Annex 1

to the Invitation to the Extraordinary General Meeting Scheduled Tuesday, July 25, 2017, at 10:00 a.m. (CEST)

Drillisch Aktiengesellschaft

Maintal

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Report of the Management Board pursuant to Section 186(4) Sentence 2 German Stock Corporation Act (AktG) Regarding Agenda Item 1 of the Extraordinary General Meeting Scheduled Tuesday, July 25, 2017 on the Cause for Excluding the Subscription Right and the Grounds for the Proposed Issuing Price

– not including the annex (expert opinion of ValueTrust Financial Advisers SE) –

I.

Agenda Item 1 of the Extraordinary General Meeting of Drillisch Aktiengesellschaft with its registered office in Maintal ("**Drillisch**" or the "**Company**") reads as follows:

Resolution on the increase of the share capital of the Company against contributions in kind under the exclusion of the statutory subscription rights of the shareholders and on the related change to the articles of association

II.

The supervisory board and the management board of the Company propose that the following resolution be adopted:

Increase of the share capital of the Company against contributions in kind under the exclusion of the statutory subscription rights of the shareholders and related change to the articles of association

1. The share capital of the Company currently registered in the Commercial Register in the amount of EUR 60,241,113.90, divided into 54,764,649 ordinary no-par bearer shares (no-par value shares) with a proportionate interest in the share capital of EUR 1.10 and, after the registration of Capital Increase I in the amount of EUR 70,209,499.80, divided into 63,826,818 ordinary no-par bearer shares (no-par value shares) with a proportionate interest in the share capital of EUR 1.10, shall be increased by EUR 118,731,614.10 to EUR 188,941,113.90 through the issue of 107,937,831 ordinary no-par bearer shares (no-par value shares) with a proportionate interest in the share capital of EUR 1.10 ("New Shares") against contributions in kind.

   If the execution of Capital Increase I has not yet been registered in the Commercial Register at the time of the registration of this capital increase in the Commercial Register, the registered share capital of the company is increased to EUR 178,972,728.00.

   The issuing price of the New Shares is EUR 1.10 per no-par value share. The difference between the issuing price of the New Shares and the contribution value of the assets contributed in kind is to be allocated to the capital reserve (*schuldrechtliches Agio*).

2. The New Shares are entitled to a share in the profits from January 1, 2017.

3. The statutory subscription right of the shareholders of Drillisch Aktiengesellschaft is excluded. The shares from the capital increase in return for contributions in kind are issued as part of the step-by-step acquisition of 1&1 Telecommunication SE and specifically for the acquisition of 111,628 no-par registered shares with a proportionate interest in the share capital of EUR 1.00 each, which corresponds to an equity interest in the amount of 92.25% in the share capital of 1&1 Telecommunication SE.

4. The New Shares are subscribed for exclusively by United Internet AG. Accordingly, United Internet AG is herewith admitted to subscribe for the New Shares and will for its part

contribute to Drillisch Aktiengesellschaft 111,628 no-par bearer shares each with a proportionate interest in the share capital of EUR 1.00 in 1&1 Telecommunication SE (registered in the Commercial Register of the Montabaur Local Court under number HRB 23963) as the party making the contribution in kind.

5. The capital increase in return for contributions in kind is to be conducted only to the extent in which new shares have been subscribed for by United Internet AG before the expiry of the time limitation specified in Section 8.

6. The management board is entitled to stipulate the further details of the execution of the capital increase in return for contributions in kind.

7. Article 4(1) of the articles of association (Share Capital) will be rewritten after the capital increase as follows:

   "*The share capital of the Company amounts to EUR 188,941,113.90 and is divided into 171,764,649 no-par value bearer shares (hereinafter: "shares").*"

8. The resolution on the increase of the share capital in return for contributions in kind will become invalid if this capital increase has not been registered in the Commercial Register within three months after this resolution has been registered, however no later than May 31, 2018; notwithstanding, the management board and the chairman of the supervisory board are instructed to filewith the Commercial Register the registration of this resolution on the increase of the share capital in return for contributions in kind immediately after the requirements for its entry are met (in particular after approval by the German Federal Cartel Office (*Bundeskartellamt*) and, in the event of pending shareholder actions for avoidance, after the conclusion of an approval procedure pursuant to Section 246a German Stock Corporation Act (*Aktiengesetz* – "AktG") in which the Company succeeds).

The basis for the issuing price for the capital increase specified in the proposed resolution is the currently registered share capital and registered share capital after the registration of Capital Increase I in the Commercial Register, respectively. Since January 1, 2017, 80,999 additional shares of the Company have been issued from contingent capital to holders of convertible bonds who have made use of their conversion right. It is possible that creditors of convertible bonds of the Company issued on December 12, 2013, in a total volume of EUR 100 million with a term of five years as fractional bonds of EUR 100,000 each (each one "**Convertible Bond**") will make use of their conversion right under the terms of the Convertible Bond, up to the time of the resolution on the proposed increase in the share capital or of the execution of the proposed increase in the share capital, respectively.

III.

The resolution proposed to the Extraordinary General Meeting under Item 1 of the agenda concerning the increase of the share capital of the Company by 118,731,614.10 against contributions in kind under the exclusion of the statutory subscription right of the shareholders and the related change to the articles of association serves to finance and execution of the acquisition of business activities of 1&1 Telecommunication SE ("**1&1 Telecommunication**") and its direct and indirect affiliated companies (these, together with 1&1 Telecommunication in their composition before the measures described in

III.1.b)(7), referred to as the "**Original 1&1 Group**" and, in their composition after the 1&1 restructuring as defined in III.1.b)(7), referred to as the "**Restructured 1&1 Group**") .

In the course of the transaction, the management board of the Company announced in an ad hoc release in accordance with Article 17(1) of the market abuse regulation on the day of the publication of the invitation to the Extraordinary General Meeting the conclusion of a business combination agreement with United Internet AG ("**United Internet**") and a "shareholder agreement for 1&1 Telecommunication SE" (cf. III.2.b) below).

In accordance with the content of these agreements, on the day of the Publication of the invitation to the Extraordinary General Meeting United Internet published its decision to launch a voluntary public takeover offer for all the shares in Drillisch at a price of EUR 50,00 ("**Takeover Offer**"). Before or during the course of the acceptance period of the Takeover Offer, Drillisch shall acquire, by partly utilizing the authorized capital of the Company available under Article 4(2) of the articles of association of the Company, initially 9,372 no-par registered shares of 1&1 Telecommunication or 7.75% of the share capital of 1&1 Telecommunication in return for issuing 9,062,169 new no-par value bearer shares of the Company to United Internet under the exclusion of the statutory subscription right ("**Capital Increase I**")

In a further step, the Company shall be enabled to completely acquire 1&1 Telecommunication by way of the contribution to the Company of the remaining 111,628 1&1 shares (as defined in Section III.1.b)(3)) or 92.25% of the share capital of 1&1 Telecommunication in return for issuing another 107,937,831 new Drillisch shares (as defined under III.1.a)(2)). These new Drillisch shares are to be created with the increase of the share capital of the Company in return for contributions in kind to be decided on pursuant to Item 1 of the agenda, where the statutory subscription right of the other shareholders is to be excluded and United Internet is to be exclusively admitted for subscription ("**Capital Increase II**" and referred to, together with Capital Increase I and the takeover offer, as the "**Transaction**"). On May 12, 2017, United Internet and Drillisch concluded a basic agreement that – subject to provisions stating otherwise – has a term of three years, describes the fundamentals of the Transaction and in particular governs the acquisition of 1&1 Telecommunication by Drillisch by way of Capital Increase I and Capital Increase II as well as the parameters of the Takeover Offer (*business combination agreement* – "**Business Combination Agreement**").

In accordance with Section 186(4) Sentence 2 AktG, the management board hereinafter reports on the cause for excluding the statutory subscription right as well as on the grounds for the proposed issuing price in connection with the proposed Capital Increase II. For the purposes of the report, first the background of the planned Transaction and the planned Transaction itself will be described in Section III. In particular, this concerns a description of Drillisch and of 1&1 Telecommunication, the market environment and the general economic conditions of the Transaction, the explanation of the valuation of the companies involved in the Transaction and the potential synergies expected by the management board of Drillisch from the Transaction as well as the adequacy of the exchange ratio.

In Section IV, the objective grounds will be provided for excluding the subscription right in connection with the capital increase through contributions in kind relating to the purpose of the capital measure as well as for the proposed issuing price and the proposed exchange ratio.

1. Background of the Planned Transaction

a) Drillisch Aktiengesellschaft

(1) *Company Name and Registered Office*

The Company has its registered office in Maintal and is registered in the Commercial Register of the Hanau Local Court under number HRB 7384. The business address of Drillisch is: Wilhelm-Röntgen-Straße 1-5, 63477 Maintal. The Company was founded in 1997 by Mr. Hans Jochen Drillisch, Mr. Marc Brucherseifer and Mr. Nico Forster and was registered in the Commercial Register of the Düsseldorf Local Court on December 29, 1997.

(2) *Share Capital*

The share capital of the Company currently registered in the Commercial Register amounts to EUR 60,241,113.90 and is divided into 54,764,649 no-par bearer shares with a proportionate interest in the share capital of EUR 1.10 per share (irrespective of the time that they were issued, each one a "**Drillisch Share**"). At the time that the Extraordinary General Meeting is held, the registered share capital of the Company is expected to have increased to EUR 70,209,499.80, divided in to 63,826,818 Drillisch Shares, as a consequence of the registration of Capital Increase I in the Commercial Register of the Company. The Drillisch Shares were first listed on April 22, 1998; they are traded in the Prime Standard segment in the regulated market of the Frankfurt Stock Exchange. Drillisch has been included in the TecDax since September 21, 2009.

80,999 more Drillisch Shares have been issued since January 1, 2017 from contingent capital to holders of convertible bonds who have made use of their conversion right. It is possible that other holders of convertible bonds will make use of their conversion right up to the time of the resolution on Capital Increase II or its execution by registration in the Commercial Register. The relevant increases from contingent capital have not yet been completed in the Commercial Register and an application for them to be entered in the Commercial Register will only be made after the end of the fiscal year. Furthermore, the management board of the Company on the day of the publication of the invitation to the Extraordinary General Meeting resolved with the consent of the supervisory board to partly utilize the 2014/I authorized capital.

Drillisch has issued a Convertible Bond with a nominal value of EUR 100,000,000.00 (final maturity date: December 12, 2018). Since May 2016, the conversion price in accordance with the terms of the Convertible Bond has been EUR 20.9876.

If conversion rights are exercised in accordance with the terms of the Convertible Bond on May 24, 2017, the day after the claim for dividends for the 2016 fiscal year becomes due, the conversion price adjusted on account of the payout of a cash dividend will be EUR 20.2320.

A complete or partial execution of the Transaction may trigger a change of control in accordance with the change of control regulation of the terms of the Convertible

Bond, according to which the bond creditors can demand conversion into Drillisch Shares at a lower conversion price under certain conditions.

A "change of control" shall be deemed to have occurred at each time that either (i) any person or persons ("Relevant Person(s)") acting in concert within the meaning of Section 22(2) of the German Securities Trading Act (Wertpapierhandelsgesetz) or any person or persons acting on behalf of any such Relevant Person(s), at any time directly or indirectly hold legal or beneficial ownership of shares of the Issuer carrying, in the aggregate, 30 percent. or more of the voting rights in the Issuer or otherwise gain the capability to determine the Issuer's affairs (within the meaning of Section 17 AktG), or (ii) in the event of a take-over offer for shares of the Issuer, whether mandatory or voluntary, a situation in which (x) shares already in the direct or indirect (within the meaning of Section 22 WpHG) legal or beneficial ownership of the bidder and/or Persons acting in concert with the bidder (within the meaning of Section 2(5) WpÜG) and/or the transfer of title to which the bidder and/or Persons acting in concert with the bidder (within the meaning of Section 2(5) WpÜG) may request (verlangen können within the meaning of Section 31(6) WpÜG) and shares in relation to which the tender offer has already been accepted, carry in aggregate more than 50 per cent. of the voting rights in the Issuer and (y) the offer has become unconditional (other than for conditions relating to regulatory, in particular merger control, approvals and other conditions the satisfaction of which may remain pending following the end of the acceptance period pursuant to Section 16(1) WpÜG) or (iii) the Issuer has sold or transferred all or essentially all assets to another person or other persons.

If a change of control occurs, Drillisch will fix the effective date and give notice of the change of control, the adjusted conversion price if adjusted and the effective date as soon as practicable after becoming aware thereof.

Effective date means the business day fixed by Drillisch which will be not less than 40 nor more than 60 calendar days after the notice of the Change of Control.

If Drillisch gives notice in accordance with the terms and conditions of the Convertible Bond, the conversion price upon any exercise of conversion rights on or before the effective date will be adjusted pursuant to the following formula:

$$CP_a = \frac{CP}{1 + Pr \times \frac{c}{t}}$$

where:

CP_a = the adjusted conversion price;

CP = the conversion price immediately prior to the date on which the change of control occurs;

Pr = the initial conversion premium of 22.50%;

c = the number of days from and including the date the change of control occurs to but excluding the maturity date; and

t = the number of days from and including the date of issue of the bonds to but excluding the maturity date.

If a change of control arises in the course of the execution of the Transaction, e.g. by registration of the execution of Capital Increase I in the Commercial Register of the Company, the conversion price (of the amount of EUR 20.2320 determined after an adjustment in relation to the dividends paid in 2017) is adjusted on this basis in accordance with the terms of the Convertible Bond. The adjusted conversion price amounts to EUR 18.9108 as a consequence of this adjustment.

The full exercise of all conversion rights under the Convertible Bond on May 24 would lead to the issue of 5,198,087 Drillisch Shares at a conversion price of EUR 18.9108. The Drillisch Shares to be issued on account of this readjusted conversion price exceed the contingent capital of the capital available for this, on the basis of which it is possible to issue 4,919,001 Drillisch Shares. On the other hand, Drillisch would be partially prevented by law from issuing a sufficient number of Drillisch Shares from any contingent capital in the event that all or nearly all convertible bonds were converted. In this respect, Drillisch would be required to pay a cash settlement to creditors of the Convertible Bond issue.

The full exercise of the conversion rights following an assumed change of control on the day that the invitation is published would lead to the issue of 4,919,001 shares and would thus increase the total number of shares in relation to the share capital of the Company, as it exists on the day that the invitation to the Extraordinary General Meeting is published, by around 9.0%.

(3) *Shareholder Structure*

The largest shareholder of the Company is United Internet, which indirectly holds an equity interest in Drillisch amounting to an ownership stake of 20.08% (calculated on the basis of the share capital registered on May 12, 2017 in the amount of EUR 60,241,113.90, divided into 54,764,649 Drillisch Shares as well as 80,999 more Drillisch Shares that have been created as a consequence of the conversion of the Convertible Bond). United Internet holds this equity interest through its wholly owned subsidiary United Internet Investments Holding GmbH with its registered office in Montabaur. The other shares are in free float as defined by the regulations of Deutsche Börse.

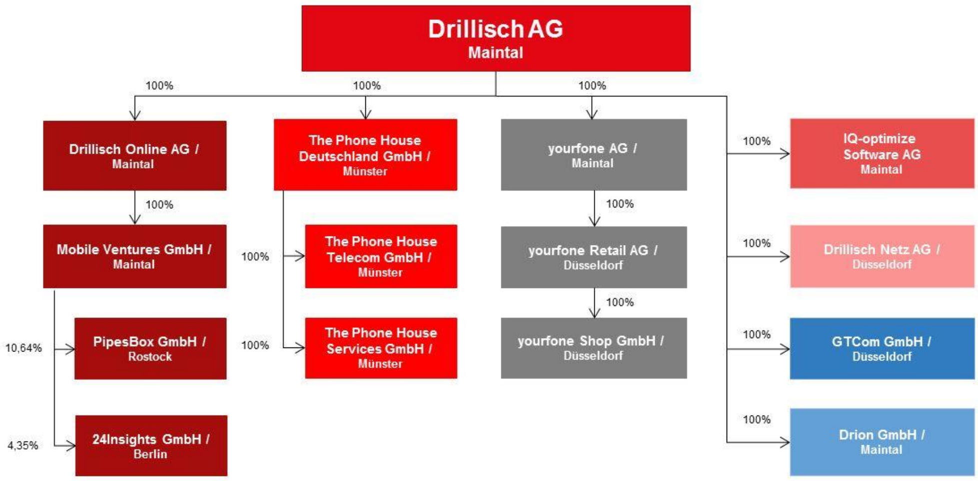
(4) *Business Purpose*

As shown in the articles of association of the Company ("**Articles of Association**"), the business purpose of the Company is the development, sale, and provision of services and products, especially in the fields of communication, software, and the internet, as well as the trade in these products. In addition to the development, sale, and provision of and the trade in communication technology devices, the business purpose also includes the leasing of and the leasing business involving these devices. The acquisition, holding, and management of associated, subsidiary, and joint venture companies also form part of the business purpose.

(5) *Group Structure*

Drillisch is a holding company. The operating business is carried out by various subsidiaries (these, together with Drillisch, referred to as the "**Drillisch Group**").

The following chart shows the key companies of the Drillisch Group:



(6) *Business Activity of the Drillisch Group*

Measured by revenue, the Drillisch Group is currently one of the largest mobile virtual network operators ("**MVNO**") in Germany. As a virtual network operator, the Drillisch Group creates flexible offers designed according to its own product concepts on the basis of standardized and unbundled advance services from the network operators Telefónica Germany GmbH & Co. OHG ("**Telefónica Germany**") and Vodafone GmbH ("**Vodafone**").

The Company works as a mobile communications provider and virtual network operator and sells a comprehensive portfolio of services and products from the field of mobile voice and data services both online and offline. Adopting a multi-brand strategy, the Drillisch Group offers mobile communications products and rates for various user groups and profiles through the brands smartmobil.de and yourfone as well as hellomobil, DeutschlandSIM, maxxim, McSIM, simply and winSIM, among others. Within the framework of this business strategy, the Drillisch Group concentrates exclusively on the German market. As of December 31, 2016, the Drillisch Group had a customer base of 3.430 million subscribers in total.

The mobile communications offers are based on services provided on the networks of Telefónica Germany and Vodafone. On the basis of a mobile bitstream access contract concluded with Telefónica Germany in June 2014 for the acquisition of network capacities ("**MBA MVNO Contract**"), the Drillisch Group has access to up to 30% of the network capacity of Telefónica Germany. Under the MBA MVNO Contract, Drillisch undertakes to purchase and to pay for fixed network capacities. The network capacities are based on a capacity and start-up plan (*Kapazitäts- und Hochlaufplan*) filed with the EU as well as on the network capacity that the customers of Telefónica Germany actually use up. The MBA MVNO Contract includes provisions that determine the actual conditions and thus the conditions per customer/month.

