DRILLISCH AG

Income Statement Q3 2017

BEST OFFERS FOR GERMAN MOBILE MARKET

WITH UP TO 10 GIGABYTE IN THE PREMIUM SEGMENT

FLAT SMS

LTE 4G+

Up to 225 MBit/s

FLAT RATE in all German mobile networks

FLAT RATE in German landline network

BEST VALUE FOR MONEY IN GERMANY´S LARGEST WIRELES SERVICE NETWORK

DEUTSCHES INSTITUT FÜR SERVICE-QUALITÄT GmbH & Co. KG
1. PLATZ
geringste Beschwerde-Quote
Teilkategorie in der Kundenbefragung März 2016
19 Mobilfunkanbieter
www.disq.de
Privatwirtschaftliches Institut

DEUTSCHES INSTITUT FÜR SERVICE-QUALITÄT GmbH & Co. KG
1. PLATZ
Kundenurteil Preise
Teilkategorie in der Kundenbefragung März 2016
19 Mobilfunkanbieter
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KUNDEN BAROMETER
MOBILFUNK
2017
1&1
BESTES ERGEBNIS

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TESTSIEGER
HOTLINE-TEST
MOBILFUNKANBIETER
yourfone
Heft 4/2017
www.connect.de

» **TODAY:** 4G+ LTE

» **TOMORROW:** With The Features of a Network Operator

» **FUTURE:** Only Provider At Eye Level With MNOs

DRILLISCH AG PREMIUM BRANDS

1&1 — www.1und1.de

smartmobil.de — www.smartmobil.de

yourfone — www.yourfone.de

Selected Key Figures	30/09/2017	30/09/2016	Change
PROFIT (IN € M)			
Revenue	1,965.2	1,788.4	9.9%
EBITDA[1]	352.7	282.9	24.7%
EBITDA margin in % of revenue[1]	17.9%	15.8%	
EBIT[1]	328.9	277.0	18.8%
EBIT margin in % of revenue[1]	16.7%	15.5%	
EBT[1]	321.2	258.3	24.4%
EBT margin in % of revenue[1]	16.3%	14.4%	
EPS[1,2]	2.02	1.49	35.6%
CASH FLOW (IN € M)			
Cash flow from operating activities	299.5	44.0	580.3%
Cash flow from investments	25.2	-22.8	210.7%
Free cash flow	290.9	21.2	1,272.2%
STAFF (INCL. MANAGEMENT BOARD)			
Total per end of September	3,494	3,524	-0.9%
thereof in Germany	3,494	3,524	-0.9%
thereof abroad	0	0	
CUSTOMER CONTRACTS (IN MILLIONS)			
Current Product Lines			
Access, contracts	12.39	8.30	4.09
thereof Mobile Internet	8.06	4.10	3.96
thereof DSL/VDSL	4.33	4.20	0.13
Volume-based MVNO Contracts, MSP Contracts and Discontinued Product Lines			
Access, contracts	0.62	0.20	0.42
thereof volume/service providers	0.49	0	0.49
thereof T-DSL/R-DSL	0.13	0.20	-0.07

	30/09/2017	31/12/2016	Change
BALANCE SHEET (IN € M)			
Current assets	630.7	263.5	139.3%
Fixed assets	4,063.3	1,579.7	157.2%
Shareholders' equity	3,745.2	-412.8	
Equity ratio	79.8%	-22.4%	
Balance sheet total	4,694.0	1,843.3	154.7%

[1] from ongoing activities
[2] in the previous year, calculated at the weighted average of the shares to be used per 30/09/2017 for better comparability

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Letter from the Management Board

Vlasios Choulidis
Board Spokesman

André Driesen
Director

Martin Witt
Director

Dear Sir or Madam,

Drillisch AG has brought the first nine months of fiscal year 2017 to a successful conclusion. In comparison with the same period last year, we have once again increased the number of our MVNO subscribers, our revenues and the EBITDA from ongoing activities.

As of the successful completion of the complete transaction at the beginning of September 2017, Drillisch has become a new major power, the fourth, on the German telecommunications market. Since that date, 1&1 Telecommunication SE has been a wholly-owned subsidiary of Drillisch. A powerful full-service telecommunications provider has been created under the umbrella of United Internet, one that can exploit from a position of strength any and all opportunities for growth that present themselves.

In cooperation with the new subsidiary 1&1, Drillisch will in future be able to offer to its customers attractive product bundles comprising mobile and landline services, TV and other content from a single source as well as its mobile network-only and DSL-only products. By employing this marketing approach, we will develop new customer and product segments and will hold to our course of profitable growth.

