



**United Internet AG,  
Montabaur**

**Management Report  
for the Group and Parent Company  
for the fiscal year 2010**

**Consolidated Annual Financial  
Statements acc. to IFRS**

**Annual Financial Statements of the  
Parent Company acc. to HGB**

## Highlights 2010

### **Customer growth still dynamic**

+610,000 contracts to 9.76 million

### **Successful entry into mobile internet business**

+180,000 contracts in 2<sup>nd</sup> half of 2010 alone

### **Growth in DSL complete packages, decline in old business**

+500,000 DSL complete package contracts vs. -550,000 narrowband, T- and R-DSL contracts

### **Strong growth in fee-based applications**

+480,000 contracts in 2010, of which +230,000 abroad

### **Dynamic growth in ad-financed applications**

+1.7 million free accounts to 28.0 million

### **Strong sales growth**

+15% to € 1.9 billion

### **Stable EBITDA despite high investments in new business fields**

+€ 72 million additional expenditure; EBITDA slightly up on previous year at € 358 million

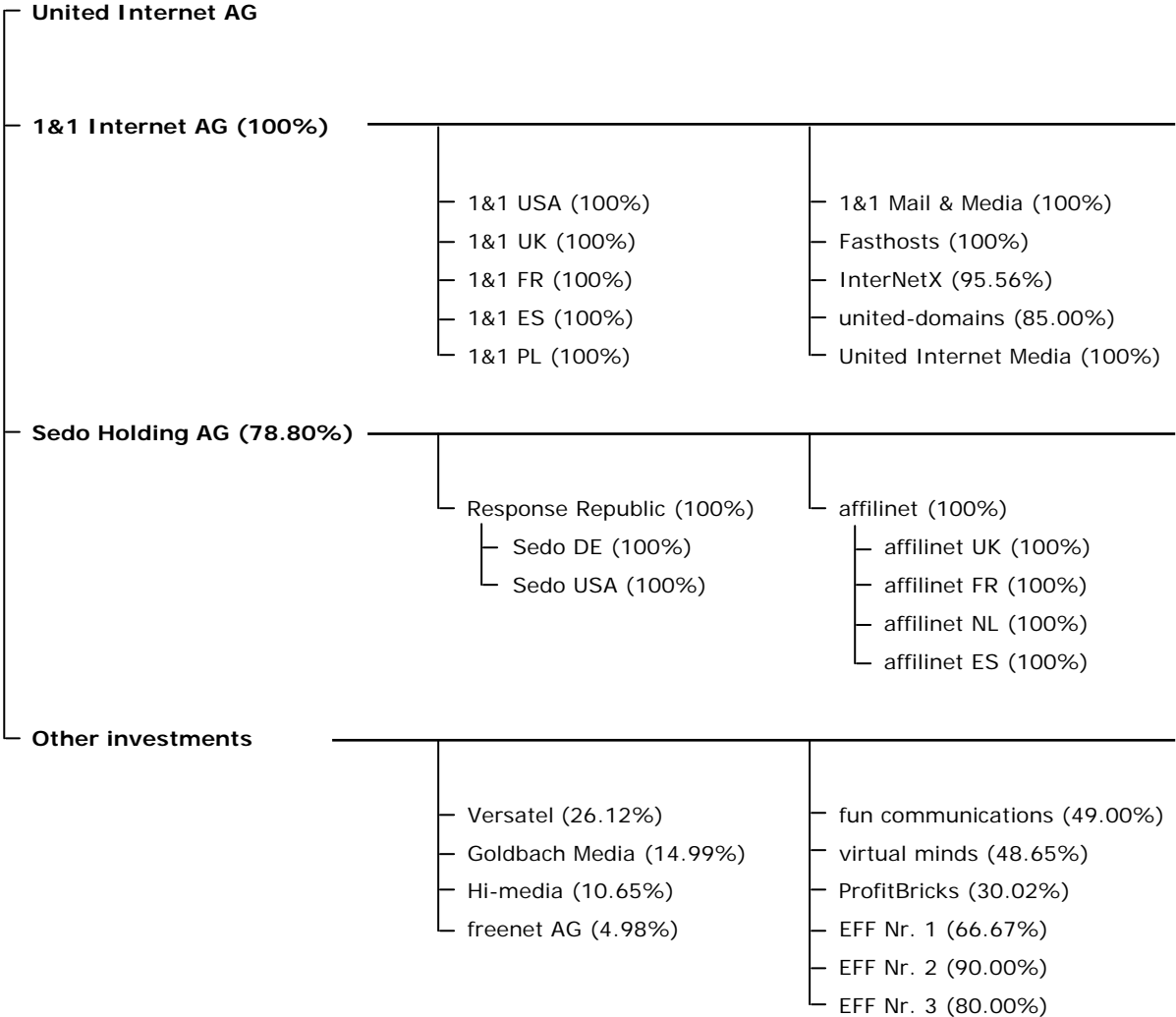
# Group structure and business operations

## Group structure

United Internet AG is the Group parent company of the United Internet Group. The holding company focuses mainly on the fields of corporate controlling and accounting, press relations, investor relations, investment management, risk management, internal audit, and HR management.

In its operating business, the Group acts primarily via 1&1 Internet AG, including its main subsidiaries in Germany and abroad such as 1&1 Mail & Media GmbH (formerly WEB.DE GmbH, GMX GmbH and GMX Internet Services GmbH), United Internet Media AG, Fasthosts Internet Ltd., InterNetX GmbH and united-domains AG, as well as Sedo Holding AG and its main subsidiaries Sedo GmbH and affilinet GmbH.

Simplified illustration of the Group structure with significant operating subsidiaries and investments:



In addition to its operative and fully consolidated subsidiaries, United Internet holds further direct and indirect investments.

The direct investments comprise mostly the equity interests held in the listed companies freenet AG (United Internet shareholding: 4.98%) and Versatel AG (26.12%).

The indirect investments held via United Internet Beteiligungen GmbH (100%) consist mainly of the listed online marketing companies Goldbach Media AG, Switzerland (14.99%), Hi-media S.A., France (10.65%), fun communications GmbH (49%), virtual minds AG (48.65%), and ProfitBricks GmbH (30,02%), as well as a number of other internet investments (49 investments in total) via the investment funds EFF Nr. 1 (66.67%), EFF Nr. 2 (90%) and EFF Nr. 3 (80%) operated jointly with the Samwer brothers.

## **Business operations**

The operating business of United Internet AG is divided into the two segments "Access" and "Applications".

The "Access" segment comprises the company's fixed line and mobile access products, including the respective applications. United Internet operates in Germany in this segment, where it is one of the leading providers. The company remains independent of network providers by purchasing standardized network services from various pre-service providers. These are then enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate them from the competition. Access products are marketed by the strong brands GMX, WEB.DE and 1&1, which enable the company to reach a mass market and target specific customer groups.

The "Applications" segment comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include home pages and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The applications are developed by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. Applications are marketed to specific target groups via the differently positioned brands GMX, WEB.DE, 1&1, united-domains, Fasthosts and InterNetX. United Internet also offers its customers performance-based advertising and sales possibilities via Sedo and affilinet.

## **Management and corporate structure**

In accordance with its legal status, United Internet AG operates a dual management and monitoring structure comprising two corporate bodies: the Management Board and the Supervisory Board. The third body is the Shareholders' Meeting. All three bodies are committed to serving the company's interests.

The Supervisory Board is elected by the Annual Shareholders' Meeting and consists of three members at present. The members of the Supervisory Board are generally elected for a period of five years. Members of the Supervisory Board and Management Board should not generally be older than 70. The Supervisory Board monitors and advises the Management Board in the management of the company. The Supervisory Board meets regularly to discuss the development of business, planning, strategy and its implementation. Together with the Management Board, it discusses the quarterly and half-year reports before publication and approves annual budgets as well as the annual financial statements of the parent company and the group. In doing so, it also takes the reports of the company's external auditors into account. Its responsibilities also include appointing members of the Management Board as well as determining and regularly monitoring their remuneration.

The Management Board is the body charged with managing the group's operations and currently consists of two persons. It manages operations in accordance with its legal and statutory obligations as well as the rules of procedure approved by the Supervisory Board. It is responsible for preparing the quarterly and annual financial statements as well as for appointing key managers within the company. Decisions of fundamental importance require the approval of the Supervisory Board.

The Annual Shareholders' Meeting is the body which formulates and expresses the interests of the company's shareholders. At the Annual Shareholders' Meeting, the annual financial statements are presented to our shareholders. The shareholders decide on the appropriation of the balance sheet profit and vote on resolutions concerning other statutory topics. Each share entitles the owner to one vote. All shareholders who register in time and are listed in the Share Register on the day of the Annual Shareholders' Meeting are entitled to attend. Our shareholders may also exercise their rights at the Annual Shareholders' Meeting by means of a proxy vote.

## **Control systems**

The internal control systems support management in its monitoring and steering of the Group and its segments. The systems consists of planning, actual situation and projection calculations based on the Group's annually revised strategic planning. Particular attention is paid to market developments, technological developments and trends, as well as their impact on the Group's own products and services, and the Group's financial possibilities.

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

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

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

In accordance with the positioning of the two segments "Access" and "Applications", the Company's operating business is monitored and controlled primarily via the key figures: sales, gross margin, EBITDA and EBIT and via a number of other significant non-financial figures, such as customer contracts, free accounts, reach/active users of our own websites and marketable third-party domains and websites.

## **Corporate Governance**

The term Corporate Governance stands for responsible corporate management and control geared to long-term value creation. Efficient cooperation between Management Board and Supervisory Board, respect for stockholder interests, openness and transparency of corporate communications are key aspects of good corporate governance.

The Management Board and Supervisory Board of United Internet AG regard it as their duty to secure the Company's continued existence and sustainable value creation through responsible corporate governance focused on the long term.

The corporate governance of United Internet is based on the German Corporate Governance Code, which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002. The ninth version of the German Corporate Governance Code was completed on May 26, 2010 and published by the Ministry of Justice in the electronic Federal Gazette (<http://www.ebundesanzeiger.de/>) on July 2, 2010.

The Code contains three types of standard:

- regulations describing currently valid legal standards in Germany,
- recommendations,
- suggestions.

German corporations are obliged to observe the legal regulations.

With regard to the recommendations, the German Stock Corporation Act (Sec. 161) requires listed companies to publish a declaration of conformity once per year.

Companies are allowed to deviate from the suggestions without the need for disclosure.

On March 3, 2011, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity in accordance with Sec. 161 AktG and immediately published it on the Company's website ([www.united-internet.de](http://www.united-internet.de)), as well as in the electronic Federal Gazette.

### **Declaration of conformity with regard to the recommendations of the German Corporate Governance Code in accordance with Sec. 161 German Stock Corporation Act (AktG)**

In accordance with Sec. 161 AktG, the Management Board and Supervisory Board of United Internet AG declare that:

United Internet AG complied with the recommendations of the German Corporate Governance Code (in the version dated May 26, 2010) with the following exceptions, and expects to comply in future with the following exceptions:

#### **Deductibles in the case of D&O insurance policies (Code 3.8)**

Since the German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) came into power, the German Stock Corporation Act (AktG) now requires that Management Board members accept an obligatory deductible for D&O insurance policies of at least 10% of the loss and up to at least one-and-a-half times the fixed annual compensation of the respective Management Board member (Sec. 93 AktG). Deductibles need not be agreed, however, for Supervisory Board members (Sec. 116 AktG). Beyond the scope of the AktG, the German Corporate Governance Code recommends that a similar deductible be agreed for the Supervisory Board in any D&O policy.

United Internet AG has fully adopted the legal requirements by amending the existing D&O insurance policies as of January 1, 2010 and has agreed its first deductible for members of the Management Board. No deductible was agreed for the Supervisory Board. United Internet does not generally believe that the motivation and responsibility with which the members of United Internet's Supervisory Board conduct their duties will be affected by such a deductible.

#### **Committees (Code 5.3)**

The German Corporate Governance Code recommends that the Supervisory Board set up an Audit Committee which, in particular, should handle issues of accounting, risk management and compliance, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement. In addition, the German Corporate Governance Code recommends that the Supervisory Board

form a Nomination Committee composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for recommendation to the Annual Shareholders' Meeting.

The Supervisory Board of United Internet AG currently consists of three members: in addition to their other duties, the members also deal as a group with the above-mentioned topics. The Supervisory Board's rules of procedure state that committees should only be formed if there are more than three members.

### **Composition of the Supervisory Board (Code 5.4.1)**

The German Corporate Governance Code recommends that the Supervisory Board specifies concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The objectives of the Supervisory Board and the status of their implementation shall be published in the Corporate Governance Report.

The current members of the Supervisory Board have been elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2014. As specific candidate proposals for the Supervisory Board do not have to be made until its scheduled re-election at the Annual Shareholders' Meeting in 2015, it does not appear appropriate to already formulate concrete objectives today without knowing the possible changes in the regulatory environment or the company's market conditions. The Supervisory Board will carefully monitor developments and make a timely decision before the scheduled re-election of the Supervisory Board regarding the Code's recommendations on concrete objectives and their implementation as part of the Supervisory Board's proposals to the Annual Shareholders' Meeting and reporting.

### **Compensation of Supervisory Board members (Code 5.4.6)**

The German Corporate Governance Code recommends that the compensation of Supervisory Board members should also take into account the exercising of the Chair and Deputy Chair positions in the Supervisory Board as well as the chair and membership of committees.

As long as the Supervisory Board consists of no more than three members and no committees are formed, United Internet only separately considers the Chair position in the Supervisory Board.



## **Publication of reports (Code 7.1.2)**

The German Corporate Governance Code recommends that interim reports are to be publicly accessible within 45 days of the end of the reporting period.

As already announced in the Financial Calendar 2010, the half-year financial report 2010 was not published until August 27, 2010 for organizational, internal reasons.

## **Compliance**

Taking a balanced and sustainable approach to economic, social and ecological activities is an indispensable element of United Internet's corporate culture. This includes open and fair communication with our employees, business partners, shareholders and the public as well as acting correspondingly. As a service company, our impeccable behavior is vital for gaining and retaining the trust of our customers and business associates. We strive to be credible, trustworthy and reliable and act accordingly.

In order to guarantee uniform and exemplary behavior, the Management Board has developed ethical guidelines which apply to the overwhelming majority of the Group's companies as a binding Code of Behavior. This Code contains our management guidelines and should encourage each employee to take responsibility for their own behavior and provide suitable orientation. It also specifies how we understand our role and our values, and serves as a model for the Management Board, senior executives, managers and all employees in the same way.

In the interest of all employees and the company, action is taken against all infringements and the respective causes are removed as far as possible. This also involves strictly pursuing misconduct within the framework of the applicable internal guidelines, the relevant legal regulations and other rules. The Company's Management Board has therefore established corresponding processes which ensure compliance and safeguard the above mentioned values while firmly anchoring them in the organization.

## Remuneration Report

The Supervisory Board is responsible for determining the remuneration of Management Board members. The remuneration received by the members of the Management Board of United Internet AG is performance-oriented and consists of fixed and variable elements. In the case of one Management Board member, there is a component providing long-term incentives in the form of a compensation program based on virtual shares (SARs). The exercise hurdle of this program is 120% of the share price. Payment of value growth is capped at 100% of the calculated share price. The size of the remuneration components is regularly reviewed.

The fixed remuneration component is paid monthly as a salary. The size of the variable remuneration component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 80% to 120%. No bonus is paid below 80% of the agreed target and the bonus calculation is capped at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets and no minimum guaranteed bonus. There are no retirement benefits from the Company to members of the Management Board.

The three members of the Supervisory Board of United Internet AG also hold seats on the supervisory board of United Internet's most important subsidiary, 1&1 Internet AG. As of fiscal year 2010, the Supervisory Board members each receive separate compensation for their work on behalf of the two companies. In each case, this compensation consists of a fixed element and a variable element which depends on the success of the respective company.

In the case of United Internet, the fixed remuneration for an ordinary member of the Supervisory Board amounts to € 10k (previously € 20k) per full fiscal year. The Chairman of the Supervisory Board receives twice the amount attributable to an ordinary member. The variable, performance-oriented element for each member of the Supervisory Board, including the Chairman, amounts to € 1k (previously € 2k) for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 (previously € 0.10) for United Internet AG, calculated according to IFRS. As of fiscal year 2013, there will be a variable long-term compensation component for each member of the Supervisory Board, including the Chairman. This will consist of an additional payment per full fiscal year of € 500 per starting percentage point by which the EPS of United Internet AG in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously. This long-term, variable compensation component is limited to a maximum of € 10k per member. There are no stock option plans for members of the Supervisory Board.

With regard to their activities for 1&1 Internet AG, the fixed remuneration for ordinary members of the Supervisory Board amounts to € 20k per full fiscal year. The Chairman of the Supervisory Board receives € 30k. Variable, performance-oriented compensation for each member of the Supervisory Board, including the Chairman, is based on the earnings figures of 1&1 Internet AG.

Variable compensation amounts to at least € 30k and a maximum of € 70k per member.

Further information on Management Board and Supervisory Board compensation is provided in section 42 of the Notes to the Consolidated Financial Statements.

## Personnel report

The rapidly developing, future-oriented internet market represents a considerable challenge for our employees and thus for the HR policy of our company. We meet this challenge primarily by actively nurturing our junior staff, promoting the targeted development of our managers and introducing further personnel development activities.

### Diversity

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

United Internet's corporate culture is based on mutual respect and a positive attitude toward individual differences with regard to culture, nationality, sex, age and religion – in other words, everything that makes our employees unique and distinctive.

A work force composed of diverse personalities offers ideal conditions for creativity and productivity. The resulting potential for new ideas and innovation strengthens United Internet's competitive position and enhances its opportunities in future markets. In accordance with this principle, we strive to find those positions for our employees in which they can fully exploit their individual potential and talents. In addition to productivity, diversity also helps raise the general level of satisfaction among our employees. These are key reasons for many applicants to select their future employer. As our customers also have a wide variety of needs and wishes, they appreciate a business partner who can live up to their own diversity.

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

### Vertical and horizontal development opportunities for skilled and managerial staff

In order to give all employees at all locations and in all divisions the same opportunities, we have defined common standards for our personnel development measures. Staff can progress within their department via pre-defined career paths by taking on successively more responsibility and tasks. Once an employee has reached senior status, two alternative career models are offered: the "management track" and the "expert track". Whereas employees choosing the "management track" gradually assume more and more staff responsibility, "experts" have specialist knowledge and are top performers in

their specific field, but are not given responsibility for staff. Both the management and expert tracks are “permeable”, i.e. horizontal development is also possible and an expert can become a manager and vice versa. In addition to development within a level and the next vertical step, there are thus also horizontal career possibilities within the Group, which enable staff to grow into a new role – in their own division or even across divisions. All models are accompanied by specific programs as well as individual personnel measures.

### **Training held in high regard**

United Internet AG attaches great importance to the field of education and training. We train young people to meet our future needs and offer them a successful start to their professional lives. We provide apprenticeships in commercial and technical professions, including IT specialist (application development/systems integration), IT systems clerk, dialogue marketing clerk, commercial clerk and media designer. Over a three-year training period, all participants experience a wide variety of different company departments and take part in numerous events and workshops. The apprentice workshops at our facilities in Karlsruhe and Montabaur have proved especially successful. Technical apprentices in particular spend part of their training period in the workshops in order to learn the basics for their later careers.

In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg - DHBW) we also offer degree courses in Information Management and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

Around 150 young people were serving their apprenticeships with Group companies at year-end 2010. After successfully passing their examinations, the majority of our apprentices find jobs at one of the Group's companies.

### **Headcount development 2010**

As a result of our expansion of business and our quality drive, the number of employees increased once again in 2010. As of December 31, 2010, United Internet employed a total of 5,018 people – an increase of 9.8% over the previous year (4,571 employees). There were 1,780 employees in the Access segment, 3,211 in the Applications segment and 27 employed at the Group's headquarters. Our non-German subsidiaries employed 999 people (prior year: 867). Personnel expenses rose by 12.1%, from € 181.0 million in the previous year to € 202.9 million.

## Headcount development

	Dec. 31, 2009	Dec. 31, 2010	Year-on-year change
Access segment	1,584	1,780	+ 12.4%
Applications segment	2,961	3,211	+ 8.4%
Headquarters	26	27	+3.8%
Total Group	4,571	5,018	+ 9.8%

## **Economic environment**

### **Global economy continues its recovery in 2010**

The recovery of the global economy continued to gather pace in 2010. As a result, the International Monetary Fund (IMF) repeatedly upgraded its forecasts for 2010 during the year. In its forecast update published in the "World Economic Outlook" of January 2011, the IMF stated that global growth had ultimately reached 5.0% in 2010 (following -0.6% in the previous year) – despite a slight dip at the end of the year. Growth was driven above all by the booming emerging and developing economies, which grew by 7.1% (following 2.6% in the previous year). Growth was much weaker in the developed economies of Europe, North America and Japan, which grew by 3.0% (following -3.4% in the previous year).

Among the developed economies, growth in the Euro zone remained well below comparable economies at 1.8% (USA 2.8%, Canada 2.9%, Japan 4.3%).

One of the few positive exceptions in Europe was the export nation Germany, which proved to be the driving force within the Euro zone and benefited strongly from exports to the booming emerging and developing nations. With growth of 3.6% (following -4.7% in the previous year), Germany achieved the strongest turnaround of the Euro nations.

### **ICT markets return to growth**

The global market for information technology, telecommunications and digital consumer electronics (ICT) already returned to its pre-crisis level in 2010. According to figures presented by the German ICT association BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.) at its annual conference 2011, the German ICT sector also benefited from the global economic upswing and the resulting investments, and was able to report growth of 2.0% to € 142.7 billion, following a decline of 4.8% in 2009. There was a return to growth in all sub-sectors during 2010: the telecommunications market grew by 0.6%, the market for information technology by 3.0% and the market for consumer electronics (digital entertainment electronics) by 3.3%.

### **Positive development of United Internet's growth markets**

The most important ICT markets for United Internet's business model are the sub-markets "Broadband Fixed Line Connections" and "Mobile Internet" (in the purely subscription-financed Access segment), as well as "Cloud Computing" and "Online Advertising" (in the subscription- or ad-financed "Applications" segment).

#### **Broadband fixed line connections**

Demand for new fixed line-based broadband connections in Germany has slowed since 2008. With growth of 1.8 million in 2010 to 26.9 million, the number of new connections fell once again – following 2.3 million in 2009 and 3.1 million in

2008 – and remained well below previous record years, as already forecast in October 2010 by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM).

The volume of data used, however, is growing much more strongly than the total number of activated connections – as an indicator of the continued increase in usage – with growth of 20.7% to 3.5 billion GB.

At the same time, there is a growing trend toward complete broadband packages. Such packages no longer require a Deutsche Telekom phone connection. Instead, providers such as United Internet rent “the last mile” from pre-service providers and offer everything from a single source. A clear indicator of this trend is the 1.6 million, or 6.0%, decrease in Deutsche Telekom AG fixed line connections to around 24.7 million and a total increase in the pre-service products TAL and unbundled connections (IP-BSA) of 840,000 or 8.7% to over 10.5 million in 2010.

#### Growth of data volume and broadband connections in Germany

	2009	2010e	Growth
Data volume (in billion GB)	2.9	3.5	20.7%
Broadband connections (in million)	25.1	26.9	7.2%

Source: VATM

#### Mobile internet

The German mobile internet market displayed much more dynamic growth in 2010. According to BITKOM figures, sales of mobile data services rose by 18.2% to € 6.5 billion in 2010. At the same time, the data volume of the German mobile phone market – as an indicator of the growing use of mobile data services – grew by over 100% to 70 million GB. A major reason for this growth is the boom in smartphones, sales of which increased by 34% to 7.2 million in 2010.

#### Growth of data volume and sales in Germany

	2009	2010	Growth
Data volume (in million GB)	34.0	70.0	105.9%
Sales (in € billion)	5.5	6.5	18.2%

Source: BITKOM

#### Cloud computing

Cloud computing provides IT services in real time via data networks (the so-called “cloud”) instead of on local computers. Services range from sending



messages via web-based e-mail, to simple online storage possibilities for photos and films, or complex corporate applications.

Cloud computing already generates global revenues in the double-digit billion dollar range (USD 15.5 billion in 2009 according to an IDC survey in June 2010). Statements on the size of the market vary strongly, however, depending on the definitions of the respective market analysts. In Germany, the market is observed in particular by the Experton Group. According to their survey presented at the international "Cloud Computing Conference" in Cologne in early October, German B2B revenues alone from cloud computing already passed the billion-euro mark in 2010 with growth of 48% to € 1.14 billion.

#### Growth of cloud computing (B2B) in Germany

	2009	2010	Growth
Sales (in € billion)	0.77	1.14	48.0%

Source: Experton Group

#### Online advertising

The German online advertising market grew in total by 26% to around € 5.4 billion in 2010. This was the finding of a survey conducted by the Online Marketing Group (Online-Vermarkterkreis - OVK) of the German Digital Economy Association (Bundesverband Digitale Wirtschaft e.V. – BVDW). As a result, the online proportion of the media mix continued to grow and has now reached almost one fifth (19.2%) of the total advertising market. For the first time ever, therefore, the internet overtook the newspaper category (19.0%) in 2010 and positioned itself as the second strongest advertising medium in the media mix.

#### Growth of online advertising market in Germany

in € billion	2009	2010	Growth
Classic online advertising	2.326	3.151	35.5%
Search word marketing	1.624	1.867	15.0%
Affiliate networks	0.308	0.339	10.1%
Total gross advertising spend	4.258	5.357	25.8%

Source: BVDW

## Business development of the Group

Fiscal year 2010 was a successful period for United Internet. We continued to expand our business and customer figures while reaching all the targets we set ourselves for 2010. In the course of our current quality drive, we implemented a series of important improvement measures and achieved an overall strong increase in customer satisfaction. At the same time, we laid the foundation for further progress in the growth fields "Mobile Internet" and "Cloud Applications" and continued to drive our international expansion strategy.