(A) Network Capacities and Network Access

The Drillisch Group does not operate any physical mobile communications network by itself. On the basis of the MBA MVNO Contract, Drillisch is the only virtual network operator in Germany entitled to a specific proportion, rising to up to 30%, of the utilized network capacity of Telefónica Germany and thus enjoys wide-ranging access to Germany's largest mobile communications network. In this respect, Drillisch enjoys contractually agreed access to LTE, the fourth-generation network technology, as well as to all other technologies of the future. In return, Drillisch has taken on a purchase commitment; the capacity to be purchased rises on a glide path over the basic term for all new customers from July 2014 onward to up to 20% of the entire capacity of the Telefónica Germany network. Moreover, Drillisch has the obligation to purchase a fixed quota for existing customers irrespective of the network usage. Any unused capacity under the MBA MVNO Contract can cause costs that are not accompanied by any direct revenues. The payments during the basic term amount to mid- to high-three-digit millions. The exact amount cannot be calculated, as the actual payments depend on various contractual variables. Among other things, the payment commitment depends on the future actual usage of all subscribers on the Telefónica Germany network.

Access includes the extended coverage of the mobile communications network of Telefónica Germany created from the merger of Telefónica Germany and E-Plus Mobilfunk GmbH & Co. KG ("**E-Plus**"), including the necessary technical specifications and the ability to reduce speeds and restrict transport using technical means when retail customers use data. Under the terms of the MBA MVNO Contract entered into with Telefónica Germany, Drillisch moreover has the option of becoming a provider of mobile communication services that operates its own comprehensive core network and uses the network of Telefónica Germany only for access network purposes (known as a "full MVNO" concept). Furthermore, Drillisch is entitled to become an independent and licensed mobile network operator.

(B) Sales

The Drillisch Group markets for its own account mobile communication services (telephone, SMS, MMS and mobile data services) of the network operators Telefónica Germany and Vodafone and provides these services to mobile communications customers on the basis of mobile phone contracts.

The most important sales channels are the internet and the group's own shop channel operated under the brand name "yourfone" as well as a network of independent distributors and cooperation partners.

Against this background, the sales structure of the Drillisch Group is divided into the "online" and "offline" segments. In the online segment, Drillisch Online AG conducts the mobile communications operating business with a large number of established online brands. To this end, it offers mobile phone tariffs tailored to customer requirements with different data packages and sells modern mobile phones and related accessories in its own online shops. In the online segment, the Drillisch Group strives to provide suitable combination of voice and SMS flat rates with different data packages at maximum speeds of up to 225 Mbit/s for each customer. Providing all of the Drillisch Group's established online brands, such as smartmobil.de, maXXim, sim.de, winSIM, DeutschlandSIM and simply, Drillisch Online AG is responsible for the mobile communications operating business in the online segment.

In the offline segment, yourfone AG is responsible for the entire offline sales. All of the shop operations of the Drillisch Group have been organized under its two subsidiaries, yourfone Retail AG and yourfone Shop GmbH, since July 2015. Under the premium brand yourfone, a broad range of mobile phone tariffs – also in combination with current mobile phones – are marketed at an attractive price-performance ratio predominantly in the Company's own shops and partner shops, which can also be found in especially attractive retail locations. The Phone House Deutschland GmbH, a subsidiary of Drillisch, supplies both yourfone partners and own yourfone shops with mobile phones and related accessories.

(C) Employees

An average of 916 employees, including the two members of the management board, were employed in the Drillisch Group in the 2016 fiscal year in, among others, Maintal, Krefeld, Münster, Munich and Düsseldorf.

b) **1&1 Telecommunication SE**

(1) *Company Name and Registered Office*

1&1 Telecommunication with its registered office in Montabaur is registered in the Commercial Register of the Montabaur Local Court under number HRB 23963. The business address of 1&1 Telecommunication is: Elgendorfer Straße 57, 56410 Montabaur.

(2) *1&1 Telecommunication as Part of the United Internet Group*

Founded in 1988 with its registered office in Montabaur, Germany, United Internet is the group parent company of various direct and indirect subsidiaries (these referred to together with United Internet as the "**United Internet Group**"). Together with its service company United Internet Corporate Services GmbH, it focuses essentially on central functions such as finance, corporate controlling, group accounting, tax, press (PR), investor relations (IR), purchasing and human resources management.

The operating business of the United Internet Group in the "Access" segment has up to now been consolidated in the 1&1 Telecommunication group division.

The operating business of the United Internet Group in the "Applications" segment is operated in the field of business applications by 1&1 Internet SE, including its key subsidiaries in Germany and abroad, and in the field of consumer applications by 1&1 Mail & Media Applications SE and its subsidiaries.

On the day of the publication of the invitation to the Extraordinary General Meeting, a control agreement entered into between United Internet and 1&1 Telecommunication on March 26, 2014, and a profit and loss agreement of the same date, are in place. According to the provisions of the Business Combination Agreement, these contracts are to be terminated upon the registration of the execution of Capital Increase I in the Commercial Register. Furthermore, United Internet and 1&1 Telecommunication are connected through a cash pooling agreement dated June 1, 2015, relating to their liquidity management. As agreed, this cash pooling will end when Capital Increase II is registered in the Commercial Register of Drillisch.

(3) *Share Capital*

The share capital of 1&1 Telecommunication currently registered in the Commercial Register amounts to EUR 121,000.00 and is divided into 121,000 no-par registered shares with a proportionate interest in the share capital of EUR 1.00 per share (irrespective of the time that they were issued, each one a "**1&1 Share**"). The sole shareholder and owner of all 1&1 Shares is United Internet.

(4) *Business Purpose*

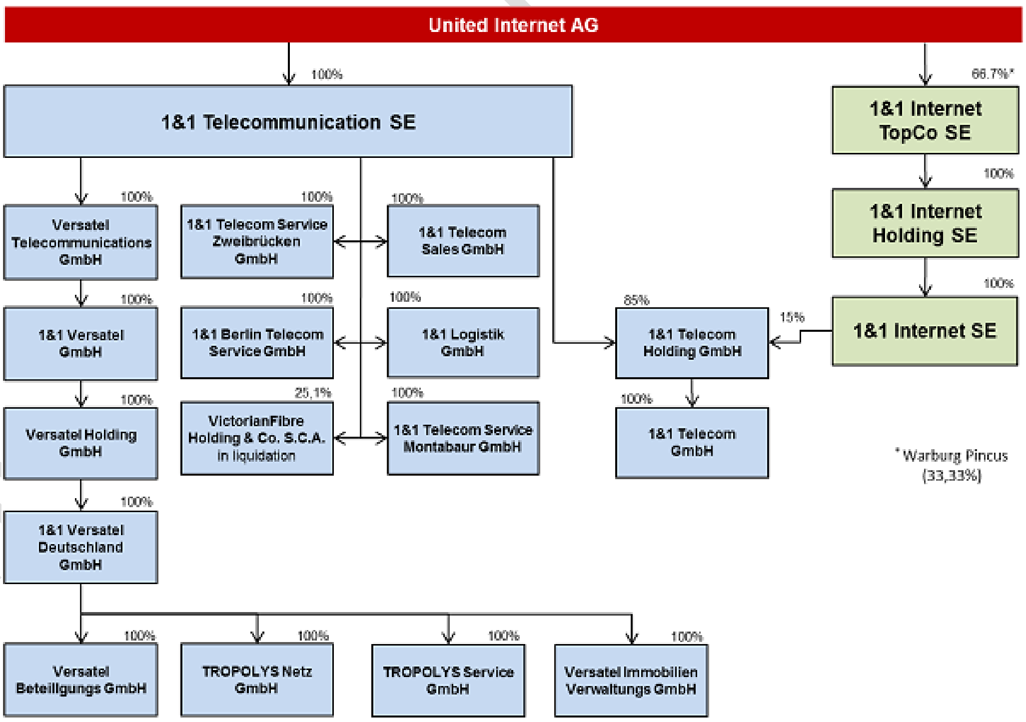
The corporate purpose of the 1&1 Telecommunication is the acquisition, holding, and administration of equity interests, in particular in companies that work in the business areas mentioned below. The object of the company is also the assumption of consultancy tasks and services of all kinds regarding the application of telecommunication products and the use of value added data services, especially via the internet or similar transmission media, and the trade in information technology products of all kinds for its own and third-party account. Furthermore, the object of the company includes the publication, distribution, and collection of data of all kinds in data networks. In this connection, the object of the company also involves sales, installation, and training programs in the area of electronic data-, communication-, and network connection-systems, the development and sale of software, and standard industry services. The object of the company does not include business for which a license is required in accordance with the German Banking Act (*Kreditwesengesetz*) as currently amended.

(5) *Group Atructure of the Original 1&1 Group as a Group Division of the United Internet Group*

The operating business in the "Access" segment of the United Internet Group was operated in the past within the Original 1&1 Group in particular by 1&1 Telecom GmbH and 1&1 Versatel GmbH. United Internet took over Versatel in its entirety on October 1, 2014. 1&1 Telecommunication had previously functioned as the parent company of the Original 1&1 Group.

Before the Transaction was announced, the indirect equity interest of 1&1 Telecommunication in 1&1 Versatel GmbH was transferred to United Internet Service Holding GmbH, another company of the United Internet Group (the "**Versatel Acquiring Company**"), with effect from the registration of Capital Increase I in the Commercial Register of the company. Under the brand "1&1 Versatel", United Internet offers business solutions such as voice, data, and network business with small and medium-sized companies as well as the infrastructure business with large companies (B2B and wholesale), through various group operating companies (together the "**Versatel Group Companies**").

The following chart shows the key companies of the Original 1&1 Group as part of the United Internet Group:



(6) *Business Activity and Atrategy of the Original 1&1 Group and of the Restructured 1&1 Group*

On the day of the registration of Capital Increase I is registered – i.e. upon the conclusion of the 1&1 restructuring pursuant to III.1.b)(7) – the operating business in the "Access" segment of the United Internet Group will be split into a retail customer business under the umbrella of 1&1 Telecommunication and a corporate client business under the umbrella of the Versatel Acquiring Company.

The operating business of the Restructured 1&1 Group (and thus the retail customer business of United Internet) will be operated in particular by 1&1 Telecom GmbH after Capital Increase I is registered. This also includes the retail customer business of 1&1 Versatel Deutschland GmbH, which was transferred to 1&1 Telecom GmbH on May 2, 2017. As the Restructured 1&1 Group as the contributed net asset has not yet been commercially active in this form so far, the business activity of the Original 1&1 Group is described in the following (after factoring out the business activity operated by the Versatel Group Companies, where, however, their retail customer business is taken into account in the description below):

The Original 1&1 Group is active exclusively in Germany and is one of the leading telecommunication providers. The business of the Original 1&1 Group essentially covers the product lines involving DSL connections and mobile internet products. The Original 1&1 Group is one of the leading three companies in the German broadband market with its DSL products and, with respect to its mobile internet products, one of the fastest growing companies in the German mobile communications market.

The Access products of the Original 1&1 Group are currently marketed through the core brand "1&1" as well as GMX and WEB.DE, well-known brands with a wide reach, operated by the affiliate 1&1 Mail & Media Applications SE. With this multi-brand strategy, the Original 1&1 Group is able to address the German DSL and mobile internet market comprehensively while also targeting specific groups.

As at December 31, 2016, the Original 1&1 Group had a contract portfolio comprising around 4.3 million mobile internet contracts (exclusively subscription-based postpaid contracts) and around 4.4 million subscription-based DSL contracts in Germany.

(A) Network Access

The Original 1&1 Group has not previously operated its own network in its DSL business. The Original 1&1 Group uses the fixed-line network of the affiliate 1&1 Versatel GmbH and additionally purchases network services from various advance service providers (such as Deutsche Telekom and Vodafone). Up to now, these have been enhanced with end devices, additional applications (such as home networking, online storage, telephone services, video on demand, and IPTV), and high-quality customer services ("1&1 principle") in order to differentiate the company from the competition in this way.

Similar conditions apply to the mobile internet business, as the company has relied on advance services provided by Vodafone and later Telefónica Germany since starting as an MVNO in 2010. These advance services have also been enhanced with end devices and high-quality customer services ("1&1 principle") up to now.

(B) Sales

The Original 1&1 Group markets its DSL and mobile internet products for its own account and provides its services to retail customers on the basis of subscription-based contracts, terms set by contract, and exclusively using a subscription model.

The most important sales channels are the company's own 1&1 internet portal, the telephone customer service, independent sales and cooperation partners, and the GMX and WEB.DE portals of the affiliate 1&1 Mail & Media Applications SE, which have been available exclusively to the Original 1&1 Group (for its Access products) up to now.

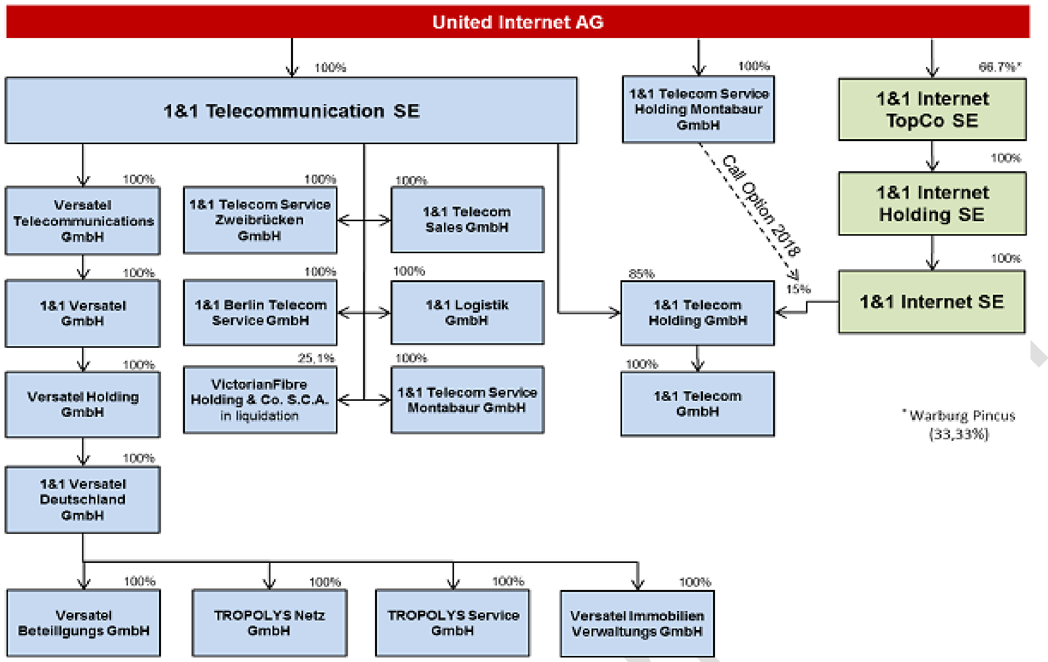
The 1&1 products are advertised in particular using flyers, inserts, and adverts in print media, TV advertising, and various forms of internet advertising.

(C) Employees

Employees at the Original 1&1 Group, excluding the Versatel Group Companies (but taking into account its retail customer business) numbered 2,482 on December 31, 2016, of which 81 were inactive employees. The main locations of the Original 1&1 Group are Montabaur, Karlsruhe, Zweibrücken and Berlin.

(7) *Restructuring of the Original 1&1 Group for the Purposes of Executing the Transaction*

Before the publication of the invitation to the Extraordinary General Meeting, United Internet has made a contractual commitment to Drillisch to adjust the company structure of the Original 1&1 Group to the parameters of the Transaction. The key goal of these restructuring measures is for Drillisch to be able to acquire as contribution a one hundred per cent stake in the operating business of the "Access" segment of the United Internet Group, without at the same time acquiring the business operations conducted by the Versatel Group Companies (with the exception of the retail customer business). For this reason, a number of suitable structuring measures (together the "**1&1 Restructuring**") are intended to ensure that (i) 1&1 Telecommunication, which currently holds 85% of the share capital in 1&1 Telecom Holding GmbH ("**1&1 Holding**"), obtains access to the other 15% of this share capital and can thereby ensure that 1&1 Holding (and indirectly its wholly owned subsidiary 1&1 Telecom GmbH) is held completely by 1&1 Telecommunication (see (A)), (ii) Versatel Group Companies (with the exception of the retail customer business) do not become subject to the consolidation of Drillisch and 1&1 Telecommunication (see (B)), and (iii) the cash pool existing between 1&1 Telecommunication and the Versatel Group Companies is terminated (see (C)). The key relations within the Original 1&1 Group can currently be presented as follows:



(A) <u>Complete Acquisition of the Indirect Equity Interest in 1&1 Telecom GmbH</u>

Before the publication of the Extraordinary General Meeting, United Internet has made a contractual commitment to Drillisch to restructure the "Access" segment organized by the Original 1&1 Group in such a way that, after the Registration of Capital Increase I, 1&1 Telecommunication indirectly holds all the shares in 1&1 Telecom GmbH and obtains access to the 15% of the share capital of 1&1 Holding that it does not yet currently hold.

These 15% of the share capital of 1&1 Holding is subject to a call option held by 1&1 Telecom Service Holding Montabaur GmbH ("**1&1 Montabaur**"), which can be exercised in January 2018, while the stake is acquired with the right to participate in the profits for previous fiscal years, including the 2017 fiscal year. Against this background, 1&1 Montabaur as the transferring legal entity is to be merged with and into 1&1 Telecommunication as the acquiring legal entity in accordance with the German Transformation Act (*Umwandlungsgesetz*). As a consequence, the call option mentioned above is transferred to 1&1 Telecommunication which will thus be given access to all of the share capital of 1&1 Holding. United Internet furthermore has undertaken in the Business Combination Agreement to ensure that the call option is exercised without undue delay as soon as permitted by law.

The merger agreement has been signed before the Transaction was announced, and the general meeting of 1&1 Telecommunication and the shareholder meeting of 1&1 Montabaur have given their respective consent. In the event that the merger is not completed by the end of 2018, United Internet has undertaken in the Business Combination Agreement, to put Drillisch in such a position as the merger had been concluded.

(B) Carve-Out of the Versatel Group Companies

As part of the United Internet Group, 1&1 Telecommunication currently still holds all of the shares in Versatel Telecommunications GmbH ("**Versatel GmbH**"), which for its part directly or indirectly holds all other Versatel Group Companies. As the Versatel business division and thus business solutions such as the voice, data, and network business offered by 1&1 Telecommunication up until now, as well as the infrastructure business with companies, are not intended to be part of the consolidation of 1&1 Telecommunication and Drillisch, United Internet has taken the following measures to transfer the Versatel Group Companies (with the exception of the DSL retail customer business) to United Internet:

- Through a structuring agreement concluded before the Transaction was announced ("**Structuring Agreement**"), 1&1 Telecommunication sold and transferred in title all shares in Versatel GmbH to the Versatel Acquiring Company at a purchase price of EUR 960.5 million, subject to the condition precedent that the execution of Capital Increase I is registered in the Commercial Register of Drillisch.