The even more efficient exploitation of the MBA MVNO contract is the basis for Drillisch as it continues to set itself apart from its competitors in future. Within this new affiliation, we have access to the "internet factory" under the umbrella of United Internet, and we will enhance and develop further the successful SIM-only products by the addition of attractive devices, applications we have ourselves developed and services of the corporate group. Drillisch operates and will continue to operate exclusively in Germany, where its brands make it one of the leading integrated providers. Our products – the premium brand 1&1, the offline channel of the yourfone brand and the tried and proven market strategy of multiple brands from Drillisch Online AG – address specific target groups on the market. We can offer our mobile products at all times at the state-of-the-art level of the network technology of Telefónica Germany. Customers select the product that best suits their needs, including comprehensive services and the best value for money on Germany's largest network.

Before we go into the details of our operating business, we would like to give you an overview of the significant accounting effects that the successfully concluded transaction with United Internet AG has on our figures as this will help you to understand our remarks.

On 12 May 2017, Drillisch AG (Drillisch) and United Internet AG (United Internet) concluded a business combination agreement regulating Drillisch's step-by-step acquisition of 1&1 Telecommunication SE (1&1).

Letter from the Management Board

As part of the total transaction, 1&1 will in legal terms be absorbed by Drillisch; this move will create a strong full-service telecommunications provider with significant potential for synergy and growth under the umbrella of United Internet.

The first step was the acquisition by Drillisch AG on 16 May 2017 of about 7.75% of 1&1 in the form of a capital increase against non-cash contributions. United Internet AG received 9.1 million new shares of Drillisch stock, increasing United Internet AG's holding in Drillisch AG from 20.08% to just over 30%.

Upon exceeding the holding threshold of 30%, United Internet published a voluntary, public takeover offer to Drillisch AG shareholders parallel to the transaction. In response to the voluntary, public takeover offer of €50 in cash for each share of Drillisch stock published on 26 May 2017, a total of 1,224,157 shares of Drillisch stock, corresponding to 1.78% of the outstanding shares at the time, was tendered to United Internet AG as of the expiration of the extended acceptance deadline on 12 July 2017. Drillisch AG's Management and Supervisory Boards did not issue a concrete recommendation for action to the Drillisch AG shareholders, but advocated the transaction as a whole.

During an extraordinary General Meeting of Drillisch AG held on 25 July 2017, the shareholders, by a vote of 97.85% of the valid votes cast, approved an increase in the share capital from €70,209,499.80 to €188,941,113.90 against contribution of all shares of the 1&1 stock not yet held by Drillisch in the form of a non-cash capital increase.

As of the registration of the non-cash capital increase in the Commercial Register on 8 September 2017, Drillisch acquired the remaining share of about 92.25% in 1&1. Since that date, 1&1 has been a wholly-owned subsidiary of Drillisch. Because of the successful completion of this transaction as a whole, Drillisch has become the new fourth major power on the German telecommunications market.

In contrast to the transaction described above, which in legal terms saw Drillisch (the legal acquirer) acquiring the shares in 1&1 as part of the non-cash capital increase, the IFRS accounting (cf. IFRS 3. 6 in conjunction with IFRS 3. B19) applies an economic method for identification of the acquirer. Following the IFRS provisions leads to the classification of the acquisition of the shares of 1&1 stock by Drillisch as a reverse acquisition.

In the accounting, it is assumed that 1&1 as the economic acquiree has acquired the shares of Drillisch stock. The calculation of the goodwill and the hidden reserves as well as hidden liabilities that must be reversed in the process of the purchase price allocation and the accounting principles that are to be applied as of the point in the time of the acquisition are based on the perspective of the economic acquirer. The consequence is that there is no longer any comparability of the balance sheet and comprehensive income statement of previous Drillisch financial statements because, for one, the figures of 1&1 must be given as the comparable figures of the previous year and, for another, the comprehensive income statement must be prepared according to the cost-of-sales method and the accounting principles of 1&1 must be applied. The date of registration of the Capital Increase II in the Commercial Register is deemed the point in time of the acquisition, i.e. the time at which the economic acquirer obtains control over the acquired company; in the present case, that date is 8 September 2017. The inclusion of Drillisch as the acquired company in the consolidated financial statements is therefore only proportional for the time period from the moment control was gained. Drillisch is there-

Letter from the Management Board

fore considered only for about one month in the comprehensive income statement and the capital flow statement of the quarterly financial statements per 30 September 2017.

Now for the operating side of the business:

During the first nine months of 2017, we were able to grow significantly over the same period of the previous year in a market environment that remains intensely competitive.

Along with the generally positive development of our clientele for the current product lines, which rose in comparison with the closing date of the previous year across all customer groups by 4.09 million (49.3%) – 3.35 million from the initial inclusion of Drillisch – to 12.39 million subscribers (9 months 2016: 8.30 million), we increased revenues in the first nine months by €176.8 million (9.9%) to €1,965.2 million (9 months 2016: €1,788.4 million).

