company that will be used in the future for the (continued) fulfillment of performance obligations, and
- likely to lead to an expected settlement of the costs.

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Capitalized contract initiation and fulfillment costs are amortized over the estimated period of use. They are recognized in the balance sheet within deferred expenses. The amortization of contract initiation costs is disclosed in selling expenses and the amortization of contract fulfillment costs is disclosed in cost of sales.

The amortization periods for contract initiation costs are 1 to 5 years and for contract fulfillment costs 3 to 4 years.

An impairment loss is recognized if the carrying amount of the capitalized costs exceeds the remaining amount of the customer's expected consideration for the delivery of goods or the rendering of services less the costs still to be incurred.

## Classification as current and non-current

The Group classifies its assets and liabilities in the balance sheet as current and non-current assets and liabilities. An asset is classified as current if

- the asset is expected to be realized within the normal operating cycle or the asset is held for sale or consumption within that period,
- the asset is held primarily for the purpose of trading,
- the asset is expected to be realized within twelve months after the reporting date or
- the asset is cash or a cash equivalent, unless restricted from being exchanged or used to settle a liability for a period of at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current if

- it is expected to be settled within the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the end of the reporting period or
- the Group has no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

## Fair value measurement

In some cases, assets and liabilities are measured either on initial recognition or during subsequent valuations at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible for the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1** – quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2** – measurement techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- **Level 3** – measurement techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, and risks of the asset or liability and the level of the fair value hierarchy as explained above.

## Leases

United Internet acts as both lessee and lessor. The majority of the Group's lessee contracts relate to the renting of network infrastructure, buildings, technical equipment and vehicles. In the case of buildings, various rental objects/leased items such as space (office space, computer center space, storage space or parking space etc.) may be listed as contractual objects (i.e. for rental by UI). The rented network infrastructure mainly comprises unlit fiber-optic cable (dark fiber), empty conduit systems, copper twin wires, and leases of subscriber lines (local loops).

The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time of signing and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

With regard to the impact of initial application of IFRS 16, please refer to Section 2.3.

### Leases (as of January 1, 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

## Group as lessee

### Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The Group determines the lease term as the non-cancellable basic term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Useful life in years
Buildings	1 to 17
Network infrastructure	0.5 to 25
Operating and office equipment	1 to 7

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

### Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including de facto fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The incremental borrowing rate is used to measure right-of-use assets and lease liabilities. The incremental borrowing rate is determined on the basis of reference interest rates for a period of up to 17 years from risk-free interest rates with appropriate maturities, increased by risk premiums.

### **Short-term leases, leases of low-value assets, and other policy choices**

The standard includes exemptions from accounting according to IFRS 16 in the case of short-term leases (e.g., leases with a term of 12 months or less) and leases of low-value assets (e.g., PCs) for which right-of-use assets are not recognized. IFRS 16 is to be initially applied in fiscal year beginning on or after January 1, 2019. United Internet only has a small amount short-term leases, which are thus not capitalized according to IFRS 16 for reasons of materiality. In the case of leases of low-value assets – which only exist to a limited extent – the Group opts not to carry them according to IFRS 16 on a case-by-case basis. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

There is an option to form a portfolio of contracts with the same or similar characteristics. This option has been used for the asset classes subscriber lines (local loop) and main distribution frame locations (MDFs).

The option to recognize each lease component of a contract and all related non-lease components as a single lease component is applied for the asset classes underlying fiber-optic, MDFs, and cars, but not to lease arrangements for buildings.

#### **Group as lessor**

In those cases where Group companies agree finance leases as the lessor, a receivable is recognized at an amount equal to the net investment in the lease. The lease payments are apportioned between repayment of principal and finance income.

If the Group bears all substantial risks and rewards (operating lease), the leased asset is recognized in the balance sheet by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor.

Compared to in previous year, the rules for lessor accounting have not changed with the introduction of IFRS 16.

### **Leases (up to December 31, 2018)**

#### **Group as lessee**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease period. The leased property is carried at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income.

Capitalized leased assets are fully depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Significant agreements classified as finance leases relate to IRU agreements (Indefeasible Rights of Use) and the use of leased city networks of the Versatel Group. IRUs are amortized over the contract term or, if there is a favorable purchase option, over their economic useful life.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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## Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### Financial assets – initial recognition and measurement

With the exception of trade accounts receivable that do not contain a significant financing component or have a maturity of less than one year, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not subsequently measured at fair value through profit or loss, directly attributable transaction costs. Trade accounts receivable that do not contain a significant financing component or have a maturity of less than one year are measured at the transaction price. In this context, reference is made to the accounting policies in the section Revenue Recognition – Revenue from Contracts with Customers.

Purchases or sales of financial assets that provide for delivery of the assets within a period determined by the rules or conventions of the respective market (standard market purchases) are recognized as of the trading date, i.e., the date on which the Group commits to purchase or sell the asset.

### Financial assets – subsequent measurement

For subsequent measurement purposes, the classification of financial assets on initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the Group's business model for managing financial assets. For subsequent measurement, financial assets are classified in three categories:

- Financial assets (debt instruments) at amortized cost (ac)
- Financial assets (equity instruments) at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (fvoci)
- Financial assets at fair value through profit or loss (fvtpl)

### Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

### Financial assets at fair value through other comprehensive income (equity instruments) with no recycling of cumulative gains and losses upon derecognition

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income if they meet the definition of

equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the income statement when the right of payment has been established, unless the dividends recover part of the cost of the financial asset. In this case, such gains are recognized in other comprehensive income. Equity instruments measured at fair value through other comprehensive income are not subject to impairment assessment.

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets must be classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading. Financial assets with cash flows that are not solely payments of principal and interest are also classified and measured at fair value through profit or loss, irrespective of the business model. Debt instruments may also be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks of the embedded derivative are not closely related to the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with net changes in fair value recognized in the income statement. Dividends on listed equity investments are also recognized as other income in the income statement when the right of payment has been established.

### **Financial assets – derecognition**

A financial asset (or part of a financial asset, or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The gains and losses recognized in other comprehensive income for a financial asset measured at fair value in other comprehensive income are reclassified to cumulative profit or loss. In the case of a pro rata disposal, a pro rata transfer is made.

### **Impairment of financial assets**

For trade accounts receivable and contract assets, the Group applies a simplified (one-step) method for calculating expected credit losses, whereby a loss allowance based on expected credit losses over the remaining term is recognized at each reporting date.

Expectations of future credit losses are formed on the basis of regular reviews and measurements as part of credit monitoring. Historical data is regularly used to derive relationships between credit losses and various factors (e.g., payment agreement, overdue period, dunning level etc.). On the basis of these



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relationships, supplemented by current observations and forward-looking assumptions regarding the portfolio of receivables and contract assets held as of the reporting date, an estimate of future credit losses is made.

The Group recognizes an allowance for expected credit losses for all debt instruments which are not held at fair value through profit or loss and are not trade accounts receivable. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. Expected credit losses are recognized in two stages. For financial instruments for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the expected credit losses based on a default event within the next twelve months. For those financial instruments for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized in the amount of the credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

The Group's operating business is mainly in the mass customer business. Default risks are thus taken into account by means of individual value adjustments and lump-sum individual value adjustments. The specific bad debt allowances for overdue receivables are mainly based on the age structure of the receivables with different valuation discounts, which are mainly derived from the success rates of those collection agencies commissioned to collect overdue receivables. The age structure of receivables is shown in Note 19. All receivables that are more than 365 days overdue are written down individually by

100%. Fully impaired trade accounts receivable are derecognized 180 days after collection has been handed over to the collection agency, unless the agency has given positive feedback or payment for an impaired receivable is unexpectedly received, or if the customer's inability to pay is known before or after transfer to the collection agencies.

Further details on the impairment of trade accounts receivable and contract assets are provided in the following Notes:

- Significant accounting judgments, estimates, and assumptions (Note 3)
- Trade accounts receivable (Note 19)
- Contract assets (Note 20)
- Objectives and methods of financial risk management (Note 43)



see pages 179, 200, 201, 243

## Financial liabilities – initial recognition and measurement

On initial recognition, financial liabilities are classified as financial liabilities measured at fair value through profit or loss, or as financial liabilities measured at amortized cost.

All financial liabilities are recognized initially at fair value and, in the case of financial liabilities measured at amortized cost, net of directly attributable transaction costs.

## Financial liabilities – subsequent measurement

The subsequent measurement of financial liabilities depends on their classification:

### **Financial liabilities at fair value through profit or loss**

This category also includes derivative financial instruments entered into by the Group. Separated embedded derivatives are also classified as held for trading. Gains or losses on financial liabilities held for trading are recognized through profit or loss.

### **Financial liabilities at amortized cost**

After initial recognition, financial liabilities classified at amortized cost are subsequently measured using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Amortization using the effective interest method is included as part of finance costs in the income statement.

### **Financial liabilities – derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred result in an adjustment to the carrying amount of the liability and are amortized over the remaining life of the liability.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Balance Sheet if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### **Financial instruments – derivative financial instruments and hedging relationships**

The Group occasionally uses derivative financial instruments in order to hedge against interest and exchange rate risks. Derivative financial instruments are recognized at fair value on the date of the agreement and carried at fair value in the subsequent periods. The fair value of interest derivatives is calculated on the basis of present value models using market information (interest rate curves) as well as – where material – the individual credit risk of the Company. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. Profit or loss resulting from changes in the fair value of derivative financial instruments are recognized immediately in the income statement.

When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity ("Cash flow hedge reserve"). Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as at the end of the reporting period using the hypothetical derivative method. The amounts recognized in equity are reclassified to the statement of comprehensive income in the period in which

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the hedge influences the period result, e.g., when hedged financial income or expenses are recognized or when an expected sale is made.

## Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less estimated necessary selling costs. Adequate allowances for excess inventories are made to provide for inventory risks.

Measurement is also based in part on time-related writedowns for inventories. Both the size and distribution over time of such writedowns represents a best-possible estimation of net realizable value and are thus subject to uncertainties. On indication of decreased net realizable value, inventories are corrected by recognizing suitable impairment charges.

## Treasury shares

Treasury shares are deducted from shareholders' equity. The purchase, sale, issue or retirement of treasury shares is not recognized in the income statement.

The cancellation of treasury shares results in the pro rata reversal of the item "Treasury shares" disclosed in shareholders' equity at the expense of the remaining shareholders' equity. The Group uses the following application sequence:

- The cancellation of treasury shares is always deducted from share capital in the amount of the par value.
- The amount exceeding par value is first derecognized in the amount of the value contribution from employee stock ownership plans (SARs and convertible bonds) against capital reserves.
- Any amount exceeding the value contribution from employee stock ownership plans is derecognized against accumulated profit.

## Cash and cash equivalents

Cash and cash equivalents consist of bank balances, other investments, checks and cash in hand, which all have a high degree of liquidity and maturities of less than 3 months – calculated from the date of purchase.

Cash and cash equivalents are measured at cost.

## Pensions and other post-employment benefits

Payments to defined contribution retirement benefit plans are expensed on payment of salary to the employee.

## Provisions

Provisions are formed if the Group has a current (legal or actual) obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. If the Group expects at least partial compensation for a recognized

provision (e.g., in the case of an insurance policy), this compensation is recognized as a separate asset if the reimbursement is virtually certain. The expense from forming the provision is recognized in the income statement after deducting the reimbursement. If the interest effect from discounting is significant, provisions are discounted at a pre-tax interest rate which reflects the specific risk of the debt, if so required by the individual case. In the event of a discount, the increase in provisions caused by the passage of time is recognized as a financial expense.

## **Share-based payment**

Group employees and Management Board members receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the Company's discretion. As the United Internet Group has no agreements with a current obligation for cash settlement, all share-based payment transactions are carried in the balance sheet as equity-settled payment transactions.

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective measurement process, the value component is determined at the time of granting, also for subsequent measurement until the end of the term. On every measurement date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available. The measurement of cost from the granting of equity instruments and the corresponding increase in equity occurs over the period in which the vesting or performance conditions have to be satisfied (the so-called vesting period). This period ends after the vesting date, i.e., the date on which the employee concerned has gained irrevocable entitlement. The cumulative expenses recognized on each reporting date for equity-settled transactions until the vesting date reflect the extent to which the vesting period has expired and the number of equity instruments which, according to the Group's best-possible estimate, will actually be vested after the vesting period. The income or expense recognized in the income statement represents the development of cumulative expenses recognized at the beginning and end of the reporting period. No expense is recognized for payment rights which are not vested.

## **Earnings per share**

Undiluted or basic earnings per share are calculated by dividing the result attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised.

In addition, undiluted and diluted earnings per share are disclosed separately for continued and discontinued operations.

## **Financial income**

Interest income is recognized as interest accrues (using the effective interest rate, i.e., the rate which discounts estimated future cash receipts through the expected life of the financial instrument to the

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net carrying amount of the financial asset). Dividend income is recognized with the inception of the legal right to payment.

## Government grants

Government grants are recognized where there is reasonable certainty that the grant will be received and the Company will satisfy all attaching conditions. Where the grants relate to an expense item, they are recognized as income in scheduled amounts over the period necessary to match the grants to the costs they are intended to compensate. Grants relating to an asset item reduce the carrying value of that item.

## Current income tax and deferred taxes

The tax expense for a period comprises current taxes and deferred taxes. Taxes are recognized in the income statement, unless they relate to transactions that are recognized in other comprehensive income or directly in equity. In these cases, taxes are recognized accordingly in other comprehensive income or directly in equity.

Current taxes are valued at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable on the reporting date.

The liability method is used to create deferred taxes on all temporary differences existing on the reporting date between the carrying value of an asset or a liability in the balance sheet and the fiscal carrying value.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit according to IFRS nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss according to IFRS nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting

date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as of the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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## 2.2 Summary of measurement principles

The Group's measurement principles can be summarized and simplified as follows – providing there is no impairment:

Balance sheet item	Measurement
<b>ASSETS</b>	
Cash and cash equivalents	Amortized cost
Trade accounts receivable	Amortized cost
Contract assets	Amortized cost
Intangible assets	
with limited useful lives	Amortized cost
with indefinite useful lives	Impairment-only recognition
Property, plant, and equipment	Amortized cost
Share in associated companies	Equity method
Other financial assets	
	Financial assets measured at fair value through other comprehensive income without reclassification of cumulative gains and losses on derecognition
Equity instruments	
Derivatives	Fair value through profit or loss
Other	Amortized cost
Inventories	Lower of cost and net realizable value
Prepaid expenses	Amortized cost
	Expected payment from the tax authorities based on tax rates applicable on the reporting date or in the near future
Income tax claims	
Other non-financial assets	Amortized cost
	Undiscounted measurement at tax rates valid in the period in which an asset is realized or a liability settled
Deferred tax assets	
<b>LIABILITIES</b>	
Liabilities due to banks	Amortized cost
	Undiscounted measurement at tax rates valid in the period in which an asset is realized or a liability settled
Deferred tax liabilities	
	Expected payment to the tax authorities based on tax rates applicable on the reporting date or in the near future
Income tax liabilities	
Trade accounts payable	Amortized cost
Contract liabilities	Amortized cost
	Expected discounted amount that will lead to outflow of resources
Other accrued liabilities	
Other financial liabilities	Amortized cost
Derivatives	Fair value through profit or loss
Other	Amortized cost
Other non-financial liabilities	Amortized cost

## 2.3 Effects of new or amended IFRS standards

For the fiscal year starting January 1, 2019, the following standards are mandatory in the EU for the first time:

Standard		Mandatory for fiscal years beginning on or after	Endorsed by EU Commission
IFRS 3, IFRS 11, IAS 12, IAS 23	Annual Improvements 2015–2017	Jan. 1, 2019	Yes
IFRS 16	Leases	Jan. 1, 2019	Yes
IFRS 9	Amendment: Prepayment Features with Negative Compensation	Jan. 1, 2019	Yes
IAS 19	Amendment: Plan Amendment, Curtailment or Settlement	Jan. 1, 2019	Yes
IAS 28	Clarification on IAS 28 Investments in Associates and Joint Ventures	Jan. 1, 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	Jan. 1, 2019	Yes

### Leases

The main effects of the initial application of IFRS 16 result from the lessee's obligation to disclose all leases in the balance sheet.

IFRS 16 was issued in January 2016 and replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

IFRS 16 generally applies to contracts that convey the right to use an asset, rental contracts and leases, subleases, and sale-and-leaseback transactions. With respect to the lease of certain intangible assets, a lessee can elect to apply IFRS 16 to leases of certain intangible assets.

It further stipulates that an asset representing the right to use the underlying asset over the term of the lease must be capitalized (right-of-use asset). At the same time, a liability is recognized in the amount of the future lease payments less the interest portion (i.e., the lease liability). In the subsequent period, the lease liability is adjusted with an effect on expenses due to interest and a depreciation charge for the right of use.

The standard includes two exemptions from accounting according to IFRS 16 – leases of low-value assets (e.g. PCs) and short-term leases (e.g. leases with a term of 12 months or less). IFRS 16 is to be initially applied in fiscal year beginning on or after January 1, 2019.

The lessee is also required to remeasure the lease liability should certain events occur (e.g. a change in the lease term, a change in future lease payments due to a change in an index or rate used to measure liabilities or determine payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.



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In accordance with IFRS 16, fixed lease payments are recognized in lease accounting. Variable payments are only considered if they are linked to an index or (interest) rate.

Subleases are accounted for in addition to the original main lease. These subleases represent agreements as lessor. They are classified as finance or operating leases in proportion to the term of the main lease.

The United Internet Group opted for the modified retrospective initial adoption method and elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The United Internet Group also elected to recognize the right-of-use asset at the value of the corresponding lease liability on initial application. The right-of-use asset is adjusted by the amount of lease payments made or accrued in advance for leases that were recognized in the balance sheet immediately preceding the date of initial application.

The application of the new regulation led to an increase in non-current assets in the Consolidated Balance Sheet of United Internet (for right-of-use assets) and at the same time to an increase in financial liabilities (due to the payment obligation). In the income statement, this led to a reduction in rental expenses, higher depreciation, and interest expenses.

The right-of-use assets and lease liabilities were not disclosed separately in the balance sheet, but together with property, plant, and equipment, or other liabilities.

€k	Carrying amount on Jan. 1, 2019
<b>Property, plant, and equipment</b>	
Right-of-use assets	
- Land and buildings	175,556
- Operational and office equipment	7,131
- Network infrastructure/telecommunication equipment	182,629
- thereof reclassification from IAS 17	80,852
<b>Total right-of-use assets</b>	<b>365,049</b>
<b>Other financial liabilities</b>	
Lease liabilities	
- Current lease liabilities	85,861
- Non-current lease liabilities	274,914
- thereof from finance leases pursuant IAS 17	81,940
<b>Total lease liabilities</b>	<b>360,508</b>
<b>Reclassification as right-of-use assets from</b>	
Property, plant, and equipment	-80,852
Prepaid expenses	-10,023
<b>Reclassification as lease liabilities from</b>	
Other financial liabilities (current)	-15,338
Other financial liabilities (non-current)	-67,153
Trade accounts payable (current)	-1,396
Trade accounts payable (non-current)	-2,690

The reconciliation of operating lease liabilities as of December 31, 2018, discounted with the appropriate incremental borrowing rates, and the opening balance sheet amount for lease liabilities as of January 1, 2019 is shown below:

in €k	Jan. 1, 2019
Operating lease: minimum lease payments (nominal) total as of Dec. 31, 2018	240,616
Changes from new lease regulations	-4,865
Liabilities from finance leases pursuant to IAS 17 as of Dec. 31, 2018	82,491
plus optional extension periods (beyond the minimum term)	78,363
less discounting effect	-35,830
<b>Financial liability IFRS 16 – Jan. 1, 2019</b>	<b>360,775</b>

The changes resulting from the redefinition of leases relate to variable lease payments, which are not included in the measurement of lease liabilities.

The incremental borrowing rate is used to measure right-of-use assets and lease liabilities. The incremental borrowing rate is determined on the basis of reference interest rates for a period of up to 17 years from risk-free interest rates with appropriate maturities.

Discounting as of January 1, 2019 was performed using a weighted average incremental interest rate of 3.90%.



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In the period from initial application of IFRS 16 until December 31, 2019, right-of-use assets amounting to € 31,096k have been added. These are divided into land and buildings (€ 8,116k), as well as network infrastructure, and communication equipment (€ 22,980k). For further information on leases, please refer to Note 45.

Lessor accounting under IFRS 16 is substantially unchanged from previous accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17.

There were no significant effects from the other IFRS amendments.

## 2.4 Accounting standards already published but not yet mandatory

Apart from the IFRSs mentioned above whose application is mandatory, the IASB has also published further IFRSs and IFRICs which have already partly received EU endorsement but which will not become mandatory until a later date. United Internet AG will probably only implement these standards when their adoption in the Consolidated Financial Statements becomes mandatory.

Standard		Mandatory for fiscal years beginning on or after	Endorsed by EU Commission
Conceptual Framework	Revised Conceptual Framework	Jan. 1, 2020	No
IFRS 3	Amendment: Definition of a Business	Jan. 1, 2020	No
IAS 1, IAS 8	Amendment: Definition of Material	Jan. 1, 2020	No
IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform	Jan. 1, 2020	No
IFRS 17	Insurance Contracts	Jan. 1, 2021	No

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No significant impact is expected from IFRS amendments already published but not yet mandatory.

### 3. Significant accounting judgments, estimates, and assumptions

The application of accounting and measurement methods in preparing the Consolidated Financial Statements requires management to make certain accounting judgments, estimates, and assumptions. These have an effect on the disclosed amounts of earnings, expenditure, assets and liabilities, as well as contingent liabilities, as of the reporting date. Actual amounts may differ from these estimates and assumptions, which may lead in future to significant adjustments to the carrying amounts of the assets and liabilities concerned.

#### Judgments, estimates, and assumptions

In the application of accounting and measurement methods, management made the following accounting judgments which significantly affect amounts in the Annual Financial Statements.

The most important forward-looking assumptions and other major sources of uncertainty as of the reporting date, which involve the risk of significant adjustments to the carrying amounts of assets and liabilities in the coming fiscal year, are explained below.

#### Revenue recognition

The standalone selling prices for hardware are determined on the basis of the adjusted market assessment approach, which requires an estimate of the relevant market prices for the respective hardware. Changes in these estimates may affect the allocation of the transaction price to the individual performance obligations and thus also affect the amount and timing of revenue recognition.

In addition, various other assumptions and estimates are made during application of the portfolio approach, which are based on past experience and available knowledge at the end of the reporting period. Changes in these assumptions and estimates in their entirety can also have a material effect on the amount and timing of revenue recognition.

#### Costs of contract fulfillment and contract initiation

The calculation of the estimated amortization periods for contract costs is based on past experience and subject to significant uncertainties, in particular with regard to unforeseen customer or technology developments. A change in the estimated amortization period affects the timing of the recognition. The carrying amount of capitalized contract initiation and contract fulfillment costs as of December 31, 2019 amounted to € 283,162k (prior year: € 290,956k).

#### Measurement of non-listed equity instruments

Measuring the fair value of a non-listed equity instrument not only takes into account past experience of the company in question but also expectations of its probable future development. These expectations are based on numerous assumptions and the measurement of fair value is therefore

subject to significant uncertainties. The carrying amount of non-listed equity instruments as of December 31, 2019 amounted to € 44,622k (prior year: € 42,796k).

## Impairment of non-financial assets

Goodwill and other intangible assets with indefinite useful lives, as well as non-usable assets with finite useful lives, are assessed at least once a year or on indication of impairment. Other non-financial assets are tested for impairment if there is any indication that the carrying value exceeds the recoverable amount. The recoverable value of the respective cash-generating unit to which the goodwill or intangible assets have been allocated is calculated either as "value-in-use" or fair value less cost of sell. As of December 31, 2019, the carrying amount of goodwill was € 3,616,515k (prior year: € 3,612,634k).



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In order to estimate value-in-use or fair value less cost of sell, management must estimate expected future cash flows of the asset or cash-generating unit and select a suitable discount rate to assess the present value of these cash flows. Further details, including a sensitivity analysis of significant assumptions, are presented in the Note "Impairment of goodwill and intangible assets with indefinite useful lives".

The most important management assumptions for the measurement of the recoverable value of cash-generating units include assumptions regarding the development of sales, margins, and the discount rate.

## Carrying amounts and impairment test for investments in associated companies

As of the reporting date, the United Internet Group holds investments in various associated companies. If the consideration for the acquisition of the shares is made by contributing a subsidiary or other investment, the acquisition costs of the associated company are to be determined by means of a company valuation. This valuation is closely related to the assumptions and estimates made by management with respect to the future development of the respective company and the applicable discount rate.

In accordance with IAS 28.31, the Group examines on the reporting date whether the net investment of the United Internet Group in the respective associated company requires an additional impairment charge.

The carrying amount for shares in associated companies is measured on the basis of their prorated annual results. If the annual results for the fiscal year are not known, an estimate is made on the basis of the latest publicly available financial information of the respective associated company.

The recoverable amounts of listed associated companies is based on the respective share price. The recoverable amounts of non-listed companies consider both the available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2019, the carrying value of investments in listed associated companies amounted to € 106,639k (prior year: € 105,502k). The carrying value of investments in non-listed associated companies as of December 31, 2019 amounted to € 89,397k (prior year: € 101,354k).

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## Share-based payments

The Group measures the cost of granting equity instruments to employees by using the fair value of these equity instruments at the moment they were granted. A suitable measurement model must be used to estimate fair value when granting equity instruments; this depends on the contractual terms. Suitable data must also be chosen for the valuation process, including the expected option term, volatility, exercise behavior, and dividend yield, as well as the corresponding assumptions.

In the reporting period, expenses for share-based remuneration (stock appreciation rights and employee stock ownership plan) amounted to € 8,510k (prior year: € 7,182k).

## Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. The carrying value of income tax liabilities as of December 31, 2019 amounted to € 91,680k (prior year: € 187,938k) and, as in the previous year, mainly related to current taxes of the fiscal year.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

## Trade accounts receivable and contract assets

Trade accounts receivable and contract assets are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of expected credit losses by means of regular reviews as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade accounts receivable as of December 31, 2019 amounted to € 403,701k (prior year: € 409,656k). The carrying value of contract assets as of December 31, 2019 amounted to € 682,079k (prior year: € 595,784k).

## Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less the necessary expected costs up to the time of sale. Measurement is also based in part on writedowns for inventories. The size of such writedowns represents a best-possible estimation of net realizable value and is thus subject to uncertainties. The carrying amounts of



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inventories as of the reporting date amounted to € 79,268k (prior year: € 89,617k). Please refer to Note 21 for further information.

## **Property, plant, and equipment, and intangible assets**

Property, plant, and equipment, and intangible assets are valued at cost on initial recognition. After initial recognition, property, plant, and equipment, and intangible assets with limited useful lives are depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 2,936,069k as of December 31, 2019 (prior year without right-of-use assets: € 1,865,882k). This amount includes spectrum licenses of € 1,070,187k (prior year: € 0k)

## **Right-of-use assets and lease liabilities**

For the duration of the lease, a right-of-use asset in the amount of the present value of the future lease payments plus initial direct costs, advance payments, and restoration costs, and less incentive payments received is capitalized and amortized over the term of the lease. At the same time, a lease liability is recognized in the amount of the future lease payments less the interest portion. In order to determine the term of leases, estimates regarding future utilization are required, particularly in the case of agreements with extension and termination options. The incremental borrowing rate is used to measure right-of-use assets and lease liabilities. The incremental borrowing rate is determined on the basis of reference interest rates for a period of up to 17 years from risk-free interest rates with appropriate maturities, plus credit risk premiums.

## **Accounting for business combinations**

Business combinations are accounted for using the purchase method. Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities, and contingent liabilities acquired. Costs accrued in the course of the business combination are recognized under other operating expense.

However, assumptions made to determine the respective fair value of the acquired assets and liabilities as of the date of acquisition are subject to significant uncertainties. For the identification of intangible assets, depending on the type of intangible asset and complexity of determining its fair value, the Company either uses independent appraisals of external assessors or fair value is determined internally using a suitable assessment technique for the respective intangible asset, generally based on a forecast of total expected future cash flow generation. These valuations are closely related to assumptions and estimates which management has made about the future development of the respective assets and the applicable discounted interest rate.

## **Provisions**

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions as of December 31, 2019 amounted to € 86,022k (prior year: € 124,440k).

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## 4. Business combinations and investments

### 4.1 Business combinations in the fiscal year

The Group did not carry out any business combinations in the fiscal year.

### 4.2 Business combinations of the previous year

#### Acquisition of World4You

On August 17, 2018, United Internet AG reached an agreement with the owners of the Austrian web host World4You concerning the 100% acquisition of the company by United Internet subsidiary 1&1 IONOS SE.

Based in Linz, Austria, World4You Internet Services GmbH was founded in 1998. The company is the market leader for web hosting in Austria. The product range of World4You ([www.world4you.com](http://www.world4you.com)) comprises domains, e-mail solutions, websites, web hosting, and servers, as well as security solutions. It is planned that World4You will remain an independent company and continue to develop the Austrian market.

The Austrian web hosting and cloud applications market has made good progress over the past few years. The market is heavily fragmented and dominated by competition between national companies and a few international players.

With the acquisition of World4You, United Internet AG has strengthened its international activities in the field of Business Applications and is continuing its strategy of complementing organic growth with targeted acquisitions.

The Group paid € 75.5 million in cash for the shares of World4You. After deduction of assumed cash amounting to € 3.5 million, the Group's net cash outflow was € 72 million.

1&1 IONOS SE assumed control over World4You with effect from August 17, 2018 (date of acquisition).

In the course of the business combination, total transaction costs of € 0.5 million were expensed.

World4You was first included in the Consolidated Financial Statements of United Internet AG as of the date of acquisition. Initial consolidation of World4You was made in accordance with IFRS 3 – Business Combinations using the acquisition method.

The net cash outflow from the acquisition was as follows:

Cash flow from investing activities	€k
Cash purchase price	75,533
Less assumed cash	-3,488
<b>Net cash outflow</b>	<b>72,045</b>

The assets and liabilities of World4You were recognized on the basis of a purchase price allocation. Goodwill of € 51,250k resulted from this purchase price allocation. The fair value of other intangible assets amounts to € 29,631k. These mainly include customer relationships (€ 24,014k), trademarks (€ 3,494k), and software (€ 1,910k). The following table, prepared on the basis of the purchase price allocation, presents an overview of the recognized assets and liabilities:

Assets	€k
<b>Current</b>	
Cash and cash equivalents	3,488
Trade accounts receivable	449
Prepaid expenses	74
Other financial assets	43
<b>Non-current</b>	
Property, plant, and equipment	767
Intangible assets	29,631
Deferred tax assets	69
<b>Liabilities</b>	
<b>Current</b>	
Trade accounts payable	366
Income tax liabilities	79
Deferred revenue	2,071
Other financial liabilities	212
Other non-financial liabilities	13
<b>Non-current</b>	
Deferred tax liabilities	7,497
<b>Total identifiable net assets</b>	<b>24,283</b>
<b>Preliminary goodwill from business acquisition</b>	<b>51,250</b>
<b>Transferred consideration</b>	<b>75,533</b>

The gross trade accounts receivable amounted to € 726k. The fair value of assumed trade accounts receivable and expected cash flow amounted to € 449k.

Non-tax-deductible goodwill is allocated above all to non-separable assets, such as expected synergy effects, strategic benefits, and employee know-how.



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## Explanations of items in the income statement

Due to the modified initial adoption of IFRS 16 and the associated effects in the fiscal year 2019, the prior-year figures disclosed in the income statement are of limited comparability. For further information, please refer to Note 2.3 and Section 2.2 of the Management Report.



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### 5. Sales revenue/segment reporting

According to IFRS 8, the identification of operating segments to be included in the reporting process is based on the so-called management approach. External reporting should therefore be based on the Group's internal organization and management structure, as well as internal financial reporting to the Chief Operating Decision Maker. In the United Internet Group, the Management Board is responsible for assessing and controlling the success of the various segments.

The Group's operating business is divided into the two business divisions "Access" and "Applications", which in turn are divided into the reporting segments "Consumer Access" and "Business Access", as well as "Consumer Applications" and "Business Applications".

In the course of its ongoing integration measures in the Consumer Access segment, United Internet adjusted the disclosed sales figures of a Group subsidiary of 1&1 Drillisch acquired in 2017, which previously recognized revenue-reducing effects as cost of sales, and brought it in line with standard Group disclosure methods in the fourth quarter of 2019. To aid comparability, revenue and cost of sales figures for the fiscal year 2018 were also adjusted. As a result of this adjustment, disclosed revenue and cost of sales figures for the previous year in the Consumer Access segment and at Group level were both reduced by € 27.9 million. This merely resulted in a reclassification between these two items in the statement of comprehensive income. The adjustment has no effect on the key earnings figures (EBITDA and EBIT) of the segment or the Group.

A description of the products and services is provided in Note 2.1 in the explanation of revenue recognition. The segment "Corporate" comprises mainly management holding functions.



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The Management Board of United Internet AG mainly controls operations on the basis of key performance figures. It measures segment success primarily on the basis of sales revenue, earnings before interest, taxes, depreciation and amortization (EBITDA), and the result of ordinary operations (EBIT). Transactions between segments are charged at market prices. Information on sales revenue is allocated to the country in which the company is domiciled. Segment earnings are reconciled with the total amount for the United Internet Group.

Segment reporting of United Internet AG in fiscal year 2019 was as follows:

January - December 2019 (€m)	Consumer Access segment	Business Access segment	Consumer Applications segment	Business Applications segment	Corporate	Reconciliation/ Consolidation	United Internet Group
Segment revenue	3,647.5	476.6	255	890.6	1.4	-77.0	5,194.1
- thereof domestic	3,647.5	476.6	247	455.3	1.4	-66.8	4,761.1
- thereof foreign	0	0	7.9	435.3	0	-10.2	433.0
Segment revenue from transactions with other segments	1.9	56.5	14.5	4.0	0		77.0
Segment revenue from contracts with customers	3,645.6	420.1	240.5	886.6	1.4		5,194.1
- thereof domestic	3,645.6	420.1	232.8	461.3	1.4		4,761.2
- thereof foreign	0	0	7.7	425.3	0		433.0
EBITDA	686.6	147.2	103.6	306.2	22.1		1,265.7
Financial result							-23.2
Result from associated companies							-8.2
EBT							779.7
Income taxes							-240.7
<b>Net income</b>							<b>539.0</b>
Assets (non-current)	2,286.7	398.3	296.8	864.9	56.3	---	3,903.0
- thereof domestic	2,286.7	398.3	296.4	480.5	56.3	---	3,518.3
- thereof shares in associated companies	106.6	0	62.8	0	24.6	---	194.0
- thereof other financial assets	1.7	0	8.1	4.1	31.8	---	45.7
- thereof goodwill	2,178	398	225.5	476.4	0	---	3,278.6
- thereof foreign	0	0	0	384.4	0	---	385
- thereof shares in associated companies	0	0	0	2.1	0	---	2.1
- thereof other financial assets	0	0	0	44.7	0	---	44.7
- thereof goodwill	0	0	0	337.5	0	---	337.9
Investments in intangible assets and property, plant and equipment (without goodwill)	1,119.2	225.4	38.4	63.5	22.1	-48.9	1,419.7
Amortization/depreciation	150.5	198.4	17.7	85.4	2.6	---	454.6
- thereof intangible assets, and property, plant and equipment	27.2	178.7	17.7	47	2.6	---	273.2
- thereof assets capitalized during company acquisitions	123.3	19.7	0	38.4	0	---	181.4
Number of employees	3,163	1,184	1,007	3,416	604	---	9,374
- thereof domestic	3,163	1,184	1,003	1,807	604	---	7,761
- thereof foreign	0	0	4	1,609	0	---	1,613

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Segment reporting of United Internet AG in fiscal year 2018 was as follows:

January - December 2018 (€m)	Consumer Access segment*	Business Access segment	Consumer Applications segment	Business Applications segment	Corporate	Reconciliation/ Consolidation	United Internet Group
Segment revenue	3,600.8	465.9	274.2	841.8	1.7	-81.5	5,102.9
- thereof domestic	3,600.8	465.9	266.4	440.9	1.7	-73.8	4,701.9
- thereof foreign	0	0.0	7.9	400.8	0.0	-7.7	401.0
Segment revenue from transactions with other segments	2.6	55.3	19.5	4.1	0.0		81.5
Segment revenue from contracts with customers	3,598.2	410.6	254.8	837.6	1.7		5,102.9
- thereof domestic	3,598.2	410.6	247.2	444.1	1.7		4,701.9
- thereof foreign	0	0.0	7.5	393.5			401.0
EBITDA	719.3	72.6	112.8	290.4	6.3		1,201.3
Financial result							-27.6
Result from associated companies							-221.5
EBT							561.9
Income taxes							-249.8
<b>Net income</b>							<b>312.1</b>
Assets (non-current)	2,285.4	398.3	294.9	856.8	332.2	---	4,167.5
- thereof domestic	2,285.4	398.3	294.6	478.2	332.2	---	3,788.6
- thereof shares in associated companies	105.5	0.0	61.2	0.0	38.3	---	205.0
- thereof other financial assets	1.4	0.0	7.9	1.8	293.9	---	305.0
- thereof goodwill	2,178.5	398.3	225.5	476.4	0.0	---	3,278.6
- thereof foreign	0	0.0	0.3	378.6	0.0	---	379.0
- thereof shares in associated companies	0	0.0	0.0	1.9	0.0	---	1.9
- thereof other financial assets	0	0.0	0.0	43.1	0.0	---	43.1
- thereof goodwill	0	0.0	0.3	333.7	0.0	---	334.0
Investments in intangible assets and property, plant and equipment (without goodwill)	15.5	174.4	13.9	74.7	11.8	---	290.3
Amortization/depreciation	158.7	130.7	12.0	88.3	0.7	---	390.3
- thereof intangible assets, and property, plant and equipment	24.9	109.0	12.0	47.3	0.7	---	193.8
- thereof assets capitalized during company acquisitions	133.8	21.7	0.0	41.0	0.0	---	196.5
Number of employees	3,150	1,095	947	3,355	546	---	9,093
- thereof domestic	3,150	1,095	943	1,833	546	---	7,567
- thereof foreign	0	0	4	1,522	0	---	1,526

\* Adjustment of prior-year figures; see above notes

Non-current segment assets comprise shares in associated companies, other financial assets, and goodwill.

In the fiscal year 2019, revenue of the Consumer Access segment from contracts with customers includes hardware sales of € 702,582k. Revenue of the Business Access segment from contracts with customers for the fiscal year 2019 includes hardware sales of € 10,625k. The remaining revenue of the two segments is attributable to service revenue. The other business segments only generate revenue from services.

In the periods under review, there was no significant concentration of individual customers in the customer profile. As in the previous year, the United Internet Group does not generate more than 10% of total external sales revenue with any single customer. Foreign sales accounted for 8.3% (prior year: 7.8%) of total Group revenue.

The highest management committee only monitors shares in associated companies, other non-current financial assets, and goodwill. The depreciation disclosed in the segments refers to other, non-monitored intangible assets, and property, plant, and equipment.

Contract balances developed as follows in the fiscal year 2019:

in €k	Dec. 31, 2019	Dec. 31, 2018
Trade accounts receivable (Note 19)	403,701	409,656
Contract assets (Note 20)	682,079	595,784
Contract liabilities (Note 33)	184,823	188,128

Apart from customer growth, the main reason for the increase in contract, compared to last year, was the increased subsidizing of hardware in the fiscal year 2019.

In fiscal year 2019, revenue of € 154,290k (prior year: € 177,288k) was recognized which was contained in contract liabilities at the beginning of the fiscal year.

The total transaction price of performance obligations still unfulfilled at the end of the reporting period amounted to € 1,604,511k (prior year: € 1,498,298k) as of December 31, 2019. The following table shows the time bands in which the transaction prices from unfulfilled or partially unfulfilled performance obligations as of the reporting date are expected to be recognized:

€k	total	2020	2021	>2021
Business Applications	3,851	2,853	719	279
Consumer Access	1,177,144	887,641	289,503	0
Business Access	415,613	208,608	94,175	112,830
Consumer Applications	7,903	5,732	2,171	0
<b>Total</b>	<b>1,604,511</b>	<b>1,104,834</b>	<b>386,568</b>	<b>113,109</b>

The transaction prices shown relate to unfulfilled performance obligations from contracts with customers with an original contract term of more than 12 months. They relate to service components with period-based revenue recognition and to contracts for which a one-off fee has been invoiced and which are now recognized as revenue over the relevant original minimum contract term.



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## 6. Cost of sales

€k	2019	2018*
Cost of services	2,048,466	2,066,047
Cost of goods	734,579	702,983
Personnel expenses	225,485	214,682
Amortization/depreciation	307,325	238,604
Other	111,153	127,740
<b>Total</b>	<b>3,427,008</b>	<b>3,350,056</b>

\* Prior year figures adjusted; see note 5



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Cost of sales in relation to sales revenue increased to 66.0% compared with the previous year (65.7%\*), resulting in a slight decline in gross margin to 34.0% (prior year: 34.3%\*).

## 7. Selling expenses

Selling expenses rose from € 678,231k (13.2% of sales) to € 741,754k (14.3% of sales). They include personnel expenses of € 245,718k (prior year: € 219,359k), depreciation of € 136,471k (prior year: € 137,653k), and other selling expenses of € 359,565k (prior year: € 321,219k). Other selling expenses mostly comprise customer acquisition costs, advertising, customer care, and product management.

## 8. General and administrative expenses

Compared to the previous year, general and administrative expenses decreased from € 218,943k (4.3% of sales) to € 205,899k (4.0% of sales). They include personnel expenses of € 81,644k (prior year: € 104,728k), depreciation of € 30,305k (prior year: € 14,051k), and other general and administrative expenses of € 93,950k (prior year: € 100,163k). The other general and administrative expenses mostly comprise expenses for accounts receivable management, legal and consulting fees, and maintenance costs.

## 9. Other operating income/expenses

### 9.1 Other operating expenses

€k	2019	2018
b) Expenses from foreign currency translation	5,842	5,648
Expenses relating to other periods	4,337	954
Derivatives	1,081	0
Losses from the disposal of property, plant, and equipment	880	1,151
Integration project Drillisch AG	57	10,579
Other	4,801	5,634
<b>Total</b>	<b>16,998</b>	<b>23,966</b>

\* Bad debt losses will be presented separately in the 2018 financial year due to the amended requirements of IAS 1.

Expenses from foreign currency translation mainly comprise losses from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as losses from measurement as of the reporting date. Currency gains from these items are

reported under other operating income. A net consideration of this item results in a net loss of € 2,048k (prior year: net loss of € 51k).

## 9.2 Other operating income

€k	2019	2018
Income from dunning and return debit charges	33,213	41,976
Income from the disposal of an associated company	21,512	0
Income from trademark write-ups	19,438	0
Income from the reversal of accrued liabilities	11,604	7,230
Income from foreign currency translation	3,794	5,598
Income from the disposal of property, plant and equipment	634	692
Income from subsequent measurement of a purchase price liability	0	255
Put option for shares of an associated company	0	6,800
Other	12,695	15,321
<b>Total</b>	<b>102,890</b>	<b>77,871</b>

Income from the disposal of an associated company refers to the gain on disposal of shares in Virtual Minds AG, Freiburg.



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Income from trademark write-ups relates to the impairment reversal of the trademark STRATO, which in contrast to the previous year was classified as an asset with an indefinite useful life. Please refer to Note 29 for further details.

Income from foreign currency translation mainly comprises gains from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables, as well as gains from measurement as of the reporting date. Currency losses from these items are reported under other operating expenses.

## 10. Impairment charges on receivables and contract assets

Impairment charges on receivables and contract assets comprised the following:

€k	2019	2018
Trade accounts receivable	65,898	62,710
Contract assets	28,339	35,830
<b>Total</b>	<b>94,237</b>	<b>98,540</b>

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## 11. Depreciation and amortization

Depreciation and amortization of intangible assets, and property, plant, and equipment consist of the following:

€k	2019	2018
Cost of sales	307,325	238,604
Selling expenses	136,471	137,653
General and administrative expenses	30,305	14,051
<b>Total</b>	<b>474,101</b>	<b>390,308</b>

Depreciation and amortization also includes the amortization of capitalized assets resulting from business combinations. These are divided between the capitalized assets as follows:

€k	2019	2018
<b>Intangible assets</b>		
Customer base/ order backlog	127,071	135,696
Software	13,934	17,503
Technology	0	962
Trademark	1,267	1,200
Licenses	25,059	25,059
	<b>167,331</b>	<b>180,420</b>
<b>Tangible assets</b>		
Network infrastructure	14,106	16,109
<b>Total</b>	<b>181,437</b>	<b>196,529</b>

Amortization of capitalized assets resulting from business combinations is divided between the business combinations as follows:

€k	2019	2018
Versatel	19,733	31,148
Drillisch	123,319	124,374
STRATO	25,324	26,165
Arsys	3,653	4,615
home.pl	3,330	4,434
ProfitBricks	3,332	4,264
World4You	2,536	945
Fasthosts	209	553
Portal business WEB.DE	0	31
<b>Total</b>	<b>181,436</b>	<b>196,528</b>

Amortization from the business combination ProfitBricks refers to IONOS SE. ProfitBricks was merged into 1&1 IONOS SE.

## 12. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

€k	2019	2018
Cost of sales	225,485	214,682
Selling expenses	245,718	219,359
General and administrative expenses	81,644	104,728
<b>Total</b>	<b>552,847</b>	<b>538,770</b>

Personnel expenses include wages and salaries of € 472,059k (prior year: € 462,164k), and social security costs of € 80,788k (prior year: € 76,606k).



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The number of employees increased by 3.1%, from 9,093 in the previous year to 9,374 employees at year-end 2019:

	2019	2018
Germany	7,761	7,567
Outside Germany	1,613	1,526
thereof the Philippines	360	351
thereof Spain	330	331
thereof Poland	309	270
thereof UK	233	216
thereof Romania	195	176
thereof USA	140	142
thereof Austria	43	37
thereof France	3	3
<b>Total</b>	<b>9,374</b>	<b>9,093</b>

The average number of employees in fiscal year 2019 amounted to 9,222 (prior year: 9,051), of which 7,626 (prior year: 7,547) were employed in Germany and 1,596 abroad (prior year: 1,504).

With regard to company pension plans, the Group only has defined contribution plans. The Company pays contributions to the state pension fund as a result of statutory obligations. There are no other benefit obligations for the Company after payment of the contributions. The current contribution payments are disclosed as an expense in the respective year. In fiscal year 2019, they totaled € 29,025k (prior year: € 28,181k) and mostly concerned contributions paid to the state pension fund in Germany.

As a result of contribution exemptions, an amount of € 0k (prior year: € 0k) of this total referred to contributions paid to related parties.

### 13. Financial expenses

€k	2019	2018
Loans and overdraft facilities	24,927	28,596
Subsequent valuation of embedded derivatives	9,849	2,100
Financial expense from leases	8,715	1,852
Interest expense from tax audit	836	1,080
Other	687	1,048
<b>Total financial expenses</b>	<b>45,014</b>	<b>34,676</b>

The year-on-year increase in borrowing costs results mainly from the subsequent measurement of derivatives as well as from interest expense due to IFRS 16.

The subsequent measurement of derivatives refers to the measurement through profit or loss of the purchase price liabilities from the acquisition of STRATO and InterNetX.

Please refer to Note 45 for an explanation of the financial expense from leases.



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## 14. Financial income

€k	2019	2018
Subsequent valuation of embedded derivatives	15,660	0
Interest income from tax audit	3,092	1,524
Interest income from leases	1,032	1,024
Income from dividends	992	3,542
Income from loans to associated companies	217	282
Other financial income	859	742
<b>Total financial income</b>	<b>21,852</b>	<b>7,114</b>

The subsequent measurement of derivatives refers to the measurement through profit or loss of derivatives agreed in the course of the Warburg Pincus investment in the Business Applications segment. Income from dividends of € 992k mainly refers to dividends of Afiliás, which was allocated to the measurement category "financial assets measured at fair value through other comprehensive income". Other financial income mainly comprises interest income from credit balances with banks. With regard to income from loans to associated companies, please refer to Note 42.



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## 15. Income taxes

The income tax expense is comprised as follows:

€k	2019	2018
Current income taxes		
- Germany	-266,826	-281,111
- Outside Germany	-10,621	-11,079
<b>Total (current period)</b>	<b>-277,447</b>	<b>-292,190</b>
Deferred taxes		
- Due to tax loss carryforwards	17,020	31,290
- Tax effect on temporary differences	17,860	20,203
- Due to tax rate changes	1,824	-9,135
<b>Total deferred taxes</b>	<b>36,704</b>	<b>42,358</b>
<b>Total tax expense</b>	<b>-240,742</b>	<b>-249,832</b>

Under German tax law, income taxes comprise corporate income tax and trade tax, as well as the solidarity surcharge.

German trade tax is levied on a company's taxable income adjusted for certain revenue which is not subject to such tax, and for certain expenses which are not deductible for purposes of trade tax. The effective trade tax rate depends on the municipalities in which the Group operates. The average trade tax rate in fiscal year 2019 amounted to approx. 15.2% (prior year: 15.2%).

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As in the previous year, German corporate income tax was levied at 15% – irrespective of whether the result was retained or distributed. In addition, a solidarity surcharge of 5.5% is imposed on the assessed corporate income tax.

In addition to taxes on the current result, income taxes include tax expenses not relating to the period of € 912k (prior year: tax expense € 4,093k).

Deferred tax assets are recognized for tax loss carryforwards and temporary differences if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets for tax loss carryforwards in certain countries are shown in the table below:

€k	2019	2018
Germany	63,834	46,856
USA – Federal	2,043	2,001
	<b>65,877</b>	<b>48,857</b>

Deferred taxes for loss carryforwards mainly relate to the Versatel Group. Taking into consideration significant taxable temporary differences, the realization of loss carryforwards is based on the strategic importance that the Versatel Group will have for the business of expanding and using the 5G network.

Deferred tax assets of € 0k (prior year: € 2,744k) were formed for loss carryforwards of previous years.

The following time limits apply for the use of tax loss carryforwards in different countries:

- USA: 20 years for loss carryforwards incurred before 2018, indefinite for loss carryforwards incurred from 2018 onwards
- Germany: Indefinite, but minimum taxation
- Poland: 5 years

Tax loss carryforwards for which no deferred tax assets have been formed, refer to the following countries (excluding Germany):

€k	2019	2018
USA Federal *	17,768	14,915
USA State **	244	327
Poland	295	295
	<b>18,307</b>	<b>15,537</b>

\* Tax rate 21,0%

\*\* Tax rate 10,0%

A breakdown of income tax types results in the following loss carryforwards for Germany for which no deferred taxes have been formed:

€k	2019		2018	
	Corporation tax	Trade tax	Corporation tax	Trade tax
Germany	8,940	9,109	58,851	57,702

Loss carryforwards in Germany for which no deferred tax assets have been formed mainly refer to loss carryforwards of 1&1 Energy GmbH. The use of loss carryforwards by 1&1 IONOS Cloud GmbH (formerly

ProfitBricks), for which no deferred taxes were recognised in the previous year, resulted in a tax relief of € 5,209k.

The so-called "interest cap" enshrined in German tax law limits the deductibility of interest expenses for the assessment of company income taxes. Interest expenses that cannot therefore be deducted are carried forward indefinitely to the following fiscal years (interest carryforward).