- Subject to the same condition precedent mentioned above, the Versatel Acquiring Company has purchased and acquired in title an existing claim arising from a loan that 1&1 Telecommunication has against its indirect subsidiary 1&1 Versatel GmbH in the amount of EUR 312.6 million ("**Shareholder Loan Claim**") in return for payment of its nominal amount.

On the basis of the two last-mentioned measures, purchase price claims of 1&1 Telecommunication for the shares in Versatel GmbH and the Shareholder Loan Claim arise against the Versatel Acquiring Company in a total amount of EUR 1,273.1 million without further legal acts upon the registration of the execution of Capital Increase I. These are intended to be fulfilled in a partial amount of EUR 157.9 million by payment to 1&1 Telecommunication, while the claim for payment has been deferred until January 31, 2018. Furthermore, the purchase prices are intended to be satisfied through the following legal acts, the legal validity or effective fulfillment of which is subject in all cases to the condition precedent that the execution of Capital Increase I is registered in the Commercial Register of Drillisch:

- Offsetting by the Versatel Acquiring Company in the amount of EUR 400.2 million against an existing loan claim against 1&1 Telecommunication in this amount. This loan claim originally had been assigned to United Internet and was contributed to the Versatel Acquiring Company in accordance with the Structuring Agreement for the purpose of the offset;

- Assignment of loan claims to which the Versatel Acquiring Company is entitled against 1&1 Holding in the amount of EUR 534.4 million to 1&1 Telecommunication instead of performance, as a result of which the assigned loan claims become intra-group liabilities of the Restructured 1&1 Group. These loan claims were contributed by United Internet to the Versatel Acquiring Company in accordance with the Structuring Agreement;

- Offsetting by the Versatel Acquiring Company against a claim in the amount of EUR 95.0 million against 1&1 Telecommunication arising from the sale of the retail customer business of 1&1 Versatel Deutschland GmbH to 1&1 Telecom GmbH. 1&1 Versatel Deutschland GmbH as the seller originally had been entitled to this claim against 1&1 Telecom GmbH as the buyer. It was transferred by 1&1 Versatel Deutschland GmbH to the Versatel Acquiring Company in the course of an agreement concluded before the Transaction was announced. The corresponding obligation of 1&1 Telecom GmbH was assumed by 1&1 Telecommunication SE on the basis of the same agreement;

- Offsetting by the Versatel Acquiring Company in the amount of EUR 85.6 million against a corresponding partial amount of the cash pool claim of United Internet against 1&1 Telecommunication as existent on May 12, 2017, which United Internet contributed to the Versatel Acquiring Company in the amount of the abovementioned partial amount in accordance with the Structuring Agreement.

United Internet has contributed the remaining partial amount of its cash pool claim to 1&1 Telecommunication as existent on May 12, 2017 in the amount of EUR 444.3 million. In addition, United Internet has contributed to 1&1 Montabaur a cash pool claim against 1&1 Montabaur of EUR 17.8 million. The two contributions of receivables have been made subject to the condition precedent that the execution of Capital Increase I is registered.

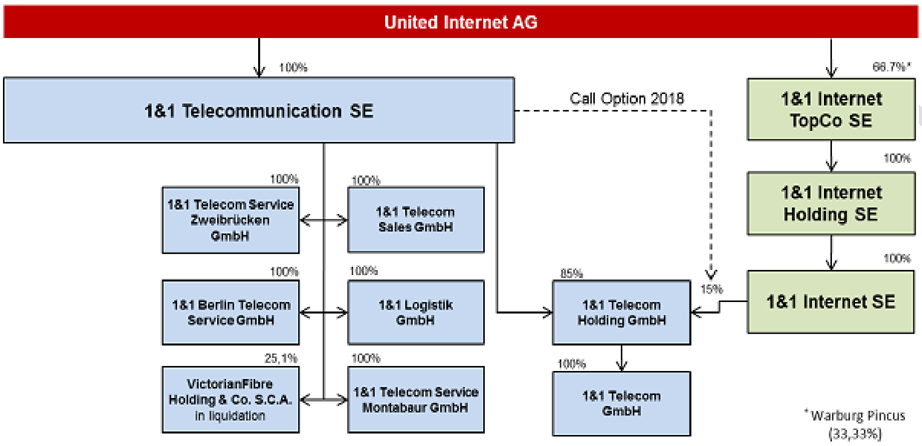
(C) Termination of the Cash Pool Between 1&1 Telecommunication and the Versatel Group Companies

The cash pool existing between 1&1 Telecommunication and the Versatel Group Companies has been terminated effective May 5, 2017.

The balance in favor of the Versatel Group Companies existing at the time of the termination has been taken into account for in the purchase price for the shares of the Versatel Group Companies. The cash pool claims of the Versatel Group Companies will be satisfied by 1&1 Telecommunication.

(D) Target Structure After the Restructuring

After completion of the restructuring, the structure of the Restructured 1&1 Group, which will become part of the Drillisch Group in the event of succesful execution of Capital Increase II, can be presented as follows:



c) **Economic Benefits Resulting from the Merger of the Businesses of Drillisch and 1&1 Telecommunication**

(1) *Overview of the German Telecommunications Market*

(A) Mobile Communications Market

The providers of mobile communication services in a mobile communications market can be divided into mobile network operators ("**MNOs**"), mobile virtual network enablers ("**MVNEs**") and MVNOs. While an MNO as a full-service provider of mobile communication services has its own transmission licenses and network infrastructure, MVNOs as virtual network operators without their own infrastructure purchase the mobile communication services as advance services from an MNO and market these in their own name to retail customers. An MVNE works only in the B2B business and does not provide direct services for retail customers. MNOs in the German market are Telekom, Vodafone and Telefónica-O2, MVNOs are the Drillisch Group, the Original 1&1 Group and Freenet. *Over-the-top* services ("**OTT Services**") such as WhatsApp and Skype are also in competition with the mobile communications providers.

Based on the estimates of the German Association of Telecommunications and Value-Added Service Providers (*Verband der Anbieter von Telekommunikations- und Mehrwertdiensten* – "VATM") and Dialog Consult in their joint Telecommunication Market Analysis Germany 2016 ("*TK-Marktanalyse Deutschland 2016*") (October 19, 2016), there were around 128.1 million mobile communication connections (i.e. activated SIM cards) in the German mobile communications market in 2016. With 1.5 SIM cards per resident in 2015, Germany was slightly above the European average of 1.4. Total revenues in the German mobile communications market for 2016 amounted to EUR 26.4 billion, according to the estimate by Dialog Consult / VATM. The

MNOs accounted for a share of 81.4%, with Deutsche Telekom at 30.3%, Vodafone at 26.1% and Telefónica Germany at 25.0% recording the highest market shares. The MVNOs together held a market share of approximately 18.6% in terms of sales revenues in 2016. Among the MVNOs, Freenet accounted for the highest market share at 12.1%. According to Dialog Consult / VATM estimations, the share of the Drillisch Group in the total revenues of the German mobile communications market amounted to 2.7% in 2016, while that of the Original 1&1 Group amounted to 3.8%. The Original 1&1 Group and the Drillisch Group have thus been able to record strong growth in their market shares in the past few years. Specifically, the Original 1&1 Group has increased its market shares by more than five times since 2011 (0.7% market share), while the Drillisch Group has almost doubled its market share from 1.4% in 2011.

While the use of mobile communication services experienced a slight decline in 2016 on account of the growth of OTT Services, according to the estimates of Dialog Consult / VATM, the use of mobile data services has risen sharply measured by data volume. In 2016, the total volume was estimated to be 774 million gigabytes, which corresponded to year-on-year growth of 31%. Usage per SIM card was estimated to be 510 megabytes per month on average in 2016. The number of mobile internet users was 70.2 million in 2016, according to information from the auditing company PwC (German Entertainment and Media Outlook 2016-2020).

(B) Fixed-Line Market and Broadband Network

Total revenues in the German fixed-line network were estimated to be at EUR 34.1 billion in 2016 based on the figures of Dialog Consult / VATM.

Demand for new fixed-line-based broadband connections in Germany has slowed since 2008 as a result of the broad household coverage already achieved as well as the powerful trends towards mobile internet use. According to Dialog Consult / VATM, there were around 31.9 million broadband connections in total in Germany at the end of 2016. The largest broadband provider in Germany measured by subscriber numbers is Deutsche Telekom AG (approximately 41.4%), followed by Vodafone (approximately 19.0%) and the 1&1 Group (approximately 13.5%). The data volume per connection per month was estimated to be 37.2 gigabytes in 2016, which corresponds to a growth of 17% compare to the previous year.

(C) Outlook

Market observers expect the changed user behavior to lead to strong growth in the demand for mobile data volume. According to estimates by Cisco (VNI Mobile Forecast Highlights, 2016-2021), data usage in Germany in 2021 will reach approximately 3,300 megabytes per SIM card per month. Growth in data volume can also be expected in the broadband market.

At 0.7% and 1.1% for 2017 and 2018, the investment bank UBS does not expect any significant increases in sales revenues for the overall European telecommunications market (European Telecoms, November 29, 2016). The digital industry association

Bitkom assumes with respect to Germany that revenues in 2017 will decline slightly in the areas of fixed lines (minus 0.7%) and mobile communications (minus 1.7%), citing interventions by the regulatory authorities regarding roaming charges and mobile termination fees, as the main reason for this.

According to estimates by the auditing company PwC (German Entertainment and Media Outlook 2016-2020), the number of households with a broadband connection in Germany will increase from 31.9 million in 2016 to 35.3 million connections in 2020. This corresponds to an annual growth rate of 3%. The growth in broadband connections is broken down primarily into fiber optic networks (average annual growth rate: 31%) and cable networks (7%). DSL connections will increase by just 0.3% annually. PwC expects 23.8 million DSL connections by 2020, compared with 23.5 million in 2015.

The Transaction is intended, among other things, to help take full advantage of the opportunities associated with the network expansion for the Drillisch Group and at the same time open up the possibility of offering integrated services (*bundled products*) in the mobile and fixed-line markets.

(2) *Strategic and Economic Motivation for the Transaction*

In the event of the complete execution of the transaction, i.e. in particular the registration of Capital Increase II in the Commercial Register of Drillisch, it will be possible for the Drillisch Group and the Restructured 1&1 Group (together the "**Integrated Drillisch Group**") to narrow the gap to the established network operators Deutsche Telekom, Vodafone and Telefónica Germany in terms of the services it will offer in the mobile communications field and to compete more strongly with them, particularly in the high-value customer area.

The Transaction is expected to lead to significant synergies (for more details, see III.1.c)(2)(E) below), which will result in particular from benefits in the joint purchasing of hardware and services, the more efficient use of network capacities available to Drillisch under the MBA MVNO Contract, and an expansion of the product portfolio with future technologies (for more details, see III.1.c)(2)(C) below). These synergies will ultimately benefit the shareholders of the Integrated Drillisch Group. After the Transaction is completed, the Integrated Drillisch Group will be in a better position to exploit existing potential, to manage investments that are necessary in light of technical developments and market conditions, and to act as an integrated provider of services in the mobile communications and fixed-line fields.

(A) <u>Creation of an Integrated Provider of Services in the Mobile Communication and Fixed-Line Fields</u>

The consolidation of the Drillisch Group and the Restructured 1&1 Group into the Integrated Drillisch Group will create a powerful integrated telecommunication service provider in Germany that will have, due to the MBA MVNO Contract with Telefónica Germany, secured access to a part of the mobile communication network operated by Telefónica Germany and that will offer a comprehensive range of services in the fixed-line and mobile communications field with which it will be able to challenge established competitors.

Especially in the field of mobile communications, the Integrated Drillisch Group, as a virtual network operator, will be able to compete directly and more strongly with the current market leaders Deutsche Telekom, Vodafone and Telefónica Germany. Due to additional service capacity and economies of scale, it will have the opportunity to compete in every segment with the current market leaders. On the basis of the customer and revenue figures of the Drillisch Group and the Original 1&1 Group as of December 31, 2016, the combined company would have approximately 7.7 million mobile communication customers and would generate revenues (before consolidation) of approximately EUR 3.2 billion. This would have corresponded, as of December 31, 2016, to a joint share in the German mobile communication market (in terms of mobile communication customers) of approximately 6.01%. For customers, this means an expansion of the range of high-value products at competitive prices and enhanced network quality with increased capacity. Furthermore, the increasing demand for high-quality offers especially in the area of data services can be better served as a result of the possibility for the Integrated Drillisch Group to make larger investments.

Ultimately, benefits will result for customers from the expanded sales network as well as from the extended brands portfolio. In particular, United Internet and Drillisch have agreed on the parameters of a sales partnership in the DSL area as well as cooperation in the purchasing of hardware, with regard to the equity interest in 1&1 Telecommunication to be acquired by Drillisch. The subject matter of these cooperations will be the sale of 1&1 DSL products, concepts, and tariffs that Drillisch does not itself offer at the moment in the Drillisch offline shops. Furthermore, the purchase of hardware by Drillisch and 1&1 Telecommunication is to be bundled (these cooperation projects together referred to as the "**DSL Sales Cooperation / Purchasing Cooperation**"). Drillisch and 1&1 Telecommunication will promptly negotiate an appropriate sales contract and cooperation contract and conclude it with effect from the occurrence of the conditions for completion of the Takeover Offer and the registration of Capital Increase I. Furthermore, the management board of Drillisch expects the Integrated Drillisch Group to be able to exploit the various brands of the Drillisch Group more efficiently than was the case at the time the Transaction was announced.

With regard to the broadband connections based on fixed lines, the Integrated Drillisch Group will be able to offer these at competitive prices. Furthermore, the Integrated Drillisch Group will be able to combine fixed-line products with the services from the mobile communication area and expand its product range accordingly.

(B) Customer Benefits

High network quality is a precondition for providing an appropriate service for customers who require very high speeds, volumes, and quality. The total number of mobile phone users has remained mostly stable over the past few years. However, a slight shift can be seen in customers from prepaid offers toward contract (postpaid) offers: The share of contract customers in the total number of mobile communication customers in Germany amounted to approximately 53.5% at the end of 2016, compared with approximately 52.9% at the end of 2015.

The Integrated Drillisch Group has a considerable scope of access to a network infrastructure that meets the requirements of modern mobile communication consumer and that at the same time guarantees it access to all future technologies. Moreover, it can offer mobile communication products that are tailored to customer requirements, without, however, being burdened with the investment expenditures facing a network operator. Customers of the Integrated Drillisch Group will benefit from the existence of a virtual network operator that can compete directly with the existing network operators.

(C) Optimized Utilization of Capacity under the MBA MVNO Contract

Under the MBA MVNO Contract with Telefónica Germany, Drillisch is entitled to long-term access to network capacity and to all technologies available now and in the future. Although this offers significant potential for growth, the rapid growth of the Telefónica Germany network means that Drillisch is not always able to fully exploit all available capacities, which leads to unused capacities for Drillisch and, as a consequence of the relevant purchase commitments, to an increase in the average unit costs in relation to the units actually used.

Upon successful execution of the Transaction, the Integrated Drillisch Group could, as soon and insofar as existing conservation and scheduling commitments under the existing supply contracts of the Original 1&1 Group have been terminated or appropriately adjusted, have additional access to the customer base and the brands and sales power of the Restructured 1&1 Group in order to optimize the use of the existing capacity in the network of Telefónica Germany. Extending the possibilities for exploitation of network capacity on the network of Telefónica Germany to the customer base of the Restructured 1&1 Group in this way would not only enable the realization of additional growth potential, but would lead to a reduction in unit costs as a result of the reduction or elimination of unused capacity at the same time.

Certain discounts that the Drillisch Group procures under the MBA MNVO contract are the subject of a change of control clause and would in principle cease to apply if a shareholding threshold of 30% is exceeded by one shareholder of Drillisch.

Telefónica Germany and Drillisch have agreed on May 12, 2017, that Telefónica Germany will waive change of control rights under the MBA MVNO Contract in relation to the execution of the Transaction. In this agreement, Drillisch and Telefónica Germany have drawn up other regulations relating to the continued existence and the phase-out of certain discounts and the suspension of termination rights in relation to discounts of this kind. The agreement requires the approval of the Monitoring Trustee (in accordance with an agreement between Telefónica Germany and the European Commission) as well as of the European Commission itself. In the event that Telefónica Germany is required to amend this agreement, the parties shall come to an agreement that represents their economic intent subject to the approval of the European Commission and the Monitoring Trustee.

(D) Competitive Position and Economies of Scale

As steadily increasing customer demand for data volume is placing ever higher demands on the network infrastructure and significant investments have to be made in this respect by network operators, the size of the customer base and thus the market share are especially important factors for the competitiveness of (virtual) network operators. The Transaction, on the other hand, creates alongside the three market leaders, which are all network operators, a virtual challenger that, in terms of size and market share, will enjoy a more competitive position than 1&1 Telecommunication and Drillisch can have on their own – and without having to invest in infrastructure.

(E) Synergies

In addition to the synergies in terms of costs and revenue presented in III.1.c)(2)(C) in the context of the MBA MNVO contract, unified structures and processes will be established as a result of the combination of the two businesses and significant potential for synergies will be opened up. The management board of Drillisch assumes that, after the Transaction is completed, the Integrated Drillisch Group will realize synergies in revenues and costs totaling EUR 150 million before tax from 2020 onward and amounting to up to EUR 250 million per year before tax from 2025 onward. These synergies will result essentially from the joint purchasing of hardware and services, the more efficient use of network capacities available to Drillisch, and an expansion of the product portfolio with future technologies.

The management board of Drillisch assumes that it will be possible to realize synergies in the full amount from 2025 onward after the Transaction is completed. The synergy potential expected by the management board shall be realized in particular as a result of the following measures:

- Benefits from hardware and services purchasing: The management board of Drillisch expects potential savings from more favorable purchase terms, e.g. regarding advance services and terminal devices. The opportunity for the bundling of hardware purchases holds out the prospect of benefits in particular with regard to more notable manufacturers. The Integrated Drillisch Group is expected to benefit from the negotiating position, strength, and size of the Restructured 1&1 Group.

- Extension of the benefits of the MBA MVNO Contract to the Restructured 1&1 Group: Significant synergies will result from the more efficient use of capacity available under the MBA MVNO Contract with Telefónica Germany (see III.1.c)(2)(C)).

- Expansion of the product portfolio: The Drillisch Group plans to exploit the business opportunities arising from the execution of the Transaction with respect to increased revenues, for example from expanding the product portfolio of the Restructured 1&1 Group through its access to new technologies, such as LTE. Furthermore, combined offers (cross-selling) in the area of fixed-line and mobile services will be considered for further revenue increases.