Despite high investments in customer growth, the consolidated EBITDA from ongoing activities (earnings before interest, taxes, depreciation and amortisation from ongoing activities) increased by €69.8 million (24.7%) to €352.7 million during the first nine months (9 months 2016: €282.9 million). These figures are evidence that our course for growth is continuing during the year and is in line with our budget for the year as a whole. The EBITDA margin from ongoing activities rose by 2.1% to 17.9% (9 months 2016: 15.8%).

We are in an excellent position to take the next steps in our Company's development and we are looking ahead into the future with confidence. At the conclusion of the first nine months, we can confirm our forecast for growth and expect an increase in the adjusted EBITDA to between €160 million and €170 million for fiscal year 2017 (on a stand-alone basis, i.e. excluding 1&1).

We expect an EBITDA in 2017 in the amount of €520 million to €530 million for the combined entity and are anticipating a further increase in profitability for business year 2018. Furthermore, we intend to ensure that shareholders benefit appropriately from the success of the Company in future as well.

In conclusion, we would like to take this opportunity to thank our employees expressly and warmly for their continued commitment and their high readiness to perform because dependable collaboration in a spirit of trust is very important for our commercial success. But we are also just as deeply grateful to our shareholders, customers and business partners for the trust they have placed in us.

Best regards from Maintal

Vlasios Choulidis André Driesen Martin Witt

QUARTERLY RELEASE PER 30 SEPTEMBER 2017

Course of Business

Since the initial consolidation of Drillisch by 1&1 per 8 September 2017, Drillisch has changed the number of customer contracts and distinguishes between "current product lines" on the one hand and "volume contracts/MSP contracts/discontinued product lines" on the other. The "current product lines" include, for one, the 1&1 mobile internet contracts and the Drillisch MVNO budget contracts (compiled under mobile internet) and, for another, the 1&1 DSL/VDSL contracts (DSL complete packages). The Drillisch MVNO volume contracts and mobile service provider contracts and the 1&1 T-DSL/R-DSL contracts fall under the "MVNO volume contracts/MSP contracts/discontinued product lines."

The number of contracts subject to charge rose in the first 9 months of 2017 in the segment of the "current product lines" – also a consequence of the consolidation of Drillisch since 8 September 2017 – by 3.85 million contracts to 12.39 million. In the mobile internet business, it was possible to acquire 3.75 million customer contracts (thereof 3.35 million from the initial consolidation of Drillisch), raising the number of customers to 8.06 million. The number of DSL complete contracts (ULL = unbundled local loop) rose as well by about 100,000 contracts to 4.33 million.

Development of contracts during the first 9 months of 2017 (in millions)

	30/09/2017	31/12/2016	Change
Total contracts	**12.39**	**8.54**	**+ 3.85**
thereof mobile internet	8.06	4.31	+ 3.75
thereof DSL complete packages (ULL)	4.33	4.23	+ 0.10

Development of the contracts in comparison with the previous quarter (in millions)

	30/09/2017	30/06/2017	Change
Access, total contracts	**12.39**	**8.88**	**+ 3.51**
thereof mobile internet	8.06	4.57	+ 3.49
thereof DSL complete packages (ULL)	4.33	4.31	+ 0.02

In addition to these subscription-based customer contracts in the current product lines, Drillisch maintains an additional 0.62 million customer relationships, thereof 0.49 million in volume and MSP contracts and 0.13 million in the discontinued product line T-DSL/R-DSL, in the segments "Online" and "Offline".

The Group's operating business activities essentially break down into the two reporting segments "Online" and "Offline". The segment reporting is aligned with the internal organisation and reporting structure. The differentiation between the segments Online and Offline is based on the expanded sales structure. The segment Miscellaneous is presented in addition to the two segments mentioned above.

Course of Business

Development in the segment "Online"

The mobile and landline services subject to charge provided by the Group, including the related applications from online sales, are encompassed by the segment "Online". The revenues and the related expenses from the Drillisch online sales were also allocated to the segment Online for the first time from the beginning of September 2017.

Revenue in the segment Online increased by €180.5 million (10.0%) to €1,982.9 million (previous year: €1,802.4 million). The segment EBITDA rose by 24.4% from €282.9 million in the previous year to €352.1 million. As previously, all of the customer acquisition costs for mobile and DSL products as well as the costs of converting resale DSL lines to DSL complete packages (ULL = unbundled local loop) were recognised directly as expenses. In the segment Online, the cost of materials fell by €23.4 million to €1,277.3 million (previous year: €1,253.9 million). Total segment revenues contain €1.6 million in sales revenues from intercompany relationships that were eliminated during the consolidation process (previous year: €0.0 million).

Major revenue and profit indicators in the segment "Online"

	30/09/2017	30/09/2016	Change
Revenue (in €m)	1,983.0	1,802.4	180.6
EBITDA (in €m)	352.1	282.9	69.1
EBITDA margin (in %)	17.8	15.7	2.1

Development in Segment "Offline"

As part of the initial consolidation of Drillisch from the beginning of September 2017, sales revenues and the related expenses from the stationary sale of mobile products were recognized for the first time in the segment.