The Group's interest carryforward, for which no deferred taxes were formed, amounts to € 128,026k (prior year: € 92,167k).

In fiscal year 2019, loss carryforwards of € 9,477k were used (prior year: € 1,254k) for which deferred taxes had been recognised in the prior year.

Deferred taxes resulted from the following items:

€k	2019		2018	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade accounts receivable	1,512	9,328	861	9,460
Inventories	140	168	149	458
Contract assets - current	7,217	135,107	5,346	115,104
Contract assets - non current	3,938	51,729	2,694	46,933
Other financial assets - current	657	27	1,395	230
Other financial assets - non-current	1,182	2,432	498	2,039
Other assets	548	1,417	1	970
Prepaid expenses	158,721	86,860	142,110	92,884
Property, plant, and equipment	2,182	35,738	2,212	43,618
Right-of-use from Leasing	0	87,312	n.a.	n.a.
Intangible assets	50,620	328,636	48,599	358,583
Other accrued liabilities	25,531	6	30,791	0
Contract liabilities	23,306	51,854	21,188	48,079
Other liabilities	19,794	8,023	23,555	2,852
Lease liabilities - current	19,961	0	n.a.	n.a.
Lease liabilities - non current	66,346	0	n.a.	n.a.
<b>Gross value</b>	<b>381,655</b>	<b>798,635</b>	<b>279,399</b>	<b>721,210</b>
Tax loss carryforwards	65,877		48,857	
Adjustments for consolidation	10,401	685	8,946	-4,976
Offsetting	-447,496	-447,496	-326,406	-326,406
<b>Consolidated balance sheet</b>	<b>10,437</b>	<b>351,824</b>	<b>10,797</b>	<b>389,829</b>

The net balance of deferred tax liabilities of € 379,032k in the previous year changed to a net balance of deferred tax liabilities of € 341,387k. As a result, the total change in the net balance of deferred taxes amounted to € 37,645k (prior year: € 142,231k). This change was mainly due to the following factors:

- Increase in deferred tax liabilities on contract assets not recognized in the tax balance sheet (€ 24.8 million).
- Increase in deferred tax assets on accrued hardware subsidies, and assumed activation fees in the tax balance sheet (€ 16.6 million).
- Decrease of € 30.0 million in deferred tax liabilities from intangible assets in connection with the amortization of assets from company acquisitions.

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The change in the net balance of deferred taxes compared to the previous year is reconciled as follows:

€k	2019	2018
Deferred tax income + / Deferred tax expense -	36,704	42,358
Addition in connection with business combinations	0	-7,428
Deferred tax expense recognized in other comprehensive income due to initial application of IFRS 9	0	-1,968
Deferred tax effects recognized in equity	941	-5,059
Deferred tax expense recognized in equity from IFRS 15	0	-170,134
<b>Change in the net balance of deferred taxes</b>	<b>37,645</b>	<b>-142,231</b>

The aggregate tax rate is reconciled to the effective tax rate of continued operations as follows:

%	2019	2018
<b>Anticipated tax rate</b>	<b>31.1</b>	<b>31.1</b>
Actual and deferred taxes for previous years	-0.1	-1.3
Non-tax-deductible writedowns on financial assets	-0.2	0.1
Non-tax-deductible writedowns on intangible assets	-0.2	-0.4
Tax-reduced profit from disposals and income from investments	-1.4	0.2
Tax effects in connection with internal Group dividends and disposals	0.2	2.7
Differences due to tax rate changes	-1.7	-2.9
Employee stock ownership programs	-0.1	0.3
Initial capitalization of tax losses not recognized in previous year	0.0	-0.5
Tax losses and non-deductible interest of the fiscal year for which no deferred taxes were recognized	1.8	2.7
Non-taxable at-equity results	1.3	12.3
Balance of other tax-free income and non-deductible expenses	0.3	0.2
<b>Effective tax rate</b>	<b>30.9</b>	<b>44.5</b>

The tax-reduced profit from disposals and income from investments primarily relate to income from the sale of shares in Virtual Minds.

Non-taxable at-equity results mainly relate to the prorated results of associated companies.

The anticipated tax rate corresponds to the tax rate of the parent company, United Internet AG.

As in the previous year, income tax claims mainly relate to receivables from tax authorities in Germany and amounted to € 21,546k (prior year: € 129,611k) as of the balance sheet date.

As in the previous year, income tax liabilities relate primarily to liabilities to tax authorities in Germany and amounted to € 91,680k (prior year: € 187,938k) as of the balance sheet date.

## 16. Earnings per share

As in the previous year, capital stock as of December 31, 2019 was divided into 205,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2019, United Internet held 17,338,513 treasury shares (prior year: 4,702,990). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted

average number of shares outstanding used for calculating undiluted earnings per share was 199,273,597 for fiscal year 2019 (prior year: 200,167,199).

There was no dilutive effect from employee stock ownership programs of United Internet AG due to the strong decline in the share price as of reporting date, as these were not in the money as of December 31, 2019. In the previous year, a dilutive effect was taken into consideration for option rights resulting from the employee stock ownership programs of United Internet AG which were in the money as of December 31, 2018. All option rights existing on December 31, 2018 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the reporting date. The calculation of the dilutive effect from conversion is made by first determining the number of potential shares. On the basis of the average fair value of the shares, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the rights plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued in the amount of the difference without consideration.

The calculation of diluted earnings per share was based on zero (prior year: 697,500) potential shares (from the assumed use of rights). Based on an average market price of € 31.80 (prior year: € 48.52), this would result in the issuance of zero (prior year: 119,119) shares without consideration.

The following table shows the underlying amounts for the calculation of undiluted and diluted earnings:

€k	2019	2018
<b>Profit attributable to the shareholders of United Internet AG</b>	<b>423,937</b>	<b>188,794</b>
Earnings per share (in €)		
- undiluted	2.13	0.94
- diluted	2.13	0.94
Weighted average of outstanding shares (in million units)		
- undiluted	199.27	200.17
- diluted	199.27	200.29

## 17. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 23, 2019 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.05 per share. The total dividend payment of € 10.0 million was made on May 28, 2019.

In accordance with section 21 of the Company's articles, the Annual Shareholders' Meeting decides on the appropriation of the balance sheet profit. For the fiscal year 2019, the Management Board will propose to the Supervisory Board a dividend of € 0.50 for each share entitled to dividends for the past fiscal year 2019.

The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 25, 2020 (and thus after the preparation deadline for these Consolidated Financial Statements as of March 23, 2020).

Pursuant to section 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of signing the Consolidated Financial Statements, the

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United Internet Group holds 6,338,513 treasury shares (prior year: 4,702,990). The number of shares with dividend rights may change before the Annual Shareholders' Meeting. In this case, a proposal will be made to the Annual Shareholders' Meeting to maintain the dividend of € 0.50 per entitled no-par value share with a corresponding adjustment to the proposal for the appropriation of profit.

## Explanations of items in the balance sheet

### 18. Cash and cash equivalents

As of the reporting date, cash and cash equivalents amounted to € 117,573k. Cash and cash equivalents consist of bank balances, checks, and cash in hand. Bank balances generally bear variable interest rates for call money. As in the previous year, the current low interest rate level – which is even negative at present for amounts denominated in euros – meant that no interest was earned on bank balances.

The development and application of cash and cash equivalents is stated in the Consolidated Cash Flow Statement.

### 19. Trade accounts receivable

€k	2019	2018
Trade accounts receivable	484,181	479,601
<b>Less</b>		
Bad debt allowances	-80,480	-69,945
<b>Trade accounts receivable, net</b>	<b>403,701</b>	<b>409,656</b>
thereof trade accounts receivable - current	346,004	351,427
thereof trade accounts receivable - non-current	57,697	58,229

As of December 31, 2019 bad debt allowances for trade accounts receivable amounted to € 80,480k (prior year: € 69,945k). The development of bad debt allowances can be seen below:

€k	2019	2018
As of January 1	69,945	29,190
Additions due to IFRS 9	0	12,600
Reclassifications from contract assets	0	1,667
Utilization	-52,174	-35,929
Additions charged to the income statement	65,893	66,222
Reversals	-3,287	-3,967
Exchange rate differences	103	162
<b>As of December 31</b>	<b>80,480</b>	<b>69,945</b>

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the reporting date.



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As of December 31, the age profile of trade accounts receivable less the aforementioned allowances was as follows:

€k	2019	2018
Trade accounts receivable		
Trade accounts receivable, net		
< 5 days	347,844	355,412
6 – 15 days	10,929	11,682
16 – 30 days	7,774	10,051
31 – 180 days	23,322	20,295
181 – 365 days	10,790	7,928
> 365 days	3,042	4,288
	<b>403,701</b>	<b>409,656</b>

## 20. Contract assets

€k	2019	2018
Contract assets	727,508	628,867
<b>Less</b>		
Bad debt allowances	45,429	33,083
<b>Contract assets, net</b>	<b>682,079</b>	<b>595,784</b>
thereof contract assets – current	507,829	426,992
thereof contract assets – non-current	174,251	168,792

The development of bad debt allowances was as follows:

€k	2019	2018
As of January 1	33,083	26,032
Utilization	-15,993	-27,112
Reclassifications to trade accounts receivable		-1,667
Additions charged to the income statement	28,339	35,830
<b>As of December 31</b>	<b>45,429</b>	<b>33,083</b>

## 21. Inventories

As of December 31, inventories consisted of the following items:

€k	2019	2018
<b>Merchandise</b>		
Mobile telephony / mobile internet	72,327	77,734
DSL hardware	8,408	8,745
SIM cards	3,322	3,401
IP-TV	922	792
Other	308	244
Domain stock held for sale	3,300	3,393
	<b>88,589</b>	<b>94,309</b>
<b>Less</b>		
Bad debt allowances	-11,423	-6,807
Payments on account	2,102	2,115
<b>Inventories, net</b>	<b>79,268</b>	<b>89,617</b>

Goods recognized as material expense from inventories in cost of sales amounted to € 734,579k in the reporting period (prior year: € 702,983k). Of this total, an amount of € 4,616k refers to impairment of inventories (prior year: € 8,372k).

Allowances include € 8,114k for mobile telephony/mobile internet and IP-TV (prior year: € 3,475k), and € 3,266k for domain stock (prior year: € 3,332k).

## 22. Prepaid expenses

Current prepaid expenses of € 237,036k (prior year: € 224,840k) consist mainly of contract initiation costs of € 92,106k (prior year: € 81,655k), contract fulfillment costs of € 60,747k (prior year: € 72,180k), and prepayments for wholesale fees of € 45,957k (prior year: € 37,920k), which were deferred and charged to the income statement on the basis of the underlying contractual period.

Non-current prepaid expenses of € 284,252k (prior year: € 341,220k) consist mainly of contract initiation costs of € 83,480k (prior year: € 84,524k), contract fulfillment costs of € 46,829k (prior year: € 52,597k), and prepayments as part of long-term purchasing contracts with pre-service providers of € 136,444k (prior year: € 182,334k).

At the end of the reporting period, the final balances of capitalized contract initiation costs amounted to € 175,586k (prior year: € 166,179k) and of capitalized contract fulfillment costs to € 107,576k (prior year: € 124,777k). In the fiscal year 2019, amortization of capitalized contract initiation costs amounted to € 83,699k (prior year: € 83,063k). Amortization of capitalized contract fulfillment costs amounted to € 85,283k in the fiscal year 2019 (prior year: € 87,638k).

The final balances of prepayments for wholesale fees amounted to € 182,401k as of the reporting date (prior year: € 220,254k). A total of € 37,853k was expensed in fiscal year 2019 (prior year: € 39,158k).

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## 23. Other current assets

### 23.1 Other current financial assets

€k	2019	2018
Receivables from pre-service providers	13,428	37,220
Creditors with debit balances	13,075	8,225
Payments on account	6,065	5,577
Deposits	837	702
Put option for the sale of shares in associated companies	0	6,800
Other	14,736	14,250
Other financial assets, net	48,141	72,774

The decline in receivables from pre-service providers mainly relates to advertising cost subsidies.

The put option on the sale of shares in an associated company was exercised in the reporting period in connection with the sale of shares in Virtual Minds.

### 23.2 Other current non-financial assets

€k	2019	2018
Receivables from tax office	9,947	8,281
Return claims hardware	3,825	3,049
Other non-financial assets, net	13,772	11,330

## 24. Shares in associated companies

The Group holds interests in several associated companies. The main investments include Tele Columbus AG, Berlin, and AWIN AG, Berlin, which the Group holds via its subsidiary United Internet Investments Holding AG & Co KG (formerly: United Internet Investments Holding GmbH), and via 1&1 Mail & Media Applications SE, Montabaur.

Tele Columbus AG is an independent broadband cable network operator active in the German multimedia and communication sector with most of its network infrastructures in eastern Germany (Berlin, Brandenburg, Saxony, Saxony-Anhalt, and Thuringia), as well as in North Rhine-Westphalia and Hesse. Tele Columbus offers its customers digital TV program packages, as well as internet and telephone connections.

The shareholding in Tele Columbus AG corresponds to the proportion of voting rights. As in the previous year, it is valued using the equity method. As of the reporting date, the Group's total stake in Tele Columbus amounted to 29.9% (prior year: 28.52%).

Due to the strong decline in the share price in the previous year, a cumulative writedown of € 204 million was recognized. In the reporting period, the share price recovered slightly and led to a reversal of impairment losses recognized in profit or loss of € 18.5 million. By contrast, the prorated earnings of Tele Columbus burdened earnings by € 19.8 million.

AWIN AG, Berlin, is a global affiliate marketing network which offers services in the field of e-commerce and online marketing. Awin is the world's largest affiliate marketer, linking network advertisers and publishers around the world.

The following table contains summarized financial information on Tele Columbus AG and Awin AG on the basis of a 100% shareholding as of December 31, 2019:

Summarized financial information on the main associated companies:	Tele Columbus AG €k	AWIN AG €k
Current assets	112,366	374,777
Non-current assets	2,608,011	361,849
Current liabilities	171,093	330,861
Non-current liabilities	1,618,927	91,900
Shareholders' equity	930,357	313,865
Sales	369,695	193,998
Other comprehensive income	-1,021	4,897
Net profit/loss	-50,882	6,744
<b>Total comprehensive income</b>	<b>-51,903</b>	<b>11,640</b>

As financial information on Tele Columbus AG as of December 31, 2019 had not yet been published at the time of preparation, the summarized financial information is estimated on the basis of the company's quarterly statements as of September 30, 2019, taking account of adjustments which the United Internet Group believed to be necessary at this time. There were no results from discontinued operations.

A reconciliation with the carrying amounts in the Consolidated Financial Statements as of December 31, 2019 – with an estimation of investment results for the fourth quarter – is presented below:

€k	Tele Columbus AG	AWIN AG
United Internet Group's share in the net asset values	278,177	62,773
Impairment / impairment reversal effects	-165,614	0
Closing date-related reconciliation effects	-5,923	0
<b>Carrying amount on Dec. 31, 2019</b>	<b>106,639</b>	<b>62,773</b>
<b>Fair value of shares as of Dec. 31, 2019</b>	<b>106,639</b>	<b>62,773</b>
<b>Dividend received in 2019</b>	<b>0</b>	<b>0</b>

The following table contains summarized financial information on the main associated companies on the basis of a 100% shareholding as of December 31, 2018:

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Summarized financial information:	Tele Columbus AG €k	AWIN AG €k
Current assets	137,046	323,230
Non-current assets	2,744,794	376,339
Current liabilities	241,807	292,912
Non-current liabilities	1,519,143	100,647
Shareholders' equity	1,120,890	306,010
Sales	367,751	183,429
Other comprehensive income	728	0
Net profit/loss	-34,234	3,503
<b>Total comprehensive income</b>	<b>-33,506</b>	<b>3,503</b>

As financial information on Tele Columbus AG as of December 31, 2018 had not yet been published at the time of preparing the Consolidated Financial Statements for the previous year, the summarized financial information is estimated on the basis of the quarterly statements as of September 30, 2018, taking account of adjustments which the United Internet Group believed to be necessary at this time. There were no results from discontinued operations.

A reconciliation with the carrying amounts in the Consolidated Financial Statements as of December 31, 2018 – with an estimation of investment results for the fourth quarter – is presented below:

€k	Tele Columbus AG	AWIN AG
United Internet Group's share in the net asset values	319,678	n.a.
Closing date-related reconciliation effects	-10,357	n.a.
Impairment in 2018	-203,819	0
<b>Carrying amount on Dec. 31, 2018</b>	<b>105,502</b>	<b>61,202</b>
<b>Fair value of shares as of Dec. 31, 2018</b>	<b>105,502</b>	<b>-</b>
<b>Dividend received in 2018</b>	<b>0</b>	<b>0</b>

As of December 31, 2019, other associated companies disclosed an aggregated carrying amount of € 26,624k (prior year: € 40,152k) and an aggregated loss of € 5,107k (prior year: € 4,630k). The earnings/loss contributions of other associated companies are only included in the aggregated loss on a prorated basis.

Financial information is based in part on local accounting regulations as a reconciliation of this financial information with IFRS would incur disproportionately high costs.

## 25. Other non-current financial assets

The development of other non-current financial assets was as follows:

€k	Jan. 1, 2019	Additions	Change in revaluation reserve	Change affecting income/Impairment	Reclassification to retained earnings	Disposal	Dec. 31, 2019
Afilias shares	42,796		1,826				44,622
Rocket shares	276,866		26,860		-83,784	-219,943	0
Derivatives	15,790			15,660			31,450
Other	12,594	3,631	-1,359			-525	14,341
	<b>348,046</b>	<b>3,631</b>	<b>27,328</b>	<b>15,660</b>	<b>-83,784</b>	<b>-220,468</b>	<b>90,414</b>

€k	Jan. 1, 2018	Additions	Change in revaluation reserve	Change affecting income/Impairment	Reclassification	Disposal	Dec. 31, 2018
Adux shares	1,386		-60			-1,326	0
Afilias shares	42,756		40				42,796
Rocket shares	289,899		-13,033				276,866
Derivatives	17,890			-2,100			15,790
Other	15,804	1,291	-486			-4,015	12,594
	<b>367,735</b>	<b>1,291</b>	<b>-13,539</b>	<b>-2,100</b>	<b>0</b>	<b>-5,341</b>	<b>348,046</b>

In the fiscal year 2019, United Internet sold its shares in Rocket Internet SE in several steps (share of voting rights as of December 31, 2018: 9.0%). United Internet Investments Holding AG & Co. KG had already sold 2,500,000 shares at a price of € 25 per share in July 2019. In the fourth quarter of 2019, the public share buyback offer of Rocket Internet amounting to 15,076,729 shares was accepted for all remaining 11,219,841 Rocket Internet shares held by the Company against payment of the offer price of € 21.50 per share. Due to the oversubscription of its buyback offer, Rocket Internet was only able to consider the acceptance declaration of United Internet Investments Holding for a total of 8,764,483 shares. The 2,455,358 Rocket Internet shares still held after the completion of the share buyback offer were already acquired by Mr. Oliver Samwer at the end of 2019 as agreed at the offer price. The cumulative gain from revaluation recognized directly in equity amounted to € 83.8 million. Following the sale of Rocket Internet shares this accounting gain recognized in other comprehensive income was realized and reclassified to accumulated profit.

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## 26. Property, plant, and equipment

€k	2019	2018
<b>Acquisition costs</b>		
- Telecommunication equipment	782,964	826,727
- Right-of-use assets from leases	509,940	0
- Operational and office equipment	505,888	473,279
- Network infrastructure	212,540	201,290
- Payments on account	50,281	45,762
- Land and buildings	19,289	19,339
	<b>2,080,902</b>	<b>1,566,397</b>
<b>Less</b>		
Accumulated depreciation	-962,710	-748,387
<b>Property, plant, and equipment, net</b>	<b>1,118,192</b>	<b>818,010</b>

Further details and an alternative presentation of the development of property, plant, and equipment in the fiscal years 2019 and 2018 can be found in the exhibit to the Notes to the Consolidated Financial Statements (Development of Non-current Assets).

The carrying value of property, plant, and equipment held as lessee as part of lease arrangements amounts to € 350.0 million as of December 31, 2019. The carrying value of property, plant, and equipment held as part of finance leases in the previous year amounted to € 81.3 million.

As of the reporting date, there are purchase obligations for property, plant, and equipment totaling € 113.3 million (prior year: € 50.9 million).

## 27. Intangible assets (without goodwill)

€k	2019	2018
<b>Acquisition costs</b>		
- Customer base	1,238,652	1,237,440
- Spectrum licenses	1,070,187	0
- Software / technology	276,740	261,412
- Trademarks	213,497	212,703
- Internally generated intangible assets	23,936	12,433
- Payments on account	7,046	5,703
- Other intangible assets	73,205	72,681
	<b>2,903,263</b>	<b>1,802,372</b>
<b>Less</b>		
Accumulated depreciation	-735,871	-557,794
<b>Intangible assets, net</b>	<b>2,167,392</b>	<b>1,244,578</b>

Further details and an alternative presentation of the development of intangible assets in the fiscal years 2019 and 2018 can be found in the exhibit to the Notes to the Consolidated Financial Statements (Development of Non-current Assets).

The carrying amount of the customer base results from the following company acquisitions:

€k	Dec. 31, 2019	Dec. 31, 2018
1&1 Drillisch	492,351	585,334
Strato	128,285	146,736
1&1 Versatel	107,366	112,993
home.pl	18,301	21,160
Arsys	11,550	16,096
World4You	21,479	23,326
Other	13,827	15,310
	<b>793,159</b>	<b>920,955</b>

The residual amortization period for the customer base from the acquisition of the Drillisch Group (now 1&1 Drillisch) amounts to 4 to 12 years, depending on the customer groups, whereby 7 years applies to the major share. The residual amortization period for the customer base from the acquisition of STRATO AG amounts to 2 to 12 years, depending on the product groups, whereby 10 years applies to the major share. The residual amortization period for the customer base of the home.pl transaction amounts to 7 years and for Arsys 4 years. The residual amortization period for the customer base from the acquisition of the Versatel Group amounts to 1 to 21 years, depending on the products and services, whereby 21 years applies to the major share.

The carrying amounts of intangible assets with indefinite useful lives (trademarks) totaled € 211,029k (prior year: € 191,002k). Intangible assets with indefinite useful lives were subjected to an impairment test on the level of the cash-generating units as of the reporting date.

### Spectrum licenses

The United Internet subsidiary 1&1 Drillisch participated in the 5G spectrum auction ending on June 12, 2019 and purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band, which are limited until December 31, 2040, and five frequency blocks of 10 MHz in the 3.6 GHz band, which are limited until 2040. While the 3.6 GHz spectrum is already available, the frequency blocks in the 2 GHz band will only be available from January 1, 2026.

The intangible assets resulting from the purchase were recognized at cost.

The carrying amounts of the frequency blocks as of December 31, 2019 are comprised as follows:

Frequency block	Amount €k
3.6 GHz	735,190
2 GHz	334,997
	<b>1,070,187</b>

There was no amortization in the 2019 financial year. The acquired frequency blocks will not be amortized until actual network operation commences and if these frequency blocks are also available at that time. The spectrum licenses are not yet usable and were therefore subjected to an impairment test in the fiscal year 2019. The impairment test was performed on the balance sheet date on the level of the cash-generating units. It did not result in any impairment in the fiscal year.



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The following table provides an overview of trademarks:

€k	Dec. 31, 2019	Dec. 31, 2018
1&1 Versatel	62,000	62,000
1&1 Drillisch	56,300	56,300
Mail.com	24,347	23,869
WEB.DE	17,173	17,173
home.pl	11,359	11,257
Arsys	7,553	7,553
united-domains	4,198	4,198
Fasthosts	4,071	3,858
World4You	3,494	3,494
Strato	20,070	1,899
Cronon	463	463
	<b>211,028</b>	<b>192,064</b>

The useful life of trademarks is determined as being indefinite, as there are no indications that the flow of benefits will end in future. In derogation from the previous year, the useful life of the STRATO trademark was determined as being indefinite in the reporting period. The background is the strategic realignment from a single-brand strategy to a dual-brand strategy. Based on a single-brand strategy, the STRATO trademark was written down in the previous year. As a result of the realignment, an impairment reversal of € 19.4 million was recognized for the STRATO trademark in the reporting period.

Internally generated intangible assets relate to capitalized costs from software.

Other intangible assets mainly refer to beneficial purchasing agreements of the Drillisch Group.

As of the balance sheet date, there were purchase commitments for non-current assets amounting to € 165.3 million (prior year: € 0 million).

## 28. Goodwill

Further details and an alternative presentation of the development of goodwill in the fiscal years 2019 and 2018 can be found in the exhibit to the Notes to the Consolidated Financial Statements (Development of Non-current Assets).

## 29. Impairment of goodwill and intangible assets with indefinite useful lives, as well as intangible assets not yet usable (spectrum license)

Goodwill and intangible assets with indefinite useful lives are subjected to an impairment test at least once per year. With reference to its internal budgeting process, the Group has chosen the last quarter of the fiscal year to conduct its statutory annual impairment test.

Goodwill acquired in the course of business combinations is allocated for impairment test purposes to cash-generating units.

Due to the merger of 1&1 IONOS Cloud GmbH (formerly ProfitBricks GmbH) and 1&1 IONOS SE as of January 1, 2019, the former separate cash-generating unit 1&1 IONOS Cloud GmbH was regarded as being part of the cash-generating unit 1&1 Hosting as of the end of the fiscal year. As a result, the goodwill of 1&1 IONOS Cloud GmbH was allocated in full to the cash-generating unit 1&1 Hosting. The impairment test is thus conducted on the level of the cash-generating unit 1&1 Hosting. Prior to the merger of goodwill of both cash-generating units, an impairment test was conducted on the goodwill of both units without any indication of an impairment need.

Impairment charges are always disclosed separately in the Income Statement and the Statement on the Development of Non-current Assets.