- Transaction-related expenses: The synergies are accompanied by expenses expected by the management board of Drillisch. On the basis of the information currently available, the management board of the Company estimates the amount of these expenses, which are expected to be incurred in the period between 2018 and 2021, to be approximately EUR 50 million before tax at the level of the Integrated Drillisch Group.

- Other benefits to be realized in the course of the Transaction: The DSL Sales Cooperation / Purchasing Cooperation between 1&1 Telecommunication and Drillisch to be concluded in the course of Capital Increase I will enable Drillisch to cooperate regarding purchasing and to offer DSL products and attractive bundle products in its offline shops. The sales cooperation will be regulated through an agency model, and Drillisch expects it to increase the profitability of the offline channel as a result of increased customer traffic and an improved market position. Finally, the opportunities to attract new sales partners increase with a broader product portfolio. The purchasing cooperation will lead to bundled purchasing for mobile end devices, which holds out the prospect of more favorable terms and conditions especially with more notable manufacturers. Drillisch will generally benefit from improved availability and more favorable purchasing conditions on the part of the Restructured 1&1 Group.

(3) *Strengthening of the Competitiveness of the Integrated Drillisch Group*

The acquisition of 1&1 Telecommunication by Drillisch will create a strong, integrated service provider on the German telecommunications market. On the basis of the customer and revenue figures of the Drillisch Group and the Original 1&1 Group at December 31, 2016, the Integrated Drillisch Group would have approximately 12 million mobile communication, broadband and other customers and would have generate revenues (before consolidation) of approximately EUR 3 billion. The Integrated Drillisch Group will thus gain a market presence and increased visibility that no virtual network operator has previously achieved in this form on the German market. The expertise, innovation capabilities, and experience of the joint company that will be available after the Transaction is completed can be used to evaluate and open up new business fields in a rapidly changing competitive environment (e.g. the internet of things, machine-to-machine).

The Transaction offers the Integrated Drillisch Group a good starting point for setting new benchmarks for a telecommunication services provider, for gaining a stronger presence with contracting partners, and for reducing the risk profile. The conditions will thus be created to successfully compete with the market leaders that are network operators in the medium and long term, as a fourth large (virtual) network operator will be created that will be excellently positioned to offer high-quality products and services at competitive prices to the large and ever growing circle of sophisticated and high-spending customers alongside the market leaders. At the same time, the Integrated Drillisch Group will be able to maintain and consolidate its role as a challenger in the low-price segment.

The more attractive product portfolio of the Integrated Drillisch Group will improve the potential to acquire customers and the possibility of increasing customer loyalty. On the one hand, it will then have secured access to all future technologies in the mobile communication and fixed-line areas. On the other, the opportunity exists to offer attractive bundled products (DSL, mobile, IPTV, cloud applications and other content).

(4) *Capital Structure and Improvement of the Key Financial Indicators*

The management board of Drillisch expects a lower debt ratio as a result of the combination of the businesses of the Drillisch Group and the Restructured 1&1 Group into the Integrated Drillisch Group. The conservative capital structure of the Integrated Drillisch Group is in line with the principles communicated by the management board of Drillisch in the past and should enable continued growth at low financing costs.

The business acquisition will furthermore lead, together with the synergies described, to an improvement in the key financial indicators and result in the Integrated Drillisch Group becoming relatively stronger in comparison with the competition. The management board of the Company assumes that it will be possible to generate efficiency advantages compared with competitors as a result of the business combination. The Drillisch management board further expects that the earnings will improve significantly after the synergies totaling approximately EUR 150 million per year (before tax) are realized in 2020. This volume will increase to approximately EUR 250 million per year (before tax) until 2025 if the synergies are realized in full. Taking risk and return considerations as well as the growth potential of the combined unit into account, the business combination thus creates significant value, also for the outside shareholders of Drillisch.

(5) *Continuation of a Strong Capital Market Profile*

Finally, the acquisition strengthens the capital market profile of the combined company. While the free float percentage in Drillisch falls significantly as a consequence of excluding the subscription right as part of the capital increases through contributions in kind, the absolute number of Drillisch Shares that are in free float remains unchanged, reduced, however, by the number of Drillisch Shares for which the Takeover Offer is accepted.

United Internet and Drillisch agree that a substantial free float of Drillisch Shares with sufficient liquidity for institutional investors to trade is in the interests of both parties. If no substantial free float remains after the Transaction has been completed because of the number of Drillisch Shares submitted for the Takeover Offer, Drillisch and United Internet will discuss whether measures should be taken to restore a sufficient free float in the interests of the investors.

Under the Business Combination Agreement, United Internet has further agreed not to implement any domination or profit transfer agreement between United Internet and Drillisch for three years after the execution of Capital Increase II has been registered. Should United Internet hold more than 70% of the capital and of the voting rights of Drillisch as a result of the completion of the Takeover Offer or in any other way (but without taking into consideration the increase in its stake as a consequence of the completion of Capital Increase II), United Internet however does intend to enter into such intercompany enterprise agreements.

The increased market capitalization of Drillisch as the listed parent company of the Integrated Drillisch Group will, in view of the management board, lead to increased market interest and higher visibility and have a positive impact on the liquidity of the shares of the Company as the parent of the Integrated Drillisch Group and thus on their attractiveness for investors.

Moreover, the Drillisch management board expects that, with an eye on the future, the solid credit standing of the combined company will allow the more favorable conditions already mentioned to be realized when raising external capital. The Integrated Drillisch Group will benefit from a higher EBITDA and an enhanced ability to generate free cash flows. Finally, the creditors of the Convertible Bond issued by the Company are expected to use the anticipated change of control pursuant to the terms of the Convertible Bond in the course of the Transaction to procure Drillisch Shares at a discounted conversion price, which should further strengthen access to and the conditions for loans at the Integrated Drillisch Group. These factors should ensure the financing through equity and/or borrowed capital on improved terms and conditions regardless of the uncertainties regarding market cycles and further optimize the capital costs of the combined company.

2. Presentation of the Planned Transaction

The acquisition of the shares in 1&1 Telecommunication by Drillisch is intended to be executed in two steps accompanied by United Internet's voluntary public takeover bid for all Drillisch Shares. Specifically, the proposed resolution is planned as follows:

a) Presentation of the Individual Steps of the Transaction

(1) *Capital Increase I*

As a first step, 9,372 1&1 Shares (corresponding to 7.75% of the share capital of 1&1 Telecommunication) are to be contributed to Drillisch by means of a contribution in kind as part of a capital increase of Drillisch from authorized capital. For this purpose, the management board of the Company on May 11, 2017 resolved, with the consent of the supervisory board, to increase the registered share capital by an amount of EUR 9,968,385.90 from EUR 60,241,113.90 to EUR 70,209,499.80 partly utilizing Drillisch's 2014/I authorized capital under the exclusion of the subscription right of the shareholders, and to do this by way of issuing 9,062,169 no-par value bearer shares with a proportionate interest in the share capital of EUR 1.10 each with full profit participation rights as from January 1, 2017. United Internet was admitted as subscriber for the shares of the Company to be issued in connection with Capital Increase I. Pursuant to the relevant contribution agreement, which was also entered into on May 12, 2017, the 9,372 1&1 Shares were transferred in title under the condition precedent of registration of Capital Increase I in the Commercial Register of the Company.

(2) *Voluntary Public Takeover Offer by United Internet for all Drillisch Shares*

United Internet published its decision to launch the Takeover Offer for all Drillisch Shares on May 12, 2017. United Internet is expected to submit the offer document to the Bundesanstalt für Finanzdienstleistungsaufsicht (*German Federal Financial Supervisory Authority* – "BaFin") by May 16, 2017. It is the common goal of the parties to have the offer document approved by BaFin by no later than May 27, 2017 and to publish it by May 29, 2017. Subject to the relevant approval by BaFin, the period for accepting the Takeover Offer will commence no later than May 29, 2017 and end no later than June 26, 2017.

The Takeover Offer will stipulate a price of EUR 50.00 per Drillisch Share and thus exceed the weighted three-month average price of Drillisch Shares on May 5, 2017 of approximately EUR 45.32 by EUR 4.68. The Takeover Offer will only be conditioned upon the registration of the execution of Capital Increase I and the approval of the Federal Cartel Office (*Bundeskartellamt*).

(3) *Capital Increase II*

In order to implement Capital Increase II, in a second step, the remaining 111,628 1&1 Shares (corresponding to 92.25% of the share capital of 1&1 Telecommunication) are to be contributed to Drillisch in the course of Capital Increase II which is to be decided on by the shareholders' meeting. For this purpose and by the invitation to which this report of the management board is attached, the management board of the Company convenes an Extraordinary General Meeting for July 25, 2017. United Internet will be admitted as the subscriber for the shares of the Company to be issued in connection with Capital Increase II. In the relevant contribution agreement which was also entered into on May 12, 2017, the 111,628 1&1 Shares were transferred in title to the Company under the condition precedent of registration of Capital Increase II in the Commercial Register of the Company. Closing can therefore only occur if the Extraordinary General Meeting of the Company of July 25, 2017 approves Item 1 of the agenda in the invitation to the Extraordinary General Meeting to which this report is attached. The filing for registration of Capital Increase II in the Commercial Register of the Company will be made after the requirements for the registration have been met (in particular, in the event of pending actions for avoidance, the conclusion of an approval procedure pursuant to Section 246a AktG in which the Company succeeds).

b) **Contractual Basis of the Transaction**

On May 12, 2017, United Internet and Drillisch entered into the Business Combination Agreement which describes the fundamentals of the Transaction and sets out terms in particular for the acquisition of 1&1 Telecommunication by Drillisch by way of Capital Increase I and Capital Increase II as well as the parameters of the Takeover Offer. On the same date, United Internet and Drillisch entered into a "shareholder agreement for 1&1 Telecommunication SE" ("**Shareholder Agreement**") regarding their joint position as shareholders of 1&1 Telecommunication arising in the course of the execution of Capital Increase I; this agreement will end once Capital Increase II is closed and, related to that, all 1&1 Shares are consolidated in the hands of Drillisch.

(1) *Business Combination Agreement*

(A) 1&1 Telecommunication as Subject of Acquisition and Contribution

The subject matter of the Business Combination Agreement is the acquisition of the Restructured 1&1 Group by Drillisch. The subject of contribution being the Restructured 1&1 Group has been created by restructuring measures initiated against the background of the Transaction (for details, see III.1.b)(7) above).

For the purpose of acquiring 1&1 Telecommunication, it is agreed in the Business Combination Agreement that 9,372 1&1 Shares will be contributed to Drillisch in connection with Capital Increase I by partly utilizing the 2014/I authorized capital of Drillisch, while excluding the subscription right of the Drillisch shareholders.

In accordance with the content of the terms in the Business Combination Agreement, the management board has convened an Extraordinary General Meeting for July 25, 2017 with the invitation to which this report is attached. The only agenda item of this Extraordinary General Meeting of Drillisch is the resolution on the proposal of the management board and the supervisory board of the Company to increase the registered share capital of Drillisch in return for the contribution of the remaining 111,628 1&1 Shares of United Internet by way of a contribution in kind, while excluding the subscription right of the shareholders.

In order to perform the obligations under the Business Combination Agreement and with regard to Capital Increase II subject to the necessary merger approval and the approval of the Extraordinary General Meeting of Drillisch, United Internet and Drillisch will sign corresponding contribution agreements.

(B) Consideration

As consideration for the acquisition of 9,372 1&1 Shares being part of Capital Increase I, Drillisch grants United Internet as subscriber 9,062,169 Drillisch Shares with full profit participation rights as from January 1, 2017.

As consideration for the acquisition of 111,628 1&1 Shares as part of Capital Increase II, Drillisch would in the event of the approval of the Extraordinary General Meeting grant United Internet as subscriber another 107,937,831 Drillisch Shares with full profit participation rights as from January 1, 2017.

Each of Capital Increase I and Capital Increase II is based on the same exchange ratio between Drillisch and 1&1 Telecommunication, namely 1 to 1.96, which implies a value of Drillisch of EUR 2.988 billion and a value of 1&1 Telecommunication of EUR 5.85 billion.

(C) Takeover Offer

In the Business Combination Agreement, United Internet has undertaken to issue the Takeover Offer at a price of EUR 50.00 per Drillisch Share. The Takeover Offer will – subject to approval by Drillisch – be subject exclusively to the condition that Capital Increase I is registered in the Commercial Register of Drillisch and the antitrust approval is granted by the Federal Cartel Office (*Bundeskartellamt*).

Under the Business Combination Agreement, the management board of Drillisch has agreed – subject to its corporate duties – to support the takeover as a part of the Transaction as a whole.

(D) DSL Sales Cooperation / Purchasing Cooperation

With regard to the equity interest in 1&1 Telecommunication to be acquired by Drillisch as a result of the execution of Capital Increase I, United Internet and Drillisch have basically agreed on the DSL Sales Cooperation / Purchasing Cooperation in the Business Combination Agreement.

This includes the sale of for example DSL, hosting and cloud products as well as smartphones and DSL hardware and accessories which the Drillisch Group does not itself sell. It is intended that the Drillisch Group will sell these products in its offline shops, as a result of which an improvement in customer footfall and an increase in the profitability of the offline shops is expected. The positioning of the Drillisch Group in the offline market will be strengthened by offering DSL products and what are known as bundled products (DSL, mobile, IPTV, cloud applications, etc.), since this way a product range comparable to that offered by Telefónica Germany, Telekom and Vodafone can be provided. The sales will be regulated by way of an agency model. Furthermore, it is generally intended to bundle the hardware purchasing.

(E) Term Sheet Wholesale Contract

As soon as either United Internet holds the majority of shares in Drillisch or Drillisch holds the majority of shares in 1&1 Telecommunication, Drillisch and 1&1 Telecommunication intend to enter into a wholesale contract that will enable 1&1 Telecommunication to use specific capacities under the MBA MVNO Contract. According to the content of the wholesale contract, 1&1 Telecommunication will be allowed to use a part of the Drillisch Group's capacity in the network of Telefónica Germany which is subject to further specification.

(F) Corporate Governance of Drillisch According to the Business Combination Agreement

Under the Business Combination Agreement, Drillisch has undertaken to invest its best efforts in arranging for a member of the supervisory board of Drillisch to step down from its office as a member of the supervisory board of Drillisch at the end of Drillisch's Extraordinary General Meeting, provided that United Internet holds more than 30% of the shares in Drillisch upon execution of the Takeover Offer. Drillisch and United Internet have further committed to undertake their best efforts to ensure that Ralph Dommermuth and Martin Witt will be appointed as members of the management board of Drillisch upon the execution of Capital Increase II; Ralph Dommermuth shall be appointed as chairman of the management board.

In the event that United Internet holds more than 50% of the shares in Drillisch, Drillisch will invest its best efforts in arranging for two more current members of the supervisory board of Drillisch to step down from their respective offices as Drillisch supervisory board members by no later than the end of the month following the exceedance of the 50% threshold.

In these cases, Drillisch has undertaken to apply for the appointment by court of persons designated by United Internet and to arrange for them to be appointed without delay by court as supervisory board members until the end of the next annual general meeting of Drillisch.

(G) Further Subject Matters

Drillisch and United Internet have mutually undertaken to facilitate the execution of all transaction steps. United Internet, however, has reserved the right to vote against the resolution relating to Capital Increase II in case of non-registration of Capital Increase I in the Commercial Register.

United Internet has stated in the Business Combination Agreement that it does not intend to change or to give up within the next five years the company name "Drillisch", the registered office of Drillisch pursuant to the Articles of Association and its material subsidiaries as well as the Drillisch sites in Maintal and Krefeld.

Drillisch undertakes to take all measures necessary to have the New Drillisch Shares CI I (defined below) admitted to trading on the Frankfurt Stock Exchange (*Prime Standard*). Furthermore, Drillisch will take all necessary measures so that the New Drillisch Shares CI I (if not yet admitted) and the New Drillisch Shares CI II (each as defined below) will be listed and admitted to trading on the Frankfurt Stock Exchange (*Prime Standard*) immediately after Capital Increase II has been registered in the Commercial Register. If upon the expiry of nine months after the New Drillisch Shares CI I have been registered the registration of Capital Increase II can be expected for the near future, United Internet agrees to a postponement of the admission of the New Drillisch Shares CI I in order to enable a simultaneous admission on the basis of only one securities prospectus.

(2) *1&1 Telecommunication Shareholder Agreement*

The Shareholder Agreement safeguards specific rights of Drillisch in relation to United Internet concerning the minority interest in 1&1 Telecommunication arising in the course of Capital Increase I. It sets out information rights and reservations of consent and contains agreements on the minimum amount of the dividend to be paid by 1&1 Telecommunication as well as on the terms and conditions according to which each party will be entitled in the future to request the minority shareholding in 1&1 Telecommunication held by Drillisch to be sold back.

On the basis of the Shareholder Agreement, specific fundamental decisions relating to 1&1 Telecommunication, such as changes of the business purpose, capital increases or similar measures in which subscription rights are excluded and the conclusion of intercompany enterprise agreements (*Unternehmensverträge*), are made subject to the approval of Drillisch.

The Shareholder Agreement ends once Capital Increase II has been completed and all of the 1&1 Shares are consolidated in the hands of Drillisch.

(3) *Third-Party Approvals and other Conditions of Execution*

The execution of the Takeover Offer depends, among other conditions, on the approval of the proposed business combination by the Federal Cartel Office (*Bundeskartellamt*) as the competent merger control authority. The application for registration of Capital Increase II will also be made only after the Transaction has been approved by the Federal Cartel Office (*Bundeskartellamt*). The merger control proceedings at the Federal Cartel Office (*Bundeskartellamt*) will be initiated immediately. A final decision on the proposed business combination is expected to be made before the end of the acceptance period for the Takeover Offer.

The approval of the German Federal Network Agency (*Bundesnetzagentur*) does not need to be obtained for the individual steps in connection with the execution of the Transaction, nor do any other measures have to be notified to the agency in advance.

c) **Capital Measures to Execute the Business Combination Agreement**

As consideration for the acquisition of 1&1 Telecommunication, Drillisch shall issue new shares in the Company to United Internet in two steps. The following Section III.2.c)(1) describes how Capital Increase I is to be executed. The following Section III.2.c)(2) subsequently describes how the additional shares of the Company to be issued to United Internet in connection with Capital Increase II will be created.

(1) *Creation of Drillisch Shares as Part of Capital Increase I*

It is intended to create the 9,062,169 new Drillisch Shares with profit participation rights for the 2017 fiscal year to be issued by Drillisch in connection with Capital Increase I ("**New Drillisch Shares CI I**") by way of a capital increase through contributions in kind from authorized capital. The underlying contribution in kind comprises 9,372 1&1 Shares (corresponding to 7.75% of the share capital of 1&1

Telecommunication). In connection with Capital Increase I, the statutory subscription right of the Drillisch shareholders will be excluded and only United Internet will be admitted to subscribe for the New Drillisch Shares CI I, which are granted as consideration for the 1&1 Shares to be contributed.