Revenues in the segment Offline came to €15.3 million (previous year: €0.0). The segment revenues include total sales revenues from intercompany relationships of €4.7 million that were eliminated during the consolidation process (previous year: €0.0 million). Cost of materials in the segment Offline amounted to €9.0 million (previous year: €0.0). The total of the segment expenses includes expenses from intercompany relationships in the amount of €5.1 million that were eliminated during the consolidation process (previous year: €0.0 million). Customer acquisition costs were posted directly as expenses in the segment Offline as well. In the segment Offline, the EBITDA amounted to €0.2 million (previous year: €0.0 million).

Major revenue and profit indicators in the segment "Offline"

	30/09/2017	30/09/2016	Change
Revenue (in €m)	15.3	0.0	15.3
EBITDA (in €m)	0.2	0.0	0.2
EBITDA margin (in %)	1.1	0.0	1.1

Situation in the Group

Earnings position

Growth during the first nine months of 2017 was driven above all by the contract customer business of the two segments Online and Offline. In this core business, the number of customer contracts subject to charge in the current product lines was increased by 4.09 million contracts (thereof 3.35 million from the initial consolidation of Drillisch) to 12.39 million.

Revenues rose in the first nine months of 2017 by 9.9% from €1,788 million in the previous year to €1,965 million. The initial consolidation of Drillisch results in a revenue contribution in the amount of €54.6 million (previous year: €0.0). Adjusted for the share of revenue of the mass market customers that were not acquired from Versatel until May 2017 and the revenue contribution of Drillisch, revenues would have risen by 5.0% in comparison with the comparable period of the previous year. The positive revenue development results primarily from the continued rise in the number of contract customers and the related monthly payments.

All customer acquisition costs as well as the costs for converting resale DSL lines to DSL complete packages and upgrades to VDSL lines were as before posted directly as expenses.

In the first nine months of 2017, the costs of sales rose underproportionately to the development of revenues by €99.2 million (7.9%) (thereof €31.2 million from the initial consolidation of Drillisch) to €1,360 million (previous year: €1,261 million). The gross margin rose accordingly from 30.2% in the previous year to 32.2%. Gross profit rose by 16.7% from €541.4 million in the previous year to €631.8 million and increased more sharply than revenue.

Distribution costs rose slightly from €220.3 million in the previous year to €249.7 million in the first nine months of 2017. In relation to revenue, the distribution costs in the first nine months of 2017 came to 12.7% (previous year 12.3%). Administration costs increased (also a consequence of the initial consolidation of Drillisch) from €48.6 million in the previous year (2.7% of revenue) to €52.3 million (also 2.7% of revenue).

The EBITDA from ongoing business activities in the first nine months of 2017 amounted to €352.7 million (previous year: €282.9 million). Earnings before taxes (EBT) rose by 24.4% from €258.3 million to €321.2 million. Tax expenses in in the first nine months of 2017 amounted to €74.9 million (previous year: €77.0 million). The change in the tax rate from 29.8% per 30 September 2016 to 23.3% per 30 September 2017 results mainly from an adjustment in the deferred tax assets in the amount of €24.6 million (previous year: €0.0) related to the purchase of the Versatel mass market clientele by 1&1.

Consolidated profit from ongoing activities rose from €181.3 million in the previous year to €246.3 million in the first nine months of 2017. Consolidated profit of €172.9 million results from the non-ongoing activities (previous year: €-4.2 million). The profit from the non-ongoing activities in this year results essentially from the sale of Versatel Group. The consolidated profit and consolidated comprehensive results in the first nine months of 2017 amounted to €419.2 million (previous year: €177.1 million).

Situation in the Group

Major revenue and profit indicators (in €m)

	30/09/2017	30/09/2016	Change
Revenue*	1,965.2	1,788.4	176.8
EBITDA*	352.7	282.9	69.8
EBITDA margin* (in %)	17.9	15.8	2.1
EBIT*	328.9	277.0	51.9
EBIT margin* (in %)	16.7	15.5	1.2

*from ongoing activities

Financial position

Thanks to the positive development of profits, cash flow from current business activities from ongoing activities rose from €44.0 million in the previous year to €299.5 million in the first nine months of 2017.

Back payments for taxes of about €100 million as well as advance payments for procured services that were not recognised on expenditures until the following period in the amount of approximately €41 million resulted in the previous years to outgoing cash payments that had a negative effect on operating cash flow.

Cash flow from investments shows in total net incoming payments of €25.2 million during the reporting period (previous year: outgoing payments of €22.8 million). They result, on the one hand, primarily from investments in intangible and tangible assets in the amount of €8.6 million (previous year: outgoing payments of €22.8 million) and interest received in the amount of €0.6 million (previous year: €0.1 million). On the other hand, the incoming payments from the initial consolidation of Drillisch resulting from the reverse acquisition in the amount of €33.1 million (previous year: €0.0) are included here and reflect the level of cash at Drillisch at the time of the initial consolidation.

