

Drillisch AG

Creating a Strong #4 Player in the
German Telco Market

12 May 2017

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Drillisch AG
Investor Relations
Wilhelm-Röntgen-Strasse 1-5
D-63477 Maintal
Phone: + 49 61 81 / 412 218
Internet: www.drillisch.de
Email: ir@drillisch.de

Transaction Overview

- **Drillisch AG and United Internet AG announce the combination of Drillisch AG with 1&1 Telecommunication SE by way of a contribution-in-kind**
 - Creating a strong #4 player in the German telco market with >12 million subscribers and revenues of >€3.2bn⁽¹⁾
 - Significant value creation opportunity expected with run-rate EBITDA synergies increasing from 2018 onwards to c.€150m p.a. in 2020 and c.€250m p.a. in 2025⁽²⁾
- **Transaction will be executed in two steps⁽³⁾ – valuation of 1&1 Telecommunication SE agreed at €5.850m:**
 - Drillisch AG acquiring a 7.75% stake in 1&1 Telecommunication SE by issuing 9.1m new shares from its authorized capital
 - The remaining 92.25% stake will be acquired post Drillisch AG's EGM (25 July 2017) approving the issuance of additional 107.9m shares to United Internet
- **In parallel, United Internet AG is announcing its intention to launch a cash offer of €50 per share to Drillisch AG's shareholders**
 - 8.2% premium to Drillisch AG's 3-month VWAP of €46.20⁽⁴⁾
- **Post transaction United Internet AG will hold a stake of ≥72.7% in the combined Drillisch/1&1 business**
- **Supervisory Board of United Internet AG as well as Drillisch AG's Management and Supervisory Board are supportive of the transaction**
- **Closing of full transaction expected in Q4'2017;** subject to approval by Drillisch's EGM and clearance by the German Federal Cartel Office⁽⁵⁾

(1) Based on 2016 reported figures.

(2) More details on page 8.

(3) More details on page 13.

(4) Source: Bloomberg as of 11 May 2017, to be confirmed by BaFin upon publication of the offer document.

(5) More details on page 15.

Creation of a Strong Mobile and DSL Player



Brands	Subscriber ⁽¹⁾	Financials ⁽¹⁾
	<ul style="list-style-type: none">▪ 7.7m mobile subscriber▪ 4.4m⁽²⁾ DSL subscriber	<ul style="list-style-type: none">▪ Revenue: >€3.2bn

(1) As of 2016.

(2) Numbers including Versatel mass market business.



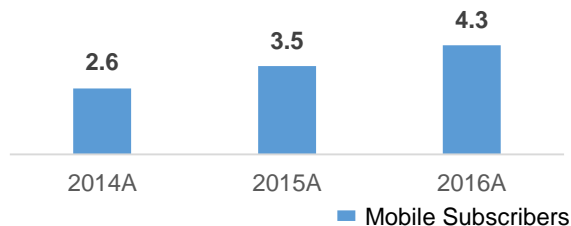
1&1 as Drillisch's Logical Partner

1&1 Has Strong Brands, Bundle Offerings, Very Compelling Distribution Capabilities and a Successful Track Record of Profitable Growth

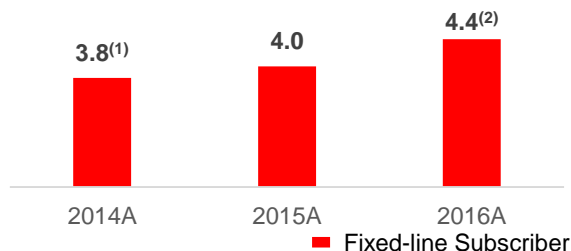
- “1&1” is a **well established provider of mobile and DSL products** in Germany
- 1&1's has access to the fibre network infrastructure provided by its **1&1 Versatel**
- 1&1 also purchases **standardized capacities from other network operators**

Track Record of Customer Growth

Mobile
(m)



DSL
(m)



1

Well-known and highly regarded brand



2

Attractive product offering with ability to bundle and cross-sell (DSL, Mobile, IPTV)



3

Strong distribution platform including online channels with strong brands and reach



4

Award winning customer service with strong reputation in Germany



(1) Reported figure; includes only 1&1 DSL customers.
(2) Numbers including Versatel mass market business.