The Company currently has available a 2014/I Authorized Capital in the amount of EUR 21,669,969.20. In accordance with Article 4(2) of the Articles of Association of the Company, the management board of the Company can, in connection with the existing authorization, issue up to 9,062,169 Drillisch Shares as part of capital increases under the exclusion of the subscription right in return for contributions in kind for the purpose of acquiring companies, parts of companies, equity interests in companies, and other assets. This takes into consideration the limit of 20% of the share capital existing at the time the authorization comes into effect that can be issued in Article 4(2) of the Articles of Association of Drillisch under the terms of this authorized capital while excluding subscription rights as well as the fact that 1,575,634 new Drillisch Shares that have to be counted towards the 20% limit were issued in the course of the acquisition of The Phone House Deutschland GmbH on May 5, 2015.

On the day of the publication of the invitation to the Extraordinary General Meeting the management board of the Company resolved with the consent of the supervisory board to partly utilize the 2014/I authorized capital.

The acquisition of the New Drillisch Shares CI I by United Internet in connection with Capital Increase I results in United Internet holding 31.4% of the shares and voting rights in Drillisch after this capital measure has been executed (without taking into consideration a dilutive effect on account of possible conversions of the Convertible Bond). Due to an agreement between United Internet on the one side and Vlasios and Marianne Choulidis, Paschalis Choulidis and Marc Brucherseifer on the other side, entered into immediately before the convening of the Extraordinary Shareholdings Meeting, the latter are required, if United Internet's share in Drillisch does not otherwise reach the 30% threshold in Drillisch, to collectively tender in the Takover Offer 575,000 Drillisch Shares held by them. Due to this agreement, the proportion of the stake in Drillisch that is held by United Internet will not fall below 30% even in the event that the conversion rights for all convertible bonds are exercised.

(2) *Creation of Drillisch Shares as Part of Capital Increase II*

It is intended to create the 107,937,831 new Drillisch Shares with profit participation rights for the 2017 fiscal year that are necessary to implement Capital Increase II ("**New Drillisch Shares CI II**") by a resolution of the Extraordinary General Meeting of July 25, 2017 on the increase of the share capital of the Company in return for contributions in kind (Section 183 AktG). The underlying subject of the contribution in kind comprises 111,628 1&1 Shares (corresponding to 92.25% of the share capital of 1&1 Telecommunication). The statutory subscription right of the Drillisch shareholders is to be excluded and only United Internet is to be authorized to subscribe for the New Drillisch Shares CI II. The 2014/I authorized capital will be depleted after the New Drillisch Shares CI I are created. Against this background, the management board and supervisory board of the Company put forward to the Extraordinary General Meeting a resolution under Agenda Item 1 for a corresponding capital increase through contributions in kind.

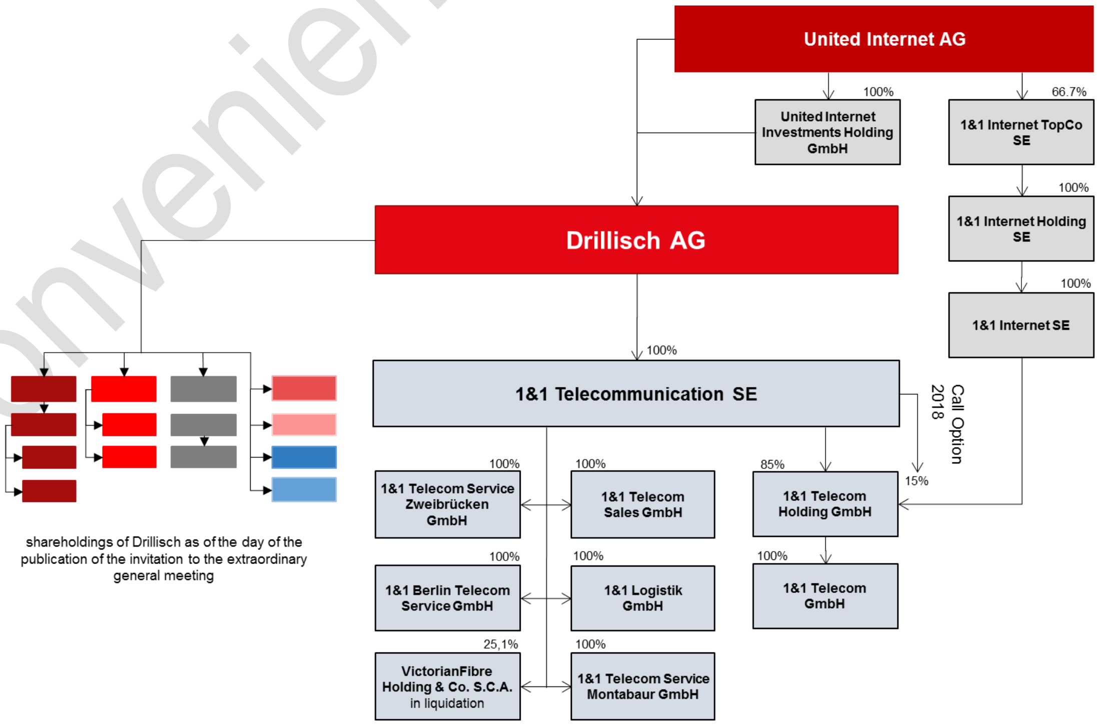
The proposed resolution under Agenda Item 1 provides for a minimum issuing price of EUR 1.10 per no-par value share in accordance with the statutory regulations. The difference between the issuing price of the New Drillisch Shares CI II and the value of the 1&1 Shares as assets contributed in kind is to be allocated to the capital reserve (*schuldrechtliches Agio*).

The acquisition of the New Drillisch Shares CI II by United Internet in connection with Capital Increase II would result in United Internet holding approximately 72.7% of the shares and voting rights in Drillisch after this capital measure has been executed (without taking into consideration a dilutive effect on account of possible conversions of the Convertible Bond and an increase in the proportion held by United Internet as a consequence of the tendering of shares in the Takeover Offer).

The application for registration in the Commercial Register of Capital Increase II to be approved by the Extraordinary General Meeting will be filed once the Federal Cartel Office (*Bundeskartellamt*) has approved the execution of the Transaction. After Capital Increase II has been registered, Drillisch will hold all the shares of 1&1 Telecommunication.

d) Target Structure of the Transaction

After registration of Capital Increase I and Capital Increase II the Integrated Drillisch Group will be organized as follows as part of the United Internet Group:



e) **Transaction Timetable**

Date		Transaction step
May 12, 2017		Announcement of the Transaction Publication • of the invitation to the Extraordinary General Meeting (Capital Increase II) • of the disclosure by United Internet pursuant to Section 10 WpÜG (Takeover Offer) Resolutions of the management board and supervisory board of Drillisch concerning the Transaction and partial utilization of the 2014/I authorized capital (Capital Increase I)
May 18, 2017		Ordinary general meeting of Drillisch
As soon as possible after May 12		Registration of Capital Increase I in the Commercial Register of Drillisch
May 29, 2017*		Start of acceptance period of Takeover Offer
June 26, 2017*		End of acceptance period of Takeover Offer
July 14, 2017*		Expected end of extended acceptance period of Takeover Offer
July 25, 2017		Extraordinary General Meeting of Drillisch (Capital Increase II)
As soon as possible after the requirements are met		Registration of Capital Increase II in the Commercial Register of Drillisch
Subsequently		Admission to trading in the stock market of the New Drillisch Shares CI I and the New Drillisch Shares CI II

**Latest possible date according to current status of planning*

3. Explanation and Grounds for the Exchange Ratio

The New Drillisch Shares C II will be issued for the acquisition of 111,628 1&1 Shares representing a calculated proportion of 92.25% of the share capital of 1&1 Telecommunication. This means that the contribution corresponds to a value ratio of 1.96 to 1 between 1&1 Telecommunication and the Company.

In order to determine the adequacy of the issuing price and the exchange ratio, the management board of Drillisch has performed a due diligence of the Original 1&1 Group (excluding the products and services offered under the brand „1&1-Versatel", while including the retail customer DSL business of „1&1-Versatel") with the assistance of legal, tax and commercial advisors. Furthermore, the management board of the Company appointed ValueTrust Financial Advisors SE, Munich ("**ValueTrust**") as an independent expert to evaluate the adequacy of the ratio of the company values of Drillisch and 1&1 Telecommunication and the exchange ratio based on this value ratio of the shares of Drillisch and 1&1 Telecommunication and to provide an expert opinion ("**Expert Opinion**"). The evaluation was carried out in accordance with the Principles for the Performance of Business Valuations of the Institute of Public Auditors in Germany (*IDW*) as set forth in the IDW Standard S 1 ("**IDW S 1**") as of April 2, 2008. Furthermore, ValueTrust took into account the "Best-Practice-Recommendations Corporate Valuation" of the Society of Investment Professionals in Germany (as of December 2012, "**DVFA Recommendations**").

ValueTrust not only examined whether the contributions in kind meet the respective minimum issuing price of EUR 1.10 per Drillisch Share for Drillisch Shares to be issued in the capital increases through contributions in kind I and II, but also whether the 1&1 Shares to be contributed in connection with Capital Increase II correspond to the full value of the Drillisch Shares. The evaluation was performed both for (i) May 12, 2017, the day of the publication of the invitation to the Extraordinary General Meeting deciding on the execution of Capital Increase II as well as this management board report pursuant to Section 186(4) sentence 2 German Stock Corporation Act (AktG) and the decisions of the management and supervisory board of Drillisch to utilize the authorized capital for Capital Increase I, and for (ii) July 25, 2017, the date of the Extraordinary General Meeting of Drillisch deciding on the execution of Capital Increase II.

The Expert Opinion is attached to this report as an **Annex**, is therefore an integral part of this report, and will be published on the website of Drillisch as an annex to this report from the day of the convening of the Extraordinary General Meeting.

The management board has thoroughly reviewed the Expert Opinion and takes full ownership of the statements contained therein concerning the valuation method and results, in particular relating to the company values of 1&1 Telecommunication and Drillisch and the value of synergies between the Drillisch Group and the Original 1&1 Group.

In reference to the Expert Opinion the management board concludes that the exchange ratio and therefore the issuing price are adequate.

In what follows, first the valuation method chosen by ValueTrust will be explained in detail before information on the results for the valuation of Drillisch and 1&1 Telecommunication, each on a stand-alone basis, as well as expected synergies and synergy allocations between Drillisch and 1&1 Telecommunication will be presented. Finally, the findings of the management board relating to the adequacy of the exchange ratio as well as the exclusion of subscription rights, based on the determined values, will be summarized.

a) **Valuation Method**

(1) *Requirements for the Determination of the Exchange Eatio Pursuant to Section 255 (2) AktG*

According to the described transaction structure, Drillisch intends to execute Capital Increase II against contribution in kind pursuant to Section 182 AktG. Due to the intended exclusion of the subscription rights of the existing shareholders of Drillisch, the intended capital increase through contributions in kind pursuant to Section 186(3) AktG requires a majority of at least three fourth of the share capital represented at the voting. However, even if such a majority is achieved, the resolution of the general meeting can be contested by shareholders pursuant to Section 255(1) AktG and, conceivably, the registration of the intended Capital Increase II could be prohibited by court order. Pursuant to Section 255(2) AktG, it is a permissible cause for contestation if the issuing price resulting from the resolution to increase, or the minimum amount below which no shares shall be issued, is “inadequatly low”. Section 255(2) AktG accordingly aims at protecting existing shareholders from an inappropriate dilution of their assets and dividend rights resulting from a capital increase through contributions in kind under the exclusion of the subscription rights.

Conversely, this leads to the conclusion that an “inadequatly low” issuing price or the minimum issuing price determined in the resolution to execute the capital increase is not an admissible reason for a contestation of the resolution by shareholders if the value of the contribution in kind corresponds to the value of the shares issued in return so that no inappropriate dilution occurs. With regard to Capital Increase II intended by Drillisch, this means that the value of the 111,628 1&1 Shares to be contributed to Drillisch in kind, that is 92.25% of the share capital of 1&1 Telecommunication, corresponds to the value of the New Shares issued in return by Drillisch to United Internet. In this respect, the determination of an adequate issuing price for the new Drillisch Shares requires the determination of adequate values of the equity of 1&1 Telecommunication and Drillisch, for both the date of publication of the invitation to the Extraordinary General Meeting deciding on the execution of Capital Increase II and for the date the Extraordinary General Meeting decides on Capital Increase II.

For the value determination, the principles of objectified business value as set forth in IDW S 1 and the DVFA-Recommendations were taken into account, as well as the principles for valuation developed by case law which, however, primarily have been developed for the determination of an adequate compensation for the conclusion of a domination and profit transfer agreement pursuant to Section 291 et seqq. AktG or a squeeze out pursuant to Section 327a et seqq. AktG.

(2) *Concept of Business Value Pursuant to IDW S 1 and DVFA*

The company value is determined through the interaction of all of the company’s existing values. The subject of valuation does not need to comply with the legal boundaries of the company; instead the subject of valuation is often defined by economic criteria.

Company values are to be assessed at a relevant valuation date. Therefore, only information that was reasonably available on the valuation date has to be taken into account. Furthermore, only measures that were initiated or already sufficiently specified on the relevant valuation date have to be taken into account (so called “root theory” (*Wurzeltheorie*).

The company value under IDW S 1 is to be determined on an incident-related basis. The value is determined on the basis of the present value of net cash flows to the shareholders assuming the company strictly pursues financial goals. For purporses of deriving the present value of the cash flows, a discount rate is used which represents the return on an alternative investment adequate to the investment in the valued company. Thus, the objectified value of the company is determined only on the basis of its earning power, that is its capacity to earn cash flows for the shareholders.

The company value basically results from the cash flows generated when continuing the company and selling non operative assets (so-called value of future earnings, *Zukunftserfolgswert*). For this purpose, the capitalized earnings method (*Ertragswertmethode*) and the variants of the discounted cash flow method ("**DCF Method**") are used in theory as well as in practice. Only in case the present value of the cash flows resulting from the liquidation of the company as a whole (so-called liquidation value) exceeds the continuation value, the liquidation value may determine the company value.

The value of future earnings primarily depends on the company's capacity to generate cash flows. Therefore, a forecast of the future withdrawable cash flows is required to value the company. Only those cash flows that are placed at the shareholders' disposal as net receipts are used for valuation purposes (so-called inflow principle, *Zuflussprinzip*). For the determination of an objectified business value, the capital structure has to be deduced from the corporate concept as documented on the valuation date. Possible optimizations of the capital structure, which might be implemented e.g. through the influence of a majority shareholder, is not relevant for the determination of the objectified value according to IDW S 1.

The equity value can be determined directly by net capitalization on the basis of the capitalized earnings method, respectively the flow to equity approach as a variant of the DCF Method, or indirectly by gross capitalization on the basis of the concept of weighted average cost of capital ("**WACC Approach**"), the adjusted present value approach or the total cash flow approach. When using the direct determination, (all) cash flows reduced by the costs of debt are discounted in one step, whereas discounting by gross capitalization refers to the cash flows arising from business operations and a subsequent reduction of the determined total company value (Enterprise Value) by the market value of the interest-bearing debt.

An indirect standardization (*mittelbare Typisierung*) of the tax situation of the shareholders can be assumed in case of business initiatives based on the determination as objectified base of information. In doing so, it is assumed that the net inflows from the valued company and the inflows from the alternative investment in an portfolio of shares are subject to comparable personal taxation on the shareholder level. Afterwards, it is not necessary to explicitly consider personal income taxes when determining the cash flows and the discount rate. Basically, this approach was applied in this report.

Generally, IDW S 1 refers to the relevance of personal taxes when determining an objectified business value in the course of structural measures under German Stock Corporation Act; therefore, the objectified business values will be determined additionally according to the IDW S 1 capitalized earnings method based on the assumption of a direct standardization (*unmittelbare Typisierung*), i.e. personal income taxes are explicitly considered.

In contrast to IDW S 1, DVFA-Recommendations determine the market value based on the valuation concept of the "typical buyer (*markttypischer Erwerber*)" as standard for determining the deduced fundamental value. In doing so, the empirically observed methods followed by real buyers are used more intensely for modelling a hypothetical transaction. This is substantiated by the principle of methodological diversity, which means, the multiplier method is, in general, equal to the cash flow based discounting, value ranges are explicitly used as a starting point for the final justification of the adequacy of the proposed compensation and specific assumptions for the course of action of the typical buyer are presented transparently. As opposed to IDW S 1, the DVFA-Recommendations, based on the concept of the typical buyer, reject to include personal income taxes on dividends and capital gains on the ground that such standardization is not compatible with empirically observable buyers and the empirical proved shareholder structures of German stock corporations.

In case of listed companies, the stock price may serve as a basis for the purposes of valuation. On free capital markets, the price of company shares is generated by supply and demand. Essentially, it is determined by the utility estimation (marginal utility) of the respective buyer and seller. Depending on the quantitative ratio of supply and demand and the shareholders' potential influence on corporate policy (e.g., sole ownership, qualified or simple majority, blocking minority or free float), stock prices may differ more or less from the value of the entire company or the pro-rata share of the total company value, so that the stock price on the valuation date might be inappropriate as a basis for direct derivation of the company value.

However, there may be arguments against direct or indirect value derivation from stock prices, as they may be influenced by numerous special factors, for example the market size and narrowness (*Marktenge*), revenues by chance, exceptional market situations and speculative market movements. In addition, the use of stock prices as basis for the equity value cannot replace a fundamental valuation if this valuation uses an information base, e.g. the adopted business plan, that is superior and broader than the capital market's information base.

According to the decision of the German Federal Court in DAT v. Altana (ruling of March 12, 2001 – file no.II ZB 15/00) and Stollwerck (ruling of July 19, 2010 – Court file no. II ZB 18/09), stock prices serve as the lower limit for the compensation or indemnification offered in case of structural measures. The basis should be the trade volume weighted three month average stock prices (so-called "VWAP" or "*Dreimonatsdurchschnittskurs*") at the time of announcing the measure which is the reason for the valuation. If these principles which have been developed by the judiciary on structural measures subject to stock corporation law have to be transferred to the assessment of the adequacy of the exchange ratio pursuant to Section 255(2) AktG, the equity value determined by the management board of Drillisch and 1&1 Telecommunication for the execution of the intended Transaction in the amount of EUR 2,985 million has to be at least equal to the equity value resulting from the VWAP. The determination of a comparable floor value or the execution of a comparable determination for 1&1 Telecommunication cannot be performed as the shares of 1&1 Telecommunication are not listed.