Goodwill as of December 31 is allocated to the cash-generating units as follows:

€k	Dec. 31, 2019	Dec. 31, 2018
<b>Business Access</b>		
1&1 Versatel	398,261	398,261
	398,261	398,261
<b>Business Applications</b>		
Strato	401,570	401,570
home.pl	121,760	121,240
Arsys	100,495	100,495
Fasthosts	64,044	60,688
World4You	51,250	51,250
united-domains	35,925	35,924
1&1 IONOS Cloud GmbH (formerly ProfitBricks)*	n.a.	25,585
InterNetX	5,237	5,237
Domain marketing	5,098	5,098
1&1 Hosting	28,562	2,980
	<b>813,941</b>	<b>810,067</b>
<b>Consumer Access</b>		
1&1 Consumer Access (Drillisch)	2,178,460	2,178,460
	<b>2,178,460</b>	<b>2,178,460</b>
<b>Consumer Applications</b>		
1&1 Mail & Media	225,517	225,521
Mail.com	336	325
	<b>225,853</b>	<b>225,846</b>
<b>Carrying amount in balance sheet</b>	<b>3,616,515</b>	<b>3,612,634</b>

\*1&1 IONOS Cloud GmbH has been merged into 1&1 IONOS SE, Montabaur

## Goodwill after company acquisitions

The carrying amounts of goodwill according to cash-generating unit result from various transactions over the past years. The Group's goodwill is mainly the result of the following company acquisitions:

- The goodwill of the cash-generating unit World4You results from the acquisition of World4You in in 2018.

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- The goodwill of the cash-generating unit 1&1 Consumer Access (formerly Drillisch) results from the acquisition of the Drillisch Group in 2017 and the merger of the cash-generating units 1&1 Telecom and Drillisch in 2018.
- The goodwill of the cash-generating unit 1&1 IONOS Cloud (formerly: ProfitBricks) results from the acquisition of the ProfitBricks Group in 2017. Due to the merger in fiscal year 2019, the cash-generating unit 1&1 IONOS Cloud has been incorporated into the cash-generating unit 1&1 Hosting.
- The goodwill of the cash-generating units Versatel and 1&1 Telecom reflect goodwill from the acquisition of the Versatel Group in 2014. In the fiscal year 2018, goodwill of the cash-generating unit 1&1 Telecom was combined with the cash-generating unit 1&1 Consumer Access.
- The goodwill of the cash-generating unit STRATO results from the acquisition of the STRATO Group in 2017.
- The goodwill of the cash-generating unit home.pl results from the acquisition of home.pl S.A. in 2015.
- The goodwill of the cash-generating unit Arsys results from the acquisition of Arsys Internet S.L. in 2013.
- The goodwill of the cash-generating unit united-domains results from the acquisition of united-domains AG in 2008.
- The goodwill of the cash-generating unit Fasthosts results from the acquisition of Fasthosts Internet Ltd. in 2006 and the acquisition of Dollamore Ltd. in 2008.
- The goodwill of the cash-generating unit InterNetX results from the acquisition of InterNetX GmbH in 2005.
- The goodwill of the cash-generating unit 1&1 Mail & Media mainly comprises goodwill from the acquisition of the portal business of WEB.DE AG in 2005.

## Scheduled impairment test on December 31, 2019

For the Consumer Access, Business Access, Consumer Applications, and Business Applications segments, the recoverable amounts of the cash-generating units are determined on the basis of a calculation of fair value less disposal costs using cash flow forecasts. The hierarchy of fair value less disposal costs as defined by IFRS 13 is set at Level 3 for these impairment tests.

Following the acquisition of licenses during the 5G spectrum auction, an additional cash-generating unit 5G was established for the Consumer Access segment in the reporting period. As the market price derived on the balance sheet date using market capitalization no longer relates solely to the cash-generating unit Consumer Access, it was no longer used for the impairment test as Level 1 of the cash-generating unit.

The cash flow forecasts are based on the Company's budgets for the fiscal year 2020. These budget calculations were extrapolated by management for a period of up to 21 years (prior year: up to 22 years) for the respective cash-generating units on the basis of external market studies and internal assumptions. Following this period, management assumes an annual increase in cash flow of 0.1% for the Consumer Access segment (prior year: 0.5%) and an annual increase in cash flow of 0.1% for the Business Access segment (prior year: 0.5%). Management assumes an annual increase in cash flow of

0.1% for the Consumer Applications segment (prior year: 0.5%) and an annual increase in cash flow for the Business Applications segment of between 0.1% and 0.9% (prior year: between 0.5% and 1.6%). The expected increase corresponds to long-term average growth of the sector in which the respective cash-generating unit operates. The discount rates after tax used for cash flow forecasts are 3.8% for the Consumer Access segment (prior year: 5.7%) and 3.4% for the Business Access segment (prior year: 4.9%). The discount rate for the Consumer Applications segment is 4.6% (prior year: 5.2%), and the discount rate used for the Business Applications segment is in a range between 4.9% and 6.4% (prior year: between 6.5% and 8.6%).

The following table presents the basic assumptions used when checking impairment of individual cash-generating units to which goodwill has been allocated, in order to determine their fair value less disposal costs:

	Reporting year	Total proportion of goodwill	Long-term growth rate	Discount rate after taxes
<b>Consumer Access</b>				
1&1 Consumer Access (Drillisch)	2019	60.20%	0.10%	3.80%
	2018	60.30%	0.50%	5.70%
1&1 Telecom	2019	n/a	n/a	n/a
	2018	n/a	n/a	n/a
<b>Business Access</b>				
1&1 Versatel	2019	11.00%	0.10%	3.40%
	2018	11.00%	0.50%	4.90%
<b>Consumer Applications</b>				
1&1 Mail & Media	2019	6.20%	0.10%	4.60%
	2018	6.20%	0.50%	5.20%
<b>Business Applications</b>				
Strato	2019	11.10%	0.12%	5.00%
	2018	11.10%	0.50%	6.60%
home.pl	2019	3.40%	0.52%	5.80%
	2018	3.40%	1.10%	7.80%
Arsys	2019	2.80%	0.89%	6.40%
	2018	2.80%	1.60%	8.60%
Fasthosts	2019	1.80%	0.34%	5.50%
	2018	1.70%	0.80%	7.30%
World4You	2019	1.40%	0.30%	5.30%
	2018	1.40%	0.80%	7.10%
united-domains	2019	1.00%	0.10%	5.00%
	2018	1.00%	0.50%	6.50%
1&1 IONOS Cloud (ProfitBricks)	2019	N/A	N/A	N/A
	2018	0.70%	0.50%	6.50%
InterNetX	2019	0.10%	0.10%	4.90%
	2018	0.10%	0.50%	6.50%
Domain marketing	2019	0.10%	0.10%	4.90%
	2018	0.10%	0.50%	6.50%
1&1 Hosting	2019	0.80%	0.26%	5.20%
	2018	0.10%	0.70%	6.90%

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The cash flow forecasts depend heavily on the estimation of future sales revenue. The management of the respective cash-generating unit expects a varied development of sales within its planning horizon. Sales revenue figures in the detailed planning period of the cash-generating units for the Consumer Access and Business Access segments are based on average annual sales growth rates of 1.9% (prior year: between 1.9% and 3.6%). Sales revenue figures in the detailed planning period of the cash-generating units for the Consumer Applications and Business Applications segments are based on average annual sales growth rates of between 1.8% and 4.9% (prior year: between 1.4% and 21.1%).

Fair value less disposal costs is mainly based on the present value of the perpetual annuity, which is particularly sensitive to changes in assumptions on the long-term growth rate and the discount rate. For the calculation of fair value less disposal costs, disposal cost rates of between 0.2% and 3.0% were assumed (prior year: between 0.1% and 3.0%).

In the Business Applications segment, trademarks recognized amount to € 51,209k (prior year: € 32,722k), in the Consumer Applications segment they amount to € 41,520k (prior year: € 41,042k), in the Business Access segment to € 62,000k (prior year: € 62,000k), and in the Consumer Access segment to € 56,300k (prior year: € 56,300k) (see Note 27).



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In the course of business combinations, the trademarks were valued at their fair values less disposal cost using appropriate measurement methods (generally the so-called "royalty relief" method; in the cash-generating unit mail.com using the residual value method) and tested again for impairment on the reporting date. The trademark-relevant cash flows were multiplied with the trademark-relevant royalty rates. These range from 0.5% to 2.5% (prior year: 0.5% to 2.5%) for the Business Applications segment; amount to 2.5% (prior year: 2.5%) for the Consumer Applications segment; range from 0.25% to 0.5% (prior year: 0.25% to 0.5%) for the Business Access segment; and amount to 0.75% (prior year: 0.75%) for the Consumer Access segment. The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of fair values.

At the end of the fiscal year 2019, a strategic realignment from a single-brand strategy to a dual-brand strategy was implemented. As a result of this strategic realignment, the STRATO trademark now has an indefinite usable period once again. The result of the test was an impairment reversal need of € 19,438k for the STRATO trademark in the Applications segment (prior year: € 1,300k). The fair value of the STRATO trademark at the end of the reporting period amounts to € 20,533k (prior year: € 1,899k).

## Sensitivity of assumptions

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

In the course of analyzing sensitivity for cash-generating units to which goodwill or trademarks have been allocated, an increase in the discount rates (after taxes) of 1 percentage point and a decline in the long-term growth rate in perpetuity of 0.1 to 0.25 percentage points was assumed, as in the previous year. These assumptions would not result in any changes to the impairment test.

As in the previous year, the Company's management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine fair value less disposal costs of a cash-generating unit could cause the carrying value to significantly exceed the recoverable amount.

## Intangible assets not yet usable (spectrum)

The 5G spectrum carried in the balance sheet results from the 5G spectrum auction of 2019. 1&1 Drillisch purchased two frequency blocks of 2 x 5 MHz in the 2 GHz band and five frequency blocks of 10 MHz in the 3.6 GHz band, which are each usable for a limited period up to December 31, 2040. The frequency blocks in the 3.6 GHz band are immediately available and the frequency blocks in the 2 GHz band will be available from January 1, 2026. The spectrum is not usable until the Group has its own network and was therefore subjected to an impairment test on the level of the cash-generating unit "5G" in the newly created "5G" segment during the fiscal year 2019.

The recoverable amount of the cash-generating unit "5G" is determined by calculating fair value less cost of disposal with the aid of cash flow forecasts. The hierarchy of fair value less disposal costs as defined by IFRS 13 is set at Level 3 for these impairment test.

The planning calculation on which the impairment test is based includes income statement planning and capital expenditure planning for the fiscal years 2020 to 2040. As the spectrum runs until 2040, the test was conducted for the period 2020 to 2040. Disposal costs of around 3% were assumed for calculating fair value less costs of disposal. The discount rate after tax used for the cash flow forecast in the reporting period was 4%. There was no impairment need in the reporting period. This also reflects the Management Board's qualitative expectations (there are no internal or external indications of impairment) due to the relative proximity of the acquisition date and the balance sheet date.

## 30. Trade accounts payable

Trade accounts payable amount to € 481,627k (prior year: € 566,754k), of which liabilities with terms of more than one year total € 6,092k (prior year: € 9,024k).

## 31. Liabilities due to banks

### a) Liabilities due to banks

€k	2019	2018
Bank loans	1,738,368	1,939,143
<b>Less</b>		
Current portion of liabilities due to banks	-243,733	-206,175
<b>Non-current portion of liabilities due to banks</b>	<b>1,494,635</b>	<b>1,732,968</b>
Short-term loans/overdrafts	243,733	206,175
<b>Current portion of liabilities due to banks</b>	<b>243,733</b>	<b>206,175</b>
<b>Total</b>	<b>1,738,368</b>	<b>1,939,143</b>

As in the previous year, bank liabilities of € 1,735.5 million as of December 31, 2019 mainly comprise promissory note loans and syndicated loans.

### Promissory note loans

At the end of the reporting period, total liabilities from promissory note loans with terms until March 2025 amounted to € 835.5 million. As of the balance sheet date, liabilities from promissory note loans totaling € 238.0 million are current and due in December 2020.

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The outstanding 7 tranches from the promissory note loans 2014 and 2017 are mainly fixed-interest. Depending on the term, the fixed interest rates vary between 0.897% and 2.150% p.a..

The interest rate for the variable-interest tranche of 2017 is tied to the respective 6-month EURIBOR rate plus a margin of 0.80% p.a.. The promissory note loans are redeemable on maturity and 100% repayable.

### Syndicated loans & syndicated loan facilities

As of the balance sheet date, a syndicated loan totaling € 200.0 million redeemable on maturity in August 2021 was outstanding. The syndicated loan totaling € 200.0 million with a term until August 2019 was redeemed in full in the past fiscal year.

The outstanding syndicated loan has a variable interest rate. The effective interest rate for interest periods of 3 and 6 months is tied to the respective EURIBOR rate plus a margin p.a.. This margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. At the end of the reporting period, the applicable interest rate was 0.60% p.a. (prior year: 0.70%). Redemption payments are possible at any time. By exercising a contractually agreed extension option in 2019, the term of the revolving syndicated loan was extended by one year, from the original date of January 2024 to January 2025.

As of December 31, 2019, € 700 million of the revolving syndicated loan facility had been drawn (prior year: € 700 million). As a result, funds of € 110 million (prior year: € 110 million) were still available to be drawn from the credit facility.

There are also variable interest rates for drawings from the revolving syndicated loan. The effective interest rates for the interest periods of 1, 3, or 6 months are tied to the EURIBOR rate plus a margin p.a.. The margin depends on the ratio of net liabilities to EBITDA (leverage) of the United Internet Group. The applicable interest rate as of the reporting date amounts to 0.45% p.a. (prior year: 0.50%).

In addition, United Internet AG has a bilateral credit facility of € 200 million. The facility has been granted until further notice and bears interest at normal market rates. United Internet AG is the sole borrower for this facility. No drawings had been made from the credit facility as at the end of the reporting period.

The credit line of originally € 2.8 billion negotiated with a European banking syndicate on January 24, 2019 was terminated again by 1&1 Drillisch AG during the fiscal year 2019. 1&1 Drillisch signed an agreement with the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Ministry of Finance (BMF) regarding the construction of mobile communication sites in so-called "not-spots", and in return benefited from an agreement allowing it to pay for the acquired 5G spectrum in installments. As a result, the license fees which were originally to be paid in 2019 and 2024 can now be paid in installments over the period up to 2030. The one-off fees and expenses for the provision of credit lines amounted to € 6,347k in the fiscal year 2019.

The revolving credit line of 1&1 Drillisch AG amounting to € 100 million and with an original term until December 2019 was prematurely terminated in the reporting period.

At the end of the reporting period, United Internet thus had free credit lines totaling € 310 million (prior year: € 310 million).

<b>Credit lines granted (without the revolving syndicated loan facility)</b>		
€k	2019	2018
Credit lines granted	200,000	200,000
Credit lines utilized	0	0
Available credit lines	200,000	200,000
Average interest rate	0.43	0.43

No collateral was provided for any of the liabilities due to banks.



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With the exception of the interest-bearing tranches of the promissory note loan, the fair values of bank liabilities mainly correspond to their carrying amounts. For further information on the promissory note loan, please refer to Note 41.

A euro cash pooling agreement (zero balancing) has been in place between United Internet AG and certain subsidiaries since July 2002. Under the agreement, credit and debit balances of the participating Group subsidiaries are pooled and netted via several cascades in a central bank account of United Internet AG and available each banking day. In addition, the Group extended cash pooling in the previous year to include the British pound sterling (GBP). All pooling participants are in the field of Hosting. Liquidity is focused on a central bank account of 1&1 IONOS SE.

#### **b) Guaranty credit facilities**

In addition to the above mentioned credit lines, the Group had the following guaranty credit facilities at the end of the reporting period, which in some cases can also be used by other Group companies.

<b>Guaranty credit facilities</b>		
€k	2019	2018
Guaranty lines granted	105,000	91,000
Guaranty lines utilized	49,934	44,756
Available guaranty lines	55,066	46,244
Average interest rate	0.40	0.44

The guaranty credit facilities are available in particular for the provision of operational bank guarantees. The guaranty credit facilities granted are mostly for unlimited periods ("until further notice"). One agreement is limited until June 30, 2020. No collateral was provided to banks.

The stated average interest rate as of the reporting date is based on utilization.

## **32. Contract liabilities**

€k	2019	2018
<b>Contract liabilities</b>	<b>184,823</b>	<b>188,128</b>
thereof current	149,930	154,290
thereof non-current	34,893	33,838



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### 33. Other accrued liabilities

The development of accruals in fiscal year 2019 was as follows:

€k	Termination fees	Litigation risks	Restoration obligation	Other	Total
<b>As of January 1</b>	<b>65,871</b>	<b>10,177</b>	<b>39,403</b>	<b>8,990</b>	<b>124,441</b>
Utilization	9,991	4,455	147	2,064	16,657
Reversals	16,366	998	20,146	152	37,662
Addition	5,803	3,916	4,165	2,016	15,900
<b>As of December 31, 2019</b>	<b>45,317</b>	<b>8,640</b>	<b>23,275</b>	<b>8,790</b>	<b>86,022</b>

In the course of accounting for contract fulfillment costs in accordance with IFRS 15, accruals for termination fees were formed in the previous year.

The accruals for restoration obligations mainly refer to possible obligations to remove active telecommunication technology in leased main distribution frames (MDFs). Where applicable, the reversal was offset against non-current assets directly in equity.

Litigation risks consist of various legal disputes of Group companies.

Other accruals refer mainly to provisions for warranties and impending losses.

### 34. Other liabilities

#### 34.1 Other current financial liabilities

€k	2019	2018
<b>Other current financial liabilities</b>		
- Payment obligation from license auction	61,266	0
- Salary liabilities	34,043	41,969
- Marketing and selling expenses / commissions	22,635	24,165
- Legal and consulting fees, auditing fees	6,069	6,564
- Leasing liabilities	82,988	15,079
- Creditors with debit balances	8,516	7,853
- Service / maintenance / restoration obligations	9,095	9,870
- Liabilities from usage rights	0	5,000
- Other	14,823	13,593
<b>Total</b>	<b>239,435</b>	<b>124,092</b>

### 34.2 Other current non-financial liabilities

€k	2019	2018
<b>Other current non-financial liabilities</b>		
- Liabilities to the tax office	41,541	35,763
- Other	8,796	9,284
<b>Total</b>	<b>50,337</b>	<b>45,047</b>

Liabilities to the tax office mainly refer to sales tax liabilities.

### 34.3 Other non-current financial liabilities

€k	2019	2018
<b>Other non-current non-financial liabilities</b>		
- Payment obligation from license auction	947,655	0
- Obligations from leases	267,640	67,153
- Conditional purchase price liabilities	24,523	14,558
- Other	7,689	5,266
<b>Total</b>	<b>1,247,507</b>	<b>86,976</b>

Please refer to Note 45 regarding finance lease commitments.

On September 5, 2019, the United Internet subsidiary 1&1 Drillisch signed an agreement with the German Federal Ministry of Transport and Digital Infrastructure (BMVI) and the German Federal Ministry of Finance (BMF) regarding the construction of mobile communication sites in so-called "not-spots". 1&1 Drillisch is thus helping to close existing supply gaps and improve the provision of mobile communications in rural regions by building base stations. In return, 1&1 Drillisch benefits from an agreement allowing it to pay for the acquired 5G spectrum in installments. As a result, the license fees which were originally to be paid to the German government 2019 and 2024 can now be spread over the period up to 2030.

The conditional purchase price liabilities refer to variable purchase price components from the acquisition of STRATO AG amounting to € 14,760k (prior year: € 6,150k), 1&1 IONOS Cloud GmbH (formerly: ProfitBricks GmbH) amounting to € 4,416k (prior year: € 4,416k), and the InterNetX put option amounting to € 5,347k (prior year: € 4,110k).



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## 35. Maturities of liabilities

The maturities of liabilities are as follows:

€k	Total	Dec. 31, 2019		
		up to 1 year	1 to 5 years	Over 5 years
<b>Financial liabilities</b>				
Liabilities due to banks				
- Revolving syndicated loan facility	698,506		0	698,506
- Syndicated loan	200,182	223	199,959	0
- Promissory note loan	839,163	242,266	571,897	25,000
- Current account overdrafts	517	517	0	0
Trade accounts payable	481,627	475,535	6,092	0
Other financial liabilities				
- Finance leases	350,628	82,988	167,847	99,793
- Other	1,136,314	156,446	340,221	639,647
<b>Total financial liabilities</b>	<b>3,706,936</b>	<b>957,974</b>	<b>1,286,016</b>	<b>1,462,945</b>
<b>Non-financial liabilities</b>				
Income tax liabilities	91,680	91,680	0	0
Contract liabilities	184,823	149,930	34,893	0
Other accrued liabilities	86,022	18,372	51,944	15,705
Other non-financial liabilities	50,337	50,337	0	0
<b>Total non-financial liabilities</b>	<b>412,862</b>	<b>310,319</b>	<b>86,838</b>	<b>15,705</b>
<b>Liabilities</b>	<b>4,119,798</b>	<b>1,268,293</b>	<b>1,372,854</b>	<b>1,478,650</b>

The maturities of liabilities in the previous year were as follows:

€k	Dec. 31, 2018			
	Total	up to 1 year	1 to 5 years	Over 5 years
<b>Financial liabilities</b>				
Liabilities due to banks				
- Revolving syndicated loan facility	699,404	0	0	699,403
- Syndicated loan	400,997	201,925	199,073	0
- Promissory note loan	838,742	4,251	634,516	199,975
Trade accounts payable	566,753	557,730	9,024	0
Other financial liabilities				
- Finance leases	82,232	15,079	47,636	19,517
- Other	128,836	109,012	17,925	1,899
<b>Total financial liabilities</b>	<b>2,716,964</b>	<b>887,997</b>	<b>908,174</b>	<b>920,792</b>
<b>Non-financial liabilities</b>				
Income tax liabilities	187,938	187,938	0	0
Contract liabilities	188,128	154,290	33,838	0
Other accrued liabilities	124,441	24,469	74,598	25,374
Other non-financial liabilities	45,047	45,047	0	0
<b>Total non-financial liabilities</b>	<b>545,553</b>	<b>411,743</b>	<b>108,436</b>	<b>25,374</b>
<b>Liabilities</b>	<b>3,262,517</b>	<b>1,299,740</b>	<b>1,016,610</b>	<b>946,166</b>

In the course of determining the maturities of liabilities due to banks, management assumed that the amount drawn from the revolving syndicated loan facility as at the respective reporting date would remain constant until the end of the term (2025).

### 36. Share-based payment – employee stock ownership plans

There were five different employee stock ownership plans in the reporting period 2019. One model with so-called Stock Appreciation Rights (SAR) is aimed at the group of senior executives and managers and based on virtual stock options of United Internet AG. The second plan, the Long-Term Incentive Plan Hosting (LTIP) was introduced in the second half of 2017 and is aimed at the group of executives and employees in key positions in the Business Applications segment. The third plan, the Long Term Incentive Plan Versatel (LTIP) was introduced in the first half of 2018 and is aimed at the group of executives and employees in key positions in the Business Access segment. The fourth plan, the Stock Appreciation Rights Drillisch (SAR) was introduced in the first half of 2018 and is aimed at the group of executives and employees in key positions in the Consumer Access segment. The fifth plan, the Long-Term Incentive Plan Portal (LTIP) was introduced in the first half of 2019 and is aimed at the group of executives and employees in key positions in the Consumer Applications segment. The employee stock ownership plan (ESOP) for active core employees of Group companies expired in the previous year.

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### 36.1 Stock Appreciation Rights (SAR United Internet)

The SAR plan employs so-called Stock Appreciation Rights (SARs) and is treated as an equity-settled, shared-based payment transaction. SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. Nevertheless, United Internet AG retains the right to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

No new SAR tranches were issued in the fiscal years 2018 and 2019.

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 6 and 12 months prior to the measurement date, respectively. The strike price is calculated on the basis of the average share price of the last 10 days prior to the issuance date.

The total expense from the stock ownership plan amounts to € 33,613k (prior year: € 33,645k). The cumulative expense as of December 31, 2019 totaled € 33,302k (prior year: € 32,777k). Expenses of € 311k (prior year: € 868k) therefore relate to future years. The personnel expense for share options issued amounted to € 525k in the reporting period (prior year: € 1,067k).

The changes in the virtual stock options granted and outstanding are shown in the following table:

<b>Outstanding as of December 31, 2017</b>	<b>1,415,000</b>	<b>0.00</b>
exercised	-18,750	43.76
exercised	-15,000	30.11
exercised	-10,000	31.15
exercised	-12,500	44.06
exercised	-325,000	16.06
exercised	-75,000	21.95
	-30,000	43.49
exercised	-25,000	32.79
exercised	-75,000	31.15
exercised	-75,000	31.15
expired / forfeited	-56,250	43.76
<b>Outstanding as of December 31, 2018</b>	<b>697,500</b>	<b>37.74</b>
issued	0	n/a
expired / forfeited	-20,000	37.49
<b>Outstanding as of December 31, 2019</b>	<b>677,500</b>	<b>0.00</b>
Exercisable as of December 31, 2019	0	n/a
Exercisable as of December 31, 2018	0	n/a
Weighted average remaining term		
Weighted average remaining term as of December 31, 2019 (in months)	20	
Weighted average remaining term as of December 31, 2018 (in months)	33	

The range of strike prices for stock options outstanding at the end of the reporting period is between € 30.11 and € 44.06 (prior year: € 30.11 and € 44.06).

### 36.2 Long Term Incentive Plan Business Applications (LTIP Hosting)

An additional employee stock ownership plan (Long-Term Incentive Plan, LTIP) was introduced for the Business Applications segment in the fiscal year 2017. The LTIP is designed to align the long-term interests of management board members and other key employees of the 1&1 IONOS Group (Business Applications segment) with the interests of the company, in order to raise the equity value of the company (1&1 IONOS TopCo SE) and other companies of the 1&1 IONOS Group.