1&1 Benefits from Strategic Partnerships in Mobile and Broadband to Capture Future Growth

Long-term Strategic Partnerships

Mobile / Hardware Access



Broadband



Other Partnerships



Strong Distribution Platform

Partners / Distributors



Direct / Online / Portals



Personalized Distribution



Access to Versatel Network Infrastructure



- Versatel's Fiber Network is the second largest in Germany (>40.000km) and covers 250 cities
- Opening up of 899 Broadband Network Gates of Telekom
- Direct connection in Business Areas
- Open Access Platform for city carrier with standard interface esprit



Compelling Benefits of the Combination

Drillisch and 1&1 Combination Leading to Shareholder Value Creation

1 Creating a Strong #4 Player in the German Telco Market

- The largest MBA MVNO in the German telco market and number three in fixed broadband
- Powerful combined online and offline distribution platform
- Diverse brand portfolio covering all relevant segments of the German market

2 Significant Synergy Potential

- Efficient utilization of existing MBA MVNO contract
- Advanced mobile product portfolio and cross-selling
- Joint procurement and efficiency of combined operations

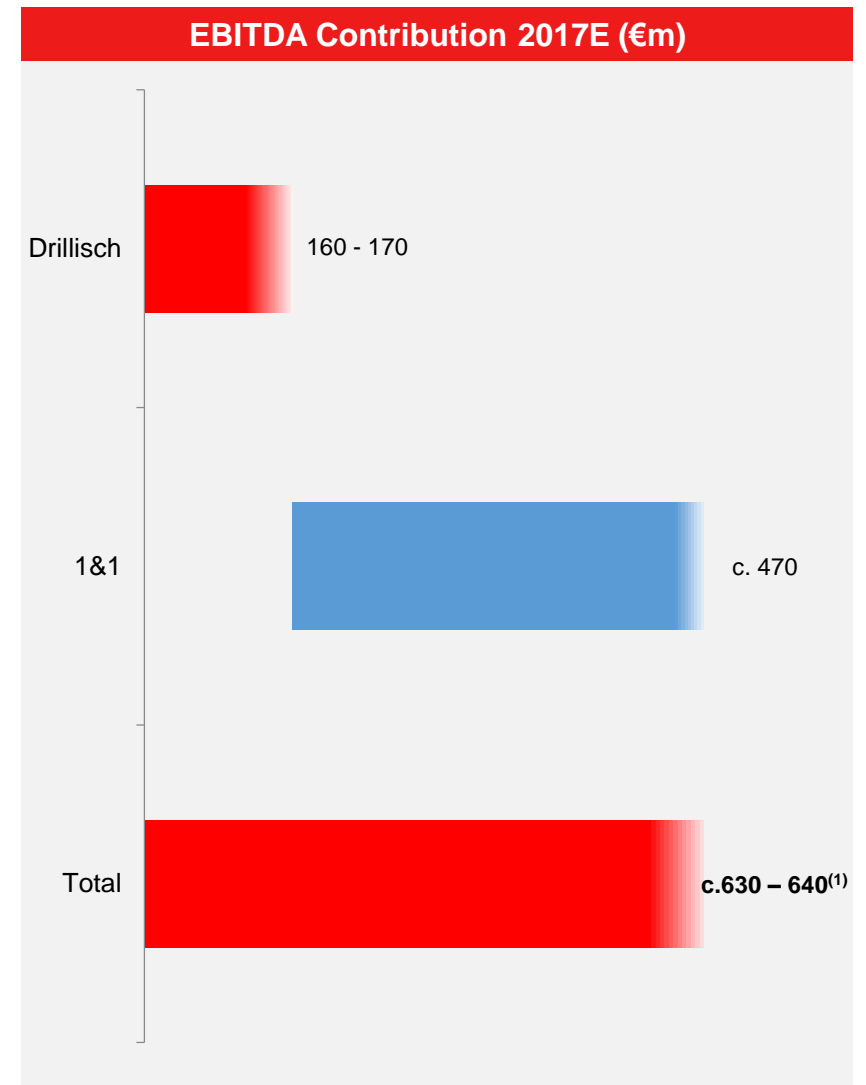
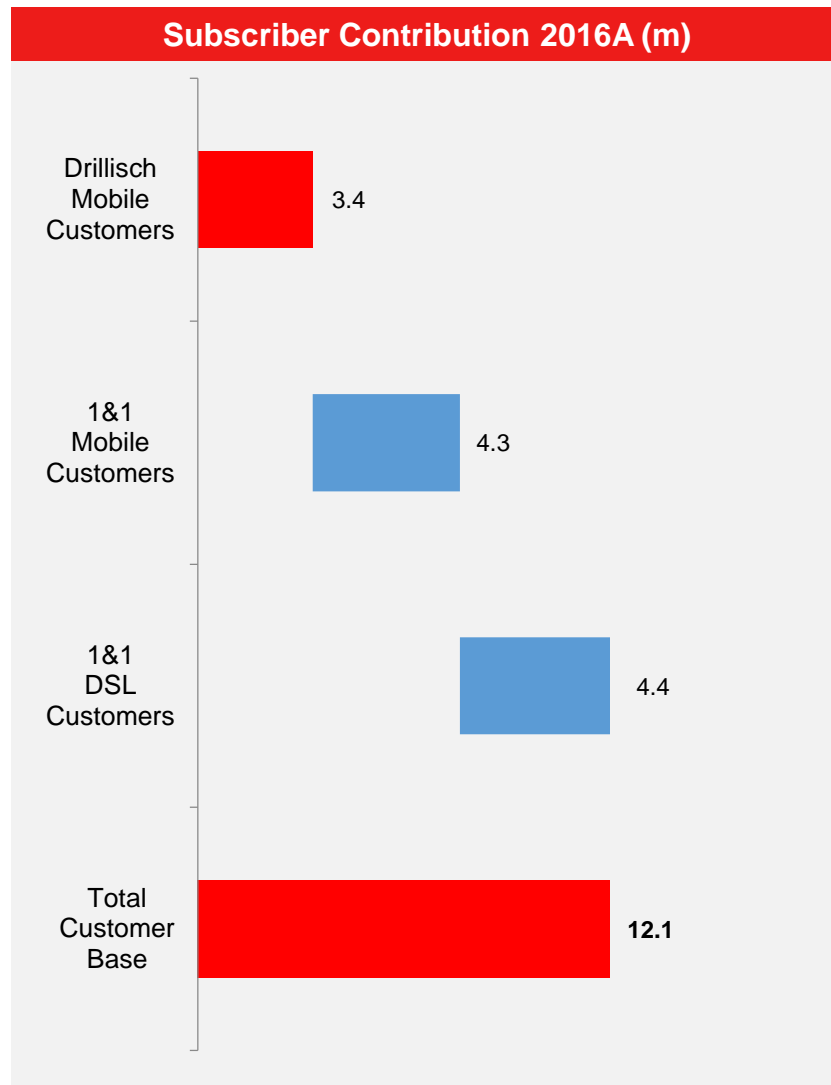
3 Superior Growth Prospects

- Two fastest growing German mobile players join forces translating into attractive top-line growth levels
- Strong and growing free cash flow generation

4 Operational Excellence

- Best-in-class product quality and customer service underpinned by several awards (e.g. PC Magazin “Bester Internet-Provider 2016”, Die Welt “Service-Champions 2016”, connect “Kundenbarometer 2016: Sehr Gut”, and many more)
- Combining two lean organizational structures and leveraging best practices and scale

1 Combination Creates Scale in Subscribers and Revenues



Note: Numbers including Versatel mass market business.

(1) Aggregated EBITDA based on full year 2017 forecasts from Drillisch and United Internet.

1 Drillisch and 1&1 Have Highly Rewarded Brands

Premium Mobile Brands

smartmobil.de

1&1

yourfone

Well-Established Choice of Secondary Brands

winSIM

DISCOSURF
DISCOUNTGÜNSTIG MOBIL SURFEN

simply
Und gut.

