

Performance.

Service.

Security.

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PART I

1. PERFORMANCE INDICATORS IN 1&1 DRILLISCH GROUP

Table 1

	2016	2017
ECONOMIC PERFORMANCE IN €M		
Revenue	2,430.1	2,812.3
EBITDA (earnings before interest, taxes, depreciation and amortisation)	387.9	504.0
EBIT (earnings before interest and taxes)	379.3	439.9
EBT (earnings before taxes)	431.3	354.6
Stock market value (market capitalisation) per 31/12	2,239	12,166
DISBURSEMENTS TO STAKEHOLDERS IN €M		
Taxes (company)	111.7	121.0
Interest (financial market)	24.7	8.6
Dividends (shareholders)	98.6	282.8
EMPLOYEES AND CUSTOMERS		
Full-time employees	3,454	3,194
Number of customers (thousands)	8,540,000	12,640,000
ENERGY AND EMISSIONS ⁽¹⁾		
Energy consumption in gigajoules (GJ)	33,608	28,031
In megajoules (MJ)/customer	9.80	6.97
CO ₂ emissions from operations in tonnes (t)	2,515	2,168
In kg per customer	0.73	0.55

(1) See footnotes in Table 8 on page 26

The previous Drillisch Group as the acquired company is included in the consolidated annual financial statements only pro rata temporis for the period starting at the moment control is obtained. In this report, the business of the former Drillisch companies is disclosed for four months only. The business of 1&1, on the other hand, is disclosed as the values for the full year.

PART I

2. FOREWORD

Dear Readers,

This is the first independent report issued by 1&1 Drillisch Group on the sustainability of its business operations. 1&1 Drillisch has always oriented its business activities strictly to criteria of sustainability and of corporate and social responsibility. We have simply never before expressly communicated these policies of action. Beginning with this report, we will provide to you a continuous flow of information in the future.

As a telecommunications service provider, the focus of our sustainability activities is primarily on the three aspects of performance, service and security. Our declared objective is to offer to our customers the best value for money on the telephony market in the form of innovative and creative products and services.

At the same time, we strive to maintain a balance between the interests of the Company and of other interest groups. With this in mind, 1&1 Drillisch maintains an ongoing dialogue with customers, shareholders, business partners, employees and other so-called stakeholders. What we learn from this exchange gives us important ideas for the successful further development of our product portfolio and of our Company as a whole.

Our understanding of sustainability has enabled us to lay a solid foundation, operationally and technologically, for profitable growth in the future. Building on this foundation, we merged with United Internet AG in the second half of 2017 and brought its subsidiary 1&1 Telecommunication SE into our Company. This step has created a powerful, full-service telecommunications provider enjoying substantial potential for synergy and growth in mobile and landline networks that now bears the name 1&1 Drillisch.

While the integration of 1&1 Telecommunication has been completed, the harmonisation of the structures and recording systems for the preparation of sustainability reports is currently still in progress. For this reason, a complete picture of the sustainability of 1&1 Drillisch Group will not be available until the issue of a later report.

Nevertheless, even this report will give you a detailed overview of facts and figures that will provide to you an accurate view of the conscientious activities of 1&1 Drillisch Group. The process of sustainable economic activity is firmly anchored in our corporate strategy. We have achieved much; we are striving to improve even further. We are strongly committed to our ongoing work in this area and will regularly and transparently report on the subject of sustainability at 1&1 Drillisch.

Sincerely yours,



Ralph Dommermuth



André Driesen



Martin Witt

PART II

3. DRILLISCH GROUP: BUSINESS MODEL

1&1 Drillisch AG is a listed stock corporation and one of the large network-independent telecommunications providers in Germany. The Company has been operating on the market for over 25 years and provides its customers with a comprehensive portfolio of services and products from the field of mobile voice and data services. As it is a so-called mobile bitstream access mobile virtual network operator (MBA MVNO), 1&1 Drillisch does not have its own network like the three mobile network operators (MNO) in Germany, but it can utilise the network of an MNO to offer its own products and services (see also "Mobile Service Providers", page 6).

With the addition of the new subsidiary 1&1 Telecommunication SE, 1&1 Drillisch now offers landline connections (broadband) as well as its mobile services. 1&1 Drillisch provides the services through the optical fibre network of its affiliate 1&1 Versatel, but it also purchases standardised network services from various advance service providers such as Deutsche Telekom or municipal operators. The cooperation with a range of advance service providers makes it possible to utilise various access technologies so that products and services can be tailored to meet the specific needs of different customers. In addition to mobile-only and DSL-only products, 1&1 Drillisch can offer to its customers attractive bundled products comprised of mobile and landline services in combination with additional content such as home networks, online storage, video on demand or IPTV. This marketing opportunity opens the door to the development of new customer and product segments.

As an MBA MVNO, 1&1 Drillisch offers services and products tailored specifically to customer wishes on the networks of the mobile network operators Telefónica Germany GmbH & Co. OHG ("O2") and Vodafone GmbH ("Vodafone"). 1&1 Drillisch has unrestricted access to all current and future technologies via Telefónica. 1&1 Drillisch's innovation and creativity are found in its independent design of high-performance 1&1 Drillisch products based on standardised and unbundled advance services. The Group's premium brand is 1&1. Other established online brands of the Group under the umbrella of Drillisch Online AG include (for example) smartmobil.de, yourfone, maXXim, PremiumSIM, winSIM, DeutschlandSIM or simply.

In fiscal year 2017, an average workforce of 2,860 (previous year: 3,397), including the three Management Board members of 1&1 Drillisch AG, was employed at 1&1 Drillisch Group. They generated revenue of €2,812.3 million.

The primary driver of operating success is the total number of customers. This figure rose by 4.10 million to 12.64 million in fiscal year 2017, in part a consequence of the merger with 1&1.

Data communications will remain the most important growth segment in telecommunications. Steadily improving network quality and the availability of fast data connections go hand in hand with high demand from consumers for increasingly more powerful and individually tailored products and services.

BRIEF HISTORY OF 1&1 DRILLISCH AG

The predecessor companies of 1&1 Drillisch AG became active in communications and telecommunications as early as 1957. Since 1994, 1&1 Drillisch has been operating as a service provider in the mobile services sector, i.e. as a provider of communication services brokered to network operators, but on its own behalf and for its own account. 1&1 Drillisch AG of today was established in 1997 and has been listed on the stock exchange since 1998.

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Viewed in this setting, the market for telecommunications and information will almost certainly develop dynamically in the future as well; new market segments will appear while current segments will decline in importance. General conditions and content will be subject to rapid changes. This situation confronts even successful providers such as 1&1 Drillisch with demanding tasks. Important trends are the virtually full-area availability of landline-based and mobile high-speed internet, the growing use of high-end smartphones, the further dissemination of cloud applications, IPTV or photo and music streaming services, the growing communication among machines and the progressing spread of the mobile service standard LTE and its successor 5G.

As this development continues, telephony, surfing on the internet and fast data access at low prices will in future remain at the focus of customers' interest. In this sense, 1&1 Drillisch will continue to develop its successful business model of offering products for which the standard is to offer best value for money. The important building blocks for this model:

- » Expanding and maintaining the lead over the competition held by a "lean" organisation;
- » The automation and optimisation of business to ensure continuous improvement of the user-friendly service concept;
- » The continuation of creative and innovative services and products through additional cooperative activities and new content;
- » The determined exploitation of the opportunities arising from the special business model, namely, the contractual agreement featuring exclusive terms and conditions with Telefónica Germany providing access to the network without any restrictions in performance until at least 2030. This gives 1&1 Drillisch a decisive competitive advantage over other MVNOs.

The even more efficient exploitation of the MBA MVNO contract with Telefónica is simultaneously the basis for 1&1 Drillisch that will enable the Company to continue to set itself apart from its competitors in future. Moreover, the new affiliation with United Internet provides 1&1 Drillisch with access to the "internet factory" and the optical fibre network of 1&1 Versatel, the second-largest optical fibre network in Germany. The successful SIM-only products can be made even more appealing with the

MOBILE SERVICE PROVIDERS

MNO

Mobile network operator: mobile service company with its own physical network (radio masts, exchanges, complete technical equipment)

MBA MVNO

Mobile bitstream access mobile virtual network operator: telephone company that does not have its own physical network, but can utilise the network of an MNO in a defined scope and independently bill customers for its services. An MBA MVNO operates on equal footing with the network operator and has unlimited access to all current and future technologies.