Within the LTIP plan, qualifying employees in the Hosting division will be allocated so-called Management Incentive Plan (MIP) units. The grant is made on a straight-line basis over a period of four years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year.

The entitlements under the LTIP plan can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares or options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

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Using an option pricing model based on a Black-Scholes model in accordance with IFRS 2, the fair value of the options issued was calculated using the following material measurement parameters:

2019	Jan. 1, 2019	01.04.2019	01.07.2019	01.10.2019
Number of MIP units granted	10,000	90,750	21,500	37,500
Strike price	153.60	156.20	182.00	161.50
Fair value at time of issue	54.06	62.6	54.55	81.24
Volatility	approx. 36%	approx. 38%	approx. 38%	approx. 38%
Remaining term	approx. 2.7 years	approx. 2.5 years	approx. 2.3 years	approx. 2.0 years
Dividend yield	of 0%	of 0%	of 0%	of 0%
Risk-free interest	of 0%	of 0%	of 0%	of 0%

2018	
Number of MIP units granted	37,500
Strike price	€ 114.7 per MIP
Fair value at time of issue	€ 55.91 per MIP
Volatility	of approx. 30%
Remaining term	approx. 2.8 years
Dividend yield	of 0%
Risk-free interest	of 0%

The volatility used to determine fair value was calculated using the price fluctuations of the past 180 days or last 360 days of the Business Applications division peer group.

Expense is recognized on a straight-line basis over the variable period until the anticipated occurrence of an event defined by the LTIP plan. This assessment is reviewed on each reporting date. Based on current estimates, the total underlying period is 4 years starting from October 1, 2017.

The fair value of commitments classified as equity instruments amounted to € 25,711k on the grant date (prior year: € 15,540k).

The total expense from the employee stock ownership plan amounts to € 25,711k (prior year: € 15,540k). The cumulative expense as of December 31, 2019 totaled € 12,280k (prior year: € 4,856k). Expenses for future years therefore account for € 13,431k (prior year: € 10,684k). The personnel expense from issued stock options amounted to € 7,424k in the reporting period (prior year: € 3,512k).

The changes in the MIP units granted and outstanding are shown in the following table:

	1&1 Internet TopCo SE	
	Units	Average strike price (€)
<b>Outstanding as of December 31, 2017</b>	<b>300,000</b>	<b>114.7</b>
issued	37,500	114.7
expired / forfeited	-112,500	114.7
<b>Outstanding as of December 31, 2018</b>	<b>225,000</b>	<b>114.7</b>
issued	159,750	160.75
expired / forfeited	-5,000	114.7
<b>Outstanding as of December 31, 2019</b>	<b>379,750</b>	<b>134.07</b>
Exercisable as of December 31, 2019	0	n/a
Exercisable as of December 31, 2018	0	n/a

### 36.3 Long Term Incentive Plan Versatel (LTIP Versatel)

An additional employee stock ownership plan (Long-Term Incentive Plan, LTIP) was introduced for the Business Access segment in the fiscal year 2018. The LTIP is designed to align the long-term interests of management board members and other key employees of the 1&1 Versatel Group (Business Access segment) with the interests of the company, in order to raise the equity value of the company (1&1 Versatel GmbH) and other companies of the 1&1 Versatel Group.

Within the LTIP plan, qualifying employees in the Business Access segment are allocated value growth shares. The grant is made over a period of six years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year. As of December 31, 2019, all outstanding units are unforfeitable.

The entitlements under the LTIP plan can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares or options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

The LTIP entitlement results from the difference between the terminal value and an initial value, which is multiplied by the respective value growth share and dilution factor.

Expense per participant is recognized on a straight-line basis over the period until the expiry of the respective LTIP contract, unless an event specified in the LTIP plan occurs. This assessment is reviewed on each reporting date. Based on current estimates, a total period of 6 years is used.

The total expense from the employee stock ownership plan amounts to € 2,918k (prior year: € 2,850k). In the reporting period, one employee with value growth shares left the company. As a consequence, the cumulative expense as of December 31, 2019 totaled € 266k (prior year: € 475k) and the personnel income from issued stock options amounted to € -209k in the reporting period (prior year: personnel expense € 475k). Expenses for future years therefore account for € 2,652k (prior year: € 2,375k).



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**United Internet AG****Average strike price (€)**

Allocation	1.0% value growth share	2,850
<b>Outstanding as of December 31, 2018</b>	<b>1.0% value growth share</b>	<b>2,850</b>
Allocation	1.3% value growth share	2,245
expired	1.0% value growth share	2,850
<b>Outstanding as of December 31, 2019</b>	<b>1.3% value growth share</b>	<b>2,245</b>
Exercisable as of December 31, 2019	0	0.00

### 36.4 Stock Appreciation Rights Drillisch (SAR Drillisch)

A further plan, Stock Appreciation Rights Drillisch (SAR), introduced in the first half of 2018, is aimed at executives and employees in key positions in the Consumer Access segment and is based on virtual stock options of 1&1 Drillisch AG.

An SAR Drillisch is the commitment of 1&1 Drillisch AG (or one of its subsidiaries), to pay the option beneficiary a consideration whose amount depends on the share price performance and the operating result (EBIT) of 1&1 Drillisch AG (consolidated). As part of the SAR plan, so-called SARs are allocated which are then granted over the vesting period. An SAR corresponds to a virtual subscription right for one share of 1&1 Drillisch AG. However, it is not a share right and thus not a (genuine) option to acquire shares of 1&1 Drillisch AG.

The entitlement arising from an SAR depends on the development of the share price and EBIT. Furthermore, various exercise conditions must be observed. The SAR entitlement is calculated by multiplying the number of SARs exercised by an EBIT factor and the difference between the strike price and the starting price. The EBIT factor is derived from the percentage degree to which the EBIT targets of 1&1 Drillisch AG ("Target EBIT") have been achieved. The year preceding the exercise date is decisive. For the EBIT factor, only a degree of achievement of the EBIT targets of 80% (exercise hurdle) to 120% (cap) is taken into account. The starting and strike prices are calculated as the average (arithmetic mean) of the closing prices of the 1&1 Drillisch AG share in Xetra trading (or a functionally comparable successor system) of the Frankfurt Stock Exchange on the last 10 trading days prior to the starting or exercise date. If the percentage share price increase is higher than EBIT growth, there is a further cap of 150% on the share price increase.

The allocated SARs can only be exercised for the first time after 4 years at the earliest. Each year, the participant has an exercise window of one month, beginning on the day after publication of the annual financial statements of 1&1 Drillisch AG. The last exercise window available to the participant is in the year following the end of the term. SARs not exercised by then expire without compensation. The possibility of exercising SARs in the first exercise window is limited to a maximum of 25%, and in the second exercise window to 50%, of the total number of SARs allocated to the participant at these points in time – including earlier exercises.

1&1 Drillisch AG reserves the right to fulfill its commitment from the SAR plan (or the commitment of a subsidiary) to transfer shares of 1&1 Drillisch AG from its stock of treasury shares by also paying the beneficiary in cash, at its own discretion. As there is currently no obligation to settle in cash, these commitments are accounted for as equity-settled transactions.

Using an option pricing model based on a Monte Carlo simulation in accordance with IFRS 2, the fair value of the options issued was determined as follows:

#### Valuation parameters 2019

Issue date	Jan. 1, 2019		Jan. 1, 2019		01.10.2019	
Fair value	196	€k	434	€k	3,252	€k
Number of SARs	4,500		8,600		64,300	
Starting price	44.1	€	45	€	45	€
Dividend yield	3.70%	%	3.7	%	3.7	%
Volatility of the share	37.8	%	32.6	%	32.6	%
Expected term (years)	5		5		5	
Exercise hurdle (EBIT factor)	80	%	80	%	80	%
CAP (EBIT factor)	120	%	120	%	120	%

#### Valuation parameters 2018

Issue date	Jan. 1, 2018		01.09.2018		01.12.2018	
Fair value	4,274	€k	3,036	€k	2,513	€k
Number of SARs	60,000		60,000		60,000	
Starting price	68.7	€	45	€	43.9	€
Dividend yield	2.3	%	3.7	%	3.6	%
Volatility of the share	24	%	32.6	%	38.1	%
Expected term (years)	5		5		5	
Exercise hurdle (EBIT factor)	80	%	80	%	80	%
CAP (EBIT factor)	120	%	120	%	120	%

The volatility used to determine fair value was calculated on the basis of historical volatility for the last 12 months prior to the measurement date. The strike price is calculated on the basis of the average share price of the last 10 days before the issuance date.

In fiscal year 2019, the total expense from the stock ownership plan amounts to € 3,881k (prior year: € 9,823k). The previously recognized cumulative expenditure as of December 31, 2019 for SARs exercised in the fiscal year and for SARs not yet exercised as of the reporting date amounts to € 1,436k (prior year: € 1,359k). Expenses for future years therefore amount to € 2,444k (prior year: € 8,464k)

The changes in the virtual stock options granted and outstanding are shown in the following table:

	Number
<b>Outstanding as of January 1, 2018</b>	<b>0</b>
issued	60,000
issued	60,000
issued	60,000
<b>Outstanding as of December 31, 2018</b>	<b>180,000</b>
expired / forfeited	-180,000
issued	64,300
issued	4,500
issued	8,600
<b>Outstanding as of December 31, 2019</b>	<b>77,400</b>

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### 36.5 Long Term Incentive Plan Portal (LTIP Consumer Application)

An additional employee stock ownership plan (LTIP Portal) was introduced by 1&1 Mail & Media Applications SE in the fiscal year 2019. The LTIP is designed to attract and retain skilled executives as well as to align the long-term interests of management board members and other key employees of the group with the interests of the company, in order to raise the equity value of the company (1&1 Mail & Media Applications SE) and other companies of the group.

The plan entitles the beneficiaries to participate in a certain proportion of the increase in value of the 1&1 Mail & Media Group. Within the LTIP plan, qualifying employees are allocated value growth shares. The grant is made over a period of six years (beginning with the date of issue) and provided that the respective employee has not terminated his contract at the end of each year. The LTIP entitlement arises as soon as the full term of the LTIP contract ends or a trigger event (e.g., the sale of shares held by United Internet AG in 1&1 Mail & Media Applications SE or similar) occurs beforehand.

The entitlements under the LTIP plan can be settled in the form of shares or cash. In the case of settlement in the form of shares, rights may be settled by the provision of shares in the company, provided they are traded on a stock exchange in the meantime, or shares in another company listed on a stock exchange, or the corresponding options to acquire shares. As there is no current obligation for cash settlement, the plan is carried as equity-settled.

As of the grant date, the fair value of commitments classified as equity instruments amounted to € 4,015k.

The total expense from the employee stock ownership plan amounts to € 4,015k (prior year: € 0k). The cumulative expense as of December 31, 2019 totaled € 669k (prior year: € 0k). Expenses for future years therefore account for € 3,346k (prior year: € 0k). The personnel expense from issued stock options amounted to € 669k in the reporting period (prior year: € 0k).

1&1 Mail & Media Application SE		
	Value growth shares	Average strike price (€)
<b>Outstanding as of January 1, 2019</b>		<b>0</b>
Allocation	2.7% value growth share	1,487
<b>Outstanding as of December 31, 2019</b>	<b>2.7% value growth share</b>	<b>1,487</b>

## 37. Capital stock

As in the previous year, the fully paid-in capital stock of the reporting date amounted to € 205,000,000 divided into 205,000,000 (prior year: 194,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

### Authorized capital

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock in the period ending May 20, 2020 by a maximum of € 102,500,000.00 by issuing on one or more occasions new no-par value shares in return for cash and/or non-cash contributions, whereby the subscription rights of shareholders can be excluded under certain conditions (Authorized Capital 2015).

In the case of a capital increase, shareholders shall be granted subscription rights. Pursuant to section 186 (5) AktG, shareholders can also be granted subscription rights indirectly. However, the Management

Board is authorized, subject to the approval of the Supervisory Board, to exclude the rights of shareholders to subscribe:

- in the case of fractional amounts arising from the subscription ratio;
- in the case of a capital increase in return for cash contribution if the new shares are issued at an issuance price which is not substantially below the market price (as defined by section 203 (1) and (2) in conjunction with section 186 (3) sentence 4 AktG) of those Company shares already listed of the same type and with the same terms at the time of the final determination of the issuance price by the Management Board, which should be as near as possible to the share issue date, and the proportionate amount of the capital stock attributable to the new shares for which subscription rights are excluded does not exceed ten percent of the existing capital stock, neither at the time this authorization becomes effective nor when it is exercised. This amount includes the proportionate share of capital stock attributable to shares issued or used during the term of the authorization in direct or corresponding application of section 186 (3) sentence 4 AktG under exclusion of subscription rights. This amount also includes the proportionate share of capital stock attributable to shares issued or to be issued to serve conversion or warrant rights, providing the underlying bonds are issued during the term of this authorization under exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG;
- to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of bonds with warrant or conversion rights or obligations issued by the Company or subordinated Group companies in the amount to which they are entitled on exercise of their warrant or conversion rights or fulfillment of their warrant or conversion obligation;
- in the case of capital increases in return for non-cash contribution to grant shares for the purpose of acquiring companies, parts of companies, interests in companies or other assets, including rights and receivables, or as part of business combinations.

#### **Conditional capital**

Capital stock is to be conditionally increased by up to € 25,000,000.00, divided into 25,000,000 no-par value shares (Conditional Capital 2015). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds granted by the Company or a subordinated Group company in accordance with the above authorization in the period up to May 20, 2020. The new shares shall be issued at the warrant or conversion price to be determined in the bond terms and in accordance with the above authorization. The conditional capital increase shall only be implemented to the extent that the warrant or conversion rights pertaining to the bonds are exercised or warrant or conversion obligations pertaining to the bonds are fulfilled, or the Company exercises its right to tender shares, and unless other fulfillment possibilities for servicing are used. The new shares used for the issue shall participate in profits from the beginning of the fiscal year in which they are created by exercising the warrant or conversion right; to the extent that it is legally permissible, the Management Board may, with the approval of the Supervisory Board, determine the profit participation of new shares and, notwithstanding section 60 (2) AktG, also for a fiscal year already expired. The Management Board is authorized to determine the further details of the implementation of the conditional capital increase.

## **38. Reserves**

As of December 31, 2019, capital reserves amounted to € 2,643,946k (prior year: € 2,703,141k). The decline is mainly due to the Company's purchase of further shares in 1&1 Drillisch AG as well as the purchase of treasury shares by 1&1 Drillisch AG itself.

The accumulated result includes the past results of consolidated companies, insofar as no dividends were paid, less expenses for share-based remuneration.

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At the end of the reporting period, the revaluation reserve attributable to shareholders of United Internet AG consisted of the following items:

€k	Dec. 31, 2019	Dec. 31, 2018
<b>Financial assets at fair value through other comprehensive income</b>		
- Rocket Internet shares	0	56,937
- Afiliis shares	27,878	26,418
- Other investments	-2,135	-48
Share in other comprehensive income of associated companies:	-570	-284
<b>Total</b>	<b>25,172</b>	<b>83,023</b>

In the fiscal year 2019, United Internet sold its shares in Rocket Internet SE. In this connection, the corresponding accrued other comprehensive income was reclassified to accumulated profit.

Translation differences from the annual financial statements of foreign subsidiaries without an effect on profit or loss are recognized in the currency translation adjustment.

An overview of the composition and changes in the reserves described above for the fiscal years 2019 and 2018 is provided in the Statement of Changes in Shareholders' Equity.

### 39. Treasury shares

Pursuant to section 71 (1) number 8 AktG, United Internet AG is entitled to acquire treasury shares until September 18, 2020 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. The authorization may not be used for the purpose of trading with treasury shares. Within the framework of this authorization, the Company purchased a total of 12,635,523 treasury shares for an amount of € 373,584k.

As of the balance sheet date 17,338,513 treasury shares were held (prior year: 4,702,990).

Treasury shares reduce equity and have no dividend entitlement.

## 40. Non-controlling interests

Non-controlling interests developed as follows:

€k	Drillisch AG (26.71%)	1&1 Internet TopCo SE/Business Applications (33.33%)	Total
<b>Jan. 1, 2019</b>	<b>390,102</b>	<b>-166,776</b>	<b>223,325</b>
Pro-rated result	95,462	19,556	115,018
Pro-rated other comprehensive income	95	2,833	2,928
Pro-rated changes	-35,312	0	-35,312
Other changes in equity	-95	1,447	1,352
Dividend	-2,335	-222	-2,557
<b>Dec. 31, 2019</b>	<b>447,915</b>	<b>-143,163</b>	<b>304,753</b>

Pro-rated changes relate to United Internet's increased stake in 1&1 Drillisch AG and the acquisition of treasury stock by 1&1 Drillisch AG itself.

€k	Drillisch AG (26.71%)	1&1 Internet TopCo SE/Business Applications (33.33%)	Other non- controlling interests	Total
<b>Dec. 31, 2017*</b>	<b>263,118</b>	<b>-204,764</b>	<b>363</b>	<b>58,717</b>
Change due to new accounting standards	97,817	29,859		127,676
<b>Jan. 1, 2018</b>	<b>360,935</b>	<b>-174,905</b>	<b>363</b>	<b>186,393</b>
Pro-rated result	107,930	15,334	33	123,297
Pro-rated other comprehensive income		-972		-972
Other changes in equity	-3,585	-6,448	1	-10,032
Dividend	-75,178		-182	-75,360
<b>Dec. 31, 2018</b>	<b>390,102</b>	<b>-166,991</b>	<b>215</b>	<b>223,325</b>

The addition in the previous year refers to the initial investment of non-controlling shareholders in the respective subsidiary.

The following financial information comprises summarized details on the assets, liabilities, profits or losses, and cash flows of the subsidiary with material non-controlling interests.

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### 1&1 Drillisch Gruppe (Consumer Access)

Drillisch Gruppe	2019	2018
in € million		
Current assets	1,309	1,065
Non-current assets	5,153	4,182
Current liabilities	549	647
Non-current liabilities	1,272	620
<b>Shareholders' equity</b>	<b>4,641</b>	<b>4,280</b>
Sales revenue	3,675	3,662
<b>Pre-tax result</b>	<b>522</b>	<b>563</b>
Income taxes	-149	-157
<b>Net income</b>	<b>374</b>	<b>406</b>
Cash flows from operating activities,	376	548
investing activities or	-231	-21
financial activities	-117	-280

### 1&1 Internet TopCo SE (Business Applications)

1&1 Internet TopCo SE (Business Applications)	2019	2018
in € million		
Current assets	176	218
Non-current assets	1,319	1,302
Current liabilities	203	306
Non-current liabilities	1,723	1,715
<b>Shareholders' equity</b>	<b>-431</b>	<b>-502</b>
Sales revenue	924	877
<b>Pre-tax result</b>	<b>102</b>	<b>97</b>
Income taxes	-44	-50
<b>Net income</b>	<b>58</b>	<b>47</b>
Cash flows from operating activities,	169	116
investing activities or	-68	-139
financial activities	-108	-7

## 41. Additional details on financial instruments

The following table shows the carrying amounts for each category of financial assets and liabilities for fiscal year 2019:

€k	Measure- ment category acc. to IFRS 9	Carrying amount on Dec. 31, 2019	Amortized cost	Fair value not through profit or loss <sup>(1)</sup>	Fair value through profit or loss	Measure- ment acc. to IFRS 16	Fair value as of Dec. 31, 2019
<b>Financial assets</b>							
Cash and cash equivalents	ac	117,573	117,573				117,573
Trade accounts receivable							
- Receivables from finance leases	n/a	65,121				65,121	67,465
- others	ac	338,580	338,580				338,580
Other current financial assets	ac	48,141	48,141				48,141
Other non-current financial assets							
- At amortized cost	ac	12,594	12,594				12,594
- Fair value through other comprehensive income	fvoci	47,006		47,006			47,006
- Fair value through profit or loss	fvtpl	31,450			31,450		31,450
<b>Financial liabilities</b>							
Trade accounts payable	flac	481,627	481,627				481,627
Liabilities due to banks	flac	1,738,368	1,738,368				1,750,448
Other financial liabilities							
- Leasing liability	n/a	-350,628				-350,628	-
- Fair value through profit or loss	fvtpl	-21,188			-21,188		-21,188
- others	flac	-1,115,126	-1,115,126				-1,115,126
<b>Of which aggregated acc. to measurement categories:</b>							
Financial assets at amortized cost	flac	516,888	516,888				516,888
Financial assets at fair value through other comprehensive income without recycling to profit or loss	fvoci	47,006		47,006			47,006
Financial assets at fair value through profit or loss	fvtpl	31,450			31,450		31,450
Financial liabilities at amortized cost	flac	1,104,869	1,104,869				1,116,949
Financial liabilities measured at fair value through profit or loss	fvtpl	-21,188			-21,188		-21,188



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The following net results were stated for the individual categories of financial instruments acc. to IFRS 9 in fiscal year 2019:

Net result acc. to measurement categories 2019 (in €k)	Measurement category IFRS 9	Net profits and losses from subsequent measurement				Net result
		From interest and dividends	At fair value	Currency translation	Allowance	
Financial assets at amortized cost	ac	1,075	--	-1,453	-65,893	-66,271
Financial assets at fair value						
- through other comprehensive income	fvoci	992	468	--	--	1,460
- through profit or loss	fvtpl		15,660	--	--	15,660
Financial liabilities at amortized cost	flac	-35,183	--	-623	--	-35,806
Financial liabilities measured at fair value						
- through profit or loss	fvtpl		-9,691			-9,691
<b>Total</b>		<b>-33,116</b>	<b>6,437</b>	<b>-2,076</b>	<b>-65,893</b>	<b>-94,648</b>

With the exception of trade accounts receivable in connection with finance leases, cash and cash equivalents, trade accounts receivable, and other current financial assets mostly have short remaining terms. Their carrying amounts on the reporting date are thus similar to fair value.

Investments and derivatives are carried at fair value. In the case of the remaining other non-current financial assets carried at amortized cost, it is assumed that their carrying amounts correspond to fair value.

Trade accounts payable mostly have short remaining terms. Their carrying amounts on the reporting date are thus similar to fair value. The same applies to current liabilities due to banks.

For the remaining other non-current liabilities recognized at amortized cost, it is assumed that their carrying amounts correspond to their fair values.

Non-current liabilities due to banks are loans which can be prematurely redeemed. In addition, both the basic interest rate and the margin are variable. The margin depends on predefined KPIs of the United Internet Group. Due to these factors, it is assumed that their carrying amounts of non-current liabilities correspond approximately to fair value. The fair value measurement of the promissory note loans is based at least in part on input parameters not observable on the market.

Due to changed interest rates, there are slight deviations between the carrying value and fair value of receivables and liabilities in connection with finance leases.

The conditional purchase price liabilities are carried at fair value. In the case of the remaining other non-current financial liabilities carried at amortized cost, it is assumed that their carrying amounts correspond to fair value.

The following table shows the carrying amounts for each category of financial assets and liabilities for fiscal year 2018:

€k	Measure- ment category acc. to IFRS 9	Carrying amount on Dec. 31, 2018	Amortized cost	Fair value not through profit or loss (1)	Fair value through profit or loss	Measure- ment acc. to IAS 17	Fair value as of Dec. 31, 2018
<b>Financial assets</b>							
Cash and cash equivalents	ac	58,066	58,066				58,066
Trade accounts receivable							0
- Receivables from finance leases	n/a	64,757				64,757	65,378
- others	ac	344,899	344,899				344,899
<b>Other current financial assets</b>							
- Derivatives	fvtpl	6,800			6,800		6,800
- others	ac	65,974	65,974				65,974
<b>Other non-current financial assets</b>							
- At amortized cost	ac	12,594	12,594				12,594
- Fair value through other comprehensive income	fvoci	319,662		319,662			319,662
- Fair value through profit or loss	fvtpl	15,790			15,790		15,790
<b>Financial liabilities</b>							
Trade accounts payable	flac	-566,754	-566,754				-566,754
Liabilities due to banks	flac	-1,939,143	-1,939,143				-1,946,091
<b>Other financial liabilities</b>							
- Finance leases	n/a	-82,244				-82,244	-83,164
- Fair value through profit or loss	fvtpl	-10,566			-10,566		-10,566
- others	flac	-118,258	-118,258				-118,258
<b>Of which aggregated acc. to measurement categories:</b>							
Financial assets at amortized cost	flac	481,534	481,534				481,534
Financial assets at fair value through other comprehensive income without recycling to profit or loss	fvoci	319,662		319,662			319,662
Financial assets at fair value through profit or loss	fvtpl	22,590			22,590		22,590
Financial liabilities at amortized cost	flac	-2,624,155	-2,624,155				-2,631,103
Financial liabilities measured at fair value through profit or loss	fvtpl	-10,566			-10,566		-10,566

(1) Without subsequent reclassification into the income statement

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The following net results were stated for the individual categories of financial instruments in fiscal year 2018:

Net result acc. to measurement categories 2018 (in €k)	Measurement category IFRS 9	Net profits and losses from subsequent measurement					Net result
		From interest and dividends	At fair value	Currency translation	Allowance		
Financial assets at amortized cost	ac	1,024	--	-35	-62,710	-61,721	
Financial assets at fair value							
- through other comprehensive income	fvoci	3,542	-13,539	--	--	-9,997	
- through profit or loss	fvtpl		4,700	--	--	4,700	
Financial liabilities at amortized cost	flac	-29,644	--	-15	--	-29,659	
Financial liabilities measured at fair value							
- through profit or loss	fvtpl		-880			-880	
<b>Total</b>		<b>-25,078</b>	<b>-9,719</b>	<b>-51</b>	<b>-62,710</b>	<b>-97,557</b>	

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade accounts receivable, trade accounts payable, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at December 31, 2018, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of bank loans and other financial liabilities is estimated by discounting future cash flows using interest rates currently available for debt on similar terms, credit risk and remaining maturities.
- Financial assets and liabilities measured at fair value are measured using appropriate measurement techniques. Where available, stock exchanges prices on active markets are used. The valuation of shares in non-listed companies is based mainly on present value models. The valuation of derivatives and conditional purchase price liabilities is based mainly on option pricing models.

## Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by measurement technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### Assets and liabilities measured at fair value

€k	as of Dec. 31, 2019	Level 1	Level 2	Level 3
Financial assets at fair value through other comprehensive income without recycling to profit or loss	47,006	2,384		44,622
Listed shares	2,384	2,384		
Non-listed equity instruments	44,622			44,622
Financial assets at fair value through profit or loss	31,450			31,450
Derivatives	31,450			31,450
<b>Financial liabilities measured at fair value through profit or loss</b>	<b>-21,188</b>			<b>-20,107</b>
Purchase price liabilities	-21,188		-1,081	-20,107

As in the previous year, there were no transfers between levels during the reporting period.

€k	as of Dec. 31, 2018	Level 1	Level 2	Level 3
<b>Financial assets at fair value through other comprehensive income without recycling to profit or loss</b>	<b>319,662</b>	<b>276,866</b>		<b>42,796</b>
Listed shares	276,866	276,866		
Non-listed equity instruments	42,796			42,796
<b>Financial assets at fair value through profit or loss</b>	<b>22,590</b>			<b>22,590</b>
Derivatives	22,590			22,590
<b>Financial liabilities measured at fair value through profit or loss</b>	<b>-10,566</b>			<b>-10,566</b>
Purchase price liabilities	-10,566			-10,566

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The following table shows the main non-observable input factors for the fair value measurements categorized in Level 3 of the fair value hierarchy and a quantitative sensitivity analysis as of December 31, 2019:

Dec. 31, 2019	Measurement method	Main non-observable input factors	Considered in measurement	Sensitivity of input factor on fair value	
Non-listed share	DCF method	Long-term growth rate of cash flows for subsequent years	0.1%	+ 0.25% € + 1.90 million	-0.25% €-0.7 million
Foreign currency-based derivatives	Black-Scholes model	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2019	2 years	+1 year € + 0.62 million	-1 year €-1.27 million
		Volatility	7.1%	+1% € + 0.43 million	-1% €- 0.50 million
Earnings-based derivatives	Monte Carlo simulation	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2019	2 years	+1 year € - 1.40 million	-1 year €+2.34 million
		Volatility	40.07%	+1% € - 0.1 million	-1% €+0.1 million
Conditional purchase price liability	Monte Carlo simulation	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2019	2 years	+1 year € - 1.16 million	-1 year €+1.94 million
		Volatility	40.07%	+1% € - 0.1 million	-1% €+0.1 million
Conditional purchase price liability	Modified multiple	EBITDA growth	5%	+1% € + 0.1 million	-1% €-0.1 million

Dec. 31, 2018	Measurement method	Main non-observable input factors	Considered in measurement	Sensitivity of input factor on fair value	
Non-listed share	DCF method	Long-term growth rate of cash flows for subsequent years	0.50%	+ 0.25% + € 1.0 million	-0.25% - € 0.95 million
Foreign currency-based derivatives	Black-Scholes model	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year +€ 0.64 million	-1 year - € 1.18 million
		Volatility	6.48%	+1% + € 0.9 million	-1% - € 1.18 million
Earnings-based derivatives	Monte Carlo simulation	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year +€ 0.43 million	-1 year -€ 0.99 million
		Volatility	35.80%	+1% € + 0.1 million	-1% € - 0.1 million
Derivative – put option	Black-Scholes model	Volatility	38,0%	+1% € + 0.1 million	-1% € - 0.1 million
Conditional purchase price liability	Monte Carlo simulation	Exit date of Warburg 3 years Pincus from Business Application segment as of Dec. 31, 2018	3 years	+1 year € + 0.35 million	-1 year € - 0.85 million
		Volatility	35.80%	+1% € + 0.1 million	-1% € - 0.1 million
Conditional purchase price liability	Modified multiple	EBITDA growth	5,0%	+1% € + 0.1 million	-1% € - 0.1 million

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Reconciliation to fair value in Level 3:

€k	Non-listed share	Listed share		Conditional purchase price obligation
			Derivatives	
<b>As of January 1, 2018</b>	<b>42,756</b>	<b>0</b>	<b>17,890</b>	<b>-9,686</b>
Revaluation recognized in other comprehensive income	40		0	0
Revaluation recognized in profit or loss	0		4,700	-880
<b>As of December 31, 2018</b>	<b>42,796</b>	<b>3,742</b>	<b>22,590</b>	<b>-10,566</b>
Revaluation recognized in other comprehensive income	1,826	-1,359	0	0
Revaluation recognized in profit or loss	0	0	8,860	-10,622
<b>As of December 31, 2019</b>	<b>44,622</b>	<b>2,383</b>	<b>31,450</b>	<b>-21,188</b>

## 42. Transactions with related parties

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board of United Internet AG and their close relatives were classified as related parties. Moreover, companies over which the related parties exert a controlling influence are classified as related parties.

There were no changes to the circle of related parties as compared with the Consolidated Financial Statements as at December 31, 2018.

At the Annual Shareholders' Meeting on May 21, 2015, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren (deputy chairman), and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2020.

In fiscal year 2019, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

### Kurt Dobitsch

- 1&1 IONOS Holding SE, Montabaur (formerly: 1&1 Internet Holding SE) (as of March 27, 2019)
- 1&1 Telecommunication SE, Montabaur (deputy chair)
- 1&1 Mail & Media Applications SE, Montabaur (deputy chair)
- 1&1 Drillisch Aktiengesellschaft, Maintal
- Nemetschek SE, Munich (formerly: Nemetschek AG) (chair)
- Graphisoft S.E., Budapest/Hungary
- Vectorworks Inc., Columbia/USA
- Bechtel AG, Gaildorf
- Singhammer IT Consulting AG, Munich

### Kai-Uwe Ricke

- 1&1 IONOS Holding SE, Montabaur (formerly: 1&1 Internet Holding SE) (until March 27, 2019)
- 1&1 Telecommunication SE, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur (chair)
- 1&1 Drillisch Aktiengesellschaft, Maintal (deputy chair)
- EuNetworks Group Limited, London, United Kingdom
- Delta Partners Group Limited, Dubai, United Arab Emirates
- Delta Partners Capital Limited, Dubai, United Arab Emirates
- Delta Partners Growth Fund II GP Limited, Cayman Islands (formerly Dubai)
- Delta Partners Growth Fund II (Carry) General Partner Limited, Cayman Islands
- SUSI Partners AG, Zurich/Switzerland (until June 17, 2019)
- Virgin Mobile CEE B.V., Amsterdam/Netherlands
- Virgin Mobile Polska Sp.z.o.o, Warsaw/Poland (chair of the Administrative Board)
- Cash Credit Limited, Cayman Islands

### Michael Scheeren

- 1&1 IONOS Holding SE, Montabaur (formerly: 1&1 Internet Holding SE)
- 1&1 Telecommunication SE, Montabaur (chair)
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Drillisch Aktiengesellschaft, Maintal (chair)
- Tele Columbus AG, Berlin (as of August 29, 2019)

On May 21, 2015, the Annual Shareholders' Meeting adopted a new remuneration system which complies fully with the German Corporate Governance Code. It consists of a fixed remuneration component and an attendance fee per meeting. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 15k per full fiscal year. The Chairman of the Supervisory Board receives the double amount. The attendance fee amounts to € 1k for each meeting.

The members of the Supervisory Board of United Internet AG are also members of the supervisory board of various subsidiaries. As of fiscal year 2015, they also receive remuneration from these subsidiaries. The remuneration of the subsidiaries also consists of a fixed annual remuneration and an attendance fee for each meeting. The fixed annual remuneration varies between the subsidiaries, while the standard attendance fee amounts to € 1k for each meeting.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet AG::

2019	United Internet AG			Subsidiaries of United Internet AG			Total		
	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
€k									
Kurt Dobitsch	30	4	34	92.5	15	107.5	122.5	19	141.5
Kai-Uwe Ricke	15	4	19	87.5	13	100.5	102.5	17	119.5
Michael Scheeren	15	4	19	110	16	126	125	20	145
	<b>60</b>	<b>12</b>	<b>72</b>	<b>290</b>	<b>44</b>	<b>334</b>	<b>350</b>	<b>56</b>	<b>406</b>



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2018	United Internet AG			Subsidiaries of United Internet AG			Total		
	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total	Fixed	Attendance fee	Total
€k									
Kurt Dobitsch	30	4	34	80	16	96	110	20	130
Kai-Uwe Ricke	15	4	19	120	20	140	135	24	159
Michael Scheeren	15	4	19	120	20	140	135	24	159
	<b>60</b>	<b>12</b>	<b>72</b>	<b>320</b>	<b>56</b>	<b>376</b>	<b>380</b>	<b>68</b>	<b>448</b>

There are no subscription rights or share-based payments for members of the Supervisory Board.

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2017. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the Annual Financial Statements have been adopted by the Supervisory Board.

There are no retirement benefits from the Company to members of the Management Board.

The following table provides details on the compensation received by members of the Management Board:

2019	Fixed	Variable	Fringe benefits	Total fixed, variable and fringe benefits	Market value of share-based payments granted in 2019 *
€k					
Ralph Domermuth	0	0	0	0	-
Frank Krause	360	132	11	503	-
	<b>360</b>	<b>132</b>	<b>11</b>	<b>503</b>	<b>-</b>

2018	Fixed	Variable	Fringe benefits	Total fixed, variable and fringe benefits	Market value of share-based payments granted in 2018 *
€k					
Ralph Domermuth	0	0	0	0	-
Frank Krause	360	140	11	511	-
Jan Oetjen	150	100	7	257	-
	<b>510</b>	<b>240</b>	<b>18</b>	<b>768</b>	<b>-</b>

\* Share-based payments (so-called Stock Appreciation Rights) are compensation components with a long-term incentive and paid out over a total period of 6 years.

Total Management Board remuneration as defined by section 314 (1) number 6 a and b HGB, i.e., including the market value of share-based payments, amounted to € 503k (prior year:€ 768k). Members of the Management Board were not granted any advances or loans in the reporting period nor in the previous year.

As in the previous year, Mr. Frank Krause exercised no subscription rights in the fiscal year 2019.



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Reference is also made to the Remuneration Report, which is part of the Combined Management Report.

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is presented in the following table:

Shareholdings	January 1, 2019			December 31, 2019		
	Direct	Indirect	Total	Direct	Indirect	Total
<b>Management Board</b>						
Ralph Dommermuth	---	82,000,000	82,000,000	---	82,500,000	82,500,000
Frank Krause	5,482	---	5,482	5,482	---	5,482
	<b>5,482</b>	<b>82,000,000</b>	<b>82,005,482</b>	<b>5,482</b>	<b>82,500,000</b>	<b>82,505,482</b>
<b>Supervisory Board</b>						
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	---	---	---	---	---	---
	---	---	---	---	---	---

In addition, the United Internet Group can exert a significant influence on its associated companies.

#### Transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2019 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

United Internet's premises in Montabaur and Karlsruhe are leased in part (prior year: in full) from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements have different terms between the end of 2021 and June 2028. The resulting rent expenses are customary and amounted to € 6,765k in fiscal year 2019 (prior year: € 8,987k).

The following table presents rights of use in connection with related parties.

	Addition from initial application	Addition of fiscal year	Amortization/depreciation	Carrying amount
Right-of-use assets	47,069	8,243	-5,483	49,830

The following table presents lease liabilities in connection with related parties.

	Addition from initial application	Addition of fiscal year	Redemption/Interest	Carrying amount
Lease liabilities	47,069	8,214	-4,848	50,435

At the end of the reporting period, there were two loan agreements with associated companies totaling € 10,100k (prior year: € 8,600k). New loans totaling € 2,500k were extended to associated companies in the reporting period.

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The loans have terms of one and up to eight years. The tranches each have fixed interest rates of 2.5% p.a. to 3.0% p.a. and 8%.

The following table presents the outstanding balances and total transactions volumes with associated companies in the respective fiscal year:

€k	Purchases/services from related parties		Sales/services to related parties		Liabilities due to related parties		Receivables from related parties	
	2019	2018	2019	2018	2019	2018	2019	2018
	17,411	27,199	3,611	4,138	995	11,349	9,607	2,356

As in the previous year, receivables from other related parties mainly result from loans to AWIN.

€k	Financial income		Financial expenses	
	2019	2018	2019	2018
	221	282	0	0

## 43. Objectives and methods of financial risk management

### Principles of risk management

The risk management system introduced by the United Internet Group is based on the COSO-ERM framework and is described in detail in the Management Report.

The principles of finance policy are set by the Management Board and monitored by the Supervisory Board. Certain transactions require the prior approval of the Supervisory Board.

The main financial liabilities used by the Group include bank loans, promissory note loans and overdraft facilities, trade accounts payable, and other financial liabilities.

The Group holds various financial assets which result directly from its business activities. They consist mainly of trade accounts receivable, available-for-sale financial investments, and short-term deposits.

As of the reporting date, the Group mainly held primary financial instruments.

The aim of financial risk management is to limit these risks through ongoing operating and financial activities. The Group is hereby exposed to certain risks with regard to its assets, liabilities, and planned transactions, especially liquidity risks and market risks, as described below.

### Liquidity risk

Liquidity risk constitutes the risk that a company will be unable to meet the financial obligations arising from its financial liabilities. As in the previous year, the general liquidity risk of United Internet consists of the possibility that the Group may not be able to meet its current financial obligations in due time. To ensure the solvency and financial flexibility of the United Internet Group at all times, short-term liquidity forecasts and longer-term financial planning are conducted.

As a result of the expected positive contribution to liquidity from operations and the interest-optimized use of the credit lines already granted, the Group is able to ensure the continual coverage of its financial needs at all times. The credit commitments granted to the Company by banks and the existing syndicated loan facility offer sufficient flexibility for these needs. In order to maintain financial stability, a balanced financial structure is sought which provides both the diversification of financial instruments and a balanced maturity profile.

Global cash requirements and surpluses are managed by the central liquidity management system. The daily automated pooling of bank balances held by the participating Group companies (cash pooling) provides United Internet AG at all times with the predominant proportion of its cash denominated in euro. The Group has established standardized processes and systems to manage its bank and netting accounts as well as for the execution of payment transactions.

At the end of the reporting period, the Company had total liquid funds of € 117.4 million (prior year: € 58.1 million) as well as free credit lines of € 310 million and thus has more than sufficient liquidity reserves for the fiscal year 2020.

The following tables show all contractually fixed payments for redemption, repayments, and interest for financial liabilities carried in the balance sheet as of December 31, 2019 and 2018:

€k	Carrying amount on						Total
	Dec. 31, 2019	2020	2021	2022	2023	> 2023	
Liabilities due to banks	1,738,368	253,995	211,838	208,007	207,586	901,429	1,782,855
Trade accounts payable	481,627	557,776	0	312	754	5,002	563,844
Lease liabilities	350,628	82,988	50,691	45,617	43,369	152,969	375,634
Other financial liabilities	1,136,314	44,938	82,454	61,266	61,266	886,389	1,136,314
	<b>3,706,937</b>	<b>939,697</b>	<b>344,983</b>	<b>315,202</b>	<b>312,975</b>	<b>1,945,789</b>	<b>3,858,647</b>

Payments from other financial liabilities mainly comprise payment obligations of € 1.008 million in connection with the 5G spectrum auction, as well as expected payments from derivatives of € 20.1 million (prior year: € 10.6 million) in fiscal year 2021. Payments to the German government do not follow a linear pattern and will increase to € 128 million as of the fiscal year 2026.

€k	Carrying amount on						Total
	Dec. 31, 2018	2019	2020	2021	2022	> 2022	
Liabilities due to banks	1,939,143	219,199	254,083	211,912	208,070	1,108,528	2,001,792
Trade accounts payable	566,753	557,776	1,365	1,326	1,292	4,994	566,753
Other financial liabilities	211,068	278,196	-11,578	-11,469	-19,927	-24,154	211,068
	<b>2,716,964</b>	<b>1,055,171</b>	<b>243,870</b>	<b>201,769</b>	<b>189,435</b>	<b>1,089,368</b>	<b>2,779,613</b>

For the calculation of cash flows from liabilities to banks, management assumed that the portion of the revolving syndicated loan facility currently used amounting to € 700 million (prior year: € 700 million) would remain constantly drawn until the end of its term (2025).



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Please refer to Note 31 for details on interest and redemption payments for liabilities to banks.

The Company has no significant concentration of liquidity risks.

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## Market risk

The activities of United Internet are mainly exposed to financial risks from changes in interest rates, exchange rates, stock exchange prices, and credit or contingency risks.

### Interest risk

The interest (rate) risk refers to the risk that fair values or future interest payments on existing and future financial liabilities may fluctuate due to changes in market interest rates.

The Group is fundamentally exposed to interest risks as some of its financial instruments as of the reporting date bear variable interest rates with varying terms. An interest risk exists for drawdowns under the revolving syndicated loan and the syndicated loan totaling € 900 million, as well as the variable promissory note loan amounting to € 50 million.

With the aid of the liquidity planning, various investment possibilities or possibilities to reduce surplus liquidity are constantly analyzed. The maturity profile and amount of the Group's variable-rate financial instruments are regularly reviewed and appropriate measures are taken to ensure liquidity and the management of interest risks.

Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the reporting date.

Due to the current interest policy of the European Central Bank, the EURIBOR interest rate of relevance for the United Internet Group is negative as of the balance sheet date. No expenses were incurred due to negative interest on liquidity held. The Group does not expect any material changes in risk premiums in the foreseeable future. United Internet currently regards the interest risk for its existing variable-rate financial instruments as low.

The interest risk is negligible for other interest-bearing liabilities. At the end of the reporting period, there were no external interest-hedging transactions.

### Currency risk

A currency risk is the risk that fair values or future cash flows of financial instruments may fluctuate due to changes in exchange rates. The Group companies are mainly exposed to currency risks as a result of their operations (if revenue and/or expenses are in a currency other than the functional currency of the respective company). In order to cover such foreign currency risks, United Internet strives to achieve an equilibrium between the incoming and outgoing payments in non-functional currencies (so-called natural hedging). Currency risks which do not affect cash flows (i.e., risks from translating the assets and liabilities of the Group's foreign companies) are not hedged against. With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the currency risk from operations is therefore regarded as low. In the reporting period, there were no currency risks which significantly affected cash flows. At the end of the reporting period, there were no external currency-hedging transactions.

The currency risks arising from original financial instruments in a currency and of a monetary nature other than that of the functional currency as of the reporting date were valued by the Company. No material currency risks arose from this analysis.

### Stock exchange risk (valuation risk)

In the fiscal year 2019, the United Internet Group recognized financial assets (equity instruments) as follows:

- measured at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition or
- measured at fair value through profit or loss.

Depending on the measurement category and the share price development of listed investments, changes in equity without affecting income, or income and expenses, may arise as of the reporting date. An increase in stock exchange prices of 10% would have led to the Group's recognition of an equity effect without affecting income of € 238k as of the reporting date (prior year: € 27,687k). A decrease in stock exchange prices of 10% would have reduced the Group's equity by € 238k as of December 31, 2019 (prior year: € 27,687k). The aforementioned sensitivities do not take account of tax effects.

### Credit and contingency risk

As a result of its operating activities, the Group is exposed to a contingency risk. In order to reduce default risks, a sophisticated and preventive fraud management system has been established which is permanently enhanced. Outstanding amounts are monitored locally and on a continual basis. Individual and lump-sum allowances are made to account for non-avoidable contingency risks.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances. Trade accounts receivable which are not impaired as of the reporting date, are classified according to periods in which they become overdue (see Note 19).



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### Internal rating system

A pre-contractual fraud check is generally conducted and collection agencies are also used for the management of receivables. In addition, a pre-contractual check of creditworthiness is made in the media sales business and collection agencies are also used for the management of receivables.

The Company has no significant concentration of credit risks.

### Risks from financial covenants

The existing loans of United Internet AG are tied to so-called financial covenants. The infringement of a certain net debt-to-EBITDA ratio could result in individual banks terminating outstanding loans with the Company. In view of the low net debt-to-EBITDA ratio of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company's Management Board and was met throughout the year.

### Capital management

In addition to the legal provisions for stock corporations, United Internet AG has no further obligations to maintain capital according to its statutes or other agreements. The key financial indicators used by

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the Company are mainly performance-oriented. The targets, methods, and processes of capital management are thus subordinate to these performance-oriented financial indicators.

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. Please refer to the statement of changes in shareholders' equity. As of December 31, 2019 and December 31, 2018, no changes were made to the Company's targets, methods, and processes.

## 44. Contingencies, contingent liabilities, and other commitments

### Contingent liabilities

Contingent liabilities represent a possible obligation whose existence depends on the occurrence of one or more uncertain future events, or a current obligation whose payment is not likely or whose amount cannot be reliably estimated.

As of December 31, 2019, pre-service providers have filed claims in the low three-digit million range. United Internet AG considers the claims of the counterparties to be unfounded and regards an outflow of resources for these contingent liabilities as unlikely.

### Litigation

Litigation risks mainly relate to various legal disputes of Group subsidiaries.

Accruals for litigation were formed for any commitments arising from these disputes (see Note 33).



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### Guarantees

As of the reporting date, the Group has issued no guarantees.

### Guarantees and other obligations

The Company is jointly and severally liable for credit lines granted to companies of the United Internet Group by a bank. The credit facilities had only been utilized with regard to guarantees as of the reporting date.

The Management Board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

## 45. Leases, other financial commitments, and guarantees

### Group as lessee

The obligations mainly comprise leased network obligations including subscriber lines, buildings, technical equipment, and vehicles. The contracts generally include renewal options.

Most leases have options to prolong the contractual relationship. The terms of these prolongation options are negotiable or identical with the current terms.

The following expenses from leases were incurred in the reporting period:

€k	IFRS 16 Dec. 31, 2019
<b>Depreciation of right-of-use assets</b>	
- Land and buildings	37,539
- Operational and office equipment	3,983
- Network infrastructure	60,218
<b>Total depreciation of right-of-use assets</b>	<b>101,740</b>
<b>Interest expense from lease liabilities</b>	<b>8,715</b>
<b>Expense for short-term leases</b>	<b>476</b>
<b>Expense for low-value leases</b>	<b>1,033</b>

As of December 31, 2019, the carrying amounts of right-of-use assets by class of underlying assets are as follows:

€k	Carrying amount on Dec. 31, 2019
Land and buildings	179,932
Operating and office equipment	4,514
Network infrastructure	165,551

As of December 31, 2019, existing lease liabilities have the following terms:

€k	Dec. 31, 2019
up to 1 year	82,988
1 to 5 years	167,847
Over 5 years	99,793
<b>Total</b>	<b>350,628</b>



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For further information, please refer to the explanations in 2.3 and Note 43.



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## Group as lessor

### Finance leases

The Group acts as the lessor of finance leases via the 1&1 Versatel Group. Receivables from finance leases are disclosed in trade accounts receivable. The following table shows a reconciliation of gross investments in leases and the present value of outstanding minimum lease payments, as well as their maturities:

€k	Dec. 31, 2019	Dec. 31, 2018
<b>Gross investment</b>		
(thereof unguaranteed residual values)		
thereof due within 1 year	6,986	6,647
thereof due in 1-5 years	27,169	25,465
thereof due after more than 5 years	31,959	35,081
Unearned finance income	-5,711	-5,790
<b>Net investment</b>	<b>60,403</b>	<b>61,403</b>
Accumulated impairment	0	0
Receivables from sales taxes and other	3,609	3,354
<b>Carrying amount of finance lease receivables</b>	<b>64,012</b>	<b>64,757</b>
thereof present value of unguaranteed residual values	0	0
<b>Present value of outstanding minimum lease payments</b>	<b>60,403</b>	<b>61,403</b>
thereof due within 1 year	6,927	6,590
thereof due in 1-5 years	25,319	24,238
thereof due after more than 5 years	28,157	30,575

Finance lease receivables relate solely to leases for the provision and use of dark fiber lines.

In fiscal year 2019, several new finance lease agreements were concluded with two lessees regarding the provision of fiber pairs. An amount of € 4.6 million (prior year: € 10.4 million) is recognized in gross investment less unrealized financial income for these leases. The maturities range from 14 to 15 years.

### Other financial commitments and guarantees

As of December 31, 2019, there were the following other financial commitments which do not represent leases:

€k	2019	2018
up to 1 year	6,528	78,711
1 to 5 years	14,451	121,458
Over 5 years	3,853	40,447
<b>Total*</b>	<b>24,883</b>	<b>240,616</b>

\* Figures are based on minimum contractual terms.

## 46. Statement of cash flows

In fiscal year 2019, cash flow from operating activities includes interest paid of € 30,550k (prior year: € 30,016k) and interest received of € 4,503k (prior year: € 3,810k). Income tax payments in fiscal year 2019 amounted to € 373,894k (prior year: € 275,765k) while income tax proceeds totaled € 110,136k (prior year: € 6,114k).

Cash and cash equivalents include bank balances of € 2,764k (prior year: € 2,764k) which are only usable under certain conditions.

The acquisition of 5G spectrum licenses (exceptional redemption in the fiscal year 2019: € 61,266k) and the right-of-use assets and lease liabilities from initial application of IFRS 16 (exceptional redemption in the fiscal year 2019: €6,418k) were treated as non-cash transactions. Initial recognition of the 5G spectrum was made against the background of the deferral and installment payment agreed with the German government, extending the balance sheet and thus neutralizing cash flow. The first installment in December 2019 of € 61,266 thousand was disclosed in cash flow from financing activities. Leases are always recognized directly in equity upon initial recognition. Current payments include interest and repayment components. The latter are reported in cash flow from financing activities.