McSIM

maXim

DeutschlandSIM
Alles drin

PremiumSIM

DISCOTEL
DISCOUNTGÜNSTIG TELEFONIEREN

hello
mobil

DISCOPLUS
DISCOUNTGÜNSTIG TELEFONIEREN + SURFEN

DSL Brand

1&1

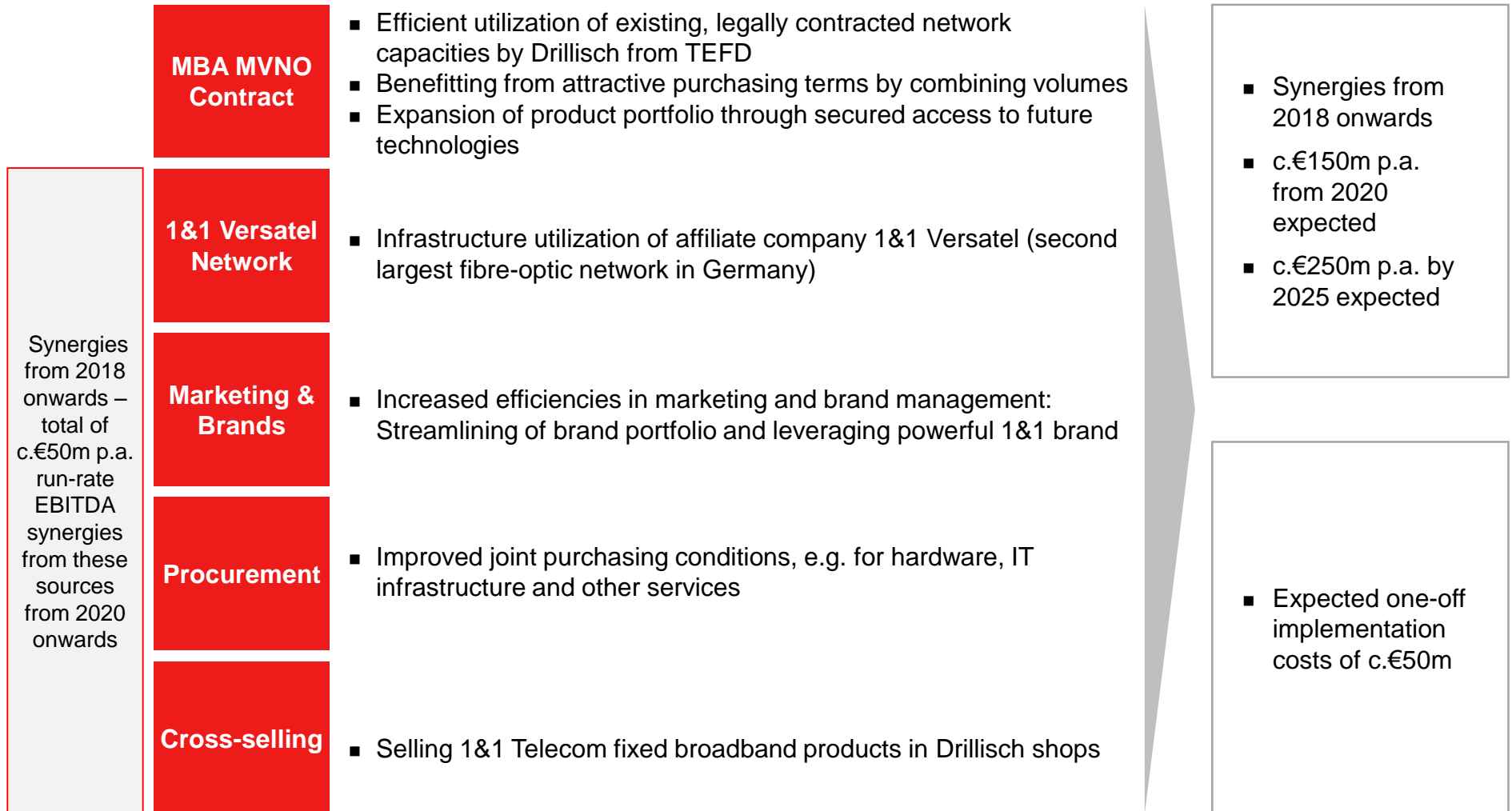
Quality Leadership



Service and Price Leadership

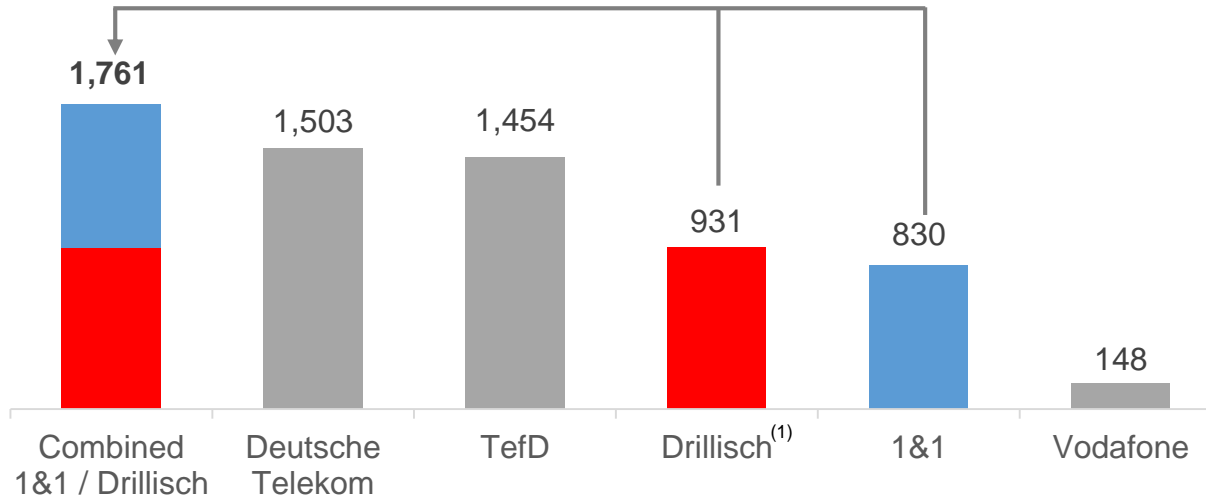


2 Significant Synergy Potential



3 Strongest Growth Prospects in Mobile Postpaid Net Adds

2016 Mobile Postpaid Net Adds ('000)



✓ Access to all current and future technologies (LTE, 5G, VDSL)

✓ Enhanced product offering (DSL + Mobile + IPTV) with strong brands

✓ Online and offline distribution channels

Distribution Channels

Company Website



Shops



Online Portals



Distribution Cooperations



✓ Service and price leadership in German market

(1) Referring to budget subscribers only.

4 Experienced Management Team



André Driesen



Ralph Dommermuth (CEO)



Martin Witt

- Post closing of the full transaction (capital increase II) and subject to Supervisory Board approval, the management team of the combined company is planned to consist of Ralph Dommermuth, Martin Witt and André Driesen
- Vlasios Choulidis is expected to leave Drillisch's Management Board post full transaction and join the Supervisory Board of the combined company



Details on the Transaction

Transaction Summary

Key Terms

- **Two-step transaction structure (detailed timeline on page 15):**
 - **Step 1:** Drillisch to acquire a 7.75% stake in 1&1 in exchange for 9.1m new Drillisch shares from existing authorized capital
 - Step 1 forms the basis for a distribution agreement of DSL products in yourfone shops (more detail on page 14)
 - **Step 2:** Subject to approval of Drillisch shareholders (Extraordinary General Meeting on 25 July 2017), Drillisch will acquire the remaining 92.25% in 1&1 in exchange for 107.9m new Drillisch shares
- Simultaneously, United Internet launches a voluntary tender offer for all outstanding Drillisch shares for an offer price of €50 per Drillisch share as a cash alternative for Drillisch shareholders