MVNO

Mobile virtual network operator: provider of telecommunications services that does not have its own mobile network and instead utilises the network of at least one MNO; it sells mobile services, mobile devices and added-value services such as text messages or MMS on its own behalf and for its own account. Services are based on the procurement of standardised, unbundled advance services from at least one MNO, allowing an MVNO significantly increased room for manoeuvring in the product and sales areas in comparison with an MSP.

MSP

Mobile service provider: Private telephone company without its own mobile network that sells on its own behalf and for its own account mobile services, mobile devices and added-value services such as text messages or MMS on the basis of service packages structured by MNOs.

PART II

addition of attractive devices, own developments of applications and other services by the Group, and can be quickly adapted to meet changing customer needs.

In addition, the merger with United Internet leads to progressive development of the offering in landline services. At the end of the reporting period, 1&1 Drillisch served 4.34 million landline customers. United Internet already has its own optical fibre network with wide-area coverage and also profits from current and future technological leadership in access to private and business customers in the Deutsche Telekom landline network (see also Chapter 6: The Development of Mobile Services).

4. SUSTAINABILITY ASPECTS RELEVANT FOR 1&1 DRILLISCH

1&1 Drillisch defines sustainability as actions oriented to a balance of interests among all of the participants in a business process or who are impacted by a business process. Today's generations, for example, have the need for mobile communications that cannot be satisfied without the expenditure of energy and raw materials. This is countered by the equally important interests of future generations who would also like to have sufficient energy and raw materials to satisfy their needs.

One essential aspect of sustainability is the fair treatment of all interest groups such as customers, employees and business partners. One example of this aspect is finding a way to reconcile the interest of employees in secure jobs with the desire of shareholders to receive a fair share of the Company's business success.

1&1 Drillisch maintains this balance of interests through its regular review and optimisation of business processes. At the hub of business operations are the services related to mobile and landline communications connected by the corporate and sustainability strategy. 1&1 Drillisch Group offers transparent operations characterised by first-class service, high network availability and stability, high security standards and rate plans that can be tailored to individual needs with the aim of delivering the greatest possible benefit to customers. Another important sustainability measure for 1&1 Drillisch is the continuous development of its workforce to ensure that service quality is maintained permanently at a high level and improves in the future as well.

CURRENT DEVELOPMENT OF 1&1 TELECOMMUNICATION SE

Since merging with Versatel, 1&1 has access to Germany's second-largest optical fibre network with a length of 44,889 km (previous year: 41,644 km), and 1&1 can now provide reliable high-speed connections in 250 German cities, including 19 of the 25 largest cities. Since the middle of 2016, 1&1 Versatel has been providing more and more VDSL/vectoring building connections on the basis of Telekom Layer 2 advance services. This is achieved by the successive connection of the optical fibre network with the BNGs (broadband network gateways) of Deutsche Telekom. Moreover, the 1&1 optical fibre network is tied to other optical fibre networks belonging to well-known municipal carriers so that optical fibre home connections from wilhelm.tel, M-net, NetCologne and R-KOM can be offered in addition to our own network.

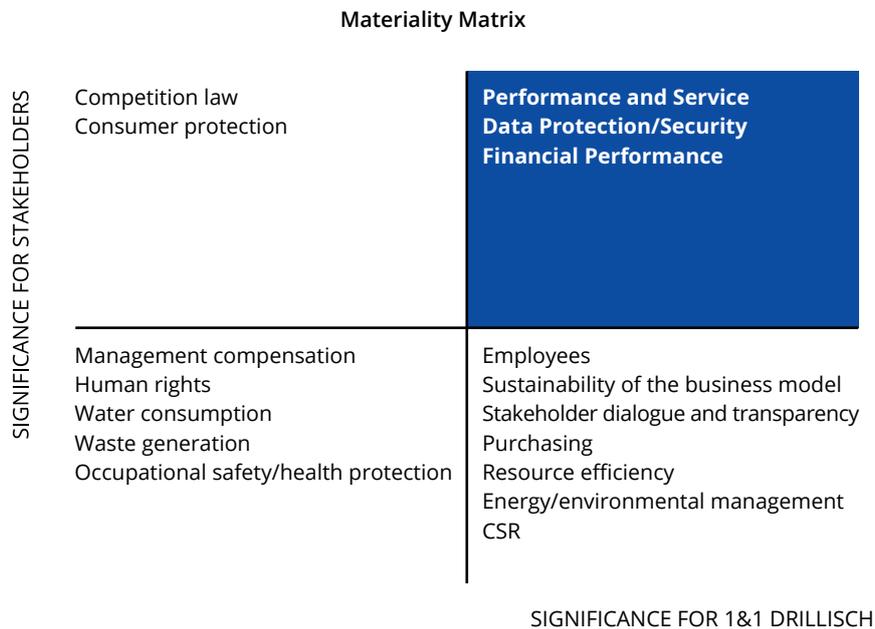
THE INTERNET FACTORY OF UNITED INTERNET AG

The "internet factory" is the place where the mechanisms characteristic of efficient manufacturing are transferred to internet business. Development departments create high-performance products for mobile and landline communications. These products are operated on 90,000 servers in ten data centres. The "internet factories" are consequently in a position of being able to expand, combine and scale the product portfolio almost completely at will.

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1&1 Drillisch is a company that operates solely and exclusively in Germany and also pays taxes here. All of its locations, including the call centres, are in Germany and all of its services are performed here with the consequence that the Group’s activities are subject to the laws of Germany. These circumstances and standards give rise to essential sustainability issues (“materiality”) for 1&1 Drillisch.

MAJOR SUSTAINABILITY ASPECTS FOR 1&1 DRILLISCH:



Beyond these core topics, however, 1&1 Drillisch places great value on consideration of additional sustainability aspects that do not exercise any direct influence outside the Company for customers or shareholders. The range of these topics includes such diverse subjects as showing respect in dealing with employees or resource and energy management oriented to efficiency and environmental friendliness. 1&1 Drillisch has already ensured observance in their full scope of the topics so important to stakeholder such as consumer protection or compliance with fair competition practices so that there is no further need for action in these areas. While this does not by any means imply that other segments of sustainability are less important, they are not the subject of intense discussion in this report.

Viewed in this setting, the business approach at 1&1 Drillisch can be summed up as follows:

- » Services at attractive conditions offering high benefits to customers.

And the supplementary sustainability principle is this:

- » Above-average and consistent quality of performance, excellent service and the highest level of (data) security for customers.

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5. THE STRATEGY: CONCENTRATION ON PERFORMANCE, SERVICE, SECURITY

As a telecommunications provider, 1&1 Drillisch maintains a product portfolio that does not involve any critical factors in terms of sustainability. In this respect, the sustainability performance specific to 1&1 Drillisch is in maintaining product features and in the sustainability of the accompany services. In terms of issues such as material consumption, emissions or wastewater, criteria that are typically of high relevance for internationally operating industrial companies, for instance, 1&1 Drillisch has already exhausted existing optimisation potential for what is in any case a very low total volume. The same is true for energy consumption; an external audit has shown that 1&1 Drillisch does not have any more potential for conservation.

In such a scenario, there are essentially three areas that shape 1&1 Drillisch's sustainability profile and that must be developed continuously in the future as well:

- » First of all, 1&1 Drillisch defines itself by **performance** and seeks to adapt the price-benefit ratio to current needs and changing user behaviour at all times by developing new, innovative products.
- » Second, 1&1 Drillisch places high value on the best possible **service** in customer care. Customer care elements are subject to a constant optimisation process and are the target of our striving for continuous improvement. 1&1 Drillisch also calls in independent third parties from outside the Company for regular reviews of the customer care processes.
- » Third, 1&1 Drillisch ensures the greatest possible **(data) security**. As the world becomes increasingly digitalised and more difficult to control, people's need to be treated properly and for the security of their personal data from access by third parties and misuse is also growing.

The combination of these three focal points of sustainability results in the strategy that has been conceived for the long term. 1&1 Drillisch not only wants to maintain the current customer level, but wants to increase its numbers steadily – through an extremely competitive price-benefit ratio, above-average customer care and the warranty of (data) security. The employees at 1&1 Drillisch are an important success factor here, which is why the Group emphasises its dealings with staff to such a high degree.