Cash inflows in connection with dividends received amounted to € 922k (prior year: € 3,542k) and mainly comprise dividends from afilias Ltd..

### Reconciliation of balance sheet changes in financial liabilities:

in € million	Promissory note loan	Syndicated loan	Other financial liabilities	Total
<b>As of January 1, 2019</b>	<b>838</b>	<b>1,101</b>	<b>0</b>	<b>1,939</b>
<b>Cash flow from financing activities</b>				
Proceeds from taking out loans	0	15	1	16
Payments for the redemption of loans	0	-217		-217
<b>Total cash-effective change</b>	<b>0</b>	<b>-201</b>	<b>1</b>	<b>-200</b>
Other non-cash-effective changes	1	-1	0	0
<b>As of December 31, 2019</b>	<b>839.0</b>	<b>899</b>	<b>1</b>	<b>1,739</b>

in € million	Promissory note loan	Syndicated loan	Other financial liabilities	Total
<b>As of January 1, 2018</b>	<b>1,036</b>	<b>879</b>	<b>41</b>	<b>1,956</b>
<b>Cash flow from financing activities</b>				
Proceeds from taking out loans	0	225		225
Payments for the redemption of loans	-200	-7	-41	-248
<b>Total cash-effective change</b>	<b>-200</b>	<b>218</b>	<b>-41</b>	<b>-23</b>
Other non-cash-effective changes	2	4	0	6
<b>As of December 31, 2018</b>	<b>838.0</b>	<b>1,101</b>	<b>0</b>	<b>1,939</b>

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## 47. Exemption pursuant to section 264 (3) HGB

The following subsidiaries of United Internet AG make use of the exempting provisions of section 264 (3) HGB:

- 1&1 De-Mail GmbH, Montabaur
- 1&1 IONOS SE, Montabaur
- 1&1 IONOS Holding SE (formerly: 1&1 Internet Holding SE), Montabaur
- 1&1 IONOS TopCo SE (formerly: 1&1 Internet TopCo SE), Montabaur
- 1&1 IONOS Service GmbH (formerly: 1&1 Internet Service GmbH), Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Mail & Media Development & Technology GmbH, Montabaur
- 1&1 Mail & Media Service GmbH, Montabaur
- 1&1 Mail & Media Applications SE, Montabaur
- 1&1 Versatel GmbH, Berlin
- 1&1 Versatel Deutschland GmbH, Düsseldorf
- A 1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- Cronon AG, Berlin
- STRATO AG, Berlin
- United Internet Corporate Holding SE, Montabaur
- United Internet Corporate Services GmbH, Montabaur
- United Internet Investments Holding AG & Co. KG, Montabaur
- United Internet Management Holding SE, Montabaur
- United Internet Media GmbH, Montabaur
- United Internet Service Holding GmbH, Montabaur
- United Internet Service SE, Montabaur
- United Internet Sourcing & Apprenticeship GmbH, Montabaur
- Versatel Telecommunications GmbH, Düsseldorf

## 48. Subsequent events

United Internet AG has exercised its right to prematurely terminate a variable-rate tranche of promissory note loans totaling € 50 million and will repay it on the interest payment date of March 27, 2020. This tranche, which bore interest at 0.80% p.a., was originally due for repayment on March 27, 2023. As a result, the breakdown of liabilities into current and non-current bank liabilities disclosed in the Consolidated Balance Sheet has been changed accordingly by the above mentioned amount.

Based on the authorization granted by the Annual Shareholders' Meeting on May 18, 2017 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board of United Internet AG resolved on March 12, 2020 to cancel 11,000,000 treasury shares and to reduce the capital stock of United Internet AG by € 11,000,000, from € 205,000,000 to € 194,000,000. The number of shares issued will decrease correspondingly by 11,000,000, from 205,000,000 to 194,000,000 shares. Issued shares will continue to represent a notional share of capital stock of € 1 each. The cancellation of treasury shares is aimed at raising the percentage stake of United Internet shareholders. On completion of the capital reduction, the Company's capital stock will return to the level prior to the capital increase for the Versatel acquisition in 2014. Following the cancellation of these 11,000,000 shares, United Internet AG will still hold 6,338,513 treasury shares.

The ongoing global spread of the coronavirus (SARS-CoV-2) is increasingly impacting the risk situation of the United Internet Group, for example in the risk areas of "Procurement market" and "Acts of God". Should the virus continue to spread over a longer period, this may also have a negative impact on

demand, as well as on the usage and payment behavior of consumers and business owners, the purchase of pre-services (e.g. smartphones, routers, servers or network technology), or the health and fitness of employees, and thus ultimately on the performance of the United Internet Group. A precise risk assessment with regard to the duration and concrete effects of the corona crisis is not possible at present, as the assessments of health experts and political measures are also changing on an almost hourly basis.

There were no other significant events subsequent to the end of the reporting period on December 31, 2019 which had a material effect on the financial position and performance, or the accounting and reporting of the parent company or the Group.

## 49. Auditing fees

In fiscal year 2019, auditing fees totaling € 5,055k (prior year: € 6,827k) were expensed in the Consolidated Financial Statements. These include auditing fees of € 3,693k (prior year: € 4,585k), other certification services of € 105k (prior year: € 56k), tax consultancy services of € 1,212k (prior year: € 1,866k), and other services of € 45k (prior year: € 321k). Auditing fees comprise both statutory audits, as well as voluntary audits and audit reviews. Other services mainly refer to transaction-related due diligence services.

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## 50. List of shareholdings of the United Internet AG Group acc. to section 313 (2) HGB

As of December 31, 2019, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

- **1&1 Mail & Media Applications SE, Montabaur (100.0%)**
  - 1&1 Mail & Media Development & Technology GmbH, Montabaur (100.0%)
  - 1&1 Mail & Media GmbH, Montabaur (100.0%)
    - 1&1 De-Mail GmbH, Montabaur (100.0%)
    - 1&1 Energy GmbH, Montabaur (100.0%)
    - 1&1 Mail & Media Inc., Chesterbrook/USA (100.0%)
    - General Media Xervices GMX S.L. in liquidation, Madrid/Spain (100.0%)
    - GMX Italia S.r.l. in liquidation, Milan/Italy (100.0%)
  - 1&1 Mail & Media Service GmbH, Montabaur (100.0%)
  - UIM United Internet Media Austria GmbH, Vienna/Austria (100.0%)
  - United Internet Media GmbH, Montabaur (100.0%)
- **United Internet Service Holding GmbH, Montabaur (100.0%)**
  - 1&1 Versatel GmbH, Berlin (100.0%)
    - 1&1 Versatel Deutschland GmbH, Düsseldorf (100.0%)
      - TROPOLYS Service GmbH, Düsseldorf (100.0%)
      - TROPOLYS Netz GmbH, Düsseldorf (100.0%)
      - Versatel Immobilien Verwaltungs GmbH, Düsseldorf (100.0%)
- **1&1 Drillisch Aktiengesellschaft, Maintal (75.1%)**
  - 1&1 Telecommunication SE, Montabaur (100.0%)
    - 1&1 Berlin Telecom Service GmbH, Berlin (100.0%)
    - 1&1 Logistik GmbH, Montabaur (100.0%)
    - 1&1 Telecom Holding GmbH, Montabaur (100.0%)
      - 1&1 Telecom GmbH, Montabaur (100.0%)
    - 1&1 Telecom Sales GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Montabaur GmbH, Montabaur (100.0%)
    - 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (100.0%)
  - Blitz 17-665 SE, Munich (100.0%)
  - Blitz 17-666 SE, Munich (100.0%)
  - CA BG AlphaPi AG, Vienna/Austria (100.0%)
  - Drillisch Logistik GmbH, Münster (100.0%)
  - Drillisch Online GmbH, Maintal (100.0%)
    - Drillisch Netz AG, Krefeld (100.0%)
    - Mobile Ventures GmbH, Maintal (100.0%)
  - IQ-optimize Software AG, Maintal (100.0%)

- **1&1 IONOS TopCo SE (formerly: 1&1 Internet TopCo SE), Montabaur (66.67%)**
  - 1&1 IONOS Holding SE (formerly: 1&1 Internet Holding SE), Montabaur (100.0%)
    - STRATO AG, Berlin (100.0%)
      - Cronon GmbH (formerly: Cronon AG), Berlin (100.0%)
      - STRATO Customer Service GmbH, Berlin (100.0%)
  - 1&1 IONOS SE, Montabaur (100.0%)
    - 1&1 IONOS Datacenter SAS (formerly: 1&1 Datacenter SAS), Niederlauterbach / France (100.0%)
    - 1&1 Internet Development SRL, Bucharest/Romania (100.0%)
    - 1&1 IONOS España S.L.U. (formerly: 1&1 Internet España S.L.U.), Madrid/Spain (100.0%)
    - 1&1 IONOS Ltd. (formerly: 1&1 Internet Ltd.), Gloucester/UK (100.0%)
    - 1&1 IONOS (Philippines) Inc. (formerly: 1&1 Internet (Philippines) Inc.), Cebu City/Philippines (100.0%)
    - 1&1 IONOS S.A.R.L. (formerly: 1&1 Internet S.A.R.L.), Saargemünd/France (100.0%)
    - 1&1 IONOS Service GmbH (formerly: 1&1 Internet Service GmbH), Montabaur (100.0%)
    - 1&1 Internet Sp. z o.o. in liquidation, Warsaw/Poland (100.0%)
    - 1&1 IONOS Inc., Chesterbrook/USA (100.0%)
      - A1 Media USA LLC, Chesterbrook/USA (100.0%)
      - 1&1 Cardgate LLC, Chesterbrook/USA (100.0%)
    - 1&1 IONOS Cloud Inc., Delaware/USA (100.0%)
    - 1&1 IONOS UK Holdings Ltd. (formerly: 1&1 UK Holdings Ltd.), Gloucester/UK (100.0%)
      - Fasthosts Internet Inc. in Liquidation, Chesterbrook/USA (100.0%)
      - Fasthosts Internet Ltd., Gloucester/UK (100.0%)
    - Arsys Internet S.L.U., Logroño/Spain (100.0%)
      - Arsys Internet E.U.R.L., Perpignan/France (100.0%)
      - Nicline Internet S.L., Logroño/Spain (100.0%)
      - Tesys Internet S.L., Logroño/Spain (100.0%)
    - home.pl S.A., Stettin/Poland (100.0%)
      - AZ.pl Sp. z o.o., Stettin/Poland (100.0%)
      - HBS Cloud Sp. z o.o., Stettin/Poland (100.0%)
      - premium.pl Sp. z o.o., Stettin/Poland (75.0%)
        - DP ASIA Sp. z o.o., Stettin/Poland (100.0%)
        - DP EUROPE Sp. z o.o., Stettin/Poland (100.0%)
        - DP POLAND Sp. z o.o., Stettin/Poland (100.0%)
    - Immobilienverwaltung AB GmbH, Montabaur (100.0%)
    - Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
    - InterNetX Holding GmbH, Regensburg (95.56%)
      - InterNetX GmbH, Regensburg (100.0%)
        - InterNetX, Corp., Miami/USA (100.0%)
        - PSI-USA, Inc., Las Vegas/USA (100.0%)
        - Schlund Technologies GmbH, Regensburg (100.0%)
      - Sedo GmbH, Cologne (100.0%)
        - DomCollect International GmbH, Montabaur (100.0%)
        - Sedo.com LLC, Cambridge/USA (100.0%)
    - united-domains AG, Starnberg (100.0%)
      - United Domains Inc., Cambridge/USA (100.0%)
      - united-domains Reselling GmbH, Starnberg (100.0%)
    - World4You Internet Services GmbH, Linz/Austria (100.0%)

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- CA BG AlphaRho AG, Vienna/Austria (100.0 %)
- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0 %)
- United Internet Corporate Services GmbH, Montabaur (100.0 %)
  - A 1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0 %)
- United Internet Investments Holding AG & Co. KG, Montabaur (100.0 %)
- United Internet Service SE, Montabaur (100.0 %)
  - United Internet Sourcing & Apprenticeship GmbH, Montabaur (100.0 %)
- United Internet Management Holding SE, Montabaur (100.0 %)
- United Internet Corporate Holding SE, Montabaur (100.0 %)

### Associated companies

Investments over whose financial and business policies the Group has a significant influence are carried as associated companies using the equity method pursuant to IAS 28 and comprise the following main companies:

- Intellectual Property Management Company Inc., Dover/USA (49.0 %)
- DomainsBot S.r.l, Rome/Italy (49.0 %)
  - DomainsBot Inc., Dover/USA (100.0 %)
- rankingCoach International GmbH, Cologne (30.70 %)
- uberall GmbH, Berlin (27.42 %)
- Tele Columbus AG, Berlin (29.90 %)
- Open-Xchange AG, Cologne (25.39 %)
- ePages GmbH, Hamburg (25.01 %)
- AWIN AG, Berlin (20.0 %)

### Other investments

Companies in which the Group has invested and over whose financial and business policies it has no significant influence (< 20% of voting shares) are included as financial instruments pursuant to IFRS 9 and held as financial assets measured at fair value through other comprehensive income (equity instruments with no recycling of cumulative gains and losses upon derecognition):

- MMC Investments Holding Company Ltd., Port Louis/Mauritius (11.36 %)
- Afilias Inc., Delaware/USA (9.82 %)
- PipesBox GmbH, Rostock (15.04 %)
- POSpulse GmbH, Berlin (1.49 %)
- High-Tech Gründerfonds III GmbH & Co. KG, Bonn (0.95 %)

### Changes in the reporting unit

The following companies were founded in the fiscal year 2019:

- STRATO Customer Service GmbH, Berlin (100.0%)

The following companies changed their name in the fiscal year 2019:

- Cronon GmbH (formerly: Cronon AG), Berlin (100.0%)

The following companies changed their legal form in the fiscal year 2019:

- 1&1 IONOS TopCo SE (formerly: 1&1 Internet TopCo SE), Montabaur (100.%)
- 1&1 IONOS Holding SE (formerly: 1&1 Internet Holding SE), Montabaur (100.0%)
- 1&1 IONOS Datacenter SAS (formerly: 1&1 Datacenter SAS), Niederlauterbach/France (100.0%)
- 1&1 IONOS España S.L.U. (formerly: 1&1 Internet España S.L.U.), Madrid/Spain (100.0%)
- 1&1 IONOS Ltd. (formerly: 1&1 Internet Ltd.), Gloucester/UK (100.0%)
- 1&1 IONOS (Philippines) Inc. (formerly: 1&1 Internet (Philippines) Inc.), Cebu City/Philippines (100.0%)
- 1&1 IONOS S.A.R.L. (formerly: 1&1 Internet S.A.R.L.), Saargemünd/France (100.0%)
- 1&1 IONOS Service GmbH (formerly: 1&1 Internet Service GmbH), Montabaur (100.0%)
- 1&1 IONOS UK Holdings Ltd. (formerly: 1&1 UK Holdings Ltd.), Gloucester/UK (100.0%)

The following companies were merged with an existing Group company in the fiscal year 2019:

- 1&1 IONOS Cloud GmbH, Berlin (100.0%) was merged with 1&1 IONOS SE, Montabaur (100.0%)
- Versatel Telecommunications GmbH, Düsseldorf (100.0%) was merged with 1&1 Versatel GmbH, Berlin (100.0%)

The following companies were sold in the fiscal year 2019:

- Virtual Minds AG, Freiburg (25.10%)
- Rocket Internet SE, Berlin (9.00%)

The following companies were liquidated in the fiscal year 2019:

- DomCollect Worldwide Intellectual Property AG in liquidation, Zug/Switzerland /100.0%)



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Shareholders' equity	Responsibility statement

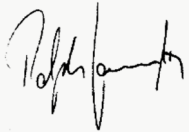
## 51. Corporate Governance Code

The declaration pursuant to section 161 AktG on observance of the German Corporate Governance Code was submitted by the Management Board and Supervisory Board and has been made available to shareholders via the internet portal of United Internet AG ([www.united-internet.de](http://www.united-internet.de)).

Montabaur, March 24, 2020

The Management Board

Der Vorstand



Ralph Dommermuth



Frank Krause

## DEVELOPMENT OF FIXED ASSETS

for the fiscal year 2019 and 2018 in €k

2019	Acquisition and production costs						Dec. 31, 2019
	Jan. 1, 2019	Additions from initial consolidation	Additions	Disposals	Reclassifi- cations	Exchange rate differences	
<b>Intangible assets</b>							
Software / licenses	261,412		15,687	3,798	3,284	154	276,740
Spectrum licenses	0		1,070,187				1,070,187
Trademark	212,703				1	793	213,497
Customer base	1,237,440					1,212	1,238,652
Goodwill	3,656,255					3,970	3,660,225
Internally generated intangible assets	12,433		11,517	40		26	23,936
Other intangible assets	72,681		575	52			73,205
Payments on account	5,703		4,821	192	-3,286		7,046
<b>Total (I)</b>	<b>5,458,627</b>	<b>0</b>	<b>###</b>	<b>4,082</b>	<b>-1</b>	<b>6,155</b>	<b>6,563,488</b>
<b>Property, plant, and equipment</b>							
Land and buildings	19,339		1,456	1,506			19,289
Telecommunication equipment	826,727		94,745	16,187	-122,322		782,963
Network infrastructure	201,290		11,171	1,130	1,210		212,541
Operating and office equipment	473,279		77,063	50,243	2,181	3,248	505,528
Payments on account	45,762		35,742	857	-30,373	8	50,282
Leasing	284,197		96,879	20,478	149,305	39	509,942
<b>Total (II)</b>	<b>1,850,594</b>	<b>0</b>	<b>317,056</b>	<b>90,401</b>	<b>1</b>	<b>3,295</b>	<b>2,080,545</b>
<b>Total</b>	<b>7,309,220</b>	<b>0</b>	<b>1.419.843</b>	<b>94,483</b>	<b>0</b>	<b>9,450</b>	<b>8,644,032</b>

2018	Acquisition and production costs						Dec. 31, 2018
	Jan. 1, 2018	Additions from initial consolidation	Additions	Disposals	Reclassifi- cations	Exchange rate differences	
<b>Intangible assets</b>							
Software / licenses	261,508	2,123	19,779	26,110	4,080	32	261,412
Trademark	208,539	3,494	0	0	0	670	212,703
Customer base	1,226,387	24,014	2,680	15,025	0	-616	1,237,440
Goodwill	3,607,969	51,249	0	0	0	-2,963	3,656,255
Internally generated intangible assets	5,198	0	6,781	153	672	-65	12,433
Other intangible assets	73,337	0	1,030	955	-731	0	72,681
Payments on account	4,670	0	5,028	294	-3,701	0	5,703
<b>Total (I)</b>	<b>5,387,608</b>	<b>80,880</b>	<b>35,297</b>	<b>42,537</b>	<b>320</b>	<b>-2,941</b>	<b>5,458,627</b>
<b>Property, plant, and equipment</b>							
Land and buildings	17,732	0	1,951	625	281	0	19,339
Telecommunication equipment	679,565	0	121,237	4,657	30,582	0	826,727
Network infrastructure	200,456	0	8,060	3,490	-3,736	0	201,290
Operating and office equipment	519,334	761	86,173	144,245	7,360	3,897	473,279
Payments on account	43,385	6	37,625	445	-34,807	-3	45,762
<b>Total (II)</b>	<b>1,460,472</b>	<b>767</b>	<b>255,046</b>	<b>153,462</b>	<b>-320</b>	<b>3,893</b>	<b>1,566,397</b>
<b>Total</b>	<b>6,848,080</b>	<b>81,647</b>	<b>290,343</b>	<b>195,999</b>	<b>0</b>	<b>952</b>	<b>7,025,025</b>

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Accumulated depreciation						NET BOOK VALUE		
Jan. 1, 2019	Additions	Disposals	Reclassifications	Exchange rate differences	Additions from initial consolidation	Dec. 31, 2019	Jan. 1, 2019	Dec. 31, 2019
184,431	39,907	1,755	-1	136		222,718	76,981	54,022
						0	0	1,070,187
20,639	1,267	19,438	1			2,469	192,064	211,029
316,485	127,964			1,044		445,493	920,955	793,159
43,621				89		43,710	3,612,634	3,616,515
1,689	2,963	7		6		4,651	10,744	19,285
34,549	26,043	52				60,540	38,132	12,665
						0	5,702	7,046
<b>601,414</b>	<b>198,144</b>	<b>21,252</b>	<b>0</b>	<b>1,275</b>	<b>0</b>	<b>779,580</b>	<b>4,857,212</b>	<b>5,783,908</b>
10,359	2,011	787				11,583	8,980	7,706
326,424	84,959	6,431	-68,464			336,488	500,303	446,476
116,251	22,288	101	13			138,451	85,039	74,090
291,279	64,411	47,169		2,475		310,996	182,001	194,532
4,074	815					4,889	41,687	45,393
0	101,473	9,992	68,451	11		159,943	284,197	349,999
<b>748,387</b>	<b>275,957</b>	<b>64,480</b>	<b>0</b>	<b>2,486</b>	<b>0</b>	<b>962,349</b>	<b>1,102,207</b>	<b>1,118,196</b>
<b>1,349,801</b>	<b>474,101</b>	<b>85,732</b>	<b>0</b>	<b>3,761</b>	<b>0</b>	<b>1,741,929</b>	<b>5,959,420</b>	<b>6,902,104</b>

Accumulated depreciation						NET BOOK VALUE		
Jan. 1, 2018	Additions	Disposals	Reclassifications	Exchange rate differences	Additions from initial consolidation	Dec. 31, 2018	Jan. 1, 2018	Dec. 31, 2018
159,375	50,579	25,734	64	147	0	184,431	102,133	76,981
20,739	-100	0	0	0	0	20,639	187,800	192,064
180,968	135,696	0	0	-179	0	316,485	1,045,420	920,955
43,912	0	0	0	-291	0	43,621	3,564,057	3,612,634
480	1,465	146	0	-110	0	1,689	0	10,744
9,640	25,866	958	0	0	0	34,549	68,414	38,132
0	0		0	0	0	0	4,670	5,702
<b>415,115</b>	<b>213,506</b>	<b>26,838</b>	<b>64</b>	<b>-432</b>	<b>0</b>	<b>601,416</b>	<b>4,972,494</b>	<b>4,857,212</b>
9,712	1,745	1,292	194	0	0	10,359	8,020	8,980
235,691	91,631	896	-3	0	0	326,424	443,874	500,303
92,711	25,892	19	-2,333	0	0	116,251	107,745	85,039
371,963	56,430	142,546	2,078	3,354	0	291,279	147,371	182,001
2,972	1,104	2	0	0	0	4,074	40,413	41,687
<b>713,048</b>	<b>176,803</b>	<b>144,753</b>	<b>-64</b>	<b>3,354</b>	<b>0</b>	<b>748,387</b>	<b>747,423</b>	<b>818,010</b>
<b>1,128,162</b>	<b>390,309</b>	<b>171,591</b>	<b>0</b>	<b>2,921</b>	<b>0</b>	<b>1,349,802</b>	<b>5,719,917</b>	<b>5,675,223</b>

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinions

We have audited the consolidated financial statements of United Internet AG, Montabaur, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of the Company and the Group of United Internet AG, of the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance contained in section 7 of the management report of the Company and the Group that is a part of the management report of the Company and the Group. Further, we have not audited the following extraneous information contained in the management report of the Company and the Group:

- All information and comments relating to "Research and development" contained in section 1.4 of the management report of the Company and the Group
- The quarterly ratios at group and segment level as at 31 March, 30 June and 30 September in the reporting period and the prior year contained in sections 2.2 and 2.3 of the management report of the Company and the Group
- The report on social commitment and green IT contained in section 2.5 of the management report of the Company and the Group
- The corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code contained in section 7 of the management report of the Company and the Group

Extraneous information relates to any information whose disclosure in the management report of the Company and the Group is not required pursuant to Secs. 315, 315a or Secs. 315b to 315d HGB ["Handelsgesetzbuch": German Commercial Code].

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its financial performance for the fiscal year from 1 January to 31 December 2019, and

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- the accompanying management report of the Company and the Group as a whole provides an appropriate view of the Group's position. In all material respects, this management report of the Company and the Group is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report of the Company and the Group does not cover the content of the aforementioned statement on corporate governance or the aforementioned extraneous information in sections 1.4, 2.2, 2.3, 2.5 and 7 of the management report of the Company and the Group.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the management report of the Company and the Group.

## Basis for the opinions

We conducted our audit of the consolidated financial statements and of the management report of the Company and the Group in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the management report of the Company and the Group" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the management report of the Company and the Group.

## Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

### 1. Impairment of goodwill

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

The goodwill presented in the consolidated financial statements of United Internet AG comprises 40% of total assets. Goodwill is tested for impairment at least once every fiscal year. The impairment test comprises a valuation of the cash-generating unit to which the goodwill is allocated and is regularly based on the present value of the future cash flows of the cash-generating unit. The cash flows are derived from the Company's budgets for the coming fiscal year which are extrapolated by the Company on the basis of internal assumptions and external market studies and rolled forward after the detailed planning period and a subsequent interim period using a long-term growth rate. In light of the magnitude of the goodwill, the underlying complexity of the valuation and the judgment exercised during valuation, the goodwill impairment test was a key audit matter.

**Auditor's response**

We obtained an understanding of the methodology applied by the external expert for the valuations on the basis of the design requirements of IAS 36 and checked the clerical accuracy the calculations in the underlying valuation model. In this context, we also assessed the competence, capabilities and objectivity of the expert, obtained an understanding of the expert's work and assessed the suitability of the expert opinion commissioned by the executive directors for the determination of fair values. The focus of our audit was on appraising the key assumptions used for the valuation, such as planning assumptions and discount rates.