In order to fully exploit the aforementioned growth fields, "Mobile Internet" and "Cloud Applications", we already introduced a new segmentation for management and reporting purposes at the beginning of 2010. The former segments, "Products" and "Online Marketing", were discontinued and business is now represented by the segments "Access" and "Applications".

### Segment development

#### "Access" segment

The "Access" segment comprises our fixed line and mobile access products, including the corresponding applications. We operate in Germany in this segment, where we are among the top providers. We remain independent of network providers by purchasing standardized network services from various pre-service providers, which we then enhance with end-user devices and our own applications and services from our "Internet Factory" in order to differentiate ourselves from the competition. We market our Access products via the strong brands GMX, WEB.DE and 1&1, which enable us to reach a mass market while also targeting specific customer groups.

Sales of the "Access" segment grew strongly by 19.8% in fiscal year 2010, from € 1,026.7 million to € 1,230.1 million. As a result, the "Access" segment accounted for 64.5% (prior year 61.9%) of United Internet AG's total sales.

Over the course of our fiscal year 2010, we invested an additional € 50.2 million in the expansion and development of our new business fields, and especially for the marketing of our Mobile Internet products and our DSL quality drive. At the same time, we were able to successfully conclude negotiations concerning pre-service invoices which had been queried by us. The resulting reimbursements for previous periods totaling € 19.3 million were used to partially refinance the aforementioned expenses in new business fields.

Despite these high expenses, EBITDA was only slightly down (-1.2%) on the previous year at € 122.6 million (prior year: € 124.1 million). As expected, EBIT fell by 22.2% to € 92.0 million (prior year: € 118.3 million) as a result of scheduled depreciation of € 21.6 million on freenet's DSL customer base acquired in late 2009. Customer acquisition costs and costs for the conversion of T-DSL and R-DSL connections (ULL) to complete packages continue to be charged directly as expenses. The number of employees in this segment grew by 12.4% to 1,780 (prior year 1,584).

Development of key financial figures in the "Access" segment  
in € million

	2009	2010
Sales	1,026.7	1,230.1
EBITDA	124.1	122.6
EBIT	118.3	92.0

Quarterly development of key financial figures in the "Access" segment  
in € million

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q4 2009
Sales	300.8	301.4	310.8	317.1	273.5
EBITDA	31.7	34.5	36.4	20.0	21.8
EBIT	25.2	28.0	29.6	9.2	18.7

Thanks to the successful launch of our Mobile Internet products and the continued growth in complete DSL packages, the number of fee-based Access contracts grew in total by 130,000 contracts, from 3.50 million contracts in the previous year to 3.63 million as of December 31, 2010.

Following the signing of an MVNO agreement (Mobile Virtual Network Operator) with Vodafone in March 2010 and the subsequent product development, we started the marketing of new products in our Mobile Internet business on July 1, 2010. Accompanied by an extensive TV, print and online marketing campaign, the launch was well received by the market. We activated 180,000 new customer contracts in the second half of the year alone and thus increased our customer base to a total of 270,000 in this field.

We also achieved strong growth in complete DSL contracts (of particular importance for us), adding a further 500,000 customer relationships. However, the number of customer relationships for those business models gradually being phased out (narrowband, T-DSL and R-DSL) continued to fall. 550,000 customer relationships were lost or migrated to our complete DSL packages in 2010. Following successful sales efforts in the first six months, we failed to achieve our sales targets in the second half of the year and lost a net total of 50,000 DSL contracts. The main reason was the performance of our largest sales partner, who fell far short of his targets.

As part of our DSL quality drive, we implemented key measures such as process optimization, free hotlines and faster fault clearance times during the period under review and achieved a further strong increase in customer satisfaction.

## Development of customer contracts in the "Access" segment in 2010

	Dec. 31, 2009	Dec. 31, 2010	+ / -
Access, total	3.50 million	3.63 million	+ 130,000
of which DSL complete packages (ULL)	1.82 million	2.32 million	+ 500,000
of which Mobile Internet	0.09 million	0.27 million	+ 180,000
of which narrowband / T-DSL / R-DSL	1.59 million	1.04 million	- 550,000

## Development of customer contracts in the "Access" segment in Q4 2010

	Sep. 30, 2010	Dec. 31, 2010	+ / -
Access, total	3.55 million	3.63 million	+ 80,000
of which DSL complete packages (ULL)	2.21 million	2.32 million	+ 110,000
of which Mobile Internet	0.17 million	0.27 million	+ 100,000
of which narrowband / T-DSL / R-DSL	1.17 million	1.04 million	- 130,000

### Product highlights 2010

In fiscal year 2010 we focused above all on new services relating to our DSL quality drive and the preparation and launch of our Mobile Internet business:

- Our 1&1 brand launched a revamped DSL range in February 2010. In addition to its usual attractive pricing, the new range of products can also be flexibly combined with additional services. Four simple and transparent basic tariffs – which primarily differ in respect of their maximum speeds – form the basis and can be expanded as required with options for varying interests.
- In April 2010 we also began offering our DSL packages without any minimum contract term. As part of our DSL quality drive, 1&1 now meets the wishes of many customers for more flexibility by offering an alternative for those who do not want long-term contracts with their internet and phone providers.
- In mid March 2010, we signed a so-called MVNO agreement (Mobile Virtual Network Operator) with Vodafone. On the basis of this agreement, we developed our own Mobile Internet products and tariffs in the second quarter.
- On July 1, 2010, we began marketing our Mobile Internet tariffs and now offer the fully transparent tariffs 1&1 All-Net-Flat and 1&1 Notebook-Flat –

with or without a fixed contractual period – for smartphones and laptops. The launch was accompanied by an extensive TV, print and online marketing introduction campaign.

- On November 22, 2010 we began marketing our new mobile phone brand FreePhone via GMX and WEB.DE. Anyone with a GMX or WEB.DE e-mail address can use their mobile phone to call other FreePhone participants for free using a FreePhone SIM card – without basic fees, minimum turnover or minimum contract term. Prices for calls to other networks, text messages and internet usage are in the lower price segment. In addition, GMX and WEB.DE customers with pay tariffs receive a free internet flat rate as an exclusive benefit.

## **Outlook**

Thanks to a product strategy based on transparency and flexibility, with innovative products offering excellent value for money and a variety of optional applications, we see good opportunities to enhance customer retention and achieve a further increase in average revenue per contract in our Access business. In particular, we expect contract growth in this segment to result from the migration of our customers to complete DSL packages (ULL) – which we regard as essential for improving customer retention – as well as from the marketing of our Mobile Internet products.

## **“Applications” segment**

The “Applications” segment describes United Internet’s application business – ad-financed or via fee-based subscriptions. These applications include, for example, home pages and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. These applications are developed by the company’s “Internet Factory” or in cooperation with partner firms and operated at the company’s data centers. Applications are marketed to specific target groups via the differently positioned brands GMX, WEB.DE, 1&1, united-domains, Fasthosts and InterNetX. United Internet also offers its customers performance-based advertising and sales possibilities via Sedo and affilinet.

We also invested heavily in customer growth in the “Applications” segment during 2010. The number of fee-based contracts grew by 480,000 to 6.13 million. Although the statistics were pruned of 40,000 contracts following a change in debt collection policy abroad in the third quarter, there was growth of 35,000 foreign contracts from the acquisition of the Mail.com brand. The number of ad-financed Applications accounts around the world grew from 26.3 million to 28.0 million.

Despite this increase in customers, sales growth in the Applications segment has slowed since the contract conversion of a major customer of Sedo’s subsidiary affilinet in late 2009. As a result, our listed subsidiary Sedo Holding AG suffered a fall in sales of 14.2% in 2010 – whereas the rest of the segment enjoyed growth of 12.5%. Against this backdrop, total segment sales grew by 7.1% from € 631.5 million to € 676.5 million and accounted for 35.5% (prior year 38.1%) of

total Group sales. Business abroad grew by 15.2% to € 199.5 million (prior year: € 173.2 million).

Over the course of our fiscal year 2010, we invested an additional € 21.7 million in the development of new applications, the marketing of our Do-it-Yourself Homepage and further international expansion, especially in Poland.

Despite these high expenditures, EBITDA and EBIT in this segment grew by 3.2%, from € 225.4 million to € 232.7 million, and by 1.1% from € 175.4 million to € 177.3 million, respectively. Customer acquisition costs in this segment also continue to be charged directly as expenses. The number of employees in this segment grew by 8.4% to 3,211 (prior year 2,961).

Development of key financial figures in the “Applications” segment  
in € million

	2009	2010
Sales	631.5	676.5
EBITDA	225.4	232.7
EBIT	175.4	177.3

Quarterly development of key financial figures in the “Applications” segment  
in € million

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q4 2009
Sales	161.8	166.4	167.3	181.0	160.4
EBITDA	60.5	58.4	53.9	59.9	62.9
EBIT	47.4	44.9	40.2	44.8	49.6

We intend to drive our international expansion in the field of consumer applications in 2011. To this end, we acquired Mail.com in the third quarter of 2010. In addition to the portal, the acquisition also included the email customers of this internationally operating brand. In the important US market, we have not only secured the memorable international domain Mail.com, but also other attractive email domains such as email.com, post.com and usa.com. Following the acquisition and the planned integration process, users of Mail.com will benefit from the far more powerful GMX mail technology in place of their former service. The particular strength of the Mail.com domain is its generic character: the name is easy to remember and thus a globally attractive and also neutral alternative to provider-oriented address endings, such as Hotmail, Yahoo or Google Mail. We believe this generic email domain gives us a unique opportunity to differentiate ourselves in the fiercely competitive international email market. The GMX technology will be migrated in the coming months. Although the 35,000 subscription-based contracts of Mail.com are already included in the United Internet Group’s contract reporting, the ad-financed accounts will not be added

until the migration to GMX technology and subsequent application of our internal assessment criteria have been completed.

Total growth in customer contracts of 480,000 to 6.13 million in fiscal year 2010 resulted from growth of 290,000 new Business Applications contracts to 4.30 million and growth of 190,000 new Consumer Applications contracts to 1.83 million.

The number of Applications contracts abroad increased by 230,000 to 2.45 million contracts.

Development of customer contracts in the "Applications" segment in 2010

	Dec. 31, 2009	Dec. 31, 2010	+ / -
Total fee-based contracts	5.65 million	6.13 million	+ 480,000
of which "domestic"	3.43 million	3.68 million	+ 250,000
of which "foreign"	2.22 million	2.45 million	+ 230,000
Ad-financed accounts	26.3 million	28.0 million	+ 1,700,000

\* In the third quarter of 2010, the statistics were pruned of 40,000 foreign contracts (change in debt collection policy), while there was growth of 35,000 foreign contracts from the acquisition of the Mail.com brand.

Development of customer contracts in the "Applications" segment in Q4 2010

	Sep. 30, 2010	Dec. 31, 2010	+ / -
Total fee-based contracts	6.03 million	6.13 million	+ 100,000
of which "domestic"	3.63 million	3.68 million	+ 50,000
of which "foreign"	2.40 million	2.45 million	+ 50,000
Ad-financed accounts	27.3 million	28.0 million	+ 700,000

### Product highlights 2010

Activities in 2010 focused mainly on the expansion and further development of our portfolio of cloud applications:

- In early 2010, 1&1 launched the Dynamic Cloud Server – a new kind of server offer. Users can freely choose the amount of RAM, processor speed, and hard drive capacity and flexibly adjust their settings according to requirements. Invoicing is based on the actual performance required for their respective applications, e.g. for websites, internet shops, games or web applications. Users can choose from a variety of Linux and Windows variants. Optimized default settings are offered for standard applications, such as mail, database, webhosting or game servers.
- In late March 2010, we entered into a strategic alliance with Zoho. The partnership aims to provide standardized cloud applications for the mass

market. The first result of this alliance, the new 1&1 Online Office, was launched as an add-on to 1&1's webhosting products. In addition to 1&1's existing modules (e-mail, diary, address management, groupware and mobility), the 1&1 Online Office suite also comprises word processing, spreadsheets and presentation software. All applications run completely within the browser. Customer data are stored centrally at our high-performance data centers.

- In the first six months of 2010, we also developed our 1&1 Sector Homepage into the 1&1 Do-it-Yourself Homepage, adding numerous new features, such as RSS feeds, a product catalogue with order and payment functions, as well as optimizing the search engine. In early July, the product became the first cloud application to be advertised on German TV.
- GMX and WEB.DE began taking pre-registrations for De-Mail on July 6, 2010. Following extensive preparations, GMX and WEB.DE users can now reserve their names for future use with De-Mail – without any commitment or cost. Once De-Mail legislation already approved by the German Federal Cabinet is introduced, the new De-Mail service will enable public authorities, companies and private persons to securely exchange electronic documents in a legally binding way. The launch is expected in the first quarter of 2011. As of December 31, 2010, we had already received around 700,000 pre-registrations.
- On August 27, 2010 we also launched our Applications business on the Polish market. Private and commercial users were invited to test a 1&1 hosting product for free and without any fixed contract period during the so-called pre-launch phase. The product launch generated considerable press and media coverage in Poland. The test offer was also very well received by Polish users. By the end of the pre-launch phase and the roll-out of our fee-based product range in mid January 2011, we had received around 40,000 registrations.

## **Outlook 2011**

With our strong and specialized brands, steadily growing portfolio of cloud applications, and our existing relations with millions of small businesses and private users, we are well positioned to utilize the opportunities offered by cloud computing. Our expansion into new foreign markets offers further opportunities for Business Applications. In the field of Consumer Applications, we will focus above all on driving the technical integration and subsequent expansion of our newly acquired Mail.com service. As Germany's leading email provider, we also intend to enter the field of legally secure email communication in summer 2011. The respective legislative procedure for the German "De-Mail" system is expected to be completed in the first quarter of 2011.



## **Group investments**

In addition to its (fully consolidated) core operating brands in the Access and Applications segments, United Internet also holds investments in a number of other companies.

### **Investments in listed companies**

As of December 31, 2010 United Internet holds 26.12% of the capital stock of Versatel AG, Berlin. In the first 9 months of 2010 (the annual financial statements of Versatel are not published until after the editorial deadline of this report), Versatel posted negative consolidated net income of around € 30 million (prior year: € -31.0 million). The company's market capitalization or stock exchange value amounted to around € 216 million as of December 31, 2010.

As of December 31, 2010 United Internet holds 4.98% of shares in freenet AG, Būdelsdorf. According to preliminary figures, freenet posted a strongly positive consolidated net income of € 112.5 million in its financial year 2010. The company's market capitalization amounted to around € 1.01 billion as of December 31, 2010.

United Internet has held an investment in Goldbach Media AG, Kūsnacht-Zūrich / Switzerland since 2007. As of December 31, 2010 the share of voting rights still amounted to 14.99%. Goldbach Media posted a positive consolidated net income of € 10.0 million in its financial year 2010. Market capitalization amounted to around CHF 234 million as of December 31, 2010.

Since the transfer of our Display Marketing business "AdLINK Media" to Hi-media S.A. in mid 2009, we have held a 10.65% stake in Hi-media, Paris / France. Mainly as a result of high writedowns on goodwill, Hi-media posted a consolidated net loss of € 63.5 million (prior year: +2.4 million) in the first half of 2010 (the annual financial statements of Hi-media are not published until after the editorial deadline of this report). Market capitalization amounted to around € 156 million as of December 31, 2010.

### **Investment fund with the Samwer brothers**

Together with the Samwer brothers, United Internet has been investing since mid 2007 in funds with a variety of focus areas. United Internet has held a stake in the European Founders Fund GmbH & Co. Beteiligungs KG No. 1, a fund for early-phase financing, since the middle of 2007. As of 2008, United Internet also holds a stake in a further joint fund set up in late 2007 for so-called "later-stage investments", the European Founders Fund GmbH & Co. Beteiligungs KG No. 2. In a contract dated March 5, 2008, United Internet also acquired a stake in the European Founders Fund GmbH & Co. Beteiligungs KG No. 3. This fund specializes in small percentage investments in "later-stage companies".

In fiscal year 2010, United Internet invested € 1.2 million via EFF No. 1 and € 0.1 million via the fully consolidated EFF No. 3 fund in portfolio companies. No investments were made via EFF No. 2 fund.

Proceeds from the sale of shares in portfolio companies totaled € 30.9 million in 2010.

As of December 31, 2010 a total of 49 investments in internet companies were held via the 3 funds.

### **Further investments as of December 31, 2010**

United Internet has held significant stakes in fun communications GmbH (49.00%) and virtual minds AG (48.65%) for several years. Both companies posted positive earnings in the past fiscal year.

In early November 2010, we acquired a 30.02% shareholding in ProfitBricks, an innovative start-up in the field of cloud hosting. The investment enables us to add a complementary segment to activities in our core cloud computing business via the brands 1&1, GMX, WEB.DE, Fasthosts and InterNetX and to access new customers in this growth market. ProfitBricks was founded by former 1&1 Management Board members Andreas Gauger and Achim Weiss, who hold the remaining 70% of shares. The company's objective is to develop innovative, powerful cloud applications and complex cloud-server infrastructures and thus high-performance, so-called infrastructure-as-a-service solutions (IaaS). The target group comprises developers and internet providers who will be able to create and operate their own products and applications for end-users based on the ProfitBricks solutions. The products are currently being developed from scratch and are expected to be ready in summer 2011.

### **Investments sold in 2010**

In December 2010, we sold our shares (held via 1&1 Internet AG) in the video-on-demand portal maxdome to the joint shareholders ProSiebenSat.1. ProSiebenSat.1 thus owns all shares in maxdome. The shareholders ProSiebenSat.1 and 1&1 formerly held 50% each of shares in the joint venture maxdome GmbH & Co. KG.

## Result of operations, financial position and net assets of the Group

### Group earnings

Consolidated sales of United Internet AG grew by 15.0% in fiscal year 2010, from € 1,658.9 million in the previous year to € 1,907.1 million. Sales of the "Access" segment rose by 19.8%, from € 1,026.7 million last year to € 1,230.1 million. In the "Applications" segment, sales growth has slowed since the contract conversion of a major customer of Sedo's subsidiary affilinet in late 2009. As a result, our listed subsidiary Sedo Holding AG posted a fall in sales of 14.2% in its fiscal year 2010 – whereas we enjoyed growth of 12.5% in the rest of the segment. Against this backdrop, total segment sales grew by 7.1% from € 631.5 million to € 676.5 million.

In 2010, we invested a significant amount in the establishment, development and marketing of our new business fields as well as in our DSL quality drive – representing additional expenditure of € 71.9 million. At the same time, we were able to conclude price negotiations with our pre-service suppliers in the third quarter. The resulting reimbursements for previous periods totaling € 19.3 million were used to partially refinance the aforementioned expenses in our new business fields.

Consolidated gross margin fell from 38.7% in the previous year to 35.7%. The main reason were high expenses for our DSL quality drive, the strong growth of our complete DSL packages (ULL) and the recognition of increased hardware subsidies for our Mobile Internet products with a corresponding effect on earnings.

Due to scheduled write-downs on the acquired freenet DSL customer base, greatly increased total marketing expenditure, high pre-launch costs for new products, and customer acquisition costs, sales and marketing expenses grew from € 228.0 million (13.7% of sales) in the previous year to € 306.2 million (16.1% of sales) in 2010. Administrative expenses rose more slowly than sales to € 94.7 million (5.0% of sales), compared to € 92.7 million (5.6% of sales) in the previous year.

Despite additional expenses for our DSL quality drive and start-up costs in new business fields totaling € 71.9 million, earnings before interest, taxes, depreciation and amortization (EBITDA) improved by 0.4%, from € 356.1 million (prior-year figure without positive special items of € 60.6 million from the sale of shares in freenet and Drillisch) to € 357.7 million. Due in particular to scheduled depreciation of € 21.6 million on the freenet DSL customer base acquired in late 2009, earnings before interest and taxes (EBIT) fell as expected by 9.5% to € 271.5 million (comparable prior-year figure: € 300.0 million).

Whereas earnings before taxes (EBT) and consolidated net income were enhanced last year by net positive extraordinary income of € 75.6 million (sale of freenet and Drillisch shares, write-ups on the MSP holding and write-downs in particular on Versatel shares), both figures were burdened in the period under

review by impairment charges of € 13.5 million, especially for the listed shares in freenet and Hi-media, as well as by increased losses of our associated companies (especially Versatel). After consideration of these special items, EBT fell from € 327.7 million to € 215.8 million.

Consolidated net income from continued operations decreased from € 271.2 million to € 127.7 million, while net income (including discontinued operations) fell from € 283.2 million to € 129.5 million. The prior-year figures include largely tax-free non-recurring income of € 75.6 million as well as net positive tax adjustments of € 26.6 million. As a consequence, earnings per share (EPS) fell from € 1.22 (including € 0.47 from net positive special items and € 0.05 from discontinued operations) in the previous year to € 0.58 (including € 0.01 from discontinued operations).

#### Development of key financial figures for the Group in € million

	2009	2010
Sales	1,658.9	1,907.1
EBITDA without special items	356.1	357.7
EBITDA	416.7*	357.7
EBIT without special items	300.0	271.5
EBIT	360.6*	271.5

\* EBITDA and EBIT 2009 incl. positive special items of € 60.6 million from sale of shares in freenet and Drillisch

#### Quarterly development of key financial figures for the Group in € million

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q4 2009
Sales	462.8	468.0	478.2	498.1	434.1
EBITDA without special items	90.3	91.7	88.8	86.9	87.0
EBITDA	90.3	91.7	88.8	86.9	97.4*
EBIT without special items	70.7	71.5	68.4	60.9	70.4
EBIT	70.7	71.5	68.4	60.9	80.8*

\* EBITDA and EBIT Q4 2009 incl. positive special items of € 10.4 million from sale of shares in freenet and Drillisch

## **Cash flow, investment and finance**

Despite additional expenditure for our DSL quality drive and start-up costs for our new business fields totaling € 71.9 million, operative cash flow fell by just € 13.1 million to € 238.1 million (prior year: € 251.2 million). At € 290.4 million, net cash flow from operating activities was also just € 22.7 million below the prior-year figure of € 313.1 million.

Net cash flow for investing activities amounted to € 71.2 million. The incoming side was dominated by cash proceeds from the sale of investments from the EFF Fund amounting to € 30.9 million, while outgoings mainly comprised investments in intangible assets and property, plant and equipment amounting to € 72.4 million and € 21.4 million for the acquisition of Mail.com. In the previous year, net outgoings for investing activities amounted to € 110.2 million. Outgoings were dominated by capital expenditures of € 175.0 million (of which € 126.3 million for the acquisition of freenet's DSL business) and the purchase of shares in affiliated companies totaling € 33.0 million (of which € 32.5 million for the acquisition of united-domains AG). The main cash proceeds included payments from the sale of associated companies of € 93.9 million (of which € 92.9 million from the sale of freenet shares) and payments from the sale of financial assets of € 23.0 million (of which € 21.4 million from the sale of Drillisch shares).

Net cash outflows for financing activities rose from € 142.8 million in the previous year to € 240.5 million. While cash flow from financing activities in 2009 was almost completely dominated by the redemption of loans amounting to € 143.2 million, the main items in fiscal year 2010 were the acquisition of treasury shares (€ 118.2 million), the dividend payment (€ 88.0 million) and the redemption of loans (€ 30.8 million).

## **Assets and equity**

The consolidated balance sheet total fell from € 1,323.4 million as of December 31, 2009 to € 1,271.3 million as of December 31, 2010.

Shares held in associated companies / joint ventures fell from € 126.6 million to € 84.1 million, mainly due to the pro-rated transfer of results from our investment in Versatel AG.

The decline in other financial assets from € 160.5 million to € 145.3 million was dominated by the book value carried for our investment in Goldbach Media and, with the opposite effect, writedowns on the book values of our investments in freenet and Hi-media, as well as the sale of investments from EFF Fund No. 3.

Goodwill remained virtually stable at € 402.9 million (€ 398.9 million as at December 31, 2009) and resulted exclusively from the highly profitable Applications segment.

At € 96.1 million as of the balance sheet date, cash and cash equivalents were

somewhat below the prior-year figure of € 116.8 million due to the dividend payment and share buybacks.

Further details on financial instruments used by the Group are provided in section 41 of the notes to the consolidated financial statements.

In spite of the dividend payment and treasury share buybacks, net bank liabilities were reduced from € 283.4 million to € 273.3 million.

As of December 31, 2010, United Internet AG held 20,563,522 treasury shares (compared to 10,272,371 as of December 31, 2009).

The Group's equity ratio after deduction of treasury shares (€ 241.0 million vs. € 123.8 million in the previous year) amounted to 30.1% as of December 31, 2010, compared to 33.2% as of December 31, 2009.

Further details on the objectives and methods of the Group's financial risk management are provided in section 43 of the notes to the consolidated financial statements.

## **Result of operations, financial position and net assets of the parent company**

### **Earnings of United Internet AG**

In the period under review, sales of United Internet AG amounted to € 2.9 million (prior year: € 3.6 million) and mainly comprised services and rent charged to the Group's subsidiaries.

Other operating income totaled € 0.5 million. Other operating income of € 121.8 million in the previous year mainly resulted from the sale of shares in freenet AG acquired in 2008 (€ 56.4 million), income in connection with the exchange of shares in MSP-Holding for freenet shares (€ 34.7 million) and the write-up of treasury shares held as of the balance sheet date (€ 30.1 million) due to share price increases in 2009.

As a result of investment income from the operating subsidiary 1&1 Internet AG and from United Internet Beteiligungen GmbH, income from profit transfer agreements increased from € 278.9 million in the previous year to € 951.3 million. The main reason for this strong rise was the disclosure of hidden reserves on the level of 1&1 Internet AG. With a certificate of incorporation dated December 6, 2010, 1&1 Internet AG established 1&1 Mail & Media Holding GmbH by means of non-cash incorporation. According to the certificate of incorporation, 1&1 Internet AG did not provide the capital contribution in cash but by transferring all shares in 1&1 Mail & Media GmbH to the company. The fair value of the shares in 1&1 Mail & Media GmbH contributed for the non-cash incorporation was measured on the basis of an appraisal report. The disclosure of hidden reserves resulted in the recognition of income amounting to € 701.7 million on the level of 1&1 Internet AG as a non-cash special item. The transaction was conducted to facilitate a strategic realignment of Group management, which will also be reflected by a change in consolidated segment reporting within the United Internet Group. After the balance sheet date, United Internet AG will make an additional payment of € 700.0 million to the capital reserves of 1&1 Internet AG.