PART III

6. THE DEVELOPMENT OF LANDLINE AND MOBILE TECHNOLOGY

CHANGES IN THE PAST – OPPORTUNITIES IN THE FUTURE

The starting shot for mobile services in Germany was fired at the end of the 1950s. Calls using mobile phones were possible on the so-called A network; the devices had tube amplifiers and consumed enormous quantities of power, so they were limited to use in the car when the engine was running. Initially, the equipment was the size of a suitcase and weighed about 16 kilograms. Users still had to call the “operator” and ask her to put the call through. In 1968, the A network already covered 80% of the entire country. One of its weak points, however, was its limited capacity; the system could handle only 11,000 subscribers, and this level was reached in 1972.

In the same year, the B network was added, and now mobile phone calls across international boundaries were also possible. For the first time, calls could be dialled directly, although callers had to know the approximate location of the persons they wanted to talk to; the required area code depended on the current position of person being called in one of 150 zones in Germany.

From 1985 on, the C network became available for mobile telephony. Technically speaking, this represented a major advance, but was again subject to the restriction that it could be used solely for calls within Germany. Calls were now automatically placed using the standard mobile area code 0161 independently of location. Network coverage in Germany was almost 100%.

THE TRANSMISSION TECHNOLOGY BECOMES MORE POWERFUL

The quantum leap came with the transition from analogue to digital telephone technology in 1992. The GSM standard (Global System for Mobile Communication) transformed the voice signal into zeros and ones that computers could process, improving voice quality and reducing vulnerability to disruptions. This second mobile generation (2G) also opened the door to mobile communications for the general population.

The introduction of the third generation (3G) in mobile technology, UMTS (Universal Mobile Telecommunications System), brought with it an enormous increase in data transmission. The introduction of this standard included speeds that exceeded those of the ISDN landline connections that were common at that time.

LTE (Long Term Evolution) was able to raise substantially the data transmission rates once again. Moreover, the technology stands out for shorter signal propagation delays and more efficient use of available frequencies. Thanks to these properties, LTE technology is also used to provide coverage to areas in rural regions without access to DSL (so-called white areas) as part of the broadband expansion.

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LTE expansion continues to advance. In 2016 (the last year for which data are available), the network had been expanded to a total of 44,100 base station (2015: 40,900). Depending on the provider, network coverage ranged between about 80% and 93%. And from the technological perspective, there is still plenty of potential in the LTE standard. The expansion of LTE technology to LTE+ or LTE Advanced achieves transmission rates of up to 500 Mbit/s even today.

THE NEXT GENERATION: 5G

Mobile services are becoming more and more powerful because of the ongoing improvement in transmission technology and the never-ending further development of devices. The introduction of the mobile internet paved the way to many different uses that go far beyond telephony and the sending of text messages. The increasing availability and rising transmission rates of the services ultimately led to the realisation of applications such as video or music streaming, and their use in daily life is in the meantime taken for granted.

The potential fields of use will expand once again when the next generation in mobile services, so-called 5G, becomes reality. 5G technology increases data transmission rates many times over and can provide service to more users in one cell with virtually unnoticeable latency (the delay between sender and recipient caused by signal propagation). Another advantage is its lower energy consumption in comparison with predecessor technologies. Experts believe that 5G will be available on the end customer market in Germany from 2020.

DEMANDS ON NETWORK INFRASTRUCTURE CONTINUE TO GROW

According to statistics compiled by the Federal Network Agency, there were about 135 million SIM cards in circulation in Germany at the end of 2017, statistically about 1.6 cards per capita. Another 12.5 million SIM cards were in use for the largely automated exchange of data and information among machines (M2M). Significant increases can be expected in this sector in future. This development will be stimulated by the Internet of Things (IoT) and other factors. This phenomenon describes the increasingly deeper penetration of our daily lives by interconnected devices and sensors. The spectrum here ranges from automated refrigerators to factory systems that produce goods almost autonomously. The networking of more and more sensors, machines and people requires a completely different network structure from the one we have today. Besides the sheer number of involved parties, their density – especially in megacities – represents an especially great challenge to infrastructure operators and service providers.

NETWORK NEUTRALITY

The increasingly dense networking of society occurs primarily through the internet, a technical affiliation of independent regional networks without a central administration.

The internet improves efficiency and innovation capability because of its lack of prioritisation (among other factors): every single data package is treated as an equal during transport, depending on the load on the system (so-called best effort principle). The ruling principle here is “network neutrality”: all of the traffic in a network is treated equally (neutrally) – regardless of content, service, sender or recipient.

Network operators see a risk that the sharp rise in data traffic caused by streaming services, high-definition television, the rising use of smartphones and other factors may lead to capacity bottlenecks in future. Whether and to what extent network neutrality can be maintained under these circumstances in the long run is currently the subject of heated discussions among representatives from politics, business and civil society.

PART III

Table 2 Number of SIM Cards in Germany (in Millions at End of Period)

Year	SIM cards	of which: UMTS and LTE users
2007	97.2	
2008	107.2	
2009	108.3	
2010	108.8	21.2
2011	114.1	28.6
2012	113.2	33.6
2013	115.2	44.2
2014	112.6	52.6
2015	113.8	58.5
2016	129.9	63.1
Q2 2017	135.0	66.3

Q2 2017 (most recently available data)

Source: Activities Report Telecommunications 2016/2017, Federal Network Agency

USER BEHAVIOUR TENDING TO INCREASED DATA TRANSMISSION

Developments in the user behaviour of the various mobile services – telephony, text messages, data transmission – are moving in different directions. While the average length of phone calls has largely remained constant, the number of text messages sent has declined significantly in recent years. At the same time, the average data volume transmitted or used monthly has risen since 2012 by 645% from 114 MB then to 850 MB in 2017 (19th TC Market Analysis Germany 2017 from VATM/Dialog Consult of 18/10/2017). The total data volume transmitted on the German mobile market in 2017 came to 1,350 million gigabytes. This is almost half again as much as in the previous year (902 million GB). 1&1 Drillisch Group participated in this dynamic market development to a substantial degree.

PART III

Table 3 Type of Use per SIM Card and Month (Ø)

Jahr	Number of text messages sent	Telephony minutes	Data volume in MB
2012	44	80	114
2013	28	80	195
2014	16	82	289
2015	12	85	423
2016	9	79	627

Source: Federal Network Agency

1&1 Drillisch is recording substantial growth in its LTE subscribers and transmitted data. The number of subscribers rose between 20% and 50% from quarter to quarter and reached the figure of approximately 2.4 million subscribers at the end of Q2 2017. Besides the growth in absolute number of LTE subscribers, the average transmitted data volume per subscriber and month increased substantially.

Table 4 1&1 Drillisch LTE Subscribers: Number and Data Utilisation

	LTE subscribers in millions	Growth over previous quarter	Ø data usage in MB per month and subscriber	Growth over previous quarter
Q3 2015	0.490		551	
Q4 2015	0.730	+ 49 %	593	+8 %
Q1 2016	0.960	+ 32 %	617	+ 4 %
Q2 2016	1.299	+ 35 %	710	+ 15 %
Q3 2016	1.643	+ 26 %	824	+ 16 %
Q4 2016	1.973	+ 20 %	899	+ 9 %
Q1 2017	2.245	+ 14 %	945	+ 5 %
Q2 2017	2.409	+ 7 %	1,073	+ 14 %

Source: 1&1 Drillisch

Roaming refers to the possibility for a mobile services subscriber to use the networks of third-party operators as well. The prerequisite is that the subscriber's own provider has concluded pertinent agreements. This is especially relevant when the subscriber is travelling abroad. In 2017, roaming charges for voice, text message and data connections throughout the entire European Union were finally eliminated pursuant to an EU regulation. Consumers can now use their national rate plans even in other EU countries in accordance with the roam like at home principle. The permanent use of a third-party SIM card is suppressed to prevent misuse. Moreover, mobile service providers can bill surcharges if their domestic prices are verifiably unable to cover the costs of providing the roaming services.