The free cash flow (defined as net incoming payments from operating activities reduced by investments in intangible and tangible assets plus incoming payments from the disposal of intangible and tangible assets) rose from €21.2 million in the same period of the previous year to €290.9 million during the first nine months of 2017.

Definitive factors in the cash flow from financing activities, which during the first nine months of 2017 amounted to €-185.9 million (previous year: €-37.8 million), were the repayment of financing loans in the amount of €200.0 million (previous year: €0.0), interest payments in the amount of €8.4 million (previous year: €18.8 million) and incoming payments from the assumption of losses in the amount of €12.5 million (previous year: €8.7 million) and incoming payments from the change of cash pool balances within the framework of cash pooling in the amount of €10.1 million (previous year: outgoing payments of €27.7 million).

Assets and liabilities

The balance sheet total increased from €1.843 billion per 31 December 2016 to €4.694 billion per 30 September 2017. The changes in assets and liabilities result mainly from the initial inclusion and consolidation of Drillisch in the consolidated financial statements per 30 Sep-

Situation in the Group

tember 2017 and from the sale of the Versatel Group in May 2017.

Short-term assets rose significantly from €263.5 million per 31 December 2016 to €630.7 million per 30 September 2017. The cash holdings disclosed in the short-term assets rose from €4.6 million to €39.2 million. Trade accounts receivable rose from €152.2 million to €207.9 million. The substantial increase in the claims due from affiliated companies in the amount of €241.2 million (previous year: €4.1 million) are related essentially to claims against United Internet pursuant to the cash pooling still in effect on the closing date (€82 million) and to claims from the sale of the Versatel Group (€158 million). Prepaid expenses rose as a consequence of the closing date and the expansion of business activities from €47.7 million to €70.0 million. Other non-financial assets increased by €7.4 million to €17.5 million, largely because of the aforementioned initial inclusion of Drillisch in the consolidated financial statements.

Long-term assets rose significantly as well from €1,579.7 million per 31 December 2016 to €4,063.3 million per 30 September 2017. The increase of €2,483.6 million essentially results from the assets determined as part of the provisional purchase price allocation less the related write-offs totalling €3,632.9 million that are reflected in the increase in goodwill and the other intangible assets. In contrast, fixed assets declined, primarily because of the sale of the Versatel Group, by €532.9 million to €22.3 million (31 December 2016: €555.2 million).

Short-term liabilities decreased from €1,046.7 million per 31 December 2016 to €726.3 million per 30 September 2017. The short-term trade accounts payable fell from €295.5 million to €265.4 million because of the closing date. Liabilities due to affiliated companies declined from €594.8 million per 31 December 2016 to €193.2 million and encompass primarily liabilities from a call option for the remaining 15% of the shares in 1&1 Telecom Holding GmbH, which will be exercised in January 2018. Last year, the liabilities due to affiliated companies comprised primarily short-term liabilities related to the cash pooling with United Internet. Income tax liabilities rose from €12.0 million per 31 December 2016 to €78.1 million per 30 September 2017. The cause for this is mainly the significant rise in profit before tax. Short-term bank loans and overdrafts per 30 September 2017 amounted to €50.1 million (31 December 2016: €0.0) and are related to the external credit line utilised by Drillisch.

Long-term liabilities decreased from €1,209.3 million per 31 December 2016 to €222.5 million per 30 September 2017. The cause for this was above all the complete repayment of the long-term liabilities due to affiliated companies in the amount of €1,000.0 million from the financing of the acquisition of the Versatel Group, which was sold in May 2017.

The equity in the Group rose from €-412.8 million per 31 December 2016 to €3,745.2 million per 30 September 2017. The major cause of this substantial increase was in the consolidation effects related to the recognition of the reverse acquisition. The Company's share capital in the amount of €194.4 million is distributed in 176,764,649 no-par shares issued to the bearer with a proportionate share in the share capital of €1.10 and is the equivalent of the share capital of Drillisch AG. The equity ratio rose accordingly from -22.4% to 79.8%.

Situation in the Group

The negative equity of 1&1 per 31 December 2016 resulted from reorganisation actions taken within the framework of the evolvement of the corporate structure of the United Internet Group from 2014 to 2016; the goal of these measures was the separation of the business activities of the United Internet Group into the divisions Access, Hosting, Portal and Corporate.

At this time, disbursements and/or profit transfers from companies included in the consolidation to companies outside of the consolidation of a partial group were disclosed without impact on income as withdrawals from equity. Contributions from companies outside of the group of consolidated companies to companies in the consolidated group of a partial group were recognised as contributions to equity.

As part of the sale of the Versatel Group in May 2017, the negative equity was completely balanced out by contributions from United Internet.