We assessed the financial planning in terms of the reliability of previous forecasts and examined that the key assumptions were derived plausibly. The assumptions relating to future cash flows were assessed by obtaining supporting evidence and by making inquiries about the significant assumptions relating to growth and business performance. We assessed the other significant assumptions, such as the discount rate and the long-term growth rate with the aid of internal valuation specialists and on the basis of our own analysis of the general market indicators.

Our audit procedures did not lead to any reservations relating to the assessment of impairment of goodwill by the executive directors.

**Reference to related disclosures**

The Company's information on the impairment of goodwill is contained in Note 29 of the notes to the consolidated financial statements.



see page 209

**2. Revenue recognition****Reasons why the matter was determined to be a key audit matter**

The recognition and cut-off of revenue in the group companies' mass customer business are largely automated and uniform processes due to the use of special IT systems dedicated to revenue recognition which, owing to the extensive branching and interdependencies, are highly complex in their structure. Owing to the logic implemented in the IT systems, adjustments triggered by changes in tariffs or the launch of new products, for example, made in certain IT systems have a direct effect on the entire revenue recognition process. In addition, there are manual postings which entail an inherently higher risk of errors. As part of the revenue recognition pursuant to IFRS 15, assumptions were made and estimates used in particular relating to the determination of stand-alone selling prices for hardware, which means that the recognition of revenue was a key audit matter.

**Auditor's response**

As part of our audit procedures, with the aid of internal IT specialists, we assessed the design and operating effectiveness of the control system established by the Group with regard to the IT systems relevant for revenue recognition. In so doing, we tested IT systems and interfaces and assessed the mapping and processing of business processes. We examined relevant IT general controls and relevant IT application controls as well as manual controls. We examined in particular the allocation of the transaction price to each performance obligation on a relative stand-alone selling price basis. In addition, we evaluated the process used to determine stand-alone selling prices for hardware and the related judgments by the executive directors with regard to the requirements of IFRS 15. Furthermore, we considered the risk of errors arising from manual posting by performing substantive analytical procedures using internal data analysis tools. In this context, revenue was analyzed in relation to its development during the year, the underlying posting patterns, the persons responsible for posting and the correlation between revenue and selected accounts (e.g., cost of materials) as well as non-financial indicators (e.g., contracts concluded and terminated).

Our audit procedures did not lead to any reservations relating to the recognition of revenue.

**Reference to related disclosures**

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The Company's information on revenue in the consolidated financial statements of United Internet AG is contained in Note 5 and in Note 2.1 "Explanation of main accounting and measurement methods" in the notes to the consolidated financial statements.

see pages 153 and 185

### 3. Recognition of contract initiation costs and contract fulfillment costs

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

Provided that the recognition criteria are met, contract costs are recognized and amortized over their expected useful life. To determine and roll forward the costs to be recognized and assess impairment, there are relevant posting logic and processes. In addition, assumptions are made and estimates used with regard to the amortization periods which means that the recognition of contract initiation costs and contract fulfillment costs was a key audit matter.

#### Auditor's response

Based on the cost recording, we assessed the process used to identify the costs to be recognized and the further processing of the relevant data. We also evaluated on a sample basis whether the criteria of IFRS 15 for the recognition of contract initiation costs and contract fulfillment costs have been met and in particular whether the recognized contract initiation costs are incremental in character. We also checked the measurement of contract costs on a sample basis by comparing them with the underlying invoices. We also performed analytical procedures to assess the recognition and the rollforward of contract initiation costs and contract fulfillment costs over time. We assessed the underlying assumptions and estimates made in connection with the amortization periods using historical customer data. Furthermore, we assessed the logic of the impairment tests of the recognized contract initiation costs and contract fulfillment costs with regard to the requirements of IFRS 15.

Our audit procedures did not lead to any reservations relating to the recognition of contract initiation costs and contract fulfillment costs.

#### Reference to related disclosures

The Company's information on contract initiation costs and contract fulfillment costs in the consolidated financial statements of United Internet AG is contained in Note 22 and in Note 2.1 "Explanation of main accounting and measurement methods" in the notes to the consolidated financial statements.



see pages 153 and 202

#### Other information

The Supervisory Board is responsible for the Report of the Supervisory Board pursuant to Sec. 171 (2) AktG. In all other respects, the executive directors are responsible for the other information. The other information comprises the aforementioned group statement on corporate governance and the aforementioned extraneous information contained in sections 1.4, 2.2, 2.3, 2.5 and 7 of the management report of the Company and the Group and in addition the following other parts to be included in the annual report, of which we received a version prior to issuing this auditor's report, in particular:

- the "Letter to our shareholders" section,
- the Report of the Supervisory Board pursuant to Sec. 171 (2) AktG,
- the responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB, Sec. 289 (1) Sentence 5 and Sec. 315 (1) Sentence 5 HGB,
- the non-financial group report pursuant to Sec. 315c HGB, but not the consolidated financial statements, not the disclosures in the management report of the Company and the Group whose content is audited and not our auditor's report thereon.

Our opinions on the consolidated financial statements and on the management report of the Company and the Group do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

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

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

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

#### **Responsibilities of the executive directors and the Supervisory Board for the consolidated financial statements and the management report of the Company and the Group**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the management report of the Company and the Group that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report of the Company and the Group that is in accordance with the German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report of the Company and the Group.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report of the Company and the Group.

#### **Auditor's responsibilities for the audit of the consolidated financial statements and of the management report of the Company and the Group**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report of the Company and the Group as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the management report of the Company and the Group.



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Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report of the Company and the Group.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report of the Company and the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the management report of the Company and the Group in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the management report of the Company and the Group or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the management report of the Company and the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the management report of the Company and the Group with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report of the Company and the Group. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

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

We were elected as group auditor by the Annual Shareholders' Meeting on 23 May 2019. We were engaged by the Supervisory Board on 14 August 2019. We have been the group auditor of United Internet AG without interruption since fiscal year 2002.

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

### German Public Auditor responsible for the engagement

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

Eschborn/Frankfurt am Main, 24 March 2020

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Kemmerich

Jansen

Wirtschaftsprüfer

Wirtschaftsprüfer

[German Public Auditor]

[German Public Auditor]

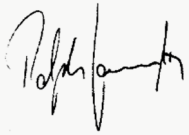
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## RESPONSIBILITY STATEMENT

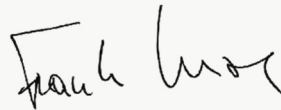
To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Management Report and Group Management Report includes a 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.

Montabaur, March 24, 2020

The Management Board



Ralph Dommermuth



Frank Krause

## LOCATIONS

United Internet is successfully represented around the world by its various business fields. Its activities in Europe and the world are shown in the charts below.

UNITED INTERNET WORLDWIDE

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- |                |             |
|----------------|-------------|
| USA            | Philippines |
| ├ Cambridge    | ├ Cebu City |
| ├ Chesterbrook |             |
| └ Lenexa       |             |



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EUROPE

Germany

- Montabaur
- Berlin
- Cologne
- Dortmund
- Dresden
- Dusseldorf
- Essen
- Flensburg
- Frankfurt
- Hamburg
- Karlsruhe
- Kiel
- Krefeld
- Maintal
- Munich
- Munster
- Nuremberg
- Regensburg
- Starnberg
- Stuttgart
- Zweibrucken

France

- Niederlauterbach

Austria

- Linz
- Vienna

Spain

- Barcelona
- Logroño
- Lugo
- Madrid

Poland

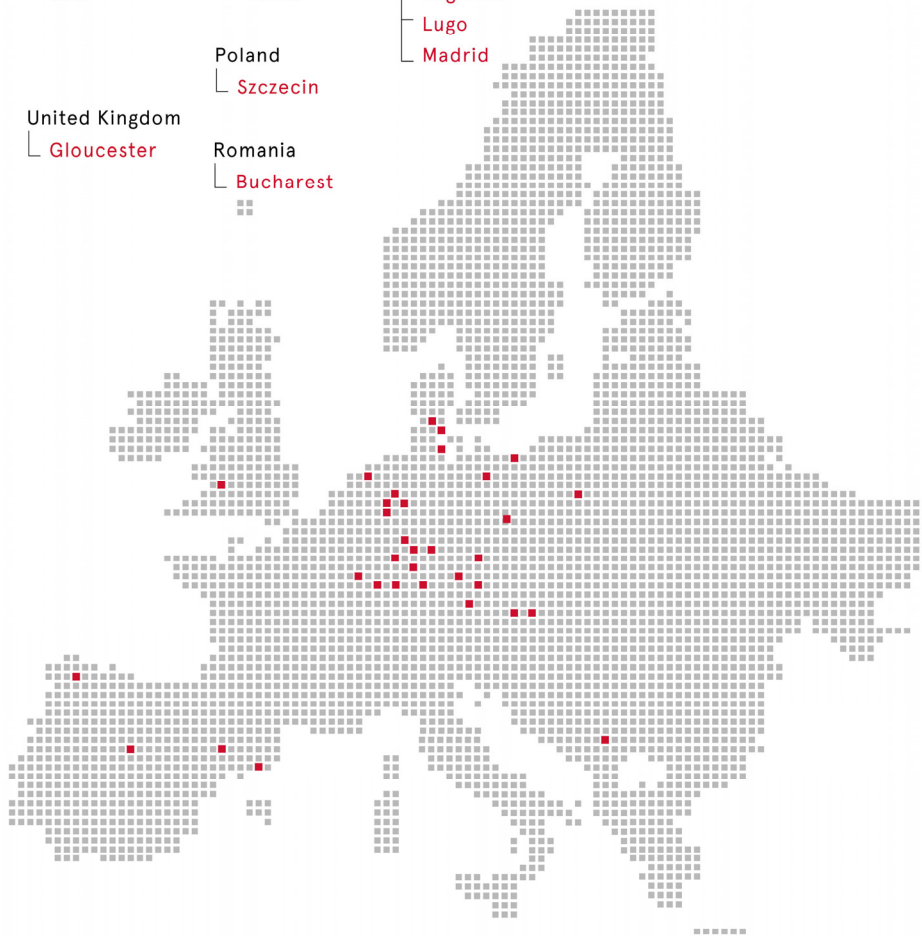
- Szczecin

United Kingdom

- Gloucester

Romania

- Bucharest



## GLOSSARY

### 5G

Fifth-generation mobile communications standard, which will enable data transmission rates of up to 10 Gbit/s as the successor to 4G.

### ADSL

= Asymmetric Digital Subscriber Line; ADSL is the most common DSL variation in Germany and is commonly called DSL. ADSL is realized over the existing telephone line (subscriber line).

### AktG

German Stock Corporation Act (Aktiengesetz)

### BITKOM

The Bundesverband Informationswirtschaft Telekommunikation und neue Medien e.V. (BITKOM) [German Association for Information Technology, Telecommunications and New Media] is the voice of the information technology, telecommunications, and new media industry in Germany.

### BNG

= Broadband Network Gateway  
BNG is a connection node within the network of an Internet service provider. Overall, the conversion to these central nodes will make the networks more modern and efficient. At the same time, it is a transfer point that combines all the signals from the IP-based voice and Internet connections and then derives them via fiber optics.

### DAX, MDAX

The DAX is Deutsche Börse's most important size index, comprising the 30 largest and most liquid companies on the German stock market in terms of free float market capitalization. In the MDAX, the 60 largest stocks that follow are represented.

### Domain

Specific area of hierarchical internet name system administered by domain name server. Divided into generic top-level domains, or gTLD. (such as .com, .net, .org or .info) and country-code top-level domains, in short ccTLD (such as .de or .uk).

### D&O insurance

(Directors & Officers Liability Insurance) D&O insurance refers to a liability insurance policy which a company takes out on behalf of its executive bodies and corporate officers. In the case of any breach of duty, D&O insurance offers protection against the financial consequences of personal liability. Cover is generally provided if the duty of care has been breached without intent or knowledge. The German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) requires that Management Board members accept an obligatory deductible for D&O insurance policies.

### EBITDA

Earnings before interest, taxes, depreciation and amortization

### EBT

Earnings before taxes

### e-business

see e-shop

### EPS

Earnings per share

### e-shop

Online shop or virtual market place which allows consumers to directly buy goods or services from a seller over the Internet.

### Federal Cartel Office

(Bundeskartellamt – BKartA) Higher federal authority for all antitrust issues. Its main tasks include implementing cartel bans, examining business combination requests and exercising its antitrust monitoring duties with regard to market-dominating companies.

### Federal Net Agency

(Bundesnetzagentur) Higher federal authority (former Regulatory Authority for Telecommunications and Post, Reg TP). Its responsibilities include implementing cartel bans, examining business combination requests and exercising its antitrust monitoring duties with regard to market-dominating companies.

### Free accounts

Accounts financed through advertising, where the customer is not paying a monthly fee.

### FTTH, FTTB, FTTC

= Fiber to the home (FTTH), Fiber to the building / basement (FTTB), Fiber to the curb (FTTC)  
Refers to the laying of fiber optic cables into households, buildings or curbs. In the best case, fiber optic cables are routed into the household (FTTH) and thus provide the end user with maximum bandwidth. Often, however, the optical fiber only lead to the basement of the house (FTTB), from where the signals are further distributed with losses at maximum speed or end up on the street in distribution boxes at the curb (FTTC), which then only have significantly lower bandwidths.

### Groupwork

Functions which support several users/a group during joint work on projects, targets, tasks etc. Users generally access centrally stored data and applications.

### HGB

German Commercial Code (Handelsgesetzbuch)

### IFRS

International Financial Reporting Standards

### IPTV

(Internet Protocol Television) refers to the transmission of television programs via an Internet connection. Telecommunication providers commonly offer a range of configurable program bundles via the broadband connection. IPTV therefore represents an alternative to TV reception via cable or satellite dish.

### MBA MVNO

= Mobile Bitstream Access (MBA) / Mobile Virtual Network Operator (MVNO)

A MBA MVNO is a telephone company that is comparable to a MVNO (see MVNO); however, in contrast to a MVNO, it has entered into an obligation to purchase network

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capacity (percentage share of the utilised network capacity of a network operator). An MBA MVNO operates on equal footing with the network operator and has unlimited access to all current and future technologies.

**MVNO**

= Mobile Virtual Network Operator; Private telephone company without its own wireless network which, on its own behalf and for its own account, sells wireless services, -> SIM cards and wireless end devices as well as value-added services (e.g. -> SMS, SMS Premium, -> MMS). These services are based on standardised, unbundled advance services on the procurement side, allowing a MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with a MSP.

**Open Access**

Model for open, non-discriminatory access to high-speed data networks, e.g. by connecting different infrastructures.

**Portal**

Central internet access point or start page. Usually contains a wide range of navigation functions, content and additional services, such as e-mail.

**PPA**

(Purchase Price Allocation) Allocation of the purchase price into various assets and liabilities in context of the initial consolidation of an acquired company or partial acquisition.

**R-DSL**

(Resale-DSL) In the case of Resale-DSL connections, the Internet Service Provider purchases switched DSL connections on the customer's premises as a pre-service product from Deutsche Telekom and markets them to the customer as its own product together with a data tariff. R-DSL requires participants to have their own fixed-line Deutsche Telekom connection for which they are responsible themselves.

**Roaming / National Roaming**

In roaming, the end-user leaves the network of his own provider in the domestic country and continues to make calls or surf the network of a third party abroad. In the case of national roaming, this technology is used within the same country, for example if a provider's mobile communications network is being set up and the untapped areas are being served by a third party.

**TAL**

Last mile (Teilnehmeranschlussleitung); connection between the main distribution frame or local exchange and the access unit at the subscriber.

**T-DSL**

In contrast to R-DSL connections, customers with a T-DSL connection receive both their telephone and DSL connections from Deutsche Telekom. The Internet Service Provider only markets data tariffs to the customer as an independent product.

**UMTS**

(Universal Mobile Telecommunications System) is a mobile telecommunications standard with much higher transmission rates (see also HSPA) than are possible with the older GSM standard (GSM: Global System for Mobile Communications).

**VATM**

Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten) The VATM is an association of over 90 telecommunications and value-added service providers operating on the German market, who are all in competition with the ex-monopolist Deutsche Telekom AG.

**V-DSL**

(Very High Speed Digital Subscriber Line) VDSL is a DSL technology which provides higher data transfer rates than conventional DSL connections. In Germany, maximum transfer rates of 50 MBit/s downstream and 10 MBit/supstream are currently offered.

**Vectoring / Super Vectoring**

Durch die Übertragungstechnologie Vectoring kann der Datendurchsatz auf bestehenden Kupferleitungen mit vergleichsweise geringem Aufwand deutlich erhöht werden. Technisch gesehen baut Vectoring auf VDSL auf, indem das „Übersprechen“ (gegenseitige Störungen zwischen benachbarten Teilnehmeranschlüssen) durch die Kontrolle der Signale in einem Kabelstrang kompensiert wird. Mit Vectoring sind aktuell Geschwindigkeiten bis zu 100 MBit/s möglich. Bei Super Vectoring wurde die zuvor beschriebene Technik weiter optimiert, so dass Geschwindigkeiten von bis zu 300 Mbit/s innerhalb eines Radius von bis 300 Metern vom Kabelverzweiger möglich sind.

**Webhosting**

Provision of storage space via the internet. In addition to registering and operating domains and renting out web servers, hosting mainly refers to the provision of value-added internet services enabling users to work more efficiently on the internet. Shared Hosting means that several customers share a physical server, while in Dedicated Hosting one customer has exclusive access to one sever.).

## IMPRINT

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April 2020  
Registry court: Montabaur HRB 5762

### Note:

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

These annual financial statements are available in German and English. Both versions can also be downloaded from [www.united-internet.de](http://www.united-internet.de). In all cases of doubt, the German version shall prevail.

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

Produced in-house with Firesys

### **Disclaimer**

This Annual Report contains certain forward-looking statements which reflect the current views of United Internet AG's management with regard to future events. These forward looking statements are based on our currently valid plans, estimates and expectations. The forward-looking statements made in this Annual Report are only based on those facts valid at the time when the statements were made. Such statements are subject to certain risks and uncertainties, as well as other factors which United Internet often cannot influence but which might cause our actual results to be materially different from any future results expressed or implied by these statements. Such risks, uncertainties and other factors are described in detail in the Risk Report section of the Annual Reports of United Internet AG. United Internet does not intend to revise or update any forward-looking statements set out in this Annual Report.



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## FINANCIAL CALENDAR

<b>March 26, 2020</b>	Annual financial statements for fiscal year 2019 Press and analyst conference
<b>May 13, 2020</b>	Quarterly Statement Q1 2020
<b>May 20, 2020</b>	(Virtual) Annual Shareholders` Meeting
<b>August 13, 2020</b>	6-Month Report 2020 Press and analyst conference
<b>November 10, 2020</b>	Quarterly Statement Q3 2020

## QUARTERLY DEVELOPMENT

in € million	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q4 2018
Sales	1,276.5	1,280.0	1,298.5	1,339.1	1,308.0
Cost of sales	-841.7	-844.1	-861.2	-880.1	-849.1
<b>Gross profit</b>	<b>434.8</b>	<b>435.9</b>	<b>437.3</b>	<b>459.0</b>	<b>458.8</b>
Selling expenses	-194.7	-187.3	-174.5	-185.3	-167.6
General and administrative expenses	-51.3	-51.0	-52.3	-51.2	-55.8
Other operating income / expense	12.9	37.8	10.2	25.0	24.9
Impairment losses on receivables and contract assets	-20.7	-25.6	-23.9	-24.0	-32.1
<b>Operating result</b>	<b>181.0</b>	<b>209.7</b>	<b>196.8</b>	<b>223.5</b>	<b>228.2</b>
Financial result	-3.7	-14.0	-6.9	1.4	-9.0
Result from associated companies	-48.1	4.4	0.0	35.5	10.9
<b>Pre-tax result</b>	<b>129.2</b>	<b>200.1</b>	<b>189.9</b>	<b>260.5</b>	<b>230.1</b>
Income taxes	-52.9	-50.9	-57.8	-79.1	-73.2
<b>Net income</b>	<b>76.3</b>	<b>149.2</b>	<b>132.2</b>	<b>181.3</b>	<b>156.9</b>
Net income					
non-controlling interests	27.3	30.5	29.7	27.6	25.2
shareholders of United Internet AG	49.0	118.7	102.4	153.8	131.7
Result per share of shareholders of United Internet AG (in €)					
– undiluted	0.24	0.60	0.51	0.78	0.66
– diluted	0.24	0.60	0.51	0.78	0.66

# MULTI-PERIOD OVERVIEW OF KEY FIGURES FOR THE GROUP

Group's earnings position in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Sales	3,715.7	3,808.1	4,206.3	5,102.9	5,194.1
EBITDA	757.2 <sup>(1)</sup>	835.4	979.6 <sup>(2)</sup>	1,201.3 <sup>(3)</sup>	1,265.7 <sup>(4)</sup>
EBITDA margin	20.4%	21.9%	23.3%	23.5%	24.4%
EBIT	541.7 <sup>(1)</sup>	642.7	704.0 <sup>(2)</sup>	811.0 <sup>(3)</sup>	791.7 <sup>(4)</sup>
EBIT margin	14.6%	16.9%	16.7%	15.9%	15.2%

(1) Without one-off income from sale of Goldbach shares and part of stake in virtual minds (EBITDA and EBIT effect: € +14.0 million)

(2) Without extraordinary income from revaluation of Drillisch shares (EBITDA and EBIT effect: € +303.0 million) and revaluation of ProfitBricks shares (EBITDA and EBIT effect: € +16.1 million), as well as without M&A transaction costs (EBITDA and EBIT effect: € -17.1 million), without restructuring charges in offline sales (EBITDA and EBIT effect: € -28.3 million) and without trademark writedowns Strato (EBIT effect: € -20.7 million)

(3) Including one-off expenses for integration projects (EBITDA and EBIT effect: € -41.7 million)

(4) Including one-off expenses for integration and rebranding projects (EBITDA and EBIT effect: € -22.4 million); excluding trademark writeups Strato (EBIT effect: € +19.4 million)

Group's financial position in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Operative cash flow	554.5	644.2	656.4	889.5	935.0
Cash flow from operating activities	533.2 <sup>(2)</sup>	587.0 <sup>(3)</sup>	655.7 <sup>(4)</sup>	482.3	828.9
Cash flow from investing activities	-766.0	-422.7	-897.7	-350.9	87.2
Free cash flow <sup>(1)</sup>	300.5 <sup>(2)</sup>	423.0 <sup>(3)</sup>	424.4 <sup>(4)</sup>	254.6 <sup>(5)</sup>	496.0 <sup>(6)</sup>
Cash flow from financing activities	23.1	-43.2	312.2	-312.6	-857.6
Cash and cash equivalents on December 31	84.3	101.7	238.5	58.1	117.6

(1) Free cash flow is defined as cash flow from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment

(2) 2015 without consideration of a capital gains tax refund (net: € 242.7 million) and including an income tax payment originally planned for the fourth quarter of 2015 (around € 100.0 million)

(3) 2016 without consideration of the aforementioned income tax payment (€ 100.0 million)

(4) 2017 without consideration of a capital gains tax refund originally planned for the fourth quarter of 2016 (€ 70.3 million)

(5) 2018 without consideration of a tax payment from fiscal year 2016 (€ 34.7 million)

(6) 2019 without consideration of tax payments from fiscal year 2017 and previous years (€ -22.1 million); incl. the repayment portion of lease liabilities (€ 111.0 million), which have been reported under cash flow from financing activities since the fiscal year 2019 (IFRS 16)

Group's asset position in € million	2015 (IAS 18)	2016 (IAS 18)	2017 (IAS 18)	2018 (IFRS 15)	2019 (IFRS 16)
Total assets	3,885.4	4,073.7	7,605.2	8,173.8	9,088.3
Cash and cash equivalents	84.3	101.7	238.5	58.1	117.6
Shares in associated companies	468.4	755.5 <sup>(1)</sup>	418.0 <sup>(1)</sup>	206.9 <sup>(1)</sup>	196.0
Other financial assets	449.0	287.7 <sup>(2)</sup>	333.7 <sup>(2)</sup>	348.1 <sup>(2)</sup>	90.4 <sup>(2)</sup>
Property, plant and equipment	665.2	655.0	747.4 <sup>(3)</sup>	818.0	1,118.2 <sup>(3)</sup>
Intangible assets	389.5	369.5	1,408.4 <sup>(3)</sup>	1,244.6	2,167.4 <sup>(4)</sup>
Goodwill	1,100.1	1,087.7	3,564.1 <sup>(5)</sup>	3,612.6 <sup>(5)</sup>	3,616.5
Liabilities due to banks	1,536.5	1,760.7 <sup>(6)</sup>	1,955.8 <sup>(6)</sup>	1,939.1	1,738.4
Capital stock	205.0	205.0	205.0	205.0	205.0
Equity	1,149.8	1,197.8	4,048.7 <sup>(7)</sup>	4,521.5 <sup>(7)</sup>	4,614.7
Equity ratio	29.6%	29.4%	53.2%	55.3%	50.8%

(1) Increase due to investment in Tele Columbus (2016); decrease due to takeover and consolidation of ProfitBricks and Drillisch (2017); decrease due to Tele Columbus impairment charges (2018)

(2) Decrease due to subsequent valuation of shares in listed companies (2016); increase due to subsequent valuation of shares in listed companies (2017); increase due to subsequent valuation of shares in listed companies (2018); decrease due to sale of Rocket Internet shares (2019)

(3) Increase due to Strato, ProfitBricks and Drillisch takeovers (2017); increase due to initial application of IFRS 16 (2019)

(4) Increase due to initial recognition of acquired 5G frequencies (2019)

(5) Increase due to Strato, ProfitBricks and Drillisch takeovers (2017); increase due to World4You takeover (2018)

(6) Increase due to Tele Columbus investment (2016); increase due to Strato takeover and increased stakes in Drillisch and Tele Columbus (2017)

(7) Increase due to consolidation effects in connection with the investment of Warburg Pincus in the Business Applications segment and takeover of Strato (2017); transitional effects from initial application of IFRS 15 (2018)

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