The write-downs on financial assets increased from € 27.6 million in the previous year to € 45.7 million. These resulted mainly from writing down the carrying values of investments in freenet AG (€ 11.0 million) and Versatel AG (€ 34.6 million) due to the fallen share price of both companies. In the previous year, a write-down of € 27.6 million was made for Versatel AG.

The parent company's result from ordinary activities amounted to € 889.8 million – compared to € 345.2 million in the previous year. The parent company's net income reached € 779.5 million, following € 298.2 million in the previous year. In accordance with Sec. 58 (2) Sentence 1 AktG, the Management Board of United Internet AG has transferred part of the net profit for the year (€ 375 million) to other revenue reserves.

## **Assets and financial position of United Internet AG**

The parent company's balance sheet is mainly influenced by shares in affiliated companies amounting to € 405.0 million (prior year: € 404.5 million) as well as by investments of € 106.7 million (prior year: € 150.1 million).

Additions to investments of € 2.2 million faced total write-downs on investments of € 45.7 million. These resulted mainly from writing down the carrying values of investments in freenet AG (€ 11.0 million) and Versatel AG (€ 34.6 million) based on their respective share prices as of December 31, 2010.

Bank liabilities of United Internet AG were reduced by € 29.8 million to € 370.2 million (prior year: € 400 million). These bank liabilities mainly comprise a syndicated loan, € 220 million of which had been drawn as of the balance sheet date (prior year: € 250 million), and a promissory note loan of € 150 million placed in 2008. The equity ratio rose from 51.5% in the previous year to 67.8% as of December 31, 2010.

## **Dividend**

The Annual Shareholders' Meeting of United Internet AG on June 2, 2010 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.40 per share. This dividend comprises a regular amount of € 0.20 for fiscal year 2009 plus a bonus dividend of a further € 0.20 for the lack of dividend in the previous year. The total dividend payment of € 88.0 million was made in June 2010.

The Management Board and Supervisory Board will discuss their dividend proposal for fiscal year 2010 at the Supervisory Board meeting on March 23, 2011.



## **Group research and development**

United Internet's brands stand for portal services and internet access, but also for innovative web-based products and applications which are mostly developed in-house. The success of United Internet's brands is rooted above all in an ability to develop, combine or adapt innovative products and services and launch them on major markets.

With our own development teams, we are able to quickly react fast and flexibly to new ideas and trends and continually enhance our established products, adapting them to changing market needs – a key success factor in the fast-moving internet market. Our expertise in product development, enhancement and roll-out minimizes our reliance on third party developments and supplies in many areas and thus gives us decisive competitive and time-to-market advantages.

At our development centers in Karlsruhe and Bucharest, over 1,100 developers, product managers and technical administrators use mainly open source code (Linux) in clearly defined and modeled development environments. We also use third-party programming services in order to swiftly and efficiently implement specific projects. We can thus quickly change existing basic applications of our products and adapt them to changing customer needs. In addition to these developments, we also procure solutions from our partners, which we then modify according to our needs and integrate into our systems. This provides us with modules which can be easily combined and provided with product-specific or country-specific user interfaces in order to create a wide variety of powerful and integrated applications.

Due to our steady growth in customer figures, the demands placed on our products with regard to reliability and availability are also constantly rising. In addition to the further development of existing products and continual optimization of our back-end operations (e.g. the administration and configuration tools provided for our customers), we also focus on continually enhancing existing processes in order to raise reliability and customer satisfaction. For example, we are permanently working on improvements to the interfaces with our various pre-service providers.

### **Focus areas 2010**

#### **Introduction of a dynamic telephone routing system**

The "VWP-CLC" dynamic telephone routing system represents a further development and merger of our existing support systems. Customers who call are identified via their phone number and receive an automated message adapted to the respective situation. At the same time, any ongoing processes are checked in the background. The system boasts extremely efficient routing intelligence. Customer queries are intelligently forwarded to a suitable agent without a voice response system. Current events, such as disruptions in the customer's residential area, are also fed into the routing system. Customers are conveniently served the exact information which is relevant for them personally.

This also significantly reduces the customer's waiting time. In some cases, customer queries can be dealt with "conclusively" by the system's tailored responses. The system received the Smart Service Award for the best self-service phone system at the VOICE Days plus congress.

### **Expansion of universal application platform**

With the growing fragmentation of end-user devices (desktop computers, tablets, smartphones etc.), there has been a strong increase in requirements with regard to the interoperability and scalability of applications. We already use pioneering technologies throughout the company, such as JavaScript, HTML5 and cloud-capable APIs. We will continue to steadily expand the basis for implementing universal applications in future – aided by our many years of expertise in web-based software development and the availability of new technologies and standards. A unified, object-oriented programming model, combined with cutting-edge web technologies, enables us to implement and adapt applications on a variety of platforms, including mobile usage.

### **Development of modular data centers**

The operation of cloud applications, rising data volumes and high energy costs represent considerable challenges for our infrastructure. Against this backdrop, we are continually working hard to improve our data centers and to raise their efficiency with the aid of intelligent solutions. We are also considering a technological development in the direction of mobile data centers. With the aid of modular units, data centers can be operated locally – and thus close to the customer. Such short distances minimize network latencies for cloud applications and the load on resources can be optimally spread by using small basic units. With the aid of container units, data centers can be flexibly scaled or temporarily operated depending on current demand. Should any key parameters change, such as requirements, energy prices etc., the unit can be moved at any time. An efficient cooling system using outside air means the units are also environmentally friendly and can be operated with low energy consumption.

### **Development of an internal virtualization platform**

In fiscal year 2010, we expanded our existing test and development processes with the addition of an internal virtualization platform which can be used to quickly provide virtual computing capacities for the internal development and testing of applications. The platform also enables permanent operation of productive applications. Whereas in the past, the necessary hardware first had to be physically installed in the data center, the new platform can supply the required computers virtually within a very short time. Virtual operation also saves energy, hardware and resources while at the same time offering even greater failure safety.

## **Risk report**

### **Risk management system**

United Internet AG attaches great importance to its comprehensive risk management system, which also exceeds statutory requirements. The aim of group-wide risk management is to systematically deal with potential risks as well as to promote a risk-oriented approach throughout the entire organization. This controlled approach to risks is aimed at utilizing existing opportunities to the full and enhancing the company's success. The concept, organization and task of group-wide risk management are defined by the Management Board and Supervisory Board of United Internet AG and documented in a risk manual which is valid for all members of the Group. These requirements are regularly compared and adapted to changing legal conditions and continually developed. As part of his statutory auditing obligations for the annual financial statements, the external auditor also examines whether the risk early recognition system is suitable for the early identification of risks and developments which might endanger the company. Moreover, the Internal Audit division is responsible for independently auditing the functionality and efficiency of the risk management processes and compliance with the regulations defined in the risk manual.

As part of our risk management system, we identify, classify and evaluate company risks in a standardized group-wide system with clear allocation of responsibilities. We use our risk management system not only to identify risks which may endanger the Group's continued existence, but also to identify and monitor those risks which do not jeopardize our existence but which may have a negative impact on the Group's net assets, financial situation and results of operations.

In fiscal year 2010, we installed further local risk managers with monthly reporting in the field of Technology & Development. Additional local risk managers at our domestic and foreign subsidiaries and major investments are also used for the risk management process on site.

In order to facilitate the group-wide exchange and comparison of risk information, these local risk managers meet with the Group's central risk management team at regular Risk Manager Meetings.

The current risk status is communicated to the Management Board and Supervisory Board on a quarterly basis. Sudden important risk occurrences or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately to the Management Board, and where necessary by them to the Supervisory Board.

### **Risks for future business development**

Of the total risks identified for the Group, the following sections describe the main risk categories and individual risks which may have a material impact on the result of operations, financial position and net assets of United Internet AG.

## External risks

### **Threat potential of the internet**

United Internet AG generates its commercial success largely within the environment of the internet. Our product portfolio comprises high-quality internet and telecommunication applications, as well as technically complex value-added products. In order to provide our products and services, we use information and telecommunication technologies (data centers, transmission systems, connection nodes etc.) in our business processes which are closely networked with the internet.

There is a general risk of hacker attacks with the aim of stealing, deleting customer data or using services fraudulently. We counter this risk with the aid of virus scanners, firewalling concepts, self-initiated tests and various technical monitoring mechanisms. In addition, there is a risk of DDoS attacks (DDoS = Distributed Denial of Service), which may lead to an overloading of our technical systems and server downtime. In order to deal with such risks more quickly, the existing monitoring and alarm system, together with the necessary processes and documentation, is continually optimized.

United Internet is committed to continually enhancing and updating its security concept with the aid of its IT Security Management system. However, despite our IT security measures, the possibility of hackers gaining access to company networks, or customer accounts, and fraudulently using services (e.g. internet telephony) cannot be ruled out completely. To this end, emergency concepts and automated routines have been developed to minimize the possible damage and protect the interests of our customers.

Over the past years there has been a steady increase in the amount of spam e-mails on the internet. For the mailing systems of United Internet, this has resulted in a significant rise in our capacity utilization with the effect that processes are being impeded. Against this backdrop, we take various precautions to keep spam to a minimum. Our active participation in cross-border working groups enables us to play a role in the definition of mail security standards, for example.

### **Market regulation**

In the Access segment, the decisions of the German Federal Network Agency and Federal Cartel Office have an influence on the pricing of broadband internet access tariffs. (Authorized) price increases of network providers from whom United Internet purchases pre-services for its own customers can have a negative impact on the profitability of our tariffs. In the same way, there is also the possibility that a lack of regulation may lead to a deterioration of market circumstances for United Internet. United Internet attempts to counter this increasing regulation risk by cooperating with several supply partners in our internet access business and by actively participating in the activities of our industry representatives, such as the Association of Telecommunications and Value-Added Service Providers (VATM). Decisions taken by the Federal Network Agency in the field of internet telephony (VoIP) also have an impact on our business processes. External requirements (e.g. legislation) of existing processes and new regulatory conditions could result in higher costs, which

might have a negative impact on the competitiveness of United Internet and thus also on its profitability.

### **Competition**

With the signing of an MVNO agreement in April 2010 and launch of our new Mobile Internet products on July 1, 2010, United Internet AG added a further access product to its product portfolio and entered a new, additional growth market. This entrepreneurial decision obviously involves certain new risks, which mainly result from the pricing of our products and from the minimum purchase volumes contractually agreed with our pre-service supplier. Should actual consumption of voice minutes and / or data volumes differ from the calculated assumptions for the pricing of products, or the minimum purchase volumes not be reached, this may result in a deterioration of the company's assets, liabilities, financial position and profit or loss. During the project planning phase, United Internet already attempted to minimize these risks with the aid of detailed planning based on past experience and external market studies. These risks are being closely observed by means of regular monitoring and controlling of usage and permanent comparison of minimum purchase and sales volumes.

### **Dependency on customers/business partners**

The advertising budgets of advertisers are highly dependent on the economic development. In addition, advertising budgets are often awarded solely for individual campaigns. In our Applications segment, a considerable proportion of sales is generated with just a few key accounts in some cases. Should these business partners limit or cancel their relations with us, this would lead to a significant deterioration of the net assets, financial position and earnings of this segment.

## **Operating risks**

### **Product development**

One of our key success factors is the development of new products and services for our core brands, which we offer to new and existing customers in order to raise the number of our customer contracts and strengthen customer retention. There is always a risk, however, that new developments might be launched too late on the market or not accepted by the target group. United Internet AG attempts to minimize such risks by closely observing market trends and undertaking product development which constantly responds to the feedback of our customers. Together with the Samwer brothers, we hold equity interests in European internet and technology companies via our investment funds, with the aim of also profiting in future from their innovations and technologies.

### **Use of hardware and software**

Our products and related business processes are based on a complex technical infrastructure and a number of success-critical software systems (servers, customer relationship databases and statistics systems etc.). Adapting this infrastructure or architecture to changing customer needs leads to greater complexity, which in turn may lead to various disruptions, e.g. from overloading or technical defects. We limit these risks by making targeted adjustments to the architecture and establishing geo-redundant core functionalities.

In addition, there is a risk of targeted attacks from inside and outside the company, e.g. from hackers or willful manipulation by staff with access rights, which may result in non-availability or a deterioration of our services. In order to counter this risk, we take a wide variety of software- and hardware-based safety precautions which protect our infrastructure and its availability. By dividing responsibilities, we have made sure that activities or business transactions involving risks are not carried out by single employees but on the basis of the "four-eye principle". Manual and technical access restrictions also ensure that employees may only operate within their particular area of responsibility. As an additional precautionary measure against data loss, all data are regularly backed up and stored in separate, i.e. geo-redundant, data centers.

## **Legal risks**

### **Property rights**

Like other internet and software suppliers, United Internet AG is also confronted with a growing number of patent infringement claims. The majority of these claims originate in the USA. The risk for United Internet AG is that it will be forced to pay license fees and damages. United Internet aims to defend itself fiercely in such proceedings and to pursue its rights.

### **Data protection**

United Internet stores the data of several million customers on its servers. The handling of these data is subject to a variety of legal regulations. We are aware of this responsibility and attach great importance to data protection, which is given particularly high priority throughout the company. By using state-of-the-art technology and continually monitoring all data-protection regulations, we endeavor to guarantee a high standard of security. However, should employees or third parties succeed, despite all security precautions, in willfully breaking through the various protection measures and stealing personal data, United Internet might be made liable for such abuse.

There is also a risk that new data protection regulations in the EU and Germany may restrict the evaluation of so-called browser cookies. Such browser cookies enable information to be stored on the client's computer, which is then transmitted to the server if the site is accessed again. Evaluation or accessing of information via such browser cookies is an integral part of online advertising. Any restriction of usage may mean that proprietary technical solutions can only be used under certain conditions.

## **Other risks**

### **Acquisitions**

Our long-term growth strategy also involves the option of quickly achieving critical mass in certain markets by means of acquisition, diversifying into new business models, and generally utilizing favorable market and consolidation opportunities. Should the acquired companies not fulfill the expectations we placed in them, or should the expected synergies prove worse than planned, this may have a negative impact on the profitability and financial position of United

Internet. We generally counter this risk by means of extensive due diligence audits prior to acquisitions, but cannot exclude such risks completely.

### **Write-downs / impairment**

The same applies for our investments in listed companies. A change in the valuation basis caused by falling global share prices may require write-downs on such investments – as was the case in the fiscal years 2008 and 2010. Depending on the further share price performance of our listed investments, further non-cash burdens on earnings may also result in future from non-scheduled write-downs and impairments.

### **Additional disclosures on the risks, financial instruments and financial risk management of the parent company United Internet AG**

The main financial liabilities incurred by the parent company for the financing of its activities include bank loans and promissory note loans, overdraft facilities and other financial liabilities.

United Internet AG holds various financial assets which result directly from its business activities. They consist mainly of shares in affiliated companies and investments, as well as receivables from affiliated companies. As of the balance sheet date, the company mainly held primary financial instruments and derivative financial instruments from interest hedging agreements.

The aim of financial risk management is to limit risks through ongoing operating and financial activities. The company is hereby exposed to certain risks with regard to its assets, liabilities and planned transactions, especially liquidity risks and market risks, as described below.

### **Liquidity risk**

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

Our group-wide cash requirements and surpluses are managed centrally by our cash management system. By netting these cash requirements and surpluses within the Group, we can minimize the amount of external bank transactions. Netting is managed via our cash pooling process. The Company has established standardized processes and systems to manage its bank accounts and internal netting accounts as well as for the execution of automated payment transactions.

In addition to operating liquidity, United Internet also holds other liquidity reserves, available at short notice. These liquidity reserves consist of syndicated credit lines with varying terms.

The Company has no significant concentration of liquidity risks at present.

### **Risks from financial covenants**

The existing credit lines of United Internet AG are tied to so-called financial covenants. An infringement of these covenants may cause the lender to terminate the financial arrangement and demand immediate repayment of the amounts drawn. The covenants contained in the loan agreements of United Internet require the Company to maintain a specified net financial debt-to-EBITDA ratio and a specified EBITDA-to-interest ratio. These ratios are used to calculate the relative burden which the financial liabilities and interest payments place on the Company. In view of the far superior ratios of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company's Management Board.

### **Market risk**

The activities of United Internet AG are exposed in particular to financial risks from changes in interest rates, exchange rates and stock exchange prices.

#### *Interest risk*

The Company is exposed to interest risks as the major share of its borrowing as of the balance sheet date bears variable interest rates with varying terms. As part of its liquidity planning, the Company constantly monitors the various investment possibilities and debt conditions. Any borrowing requirements are met by using suitable instruments to manage liquidity, while surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk remained largely unchanged.

Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the balance sheet date.

In order to reduce its interest risk, the Company concluded two interest hedging transactions in fiscal year 2008 with a total amount of €200 million.

#### *Currency risk*

United Internet's currency risk mainly results from its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries. In the period under review, there were no foreign exchange risks with a significant impact on the cash flows.

#### *Stock exchange risk (valuation risk)*

A stock exchange risk mainly results from investments in listed companies. These investments are carried at cost. Should the (proportional) stock exchange value of an investment permanently lie below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement.



### **Capital management**

In addition to the legal provisions for stock corporations, the Company has no further obligations to maintain capital according to its statutes or other agreements. The key financial indicators used by the Company are mainly performance-oriented (sales, gross margin, EBITDA and EBIT). The targets, methods and processes of capital management are thus subordinate to these performance-oriented financial indicators.

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can issue new shares or purchase treasury shares. As of December 31, 2010 and December 31, 2009, no changes were made to the Company's targets, methods and processes.

### **Tax risk from customer acquisition costs**

In the course of the completed tax audit for the assessment periods 2002 to 2005, there were findings with regard to the income tax treatment of so-called customer acquisition costs. Due to their sales cost character, these costs are expensed when incurred. According to the tax authority, certain parts of these costs are to be deferred beyond the minimum contract terms.

In 2010, a lawsuit brought by a mobile phone operator against this opinion was rejected by the German Federal Finance Court (BFH). However, the question of whether the verdict applied retroactively to previous years was not settled. In order to settle this matter, the 1st Senate has referred the case to the Large Senate of the BFH. United Internet has taken the verdict of the 1st Senate into account for its taxes in fiscal year 2010 and formed corresponding tax accruals. As United Internet does not currently expect a retroactive application of the verdict, no tax accruals have been formed for previous years.

Should these expectations not be met, income tax expenses in the low tens of millions may result, in line with the Group's business volume.

### **Assessment of the overall level of risk**

From the current perspective, the main risks for the company's current and future net assets, financial situation and results of operations focus on the areas of potential threats via the internet, market regulation, competition, the use of hardware and software, and acquisitions. The further expansion of our risk management system enables us to proactively counter such risks and to limit them to a minimum, where sensible, by implementing specific measures. We judge the probability of such occurrences as very low to limited. There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2010, neither from individual risk positions nor from the overall risk situation for the United Internet Group.

## **Main features of the accounting-related internal control and risk management system**

In accordance with Sec. 289 (5) and Sec. 315 (2) No. 5 German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report. The scope and structure of the specific requirements for United Internet AG are at the discretion and within the responsibility of the Management Board. United Internet AG regards risk management as part of its internal control system, which is based on the internationally recognized COSO framework ("Internal Control – Integrated Framework") as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Internal Audit division is responsible for independently auditing the functionality of the internal control system. In order to conduct its duties, Internal Audit has been granted extensive rights with regard to information, examination and access.

### **Risk assessment**

United Internet AG regards risk management as a measure to detect and assess risks, reduce them to an acceptable level, and monitor recognized risks. A risk management system requires organized action to deal suitably with uncertainty and threats and urges employees to utilize the regulations and instruments required to ensure compliance with the risk management principles.

The risk management system of United Internet AG is a system with which risks can be identified and assessed, especially those business events which may jeopardize the company's existence. In addition to operative risk management, it also includes the systematic early recognition, management and monitoring of risks. The accounting-related risk management system focuses on the risk of false statements in accounting and external reporting.

Specific accounting-related risks may arise, for example, from the conclusion of unusual or complex transactions, especially if they are time-critical and toward year-end. Business transactions which cannot be processed in a routine manner are also exposed to latent risks. It is necessary to grant a limited circle of people certain scope for discretion in the recognition and measurement of assets and liabilities, which may result in further accounting-related risks.

The Internal Audit division of United Internet AG ensures the functionality and effectiveness of the risk management system by means of audits as part of its monitoring duties.

### **Description of the internal control system**

The accounting-related internal control system of United Internet AG comprises principles, procedures and measures to secure the effectiveness, economic efficiency and compliance of the accounting system and to ensure that all legal regulations are observed.

Clearly defined internal controls are embedded into the accounting process with the aid of risk aspects. The accounting-related internal control system comprises organizational, preventive and investigative controls, including IT-aided and manual coordination, the separation of functions, the "four-eye principle", general IT controls, e.g. access rights to IT systems, or change management and its monitoring.

With the aid of organizational, control and monitoring structures defined by United Internet AG, the internal control system enables the recognition, preparation and assessment of company-related issues and their proper representation in consolidated accounting. The Corporate Accounting division is responsible for the management of the accounting processes. Laws, accounting standards and other pronouncements are continually analyzed with regard to their relevance and effect on the annual financial statements. Employees involved in the consolidated accounting process are regularly trained. The Group companies are responsible for the orderly and timely execution of the accounting-related processes and systems and are supported by the Corporate Accounting division accordingly. The accounting-related internal control system described above is also complemented by so-called Entity Level Controls which are conducted by the highest executive bodies.

Due to their nature, the discretionary decisions of individuals, faulty controls, criminal acts, or other such circumstances cannot be fully excluded and can thus restrict the effectiveness and reliability of the internal control and risk management systems. As a result, even the group-wide application of the systems used cannot guarantee absolute security with regard to the correct, complete and timely recognition of events in corporate accounting.

The statements made refer solely to the non-listed subsidiaries included in the consolidated annual financial statements of United Internet AG, for which United Internet AG has the direct or indirect possibility of determining their financial and monetary policy in order to derive a benefit from the activity of these companies.

**Disclosures required by takeover law** - acc. to Secs. 289 (4), 315 (4)  
German Commercial Code (HGB)

### **Composition of capital**

The subscribed capital of United Internet AG as of December 31, 2010 amounts to € 240,000,000 divided into 240,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution.

The Management Board is not aware of any limitations affecting voting rights or the transfer of shares.

### **Direct and indirect participations in capital, special rights**

The Company's CEO, Mr. Ralph Dommermuth, Montabaur, Germany, owns 92,000,000 shares or 38.33% of total shares in United Internet AG as of December 31, 2010. Mr. Dommermuth is personally entitled to nominate a member of the Supervisory Board. This right is exercised by naming a person for the Supervisory Board to the Company's Management Board. The nomination becomes effective as soon as the nominated person declares his acceptance of the Supervisory Board seat to the Management Board. A requirement for the aforementioned nomination right is that Mr. Ralph Dommermuth holds shares himself or via companies affiliated with him pursuant to Sec. 15 ff. German Stock Corporation Law (AktG) representing at least 25% of the Company's voting capital and can prove as much to the Management Board on nomination of the Supervisory Board member by providing depository account statements or similar documents. Mr. Dommermuth has so far not made use of this nomination right. The Management Board is not aware of any further shareholdings in excess of 10% of voting rights, or of any shares with special rights.

### **Appointment and dismissal of Management Board members, amendments to Company articles**

The appointment and dismissal of Management Board members is determined by Secs. 84, 85 AktG in conjunction with section 1 of the rules of procedure for the Supervisory Board. According to Sec. 6 (1) of the Company's articles, the Management Board consists of at least one person. The Supervisory Board appoints and dismisses the members of the Management Board, determines their number and can appoint one member of the Management Board as Chairman. Each amendment of the Company's articles requires the adoption of a shareholders' meeting resolution with a majority of at least three quarters of capital represented at the vote. Pursuant to Sec. 22 of the Company's articles in conjunction with Sec. 179 (1) Sentence 2 AktG (Changes in capital stock and number of shares), the Supervisory Board is authorized to make amendments to the Company's articles insofar as they only concern formulation.

### **Powers of the Management Board to issue shares**

The Management Board is entitled to issue new shares under the following circumstances: The Management Board is authorized, subject to approval by the Company's Supervisory Board, to increase the Company's capital stock on one or more occasions before June 12, 2011 by a total of € 124,550,402.00 by

issuing new no-par shares for cash and/or non-cash contributions. The Management Board is also authorized, in certain cases stated in Sec. 5.4 of the Company's articles, to exclude the statutory right of shareholders to subscribe to new shares. This applies in particular in the case of fractional amounts and when granting subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds. The Management Board is also authorized, subject to the approval of the Supervisory Board, to restrict subscription rights in the case that the issue price of the new shares is not substantially lower than the quoted market price and the issued shares do not exceed in total 10% of capital stock.

The Management Board is authorized, subject to the approval of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for non-cash contributions, especially in connection with the acquisition of companies, investments or assets.

Capital stock has been conditionally increased by up to a further € 80,000,000.00, divided into 80,000,000 no-par shares (Conditional Capital 2010). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on June 2, 2010 authorized the company or a subordinated Group company to issue in the period ending June 1, 2015, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.

### **Powers of the Management Board to buy back shares**

The authorization given by the Annual Shareholders' Meeting of May 26, 2009 to acquire, sell or cancel treasury shares expired on November 25, 2010. In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of June 2, 2010 authorized the Management Board to acquire, sell or cancel treasury shares of up to ten percent of its capital stock in the period directly following the expired authorization and ending on May 25, 2012.

The Management Board is authorized, subject to the approval of the Supervisory Board, to use these and the previously acquired shares for all legally permissible purposes, in particular a sale of treasury shares other than via the stock exchange or by offering to all shareholders or for cash compensation. This authorization is reduced by that proportion of capital stock attributable to shares excluded from subscription rights in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG.

United Internet shares may be purchased in all legally permissible manners, especially via the stock exchange and/or by means of a public bid. In the case of a purchase via the stock exchange, the price for the acquisition of United Internet shares (excluding transaction costs) may not be more than ten percent lower or higher than the stock market price.