Recommen- dation

- Transaction approved by Drillisch's and United Internet's respective management and supervisory boards
- As a result of the significant synergies and value creation of the combined company, Drillisch management recommends the medium to long-term oriented shareholder to remain invested in the combined entity and support the combination at the EGM
- On a stand-alone basis, the Drillisch management believes the cash offer to be fair. Short-term oriented investor may therefore accept the cash offer alternative at a fair price

Transaction Summary (Cont'd)

Valuation

- Transaction values Drillisch at €50 per share or 23.0x LTM EBITDA and a 18.3x FY 2017 EBITDA Multiple⁽¹⁾, representing a premium of 3.0% vs. the XETRA closing price as of 11 May, and a premium of 8.2% vs. the 3-month VWAP⁽²⁾
- 1&1 valued at €5.85bn on a cash and debt free basis
- Expected run-rate EBITDA synergies increasing from 2018 onwards to c.€150m p.a. in 2020 and c.€250m p.a. in 2025
- Transaction is significantly EPS and FCF accretive for Drillisch shareholders from year 1

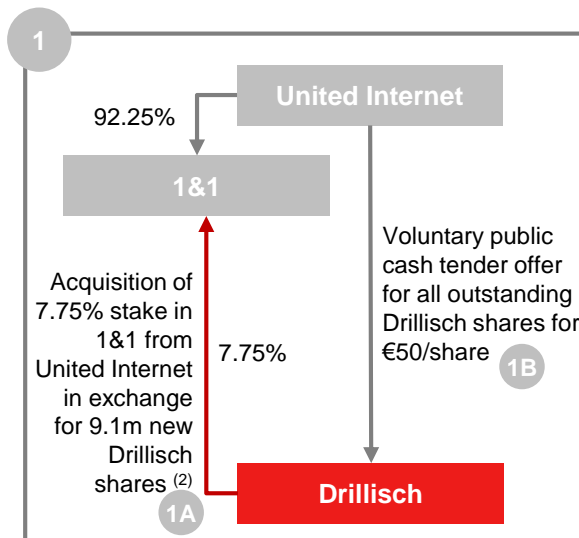
Business Combination Agreement

- Detailed definition of each transaction step, process and conditions for contributions in kind and voluntary public offer
- No change of Drillisch headquarters, or current locations
- Attractive dividend policy in line with current dividend policies of Drillisch and United Internet

(1) Based on mid-point of announced 2017 EBITDA guidance of €165m for 2017.

(2) Source: Bloomberg as of 11 May 2017, to be confirmed by BaFin upon publication of the offer document.

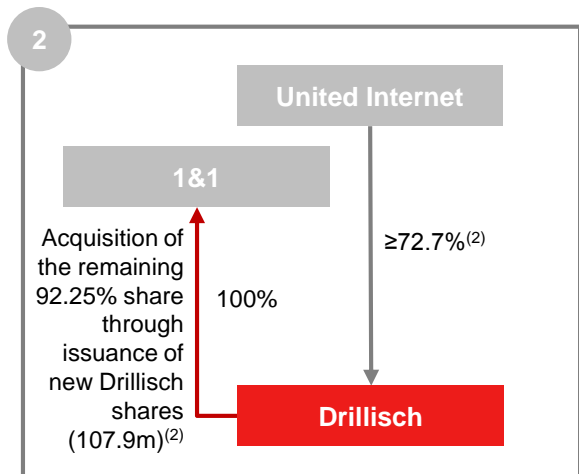
Transaction Overview in More Detail



1A

Acquisition of a stake in 1&1

- Drillisch acquires a 7.75% stake in 1&1 from United Internet by way of a contribution-in-kind issuing 9.1m new Drillisch shares (equivalent to a cash- and debt-free 1&1 EV of €5.85bn) from authorized capital to United Internet
- A shareholder's agreement is put in place, defining minority protection rights for Drillisch as well as exit rights that are appropriate for the level of participation
- As part of step 1A Drillisch and 1&1 will enter into
 - (i) a distribution agreement that allows Drillisch to sell 1&1 DSL products in its offline shops on a commission basis and
 - (ii) an agreement that allows Drillisch to benefit from better sourcing conditions for mobile hardware that 1&1 has access to