Supplementary Report

The Drillisch AG Supervisory Board has appointed Mr Ralph Dommermuth as CEO and Mr Martin Witt as member of the Drillisch AG Management Board. Mr Dommermuth's appointment will become effective per 1 January 2018; Mr Witt's appointment became effective per 1 October 2017. Mr Vlasios Choulidis will resign from the Drillisch Management Board effective per 31 December 2017.

The Hanau Local Court has appointed Mr Kurt Dobitsch, Mr Kai-Uwe Ricke and Mr Michael Scheeren as members of the Drillisch AG Supervisory Board, effective per 14 October 2017; their appointment is effective until the conclusion of the next ordinary Annual General Meeting of Drillisch AG. Mr Kurt Dobitsch, Mr Kai-Uwe Ricke and Mr Michael Scheeren succeed Dr Susanne Rückert and Mr Frank Rothauge, who have stepped down pursuant to the business combination agreement, and Dr Bernd H Schmidt, who previously resigned from the Drillisch AG Supervisory Board at the end of May.

Report on Risks and Opportunities

The risk management system is an integral component of corporate policy aimed at early exploitation of opportunities and the detection and limitation of risks. Drillisch operates a risk management system throughout the Group that includes continuous observation to ensure early recognition and the standardised recording, assessment, control and monitoring of risks. The objective is to obtain information about negative developments and the related financial effects as early as possible so that the appropriate measures can be initiated to counteract them. The management of the company results and company value makes use of the instruments of risk management, which can thus become a strategic success factor for the Company's management for subsidiaries and Drillisch itself.

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

The assessment of the overall risks situation is the result of a consolidated consideration of all major risk areas and specific risks, taking into account interdependencies. Risks threatening the existence of Drillisch Group from either specific risk positions or the overall risk situation were not discernible during the reporting period and at the point in time of preparation of this quarterly release.

Forecast Report

Forecast for fiscal year 2017

The Management Board expects a significant increase in clientele and a related continuation of the positive development of gross profit in its operating business and a substantial rise in revenue for 2017 as a whole. About 3.35 million contracts subject to charge were added in Q3 from the consolidation of Drillisch as of 8 September 2017. The Management Board expects an adjusted EBITDA from ongoing activities in the amount of between €520 and €530 million for 2017.

Future-oriented statements and forecasts

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

Explanatory comments on the quarterly release

Information about the Company

Drillisch AG is a listed stock corporation that offers telecommunication services. Drillisch was founded in 1997. The core business of Drillisch Group is telecommunications and is essentially conducted by the wholly-owned subsidiaries Drillisch Online AG ("Drillisch Online"), Maintal, and 1&1 Telecommunication SE ("1&1"), Montabaur.

The Group has concluded an MBA MVNO agreement with the network operator Telefónica Germany GmbH & Co. OHG (Telefónica) and an MVNO agreement with the network operators Telefónica and Vodafone; in addition to these agreements, it holds service provider licences from the networks Telekom, Vodafone and Telefónica. Drillisch's primary activity is the marketing of postpaid and prepaid products in the networks of Telefónica and Vodafone as well as landline and DSL products, including the related applications (such as home networking, online storage, telephony, video on demand or IPTV).

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

Major accounting, valuation and consolidation principles

The quarterly release from Drillisch AG per 30 September 2017 was prepared, just as the consolidated annual financial statements of the economic aquiree per 31 December 2016, in compliance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union (EU).

The quarterly release does not represent an interim report within the sense of IAS 34. The accounting and valuation principles applied in the quarterly release are consistent with the methods used in the previous year by the economic acquiree with the exception of the standards whose application has newly been mandated and must be viewed in the context of the consolidated annual financial statements of the economic acquiree per 31 December 2016.

Application of assumptions and estimates

During preparation of the quarterly release, management makes discretionary decisions, estimates and assumptions that affect the amounts of the income, expenses, assets and liabilities disclosed on the closing date and the disclosure of contingent liabilities. The uncertainty related to these assumptions and estimates may lead to results that in future require substantial adjustments in the book value of the relevant assets or liabilities.

Use of financial performance indicators relevant for business

Additional financial performance indicators such as EBITDA, EBITDA margin, EBIT or EBIT margin are used – in addition to the disclosures required by the International Financial Reporting Standards (IFRS) – in the Company's annual and interim financial statements to ensure a clear and transparent presentation of Drillisch's business development.

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

Explanatory comments on the quarterly release

Mandatory application of new accounting standards

The application of IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" and IAS 7 "Disclosure Initiative" is possible for the first time in fiscal year 2017. As of this time, the EU Commission has not yet accepted the application of these standards, so they have not been given consideration in this quarterly release.

Miscellaneous

All of the subsidiaries are included in the consolidated financial statements.

The following company was acquired during the reporting period 2017:

» Drillisch AG, Maintal.