(3) *Standards for Plausibility of the Company's Business Plan*

In accordance with IDW S 1 the objectified business value represents a intersubjectively verifiable future earnings value from the perspective of the shareholders. The future earnings value is a result of the company continuing its business with an unmodified concept including all realistic future expectations in connection with the market opportunities and –risks, the financial means of the company and other factors. Therefore, the valuation of the company is based on the profitability at the valuation date and includes the opportunities at the valuation date resulting from measures already initiated or sufficiently substantiated in connection with the company's present business concept. Possible measures which, however, have not sufficiently been substantiated as well as assumed cash flows generated by those measures are therefore insignificant for the assessment of objectified business values. Additionally, the plausibility of the forecast of future cash flows has to be assessed by an independent valuation analyst ("*Bewertungsgutachter*"). The future cash flows have to be derived from a consistent and integrated business plan, consisting of a profit and loss statement, balance sheet and cash flow statement.

In addition to IDW S 1 an assessment of the Company's business plan according to the valuation concept of a typical buyer, as it is intended by the DVFA-Recommendations, has been carried out. According to the DVFA-Recommendations, the typical buyer determines the value of the company on the basis of hypothetical future business policy assumptions; in addition to planned investments in fixed and current assets, acquisitions and/or disposals, these business policies also include assumptions relating to financing policies and the capital structure of the company. These assumptions must be consistent with those of the typical buyer, keeping in mind that the typical buyer does not take purely individual synergies and/or value determinants into account when calculating the offered purchase price. The basis is formed by the company's integrated business plan (consisting of a profit and loss statement, balance sheet and cash flow statement) which is based on the actual assumptions and the knowledge of the hypothetical typical buyer at the valuation date in consideration of the accounting principle according to which losses and risks have to be accounted for in the annual financial statement when they came into existence before the valuation date but became known only between the valuation date and the preparation of the annual financial statement (*Wertaufhellungsprinzip*).

The standard to be applied in connection with the company's business plan underlying the valuation refers to the mathematical accuracy, the consistency of the premises on which the assumptions of the business plan are based, the absence of contradictions as well as the analysis as to whether the plan calculation is consistent with the fictional assumptions of the typical buyer.

In order to assess the plausibility of the business plans of Drillisch and 1&1 Telecommunication the basic structure of the Company's business plan and the planning process has been analyzed. The relevant standard applicable to the internal calculations underlying the valuation of the Company is confirmed or rather substantiated by the German Federal Constitutional Court. Thus, forecasts must be based on true information and on realistic assumptions and must not be self-contradictory. Therefore, mathematical accuracy and consistency of the premises on which the business plans are based are referred to by the standard for the assessment of plausibility of the Company's business plan underlying the valuation according to IDW S 1, the DVFA-Recommendations and the jurisprudence.

Against this background and in reference to the business strategy of the Company and the general market environment, an analysis of key performance indicators ("**KPIs**") of historical as well as projected results has been conducted and these KPIs have been compared with the analysts' estimates of comparable companies ("**Peer Group**") in a benchmark test.

(4) *Allocation of Synergies*

Taking into account synergies – in accordance with the distinction between so called real (non-considerable) and so called pseudo (considerable) synergies pursuant to IDW S 1 and in accordance with the distinction between market-participant (eligible) synergies and buyer-specific (ineligible) synergies pursuant to DVFA-Recommendations – is a generally accepted practice of company valuation for the determination of reasonable shareholder compensations in connection with structural measures.

In contrast, the consideration of synergies in connection with a capital increase with exclusion of subscription rights has not yet been finally clarified by valuation practice and courts. Whereas, regarding structural measures und German Stock Corporation Act, an interest of minority shareholders on real synergies arising from the structural measure is negated due to the mandatory desinvestment of the minority shareholders in connection with the structural measure, interests of minority shareholders have to be taken into account differently when a capital increase with exclusion of subscription rights is concluded.

In contrast to structural measures the rights connected with a share are not directly restricted by the capital increase. Existing shareholders – even though they suffer a watering down of their dividend and voting rights with the execution of the capital increase – remain invested in the acquiring company. Even after the execution of the capital increase, the shareholders therefore participate in the real synergies according to their ownership after the capital increase has been carried out. Despite the watering down of the existing shareholders' voting rights, the execution of a capital increase can be economically advantageous in comparison to a stand-alone valuation due to the participation of the existing shareholders in real synergies. The value of the shares held by the existing shareholders increases due to the synergies in comparison to the value of their shares on a stand-alone basis.

An exchange rate seen as inappropriate by the existing shareholders which would be required for a contestation action pursuant to Section 255(2) AktG can be avoided due to the abovementioned increase of the value of the shares of the existing shareholders by the determination of an appropriate stand-alone value for the assets in kind and the shares issued in exchange. Therefore the adequacy of the exchange ratio is assessed initially on the basis of the stand-alone company value of Drillisch and 1&1 Telecommunication.

b) Drillisch

(1) *Findings on the Budget Plan of Drillisch*

The determination of the equity value of Drillisch is based on the forecasts by Drillisch prepared in the regular process of business planning and approved by its management board on March 15, 2017:

Profit and loss account

	Historical figures (adjusted)			Planning period					TV
in million EUR	2014	2015	2016	2017	2018	2019	2020	2021	
Revenue	**290**	**499**	**567**	**699**	**823**	**953**	**1,045**	**1,125**	**1,286**
Growth (in %)	-	*72.4%*	*13.5%*	*23.4%*	*17.7%*	*15.7%*	*9.7%*	*7.6%*	*n.a.*
Cost of materials	147	244	309	373	433	517	569	608	764
Gross profit	**143**	**255**	**258**	**326**	**391**	**436**	**477**	**516**	**522**
Margin (in %)	*49.2%*	*51.1%*	*45.5%*	*46.6%*	*47.5%*	*45.7%*	*45.6%*	*45.9%*	*40.6%*
Personnel costs	25	38	49	52	56	59	61	62	94
Other operating income	1	15	14	6	6	7	8	9	10
Other operating expenses	36	116	101	109	109	109	113	117	141
Other internally gen. Assets	2	2	2	-	-	-	-	-	-
EBITDA (before adjustment)	**85**	**118**	**125**	**171**	**232**	**275**	**311**	**346**	**298**
Adjustments	n.a.	n.a.	n.a.	2	3	3	2	2	3
EBITDA (after adjustments)	**85**	**118**	**125**	**174**	**235**	**278**	**313**	**348**	**300**
Margin (in %)	*29.4%*	*23.7%*	*22.0%*	*24.8%*	*28.5%*	*29.2%*	*29.9%*	*31.0%*	*23.1%*
Depreciation	10	36	61	49	33	31	27	23	57
EBIT (after adjustment)	**75**	**82**	**63**	**125**	**201**	**247**	**286**	**325**	**243**
Margin (in %)	*26.0%*	*16.5%*	*11.1%*	*17.9%*	*24.4%*	*25.9%*	*27.3%*	*28.9%*	*18.9%*

In order to ensure a consistent derivation of future cash flows and growth rates, the substantial assumptions of the budget plan have been assessed for plausibility. ValueTrust is of the opinion that the internal plans are reasonable although ambitious at the same time due to several reasons, such as the analyses carried out as to the market- and competitor environment, the plans of the profit and loss statement as well as the balance sheet plans including the price-/quantity reference, the benchmark analysis with Peer Group companies, conversations with the Drillisch management board and the analysis of the planning process. Against the background of a further decrease of the revenues and margins in the terminal value period, ValueTrust adopted the budget planning without further adjustment, except for a valuation-related adjustment relating to own work capitalized.

(2) *Assumptions for the Terminal Value Period*

When determining the total company value using the DCF-Method, two periods are distinguished when discounting future cash flows on the assumption of an infinite life time of the company. The first period (detailed planning period) consists of a limited number of periods and usually covers three to five years. In a possibly directly following terminal value period, the terminal value is determined by assuming a sustainability of the cash flows in perpetuity on the basis of a stable growth rate. The terminal value period describes the estimate of earnings assuming constant growth. The sustainable growth rate is the required rate of growth for all plan items in order to achieve and display a sustainable and steady state of the company. The simultaneous growth of all positions of the profit and loss statement and of all balance sheet items also constitutes a constant asset turnover, debt ratio and capital profitability besides a constant and sustainable operating profitability.

The budget plan of Drillisch constitutes a nominal planning. In order to display the sustainable growth of the cash flows in the terminal value period, a nominal growth has been assumed.

If the company at the end of the detailed planning period is not in the required "steady state", for example if it lacks sustainable growth, assumptions in the terminal valuation period have to be made accordingly which allow for an initiation of the terminal value period. The steady state describes a sustainable earnings and assets situation where all positions in the profit and loss statement show equal growth as the sustainable growth rate and no changes to substantial value drivers occur. In doing so extraordinary effects can be taken into account and the plans can be transferred into sustainable estimates. This approach has been followed. It can be expected that, in the long term, all Peer Group companies will converge towards the average market level.

Due to the MBA MVNO Contract which remains in effect until 2034 (including a four-year transition period) Drillisch is not yet in a steady state until the end of the detailed planning period in 2021. Therefore, adjustments have to be made in connection with the terminal value period in order to assess the sustainable size of the discounted cash flows. These adjustments were made present-value equivalent in 2022, the year of the terminal value period.

(3) *Discount Rate*

When determining the company value the expected future cash flows are to be discounted to the valuation date at an appropriate interest rate. This interest rate is determined by the (expected) return and the price of the best alternative capital utilization in comparison to the valuation object. Economically, the discount rate depicts the decision alternatives of an investor comparing the yield of its investment in a certain company to the yield of an appropriate alternative investment in company shares. The discount rate represents the yield on an appropriate alternative investment to an investment in the company being valued if this alternative investment is equivalent to the cash flows to be discounted with regard to maturity, risk and taxation.

The free cash flow, which serves as basis for the valuation under the WACC approach of the DCF-Method according to the DVFA-Recommendations, represents the cash flows available for the equity and debt investors. Accordingly, the free cash flow is discounted at the weighted average costs of capital which correspond to the equity and debt investors' weighted average expected returns. The weighted average costs of capital are also referred to as WACC. They are calculated as periodic equity and debt capital costs, whereby the respective weighting of each of the two components corresponds to the percentage shares of the equivalent equity and debt (market values) of the total asset value.

For the valuation before personal taxes under IDW S 1 the cash flow-to-equity approach of the DCF-Method and the WACC Approach for the DCF value according to the DVFA-Recommendations are used. The key figure cash flow-to-equity serving as the basis for the valuation according to the cash flow-to-equity approach represents the cash flows available for the equity investors. Thus, the cash flow-to-equity is discounted at the levered cost of equity, which corresponds to the average expected returns of the equity investors. The calculation of the levered cost of equity is period-specific.

The levered cost of equity are derived using the capital asset pricing model ("**CAPM**") which is accepted in theory and practice. Under the CAPM, the risk-free base rate and the risk premium consisting of the beta factor and the market risk premium are components of the levered cost of equity which are employed by the cash flow-to-equity approach and the WACC Approach.

For the valuation a uniform base rate of 1.25% is to be used for both valuation dates. This base rate has been determined by the Svensson-Method applying present-value equivalent returns of risk-free treasury bonds of the Federal Republic of Germany.

The market risk premium is defined as the difference between the expected value of a market portfolio's long-term returns consisting of risky securities and the current risk-free base rate at the valuation date represented by the risk-free interest of treasury bonds. According to the Technical Committee for Business Valuation and Economics of the IDW (*Fachausschusses für Unternehmensbewertung und Betriebswirtschaft des IDW* („**FAUB**")) of September 19, 2012, a market risk premium before personal taxes in the amount of 5.5% - to 7.0% is to be presumed due to the currently varying risk tolerance. FAUB adheres to this recommendation according to a notice on the 118th meeting of FAUB in 2016. Based on capital market studies relating to historical stock returns and implicit market risk premiums and taking into account the current risk-free base objectifiedrate, a market risk premium above the recommended range by FAUB may be justified, which will also be taken into account within the alternative valuation according to the DVFA-Recommendations. The market risk premium range published in FAUB's recommendations amounts to 5.0% to 6.0% after personal taxes.

For the valuation under IDW S 1 before taxes the upper end of the range recommended by FAUB of 7,0% is to be used for determining the market risk premium before personal taxes. For determining the DCF-value according to the DVFA-Recommendations a market risk premium of 7.25% before personal taxes is applied. For the capitalized earnings method according to IDW S 1 after personal taxes a market risk premium range in the amount of 5.5% and 6.0% is applied.

The discussed market risk premium is to be modified with regard to the specific risk structure of the company to be valued. Under the CAPM the company- and industry-specific risk is expressed by the so called beta factor.

Since Drillisch is a listed company, first its own beta factor is to be determined in order to estimate an appropriate beta factor. The Company's unlevered beta factor amounts to approximately 0.76.

As an alternative method, recourse may be given to a beta factor resulting from Peer Group companies. Starting from the levered beta factors of comparable companies observable on the capital market unlevered beta factors are determined in consideration of the capital structure (strictly speaking debt ratio) as well as uncertain tax benefits from debt financing (so called "unlevering"). The unlevered beta factor of the Peer Group lies within a range of 0.61 to 0.76. Taking the average (arithmetic mean) results in a beta factor of around 0.70. Considering Drillisch's own beta factor and the Peer Group's beta factors as well as future risks of Drillisch's business model, an unlevered beta factor of 0.70 is adequate for the valuation of Drillisch.

On the basis of a market risk premium of 7.0% and the unlevered beta factor of 0.70 the risk premium (for the operational risk) amounts to approximately 4.9%.

The unlevered costs of equity therefore amount to

1.25% + 0.70 x 7.0% = 6.15%.

(4) *DCF-Value under IDW S 1 Before Personal Taxes*

As of May 12, 2017, the value of Drillisch's equity amounts to approximately EUR 2,925 million in total, considering EUR 0.4 million in special values and a DCF-value of approx. EUR 2,925 million. This corresponds to a value of EUR 48.95 per share based on an amount of 59,764,649 Drillisch Shares.

Given that no material changes occur in relation to the profit prospects or the capital market environment until July 25, 2017, the equity value amounts to EUR 3,408 million and EUR 49.51 per Drillisch Share, respectively, as of that date. This value results from a DCF-value of EUR 2,962 million and a special value of EUR 446 million which results from the stake of 7.75% in 1&1 Telecommunication acquired within the course of Capital Increase I.

(5) *Capitalized Earnings Method under IDW S 1 After Personal Taxes*

Against the background of the underlying valuation scenario, the determination of the adequate exchange ratio according to Section 255(2) AktG, there is a material conceptional difference between the cash flow-to-equity approach and the capitalized earnings method under IDW S 1, how to take personal taxes at the shareholder's level into account. In determining the objectified value under IDW S 1 within the assessment of compensation and indemnification for corporate structuring measures, a standardization of the shareholders' tax conditions must be undertaken pursuant to the principles of objectified business value under IDW S 1. For this standardization the perspective of a domestic natural person who is subject to a comprehensive tax liability has to be adopted and the corresponding personal income taxes are to be taken into account both in assessing the cash flow measure to be discounted and in assessing the discount rate (so called Tax-CAPM).

Specifically, the risk-free base rate determined pursuant to the Svensson-Method in the amount of 1.25% before personal taxes is to be reduced by 26.38% in consideration of the settlement tax plus solidarity surcharge. This results in a risk-free base rate of 0.92% after personal taxes.

In determining the DCF value after personal taxes, a market risk premium range of 5.5% to 6.0% was applied.

In conclusion, taking into account personal taxes pursuant to the principles of objectified cbusiness value under IDW S 1 at the reference dates May 12, 2017 and July 25, 2017 the equity values per Drillisch Share are:

Overview DCF-Value pursuant to IDW S 1 after personal tax

Drillisch	May 12, 2017		July 25, 2017	
in million EUR or EUR per share	equity value	value per share	equity value	value per share
DCF-value IDW S 1 after tax (MRP 6.0%)	2,593	43.39	3,066	44.55
DCF-value IDW S 1 after tax (MRP 5.5%)	2,778	46.48	3,251	47.24
Average	**2,686**	**44.94**	**3,159**	**45.90**

(6) *DCF-Value under DVFA-Recommendations*

The calculation of the equity value pursuant to the principles of the DVFA-Recommendations, which rest on the concept of the typical buyer, deviate from the principles of objectified business value with regard to the application of the DCF-Method. Material differences are non-consideration of personal taxes (Tax-CAPM) and consideration of a market-typical capital structure as market participant synergy. Additionally, pursuant to the DVFA-Recommendations a derivation of the market risk premium based on historical stock returns (historical market risk premium) and implicit stock returns may be performed, which deviates from the recommended range of IDW S 1 by FAUB. For this reason, in what follows the assessment of the equity value will be performed pursuant to the DVFA-Recommendations.

The weighted average costs of capital (WACC) will be derived from the determined equity and debt capital costs, weighted by the equity and debt capital's period-specific market values. In doing so, a simplifying constant debt ratio of 20% will be assumed in reference to the Peer Group companies.

Since a market risk premium may also be justified above the range of 5.5% to 7.0% before personal taxes as recommended by FAUB, a market risk premium in the amount of 7.25% p.a. before personal taxes is assumed when assessing the DCF-value pursuant to the DVFA-Recommendations. In doing so, a beta factor in the amount of 0.70 derived from the Peer Group will be assumed.

Based on this assumption the average costs of capital amount to a range of 6.1% to 6.3% during the detailed planning period and the terminal value period.

As of December 31, 2016, a total company value of EUR 2,958 million is determined by discounting the free cash flows. Interest-bearing liabilities in the amount of EUR 93.3 million are to be deducted from this value, resulting in a DCF-value of EUR 2,865 million as of December 31, 2016 which is to be compounded to the valuation date May 12, 2017 and July 25, 2017, respectively. Considering special values of EUR 0.4 million, the equity value amounts to EUR 2,932 million as of May 12, 2017 and EUR 49.05 per Drillisch Share, respectively.

After taking into account the stake in 1&1 Telecommunication in the amount of 7.75% as well as deductible taxes hereof due to non-complete tax deductibility of dividend distributions, the equity value amounts to EUR 3,414 million as of July 25, 2017 which corresponds to a value per share of EUR 49.61.

(7) *Comparison-Based Valuation Using the Multiples Method*

Besides the derivation of the company value based on the DCF-Method, for comparison purposes value ranges will be determined on the basis of the multiples method. The multiples method constitutes a comparative market valuation.

For the valuation of Drillisch comparable companies' stock prices observable on the market and the derived multipliers thereof are to be taken into account initially. Thereby, all comparable companies identified in the Peer Group selection may be included in the valuation. The analysis is based on multiples of the last full financial year 2016 as well as the planning years 2017 and 2018.