PART III

LANDLINE NETWORK HAS LONG-STANDING TRADITION AND FURTHER POTENTIAL FOR DEVELOPMENT

The construction of a telephone network in Germany began in the 1880s. International telephony became possible for the first time in 1900 with a connection to Paris. During the first decades of the telephone, calls had to be manually connected by an operator. Direct dialling, at least in local networks, became possible in Germany even before the First World War. The full-area use of direct dialling within Germany and to other countries was not realised completely in West Germany until 1972 and not in the former East Germany until after reunification.

For a long time, the technology used in telephones and the network changed very little. There was no option to the dial on the phone, patented by the company Siemens in 1913, until the keypad telephone was introduced in 1975. The Deutsche Bundespost began digitalisation of telephony technology with ISDN (Integrated Services Digital Network) at the end of the 1970s in a series of field trials, but it did not become available for commercial use until 1994. Since that time, the advance of technological progress has accelerated significantly.

In 1999, the first DSL (Digital Subscriber Line) connections, which allowed voice and data to be transmitted simultaneously, for private customers were activated. The installation and use of optical fibre networks in Germany since 2010 have spurred transmission speeds and product variety even further.

Table 5 **Broadband Connections in Millions**

2012	2013	2014	2015	2016	Q2 2017
28.0	28.7	29.6	30.7	32.0	32.5

Source: Activities Report Telecommunications 2016/2017, Federal Network Agency

Connection technology in landline networks continues to develop steadily so that all providers can be assured access conditions to customers that are as equal as possible, strengthening competition on the telecommunications market. The last few metres of connection cables ("last mile") between the distribution board and the customers' connections still largely belong to Deutsche Telekom, one of the successor companies to the Bundespost. The "unbundled access" of all communications providers to the so-called subscriber connection line is intended to break up this monopoly. While this requires telecommunications providers to have their own or leased infrastructure such as a Germany-wide transmission network, it permits virtually limitless individual products and services.

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Deutsche Telekom must grant access to these connection cables so that all providers have, as far as possible, the same conditions of access to customers, thereby strengthening competition on the telecommunications market. Based on this regulated access claim, telecommunications providers can create services and products with the help of their own or leased infrastructure.

In addition to the “bare copper wire” (the so-called subscriber connection line that is acquired locally), Deutsche Telekom has been offering a cross-regional product that encompasses additional transport services since 2008, the so-called Layer 3. At this time, the data transfer to the procurer’s network by Deutsche Telekom takes place at about 70 interfaces in Germany. Another variant is wholesale internet access (WIA). In this case, the last mile to the internet is also leased from Deutsche Telekom.

Improved cross-regional access to customers has been offered additionally since 2017, the so-called Layer 2 bitstream access. This new technology offered by Deutsche Telekom is an alternative to the use of the subscriber connection line. The number of transfer points in all of Germany has risen to about 900. Competitors can take over data traffic that is largely unprocessed from Telekom, giving them greater freedom in designing their products so that they can offer more specifically tailored products to end customers. The communications providers must in this case invest more in their own infrastructure than in the past, however.

TELEPHONY USE ON THE RISE – REVENUES STAGNATE

Telephony and above all data transmission use has risen in recent years, at times sharply. At the same time, however, technological progress and efficiency gains have reduced costs. This and the ever greater competition limit the options for service providers in terms of price and earnings. As a consequence, total revenues on the telephony market have declined by 3% since 2012. Thanks to its sustainable and attractive product portfolio, 1&1 Drillisch, on the other hand, was able in the same period not only to expand the scope of its service, but to increase revenues by about 15.7% to €2,812.3 million.

Table 6 Revenue Development in Telephone Networks in €bn

	2012	2013	2014	2015	2016	2017
Landline	24.40	23.69	23.19	22.15	21.96	21.73
Mobile network	26.53	26.22	26.12	26.96	26.46	26.45
Cable network	4.30	4.48	4.77	5.07	5.26	5.40
TOTAL	55.23	54.39	54.08	54.18	53.68	53.58

Activities Report Telecommunications 2016/2017, Federal Network Agency

PART IV

7. CORE AREA OF SUSTAINABILITY: PERFORMANCE

One of the three core elements of 1&1 Drillisch's sustainability strategy is the Company's aspiration to offer to customers transparent performance with the best value for money. One prerequisite for achieving this is the constant review and optimisation of business processes. Another point is that this goal requires parallel sustainability measures such as the precise address of customer needs (determined by regular customer surveys) and motivated employees (supported by employee-oriented personnel policies).

The great customer benefits are secured by service of above-average quality, highly customised rate plans and high network availability and stability. The sustained support of this performance is carried out with the lowest possible consumption of resources – achieved by ongoing optimisation of all processes within the Company.

The mobile networks used by 1&1 Drillisch display very high technological stability and, at the end of 2017, provided coverage in the LTE standard to about 80% and in the 3G standard or higher to more than 95% of the German population. When deciding on their individual demand for the network capacity they use, customers at 1&1 Drillisch can choose from a broad range of innovative and creative rate plans that are simultaneously highly transparent. Innovation and creativity become apparent, for example, in the choice of contract terms – one month or 24 months – and the different focal points of telephony, text messaging and data transmission.

OWN SOFTWARE DEVELOPMENT TRANSLATES INTO GREAT FLEXIBILITY

The broad range of services offered by 1&1 Drillisch is possible only because of the intense and ongoing own development work in the software sector. 1&1 Drillisch is consequently in a position to perform telecommunications services at the level of state-of-the-art technology. The required know-how and the requisite skills are bundled in IQ-optimize, the Group's own IT service provider. It performs technical services including the optimisation of work processes within 1&1 Drillisch Group. Since 2017, its work has been supplemented by development services from United Internet.

What is more, the company is the interface on the technical side to the network operators so that disruption-free use by the 1&1 Drillisch customers can be guaranteed. Finally, IQ-optimize is in charge of system and data protection (see as well the chapter "Security"). This results in many advantages. Among them, 1&1 Drillisch is independent of any third-party service providers and can respond quickly and flexibly to any required adaptations, including the fast and efficient integration of acquired companies.

PART IV

AWARENESS OF CUSTOMERS' WISHES ENHANCES PERFORMANCE CAPABILITY

1&1 Drillisch has set itself the goal of repeatedly initiating new trends when fulfilling customers' wishes and needs (see also the chapter "Service"). The response to surveys is especially significant for this. It is reflected in the adaptation or restructuring of rate plans and makes a decisive contribution to ensuring that the services offered by 1&1 Drillisch are in line with current and future customer needs.

8. CORE AREA OF SUSTAINABILITY: SERVICE

DIALOGUE WITH CUSTOMERS MOSTLY UNDER THE COMPANY'S OWN DIRECTION

When 1&1 Drillisch speaks of good customer service, it means that any provided information is correct and that the service employees are reachable. Since, as a rule, 1&1 Drillisch customers have a special affinity for technology, 1&1 Drillisch offers to them a comprehensive range of options in the Service World and the 1&1 Control Center on the internet in addition to telephone contact opportunities. Virtually all of the issues related to a contract can be resolved by customers themselves using these options (PC or mobile app).

Call centres and other customer service facilities at 1&1 Drillisch are staffed to about 90% with the Company's own personnel in Germany, and there has not been any outsourcing of jobs to other countries. The remaining ten percent of the staff is comprised of employees at third-party service providers that are also located in Germany. Their employees are trained at 1&1 Drillisch and can be reached via the 1&1 Drillisch telephone lines.

1&1 Drillisch makes very high demands on its own customer service and works continually on improving it even further. 1&1 Drillisch has established several different channels for establishing contact and communicating with its customers. They include the direct contact to the 1&1 Control Center, a telephone call to one of the call centres, the submission of an email or a conversation using a chat function in the 1&1 Drillisch Service World. Telephone contact is possible 24/7. The "1&1 Principle" applies: The service team is available 24 hours a day, the cost-free overnight service delivers orders by the next workday, customers can test the delivered products for one month without obligation and defective equipment is generally replaced at the customer's location within one workday.