The price for the purchase of United Internet shares by means of bids can be settled by a cash payment or by transfer of shares in a listed company pursuant to Sec. 3 (2) AktG ("exchange shares").

The Management Board is authorized, subject to the approval of the Supervisory Board, to use these and previously acquired shares for all legally permissible purposes, in particular a sale of treasury shares other than via the stock exchange or by offering to all shareholders or for cash compensation. The authorization for cash contribution is reduced by that proportion of capital stock attributable to shares excluded from subscription rights in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG.

Moreover, the Management Board is authorized to use the acquired treasury shares, subject to the approval of the Supervisory Board, to grant shares to members of the Management Board and other Company employees, should such persons be entitled to subscription on the basis of employee stock ownership plans. Insofar as treasury shares are to be transferred to members of the Company's Management Board, the decision shall be incumbent upon the Company's Supervisory Board.

The Management Board is further authorized to use the acquired treasury shares, subject to the approval of the Supervisory Board, to fulfill conversion and warrant rights or conversion obligations.

The Management Board is also authorized to retire and cancel treasury shares, subject to the approval of the Supervisory Board, without any further resolution of the Annual Shareholders' Meeting.

The right of shareholders to subscribe to treasury shares shall be excluded to the extent that these shares are used in accordance with the aforementioned authorizations.

## **Dependent Company Report**

In compliance with Sec. 312 (1) AktG, the Management Board declares that the Company received adequate compensation (quid pro quo) for all legal transactions and measures listed in the report on relations with affiliated companies, in accordance with the circumstances known to us at the time when such transactions or measures were carried out, or the measure involved was executed or omitted, and that the Company was not disadvantaged by such measures being executed or omitted.

## **Subsequent events**

According to leading market analysts, the predominantly positive conditions for those target markets of relevance to United Internet remain unchanged in 2011.

### **Cancellation of treasury shares**

United Internet AG completed the share buyback program resolved and announced on December 10, 2010 and purchased a total of 4,000,000 treasury shares in the period from December 10, 2010 to February 18, 2011, thus exhausting the scope of the share buyback program.

On completion of the share buyback program, the Executive Board resolved on February 22, 2011, to cancel a total of 15,000,000 shares from the company's stock of treasury shares, purchased in the course of share buyback programs, and thus reduce the capital stock of United Internet AG by € 15 million, from € 240 million to € 225 million. The decision was based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on June 2, 2010 regarding the acquisition and use of treasury shares and was duly approved by the Supervisory Board. The capital reduction was aimed at optimizing the company's balance sheet and capital structure.

In execution of this resolution, 15,000,000 registered no-par value shares with a notional share of capital stock of 1 euro each were cancelled. Following the cancellation of these 15,000,000 shares, United Internet AG still held 9,000,000 treasury shares. This corresponded to 4% of the reduced capital stock of € 225 million.

At the same time, capital stock was reduced by € 15,000,000 from € 240,000,000 to € 225,000,000. The number of shares issued decreased correspondingly from 240,000,000 shares to 225,000,000 shares. Issued shares continue to represent a notional share of capital stock of 1 euro each.

### **New share buyback program**

The Management Board of United Internet AG also resolved on February 22, 2011 to launch a new share buyback program which began once the cancellation and capital reduction had become effective. In the course of this new share buyback program, up to 4,500,000 company shares (corresponding to 2% of the

reduced capital stock of € 225 million) are to be bought back via the stock exchange. The buyback follows an authorization of the Annual Shareholders' Meeting of June 2, 2010 to buy back shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to May 25, 2012. Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of June 2, 2010, in particular for current and future employee stock ownership plans and/or as an acquisition currency, but may also be cancelled.

There have been no further subsequent events since year-end which have significantly altered the business situation of United Internet.



## **Forecast report – opportunities and outlook**

### **Global economy still on course for growth**

The global economy can look forward to further growth in 2011 and 2012, according to an updated global economic outlook published by the International Monetary Fund (IMF) in January 2011. The IMF forecasts global growth of 4.4% in 2011 and 4.5% in 2012.

According to the IMF, the economic upswing in the emerging economies (6.5% in 2011 and 2012) will easily outpace growth in the classic industrialized nations (2.5% in 2011 and 2012). The Fund believes this is due to the "ongoing burdens" which crisis-hit Euro nations, such as Greece and Portugal, are still suffering, in addition to consistently high unemployment rates in the industrialized nations.

In view of the financial and economic crisis in certain member states, the IMF has warned the Euro zone states in particular of growth risks in the coming two years and forecasts growth of just 1.5% in 2011 and 1.7% in 2012. The IMF expects Germany to be slightly above the European average with growth of 2.2% in 2011 and 2.0% in 2012. The IMF was thus below the expectations of the German government (2.5%) and Germany's leading economic institutes (up to 3.2%) for 2011.

### **Further growth also forecast for ICT sector**

Following the turnaround of the global and German ICT market in 2010, the German ICT association BITKOM is optimistic about the sector's future prospects. Specifically, the association expects the global ICT market to grow by 4.5% in 2011 and by as much as 5.3% in 2012. BITKOM is not quite as upbeat about the overall ICT market in Germany, but still expects solid growth of 2.0% in both 2011 and 2012.

In the field of information technology, BITKOM expects growth of 4.4% to € 68.8 billion in 2011. The hardware segment, demand for software and IT services are all expected to benefit strongly from the ongoing economic upswing. BITKOM believes that software and IT services will also benefit from cloud services with annual growth of over 50%.

In the field of telecommunications, BITKOM expects only slight growth of 0.3% to € 64.3 billion. This barely visible increase conceals some significant changes in individual segments: revenue from fixed line phone calls has been falling steadily for years – due in part to the rising share of VoIP calls. Revenue from mobile voice services is also falling. This is mainly due to the restrictions of the regulation authorities. The German Federal Network Agency has announced that carrying charges are to be drastically reduced while international roaming fees are also falling under pressure from the EU Commission. This loss of revenue in voice services is in stark contrast to the high growth rates of fixed line and especially mobile data transmission. The success of the mobile internet is clearly illustrated by the massive growth in data volumes (100% in 2010) transmitted

via the mobile phone networks. A key factor for this growth is the boom in smartphones.

For the third major ICT market segment, digital entertainment electronics, BITKOM expects a modest decline of 1.6% to € 12.5 billion in 2011. Flat-screen TVs account for almost half of this market. Following brisk trade in the year of the FIFA World Cup, sales of flat-screen TVs are likely to remain stable at € 6.5 billion in 2011. In addition to this lack of momentum from TV sets, there is also a further negative effect: classic products from the two other segments, such as tablet PCs and smartphones, are capturing market share from consumer entertainment devices (such as MP3 players, mobile games consoles or navigation devices).

## Outlook for United Internet's most important sub-markets

Of particular importance to United Internet are the German broadband and mobile internet market in the subscription-financed segment "Access" and the cloud computing market and online advertising market in the subscription- and ad-financed segment "Applications".

### "Access" segment

#### Growth in German broadband market primarily qualitative

In view of the comparatively high level of household coverage of over 67% already achieved, experts forecast only moderate growth for the German broadband market. Much stronger growth, however, is expected for applications used via such broadband connections. Around 11.2 million users in Germany are expected to make regular phone calls via the web in 2011. This corresponds to growth of 13.5% compared to 2010, according to sector association BITKOM and based on current data of the European Information Technology Observatory (EITO).

#### Dynamic growth in German mobile internet market

All experts continue to predict dynamic growth for the mobile internet market. Following market growth of 18.2% to € 6.5 billion in 2010, BITKOM also expects growth of 14.0% and 10.4% in 2011 and 2012, respectively. This growth will be driven above all by low – and thus for the consumer attractive – prices, as well as by the boom in smartphones and the respective applications (or apps). BITKOM forecasts additional sales of 39% to 10 million sold smartphones in 2011 (following 7.2 million in 2010), as well as related sales growth of 35% to € 2.2 billion (compared to € 1.6 billion in 2010).

Growth of German mobile internet market

	2010	2011e	2012e
Growth	18.2%	14.0%	10.4%
Sales (in € billion)	6.5	7.4	8.2

Source: BITKOM

## “Applications” segment

### Further growth in online advertising market

Due to the modest increase in online advertising during the crisis year 2009, the strong online presence of advertisers in 2010 led to higher-than-average growth in this segment. In view of the very high level of gross advertising spending already achieved (over € 5.3 billion), the Online Marketing Group (Online-Vermarkterkreis - OVK) forecasts further growth for 2011, albeit at a slightly more moderate pace. With an assumed growth rate of 16%, gross ad spending in 2011 would break the 6-billion-euro mark for the first time and thus underline the growing relevance of online advertising.

#### Growth of German online advertising market

In € billion

	2010	2011e	Growth
Classic online advertising	3.151	3.781	20.0%
Search word marketing	1.867	2.076	11.2%
Affiliate networks	0.339	0.373	10.0%
Total gross advertising spend	5.357	6.230	16.3%

Source: BVDW

### Megatrend cloud computing

For many experts and the press in general, ‘cloud computing’ is currently the most hyped topic in the business. In a survey published in June 2010, IDC forecasts that the cloud market will triple in volume from 2009 to 2013 to a total of USD 44.9 billion. Based on a study of the Experton Group, the sector association BITKOM expects consumer and business cloud sales in Germany to grow by around 55% to € 3.5 billion in 2011 and reach € 13 billion by 2015. This means that cloud technologies will account for around 10% of total IT expenditure in Germany (compared to 1.5% in 2010). Double-digit growth is expected during the entire period, and in 2012 will still be over 50%.

#### Growth of cloud computing in Germany

	2011e	2012e	2013e
Growth	55%	51%	40%
Sales (in € billion)	3.5	5.3	7.4
of which consumers	1.6	2.2	3.0
of which business	1.9	3.1	4.4

Source: BITKOM

## **Opportunities for United Internet**

In order to fully exploit the growth potential described above, especially in the Mobile Internet and Cloud Computing markets, United Internet already realigned its operations in fiscal year 2010 and created the two segments "Access" and "Applications". The "Access" segment comprises our narrowband, broadband and mobile access products, including the corresponding applications. The "Applications" segment consists of our cloud computing applications, whether ad-financed or via subscription fee.

In our "Access" segment, we aim to enhance customer retention via further migration to complete packages (ULL), more personalized service and more transparent and flexible products. Moreover, we want to raise average revenue per contract with the aid of integrated additional features and new applications in order to generate further growth. We also expect further growth from our successfully launched Mobile Internet campaign in the fast growing mobile internet market.

In the "Applications" segment, we intend to benefit from expected market growth in the field of cloud applications. With our growing portfolio of cloud applications, our strong and specialized brands, and our existing relations with millions of private and business customers in Germany and abroad, we are well prepared for this growth. In our Consumer Applications business, we believe that an increasingly wide range of products will enable us to convert ever more ad-financed users into paying customers. In the field of Business Applications, we will target further growth with the aid of new, higher-priced cloud applications which will open up new business opportunities on the internet for our customers and help them digitize their corporate processes.

## **Outlook and forecast**

United Internet AG will continue to pursue its policy of sustainable growth in 2011. In order to utilize its wide range of opportunities, the company will once again invest heavily in new business fields in the coming year. In the "Access" segment, further growth is expected in the number of customer contracts, especially for products enabling mobile internet usage. In the "Applications" segment, additional opportunities are expected from the development of new foreign markets for our Business Applications in 2011. In the field of Consumer Applications, we will mainly drive the technical integration and subsequent expansion of our newly acquired Mail.com service. As Germany's leading email provider, we also intend to enter the field of legally secure email communication. The respective legislative procedure for the German "De-Mail" system is expected to be completed in summer 2011. Despite the high costs associated with these projects for sustainable growth in customer subscriptions, EBITDA in 2011 is expected to reach a similar level to that of 2010 (€ 357.7 million). Sales are expected to exceed € 2 billion for the first time in the company's history.

In 2012, industry experts forecast continued growth in United Internet's most relevant markets, Mobile Internet and Cloud Applications. With the investments

planned for 2011 in our Access products (especially Mobile Internet) and our Cloud Applications, as well as their ongoing internationalization, we will lay the foundation for continued growth over the coming years. Against this backdrop, we also expect further growth in sales and customer contracts in 2012 as well as a strong EBITDA result.

### **Forward-looking statements**

This Management Report contains forward-looking statements based on current expectations, assumptions, and projections of the Management Board of United Internet AG and currently available information. These forward-looking statements are not to be construed as guarantees of the future developments and results stated within. Such future developments and results are dependent on numerous factors. They involve various risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. United Internet AG does not assume any obligation to adjust or update the forward-looking statements contained in this report.

Montabaur, March 16, 2011

The Management Board



**United Internet AG,  
Montabaur**

**Consolidated Annual Financial  
Statements  
acc. to IFRS**

**as at  
December 31, 2010**

## United Internet AG - Consolidated balance sheet acc. to IFRS as of December 31, 2010 in €k

<b>ASSETS</b>	<b>Note</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Current assets</b>			
Cash and cash equivalents	20	96,091	116,812
Trade accounts receivable	21	97,987	91,290
Inventories	22	16,912	14,061
Prepaid expenses	23	36,536	30,360
Other assets	24	28,297	48,336
		<u>275,823</u>	<u>300,859</u>
<b>Non-current assets</b>			
Shares in associated companies / joint ventures	25	84,079	126,628
Other financial assets	26	145,274	160,524
Property, plant and equipment	27	108,675	93,921
Intangible assets	28	221,415	228,341
Goodwill	29	402,868	398,926
Deferred tax assets	16	33,194	14,236
		<u>995,505</u>	<u>1,022,576</u>
<b>Total assets</b>		<u><b>1,271,328</b></u>	<u><b>1,323,435</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade accounts payable	31	213,509	193,197
Liabilities due to banks	32	178,167	51,462
Advance payments received		7,146	7,078
Accrued taxes	33	43,071	37,428
Deferred revenue	34	138,209	127,046
Other accrued liabilities	35	5,836	11,125
Other liabilities	36	59,603	61,874
		<u>645,541</u>	<u>489,210</u>
<b>Non-current liabilities</b>			
Convertible bonds	37	0	4
Liabilities due to banks	32	191,233	348,767
Deferred tax liabilities	16, 38	28,483	23,051
Other liabilities	36	23,648	22,641
		<u>243,364</u>	<u>394,463</u>
<b>Total liabilities</b>		<u><b>888,905</b></u>	<u><b>883,673</b></u>
<b>Equity</b>			
Capital stock	39	240,000	240,000
Additional paid-in capital	40	41,649	39,971
Accumulated profit		326,663	285,546
Treasury stock	39	-240,977	-123,786
Revaluation reserves	40	25,442	12,717
Currency translation adjustment		<u>-20,038</u>	<u>-24,326</u>
Equity attributable to shareholders of the parent company		<u>372,739</u>	<u>430,122</u>
Non-controlling interests		9,684	9,640
<b>Total equity</b>		<u><b>382,423</b></u>	<u><b>439,762</b></u>
<b>Total liabilities and equity</b>		<u><b>1,271,328</b></u>	<u><b>1,323,435</b></u>

**United Internet AG - Statement of comprehensive income acc. to IFRS  
from January 1, 2010 to December 31, 2010 in €k**

	Note	2010 January - December	2009 January - December
Sales	4	1,907,135	1,658,877
Cost of sales	5, 9, 11	<u>-1,226,185</u>	<u>-1,016,532</u>
<b>Gross profit</b>		<b>680,950</b>	<b>642,345</b>
Selling expenses	6, 9, 11	-306,210	-228,036
General administrative expenses	7, 9, 11	-94,712	-92,741
Other operating expenses	8	-33,653	-44,997
Other operating income	8	44,868	103,094
Amortization of intangible assets resulting from company acquisitions	9	-19,586	-19,053
Amortization of goodwill	10	<u>-162</u>	<u>0</u>
<b>Operating result</b>		<b>271,495</b>	<b>360,612</b>
Interest and similar expenses	12	-15,197	-23,515
Interest and similar income	13	5,094	2,993
Amortization of investments	14	-13,840	-3,478
Result from associated companies	15	<u>-31,778</u>	<u>-8,938</u>
<b>Pre-tax result</b>		<b>215,774</b>	<b>327,674</b>
Income taxes	16	<u>-88,068</u>	<u>-56,509</u>
<b>Net income before non-controlling interests</b>		<b>127,706</b>	<b>271,165</b>
(from continued operations)			
Result after tax from discontinued operations	17	<u>1,790</u>	<u>12,010</u>
<b>Net income before non-controlling interests</b>		<b>129,496</b>	<b>283,175</b>
(after discontinued operations)			
Attributable to			
non-controlling interests		379	3,248
shareholders of United Internet AG		129,117	279,927
<b>Result per share of shareholders of United Internet AG (in €)</b>			
- basic	18	0.58	1.22
- diluted	18	0.58	1.21
thereof result per share (in €) - from continued operations			
- basic	18	0.57	1.17
- diluted	18	0.57	1.16
thereof result per share (in €) - from discontinued operations			
- basic	18	0.01	0.05
- diluted	18	0.01	0.05
<b>Weighted average shares (in Million units)</b>			
- basic	18	222.50	229.56
- diluted	18	224.15	230.64
<b>Statement of comprehensive income</b>			
Net income		129,496	283,175
Results directly included in equity			
Currency translation adjustment		4,324	4,287
Market value changes of available-for-sale financial instruments after taxes		12,993	3,526
Change in associated companies after taxes not affecting net income		<u>-268</u>	<u>261</u>
		17,049	8,074
<b>Total net income</b>		<b>146,545</b>	<b>291,249</b>
Attributable to			
non-controlling interests		415	4,241
shareholders of United Internet AG		146,130	287,008



**United Internet AG - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS**  
**from January 1, 2010 to December 31, 2010**

	Capital stock		Additional paid-in capital	Accumulated profit	Treasury shares		Revaluation reserves	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2009	251,469,184	251,469	163,896	5,619	22,000,000	-264,987	10,002	-28,692	137,307	8,273	145,580
Net income				279,927					279,927	3,248	283,175
Other net income							2,715	4,366	7,081	993	8,074
<b>Total net income</b>				279,927			2,715	4,366	287,008	4,241	291,249
Exercise of conversion rights	156,472	157	526						683		683
Issue of treasury shares			-328		-101,973	1,228			900		900
Cancellation of treasury shares	-11,625,656	-11,626	-128,347		-11,625,656	139,973			0		0
Employee stock ownership program Sedo Holding			36						36	4	40
Employee stock ownership program United Internet			4,171						4,171		4,171
Other			17						17		17
Dividend payments									0	-144	-144
Change in amount of holdings									0	-2,734	-2,734
Balance as of December 31, 2009	240,000,000	240,000	39,971	285,546	10,272,371	-123,786	12,717	-24,326	430,122	9,640	439,762
Net income				129,117					129,117	379	129,496
Other net income							12,725	4,288	17,013	36	17,049
<b>Total net income</b>				129,117			12,725	4,288	146,130	415	146,545
Exercise of conversion rights			-60		-81,525	982			922		922
Employee stock ownership program Sedo Holding			184						184	50	234
Employee stock ownership program United Internet			1,554						1,554		1,554
Purchase of treasury shares					10,372,676	-118,173			-118,173		-118,173
Dividend payments				-88,000					-88,000		-88,000
Profit distributions									0	-341	-341
Change in amount of holdings									0	-80	-80
Balance as of December 31, 2010	240,000,000	240,000	41,649	326,663	20,563,522	-240,977	25,442	-20,038	372,739	9,684	382,423

**United Internet AG - Consolidated Cash Flow Statement acc. to IFRS**  
**from January 1, 2010 to December 31, 2010 in €**

		2010	2009
	Note	January - December	January - December
<b>Cash flow from operating activities</b>			
Net income (from continued operations)		127,706	271,165
Net income (from discontinued operations)		1,790	12,010
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
<b>Depreciation and amortization (from continued operations):</b>			
Depreciation and amortization of intangible assets and property, plant and equipment	9	66,468	37,032
Amortization of intangible assets resulting from company acquisitions	9	19,586	19,053
Amortization of other financial assets	14	13,840	3,478
Amortization of goodwill	10	162	0
<b>Depreciation and amortization (after discontinued operations)</b>			
Depreciation and amortization of intangible assets and property, plant and equipment		0	147
Compensation expenses from employee stock option plans	37	4,891	5,111
Results of at-equity companies	15, 25	31,778	8,938
Distributed profit of associated companies	25	983	0
Income from deconsolidation of other financial assets	8, 26	-8,440	-12,463
Income from deconsolidation of associated companies	8, 25	-7,768	-48,495
Income from deconsolidation of the Display Marketing business	17	0	-11,566
Change in deferred taxes	16	-14,664	-3,465
Non-cash expenses / income from tax adjustments	16	0	-26,594
Non-cash expenses / income		1,740	-3,201
<b>Operative cash flow</b>		<b>238,072</b>	<b>251,150</b>
<b>Change in assets and liabilities</b>			
Change in receivables and other assets		23,937	13,384
Change in inventories		-2,851	4,987
Change in deferred expenses		-6,174	1,340
Change in trade accounts payable		20,515	38,376
Change in advance payments received		67	626
Change in other accrued liabilities		1,218	-354
Change in accrued taxes		6,528	-4,134
Change in other liabilities		-821	-774
Change in deferred income		9,902	8,475
<b>Change in assets and liabilities, total</b>		<b>52,321</b>	<b>61,926</b>
<b>Cash flow from operating activities</b>		<b>290,393</b>	<b>313,076</b>
<b>Cash flow from investing activities</b>			
Capital expenditure for intangible assets and property, plant and equipment		-72,435	-174,996
Purchase of further shares in affiliated companies	3	-465	-7,358
Purchase of other business units	3	-21,437	0
Purchase of shares in affiliated companies less cash received	3	0	-33,027
Payments from subsequent refunding of company acquisition costs	3	0	144
Purchase of shares in associated companies / joint ventures	25	-4,697	-4,802
Payments from deconsolidation of financial assets	26	20,465	23,049
Investments in other financial assets	26	-565	-10,313
Payments of loans granted	42	-13,900	-2,200
Reductions from the disposal of the Display Marketing business	17	0	-1,154
Payments from disposal of assets		1,716	1,404
Payments from deconsolidation of associated companies		6,000	93,854
Refunding from shares in associated companies		14,134	5,165
<b>Cash flow from investment activities</b>		<b>-71,184</b>	<b>-110,234</b>
<b>Cash flow from financing activities</b>			
Capital increase		0	644
Purchase of treasury stock	39	-118,173	0
Taking out of loans	32	20,000	0
Repayment of loans	32	-50,830	-143,241
Dividend payments	19	-88,000	0
Dividend payments to no-controlling interests		-1,338	-144
Other	37	-2,181	0
Repayments from convertible bonds		-4	-32
<b>Cash flow from financing activities</b>		<b>-240,526</b>	<b>-142,773</b>
Net decrease / increase in cash and cash equivalents		-21,317	60,069
Cash and cash equivalents at beginning of fiscal year		116,812	55,372
Currency translation adjustments of cash and cash equivalents		596	1,371
Cash and cash equivalents at end of fiscal year		<b>96,091</b>	<b>116,812</b>

\* See note 46 to the consolidated financial statements as of December 31, 2010.

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010**

## ***1. Information on the company***

### Nature of the business

According to its articles of incorporation, the business of United Internet AG (herein-after referred to as "United Internet AG", the "United Internet Group" or the "Company") is to provide marketing, sales or other services, especially in the fields of telecommunications, information technology, including the internet, and data processing or related areas. The Company's purpose also includes the acquisition, holding and management of investments in other companies, especially those operating in the aforementioned business segments. The Company is entitled to bring companies in which it holds an investment under its common control and may restrict itself to the management or administration of its investments.

The Company is authorized to acquire or hold investments in all types of companies in Germany and other countries and to transact all business that is conducive to its purpose. The Company is also authorized to conduct its business through subsidiaries, associated companies and joint ventures. It may outsource or transfer all or part of its operations to affiliated companies.

In the last few years, United Internet AG has changed its strategic alignment, evolving from a pure provider of internet and IT marketing services to an operating management holding company for investments in various internet target segments, in particular in the field of internet service provision.

The Company is registered in 56410 Montabaur, Elgendorfer Strasse 57, Germany, and has branches or subsidiaries in Düsseldorf, Hanover, Karlsruhe, Cologne, Munich, Regensburg, Starnberg, Zweibrücken, Boston, Brussels, Buenos Aires, Bucharest, Cambridge (USA), Cebu City, Chesterbrook, Gloucester, Haarlem, Las Vegas, Melbourne (UK), Levallois-Perret, London, Madrid, Milan, Saargemünd, Slough, Warsaw and Vienna. With the exception of the building at Zweibrücken, all of the Company's buildings are leased.

### The reporting company

The parent company, United Internet AG, was founded on January 29, 1998 as 1&1 Aktiengesellschaft & Co. KGaA. As a holding company, it assumed the functions of 1&1 Holding GmbH, which was merged into 1&1 Aktiengesellschaft & Co. KGaA with effect from January 1, 1998. Until its general meeting of shareholders on February 22, 2000, it traded under the name of 1&1 Aktiengesellschaft & Co. KGaA. At this general meeting it was decided to change the Company's name to United Internet Aktiengesellschaft & Co. KGaA and then to transform the Company into a stock corporation named United Internet AG. United Internet AG is registered at the district court of Montabaur under HR B 5762.

## ***2. Accounting and valuation principles***

### 2.1 Basis of preparation

In accordance with Article 4 of the so-called IAS Ordinance (Ordinance (EU) No. 1606/2002 of the European Parliament and Council of July 19, 2002 concerning the application of international accounting standards, ABI. EU No. L 243 p. 1), the United Internet Group prepares its consolidated annual financial statements according to IFRS (International Financial Reporting Standards). The Company also observed and applied the supplementary regulations of Section 315a (1) German Commercial

Code (HGB). All IFRS standards valid on the balance sheet date and as applied within the European Union were observed.