1B

Tender offer

- Voluntary public tender offer of United Internet for all outstanding shares of Drillisch concurrent to the announcement of step 1A
 - Cash offer price: **€50 per Drillisch share** vs. 3M VWAP of €46.20⁽¹⁾ (as of 11 May 2017; minimum price required in a mandatory tender offer)
 - No minimum acceptance threshold
- Offer subject to registration of capital increase (as per transaction step 1A) from authorized capital and regulatory approval (not considered an issue given market structure)

2

Acquisition of remaining stake in 1&1

- Contribution-in-kind of the **remaining 92.25%** stake in 1&1 from United Internet into Drillisch in exchange for 107.9m new Drillisch shares at a €50/share valuation
- Issuance of new Drillisch shares to United Internet requires shareholder approval (75% majority)
 - Invitation to an extraordinary general meeting has been disseminated concurrent with announcement of the transaction
- The capital increase results in a minimum stake of **72.7% United Internet stake in Drillisch**

(1) Source: Bloomberg.

(2) Based on a valuation of 1&1 of €5,850m equity value (on a cash and debt free basis).

Details of Agreement as Basis for Step 1

Distribution Cooperation Agreement

Drillisch will be able to offer 1&1 DSL Products in its offline shops

- ✓ Increased customer traffic
- ✓ Enlarged product offering / additional revenue stream
- ✓ Improved offline shop profitability
- ✓ Enhanced customer perception and visibility (product offering comparable to MNOs)
- ✓ Opportunity to contract additional distribution partners