At the end of the reporting period, 1&1 Drillisch employed a workforce of about 1,262 (as full-time equivalents) in customer service, 40 of them vocational trainees. The respected professional journal Connect rated the 1&1 Drillisch call centres for the brands yourfone and smartmobil.de, which are also competent for other 1&1 Drillisch brands,

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as “excellent” and “good”, respectively, on the basis of a test in 2017. The assessment criteria were the quality and correctness of the information as well as friendliness, reachability and response times. On 22 February 2018, Connect certified the 1&1 brand as having the best service performance in comparison with all other mobile service providers and in September 2017 as having the best overall performance among all broadband providers in the categories quality, reachability and friendliness. And the computer magazine Chip confirmed in autumn 2017 that the 1&1 brand provided the best service on the new-customer hotline of all the larger landline and mobile service providers; the criteria service, waiting time, reachability and transparency were tested.

SERVICE QUALITY A HIGH PRIORITY

[G4-PR5] 1&1 Drillisch continuously conducts analyses of customer wishes and customer service and customer satisfaction. This is accomplished by means of the Company's own surveys as well as of surveys conducted by third parties engaged for this purpose. For instance, 1&1 Drillisch contacts a six-figure number of customers every year. The examinations include overall customer satisfaction, satisfaction with specific process steps in the processing of customer requests and the perception of the price-benefit ratio. The surveys, based on more than 20 separate criteria, are carried out, for example, 48 hours after the customers' most recent contact to 1&1 Drillisch.

In addition, 1&1 Drillisch engages TÜV Saarland to conduct customer surveys every two years to obtain an assessment of satisfaction. In the most recent survey conducted by the TÜV in 2016 regarding all 1&1 Drillisch brands, an average of about 90% of the respondents rated the 1&1 Drillisch service quality in the areas friendliness, professional competence and understandability as good or excellent.

A major contribution to this high level of satisfaction is a consequence of the Company's demand that the call centre staff must be able to answer customer queries directly. As a matter of principle, calls are not transferred. This so-called “first-call resolution rate” at 1&1 Drillisch is well above 90%.

The representative surveys are conducted with respondents from all age groups. The customers surveyed by 1&1 Drillisch itself are chosen after the contact with the service centres while TÜV Saarland selects the respondents at random. The findings from the analyses are incorporated directly into measures for improvement of the products and service portfolio. They include, for instance, the possibility to change rate plans at any time, equal treatment of new and current customers, the decoupling of mobile service contract from device, active complaint management or the acceptance of the return of old devices for recycling free of charge and without hesitation.

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9. CORE AREA OF SUSTAINABILITY: SECURITY

In view of more than 12 million customer contracts, data security and data protection are of the highest importance for 1&1 Drillisch. That is why the Company maintains the highest security standards and minimises risks for 1&1 Drillisch itself as well as for its customers. It goes without saying that the Company complies with legal requirements and responsibly manages customer data. An audit by data protection authorities in 2015 determined complete conformity with regulations and did not reveal any reason for complaint. Dependability in the so-called grey areas is also important for 1&1 Drillisch, i.e. Drillisch does not use customer data for advertising purposes and does not sell any customer data to third parties.

The analysis of customer data for the improvement of the offered services and products is handled internally at 1&1 Drillisch and is not personal, meaning that the data are aggregated and anonymised. Customers' telephony connection data are stored for only a brief period of time in compliance with statutory regulations. Creditworthiness checks are conducted solely with the consent of the customers or on the basis of legal authorisations.

The security of performance measurement at all times and correct billing of services to the customers are important for 1&1 Drillisch as well. 1&1 Drillisch has initiated precautionary measures to prevent the misuse of customer contacts – for instance, the downloading of data in other countries. The 1&1 Drillisch security systems issue an alert whenever larger data volumes are downloaded in other countries without prior notice. The billing statements of network operators are monitored and reviewed for plausibility by comparing them with customer behaviour.

HIGH STANDARDS FOR DATA PROTECTION

Data protection at 1&1 Drillisch is always completely up to date from both technological and regulatory perspectives. Regular employee training sessions are among the measures initiated to ensure this. Employees have access to customer data solely and exclusively within the context of their function, i.e. only of the type and in the scope necessary for customer care and for performance of the contractually agreed service. For this purpose, a number of technical and organisational "barriers" have been erected within 1&1 Drillisch Group for protection of (customer) data to ensure that no unauthorised employees have access to customer data.

SYSTEM SECURITY: PROTECTION FROM HACKER ATTACKS

1&1 Drillisch has installed an extraordinarily high level of protective safeguards so that hacker attacks can be effectively warded off. Such attacks occur almost daily, but these are rarely attacks specifically and exclusively aimed at 1&1 Drillisch. Attacks of a highly dispersive character carried out simultaneously against many companies are far more frequent.

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Thanks to its high level of IT competence, the Group has always been able to ward off any such attacks efficiently. Security precautions include as well the location of the 1&1 Drillisch servers exclusively in Germany, their organisation as a redundant system and the quality of their comprehensive storage and security functions.

SPECIAL ATTENTION TO PRODUCT RESPONSIBILITY

With mobile internet as an example, 1&1 Drillisch offers the technical possibilities for wireless telephony, the digital sending of messages and the transmission of data in the use of its products. The use of these opportunities does not per se involve any risks for customers and consumers and is socially non-controversial.

Mobile services utilise high-frequency electromagnetic fields for the transmission of information. Mobile devices generate these fields in immediate proximity to the user's head when he or she makes phone calls without a hands-free feature. In the estimation of the Federal Office for Radiation Protection (BfS), however, there is no scientific proof of any harmful effects to human health when internationally regulated maximum values are not exceeded [status at end of 2016]

Furthermore, the use of mobile devices may cause harm in special cases, but both the manufacturers of the devices and 1&1 Drillisch point out these risks. Such cases when appropriate behaviour or the use of additional technical devices is advisable include people with implanted pacemakers or who wear hearing aids and the use of mobile devices in the proximity of medical equipment, in airplanes and in the car. There are extensive recommendations for behaviour, warnings and legal regulations covering these cases.

[G4-PR1] Possible unfavourable effects from the use of the services and devices described here may occur in the event of excessive and improper use, but they are not inevitable. In its overall assessment of all these aspects, 1&1 Drillisch has come to the conclusion that no special management actions related to product responsibility are necessary with respect to the mobile services offered by the Group. Nevertheless, 1&1 Drillisch will continue to monitor continuously the use of mobile services for negative effects and respond in full awareness of its responsibility if any such actions appear necessary.

[G4-PR2] This attitude is substantiated all the more because 1&1 Drillisch does not know of any incidents occurring during the reporting period in which the violation of regulations or voluntary rules of conduct for the prevention of negative effects of products and services on health and safety played a role. Nor were there any cases in which there was a lack of compliance with regulations or voluntary rules of conduct related to information about and the designation of products and services.

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10. ECONOMIC, ECOLOGICAL AND SOCIAL SUSTAINABILITY RELEVANCE: DRILLISCH IN THE OVERALL VIEW IN ACCORDANCE WITH GRI G4

ORGANISATIONAL PROFILE

[G4-3] 1&1 Drillisch AG [G4-7] is a German stock corporation listed on the stock exchange [G4-5]; its headquarters are at Wilhelm-Röntgen-Strasse 1-5 in 63477 Maintal. Its stock is included in the indices TecDAX and CDAX of the Frankfurt Stock Exchange. [G4-7] Per 31/12/2017, United Internet AG together with United Internet Investments Holding GmbH held 73.29% of the shares. Supervisory Board members did not hold any shares; the 1&1 Drillisch AG Board of Management held 208,333 no-par shares. Free float amounted to 26.55% of the shares.

[G4-4] 1&1 Drillisch AG and its wholly-owned subsidiaries are providers of services for voice and data communications [G4-6] in Germany. The 1&1 Drillisch brands are 1&1, smartmobil.de, yourfone, winSIM, PremiumSIM, DeutschlandSIM, maXXim, simply, eteleon, McSIM, discoTEL, discoPLUS, sim.de, Phonex and M2M-mobil. [G4-8] Customers are almost exclusively end consumers.