For the derivation of appropriate revenue- and EBIT-multipliers of Peer Group companies, focus will additionally be given to the relevant KPIs growth and profitability. In order to further sufficiently consider the partially different capital intensity of the Peer Group companies, additional regard will be given to the cash contribution multipliers. The respective reference figure for the cash contribution-multiples will be determined by subtracting the (gross) investments (CAPEX) from EBITDA.

The equity value range as of May 12, 2017 thus lies between EUR 2,663 million and EUR 3,048 million which corresponds to a value of EUR 44.55 to EUR 50.99 per Drillisch Share excluding the special value from Capital Increase I on the basis of the reference figures revenue, EBIT as well as cash contribution. As of July 25, 2017 the equity value range reaches from EUR 3,142 million to EUR 3,532 million which corresponds to a value of EUR 45.65 to EUR 51.31 per share.

(8) *Comparison-Based Valuation Using the Stock Price*

Pursuant to IDW S 1 and the DVFA-Recommendations, the stock exchange price may be taken into account to assess plausibility or principally as a separate valuation method. However, the use of stock exchange prices as a reference of company value may not replace fundamental valuation if such a valuation compared to capital markets can take into account superior and broader information, e.g., an approved business plan. Additionally, in the present case, in assessing the adequacy of the exchange ratio, comparative valuation based on stock exchange prices cannot be relied on since only Drillisch Shares but not 1&1 Telecommunication shares are admitted to trading on the stock exchange.

Pursuant to the decision of the German Federal Constitutional Court in "*DAT/ALTANA*" and the decision in "*Stollweck*" recourse must be made to a so called reference price when using the stock price. This reference price is calculated as the three-month average price. In contrast to a spot rate the reference price is less sensitive to impacts of chance and short-term distortions. The three-month average price of the Drillisch Share amounts to EUR 45.29 as of May 5, 2017, the relevant record date of the data collection for this Expert Opinion. The value per share determined by the management boards of Drillisch and 1&1 Telecommunication in the amount of EUR 50.00 corresponds to a premium of 10.4% on the three-month average price. Thereby, the determined value per Drillisch Share is in line with the guidelines set out in the "*Stollweck*" and "*DAT/ALTANA*" cases.

Overall, during the period under review, the stock price performance does not show any abnormal volatility which would suggest a distortion of the stock prices and limited validity of the stock price for the fair market value of the Drillisch Shares due to exceptional events.

In connection with the analysis of the stock price it is further necessary to examine to what extent the stock price is suitable as an independent valuation parameter or in determining the beta factors or stock exchange multiples. In analyzing stock prices, the development of the daily trading volume (in relation to the total share portfolio) as well as the transaction costs (in form of so called Bid-Ask-Spreads) and the free float will be included to determine the liquidity of the share over time. Overall, based on the analysis of these figures, no indications could be found pointing to a reduced liquidity of the Drillisch Shares.

c) **1&1 Telecommunication**

(1) *Findings on the Budget Plan of 1&1 Telecommunication*

The determination of the equity value of 1&1 Telecommunication is based on the forecasts by 1&1 Telecommunication prepared in the regular process of business planning and approved by its management board:

Profit and loss account

	Historical figures (adjusted)			Planning period					TV
in million EUR	2014	2015	2016	2017	2018	2019	2020	2021	
Revenue	**2,020**	**2,255**	**2,431**	**2,671**	**2,889**	**3,123**	**3,337**	**3,522**	**3,793**
Growth (in %)	-	*11.6%*	*7.8%*	*9.9%*	*8.1%*	*8.1%*	*6.9%*	*5.6%*	*n.a.*
Cost of materials	1,462	1,558	1,699	1,886	2,032	2,200	2,324	2,468	2,821
Gross profit	**558**	**697**	**733**	**785**	**856**	**922**	**1,013**	**1,054**	**972**
Margin (in %)	*27.6%*	*30.9%*	*30.1%*	*29.4%*	*29.6%*	*29.5%*	*30.4%*	*29.9%*	*25.6%*
Sales, admin. and gen. costs	312	396	356	335	344	356	361	367	463
Other operating income	23	19	23	21	22	22	22	23	25
Other operating expenses	8	28	19	17	23	24	25	26	69
EBIT	**261**	**292**	**380**	**454**	**510**	**564**	**649**	**685**	**465**
Margin (in %)	*12.9%*	*12.9%*	*15.6%*	*17.0%*	*17.7%*	*18.1%*	*19.5%*	*19.4%*	*12.3%*
Depreciation	*23*	*22*	*9*	*18*	*20*	*26*	*26*	*26*	*21*
EBITDA - informal	***284***	***314***	***389***	***472***	***531***	***590***	***675***	***711***	***486***
Margin (in %)	*14.0%*	*13.9%*	*16.0%*	*17.7%*	*18.4%*	*18.9%*	*20.2%*	*20.2%*	*12.8%*

To ensure a consistent derivation of future cash flows and growth rates, the relevant assumptions and propositions of the forecasts were analyzed and assessed for plausibility within the scope of a benchmarking analysis. Taking into account the analysis of the market and competitive environment, profit and loss account forecasts as well as balance sheet planning including price and quantity structure, the benchmarking analysis with Peer Group companies, discussions with the management of 1&1 Telecommunication, and the analysis of the planning process, overall, these forecasts, against the background of further decreases in revenues and net customer growth during the terminal value period, were deemed plausible. Therefore the forecasts were adopted without adjustments.

(2) *Assumptions for the Terminal Value Period*

As explained before, the terminal value period describes an estimate of a continuous earnings level with steady growth. The forecasts of 1&1 Telecommunication are nominal forecasts, as are Drillisch's. To portray the continuous growth of the cash flow for the terminal value approach, a nominal growth was used. In economic terms, nominal growth comprises price increases or growth due to inflation, respectively, and real growth. Real growth for its part includes volume growth and structural effects (shifts in the product mix).

If the company has not reached the steady state condition necessary to assume the terminal value period by the end of the detailed planning period, e.g. because of a lack in sustainable growth, certain assumptions have to be made which allow for an initiation of the terminal value period. Thus, extraordinary effects are adjusted in the planning in order to convert the planning into sustainable estimates. This approach was used.

For the terminal value period of 1&1 Telecommunication, the assumption is also made that the relevant value drivers converge onto market levels in the long-run. Because 1&1 Telecommunication will not have reached the steady state condition by the end of the detailed planning period in 2021, within the scope of the derivation of the continuation period, adjustments for the derivation of the sustainable amount of the cash flow to be discounted will have to be made. These adjustments were made as present-value equivalent for the year 2022, the year of the terminal value period.

(3) *Discount Rate*

The approach to determine the discount rate of 1&1 Telecommunication corresponds to the approach used for Drillisch. On the valuation date, a uniform base rate of 1.25% and a market risk premium before personal taxes of 7.0% was used. The unlevered beta factor is also derived based on Peer Group figures and amounts to 0.70. On the basis of the previously described market risk premium of 7.0% and the unlevered beta factor of 0.70, the risk premium (for operational risks) amounts to 4.9%. A company-specific beta factor cannot be calculated due to the missing stock exchange listing of 1&1 Telecommunication.

The levered costs of equity therefore amount to:

1.25% + 0.70 x 7.0% = 6.15%.

(4) *DCF-Value under IDW S 1 Before Personal Taxes*

The equity value as of May 12, 2017 amounts to EUR 5,971 million which corresponds to a value of EUR 49.350 per 1&1 Share. Provided that no significant changes in regard to the earnings forecasts and/or the capital market environment arise until July 25, 2017, the equity value as of this reference date amounts to EUR 6.044 million which corresponds to a value of EUR 49,950 per 1&1 Share.

(5) *Capitalized Earnings Method under IDW S 1 After Personal Taxes*

As was the case for the valuation of Drillisch, a valuation based on the capitalized earnings method in accordance with IDW S 1 after personal taxes was also carried out for 1&1 Telecommunication. In this process, the market risk premium ranges from 5.5% to 6.0%.

In conclusion, taking into account personal taxes in accordance with the principles of the objectified business value, as of the reference dates May 12, 2017 and July 25, 2017 the equity value as well as value per share amount to the following:

Overview DCF-Value pursuant to IDW S 1 after personal tax

1&1	May 12, 2017		July 25, 2017	
in million EUR or EUR per share	equity value	value per share	equity value	value per share
DCF-value IDW S 1 after tax (MRP 6.0%)	5,369	44,373	5,424	44,824
DCF-value IDW S 1 after tax (MRP 5.5%)	5,772	47,706	5,827	48,159
Average	**5,571**	**46,039**	**5,625**	**46,492**

(6) *DCF-Value under DVFA-Recommendations*

As was the case for the valuation of Drillisch, a valuation of the equity in accordance with the DVFA-Recommendations is carried out for 1&1 Telecommunication based on the concept of the typical buyer. In this process, a debt ratio of 20% and a market risk premium of 7.25% before personal taxes is assumed.

The equity value amounts to EUR 5,955 million as of May 12, 2017 which corresponds to a value of EUR 49,212 per 1&1 Share. This results in an equity value of EUR 6,029 million as of July 25, 2017 which corresponds to a value of EUR 49,828 per 1&1 Share.

(7) *Comparison-Based Valuation Using the Multiples Method*

For comparison, besides the derivation of the company value based on the DCF-Method, value ranges are calculated based on the multiples method, in line with the approach taken in the valuation of Drillisch.

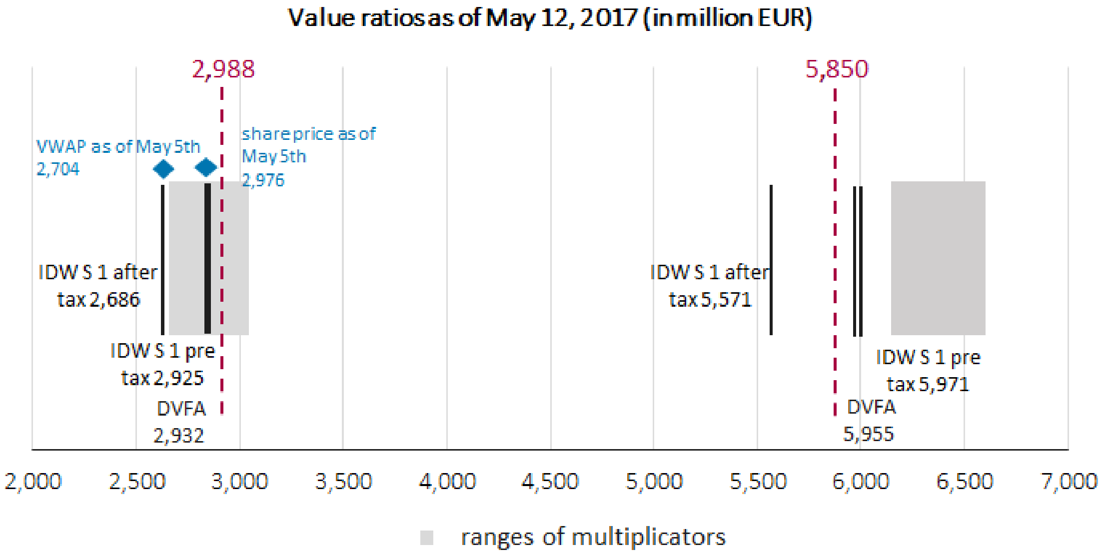
In valuating 1&1 Telecommunication, stock prices of comparable companies observable on the exchange and multiples derived thereof can be considered as well. In this process, all comparable enterprises that were identified in the Peer Group selection can be included in the valuation. These analysis are based on multiples of the last full financial year 2016, as well as planning years 2017 and 2018.

To derive appropriate sales- and EBIT-multipliers from Peer Group companies, focus will additionally be given to the relevant KPIs growth and profitability. To further sufficiently take into account the partially differing capital intensity of Peer Group companies, cash contribution multipliers are considered. The respective reference value for cash contribution multipliers is calculated via subtraction of (gross-) investments (CAPEX) from EBITDA.

The range for the equity value, based on the references figures sales, EBIT as well as cash contribution as of May 12, 2017, is between EUR 6,147 million and EUR 6,603 million which corresponds to values between EUR 50,804 and EUR 54,457 per 1&1 Share. As of July 25, 2017, the range of the equity value reaches from EUR 6,223 million to EUR 6.684 million which corresponds to a value between EUR 51,427 to EUR 55,240 per 1&1 Share.

d) **Value Relations and Exchange Ratios Stand Alone**

The calculated equity values for Drillisch and 1&1 Telecommunication on a stand-alone basis derived from the different valuation methodsas of May 12, 2017 were as follows:



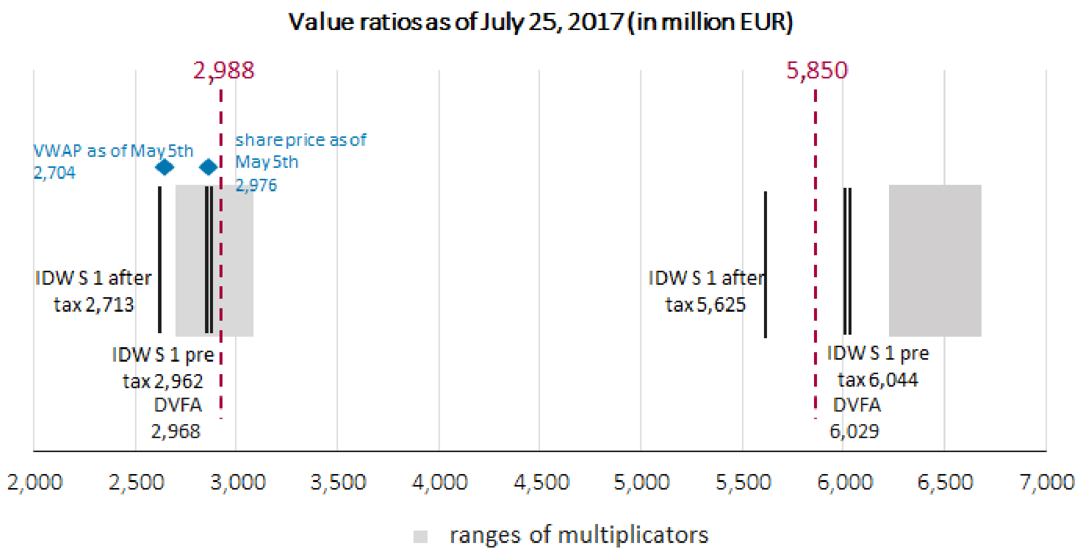
On the basis of the stand-alone valuation as of May 12, 2017, the value ratios and exchange ratios were as follows:

Overview value and exchange ratio as of May 12, 2017

in million EUR or EUR per share		equity value Drillisch	equity value 1&1	value per share Drillisch	value per share 1&1	value ratio	exchange ratio
Management Board specification		2,988	5,850	50.00	48,347	1 : 1.96	967 : 1
DCF-value IDW S 1 pre tax		2,925	5,971	48.95	49,350	1 : 2.04	1,008 : 1
DCF-value IDW S 1 after tax (Ø)		2,686	5,571	44.94	46,039	1 : 2.07	1,025 : 1
DCF-value DVFA		2,932	5,955	49.05	49,212	1 : 2.03	1,003 : 1
range of multiplicators	min	2,663	6,147	44.55	50,804	1 : 2.31	1,140 : 1
	max	3,048	6,603	50.99	54,571	1 : 2.17	1,070 : 1

Therefore, the value ratios and exchange ratios derived from the stand-alone valuations all exceed the respective figures set out by the management board of Drillisch.

The company values for Drillisch (excluding special values resulting from Capital Increase I) and 1&1 Telecommunication as of July 25, 2017 calculated on a stand-alone basis present themselves as follows:



The stand-alone valuations result in the following value ratios and exchange ratios for Drillisch (including the special value from Capital Increase I) and 1&1 Telecommunication as of July 25, 2017:

Overview value and exchange ratio as of July 25, 2017

in million EUR or EUR per share		equity value Drillisch	equity value 1&1	value per share Drillisch	value per share 1&1	value ratio	exchange ratio
Management Board specification		3,441	5,850	50.00	48,347	1 : 1.70	967 : 1
DCF-value IDW S 1 pre tax		3,408	6,044	49.51	49,950	1 : 1.77	1,009 : 1
DCF-value IDW S 1 after tax (Ø)		3,159	5,625	45.90	46,492	1 : 1.78	1,013 : 1
DCF-value DVFA		3,414	6,029	49.61	49,828	1 : 1.77	1,004 : 1
range of	min	3,142	6,223	45.65	51,427	1 : 1.98	1,127 : 1
multiplicators	max	3,532	6,684	51.31	55,240	1 : 1.89	1,077 : 1

As of July 25, 2017, as well, the value ratios and exchange ratios derived from the stand-alone valuations are consistently exceeding the figures set out by the management board of Drillisch.

e) Assessment of Synergies

In order to determine the exchange ratio, Drillisch and 1&1 Telecommunication performed a rough identification and estimation of the synergies between both companies after the execution of the Transaction. In doing so, the management board of Drillisch assumes that all synergies will emerge only after the execution of Capital Increase II and that these synergies are real (non-considerable) synergies pursuant to IDW S 1. In total, Drillisch and 1&1 Telecommunication expect to realize synergies in the total amount of EUR 150 million in before taxes as from 2020, and of up to EUR 250 million per year before taxes as from 2025.

Pursuant to the MBA MVNO Contract, its conditions will be granted only to Drillisch and its affiliated companies. A resale of received services by Drillisch to other MVNO is prohibited under the contract. To realize the cost synergies resulting from the joint purchasing under the MBA MVNO Contract, the agreement with Telefónica Germany dated May 12, 2017 requires that (i) United Internet holds the majority of the shares and voting rights of 1&1 Telecommunications and Drillisch, respectively, or (ii) Drillisch holds the majority of the 1&1 Shares and voting rights. This would be the case, if the Transaction is fully executed. For this reason, in particular cost synergies resulting from the joint purchasing of mobile communication services under the MBA MVNO Contract are to be classified as real synergies pursuant to IDW S 1 since they can only be realized with the underlying measure that prompted the valuation.

In addition, the mentioned synergy potentials are mere individual synergies for each buyer pursuant to the DVFA-Recommendations which are not to be considered when determining the adequate exchange ratio. According to the DVFA-Recommendations, only market participant synergies are to be considered – i.e. synergies that could also be realized by a typical buyer. Due to the already existing indirect shareholding of United Internet in Drillisch, it can be assumed that an execution of the intended Transaction respectively the creation of the corporate structures required for the joint utilization of the MBA MVNO Contract is possible only between Drillisch and United Internet or 1&1 Telecommunication and not for other potential buyers.

Thus, these synergies need not be considered neither pursuant to the IDW S 1 principles nor pursuant to the DVFA-Recommendations or the case law these principles are based on.