The following company was sold during the reporting period 2017:

» Versatel Telecommunications GmbH, Düsseldorf.

Other than this company, the group of consolidated companies has essentially remained unchanged over the consolidated annual financial statements of the economic acquiree per 31 December 2016.

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

CONSOLIDATED FINANCIAL STATEMENTS PER 30 SEPTEMBER 2017

Balance Sheet

ASSETS	30/09/2017	31/12/2016
	€k	€k
Current assets		
Cash and cash equivalents	39,230	4,562
Trade accounts receivable	207,921	152,232
Claims due from affiliated companies	241,204	4,099
Inventories	51,168	39,286
Prepaid expenses	69,963	47,662
Other financial assets	17,447	7,415
Income tax assets	3,774	8,056
Other non-financial assets	0	223
Current assets, total	**630,706**	**263,535**
Fixed assets		
Other financial assets	5,771	5,091
Tangible assets	22,344	555,220
Other intangible assets	828,494	243,173
Goodwill	2,974,287	506,482
Trade accounts receivable	0	55,841
Prepaid expenses	105,175	122,248
Deferred tax assets	127,214	91,669
Fixed assets, total	**4,063,287**	**1,579,724**
ASSETS, TOTAL	**4,693,993**	**1,843,259**

Balance Sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	30/09/2017	31/12/2016
	€k	€k
Short-term liabilities		
Trade accounts payable	265,395	295,492
Liabilities due to affiliated companies	193,190	594,798
Bank loans and overdrafts	50,083	1
Payments on account	5,936	4,164
Income tax liabilities	78,126	12,020
Deferred income	48,429	63,661
Other provisions	20,395	11,183
Other financial liabilities	56,941	61,146
Other non-financial liabilities	7,843	4,264
Short-term liabilities, total	**726,337**	**1,046,729**
Long-term liabilities		
Deferred tax liabilities	198,104	43,190
Trade accounts payable	0	9,285
Liabilities due to affiliated companies	0	1,003,963
Deferred income	0	26,254
Other provisions	12,331	40,450
Other financial liabilities	12,049	86,207
Long-term liabilities, total	**222,484**	**1,209,349**
Shareholders' equity		
Share capital	194,441	121
Capital reserves	2,449,085	-1,067,670
Unappropriated retained earnings	1,101,645	615,289
Equity attributable to the shareholders of the parent company	3,745,171	-452,260
Non-controlling interests	0	39,441
Total of equity	**3,745,171**	**-412,819**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	**4,693,993**	**1,843,259**

Comprehensive Income Statement

	I-III/2017	I-III/2016
	€k	€k
Sales	1,965,197	1,788,426
Income from affiliated companies	26,789	14,002
Cost of sales	-1,360,198	-1,261,001
Gross profit from turnover	**631,788**	**541,427**
Sales costs	-249,678	-220,304
Administration costs	-52,249	-48,602
Other operating expenses	-17,120	-12,981
Other operating income	16,169	17,428
Profit/loss from operating activities	**328,910**	**276,968**
Financial result	-7,702	-18,711
Profit before taxes	**321,207**	**258,257**
Tax expenses	-74,942	-76,969
Consolidated profit from ongoing activities	**246,265**	**181,289**
Consolidated profit from non-ongoing activities	**172,930**	**-4,234**
Consolidated profit	**419,195**	**177,055**
Categories that may subsequently be reclassified as profit or loss	0	0
Categories that will not subsequently be reclassified in the profit and loss account	0	0
Consolidated comprehensive results	**419,195**	**177,055**
thereof attributable to		
Non-controlling interests	0	28,818
Drillisch AG shareholders	419,195	148,237
Profit per share of the shareholders of Drillisch AG in EUR*		
- undiluted**	2.02	1.49
- diluted**	2.02	1.49

* from ongoing activities
** in the previous year, calculated at the weighted average of the shares to be used per 30/09/2017 for better comparability

Cash Flow Statement

	I-III/2017	I-III/2016
	€k	€k
Consolidated earnings before interest and taxes	328,910	276,968
Income tax paid	-101,172	-81,369
Income tax received	165	0
Write-offs	23,765	5,944
Change in inventories	-5,461	1,051
Change in receivables and other assets	10,293	-141,076
Change in trade payables, other liabilities and provisions	43,179	-17,524
Change in payments received on account	-208	29
Cash flow from current business activities from ongoing business activities	**299,471**	**44,023**
Cash flow from current business activities from non-ongoing business activities	**-38,379**	**111,889**
Payments for investments in tangible and intangible assets	-8,557	-22,828
Incoming payments from the initial consolidation of Drillisch related to the reverse acquisition	33,125	0
Payments for investments in other financial assets	0	-46
Interest received	624	108
Cash flow from investment activities from ongoing business activities	**25,192**	**-22,766**
Cash flow from investment activities from non-ongoing business activities	**-58,639**	**-78,035**
Incoming payments from assumption of losses	12,498	8,715
Outgoing payments for amortisation of loans	-200,000	0
Interest paid	-8,412	-18,819
Amortisation of Other financial liabilities	10,129	-27,745
Incurrence/amortisation of investment liabilities	-86	0
Cash flow from financing activities from ongoing business activities	**-185,871**	**-37,849**
Cash flow from financing activities from non-ongoing business activities	**-7,105**	**-13,634**
Change in cash from ongoing business activities	**138,792**	**-16,592**
Change in cash from non-ongoing business activities	**-104,123**	**20,220**
Cash at end of period	39,230	4,631
Cash at beginning of period	4,562	1,003