[G4-9] During fiscal year 2017, 1&1 Drillisch generated revenues in the amount of €2,812.3 million. [G4-13] During the reporting period, major changes in the size, structure and ownership relationships occurred because of the integration of 1&1 Telecommunication SE (see also 1&1 Drillisch Annual Report 2017). Excluding the brick-and-mortar facilities ("shops") that have in the meantime been sold, 1&1 Drillisch maintains locations in Maintal, Montabaur, Karlsruhe, Krefeld and Münster (including the data centres located there) and in Berlin, Dresden, Düsseldorf, Munich, Nuremberg and Zweibrücken. Customer service is handled by the facilities in Karlsruhe, Krefeld, Maintal, Montabaur, Münster and Zweibrücken. At the end of 2017 [G4-10], 1&1 Drillisch employed a workforce of 3,194 (full-time positions). [G4-11] Drillisch does not have any employees with contracts governed by collective bargaining agreements.

[G4-16] 1&1 Drillisch is a member of the Association of Telecommunications and Added-Value Services Providers (VATM).

MAJOR ASPECTS AND LIMITS

[G4-17] 1&1 Drillisch AG is the Group's holding company and directly holds 100% interest in each of the following companies (numbers 1 to 6, with the exception of number 15). All the information in this report covers and refers to these Group companies unless expressly noted otherwise. The same organisational units are therefore included in the Group's consolidated annual financial statements and sustainability report. Consequently, the limits to the coverage of the Group companies and operating business for the Annual Report 2017 and this sustainability report are identical.

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Table 7 Structure of Drillisch Group

		Share of capital (%)	Held by no.
1.	1&1 Drillisch AG, Maintal		
2.	Drillisch Online AG, Maintal	100	1
3.	IQ-optimize Software AG, Maintal	100	1
4.	Drillisch Netz AG, Düsseldorf	100	1
5.	Drillisch Logistik GmbH (formerly The Phone House Deutschland GmbH), Münster	100	1
6.	1&1 Telecommunication SE, Montabaur	100	1
7.	Mobile Ventures GmbH, Maintal	100	2
8.	1&1 Telecom Holding GmbH, Montabaur	85	6
9.	1&1 Telecom Sales GmbH, Montabaur	100	6
10.	1&1 Telecom Service Montabaur GmbH, Montabaur	100	6
11.	1&1 Telecom Service Zweibrücken GmbH, Zweibrücken	100	6
12.	1&1 Berlin Telecom Service GmbH, Berlin	100	6
13.	1&1 Logistik GmbH, Montabaur	100	6
14.	1&1 Telecom GmbH, Montabaur	85	8
15.	Acoon GmbH, Marl	63	1

[G4-24] 1&1 Drillisch took into account suggestions and opinions from financial market participants and customers in determining the sustainability relevance of topics for this report. [G4-25] By including these two interest groups, 1&1 Drillisch covers almost the complete range of interest groups, the “stakeholders”, participating in, or affected by, business operations (see also Chapter 4, Relevant Sustainability Aspects).

[G4-26] Customers are continuously and comprehensively integrated into this process via (satisfaction) surveys (see also Chapter 8: Core Area of Sustainability: Service). [G4-27] Financial market participants – i.e. primarily shareholders, analysts and the financial/professional press – express their assessments of 1&1 Drillisch Group in regular discussions related to specific events.

[G4-28] The information contained in this report covers the fiscal year from 01/01/2017 to 31/12/2017. This sustainability report has been prepared in accordance with the systematic structure of the Global Reporting Initiative (GRI) G4 [G4-32]. The aim was to achieve the report level “Core”. [G4-29] This is the first sustainability report to be issued by 1&1 Drillisch [G4-33]; it was not submitted to an external audit. [G4-30] The sustainability report will be published annually in future. [G4-31] Contact for questions about the sustainability report is Oliver Keil, Investor Relations, 1&1 Drillisch AG, Wilhelm-Röntgen-Strasse 1–5, 63477 Maintal, email: ir@1und1-drillisch.de.

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COMPANY MANAGEMENT

[G4-34] Business decisions for 1&1 Drillisch Group are the responsibility of Management Board and Supervisory Board. These two bodies also evaluate the economic, ecological and social effects of their decisions. Extensive information on this subject can be found in the chapter "Corporate Governance" of the Annual Report 2017 of 1&1 Drillisch AG (pages 16 to 24). [G4-56] 1&1 Drillisch orients its actions to written values, principles, and standards and rules of conduct that have been set forth in the Group's Code of Conduct and Ethics.

ECONOMIC PERFORMANCE

[G4-EC1] During fiscal year 2017, 1&1 Drillisch Group generated revenues in the amount of €2,812.3 million.

The Group made investments totalling €15.8 million. In 2017, 1&1 Drillisch disbursed €98.6 million in dividends to its shareholders for fiscal year 2016. At the same time, €50 million in loans was repaid.

[G4-EC2] 1&1 Drillisch has reviewed the risks of natural disasters caused by climate change for its business activities. The review indicated that the Group is directly vulnerable to no more than a very low risk from climate change. The organisation does not have any systematic analysis supported by databases of the financial consequences of climate change and does not plan to implement any such analysis. Damage or loss caused by climate change such as flooding is covered in part by insurance policies.

1&1 Drillisch is indirectly affected by climate change because it leads to higher prices for energy and raw materials and confronts 1&1 Drillisch with stricter requirements related to internal energy management. The implementation of a CO₂ strategy, however, is not planned because of a lack of relevance. 1&1 Drillisch did not participate in voluntary emission trading during the reporting period.

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ADDED-VALUE CHAIN

1&1 Drillisch wants to provide as many of the services that are the Company's core business and for which 1&1 Drillisch has a competitive advantage as possible through its own employees. They include first and foremost the information technology (IT), which makes up about 70% of the total procurement volume of 1&1 Drillisch Online AG (excluding procurement of capacities from network operators). IT services are procured primarily from IQ-optimize, a wholly-owned subsidiary of 1&1 Drillisch. This is where all the knowledge and all the competence a mobile bitstream access mobile virtual network operator (MBA MVNO) requires for successful business is concentrated.

1&1 Drillisch itself develops products based on both landline and mobile services, whereby the quality standards demanded from the procured precursors are very high. To ensure these standards are maintained, important parts of the added-value chain at 1&1 Drillisch such as the customer service operations, which are essentially covered by the 1&1 Control Center and the call centres, are largely handled by the Company's own employees. Customer service is supported by service providers located in Germany. The Company does not operate any call centres abroad. The training of all call centre employees also takes place in Germany.

1&1 Drillisch realises virtually all of its revenue exclusively in Germany, and the lion's share of expended funds is spent here as well. This is almost always possible as well as sensible from a business perspective. At the same time, 1&1 Drillisch procurements are as sustainable as possible.

Preference is given to the purchase of sustainable products (whenever available) from partners who operate in the region if this is feasible. Moreover, 1&1 Drillisch places a high value on cooperation with suppliers and service providers that endures for many years. Both of these aspects – regionality and permanence – improve process security at 1&1 Drillisch in two ways: short response times from local partners and predictability and consistency of the services. This in turn reduces unnecessary risks.

1&1 Drillisch participates in the "Go Green" programme of Deutsche Post for package shipments, which has set for itself the target of reducing the greenhouse gas and air pollution emissions it causes in the performance of its logistics services to zero by 2050. The emissions that continue to result between now and this deadline are compensated by a number of measures worldwide, including reforestation. This increases the cost for each package for 1&1 Drillisch by two eurocents.

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MATERIALIEN

[G4-EN1] Measured against the economic performance of the Company, 1&1 Drillisch's material consumption is negligible. 1&1 Drillisch uses small quantities of cardboard packaging made from recyclable materials when shipping devices to its customers. Cardboard consumption in 2017 was related almost exclusively to protection of the telephones sent to customers.

The packaging is selected by the logistics service provider hired by Drillisch, but is always made of cardboard, which is made from renewable raw materials. As a rule, they also usually contain a significant quantity of recycled material. Any more extensive centralised recording of material consumption at 1&1 Drillisch does not take place because of the lack of relevance.

[G4-EN2] 1&1 Drillisch did not use any secondary raw materials in any noteworthy quantity during the reporting period besides the cardboard packaging described above. The Group procures office materials and similar consumables that also include products made of recycled materials in its operations; the share of these materials is not recorded separately, however, because of the lack of relevance.

ENERGY

[G4-EN3] The primary resources 1&1 Drillisch requires for business operations are electricity (Scope 2) – e.g. for the operation of the data centres – and fuel oil and natural gas for heating in the office buildings and diesel fuel for the fleet of motor vehicles (Scope 1).