The reporting currency is euro (€). Amounts stated in the notes to the financial statements are in euro (€), thousand euro (€k) or million euro (€m). The consolidated financial statements are always drawn up on the basis of historical costs. The exception to this rule are derivative financial instruments and available-for-sale financial investments, which are stated at fair value.

The balance sheet date is December 31, 2010.

The Supervisory Board approved the consolidated financial statements for 2009 at its meeting on March 24, 2010. The consolidated annual financial statements were published in the German Federal Gazette ("Bundesanzeiger") on June 2, 2010.

The consolidated financial statements for 2010 were prepared by the Company's Management Board on March 16, 2011 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for approval on March 23, 2011.

## 2.2 Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. A company is deemed to be controlled, if the Company can determine its financial and business policies in order to gain an economic benefit. The annual financial statements of subsidiaries are prepared as to the same balance sheet date and using the same standardized accounting and valuation methods as those applied by the parent company.

All intercompany balances, transactions, income, expenses, profits and losses from intercompany transactions contained in the carrying value of assets are fully eliminated.

Subsidiaries are fully consolidated from the point of acquisition, i.e. from the date on which the Company gained control. Consolidation ends as soon as the parent company no longer has control over the subsidiary.

Non-controlling interests represent the proportion of the result and net assets which is not attributable to the Group. Non-controlling interests are disclosed separately in the consolidated balance sheet. They are disclosed in the consolidated balance sheet as part of shareholders' equity, but separate to the equity capital attributable to the shareholders of United Internet AG. Up to December 31, 2009, the acquisition of shares without a controlling influence was accounted for using the so-called "parent entity extension method". The difference between purchase price and book value of the proportion of net assets acquired is carried as goodwill. As of January 1, 2010, for purchases of shares without a controlling influence (minority shareholding) or disposals of shares with a controlling influence but without loss of the controlling influence, the carrying values of shares with or without a controlling influence are adjusted to reflect the change in the respective shareholding. The amount by which compensation paid or received for the change in shareholding exceeds the carrying value of the respective share without a controlling influence is recognized directly in equity attributable to the shareholding with a controlling influence.

As of December 31, 2010, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

## 1&1 Internet:

- 1&1 Internet AG, Montabaur (100.0%)
  - 1&1 Breitband GmbH, Montabaur (100.0%)
  - 1&1 Internet Applications GmbH, Montabaur (100.0%)
  - 1&1 Internet Development SRL, Bucharest / Romania (99.0%)
  - 1&1 Internet Inc., Chesterbrook / USA (100.0%)
    - A1 Media LLC, Chesterbrook / USA (100.0%)
  - 1&1 Internet Ltd., Slough / UK (100.0%)
  - 1&1 Internet S.A.R.L., Saargemünd / France (100.0%)
  - 1&1 Internet Espana S.L.U., Madrid / Spain (100.0%)
  - 1&1 Internet Service GmbH, Montabaur (100.0%)
    - 1&1 Internet Service GmbH Zweibrücken, Zweibrücken (100.0%)
  - 1&1 Internet (Philippines) Inc., Cebu City, Philippines (100.0%)
  - 1&1 Internet Sp.z o.o, Warsaw / Poland (100.0%)
  - 1&1 Mail & Media Holding GmbH, Montabaur (100.0%)
    - 1&1 Mail & Media GmbH, Montabaur (100.0%)
  - 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
  - 1&1 Telecom GmbH, Montabaur (100.0%)
  - 1&1 UK Holdings Ltd., Slough / UK (100.0%)
    - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
      - Dollamore Ltd, Melbourne / UK (100.0%)
      - Fasthosts Internet Inc., Chesterbrook / USA (100.0%)
  - A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0%)
  - Immobilienverwaltung AB GmbH, Montabaur (100.0%)
  - Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
  - InterNetX GmbH, Regensburg (95.56%)
    - InternNetX LAC S.A, Buenos Aires / Argentina (100.0%)
    - Schlund Technologies GmbH, Regensburg (100.0%)
    - PSI-USA Inc., Las Vegas / USA (100.0%)
  - united-domains AG, Starnberg (85.0%)
    - Dopoly GmbH, Starnberg (100.0%)
    - United Domains, Inc., Cambridge / USA (100.0%)
  - United Internet Media AG, Munich (100.0%)
    - United Internet Dialog GmbH, Montabaur (100.0%)
  - UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)

## United Internet Beteiligungen:

- United Internet Beteiligungen GmbH, Montabaur (100.0%)
  - United Internet Beteiligungen International GmbH, Montabaur (100.0%)

## Sedo Holding:

- Sedo Holding AG, Cologne (78.80%)
  - Response Republic Beteiligungsgesellschaft Deutschland GmbH, Montabaur (100.0%)
    - Sedo GmbH, Cologne (100.0%)
      - Sedo.com LLC, Cambridge (Boston) / USA (100.0%)
      - Sedo London Ltd., London / UK (100.0%)
      - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100.0%)
      - Intellectual Property Management Company Inc., Dover / USA (49.0%)
  - affilinet GmbH, Munich (100.0%)
    - affilinet Ltd., London / UK (100.0%)
    - affilinet Espana S.L.U. Madrid / Spain (100.0%)
    - affilinet France SAS, Levallois-Perret, France (100.0%)
    - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)

#### Other:

- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- European Founders Fund Nr. 2 Verwaltungs GmbH, Munich (90.0%)
- European Founders Fund Nr. 2 Geschäftsführungs GmbH, Munich (90.0%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 2, Munich (90.0%)
- European Founders Fund Nr. 3 Verwaltungs GmbH, Munich (80.0%)
- European Founders Fund Nr. 3 Management GmbH, Munich (80.0%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 3, Munich (80.0%)
  - European Founders Fund Nr. 3 Beteiligungs GmbH, Munich (100.0%)

Due to the contractually agreed unanimity of voting on all shareholder resolutions, the Group cannot exert a controlling influence on EFF No. 2 and EFF No. 3 companies based on its voting majority alone. However, as the Group exerts control according to the indicators stated in SIC 12 *Consolidation – Special Purpose Entities*, these companies are consolidated.

#### Changes in the reporting unit

WEB.DE GmbH, Montabaur, was renamed as 1&1 Mail & Media GmbH in fiscal year 2010. GMX GmbH, Munich, and GMX Internet Services GmbH, Munich, were merged with 1&1 Mail & Media GmbH during the course of fiscal year 2010.

GMX Internet Services Inc., Chesterbrook / USA, was renamed as 1&1 Mail & Media Inc..

AdLINK Internet Media AG, Montabaur, was renamed as Sedo Holding AG and its head office moved to Cologne.

The following companies were founded by the Company or its subsidiaries in fiscal year 2010:

- 1&1 Internet Applications GmbH, Montabaur (100.0%)
- 1&1 Internet Sp. z o.o, Warsaw / Poland (100.0%)
- 1&1 Mail & Media Holding GmbH, Montabaur (100.0%)
- 1&1 Telecom GmbH, Montabaur (100.0%)
- InterNetX LAC S.A, Buenos Aires / Argentina (100.0%)
- United Internet Dialog GmbH, Montabaur (100.0%)

United Internet Beteiligungen GmbH retired as a shareholder of BW2 Group AG. Intellectual Property Management Company Inc., domiciled in Dover, Delaware, USA (“IPMC”), has been included as a fully consolidated company in the consolidated financial statements since January 1, 2010. Sedo GmbH holds 49% of shares in IPMC as well as an option to buy a further 32% of shares, which can be executed as of January 1, 2010. According to IAS 27 *Consolidated and Separate Financial Statements*, even the possibility of exercising the option means that the company must be carried as a fully consolidated company as of fiscal year 2010. Until December 31, 2009, the company was carried as an associated company using the *equity method*.

All investments for which the Company can have a significant influence on their financial and business policies are recognized as associated companies according to IAS 28 using the equity method. They consist of the following main companies:

- European Founders Fund Verwaltungs GmbH, Munich (66.67%)
- European Founders Fund Management GmbH, Munich (66.67%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr.1, Munich (66.67%)
- fun communications GmbH, Karlsruhe (49.00%)
- Virtual Minds AG, Freiburg (48.65%)
- DomainsBot Srl, Rome / Italy (49.00%)

- European Founders Fund Investment GmbH, Munich (33.33%)
- ProfitBricks GmbH, Berlin (30.02%)
- Versatel AG, Berlin (26.12%)
- Travel-Trex GmbH, Cologne (25.00%)
- getAbstract AG, Lucerne / Switzerland (22.00%)
- internetstores AG, Esslingen (20.00%)

Due to the contractually agreed unanimity of voting on all shareholder resolutions, the Group cannot exert a controlling influence on EFF No. 1 companies (European Founders Fund Verwaltungs GmbH, European Founders Fund Management GmbH and European Founders Fund GmbH & Co. Beteiligungs KG Nr.1), but only a significant influence. In contrast to its share in capital of 66.67%, the Group's participation in annual net profit is between 33.33% and 66.67% of EFF No. 1, depending on the fund's internal rate of return.

Companies in which the Company has invested and over whose financial and business policies it has no significant influence (< 20% of voting shares) are included as financial instruments pursuant to IAS 39 and held as available-for-sale financial as-sets:

- Goldbach Group AG, Küsnacht-Zürich / Switzerland (14.99%)
- Hi-media S.A., Paris / France (10.65%)
- Afilias Ltd, Dublin / Ireland (10.16%)
- Silverpop Systems Inc., Atlanta / USA (5.91%)
- Xactly Corporation, San Jose / USA (5.26%)
- Become Inc., Sunnyvale / USA (5.06%)

## 2.3 Changes in accounting methods

The accounting and valuation methods applied correspond to those methods used in the previous year, with the exception of the following new and revised IFRS standards and interpretations which were applied for the first time. The application of these new and revised IFRS standards and interpretations had no effect on the presentation of the Group's net assets, financial situation and results of operations.

### Effects of new or amended IFRS standards

#### Accounting standards applied for the first time in 2010

The IASB has released various amendments to existing IFRS standards over the past years as well as publishing new IFRS standards and interpretations of the International Financial Reporting Interpretation Committee (IFRIC).

The IASB also publishes amendments to existing standards as part of an annual procedure. The primary objective of this omnibus standard is to remove inconsistencies and clarify formulations.

The following new and revised IFRS standards came into effect in the past fiscal year:

IFRS 1	First-time Adoption of IFRS (January 1, 2010)
IFRS 2	Share-Based Payment (January 1, 2010)
IFRS 3	Business Combinations (July 1, 2009)
IAS 27	Consolidated and Separate Financial Statements (July 1, 2009)

Improvements to IFRS 2009 with the following amendments to individual standards:

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (January 1, 2010)
IFRS 8	Operating Segments (January 1, 2010)

IAS 7	Statement of Cash Flows (January 1, 2010)
IAS 17	Leases (January 1, 2010)
IAS 32	Financial Instruments: Presentation (February 1, 2010)
IAS 36	Impairment of Assets (January 1, 2010)
IAS 38	Intangible Assets (July 1, 2009)
IAS 39	Financial Instruments: Recognition and Measurement (January 1, 2010)
IFRIC 9	Reassessment of Embedded Derivatives (July 1, 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (July 1, 2009)
IFRIC 17	Distributions of Non-cash Assets to Owners (July 1, 2009)
IFRIC 18	Transfers of Assets from Customers (July 1, 2009)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (July 1, 2010)

The regulations of relevance to United Internet and their impact on these financial statements are described briefly below.

The amended versions of IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* resulted in effects on the measurement of interests without controlling influence, the recognition of transaction costs, the initial recognition and subsequent measurement of a contingent consideration and successive acquisitions. These new rules will have an impact on the rate of goodwill amortization, on earnings in the period in which a merger takes place, and on future earnings. The revised IAS 27 stipulates that a change in the shareholding in a subsidiary which does not result in loss of control is to be recognized as an equity transaction with owners in their capacity as owners. No goodwill nor profit or loss can therefore result from such a transaction. Regulations regarding the assignment of losses to shareholders of the parent company and interests without controlling influence and the accounting rules for transactions which result in loss of control were also amended. Both new rules will have an effect on future acquisitions or losses of control of subsidiaries and transactions with interests without controlling influence. With regard to the current financial statements, the acquisition of Mail.com had an effect on the accounting of transaction costs received which were recognized in the income statement. There will be a further effect if the additional purchase price set in the earn-out agreement differs from the estimation at the time of acquisition. The difference is to be recognized in the income statement.

IFRS 8 *Operating Segments* requires reporting on financial and descriptive information relating to companies' reportable segments. The Improvements to IFRSs (2009) provided clarification with regard to disclosures on segment assets. However, this did not result in any adjustments in the current financial statements.

The revision of IAS 36 *Impairment of Assets* in the Improvements to IFRSs (2009) does not affect the consolidated financial statements. The adjustment once again clarified at which level an impairment test should be conducted. The impairment tests performed by the Company were already consistent with the clarifications made and as consequently the revision did not result in any changes.

Those standards not explicitly listed here either are or were not relevant to these financial statements and consequently their initial adoption did not result in any changes.

### **Accounting standards already published but not yet applied**

Apart from the IFRSs mentioned above whose application is mandatory, the IASB has also published further IFRSs and IFRICs which have already partly received EU endorsement but which will not become mandatory until a later date. Voluntary early application of these standards is explicitly permitted/recommended. United Internet AG is not exercising this option. These standards will be implemented in the consolidated financial statements when their adoption becomes mandatory.

The IASB published its Improvements to IFRSs (2010) in May 2010. It is the third standard published as part of the Annual Improvements Process (AIP) project. Improvements to IFRSs include eleven different



changes to six existing IFRSs and one interpretation. By grouping these changes together in one document, the IASB intends to reduce the effort for all involved.

The following standards and interpretations are affected:

IFRS 1	First-time Adoption of IFRS
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and Separate Financial Statements
IAS 34	Interim Financial Reporting
IFRIC 13	Customer Loyalty Programmes

In addition, the following standards and interpretations were amended or published for the first time:

IFRS 1	First-time Adoption of IFRS
IFRS 9	Financial Instruments (January 1, 2013)
IAS 24	Related Party Disclosures
IAS 32	Financial Instruments: Presentation (February 10, 2010)
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (July 1, 2010)

The changes are applicable to United Internet for fiscal years beginning on or after January 1, 2011.

Only those standards and interpretations are described explicitly below which are or might be relevant for United Internet AG.

IAS 1 Presentation of Financial Statements: The individual components of equity can be presented in an analysis of comprehensive income in the statement of changes in equity or in the notes.

IFRS 7 Financial Instruments: Disclosures: The disclosure requirements for financial assets that are past due but not impaired and those for impaired financial assets no longer apply. This is also the case for disclosures on financial assets whose carrying values do not reflect the maximum credit risk.

IFRS 9 reflects the first phase of the IASB project to revise IAS 39 and deals with the classification and measurement of financial instruments defined in IAS 39. This project is due to be completed in 2011. Mandatory adoption is intended for financial years beginning on or after January 1, 2013.

IAS 24 Related Party Disclosures: The definition of a related party was clarified. The revised standard has amended the disclosure requirements for government-related entities.

The changes to IAS 34 Interim Reporting relate to further disclosures on reclassifications and changes in the classification of financial instruments and financial assets.

Apart from additional or modified disclosures, no significant effects are currently expected for United Internet's consolidated financial statements from the adoption of the above standards and interpretations.

## 2.4 Significant accounting judgments, estimates and assumptions

The application of accounting and valuation methods in preparing the consolidated financial statements requires management to make certain accounting judgments, estimates and assumptions. These have an effect on the disclosed amounts of earnings, expenditure, assets and liabilities, as well as contingent liabilities, as of the balance sheet date. Actual amounts may differ from these estimates and assumptions, which may lead in future to significant adjustments to the carrying values of the assets and liabilities concerned.

## Accounting judgments

In the application of accounting and valuation methods, management made the following accounting judgments which significantly affect amounts in the annual financial statements.

### *Special-purpose entities*

The Group acquired shares in the special-purpose entities European Founders Fund No. 1 to No. 3. On analysis of the contractual terms of the bylaws under consideration of SIC-12 *Consolidation – Special Purpose Entities*, it was noted that:

- United Internet AG does not control European Founders Fund No. 1, but
- United Internet AG controls European Founders Fund No. 2 and
- United Internet AG controls European Founders Fund No. 3.

European Founders Fund No. 2 and No. 3 were thus included in the consolidated financial statements as a subsidiary while European Founders Fund No. 1 is treated as an associated company, due to the significant influence which United Internet AG can exert.

## Estimates and assumptions

The most important forward-looking assumptions and other major sources of uncertainty as of the balance sheet date, which involve the risk of significant adjustments to the carrying values of assets and liabilities in the coming fiscal year, are explained below.

### **Impairment of non-financial assets**

The Company assesses on every balance sheet date whether there is any indication of impairment of its non-financial assets. Goodwill and other intangible assets with undefined useful lives are assessed at least once a year or on indication of impairment. Other non-financial assets are tested for impairment if there is any indication that the carrying value exceeds the recoverable amount.

In order to estimate value-in-use, management must estimate expected future cash flows of the asset or cash-generating unit and select a suitable discount rate to assess the present value of these cash flows. Further details, including a sensitivity analysis of significant assumptions, are presented in the Note "Impairment of good-will and intangible assets with unlimited useful lives".

### **Impairment of available-for-sale financial investments**

The Company classifies certain assets as available-for-sale and recognizes changes in their fair value directly in equity. If the fair value falls, management makes assumptions about the loss in value in order to determine whether it constitutes an impairment which must be expensed in the income statement. A significant or persistent decrease in the fair value of an equity instrument below its acquisition cost may constitute an objective indication of impairment. The carrying value of available-for-sale financial investments amounted to € 128,634k (prior year: € 141,153k) as of December 31, 2010.

### **Calculating the profit contribution of associated companies and joint ventures**

Investments in associated companies and joint ventures are valued according to the equity method and carried in the consolidated financial statements. As the financial information from associated companies and joint ventures is in part incomplete as of the balance sheet date, the prorated transfer of results considers in part assumptions made by the management of the United Internet Group. These assumptions concern, for example, adaptations to standard accounting and valuation methods (IAS 28.26), effects from purchase price allocations to be conducted (IAS 28.23) and the underlying period results. In the course of such estimations there are areas of discretion and uncertainty.

Estimations of the profit contribution of listed associated companies and joint ventures are subject in part to the profit forecasts of external financial analysts. The carrying value of investments in associated companies and joint ventures amounted to €84,079k (prior year: €126,628k) as of December 31, 2010.

### **Impairment test for investments in associated companies and joint ventures**

As of the balance sheet date, the United Internet Group holds investments in various associated companies and joint ventures. In accordance with IAS 28.31, the Company examines on the balance sheet date whether the net investment of the United Internet Group in the respective associated company or joint venture requires an additional impairment charge.

In the case of capital market-oriented companies, the calculation of the recoverable amounts is based mainly on the respective shares price on the balance sheet date. The recoverable amounts of non-listed companies is based both on available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2010, the fair value of investments in associated companies and joint ventures amounted to €84,079k (prior year: €126,628k).

### **Share-based payments**

The Group measures the cost of granting equity instruments to employees by using the fair value of these equity instruments at the moment they were granted. A suitable valuation model must be used to estimate fair value when granting equity instruments; this depends on the contractual terms. Suitable data must also be chosen for the valuation process, including the expected option term, volatility and dividend yield, as well as the corresponding assumptions.

Plans for which the method of compensation is at the Company's discretion require estimations as to whether there is a "*present obligation to settle in cash*" pursuant to IFRS 2 as of the balance sheet date. These assumptions have an impact on the balance sheet treatment of such plans.

The same procedure is applied to share-based payments to third parties (e.g. service providers, suppliers etc.). In addition to the above factors, estimates and assumptions are made above all with regard to defining the fair value of the services received, determining the moment of granting and the service period.

### **Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

### **Deferred tax assets**

Deferred tax assets are recognized for all unused tax loss carryforwards, to the extent for which it is probable that future taxable profit will be available. In order to assess the amount of deferred tax assets, management must make significant judgments based on the likely timing and level of future taxable income as well as future tax planning strategies. As of December 31, 2010, the carrying value of deferred tax assets for tax losses considered amounted to €353k (prior year: €253k). Further details are provided in Note 16.

### **Trade accounts receivable**

Trade receivables are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to €97,987k (prior year: €91,290k) as of December 31, 2010.

### **Tangible and intangible assets**

Property, plant and equipment and intangible assets are valued at cost on initial recognition. Property, plant and equipment and intangible assets with limited useful lives are then depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to €283,962k (prior year: €296,244k) as of December 31, 2010.

### **Provisions**

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions amounted to €5,836k (prior year: €11,125k) as of December 31, 2010.

## **2.5 Summary of significant accounting and valuation methods**

### **Revenue recognition**

Revenue is recognized separately for each of the Group's different segments (see Note 4).

Revenue is recognized when it is probable that the Group will receive an economic benefit and the amount of revenue can be reliably determined. Revenue is measured at the fair value of the compensation received. Discounts, rebates, sales tax or other charges are not considered. The recognition of revenue must also fulfill the measurement criteria described below.

Revenues in the separate segments are recognized according to the following principles:

#### ***Access segment***

The Access segment mainly comprises the product lines narrowband internet access, broadband/DSL internet access (including internet telephony and video-on-demand), as well as mobile internet.

In these product lines, the Company generates revenue from the provision of the aforementioned access products, as well as from additional services such as internet and mobile telephony or video-on-demand. Revenue consists of fixed monthly basic fees, as well as variable additional usage fees for certain services (e.g. for foreign calls and mobile phone connections not covered by any flat-rate or for accessing individual videos), market development cost subsidies for new customers, and proceeds from the sale of the respective hardware and software

Revenue is recognized according to service provision, which generally corresponds to the receipt of monthly fees paid by customers (usage charges and basic fees). Revenue from the sale of hardware is recognized on transfer of risk. Payment is mainly by direct debit.

## **Applications segment**

The Applications segment comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, on-line storage and office software. The Company also offers its customers performance-based advertising and sales possibilities via Sedo and affilinet.

In the field of fee-based subscriptions, revenue is mainly generated from fixed monthly fees for the usage, administration and storage of the above applications, as well as income from the brokerage and administration of domains. In addition to fixed monthly fees, one-off fees are also generated for set-up services, SMS charges or from the sale of software products (e.g. virus protection software).

Customers generally pay in advance for a contractually fixed time period for the services provided by the Company. Customer pre-payments are carried as deferred revenue. Revenue is recognized pro rata over the period of service provision. Payment is generally made by direct debit.

In the field of ad-financed applications (generally free e-mail solutions from GMX and WEB.DE), the Company generates advertising income and e-commerce commission via the WEB.DE, 1&1, GMX and smartshopping portals. This business is based on the frequent use of free applications and the correspondingly high number of hits for the portals. In the field of online advertising, space is offered on the websites of portals. Realized revenues depend on the placing of advertising and number of screenings or according to click rates. In its e-commerce business, the Company receives commission for the sale of products or brokerage of customers.

Revenues are realized according to services rendered. Advance customer payments are carried as deferred income.

In accordance with SIC 31, revenue from the exchange of advertising services is only recognized if the advertising services exchanged differ in type and value. Revenue is recognized at the market value of the submitted asset or rendered service and adjusted where necessary for additional cash payment. United Internet only markets advertising space on its portals to a small extent in exchange for advertising time in other advertising media.

In addition to application revenues, the segment also generates revenue from the performance-based advertising formats Domain Marketing and Affiliate Marketing.

In Domain Marketing, United Internet operates (via Sedo GmbH) a trading platform for the secondary domain market (domain trading). At the same time, the Company offers domain owners the possibility to market unused domains to advertisers (domain parking). In addition to these customer domains, the Company also holds its own portfolio of marketable and salable domains. In domain trading, the Company receives sales commission from the successful sale of domains via the platform and also generates revenue from services relating to domain value assessments and transfers. The sales commissions and services are generally based on a percentage of the sales price achieved, whereas fixed prices are charged for the other services. In domain parking, domains are mainly marketed using text links, i.e. links on the parked domains to offers of the advertisers (primarily via cooperation agreements with search engines). The Company receives performance-based payment on a monthly basis from the cooperation partner on a pay-per-click basis, according to the number of clicks registered by the cooperation partner.

The Company recognizes sales commissions as revenue on invoicing. Revenue is thus recognized on completion of the transaction or provision of the service. In the case of domain parking, the monthly payments credited by cooperation partners are recognized as revenue.

United Internet operates an internet platform for Affiliate Marketing via the company affilinet GmbH. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser's offer.

The advertiser recruits, controls and remunerates affiliates via the common platform. As the platform operator, affilinet is compensated by the advertiser for the use of administration and management tools provided on the platform, as well as for the calculation of transactions and the monthly payments to affiliates. Invoicing is based on the commission to be paid to the affiliate. This can be on a cost-per-click, cost-per-action or cost-per-sale basis, or a mixture of these three.

Invoicing is either in advance or on a monthly basis following completion of performance. Revenue is recognized on completion of performance. Amounts invoiced in advance are recognized less performance completed as advance payments received. In those cases in which performance is not billed monthly, performance completed is calculated and recognized as revenue at the prices agreed with the customer.

## Disclosure of disposal gains and losses from the sale of investments

Insofar as they concern effects on the income statement, regular carrying amounts and valuations, especially of investments in associated companies and available-for-sale shares, are disclosed in the financial result (see explanations on the financial result).

Gains from the sale of such investments are always disclosed under other operating income, losses under other operating expenses.

## Foreign currency translation

The consolidated financial statements are prepared in euro, the Company's functional and presentation currency. Each company within the Group determines its own functional currency. The items in the annual financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated to the functional currency at the prevailing spot rate on the day of transaction. Monetary assets and liabilities in a foreign currency are translated to the functional currency on every balance sheet date using the closing rate. All currency differences are expensed in the income statement. The exception to this rule are currency differences resulting from foreign currency loans, providing they are used to hedge against a net investment in a foreign operation. These are recognized directly in equity until the net investment is sold and only recognized in profit or loss on disposal. Deferred taxes arising from such currency differences are also recognized directly in equity. Non-monetary items valued at historical cost in a foreign currency, are translated at the exchange rate prevailing on the day of the transaction. Non-monetary items stated at fair value in a foreign currency are translated at the ex-change rate prevailing at the time fair value was assessed. All goodwill items resulting from the acquisition of a foreign operation and all adjustments to fair value of the carrying values of assets and liabilities resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into euro at the closing rate. Income and expenditure is translated at the exchange rate prevailing on the date of the transaction (for practical considerations, a weighted average rate is used for translation). The resulting translation differences are recognized separately in equity. The cumulative amount for a foreign operation which is stated in equity is re-versed with an effect on the income statement when the foreign operation is sold.