If, due to missing case law for the determination of adequate exchange ratios in case of capital increases through contributions in kind excluding subscription rights pursuant to Section 255(2) AktG to date, a court will still deem necessary the consideration of real synergies respectively buyer-individual synergies, the full synergies have to be allocated between Drillisch and 1&1 Telecommunication. At the time of the preparation of this report, the management board of Drillisch is only able to provide a rough estimation of the synergies. A detailed synergy inventory, quantification and allocation of the synergies prepared with joint working groups comprising representatives of both companies cannot be drafted by Drillisch and 1&1 Telecommunication prior to the closing of the Transaction and its approval by the antitrust authorities, inter alia because it would lead to the disclosure of business secrets. Therefore, a verification or an allocation of the synergies on a causative basis could not be performed at the time this report was prepared. Insofar, the synergies have to be allocated proportional to the respective value, so that the exchange ratio determined on the basis of stand-alone equity values corresponds to the exchange ratio when considering synergies. As the exchange ratio based on adequate stand-alone company values already precludes an inappropriate dilution respectively an unreasonable issuing price of the new Drillisch Shares within the meaning of Section 255(2) AktG to the detriment of the existing shareholders of Drillisch, the exchange ratio determined in consideration of synergy allocations proportional to the respective value will neither lead to an inappropriate dilution of the existing shareholders.

In addition, the existing shareholders of Drillisch will continue to hold their shares in Drillisch after the execution of the intended Transaction and will participate in the synergies arising between Drillisch and 1&1 Telecommunication, so that the value of their shares will increase compared to the stand-alone value of their shares prior to the Transaction.

f) **Summary**

The management board and the supervisory board of Drillisch propose to the extraordinary general meeting scheduled July 25, 2017 to increase the share capital of Drillisch against contributions in kind, whereby United Internet shall be exclusively admitted to subscription under the exclusion of the statutory subscription right of all other shareholders. In return to the issuance of 107,937,831 new Drillisch Shares, United Internet shall contribute to Drillisch a stake of 92.25% in 1&1 Telecommunication with a value of EUR 5,397 million. This propoal is based on a total company value of 1&1 Telecommunication of EUR 5,850 million.

The equity value of Drillisch as of the date of Capital Increase II is determined by the management board of Drillisch to an amount of EUR 3,441 million. This value is composed of an equity value prior to Capital Increase I amounting to EUR 2,988 million and the stake of 7.75% in 1&1 Telecommunication acquired in the course of Capital Increase I with a value of EUR 453 million. With a total number of Drillisch Shares of 68,826,818 at the date of Capital Increase II, composed of 59,764,649 Drillisch Shares prior to Capital Increase I plus 9,062,169 Drillisch Shares issued in the course of Capital Increase I, the value of each Drillisch Share amounts to EUR 50.00. The exchange ratio determined by the management board of Drillisch based on these values amounts to 967 Drillisch Shares for one 1&1 Share.

In consideration of all DCF procedures, the value ranges of the stand-alone value of the equity of Drillisch and 1&1 Telecommunication as well as for the exchange ratio as of May 12, 2017 are as follows:

Overview value and exchange ratios as of May 12, 2017

in million EUR or EUR per share		equity value		value per share		value ratio	exchange ratio
		Drillisch	1&1	Drillisch	1&1		
Management Board specification		2,988	5,850	50.00	48,347	1 : 1.96	967 : 1
range of DCF-values	min	2,686	5,571	44.94	46,039	1 : 2.07	1,025 : 1
	max	2,932	5,971	49.05	49,350	1 : 2.04	1,006 : 1

Drillisch's equity value as determined by the management board of Drillisch as of May 12, 2017, in the amount of EUR 2,988 million is above, the equity value of 1&1 Telecommunication of EUR 5,850 million is within the value range determined on a stand-alone base. The exchange ratio of 967:1 resulting from these values is below the range. Under a value-proportionate consideration of the synergies resulting from the Transaction no deviations arise to this exchange ratio.

Moreover, for July 25, 2017, the equity stand-alone values of Drillisch and 1&1 Telecommunication as well as the exchange ratio, the ranges are as follows:

Overview value and exchange ratios as of July 25, 2017

in million EUR or EUR per share		equity value Drillisch	equity value 1&1	value per share Drillisch	value per share 1&1	value ratio	exchange ratio
Management Board specification		3,441	5,850	50.00	48,347	1 : 1.70	967 : 1
range of DCF-values	min	3,159	5,625	45.90	46,492	1 : 1.78	1,013 : 1
	max	3,414	6,044	49.61	49,950	1 : 1.77	1,007 : 1

As of July 25, 2017, as well, Drillisch's equity value in the amount of EUR 3,411 million as determined by the management board of Drillisch is above, the equity value as determined for 1&1 Telecommunication of EUR 5,850 million is within the value range determined on a stand-alone base. The exchange ratio of 967:1 resulting from these values is below the range. Under a value-proportionate consideration of the synergies resulting from the Transaction no deviations arise to this exchange ratio.

Against this background, Drillisch's equity values as determined by the management board of Drillisch in the amount of EUR 2,988 million for May 12, 2017 and of EUR 3,441 million for July 25, 2017, respectively, and for 1&1 Telecommunication in the amount of EUR 5,850 million, as well as the resulting exchange ratio of 967 Drillisch Shares for one 1&1 Share, are adequate.

The management boad believes that an inappropriate dilution of shareholders is neither given in connection with Capital Increase I, nor in connection with Capital Increase II, because the value of the contributions in kind in form of 121,000 1&1 Shares in total, reaches the value of the Drillisch Shares to be issued in return.

IV.

The Company's management board pursuant to Section 186(4) sentence 2 AktG hereby submits the following report to the shareholders' meeting in on the cause for the intended exclusion of subscription rights in connection with the aforementioned proposed resolution on the increase of the share capital against contributions in kind. In this regard, the statements made under III. on the overall Transaction also apply to this report and form part hereof:

It is proposed to the shareholders' meeting to resolve the increase of the Company's currently registered share capital from an amount of EUR 60.241.113,90 and after the registration of Capital Increase I of an amount of EUR 70.209.499,80 by EUR 118.731.614,10 to EUR 188.941.113,90 against contributions in kind.

In general, in the event of a capital increase, the shareholders are entitled to a statutory subscription right (Section 186(1) AktG). Yet, the supervisory and the management board propose to the shareholders' meeting to exclude the shareholders' subscription rights in the resolution on the increase of the share capital according to Section 186(3) AktG.

The purpose of the proposed capital increase under exclusion of subscription rights is to enable the *Company* to acquire a shareholding in 1&1 Telecommunication by increasing the share capital through the issuance of Drillisch Shares against contribution in kind of 92.25% of 1&1 Telecommunication shares. The shares created by means of the *Company*'s proposed *Capital Increase II* shall be issued to United Internet in proportion of 1:967, meaning United Internet will receive 107,937,831 Drillisch Shares for 111,628 1&1 Shares.

The purpose of the intended exclusion of subscription rights is in the best interest of Drillisch, the exclusion of subscription rights is suitable and necessary to realize the best interest of the Company and is proportionate to the disadvantages of Drillisch's shareholders. The exchange ratio between 1&1 Shares and Drillisch Shares and thus the issuing price of the New Drillisch Shares CI I and the New Drillisch Shares CI II of 967 is not unreasonably to the detriment of the Drillisch shareholders.

1. Drillisch's Interest in the Exclusion of Subscription Rights

The purpose of the intended exclusion of subscription rights – acquisition of Drillisch's participation in 1&1 Telecommunication not yet held by the time of the extraordinary shareholders' meeting – is in the interest of the Company. It is sufficient that the bodies participating in the resolution may assume on the basis of their assessment that the capital increase through contribution in kind is best for the Company and thus ultimately for all shareholders. Corresponding to the synergies described under III.1.c)(2)(E) the interest of the Company especially lies in efficiently using Drillisch's capacities in the network of Telefónica Germany under the MBA MVNO-Contract available through the consolidation with 1&1 Telecommunication and to leverage additional synergy potentials resulting from the business combination.

Due to the consolidation with 1&1 Telecommunication and the execution of Capital Increase I*I* the management board of Drillisch expects revenue and cost synergies to be generated especially through joint hardware and service contracting, an efficient usage of the network capacities available to Drillisch and expansion of the product portfolio due to future technology. The management board believes these annual synergies can be implemented as of 2018 and estimates them at an EBITDA amount of up to EUR 150 million before tax annually in 2020 and an EBITDA amount of up to EUR 250 million before tax annually as of 2025.

Furthermore the acquisition of 1&1 Telecommunication strengthens the capital market profile of the Integrated Drillisch Group as a combined company. Whereas the free float of Drillisch decreases considerably proportionally, the absolute amount of Drillisch Shares in free float (without taking into account possible tendered shares for the Takeover Offer) remains unchanged. Due to the increased market capitalization of Drillisch as mother company of the Integrated Drillisch Group the management board anticipates an increased investor interest and higher visibility in the analysts' *Research Coverage*. Additionally, the management board of Drillisch anticipates that better conditions can be realized when raising outside capital due to the solid credit rating of the combined company.

The continuation of the stand-alone-strategy pursued so far would not enable the Company to achieve the scale effects and synergies pursued with the Transaction. Especially the advantages for Drillisch resulting from the MBA MVNO-Contract would not extent to clients of the restructuring of 1&1 Group respectively new clients to be acquired through the business combination, spare capacities could lead to economic disadvantages and the DSL-Distribution Cooperation / Purchasing Cooperation to be agreed upon in the light of Capital Increase I could not be finalized.

2. Suitability and Necessity of the Exclusion of Subscription Rights

The management board conceives the exclusion of subscription rights appropriate and necessary in order to pursue the best interest of the Company.

The exclusion of subscription rights is appropoprate because the exclusion of subscription rights is a requirement for the complete consolidation of the Restructured 1&1 Group with Drillisch Group by contributing 1&1 Telecommunication against the issuance of the new Drillisch CI II Shares.

The exclusion of subscription rights is necessary in order to reach this purpose. The management board has taken into account possible alternatives regarding the structure of the planned Transaction but has deemed them not feasible or less suitable and has therefore rejected them:

a) **Acquisition of 1&1 Telecommunication against Cash Consideration**

The exclusion of subscription rights connected with a capital increase by way of contribution in kind could be avoided if a consideration in cash was provided and the necessary cash was created or refinanced by a capital increase with subscription rights. This approach is not feasible for several reasons.

Firstly, the value ratio of Drillisch agreed upon would have led to a volume of financing needs which had entailed the risk that a cash capital increase did not produce the necessary demand even if only a part of the consideration was in cash.

Therefore it is questionable, whether the necessary amount of bridge financing would have been available to Drillisch at all; in either case the conditions of such loan facility would most likely not have been justifiable economically. Additionally, the refinancing of the capital raised could fail due to market risk or other factors and the resulting level of debt could – dependent on the amount of the cash compensation – be unjustifiable for Drillisch.

An at least partial cash compensation would have been disadvantageous for Drillisch since the execution of the cash capital increase in order to finance the consideration would have implied an additional intermediate step. This would have negatively affected the schedule of the transaction structure and would have resulted in higher transaction costs.

Moreoever, the amount of shares tendered and the subscription price in case of a cash capital increase would not have been predictable and would have been heavily dependent of the market environment at the time of the execution of the capital increase. For the existing shareholders of Drillisch this approach only would have been advantageous if they had executed their subscription rights in order to avoid a dilution. Due to the high issuing volume this would have meant a very heavy investment for the shareholder. As far as the shareholders had not executed their subscription rights, the cash capital increase would have had to be placed on the capital markets. This would possibly have involved a very high volume placement which the market had not accepted or only under difficult circumstances.

b) **Mixed Consideration of Cash and Contributions in Kind with an Exclusion of Pre-Emption Eights ("*gekreuzter Bezugsrechtsausschluss*")**

The management board has also considered offering United Internet a consideration excluding Drillisch Shares by executing a mixed cash and contribution in kind capital increase with exclusion of pre-emption rights ("*gekreuzter Bezugsrechtsausschluss*"). In this case the Company would still create the compensation shares for United Internet by executing a capital increase by contribution in kind excluding subscription rights of the remaining shareholders. Yet a dilution of the shareholding quota of the remaining shareholders would be avoided by simultaneously executing a cash capital increase which would only available for the remaining shareholders with a volume which guarantees that the shareholding quota of the remaining shareholders would not be diluted when exercising their subscription rights. In order to ensure the status quo of the ownership structure such a parallel cash capital increase (taking into account the subscription rights of United Internet according to Capital Increase I) would require a volume in the higher single digits billions.

Furthermore, such approach would only safeguard the shareholding quota as far as the remaining shareholders actually make use of their subscription rights. If the remaining shareholders waive their subscription rights due to the high amount of investment necessary – which is even intensified by the high volume of the parallel cash capital increase – the dilution of these shareholders would be even more significant as in case of a capital increase by contribution in kind.

c) **Merger of 1&1 Telecommunication with and into Drillisch**

A merger of 1&1 Telecommunication with and into Drillisch is not feasible, because 1&1 Telecommunication – for several reasons –needs to remain an independent corporation. Furthermore, against the background of the simultaneous restructuring of the Original 1&1 Group, additional complexity would be added to the process if 1&1 telecommunication was terminated. Moreover, it is of significant relevance that a merger of 1&1 Telecommunication and Drillisch – assuming an merger ratio corresponding to the value ratio of the Capital Increases Through Contributions In Kind I and II would have resulted in the same dilution for the excluded Drillisch shareholders. The merger is thus not advantageous compared to a capital increase by way of contributions in kind.

d) **Spin-off of 1&1 Telecommunication to Drillisch**

A spin-off of 1&1 Telecommunication to Drillisch is neither feasible. The same reasoning as in the abovementioned merger scenario applies.

e) **Contribution of 1&1 Telecommunication without Utilizing Authorized Capital**

The acquisition of 1&1 Telecommunication "in one step", that is by contribution of all 1&1 Shares to Drillisch in connection with one single capital increase based on a resolution passed by the general meeting and therefore without utilizing the authorized capital 2014/I of the

Company, was also considered by the management board and introduced to the negotiations with United Internet.

Thereby the management board has taken into account that the acquisition of a minority stake in 1&1 Telecommunication in the course of Capital Increase I is connected with the DSL Sales Cooperation / Purchasing Cooperation (cf. III.1.c)(2)(A)), the benefits of which will remain with Drillisch even if Capital Increase II fails. The DSL Sales Cooperation / Purchasing Cooperation shall enable Drillisch to cooperate in purchasing and to offer DSL products or attractive bundle-products in their "Offline Shops".

Conversely the management board has taken into account that under the two-step transaction structure United Internet will continue to hold 30% of Drillisch even if Capital Increase II is not resolved with the required majority by the Extraordinary General Meeting or the execution of the capital increase fails due to other reasons. Thereby United Internet would be enabled to further increase its stake without having to launch (another) takeover bid and thus offering Drillisch shareholders another chance to sell their shares. This would not be the case if the acquisition of 1&1 Telecommunication was achieved by a one-step capital increase with a direct resolution.

In its assessment the management board has come to the conclusion that the Company's interest in the benefits from the DSL Sales Cooperation / Purchasing Cooperation and thus from the choice of the two-step structure outweighs potential disadvantages connected therewith.

The management board believes that a decisive factor in favor of the approach chosen is that Drillisch, too, has a significant interest in the stake of United Internet in Drillisch under any circumstances not falling below 30% again, even if the transaction is only partly executed. As shown under III.1.c)(2)(C), crossing the 30% threshold generally results in a termination of the discounts under the MBA MVNO Contract. However, with regard to the Transaction planned by Drillisch Telefónica agreed to waive these price adjustments despite its corresponding rights. Due to the fact that United Internet's stake does not fall below 30%, irrespective of the result of the Takeover Offer and also in case of a failure of Capital Increase II, it – irrespective of the execution of Capital Increase II – can be avoided that United Internet, for example in case of another increase of its stake, would cross the change-of-control threshold another time. Should United Internet cross the change-of-control threshold in a transaction not coordinated with Drillisch, Drillisch would in practice not be able to agree upon another waiver with Telefónica Germany, whereas no warranties exist anyway that Telefónica Germany would be willing to do so another time.

Against this background the management board has come to the conclusion that the structure chosen is in the best interest of the Company compared to a one-step acquisition based on a direct decision of the general meeting.

Moreover, the full contribution of all 1&1 Shares in Drillisch by way of one capital increase does not present a result of negotiations that could have been achieved with United Internet.

3. Impact of the Capital Increase Against Contribution in Kind on the Shareholder Structure of Drillisch

The execution of Capital Increase I, partly utilizing the authorized capital 2014/I, as well as the execution of Capital Increase II by means of an increase of the share capital to be resolved by the Extraordinary General Meeting and the intended issuing of Drillisch Shares, provided for in the Business Combination Agreement, result in a change of the shareholder structure. The indirect shareholding of United Internet increases from currently 20.08% to initially approximately 31.41% (without taking into account a dilutive effect due to possible further conversions of convertible bonds) after registration of Capital Increase I and would further increase to approximately 72% with registration of Capital Increase II in case of an execution of the share capital increase to be approved by the general meeting of Drillisch. These capital measures will inevitably result in a dilution of shareholding quotas of other Drillisch shareholders. Depending on the acceptance rate of the Takeover Offer the free float can further decrease.

United Internet and Drillisch agree that a substantial free float in Drillisch Share with sufficient liquidity for institutional investors to trade is in the best interest of both parties. If the free float of Drillisch becomes too low after the Transaction because of the number of Drillisch Shares tendered in the Takeover Offer, Drillisch and United Internet will discuss whether measures should be taken to restore a sufficient free float.

4. Adequacy of the Exchange Ratio and Grounds for the Issuing Price

The company value of Drillisch of EUR 2,988 million as determined by the management board of Drillisch as of May 12, 2017 is slightly above, the equity value determined for 1&1 Telecommunication of EUR 5,850 million is within the value range determined on a stand-alone-basis. As of July 25, 2017, too, the company value of Drillisch of EUR 3,438 million as determined by the management board of Drillisch is slightly above, the company value determined for 1&1 Telecommunication of EUR 5,850 million is within the value range determined on a stand-alone-basis for each of the two companies. Against this background, the company values for Drillisch determined by the management board of Drillisch of EUR 2,988 million as of May 12, 2017 and EUR 3,438 million as of July 25, 2017, respectively, and for 1 & 1 Telecommunication of EUR 5,850 million, as well as the resulting exchange ratio of 967 Drillisch Shares for one 1&1 Share are adequate.

The management boad believes that an inappropriate dilution of shareholders is neither given in connection with Capital Increase I nor in connection with Capital Increase II, because the value of the contributions in kind in form of 121,000 1&1 Shares in total reaches the value of the Drillisch Shares to be issued in return.

* * *

Frankfurt a.M., May 2017

Drillisch Aktiengesellschaft

Management Board