During the last three fiscal years, 1&1 Drillisch Group has been noted for a number of corporate acquisitions and sales during the course of the periods. As a consequence, the companies included in the reports have changed from one year to the next. These changes led to substantial fluctuations in energy consumption and CO₂ emissions, and these factors will only now, in fiscal year 2018, settle into levels that will remain constant in future.

In 2016, for instance, a total of 33,380 gigajoules (GJ) of energy was consumed, resulting in emissions of 2,515 tonnes of CO₂. Although electric power consumption in 2017 tended to decline, it was overcompensated by higher requirements for diesel fuel. The consequence was that energy consumption and the resulting CO₂ emissions in 2017 – taking into account the results for the consumption of fuel oil and natural gas that are not yet available – were at about the same level as in 2016.

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Table 8 Energy Consumption and CO₂ Emissions at 1&1 Drillisch Group⁽¹⁾

	2016		2017	
	GJ	CO ₂ in t	GJ	CO ₂ in t
Scope 1: Fossil fuels				
for operation of the motor vehicle fleet ⁽²⁾	8,506	630	10,692	792
for heating (fuel oil and natural gas) ⁽³⁾	6,965	403		
Scope 2: Procurement of electricity ⁽⁴⁾	17,909	1,482	17,059	1,412
thereof from renewable energy sources	7,679		7,496	
thereof from non-renewable energy sources	10,230		9,563	
Scope 1 + 2:				
Total energy consumption/CO₂⁽⁵⁾	33,380	2,515	28,031	2,204
thereof from renewable energy sources	7,679		7,496	
thereof from non-renewable energy sources	25,701		20,535	

(1) Energy consumption at 1&1 Telecommunication SE is included in the organisational structure of United Internet Group and is not presented separately.

(2) Over the course of 2016, yourfone GmbH gradually increased the number of vehicles in its fleet. The following factors are used for calculation of the values: One litre of diesel has an energy content of 0.03492 GJ, and the combustion of one GJ of diesel releases 0.0741 tonnes of CO₂.

(3) The values for fuel oil and natural gas for heating in 2017 were not yet available at the time this report was published. The following factors are used for calculation of the values: The combustion of one gigajoule GJ of natural gas releases 0.0575 tonnes of CO₂; the combustion of one GJ of fuel oil releases 0.0760 tonnes.

(4) A part of the yourfone shops left the Group in 2017, and this is the major reason for the decline in electricity consumption.

(5) In 2017, excluding consumption of fuel oil and natural gas

Owing to the significance of electric power in the Company's sustainability development, 1&1 Drillisch places great value on maximum efficiency in the use of energy. The processes themselves are subjects of a continuous optimisation process (unnecessary operations should be avoided without detriment to performance), and issues of energy efficiency are given special attention during the selection of new or replacement equipment for technical systems. [G4-EN6] According to the most recent energy audit conducted by outside auditors, improvements in efficiency are, for all practical purposes, no longer possible at 1&1 Drillisch.

This no more than marginal latitude is also demonstrated by the three relevant actions taken in the reporting period. Improved circulation of the cooling air, a more energy-efficient server infrastructure in the data centres and the replacement of traditional illuminants with energy-saving lamps in the administration buildings resulted in only a minimal reduction of electricity consumption in 2017.

[G4-EN4] The scope of energy consumption outside of 1&1 Drillisch Group was not recognised because of the unjustifiably high costs of the collection of data. 1&1 Drillisch can consequently not provide any information about up- or downstream energy consumption. However, the Sustainability Report

MAXIMUM ENERGY EFFICIENCY

The years of effort invested by 1&1 Drillisch Group in increasing efficiency in the use of energy is reflected in measurable results. The most recent energy audit in 2015 by the Maintal-Werke GmbH and the Energieversorgung Offenbach AG revealed that further efficiency improvements are not possible at 1&1 Drillisch. This is above all the case for the data centres where 1&1 Drillisch has already implemented numerous power-saving measures. Any more extensive actions such as alternative power feed-in (natural gas or photovoltaics) would require enormous expenditures and have amortisation periods of more than 30 years, so their implementation would not be sensible from either a business operations or an ecological perspective (material consumption). In this respect, 1&1 Drillisch has at this time exhausted the opportunities for optimisation in the energy sector.

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2016 of the network operator Telefónica, the most important supplier to 1&1 Drillisch, showed that the share of renewable energies in the total power consumption of this company came to about 75%.

[G4-EN5] In the area of energy intensity, which is calculated as the ratio of energy consumption to number of customers, 1&1 Drillisch is steadily improving.

[G4-EN7] The technology standard LTE in mobile technology consumes significantly less electricity than the predecessor standards. 1&1 Drillisch again significantly increased the number of LTE customers during the reporting year. In consequence, the energy consumption attributable to customers declined; this is not reflected in the corresponding figures from 1&1 Drillisch, however, because this energy volume is recognised by the network operator.

EMISSIONEN

[G4-EN 15] [G4-EN16] 1&1 Drillisch uses the sustainability software "360report" to calculate all CO₂ emissions per Scope 1 (emissions attributable directly to the organisation, e.g. motor vehicle fleet) and Scope 2 (indirect emissions related to energy, e.g. electric power, district heating). The emission factors on which "360report" is based are issued primarily by DEFRA (Department for Environment, Food and Rural Affairs), but also by GEMIS (Global Emission Model for Integrated Systems) and the Institute for Energy and Environmental Research (IFEU). These factors represent CO₂ equivalents, i.e. they also include other greenhouse gases such as NO_x or SO_x that have been converted to CO₂ values. Additional information concerning the pertinent data sources can be found on the "360report" website. CO₂ emissions falling under Scope 3 (emissions from services provided by third parties and acquired advance services) are not recognised by 1&1 Drillisch because of the related expense and the simultaneously low sustainability relevance for the Group.

[G4-EN18] The intensity of the resulting CO₂ or greenhouse gas emissions is shown in Table 9. A meaningful reference value for relativisation of the greenhouse gases is the number of 1&1 Drillisch customers as the immediate recipients of the service. [G4-EN19] Owing to the lack of any opportunities going beyond the increases in efficiency and energy-saving actions described above, 1&1 Drillisch has not undertaken any initiatives for the express purpose of reducing greenhouse gas emissions. [G4-EN20] The same is true with regard to ozone-depleting substances because 1&1 Drillisch does not produce any products or services relevant for this issue. [G4-EN21] 1&1 Drillisch does not itself cause any other significant air pollutant emissions such as nitrogen oxides (NO_x) or sulphur oxides (SO_x). 1&1 Drillisch cannot provide any figures concerning the related emissions from the (diesel) motor vehicle fleet.

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Table 9 **Intensity of CO₂ and Greenhouse Gas Emissions (GGE) in 1&1 Drillisch Group***

CO ₂ /GGE	2016		2017	
	CO ₂ in t	in kg per customer	CO ₂ in t	in kg per customer
Scope 1	1,033	0.30	792	0.20
Scope 2	1,482	0.43	1,412	0.35
Scope 1 + 2	2,515	0.73	2,204	0.55

*Greenhouse gas emissions caused at 1&1 Telecommunication SE are included in the organisational structure of United Internet Group and are not presented separately.

WASTEWATER AND WASTE

[G4-EN22] In 2017, 1&1 Drillisch discharged 2,797 cubic metres of wastewater from offices into the public sewer system. This corresponds to annual water use of 2.9 cubic metres per employee. Usual household waste in the reporting year came to about 23.5 tonnes. [G4-EN23] None of this waste was hazardous. [G4-EN24] There were no incidents involving the release of pollutants at 1&1 Drillisch during the reporting year.

Table 10 **Non-Hazardous Waste According to Waste and Disposal Types in 1&1 Drillisch Group***

Waste type	2016	2017	Disposal type
	Quantity in t	Quantity in t	
Electric and electronic devices	1.00	1.50	Recycling
Remaining waste/Industrial waste similar to household waste	21.00	22.00	Combustion without energy generation
Total non-hazardous waste	22.00	23.50	

*Excluding 1&1 Telecommunication SE: Waste is produced solely by everyday office work at 1&1 Telecommunication; since the quantities here fall within the normal consumption range, they have not been a major issue for 1&1 Telecommunication.