Benefits from sourcing cooperation

- ✓ Logistic
- ✓ Access to “hero-models”
- ✓ Attractive terms and conditions

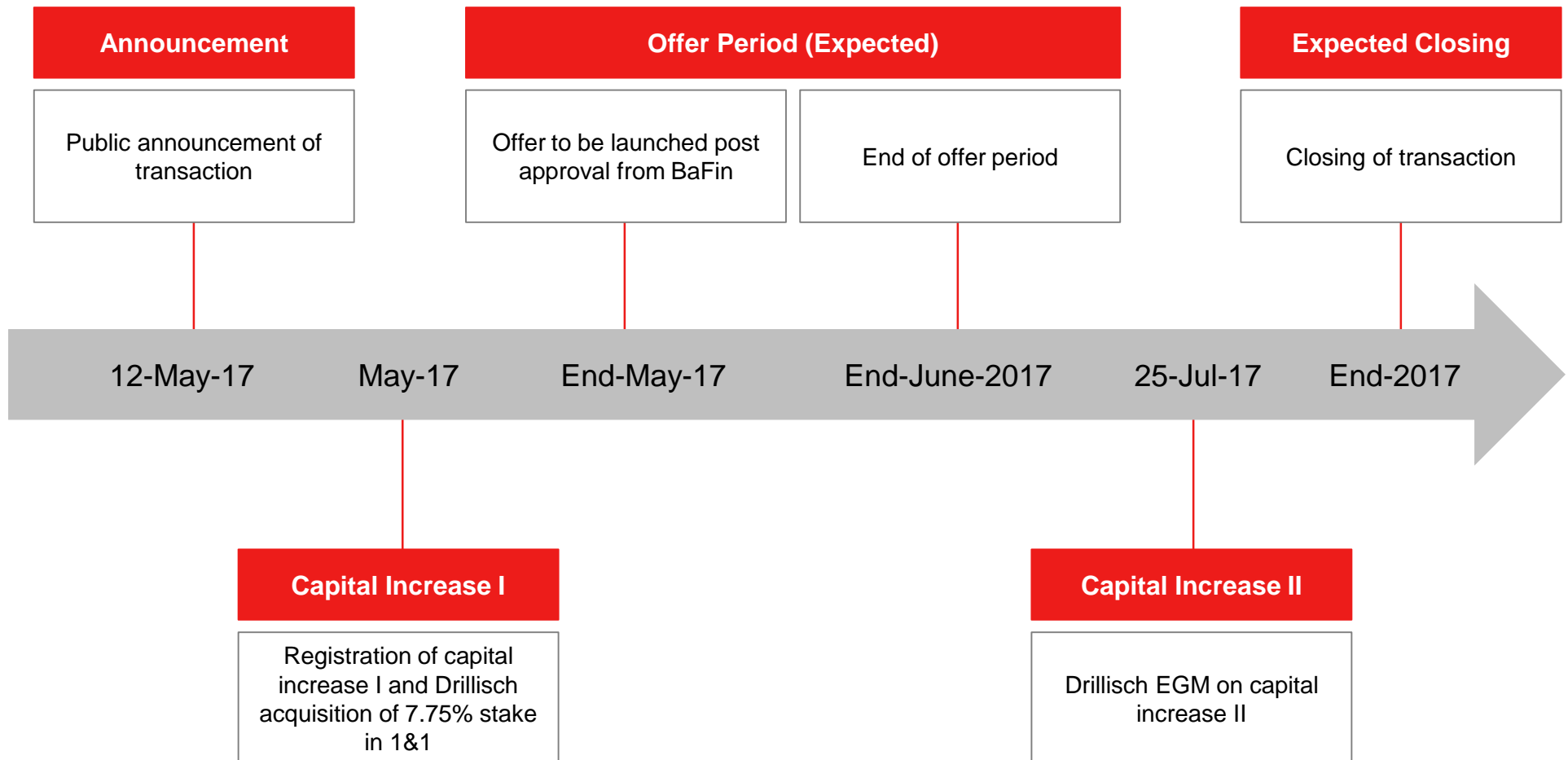


Drillisch will have initially a minority position in an attractive and profitable key player in the German mobile and DSL market

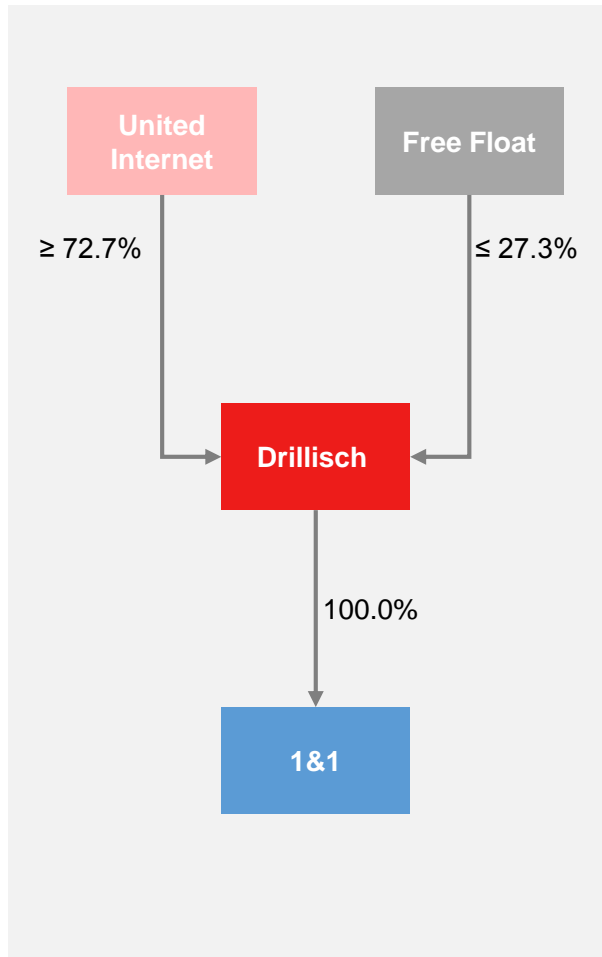


Clear Roadmap to Combination

Transaction Timeline and Key Events



Opportunity to Create a Strong Company and Significant Value



✓ **Highly strategic transaction to create a strong #4 player in the German telco market**

✓ **Significant value creation with expected run-rate EBITDA synergies increasing from 2018 onwards to c.€150m p.a. in 2020 and c.€250m p.a. in 2025**

✓ **Combined distribution power and brands will capture significant growth opportunity provided by more efficient use of network capacity**

✓ **The transaction is significantly accretive to Drillisch shareholders based on EPS and FCF from year 1**