## Property, plant and equipment

Property, plant and equipment is carried at cost less cumulative scheduled depreciation. In the case of major maintenance work, costs are recognized in the carrying value as replacement, providing the measurement criteria are met.

Land and buildings are carried at cost less scheduled depreciation for buildings and impairment.

Items of property, plant and equipment are eliminated either on their disposal or when no further economic use is expected from the continued use or sale of the asset. Gains and losses from the disposal of an asset are assessed as the difference between net sales proceeds and the asset's carrying value. They are recognized in the income statement in the period in which the asset is eliminated.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Property, plant and equipment assets are depreciated over their expected economic useful life using the straight-line method. In the case of operational and office equipment, servers used for web hosting are depreciated over a useful life of 3 years. Other servers used by the Company are depreciated over 5 years, due to their comparatively lower usage.

The useful life periods can be found in the following summary:

	Useful life in years
Leasehold improvements	Up to 10 (depending on lease period)
Buildings	10 or 50
Vehicles	5 to 6
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13

## Borrowing costs

Borrowing costs are expensed in the period in which they are incurred, unless they are connected with the production or purchase of a qualifying asset. In the period under review, there was no need to capitalize borrowing costs.

## Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves the recognition of all identifiable assets and liabilities of the acquired operation at fair value.

Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is valued at amortized cost. Goodwill is subjected to an impairment test at least once annually or whenever there is any event or change in circumstances which might indicate impairment.

In order to test whether there is any impairment, goodwill acquired in the course of a business combination must be allocated from the date of acquisition to each of the cash-generating units of the Group which are to profit from the synergy effects of the combination. This does not depend on whether other assets and liabilities of the Group are already allocated to these cash-generating units.

The impairment need is determined by comparing the recoverable amount of the cash-generating units to which goodwill refers with their carrying value. The recoverable amount of an asset, or a cash-generating unit, is the higher of fair value of the asset or cash-generating unit less transaction costs and its value-in-use. If the carrying amount of an asset, or cash-generating unit, exceeds its recoverable amount, the asset, or cash-generating unit, is regarded as impaired and is written down to the recoverable amount.

## Intangible assets

Individually acquired intangible assets are carried at cost on initial recognition. The acquisition cost of intangible assets resulting from the business combination corresponds to its fair value at the time of

acquisition. In the following periods, intangible assets are valued at cost less cumulative amortization and cumulative impairment charges. With the exception of those development costs which can be capitalized, costs for internally generated intangible assets are expensed in the period incurred.

A difference is made between intangible assets with limited and those with unlimited useful lives.

Intangible assets with limited useful lives are amortized over their economic useful life and tested for possible impairment if there is any indication that the asset may be impaired. The useful lives and amortization methods of intangible assets with limited useful lives are reviewed at least at the end of each fiscal year. Necessary changes to the depreciation method and useful life are treated as changes to assumptions. Amortization of intangible assets with limited useful lives are recognized in the in-come statement under the expense category corresponding to the function of the in-tangible asset in the Company.

In the case of intangible assets with unlimited useful lives, an impairment test is performed at least once annually for the individual asset or on the level of the cash-generating unit. Such intangible assets are not amortized in scheduled amounts. The useful life of an intangible asset with an unlimited useful life is reviewed annually to ascertain whether the assumption of an unlimited useful life is still justified. If this is not the case, a prospective change is made from unlimited useful life to limited useful life.

The useful life periods can be found in the following summary:

	Useful life in years
Trademarks	Unlimited
Portals	8
Customer base	5 to 13
Licenses and other rights	3 to 6
Software	3

## Investments in associated companies

Investments in associated companies are valued according to the equity method. An associated company is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Using the equity method, investments in associated companies are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associated company. Goodwill connected with an associated company is included in the carrying value of the investment and not subjected to scheduled amortization. The income statement includes the Company's portion of the success of the associated company. Changes recognized directly in the equity capital of the associated company are recognized by the Company in proportion to its shareholding and – where applicable – reported in "Changes in shareholders' equity". Profits and losses from transactions between the Company and the associated company are eliminated in proportion to the shareholding in the associated company.

The annual financial statements of the associated company are generally prepared as to the same balance sheet date as those of the parent company. Where necessary, adjustments are made to bring the methods in line with standard group-wide accounting and valuation methods.

## Shares in joint ventures

The Company held an investment in a joint venture company. There was a contractual agreement between the partner companies to jointly manage the business activities of the company. The Group



recognized its investments in the joint venture using the equity method. The annual financial statements of the joint venture were prepared as to the same balance sheet date as those of the parent company. Where necessary, adjustments were made to bring the methods in line with standard group-wide accounting and valuation methods.

## **Impairment of non-financial assets**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, or if an annual impairment test is necessary, the recoverable amount of the asset is estimated. The recoverable amount of an asset is the higher of fair value of the asset or cash-generating unit less transaction costs and its value-in-use. The recoverable amount of each asset must be determined, unless an asset does not generate cash flows which are largely independent of other assets or other groups of assets; in the latter case, the recoverable amount is calculated for the cash-generating unit to which the asset belongs. If the carrying amount of an asset exceeds its recoverable amount, the asset is regarded as impaired and is written down to its recoverable amount. In order to determine the value-in-use, expected future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market expectations regarding the interest effect and the specific risks of the asset. A suitable valuation model is used to determine fair value less sales costs. This is based on DCF models, valuation multipliers, the share prices of listed subsidiaries or other available indicators for fair value.

Impairment charges of continued operations are recognized according to the expense category corresponding to the function of the impaired asset in the Company.

A review is made of assets, with the exception of goodwill, on each balance sheet date to determine whether there is any indication that a previously recognized impairment loss no longer exists or has decreased in size. In the case of such an indication, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is only reversed if there has been a change in the assumption used to determine the recoverable amount since recognition of the last impairment loss. If this is the case, the asset's carrying value is raised to its recoverable amount. This amount may not exceed the carrying amount, less depreciation, that would have been determined had no impairment loss been recognized for the asset in prior years.

The following additional criteria are to be considered for certain assets:

### **Goodwill**

At each balance sheet date, the Company reviews whether there is any indication that an asset might be impaired. Impairment of goodwill is reviewed at least once a year. A test is also performed if events or circumstances indicate that the value may be diminished. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which goodwill has been allocated. If the recoverable amount of the cash-generating unit is less than the carrying amount of this unit, an impairment loss is expensed. An impairment loss recognized for goodwill may not be reversed in the following reporting periods. The Group performs its annual impairment test for goodwill on the balance sheet date.

### **Intangible assets**

An impairment test of intangible assets with unlimited useful lives is made at least once per year on the balance sheet date. Depending on the individual case, the re-view is performed for a single asset or on the level of the cash-generating unit.

### **Associated companies**

On application of the equity method, the Company ascertains whether it is necessary to recognize an additional impairment loss for the Company's investments in associated companies. On each balance sheet date, the Company assesses whether there are objective indications for the impairment of an investment in an associated company. If this is the case, the difference between the fair value of the associated company and the acquisition cost is recognized as an impairment loss.

## Financial investments and other financial assets

Financial investments and other financial assets as defined by IAS 39 are classified as follows:

- Financial assets held at fair value through profit or loss
- Held-to-maturity financial investments
- Loans and receivables
- Available-for-sale financial investments

The Group's financial assets comprise cash and short-term deposits, trade receivables, receivables from loans and other receivables, listed and non-listed financial instruments and derivative financial instruments.

Financial assets are carried at fair value on initial recognition. In the case of other financial investments than those classified as held at fair value through profit or loss, transaction costs directly attributable to the acquisition of the asset are also considered.

Financial assets are classified according to valuation categories at the moment of initial recognition. Where necessary and permissible, reclassifications are made at the end of each fiscal year.

All standard market purchases and sales of financial assets are recognized on the trading day, i.e. on the day on which the Company entered into the obligation to purchase the asset. Standard market purchases and sales are purchases and sales of financial assets which prescribe the delivery of the assets within a period specified by market regulations or conventions.

### **Financial assets held at fair value through profit or loss**

The category of financial assets held at fair value through profit or loss includes held-for-trading financial assets and financial assets which are classified as financial assets held at fair value through profit or loss on initial recognition. Financial assets are classified as held-for-trading if they were acquired with the intention of selling them in the near future. This category comprises derivative financial instruments arranged by the Company which do not meet the accounting criteria for hedging transactions pursuant to IAS 39. Derivatives, including separately recognized embedded derivatives, are also classified as held-for-trading, with the exception of derivatives designated as a hedging instrument and effective as such.

Financial assets held at fair value through profit or loss are stated in the balance sheet at fair value, whereby profits or losses are recognized in the income statement. The Group has only classified its derivative financial instruments as held at fair value through profit or loss.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Following initial recognition, loans and receivables are carried at amortized cost using the effective interest method less allowances for impairment. Profits and losses are recognized in the period when the loans and receivables are eliminated or impaired or as part of amortization.

### **Available-for-sale financial investments**

Available-for-sale financial assets are non-derivative financial assets which are classified as being available for sale and which have not been assigned to any of the three categories above. After initial recognition, available-for-sale financial assets are carried at fair value, whereby non-realized profits or losses are recognized directly in equity in the reserve for non-realized profit. On disposal of financial investments, the cumulative profit or loss previously recognized in equity is reclassified to the income statement.

## **Fair value**

The fair value of financial investments traded on organized markets is determined by the quoted market price (buying rate) on the balance sheet date. The fair value of financial investments for which there is no organized market is determined using valuation methods. These valuation methods include the use of recent transactions between competent, willing and independent business partners, a comparison with the fair value of another, generally identical financial instrument, an analysis of discounted cash flows and the use of other valuation methods.

## **Amortized cost**

Held-to-maturity financial investments, as well as loans and receivables, are carried at amortized cost. This is calculated using the effective interest method less allowances for impairment and under consideration of discounts and premiums on purchase and includes all fees which are an integral part of the effective interest rate.

## **Impairment of financial assets**

On each balance sheet date, the Company assesses whether there has been any impairment of a financial asset or group of financial assets.

### **Financial assets carried at amortized cost**

If there is an objective indication that loans and receivables carried at amortized cost are impaired, the loss is calculated as the difference between the asset's carrying value and the present value of the expected future cash flows (with the exception of expected future credit losses not yet occurred), discounted with the original effective interest rate of the financial asset (i.e. the effective interest rate on initial recognition). The asset's carrying value is reduced using an impairment account. The impairment loss is recognized in the income statement.

If the scale of the impairment is reduced in one of the following reporting periods and this reduction can be objectively attributed to an event occurring after recognition of impairment, the allowance is reversed. This write-back is limited in scale to amortized cost at the time of the write-back. The write-back is recognized in the income statement.

In the case of trade receivables, if there are objective indications (e.g. the probability of insolvency or significant financial difficulties of the debtor) that not all due amounts will be received according to the originally agreed invoice terms, a write-down is made using the appropriate allowance account. The write-down amounts are eliminated when they are classified as uncollectible. Allowances are made on the basis of experience values by classifying receivables according to age and on the basis of other information regarding the impairment of customer-specific receivables.

### **Available-for-sale financial investments**

If the value of an available-for-sale financial asset is impaired, an amount recognized in equity amounting to the difference between acquisition cost (less any redemption and amortization) and current fair value, less any previous allowances expensed for this financial asset, is reclassified to the income statement. Write-backs of equity instruments classified as available-for-sale, are not recognized in the income statement.

In order to ascertain impairment requiring recognition, information concerning all adverse changes in the technological, market-related, economic or legal environment is considered. A significant or persistent decrease in the fair value of equity instrument below its acquisition cost is also an objective indication of impairment.

Write-backs of debt instruments classified as available-for-sale, are recognized in the income statement if the increase in the instrument's fair value objectively results from an event which occurred after recognizing an impairment charge.

## Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less estimated necessary selling costs. Adequate valuation allowances for excess inventories are made to provide for inventory risks.

Write-downs for slow-moving products are used when calculating the net realizable values of domains held for resale. A longer holding period indicates a less attractive/marketable domain. The reduced marketability of a domain is interpreted as a declining sales prospect, which reduces the net recoverable sales revenue as a result of higher costs up to the time of sale in conjunction with lower sales price expectations. The write-downs are first made at the end of the fiscal year following purchase. After a holding period of seven years, the Company regards the probability of sale as almost zero and thus zero is assumed for the sake of simplicity. In addition to such write-downs for slow-moving products, the Company also tests the domain portfolio on each balance sheet date for signs of a sharper fall in the net realizable value than which indicated by the underlying write-downs for slow-moving products.

## Treasury shares

Treasury shares are deducted from shareholders' equity. The purchase, sale, issue or retirement of treasury shares is not recognized in the income statement.

## Cash and cash equivalents

Cash and cash equivalents consist of bank balances, other investments, checks and cash in hand, which all have a high degree of liquidity and maturities of less than 3 months – calculated from the date of purchase.

## Financial liabilities

Loans are recognized initially at the fair value of the performance received less transaction costs involved with borrowing. Following initial recognition, interest-bearing loans are valued using the effective interest method at amortized cost. Profits and losses are recognized when the debts are eliminated and in the course of amortization.

Financial liabilities carried at fair value through profit or loss include held-for-trading financial liabilities and other financial liabilities classified on initial recognition as financial liabilities carried at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they were acquired with the intention of selling them in the near future. Derivatives, including separately recognized embedded derivatives, are also classified as held-for-trading, with the exception of derivatives designated as a hedging instrument and effective as such. Profit or loss from held-for-trading financial liabilities are recognized in the income statement.

## Derecognition of financial assets and financial liabilities

### Financial assets

A financial asset (or part of a financial asset or part of a group of similar financial assets) is derecognized when one of the three following conditions are met:

- The contractual rights to receive cash flows from a financial asset have expired.
- The Company reserves the rights to receive cash flows from a financial asset, but assumes a contractual obligation to immediately pay the cash flows to a third party as part of an agreement which fulfills the conditions of IAS 39.19 (pass-through arrangement).
- The Company transfers its rights to receive cash flows from a financial asset and either (a) transfers virtually all opportunities and risks connected with owning the financial asset or (b) retains authority to dispose of the asset even though it has neither transferred nor retained virtually all opportunities and risks connected with owning the financial asset.

### Financial liabilities

A financial liability is derecognized when the underlying commitment of this liability has been fulfilled or terminated or expired.

If an existing financial liability is replaced by a different financial liability of the same lender with substantially different contractual terms or if the terms of an existing liability are significantly changed, such an exchange or change is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective carrying values is recognized in the income statement.

## Provisions

Provisions are formed if the Company has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. If the Group expects at least partial compensation for a recognized provision, this compensation is only recognized as a separate asset if the reimbursement is virtually certain. The expense to form the provision is only recognized in the income statement after deduction of the reimbursement. If the interest effect from discounting is significant, provisions are discounted at a pre-tax interest rate which reflects the specific risk of the debt, if so required by the individual case. In the event of a discount, the increase in provisions caused by the passage of time is recognized as a financial expense.

## Share-based payment

Group employees receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the Company's discretion.

### Equity-settled transactions

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective valuation process, the value component is determined at the time of granting, also for subsequent valuation until the end of the term. On every valuation date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consider-

ation of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available.

The measurement of cost from the granting of equity instruments and the corresponding increase in equity occurs over the period in which the vesting or performance conditions have to be satisfied (the so-called vesting period). This period ends after the vesting date, i.e. the date on which the employee concerned has gained irrevocable entitlement. The cumulative expenses recognized on each balance sheet date for equity-settled transactions until the vesting date reflect the extent to which the vesting period has expired and the number of equity instruments which, according to the Group's best-possible estimate, will actually be vested after the vesting period. The income or expense recognized in the income statement represents the development of cumulative expenses recognized at the beginning and end of the reporting period. No expense is recognized for payment rights which are not vested.

### **Transactions with settlement in cash or via equity instruments at the Company's discretion**

In the case of share-based remuneration plans which grant the Company the contractual choice of settling in cash or issuing equity instruments, the Company must determine whether there is a current cash settlement commitment and disclose the stock-based remuneration transaction correspondingly. There is a current cash settlement commitment if the possibility to settle by means of equity instruments has no economic substance (e.g. because the Company is legally forbidden to issue shares), or cash settlement was common business practice or the declared Company guideline in the past, or the Company generally settles in cash if the beneficiary so desires. This transaction is accounted for in accordance with the regulations for equity-settled payment transactions .

The dilutive effect of outstanding equity-settled transactions and those transactions settled in cash or via equity instruments is reflected as an additional share dilution in the calculation of earnings per share.

### **Earnings per share**

"Undiluted" or basic earnings per share are calculated by dividing the result attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable conversion rights of convertible bonds issued had been exercised. Net income is also adjusted for interest expenses after taxes, payable on potentially exchanged convertible bonds.

### **Leases**

The determination of whether an arrangement contains a lease is based on the economic substance of the arrangement at the time of signing and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease period. The leased property is carried at fair value or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged directly against income.

Capitalized leased assets are fully depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Company currently classifies all leasing contracts as operating leases, whereby the Company acts exclusively as lessee.

## Financial income

Interest income is recognized as interest accrues (using the effective interest rate, i.e. the rate which discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Dividend income is recognized with the inception of the legal right to payment.

## Government grants

Government grants are recognized where there is reasonable certainty that the grant will be received and the Company will satisfy all attaching conditions. Where the grants relate to an expense item, they are recognized as income in scheduled amounts over the period necessary to match the grants to the costs they are intended to compensate. Grants relating to an asset item reduce the carrying value of that item.

## Taxes

### **Current income tax assets and liabilities**

Current income tax assets and liabilities for the current period and for previous periods are valued at the amount at which a refund from the tax authorities or a payment to the tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable on the reporting date.

Current income tax relating to items directly recognized in equity are not recorded in the income statement, but in shareholders' equity.

### **Deferred taxes**

The liability method is used to create deferred taxes on all temporary differences existing on the reporting date between the carrying value of an asset or a liability in the balance sheet and the fiscal carrying value.

Deferred taxes are recognized for all taxable temporary differences, except:

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss, and
- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as of the balance sheet date. Future changes in tax rates are to be considered on the balance sheet date, providing material effectiveness conditions are met as part of the legislative process.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### **Sales tax**

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included under "Other current assets" or "Other liabilities" in the consolidated balance sheet.

### **Derivative financial instruments and hedging relationships**

The Group uses derivative financial instruments in the form of interest swaps, in order to hedge against interest risks. Derivative financial instruments are recognized at fair value on the date of the agreement and carried at fair value in the subsequent periods. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative.

Profit or loss resulting from changes in the fair value of derivative financial instruments which do not meet the criteria for recognition as hedging relationships are recognized immediately in the income statement.



### 3. Business combinations and investments

#### 3.1. Business combinations in fiscal year 2010

In a contract dated July 19, 2010, GMX Internet Services Inc. – now 1&1 Mail & Media Inc. – acquired the operating activities of Mail.com by means of an asset deal. This involved purchasing the main components required to continue the business operations of Mail.com. The economic transfer was completed on August 31, 2010.

On the date of transfer, the acquired assets were already capable of generating income themselves or could be made capable of such with the aid of freely available additions. In the course of the transaction, service contracts were also concluded which enable Mail.com to migrate to the company's own technical platform, without restricting the provision of service. The acquisition of operations was thus classified as a business combination.

The purchase price of €21,437k was settled fully in cash during the period under review. At the same time, the sellers were granted an additional purchase price as part of a so-called *earn-out agreement*. The size of this additional purchase price depends on the attainment of clearly defined success factors.

The transaction mainly involved the transfer of self-developed intangible assets. No employees or debts were transferred.

The preliminary fair values of the identifiable assets at the time of acquisition are shown below:

	€k
Cash disbursement	21,437
Earn-out agreement	1,169
<b>Purchase price</b>	<b>22,606</b>
	Fair values
	€k
Trademark	21,309
Customer base	544
Service agreements	264
	22,118
Goodwill	488
<b>Acquisition costs</b>	<b>22,606</b>

Goodwill of €488k results from synergies expected to accrue from the acquisition of business operations. Ancillary acquisition costs were expensed under general and administrative expenses.

During a transition period, customers of Mail.com are still invoiced by the seller. Income is therefore disclosed under other operating income (€1,570k). The result of operations of Mail.com since acquisition recognized in net income amounted to €1,099k in fiscal year 2010. Assuming operations had already been purchased at the beginning of fiscal year 2010, revenue would have been €5,040k higher and net income €1,515k higher.

Sedo GmbH holds 49% of shares in Intellectual Property Management Company Inc, domiciled in Dover, Delaware / USA. Until December 31, 2009 the company was carried as an associated company using the equity method. Sedo GmbH also owns a purchase option for a further 32% of shares which is exercisable as of January 1, 2010. According to IAS 27 *Consolidated and Separate Financial*

*Statements*, the possibility to exercise the option means that the company must be carried as a fully consolidated company in the consolidated financial statements as of fiscal year 2010.

The consideration paid amounted to €86k and comprised a conditional purchase price payment of €14k and the disposal of the shareholding measured according to the equity method of €72k. The acquired net assets amounted to €-155k. The carrying values measured at the time of initial consolidation were not adjusted. Under consideration of the shares without a controlling influence of €79k, full consolidation resulted in goodwill of €162k. Sales revenue of €403k and a net loss of IPMC amounting to €308k were recognized in the consolidated financial statements in fiscal year 2010.

### **3.2 Investments of fiscal year 2010**

In a contract dated November 2, 2011, United Internet Beteiligungen GmbH acquired a 30.02% stake in ProfitBricks GmbH, Berlin. The share purchase was made as part of a capital increase. The acquisition costs amounted to €875k.

### **3.3 Company transactions in the previous year**

In a contract dated December 12, 2008, United Internet Beteiligungen GmbH acquired the shares in united-domains AG – subject to approval from the respective anti-trust authorities. Following the approval of the anti-trust authorities on January 30, 2009, the acquisition was completed on February 27, 2009. The purchase price of €34,951k million was settled by means of cash payment (€34,070k) and the assumption of liabilities (€881k) in fiscal year 2009. The acquisition costs amounted to €35,097k and comprised both the purchase price and directly attributable costs of €146k. united-domains AG continues to be run by its founders, who acquired a total shareholding of 15% in united-domains AG after the acquisition. Payment for these shares was deferred. In the course of this share acquisition, the founders were also granted a put option for their shares, which cannot be exercised until 2014. The purchase price will be determined mainly by the company's profit development.

Goodwill of €24,399k mainly resulted from the synergies expected to accrue from this acquisition.

The put option is carried as a contingent consideration, i.e. adjustments to the fair value of the commitment from this put option are carried without effect on profit and loss as a purchase price adjustment and thus influence the amount of goodwill. The effect from the accrued interest expense is recognized as an interest expense in the financial result. As of December 31, 2010 the effect from goodwill adjustment amounted to €-93k (prior year: €3,677k), while the effect from accrued interest amounted to €682k (prior year: €434k).

The following hidden reserves were disclosed in connection with the purchase price allocation: customer base (€12,295k), trademark (€4,198k), software (€2,211k). This resulted in deferred tax liabilities of €5,555k.

On February 25, 2009 a purchase agreement was signed by Sedo USA concerning the acquisition of the domain parking supplier RevenueDirect. Under the terms of the agreement, the customer base, the brand and the attendant software of the domain parking service provider were acquired. The acquisition costs amounted to €628k. There were no directly attributable costs. The transaction resulted in goodwill of €85k.

Until fiscal year 2006, 75.94% of shares in Sedo GmbH had been purchased by Response Republic Beteiligungsgesellschaft Deutschland GmbH. On the basis of a profit transfer agreement, Sedo GmbH transfers its complete result to Response Republic Beteiligungsgesellschaft Deutschland GmbH. As compensation for the minority shareholders, the contract allowed for a dividend payment of €250k per fiscal year. The contract could not be terminated before December 31, 2011. As part of the purchase of additional shares, the minority shareholders were granted a conditional put option. This option could be exercised in the period from January 1, 2009 to December 31, 2015, whereby it can only be exer-

cised jointly in 2009 and 2010 by all minority shareholders. The option is conditional in as far as Sedo Holding has the right to oppose the exercising of the put option. The purchase prices depend mainly on the company's profit development. In a notarized contract dated September 29, 2009 the remaining minority shareholders of Sedo GmbH, Cologne, agreed to transfer all shares held by them (in total 24.06%) to AdLINK Internet Media AG – now Sedo Holding AG – in return for the subscription of 4,250,000 new shares in Sedo Holding AG and a cash component of € 5,500k. The assignment of the shares is conditional on the registration of the completed capital increase of Sedo Holding AG in the Commercial Register and payment of the cash component. The transaction was entered in the Commercial Register on November 20, 2009. Based on a share price of Sedo Holding AG on this day of € 3.20, the total value of the transaction amounted to € 19,100k.

With the purchase agreement, the existing commitment to pay a guaranteed dividend was cancelled. The related liability carried in the balance sheet was reversed with an effect on net income. Otherwise, there were no significant effects on the income statement due to the existing full allocation of profits of Sedo GmbH to consolidated earnings resulting from a profit transfer agreement in return for compensation (guaranteed dividend).

Effective January 1, 2008, Sedo GmbH acquired a shareholding of 40% in DomainsBot S.r.l., Rome / Italy. A call option was also agreed for the purchase of a further 20% of shares no sooner than 2010. The acquisition costs amounted to a total of € 839k and comprised directly assignable costs of € 89k.

### *Explanations of items in the statement of comprehensive income*

#### **4. Sales revenue / Segment reporting**

According to IFRS 8, the identification of operating segments to be included in the reporting process is based on the so-called management approach. External reporting should therefore be based on the Group's internal organization and management structure, as well as internal financial reporting to the "Chief Operating Decision Maker". In the United Internet Group, the Management Board is responsible for assessing and controlling the success of the various segments.