PRODUCTS AND SERVICES

[G4-EN27] No noteworthy negative environmental impact results from the business activities of 1&1 Drillisch as a provider of mobile and landline network services. The Group accepts the return of mobile devices from customers in very small quantities and disassembles them if they cannot be reused. This produces tiny quantities of lithium-ion batteries and other pollutants. They are professionally disposed of without any environ-

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mental impact or are reused. [G4-EN28] In relation to the total number of devices that are traded, the number of returned products is very small. 1&1 Drillisch AG has engaged an external service provider to dispose professionally of returned shipping materials (plastics, cardboard).

[G4-EN30] 1&1 Drillisch's business leads to the physical transport of products and other goods in extremely small quantities. It concerns solely the postal shipment of telephones to customers or of typical office materials. Even though the ecological impact of these transports is low, 1&1 Drillisch strives to reduce further the negative impacts of this very low level through optimisation of transport routes. The same is true of employees' travel. Consequently, 1&1 Drillisch does not collect the related data. The benefits of any findings that could be obtained would not be in a reasonable ratio to the cost.

[G4-EN29] During the reporting period, 1&1 Drillisch did not violate any environmental protection laws or regulations and therefore did not pay any fines or penalties.

ENVIRONMENTAL PROTECTION INVESTMENTS

[G4-EN31] 1&1 Drillisch procures machinery and equipment to perform functions required for business operations. The Group considers environmental compatibility and energy efficiency at all times when making (replacement) investments, but does not invest in goods that serve exclusively environmental protection. There is no necessity to do so because of the nature of the business. The share of costs attributable to environmental protection impact is not recognised separately. The same applies to the ongoing expenditures related to environmental management, which are part of the general administrative responsibilities. They also include the costs of waste disposal.

PERSONNEL POLICIES

As it is a service-only company, 1&1 Drillisch Group's success depends in great measure on the competence and engagement of its employees. The goal is therefore to offer an attractive working environment and to pay remuneration appropriate to performance so that employees can optimally contribute and develop further their individual skills. Although 1&1 Drillisch has grown rapidly in recent years, the personnel policies continue to be characterised by the high flexibility found in the structures of midsize businesses. This ensures that prompt action can be taken in response to the requirements of the Company and the needs of its employees.

Working hour models are tailored to the specific organisational unit and are offered and applied above all in the call centres. New employees are hired solely and exclusively on the basis of the applicants' professional qualifications. 1&1 Drillisch regards diversity to be more than simply desirable; in it also decisive for the quality of service, particularly in the call centres, because service can be provided to customers of various nationalities in their native languages.

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VOCATIONAL AND ADVANCED TRAINING

Owing to the structures described above, executive officers and managing directors of the Group companies have had and have excellent knowledge of the workforce and of individual employees. In such a setting, personnel development measures have been and still are initiated individually. [G4-LA9] Workplace-related training programmes in 1&1 Drillisch Group are initiated by the division and department heads and coordinated by the Company as well. The type and scope of these training programmes are not, however, recorded centrally.

There is an above-average need for advanced training in the company division for customer service. Both new and current employees receive instruction in the subjects of communication, processing of written documents, sales, handling of objections, complaint management, motivation, dealing with stress and other professional topics. In addition, 1&1 Drillisch supports training programmes requested by employees in understandable and justified cases by granting gardening leave for participation in such programmes. These actions are also not recorded centrally.

[G4-LA11] A regular, formal, quantitative and qualitative performance assessment of employees is prepared above all in the customer service division. In total, 13% of the approximately 1,260 employees in customer service at 1&1 Drillisch Group received a performance record and assessment in the reporting year. The customer service managers are assessed annually by an employee survey, and the responses are reported to them by the head of the division. In all other respects, the heads of divisions and departments continuously observe performance development and take active steps if there are any significant changes in the quality of the work.

1&1 Drillisch is a company that offers vocational training and as such traditionally assumes responsibility for young people. Vocational trainees are on principle given employment contracts after completing the training; incentives for especially good performance include educational leave and gardening leave for advanced training. As of the end of 2017, 1&1 Drillisch employed 60 vocational trainees in the following training professions:

- » Merchant for office management
- » Merchant for marketing communications
- » Merchant for wholesale and foreign trade
- » IT specialist – specialisation system administration
- » IT specialist – specialisation application development
- » Media designer in digital and print – specialisation design and technology

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DIVERSITY AND EQUAL OPPORTUNITY

[G4-LA12] The 1&1 Drillisch AG Supervisory Board has six members: one woman and five men. All members of the Supervisory Board are over the age of 50. Although 1&1 Drillisch is seeking to increase the quota of women on this board from its current 17%, it remains committed to selecting Supervisory Board members first and foremost on the basis of the professional qualifications and suitability.

HUMAN RIGHTS

[G4-15] 1&1 Drillisch is of course committed to the ten principles of the “UN Global Compact”, a voluntary agreement between companies around the world and the United Nations aimed at ensuring more socially just and ecologically viable consequences of globalisation. [G4-HR5] 1&1 Drillisch is a company that operates solely and exclusively in Germany. Advance services are procured in small volume from other countries of the European Union. As a consequence, there are no business locations or suppliers that involve risks related to child and juvenile labour. [G4-HR6] The same is true for business locations or suppliers with a merely theoretical risk of involvement in forced or compulsory labour. [G4-HR3] No instances of discrimination in 1&1 Drillisch Group became known during the reporting period. [G4-HR8] In view of the Company's position, incidents involving the violation of the rights of indigenous peoples can be completely excluded. [G4-HR7] Since no incidents involving violations of human rights have ever been known to occur at 1&1 Drillisch in the Company's history, no personnel are trained to prevent such incidents.

FIGHT AGAINST CORRUPTION

Compliance is an important element of the management and corporate culture at 1&1 Drillisch Group. For 1&1 Drillisch AG, compliance encompasses the totality of all measures and actions aimed at ensuring conformity with legal statutes and regulations as well as with the Company's own in-house standards, principles and rules. In the eyes of 1&1 Drillisch AG, conduct that is legally and ethically beyond reproach lays the groundwork for all long-term company success. To this end, the Management Board has implemented a compliance management system that begins with, and builds on, a central compliance regulation. The compliance regulation applies to all of the officers, directors and employees of 1&1 Drillisch Group and ensures that the values system is consistently and continuously practised across the full breadth of the Company.

Key elements of the compliance regulation concern a fair, respectful and trustworthy approach when dealing with colleagues and business partners as well as the conduct displayed toward competitors. Bribery and corruption are not tolerated at 1&1 Drillisch AG; the compliance regulation unambiguously supports this attitude through appropriate prohibitions and instructions. Violations of compliance requirements are unac-

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ceptable for the Company. Any reports of violations are rigorously investigated, and the underlying circumstances are clarified. Whenever any violations are determined, they are immediately rectified and, if necessary, strictly sanctioned as appropriate.

[G4-SO3] No incidents or events of corruption have ever become known at 1&1 Drillisch Group, nor has even the suspicion of corruption ever arisen. A systematic and complex review of all business divisions and locations that is not prompted by a specific incident has therefore never been carried out. Owing to the changes in the corporate structure and the size of the corporation in fiscal years 2016 and 2017, 1&1 Drillisch has reassessed this aspect. As a result, the compliance management system has been adapted to the new profile and developed further. [G4-SO4] This also includes providing comprehensive information about the fight against corruption to the employees.

SUSTAINABILITY ASSESSMENT OF SUPPLIERS

[G4-SO9] 1&1 Drillisch procures goods and services almost exclusively from Germany. The nature of the services and their suppliers have never in the slightest aroused any suspicion that the services of these suppliers might have negative social impact. For this reason, a complex systematic review of all suppliers has never been undertaken. No interest in such a review, much less a request, has ever been indicated by any of the stakeholders of 1&1 Drillisch. [G4-SO10] The same is true for the added-value chain of 1&1 Drillisch as a whole.

[G4-EN32] 1&1 Drillisch audits new suppliers for compliance with ecological and other sustainability criteria on a test basis. For instance, 20 companies made deliveries to 1&1 Drillisch Group for the first time in the reporting year. One-fifth of them was audited for sustainability. There were no objections from any of these audits. [G4-EN33] Equally, no noteworthy negative ecological impact in the supply chain was determined during the reporting year.



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