Change in Equity Statement

	Number of shares	Subscribed capital	Capital reserves	Unappropriated retained earnings	Equity attributable to the Drillisch AG shareholders	Non-controlling interests	Equity, total
		€k	€k	€k	€k	€k	€k
Per 1 January 2016	**121,000**	**121**	**-1,058,956**	**390,004**	**-668,831**	**-65**	**-668,896**
Appropriation of earnings 2015			-8,714	8,714	0	0	0
Consolidated profit				148,237	148,237	28,818	177,055
Per 30 September 2016	**121,000**	**121**	**-1,067,670**	**546,955**	**-520,594**	**28,753**	**-491,841**
Per 1 January 2017	**121,000**	**121**	**-1,067,670**	**615,289**	**-452,260**	**39,441**	**-412,819**
Consolidated profit				419,195	419,195	0	419,195
Total Results							
Issue of shares of	176,643,649	194,320			194,320	0	194,320
Corporate merger			3,516,755	67,160	3,583,916	-39,441	3,544,474
Per 30 September 2017	**176,764,649**	**194,441**	**2,449,085**	**1,101,645**	**3,745,171**	**0**	**3,745,171**

Segment Reporting

Segment Report 01/01/2017 – 30/09/2017	Online	Offline	Mis-cellaneous	Consoli-dation / Holding	Total
	€k	€k	€k	€k	€k
Sales with third parties	1,981,401	10,566	18	0	1,991,985
Intra-company sales	1,573	4,731	0	-6,303	0
Segment sales	**1,982,973**	**15,297**	**18**	**-6,303**	**1,991,985**
Cost of materials external third parties	-1,275,378	-3,887	-2	0	-1,279,267
Cost of materials from intra-company relationships	-1,960	-5,075	-1	7,036	0
Cost of materials for segment	**-1,277,338**	**-8,962**	**-4**	**7,036**	**-1,279,267**
Gross profit for segment	**705,635**	**6,335**	**15**	**733**	**712,718**
Segment EBITDA	**352,056**	**166**	**229**	**224**	**352,674**

Segment Report 01/01/2016 – 30/09/2016	Online	Offline	Mis-cellaneous	Consoli-dation / Holding	Total
	€k	€k	€k	€k	€k
Sales with third parties	1,802,428	0	0	0	1,802,428
Intra-company sales	0	0	0	0	0
Segment sales	**1,802,428**	**0**	**0**	**0**	**1,802,428**
Cost of materials external third parties	-1,253,899	0	0	0	-1,253,899
Cost of materials from intra-company relationships	0	0	0	0	0
Cost of materials for segment	**-1,253,899**	**0**	**0**	**0**	**-1,253,899**
Gross profit for segment	**548,529**	**0**	**0**	**0**	**548,529**
Segment EBITDA	**282,913**	**0**	**0**	**0**	**282,913**

Financial Calendar

Financial Events 2017*

Date	Subject
Tuesday, 14 November 2017	Quarterly Close Q3 2017

* Date is preliminary and subject to change.

Legal Information

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Drillisch AG

Management Board:

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André Driesen

Martin Witt (since October 2017)

Supervisory Board:

Marc Brucherseifer, Dipl.-Kfm. (Chair)

Dr Susanne Rückert (Deputy Chair) (until October 2017)

Kurt Dobitsch (since October 2017)

Norbert Lang

Horst Lennertz, Dr.-Ing.

Frank Rothauge, Dipl.-Kfm. (until October 2017)

Kai-Uwe Ricke (since October 2017)

Michael Scheeren (since October 2017)

Dr Bernd H. Schmidt (until 31 May 2017)

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Disclaimer:

The information provided in this publication is checked carefully. However, we cannot guarantee that all specifications are complete, correct and up to date at all times.

Future-oriented Statements:

This report contains certain statements oriented to the future which are based on the current assumptions and projections of the management of the Drillisch Group. Various risks, uncertainties and other factors, both known and unknown, can cause the actual results, financial position, development or performance of the Company to deviate substantially from the assessments shown here. Such factors include those which we described in reports to the Frankfurt securities exchange. The Company does not undertake any obligation to update such future-oriented statements and to adapt them to future events or developments.

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