In order to fully exploit the identified growth business fields "Mobile Internet" and "Cloud Applications", a new segmentation for management and reporting purposes was introduced at the beginning of 2010. The former segments, "Products" and "Online Marketing" were discontinued. In the course of repositioning the United Internet Group, management and consolidated reporting will be undertaken via the segments "Access" and "Applications" from the reporting period 2010 onward. In order to make reporting periods comparable, prior-year periods are presented in the new segmentation format.

A description of the products and services is provided in Note 2.5 in the description of revenue recognition. The segment Head Office/Investments comprises mainly management holding functions.

The Management Board of United Internet AG mainly controls operations on the basis of key earnings figures. The Management Board of United Internet AG measures segment success primarily on the basis of sales revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and the result of ordinary operations (EBIT). Transactions between segments are charged at market prices. Information on sales revenues is allocated to the country in which the company is domiciled. Segment earnings are reconciled with the total amount for the United Internet Group.

Segment reporting of United Internet AG in fiscal year 2010 was as follows:

2010	Access segment	Applications segment	Head Office / Investments	Reconciliation	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	1,231,486	685,492	3,980	---	---
- thereof internal revenues	1,440	8,971	3,412	---	---
External revenues	1,230,046	676,521	568	---	1,907,135
- thereof domestic	1,230,046	477,013	568	---	1,707,627
- thereof non-domestic	0	199,508	0	---	199,508
EBITDA	122,596	232,711	2,404	0	357,711
EBIT	92,006	177,247	2,242	0	271,495
Financial result			-9,491	-612	-10,103
Write-downs on investments			-13,840	0	-13,840
Result from at-equity companies			-31,840	62	-31,778
EBT			-52,929	268,703	215,774
Tax expense				-88,068	-88,068
Net income (from continued operations)					127,706
Result from discontinued operations				1,790	1,790
Net income (after discontinued operations)					129,496
Segment assets (non-current)	0	426,918	205,303	---	632,221
- thereof domestic	0	348,518	134,158	---	482,676
- thereof shares in associated companies	0	0	81,495	---	81,495
- thereof other financial assets	0	16,339	52,663	---	69,002
- thereof goodwill	0	332,179	0	---	332,179
- thereof non-domestic	0	78,400	71,145	---	149,545
- thereof shares in associated companies	0	956	1,628	---	2,584
- thereof other financial assets	0	6,755	69,517	---	76,272
- thereof goodwill	0	70,689	0	---	70,689
Investments in intangible assets, property, plant and equipment	11,732	81,525	57	---	93,314
Amortization/depreciation	30,590	55,464	162	---	86,216
- thereof intangible assets, property, plant and equipment	30,590	35,716	162	---	66,468
- thereof intangible assets capitalized during company acquisitions	0	19,586	0	---	19,586
- thereof goodwill write-downs	0	162	0	---	162
Number of employees	1,780	3,211	27	---	5,018
- thereof domestic	1,696	2,296	27	---	4,019
- thereof non-domestic	84	915	0	---	999

Investments in fiscal year 2010 are dominated by the purchase of Mail.com's operating business (€22,118k).

Non-current segment assets comprise shares in associated companies/joint ventures, other financial assets and goodwill.

In the periods under review, there is no significant concentration of individual customers in the customer profile. The United Internet Group does not generate more than 10% of total external sales revenues with one customer. Foreign sales account for 10.5% (prior year: 10.4%) of total Group revenues.

The reconciliation figure with regard to earnings before taxes represents the corresponding EBT contribution of the Access and Applications segments.

Segment reporting of United Internet AG in fiscal year 2009 was as follows:

2009	Access segment	Applications segment	Head Office / Investments	Reconciliation	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	1,028,773	649,523	4,756	---	---
- thereof internal revenues	2,118	17,999	4,058	---	---
External revenues	1,026,655	631,524	698	---	1,658,877
- thereof domestic	1,026,655	458,305	698	---	1,485,658
- thereof non-domestic	0	173,219	0	---	173,219
EBITDA	124,064	225,411	67,222	0	416,697
EBIT	118,300	175,287	67,025	0	360,612
Financial result			-19,546	-976	-20,522
Write-downs on investments			-3,478	0	-3,478
Result from at-equity companies			-1,189	-7,749	-8,938
EBT			42,812	284,862	327,674
Tax expense				-56,509	-56,509
Net income (from continued operations)					271,165
Result from discontinued operations				12,010	12,010
Net income (after discontinued operations)					283,175
Segment assets (non-current)	0	423,003	263,075	---	686,078
- thereof domestic	0	346,390	185,798	---	532,188
- thereof shares in associated companies	0	0	124,159	---	124,159
- thereof other financial assets	0	17,577	61,639	---	79,216
- thereof goodwill	0	328,813	0	---	328,813
- thereof non-domestic	0	76,613	77,277	---	153,890
- thereof shares in associated companies	0	899	1,570	---	2,469
- thereof other financial assets	0	5,601	75,707	---	81,308
- thereof goodwill	0	70,113	0	---	70,113
Investments in intangible assets, property, plant and equipment	147,754	27,501	41	---	175,296
Amortization/depreciation	5,764	50,124	197	---	56,085
- thereof intangible assets, property, plant and equipment	5,764	31,071	197	---	37,032
- thereof intangible assets capitalized during company acquisitions	0	19,053	0	---	19,053
- thereof goodwill write-downs	0	0	0	---	0
Number of employees	1,584	2,961	26	---	4,571
- thereof domestic	1,545	2,133	26	---	3,704
- thereof non-domestic	39	828	0	---	867

Investments in fiscal year 2009 were dominated by the purchase of freenet's customer base (€ 126,348k).

The reconciliation figure with regard to earnings before taxes represents the corresponding EBT contribution of the Access and Applications segments.

## 5. Cost of sales

	2010	2009
	€k	€k
Cost of services	971,387	843,225
Cost of goods	103,389	74,303
Personnel expenditure	63,806	55,895
Depreciation	36,799	27,731
Others	50,804	15,378
<b>Total</b>	<u>1,226,185</u>	<u>1,016,532</u>

Cost of sales increased in relation to sales revenue from 61.3% to 64.3% compared with the previous year. This resulted in a deterioration of gross margin from 38.7% to 35.7%. The main reason was the high cost of the DSL quality drive, the strong increase in DSL complete packages (ULL) and the expensing of increased hardware subsidies, also in the field of mobile internet products.

Amortization of intangible assets resulting from company acquisitions is disclosed separately in the income statement and not contained in cost of sales. Please refer to Note 9.

## 6. Selling expenses

There was a year-on-year increase in selling expenses from €228,036k (13.7% of sales) to €306,210k (16.1% of sales). This was mainly due to scheduled amortization of the acquired freenet DSL customer base amounting to €21,626k, a significant rise in marketing expenditure, start-up costs for new products and customer acquisition costs.

Amortization of intangible assets resulting from company acquisitions is disclosed separately in the income statement and not contained in selling expenses. We refer to Note 9.

## 7. General and administrative expenses

General and administrative expenses rose more slowly than sales from €92,741k (5.6% of sales) in the previous year to €94,712k (5.0% of sales).

Amortization of intangible assets resulting from company acquisitions is disclosed separately in the income statement and not contained in general and administrative expenses. Please see Note 9.

## 8. Other operating income / expenses

Other operating income in fiscal year 2010 is dominated by the sale of shares in EFF No. 3 (€8,440k) and the sale of shares in maxdome GmbH & Co. KG (€7,769k). Proceeds of €16,515k resulted from the sale of shares in maxdome GmbH & Co. KG. Part of these proceeds were deferred, resulting in a discounting effect of €1,352k. As there were no additional obligations for 2010, the prorated assumption of earnings amounting to €-7,394k resulting from the application of the equity method was netted with sales proceeds in order to present an economic view of the transaction. This prorated income was disclosed in the result from associated companies until the third quarter. Further details are provided in Note 42.

The item also comprises other operating income in connection with the acquisition of the operating business of Mail.com (€ 1,570) as described in Note 3.

Other operating income in fiscal year 2009 mainly comprised the sale of directly held shares in freenet AG (€ 48,170k) and the sale of shares in Drillisch AG (12,463k). The derecognition of a derivative financial instrument in connection with the acceptance of shares in a listed company resulted in other operating income of € 6,425k.

Losses due to account receivables of 1&1 amounted to € 21,874k (prior year: € 32,189k), while income of 1&1 from dunning and return debit charges totaled € 17,364k (prior year: € 15,211k).

Currency gains (net) in fiscal year 2010 amounted to € 27k (prior year: € 938k).

Expenses relating to other accounting periods totaled € 278k (prior year: € 297k).

## 9. Depreciation and amortization

Depreciation and amortization of intangible assets and property, plant and equipment consist of the following:

	<b>2010</b>	<b>2009</b>
	€k	€k
Cost of sales	36,799	27,731
Selling expenses	23,816	3,781
General and administrati	5,853	5,520
<b>Total</b>	<u>66,468</u>	<u>37,032</u>

Impairment losses from trademarks result from a brand no longer used.

Amortization of capitalized intangible assets resulting from business combinations refers to the Applications segment and is divided between assets as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
Portal	9,031	9,030
Customer base / order backlog	9,389	9,567
Software	416	456
Trademark	750	0
<b>Total</b>	<u>19,586</u>	<u>19,053</u>

Amortization of capitalized intangible assets resulting from business combinations is divided between the business combinations as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
WEB.DE portal business	12,861	13,576
united-domains	2,828	2,418
Fasthosts	1,763	1,698
Dollamore	1,358	586
CibleClick	553	553
RevenueDirect	223	222
<b>Total</b>	<u>19,586</u>	<u>19,053</u>

As it is not possible to reliably allocate amortization of capitalized intangible assets resulting from business combinations to individual functional divisions, it is disclosed separately in the income statement.

## **10. Goodwill amortization**

Goodwill write-downs made in the course of impairment tests amounted to €162k for Intellectual Property Management Company Inc. There was no amortization of goodwill in fiscal year 2009.

## **11. Personnel expenses**

Personnel expenses are divided among the various divisions as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
Cost of sales	63,806	55,895
Selling expenses	102,277	87,446
General and administrative expenses	36,839	37,655
<b>Total</b>	<u>202,922</u>	<u>180,996</u>

The number of employees increased from 4,571 in the previous year to 5,018 at year-end 2010, representing growth of 9.8%:

	<b>2010</b>	<b>2009</b>
Germany	4,019	3,704
Outside Germany	999	867
<b>Total</b>	<u>5,018</u>	<u>4,571</u>

The average number of employees in fiscal year 2010 amounted to 4,809 (prior year: 4,486), of which 3,865 (prior year: 3,645) were employed in Germany and 945 (prior year: 841) abroad.

## **12. Financial expenses**

	<b>2010</b>	<b>2009</b>
	€k	€k
Loans and overdraft facilities	13,391	15,045
Expense from interest hedging transactions	799	5,043
Interest effect of put option united-domains AG	682	434
Expense from tax audit	325	2,967
Guaranteed dividend to minority interests	0	26
<b>Total financial expenses</b>	<u>15,197</u>	<u>23,515</u>



The expense from interest hedging transactions concerns the valuation of interest swaps conducted in fiscal year 2008 at market value. The expense for tax audit results from interest due on tax liabilities.

### 13. Financial income

	2010 €k	2009 €k
Interest income from credit balances with banks	2,083	2,227
Income from financial investments	2,272	520
Income from purchase price installments from the sale of shares in an associated company	0	134
Income from loans to joint ventures	739	112
<b>Total financial income</b>	<u>5,094</u>	<u>2,993</u>

### 14. Amortization of investments

Amortization of investments amounted to €13,840k (prior year: €3,478k). Please see Note 26 for further details.

### 15. Result from associated companies

	2010 €k	2009 €k
Result from associated companies	-31,778	-8,938
	<u>-31,778</u>	<u>-8,938</u>

Further details on the result from associated companies are provided in Note 25.

### 16. Income taxes

The income tax expense from continued operations is comprised as follows:

	2010 €k	2009 €k
Current income taxes		
- Germany	93,270	51,637
- Abroad	9,462	8,336
Total (current period)	<u>102,732</u>	<u>59,973</u>
Deferred taxes		
- Due to tax loss carryforwards	-100	2,459
- Tax effect on temporary differences	-14,564	-5,923
- Due to tax rate changes	0	0
Total deferred taxes	<u>-14,664</u>	<u>-3,464</u>
<b>Total tax expense</b>	<u>88,068</u>	<u>56,509</u>

Under German tax law, income taxes comprise corporate income tax and trade tax, as well as the solidarity surcharge.

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax on income. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate in fiscal year 2010 amounted to approx. 13.8% (prior year: 13.8%). Due to an increase in the trade tax rate in Germany, the future average trade rate of United Internet AG amounts to 14.1%.

As in the previous year, German corporate income tax was levied at 15% – irrespective of whether the result was retained or distributed. In addition, a solidarity surcharge of 5.5% is imposed on the assessed corporate income tax.

In addition to taxes on the current result, current income taxes also include expenses of €7,193k (prior year: income of €37,527k) not relating to the period. In the previous year, income not relating to the period resulted from the tax consideration of write-downs on treasury shares made in the commercial financial statements of the previous year, as a result of a change in legislation.

As a result of the tax audit findings for United Internet AG and its bodies for the years 2002 to 2005, there were tax expenses in the prior year not relating to the period for income taxes amounting to €7,541k. There were also related expenses not relating to the period for sales tax of €425k and interest of €2,967k. These were disclosed under other operating expenses or in the financial result.

There was tax income from discontinued operations for current taxes of €262k in fiscal year 2010 (prior year: €523k), as well as a deferred tax expense of €491k (prior year: €0k).

As of the balance sheet date, tax expenses recognized directly in equity amount to €647k (prior year: €95k).

Deferred tax assets are recognized for tax loss carryforwards and temporary differences, if it is probable that taxable profit will be available against which the deductible temporary difference can be utilized,

Deferred tax assets for tax loss carryforwards in certain countries are shown in the table below:

	<b>2010</b>	<b>2009</b>
	€k	€k
France	353	253
	<u>353</u>	<u>253</u>

Tax loss carryforwards for which no deferred tax assets have been formed, refer to the following countries:

	<b>2010</b>	<b>2009</b>
	€k	€k
France	10,354	9,968
Spain	9,739	4,659
Germany	3,600	3,836
	<u>23,693</u>	<u>18,463</u>

In accordance with IAS 12, deferred tax assets are recognized for the future benefits associated with tax loss carryforwards. The time limit for the net loss carryforwards in different countries is as follows:

- Spain: 15 years
- France: indefinite
- Germany: indefinite, but minimum taxation

In Germany, the loss carryforwards can be claimed for an indefinite period. As in the previous year, these relate mainly to loss carryforwards as of December 31, 2010 of Response Republic Beteiligungsgesellschaft Deutschland GmbH which cannot be utilized due to an existing profit transfer agreement.

Deferred taxes resulted from the following items:

	2010		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade receivables	226	0	289	0
Inventories	1,107	0	53	0
Other financial assets - current	0	241	0	95
Other financial assets – non-current	481	0	1,218	0
Other assets	17,788	0	359	0
Property, plant and equipment	235	3,523	122	0
Intangible assets	5,737	21,213	3,868	19,822
Other accruals	1,182	1,615	2,628	293
Other liabilities	3,378	0	3,077	0
Prepaid expenses	1,963	0	1,869	0
Gross value	<u>32,097</u>	<u>26,592</u>	<u>13,483</u>	<u>20,210</u>
Tax loss carryforwards	353	0	253	0
Adjustments for consolidation	67	1,891	10	2,608
Other items	677	0	490	233
<b>Consolidated balance sheet</b>	<b><u>33,194</u></b>	<b><u>28,483</u></b>	<b><u>14,236</u></b>	<b><u>23,051</u></b>

The net balance of deferred taxes changed from an excess of deferred tax liabilities over assets of €8,815k in the previous year to an excess of deferred tax assets over liabilities of €4,711k (increase in excess of deferred tax liabilities over assets in the previous year of €1,096k). As a result, the total change in the net balance of deferred taxes amounted to €13,526k. This change was mainly due to the initial accrual of so-called customer acquisition costs in the tax balance sheet of fiscal year 2010, due to a change in tax regulations. For consolidation purposes, the underlying expenses are expensed when incurred. This results in deferred tax assets of €16,418k.

The change in the net balance of deferred taxes compared to the previous year is reconciled as follows:

Deferred tax income	14,664
Deferred tax expense recognized directly in equity	-647
Deferred tax expense from discontinued operations	-491
<b>Change in the net balance of deferred taxes</b>	<b>13,526</b>

Deferred tax liabilities of €21,213k (prior year: €19,822k) result mainly from the different treatment of capitalized intangible assets from business combinations in the consolidated accounts and the tax balance sheet.

Deferred taxes also include deferred taxes without an effect on profit and loss amounting to €742k (prior year: €95k).

No deferred tax liabilities were recognized as of December 31, 2010 for differences in the balance sheet treatment of the investment in 1&1 Mail & Media GmbH in the IFRS and tax balance sheets, as it is probable that this difference will not reverse in the foreseeable future.

The aggregate tax rate is reconciled to the effective tax rate of continued operations as follows:

	<b>2010</b>	<b>2009</b>
	%	%
Anticipated tax rate	30.0	29.6
- Tax effects from the valuation of treasury shares	0.0	-8.7
- Actual and deferred taxes for previous years	3.3	0.8
- Amortization of investments non-deductible for tax purposes	1.9	0.3
- Amortization of intangible assets non-deductible for tax purposes	2.7	0.0
- Tax-reduced profit from disposals	-1.1	-4.9
- Differences in foreign tax rates	-0.6	-0.2
- Employee stock ownership plan	-1.5	-0.9
- Tax losses of the fiscal year, for which no deferred taxes have been capitalized	1.0	0.0
- Utilization of non-capitalized tax loss carryforwards	0.0	-0.3
- Non-taxable at-equity results	4.4	0.8
- Balance of other tax-free income and non-deductible expenses	0.7	0.7
Effective tax rate	<u>40.8</u>	<u>17.2</u>

The non-tax-deductible amortization of intangible assets results from differences in assets recognized in equity on initial booking, for which no deferred taxes are formed pursuant to IAS 12.

The expected tax rate corresponds to the tax rate of the parent company, United Internet AG.

## **17. Result from discontinued operations**

On July 6, 2009, United Internet's subsidiary AdLINK Internet Media AG – now Sedo Holding AG – reached an agreement with Hi-media S. A., Paris, concerning the transfer of AdLINK's Display Marketing business to the Hi-media Group. In return, Sedo Holding AG received 10.7% of shares in Hi-media S.A. (4,735,000 shares) plus an additional € 12,195k in cash. In the case of the cash component, Sedo Holding AG granted Hi-media a vendor loan with a standard market interest rate. The vendor loan is to be repaid by June 30, 2011 at the latest. The contract was closed on August 31, 2009. After the purchase price adjustment was finally determined, the total purchase amounted to € 28,571k.

The result from discontinued operations after tax in fiscal year 2010 amounting to € 1,790k (prior year: € 12,010k) results mainly from long-term contracts and concerns the provision of DART services for the former subsidiaries of Sedo Holding AG. In addition, accruals formed in the previous year for losses from current contracts were reversed and existing accruals reassessed.

## **18. Earnings per share**

As of December 31, 2010, capital stock was divided up into 240,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2010, the Company held 20,563,522 treasury shares (prior year: 10,272,371). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating undiluted earnings per share was 222,503,961 for fiscal year 2010 (prior year: 229,554,296).

A dilutive effect must be taken into consideration for option rights resulting from the employee stock ownership program of United Internet AG which were contained in cash as of December 31, 2010. All option rights existing on December 31, 2010 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the total of potential shares. On the basis of the average fair value, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the convertible bond plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued without consideration.

The calculation of diluted earnings per share was based on 5,860,000 (prior year: 3,978,000) potential shares (from the assumed use of conversion rights). Based on an average market price of € 10.88 (prior year: € 8.02), this would result in the issuance of 1,641,448 (prior year: 1,086,207) shares without consideration. The weighted average number of shares used to calculate diluted earnings per share in fiscal year 2010 amounted to 224,145,409 (prior year: 230,640,504) shares.

The following table shows the underlying amounts for the calculation of undiluted and diluted earnings:

	<b>2010</b>	<b>2009</b>
	€k	€k
Profit attributable to the shareholders of United Internet AG	<b>129,117</b>	<b>279,927</b>
Earnings per share (in €)		
- undiluted	0.58	1.22
- diluted	0.58	1.21
Thereof result from continued operations	<b>127,327</b>	<b>267,917</b>
Earnings per share (in €)		
- undiluted	0.57	1.17
- diluted	0.57	1.16
Thereof result from discontinued operations	<b>1,790</b>	<b>12,010</b>
Earnings per share (in €)		
- undiluted	0.01	0.05
- diluted	0.01	0.05
Weighted average number of outstanding shares (in million units)		
- undiluted	222.50	229.56
- diluted	224.15	230.64

The calculation of undiluted and diluted earnings per share for discontinued operations was based on the weighted average number of shares, as described above.

## **19. Dividend per share**

According to section 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of retained earnings. The Management Board and Supervisory Board will discuss their dividend proposal for fiscal year 2010 at the Supervisory Board meeting on March 23, 2011.

Pursuant to Sec. 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of the signed annual financial statements, United Internet AG holds 11,250,000 treasury shares.

## **Explanations to the Balance Sheet**

### **20. Cash and cash equivalents**

Cash and cash equivalents consist of bank balances, short-term investments, checks and cash in hand. Bank balances bear variable interest rates for call money. Short-term investments are made for various periods, depending on the Group's respective cash needs, of between one day and three months.

The development and application of cash and cash equivalents is stated in the consolidated cash flow statement.

## 21. Trade accounts receivable

	2010 €k	2009 €k
Trade accounts receivable	113,006	113,977
<b>less</b>		
Bad debt allowances	-15,019	-22,687
<b>Trade accounts receivable, net</b>	<u>97,987</u>	<u>91,290</u>

As of December 31, 2010 trade accounts receivable amounting to €15,019k (prior year: €22,687k) were impaired. The development of bad debt allowances can be seen below:

	2010 €k	2009 €k
As of January 1	22,687	16,639
Additions charged to the income statement	13,178	21,407
Utilization	-20,370	-14,038
Reversals	-630	-402
Exchange rate differences	154	-88
Disposal from deconsolidation	0	-831
<b>As of December 31</b>	<u>15,019</u>	<u>22,687</u>

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the balance sheet date. As of the balance sheet date there is no recognizable indication that payment obligations for receivables not adjusted cannot be met.

The maximum credit risk as of the balance sheet date corresponds to the net carrying value of the above trade accounts receivable.

Trade accounts receivable are always stated at nominal value as they are immediately due. Overdue receivables are tested for possible impairment. Individual allowances are mainly formed by classifying receivables according to their age profile. We refer to Note 43.

All overdue receivables not adjusted individually are subjected to lump-sum allowances.

As of December 31, the age profile of trade accounts receivable less the aforementioned allowances was as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
Trade accounts receivable, net		
< 30 days	94,784	83,562
30-60 days	1,089	2,862
60-90 days	976	1,904
90-120 days	651	1,012
>120 days	487	1,950
	<u>97,987</u>	<u>91,290</u>

## **22. Inventories**

Inventories consist of the following items:

	<b>2010</b>	<b>2009</b>
	€k	€k
Merchandise		
DSL hardware	4,231	3,992
Mobile telephony hardware	5,860	1,444
Mobile internet hardware	2,670	1,149
Video-on-demand hardware	2,053	1,251
Web hosting hardware	1,558	954
Other	694	210
Domain stock held for sale		
Domain stock	5,821	6,833
	<u>22,887</u>	<u>15,833</u>
<b>less</b>		
Allowances	-5,975	-1,772
<b>Inventories, net</b>	<u>16,912</u>	<u>14,061</u>

The impairment of inventories expensed in the period under review amounted to €5,443k (prior year: €1,628k). This charge is disclosed in "Cost of sales". Of this increase, an amount of €3,383k was mainly due to impairment of domain stock.

## **23. Prepaid expenses**

Prepaid expenses of €36,536k (prior year: €30,361k) consist mainly of prepayments for domain fees, which were deferred and charged to the income statement on the basis of the underlying contractual period of customers.



## 24. Other current assets

	2010	2009
	€k	€k
Hi-media (vendor loan)	12,195	0
Creditors with debit balances	4,646	937
Accounts receivable from the tax office	3,559	42,294
Accounts receivable from billing service providers	1,104	0
Payments on account	747	1,244
Other	6,046	3,861
<b>Other assets, net</b>	<b><u>28,297</u></b>	<b><u>48,336</u></b>

The vendor loan is in connection with the sale of the Display Marketing business (see Note 17). This loan falls due on June 30, 2011. In the previous year, this loan was disclosed under other financial assets. We refer to Note 26.

In addition to tax prepayments, accounts receivable from the tax office in the previous year mainly result from taxable deductions from write-downs on shares in fiscal year 2008 (see also Note 16).

## 25. Shares in associated companies / joint ventures

	2010	2009
	€k	€k
Carrying amount at the beginning of the fiscal year	126,628	221,684
Additions	4,697	4,803
Adjustments		
- Dividends	-983	0
- Shares in result	-31,778	3,710
- Impairment losses	0	-12,648
- Other	-268	10,006
Disposals	-14,217	-100,927
	<b><u>84,079</u></b>	<b><u>126,628</u></b>

The addition to shares in associated companies results mainly from the investment in Versatel (€2,212k), EFF No. 1 (€1,180k) and the investment in ProfitBricks (€875k).

The result from associated companies amounting to €-31,778k is dominated by the prorated assumption of the Versatel result.

The following table provides an overview of direct impairment losses in fiscal year 2009:

	2010	2009
	€k	€k
Versatel	0	9,958
EFF Nr. 2	0	2,181
BW2	0	509
	<u>0</u>	<u>12,648</u>

Other adjustments totaling €-268k refer to profit contributions recognized directly in equity of associated companies. Other adjustments in the previous year of €10,006k resulted from profit contributions to associated companies with an investment value of €0k (€7,495k) and profit contributions recognized directly in equity of associated companies (€2,511k). The negative profit contributions of associated companies with an investment value of €0k were only considered if the associated companies were provided with long-term loans or if there were credit / liability commitments.

Disposals result mainly from capital repayments of the investment EFF No. 1 (€14,134k). Due to the contractually agreed unanimity of voting on all shareholder resolutions, the Group cannot exert a controlling influence on EFF No. 1 companies, but only a significant influence. In contrast to its share in capital of 66.67%, the Group's participation in annual net profit of EFF No. 1 is between 33.33% and 66.67%, depending on the fund's internal rate of return.

The following table contains summarized financial information on the Company's investment in Versatel AG:

	2010	2009
	€k	€k
Current assets	216,606	139,373
Non-current assets	740,070	879,110
Current liabilities	167,097	170,298
Non-current liabilities	574,765	604,998
Shareholders' equity	<u>214,814</u>	<u>243,187</u>
Sales revenue	550,172	734,824
Net profit	-30,018	-42,258

The financial information for 2010 of Versatel AG is based on published figures as of September 30, 2010.

Based on stock exchange price as of the balance sheet date, the shares held by United Internet AG in Versatel AG have a fair value of €56,311k. The carrying amount of these shares as of December 31, 2010 amounts to €50,926k.

The following table contains summarized financial information on the Company's other significant investments in associated companies and joint ventures held as of the balance sheet date:

	<b>2010</b>	<b>2009</b>
	€k	€k
Current assets	14,453	11,918
Non-current assets	19,077	19,653
Current liabilities	2,825	3,190
Non-current liabilities	0	0
Shareholders' equity	<u>30,705</u>	<u>28,381</u>
Sales revenue	16,781	17,116
Net profit	20,601	-790

The summarized financial information on associated companies is based on the 100% figures of these companies.

## 26. Other financial assets

The development of these shares was as follows:

	Jan. 1, 2010	Additions	Amortization of revaluation reserve not recognized in income		Impairment	Reclassification	Disposals	Dec. 31, 2010
			Recycling	Addition				
	€k	€k	€k	€k	€k	€k	€k	€k
Goldbach shares	15,804			12,316				28,120
Hi-media shares	23,344		-3,031		-3,551			16,762
Afilias shares	5,601			1,154				6,755
freenet shares	59,845		477		-9,955			50,367
Portfolio companies of EFF No. 3	36,559	68	-1,382	3,674	-334		-11,955	26,630
Hi-media (vendor loan)	12,195					-12,195		0
Purchase price receivable	0	9,163						9,163
Others	7,176	497				-145	-51	7,477
	<u>160,524</u>	<u>9,728</u>	<u>-3,936</u>	<u>17,144</u>	<u>-13,840</u>	<u>-12,340</u>	<u>-12,006</u>	<u>145,274</u>

	Jan. 1, 2009	Additions	Amortization of revaluation reserve not recognized in income		Impairment	Reclassification	Disposals	Dec. 31, 2009
			Recycling	Addition				
	€k	€k	€k	€k	€k	€k	€k	€k
Goldbach shares	12,047			3,757				15,804
Drillisch shares	8,909							0
Hi-media shares	0	20,313		3,031			-8,909	23,344
Afilias shares	7,726			-2,125				5,601
freenet shares	0	60,322		-477				59,845
Portfolio companies of EFF No. 3	41,816	110		-707	-3,382		-1,278	36,559
Hi-media (vendor loan)	0	12,195						12,195
Others	2,287	5,384			-96		-399	7,176
	<u>72,785</u>	<u>98,324</u>	<u>0</u>	<u>3,479</u>	<u>-3,478</u>	<u>0</u>	<u>-10,586</u>	<u>160,524</u>

The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. We refer to Notes 8 and 42.

The reclassification of the vendor loan is in connection with the sale of the Display Marketing business of the AdLINK Group – now Sedo Holding AG – to Hi-media. We refer to Note 17.

Other financial assets are mainly other deposits and loans for which the market value coincides with the carrying value.

## **27. Property, plant and equipment**

	<b>2010</b>	<b>2009</b>
	€k	€k
<b>Acquisition costs</b>		
- Land and buildings	8,050	8,049
- Furniture and fixtures	256,822	225,222
- Payments on account	13,241	9,867
	<u><b>278,113</b></u>	<u><b>243,138</b></u>
<b>Less</b>		
Accumulated depreciation	-169,438	-149,217
<b>Property, plant and equipment, net</b>	<u><b>108,675</b></u>	<u><b>93,921</b></u>

An alternative presentation of the development of property, plant and equipment in the fiscal years 2009 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

## **28. Intangible assets (without goodwill)**

	<b>2010</b>	<b>2009</b>
	€k	€k
<b>Acquisition costs</b>		
- Licenses	28,804	28,416
- Order backlog	2,397	2,141
- Software	63,282	48,934
- Trademarks	46,902	26,041
- Customer base	188,888	183,586
- Portal	72,240	72,240
	<u><b>402,513</b></u>	<u><b>361,358</b></u>
<b>Less</b>		
Accumulated amortization and impairment	-181,098	-133,017
<b>Intangible assets, net</b>	<u><b>221,415</b></u>	<u><b>228,341</b></u>

An alternative presentation of the development of intangible assets in the fiscal years 2009 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The recognition of customer relations includes an amount of € 130,158k which mainly results from the purchase of freenet AG broadband customers in fiscal year 2009 (€ 126,348k). Subsequent acquisition costs of € 3,810k were incurred in fiscal year 2010. The acquisition was completed with economic effect from November 30, 2009. These externally acquired customer relations will be amortized in scheduled amounts over a period of 6 years. Amortization amounted to € 21,626k in fiscal year 2010 (prior year: € 1,874k), and the carrying amount was € 106,658k.

The addition to trademarks includes an amount of € 21,309k (without currency translation effects) from the acquisition of the Mail.com operating business. We refer to Note 3.

Intangible assets with unlimited useful lives (trademarks), are allocated to the Applications segment. The carrying values amount to € 46,128k. Intangible assets with unlimited useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date. This resulted in impairment of € 750k (prior year: € 79k), as one trademark will not be used in future.

	<b>2010</b>	<b>2009</b>
	€k	€k
Mail.com	20,628	0
WEB.DE	17,173	17,173
Fasthosts / Dollamore	4,076	4,561
united-domains	4,198	4,198
Domain Marketing	53	86
	<u>46,128</u>	<u>26,018</u>

## **29. Goodwill**

	<b>2010</b>		<b>2009</b>	
	€k		€k	
	gross	net	gross	net
Applications segment	<b>417,122</b>	<b>402,868</b>	<b>413,018</b>	<b>398,926</b>

An alternative presentation of the development of goodwill in the fiscal years 2009 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

Total goodwill increased on balance by € 3,942k to € 402,868k. The change in trademarks includes an amount of € 488k from the acquisition of the Mail.com operating business but mainly from currency translation effects of € 3,109k.

## **30. Impairment of goodwill and intangible assets with unlimited useful lives**

The goodwill and intangible assets with unlimited useful lives are subjected to an impairment test at least once per year. With reference to its internal budgeting process, the Company has chosen the last quarter of its fiscal year to conduct its statutory annual impairment test.

The scheduled annual impairment test conducted in the 4<sup>th</sup> quarter of 2010 resulted in amortization of € 162k. The main cause for the write-down was a deterioration of earnings of the respective cash-generating unit. The impairment loss was disclosed separately in the income statement.

Goodwill acquired in the course of business combinations is allocated for impairment test purposes to cash-generating units, which are distributed among the Applications segment as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
WEB.DE	228,501	228,501
Fasthosts / Dollamore	63,562	60,473
united-domains	27,983	28,076
InterNetX	5,032	5,032
Mail.com	473	0
Domain Marketing	43,114	43,114
Minority interests	24,649	24,176
Affiliate Marketing	9,554	9,554
	<u>402,868</u>	<u>398,926</u>

Goodwill from the acquisition of minority interests in Sedo Holding AG are tested by the Company for impairment on a sub-group level. The minority interests represent the additional goodwill capitalized on the level of United Internet AG.

The recoverable amounts of the cash-generating units are calculated on the basis of a value-in-use calculation using cash flow forecasts. The cash flow forecasts are based on the Company's budgets for fiscal 2011. These budgets were prepared by management on the basis of external market studies and internal assumptions, extrapolated for a period of five years. Following this period – and as in the previous year – management assumes an annual increase in cash flow of 1.0% to 2.0%, corresponding to long-term average growth of the sector in which the respective cash-generating unit operates. The discounted pre-tax interest rates used in the period under review range from 10% to 12% (prior year: 10% to 12%).

The most important parameters per cash-generating unit are shown in the table below:

<b>CGU</b>	<b>Parameter</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>&gt; 2015</b>
WEB.DE	Sales growth	9%	11%	10%	14%	1.5%
	Discount rates	10%	10%	10%	10%	8.6%
Fasthosts / Dollamore	Sales growth	8%	8%	8%	9%	2.0%
	Discount rates	11%	11%	11%	11%	8.9%
united-domains	Sales growth	8%	8%	8%	9%	1.0%
	Discount rates	11%	11%	11%	11%	8.6%
InterNetX	Sales growth	8%	8%	8%	9%	2.0%
	Discount rates	10%	10%	10%	10%	7.5%
Sedo Holding CGU	Sales growth	19%	10%	10%	10%	1.5%
	Discount rates	12%	12%	12%	12%	10.5%

Trademarks recognized in the Applications segment amount to €46,128k (see Note 28). In the course of business combinations, the trademarks were valued at their fair values using the so-called "royalty relief" method and tested again for impairment on the balance sheet date. The market-relevant cash flows were multiplied with the trademark-relevant royalty rates. These remained unchanged at 1.5% and 2.5%. The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of value-in-use of the cash-

generating units. The test resulted in impairment of €750k (prior year: €79k), as one trademark will not be used in future.

### **Basic assumptions for the calculation of value-in-use**

There are uncertainties involved with the underlying assumptions used for the calculation of value-in-use for the cash-generating units:

- Sales revenue

The management of the respective cash-generating unit expects a further increase in sales within its planning horizon. For cash-generating units, an increase of between 8% and 19% is expected for the fiscal years 2011 to 2014 (prior year: between 7% and 27%).

- Growth rates

Growth rates are based on published sector-specific market forecasts. In the case that such forecasts are not available, internal assumptions are made.

- Gross margin

The planned gross margins are based on market assumptions made by the management of the respective cash-generating unit. Management generally expects constant gross margins.

- Discount rates

Discount rates reflect management assumptions regarding the specific risks attributable to the respective cash-generating units. The choice of suitable discount rates is mainly based on a virtually risk-free interest rate, which is increased by a specific risk premium.

### **Sensitivity of assumptions**

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

The Company's management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of a cash-generating unit could cause the carrying value to significantly exceed its recoverable value.

The effects of changes to the basic assumptions is explained below:

- Discount rates

A change in the virtually risk-free interest rate or specific risk premium also changes the underlying discount rates of the impairment test. A change in the discount rates used of 1%-point may have an effect on the impairment test. However, management rates the current risk as low.

- Growth rates

Management recognizes that growth in the Applications segment, and thus the growth of those cash-generating units operating in this segment, depends heavily on the development of internet usage and thus its acceptance as a medium used in private and business life. The entry of new competitors and the projected market consolidation are not expected to have any negative effect on forecasts used in the budgets. A possible change on the basis of reasonable judgment, however, may lead to growth rates which differ from those used in the budgets of the respective cash-generating unit. A decline in growth rates, within the possible parameters of reasonable judgment, would not result in a reduction of value-in-use to below carrying value.

### 31. Trade accounts payable

Trade accounts payable amounting to €213,509k (prior year: €193,197k) are owed to independent third parties with terms of less than one year.

### 32. Liabilities due to banks

a) Liabilities due to banks

	2010	2009
	€k	€k
Bank loans	191,233	348,767
<b>Less</b>		
Current portion of liabilities due to banks	0	0
<b>Non-current portion of liabilities due to banks</b>	<u>191,233</u>	<u>348,767</u>
Short-term loans/overdrafts	178,167	51,462
<b>Current portion of liabilities due to banks</b>	<u>178,167</u>	<u>51,462</u>
<b>Total</b>	<u>369,400</u>	<u>400,229</u>

Bank liabilities result mainly from a syndicated loan with a total amount committed of €500.0 million. The syndicated loan agreement was concluded on September 14, 2007. The total credit facility is divided into Tranche A amounting to €300.0 million and Tranche B totaling €200.0 million.

Tranche A has a term of five years. Repayment is made from March 14, 2010 in six equal half-yearly installments. As of December 30, 2009 the 1st partial amount of Tranche A amounting to €50.0 million was repaid prematurely. The 2nd contractual repayment of €50.0 million was made in the 3rd quarter of 2010. As of December 31, 2010, therefore, an amount of €200.0 million of Tranche A has been used, of which €100 million is disclosed under current liabilities due to banks. Tranche B is a revolving syndicated loan which expires on September 13, 2012, of which an amount of €20.0 million has been used as of December 31, 2010.

The loans have variable interest rates. The effective interest rates for the interest periods of one, two, three, six or twelve months are tied to the EURIBOR rate plus a margin p.a.. This margin depends on key performance indicators of the United Internet Group. As of the balance sheet date, the loan interest rates including margin range from 1.22% to 1.43% (prior year: 0.87% und 0.88%). No collateral was provided for these syndicated loans.

Further liabilities due to banks result from a promissory note loan of €150.0 million. The promissory note loan was issued on July 23, 2008. The promissory note is a bullet loan and divided into a Tranche A of €78.0 million with a term ending July 23, 2011 and a Tranche B of €72.0 million with a term ending July 23, 2013. Tranche A was disclosed under current liabilities due to banks. No separate collateral was provided for this promissory note loan. The loans have variable interest rates. The effective interest rate for the interest period of three months is tied to the EURIBOR rate plus a margin



p.a.. As of the balance sheet date, the loan interest rates including margin lie between 1.78% and 1.98% (prior year: 1.64% and 1.84%).

The fair values of these loans amount mainly to their carrying values.

A cash pooling agreement (overdraft service) has been in place between United Internet AG, certain subsidiaries and WestLB AG, Düsseldorf, since October 1, 2002. Under the agreement, credit and debit balances are netted within the Company each banking day and summarized.

#### b) Credit lines

United Internet AG has the following credit lines for advances on current accounts and other short-term loans with three banks:

	<b>2010</b>	<b>2009</b>
	€m	€m
Available credit lines	55.0	55.0
Utilization (guarantees only)	9.8	10.2
Average interest rate (in%)	n.a.	n.a.
Unutilized credit facilities	45.2	44.8

The credit facilities have been granted by the banks for limited periods. €15.0 million expire in June 2011, €15.0 million expire in November 2011, €10 million expire in November 2012 and a further €15.0 million are available until further notice.

A further amount of €180 million is also available until September 13, 2012 from the unutilized proportion of the syndicated loan.

With regard to credit lines granted to the companies of the United Internet Group by one bank, United Internet AG is liable as co-debtor. The credit facilities had only been utilized through guarantees as of the balance sheet date. For this reason, no average interest rate has been stated.

### **33. Accrued taxes**

Accrued taxes consist of the following items:

	<b>2010</b>	<b>2009</b>
	€k	€k
Germany	41,866	35,915
UK	1,197	1,296
Spain	8	0
USA	0	204
France	0	12
Netherlands	0	1
	<b><u>43,071</u></b>	<b><u>37,428</u></b>

### 34. Deferred revenue

Customers pay for certain contracts in advance for a maximum of 24 months. These contracts are mostly for webhosting and internet access services. The prepaid charges are allocated and recognized as revenues over the underlying contractual period.

### 35. Other accrued liabilities

The development of accruals in fiscal year 2010 was as follows:

	Litigation risks	Others	Total
	€k	€k	€k
Jan. 1, 2010	1,710	9,415	11,125
Utilization	750	1,340	2,090
Reversal	260	7,264	7,524
Addition	3,953	372	4,325
Dec. 31, 2010	<u>4,653</u>	<u>1,183</u>	<u>5,836</u>

Litigation risks consist of various legal disputes of 1&1 Internet and Sedo.

Other accruals referred mainly to provisions for impending losses. As the cause for these impending losses no longer existed as of the balance sheet date, these accrued liabilities were reversed.

### 36. Other liabilities

	2010	2009
	€k	€k
<b>Other current liabilities</b>		
- Liabilities to the tax office	10,435	14,946
- Salary and social security liabilities	12,251	10,433
- Marketing and selling expenses / commissions	12,461	9,067
- freenet	0	7,378
- Liability from interest hedging	5,337	6,981
- Liability from tax audit	3,531	3,392
- Legal and consulting fees, auditing fees	2,281	2,217
- Transaction costs for sale of shares	500	653
- Purchase price liabilities	1,132	0
- Creditors with debit balances	1,063	179
- Others	10,612	6,628
<b>Total</b>	<u>59,603</u>	<u>61,874</u>

Liabilities to the tax office mainly relate to sales tax liabilities.

The liability from interest hedging results from a negative market value as of the balance sheet date.

The non-current liabilities of €23,648k (prior year: €22,641k) result mainly from the non-controlling interests of the partnerships EFF No. 2 and EFF No. 3 (€6,672k; prior year: €8,697k), as well as from the negative present value of an interest hedging transaction as of the balance sheet date (€7,176k; prior year: €4,733k). The purchase price liability in connection with the purchase of shares in united-domains AG amounts to €9,800k (prior year: €9,211k).

### **37. Share-based payment**

#### **37.1 Employee stock ownership plans**

The current employee stock ownership plan of the United Internet Group allows executives and managers to participate in the Company's long-term success on the basis of virtual stock options. All plans are treated as equity-settled share-based payment transactions.

#### **United Internet AG**

Virtual stock options

The employee stock ownership plans 2006 and 2009 employ virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right, however, to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring one United Internet AG share per SAR from its stock of treasury shares to the beneficiary, at its own discretion.

In the case of stock-based remuneration plans which grant the Company the contractual choice of settling in cash or issuing equity instruments, the Company must determine whether there is a current cash settlement commitment and disclose the stock-based remuneration transaction correspondingly. There is a current cash settlement commitment if the possibility to settle by means of equity instruments has no economic substance (e.g. because the Company is legally forbidden to issue shares), or cash settlement was common business practice or the declared Company guideline in the past, or the Company generally settles in cash if the beneficiary so desires.

This transaction is carried in the balance sheet according to the regulations for stock-based remuneration plans with settlement via equity instruments.

In exception to this, the initial exercise in November 2010 of the tranche from November 20, 2008 was treated in the balance sheet as a buyback of equity shares. A total of 359,500 virtual stock options were settled in cash paid to the beneficiaries. At the same time, value growth was limited to 100% of the calculated share price, resulting in a payment of €6.07 per virtual stock option. The total payment of €2,182k was offset with capital reserves.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% (i.e. including the previously exercised options) at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model in accordance with IFRS 2, the personnel expense for options issued amounted to €3,735k (prior year: €4,171k).

Using an option pricing model on the basis of a binominal model in accordance with IFRS 2, the fair value of options issued was calculated as follows:

**Valuation parameters**

Issue date	8/14/2006	3/14/2007	11/12/2007	1/29/2008
Fair value	1,790 €k	1,200 €k	1,394 €k	596 €k
Average market value per convertible bond	2.24 €	3.00 €	3.49 €	2.98 €
Dividend yield	1.0 %	1.4 %	1.6 %	1.5 %
Volatility of the share	39 %	44 %	46 %	46 %
Expected term (years)	5	5	5	5
Risk-free interest rate	3.8 %	3.8 %	3.9 %	3.6 %

**Valuation parameters**

Issue date	5/30/2008	11/20/2008	3/31/2009	8/17/2009
Fair value	1,309 €k	1,424 €k	3,414 €k	2,173 €k
Average market value per convertible bond	3.27 €	0.95 €	1.38 €	2.17 €
Dividend yield	1.4 %	0.0 %	3.8 %	2.5 %
Volatility of the share	46 %	55 %	57 %	58 %
Expected term (years)	5	5	5	5
Risk-free interest rate	4.3 %	2.6 %	2.2 %	2.5 %

**Valuation parameters**

Issue date	3/29/2010	6/21/2010	7/12/2010	10/20/2010
Fair value	47 €k	813 €k	758 €k	107 €k
Average market value per convertible bond	2.37 €	2.03 €	1.90 €	2.67 €
Dividend yield	1.8 %	2.0 %	2.2 %	1.6 %
Volatility of the share	57 %	57 %	56 %	55 %
Expected term (years)	5	5	5	5
Risk-free interest rate	2.2 %	1.6 %	1.5 %	1.6 %

The total expense from the stock ownership plan amounts to €17,289k. The cumulative expense as of December 31, 2010 totals €12,129k. Expenses of €5,159k therefore relate to future years.

## Sedo Holding AG

### Virtual stock options

The employee stock ownership plan 2007 employs virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of AdLINK Internet Media AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the issue price on the date of granting the option and the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The issue price is the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option, plus a surcharge of 20%. Payment of value growth to the entitled person is limited to 100% of the strike price.

This transaction is carried in the balance sheet according to the regulations for stock-based remuneration plans with settlement via equity instruments.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% (i.e. including the previously exercised options) at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model in accordance with IFRS 2, the personnel expense for options issued amounted to € 234k (prior year: € 195k).

Using an option pricing model on the basis of a binominal model in accordance with IFRS 2, the fair value of options issued was calculated as follows:

#### Valuation parameters

Issue date	9/3/2007	11/28/2007	2/22/2008	3/6/2008	10/30/2008
Fair value	863 €k	723 €k	231 €k	870 €k	12 €k
Average market value per convertible bond	3.75 €	3.61 €	3.86 €	4.35 €	1.65 €
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Volatility of the share	52 %	55 %	40 %	39 %	53 %
Expected term (years)	5	5	5	5	5
Risk-free interest rate	4.0 %	3.9 %	3.6 %	3.5 %	3.2 %

#### Valuation parameters

Issue date	3/25/2009	3/30/2009	5/25/2009	3/22/2010
Fair value	18 €k	62 €k	54 €k	26 €k
Average market value per convertible bond	0.62 €	0.62 €	0.77 €	0.65 €
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %
Volatility of the share	73 %	73 %	78 %	41 %
Expected term (years)	5	5	5	5
Risk-free interest rate	2.6 %	2.5 %	2.8 %	1.7 %

The changes in the virtual stock options granted and outstanding are shown in the following table:

	<b>United Internet AG</b>		<b>Sedo Holding AG</b>	
	<b>SAR</b>	Average strike price (€)	<b>SAR</b>	Average strike price (€)
Outstanding as of December 31, 2008	4,495,000	10.56	627,200	17.26
Issued	2,483,000	5.52	30,000	3.72
Issued	1,000,000	8.96	100,000	3.72
Issued	---	---	70,000	4.32
Expired	---	---	-90,000	15.51
Expired	---	---	-30,000	18.15
Expired	---	---	-200,000	18.60
Expired	---	---	-7,200	7.43
Expired	---	---	-30,000	4.32
Outstanding as of December 31, 2009	7,978,000	8.71	470,000	12.27
Issued	20,000	11.33	40,000	4.21
Issued	400,000	9.73	---	---
Issued	400,000	8.96	---	---
Issued	40,000	11.73	---	---
Expired	-58,500	6.07	-20,000	15.51
Exercised	-359,500	6.07	---	---
Outstanding as of December 31, 2010	8,420,000	8.93	490,000	11.48
Exercisable as of December 31, 2010	400,000		0	
Exercisable as of December 31, 2009	0		0	
Weighted average remaining term as of December 31, 2010 (in months)	35		43	
Weighted average remaining term as of December 31, 2009 (in months)	44		54	

## **Sedo Holding AG**

### Convertible bonds

A further stock ownership plan still exists from the past based on the issue of convertible bonds and on the existing Conditional Capital 2004 of Sedo Holding AG. The last issue from this plan was made in fiscal year 2005.

The exercise price for the 5,630 outstanding convertible bonds of Sedo Holding AG as of December 31, 2010 remains unchanged from the previous year at €3.60. The weighted average remaining terms of the 5,630 outstanding convertible bonds (prior year: 40,630) amounted to 5 months as of December 31, 2010 (prior year: 17 months).

There were no expenses recognized in fiscal year 2010 for the issued convertible bonds. In the previous year, however, income of €155k was recognized. This resulted from the expiry of convertible bonds due to the departure of the employees concerned. €76k of the prior-year income was disclosed under general and administrative costs and €79k in the result from discontinued operations.

## **Assumptions used in evaluating options**

The anticipated maturities of conversion rights from convertible bonds and virtual stock options are based on historical data and do not necessarily correspond to the actual exercise behavior of the beneficiaries. Expected volatility is based on the assumption that historical volatility is an indicator of future trends. Actual volatility can thus differ from the assumptions made.

## **United Internet AG**

### **Employee stock ownership plan**

With the approval of the Supervisory Board, and as in the previous year, the Management Board resolved to offer Group employees shares in the amount of €360 per employee in fiscal year 2010.

These shares were provided in late February 2010 from the Company's own stock of treasury shares. The Xetra closing price as of issuance amounted to €11.31. A total of 81,525 shares were issued during this program (prior year: 101,973). The historic acquisition costs amounted to €982k (prior year: €1,228k), the resulting personnel expense was €922k (prior year: €900k). Capital reserves fell by €60k (prior year: €328k), representing the difference between fair value and the original acquisition costs of the treasury shares.

## **37.2 Share-based payment to third parties**

In a contract dated May 26, 2009, 1&1 Internet AG and freenet AG reached a sales agency agreement regarding DSL contracts with a term until 2014. As part of this agreement, a share-based volume bonus was granted in four tranches for the years 2011 to 2014 for the achievement of certain annual sales agent volumes. This contract became effective as of July 31, 2009.

Under the terms of the distribution agreement, 1&1 will pay freenet AG a premium of up to 6,551,000 United Internet shares in addition to its standard DSL commissions. The performance-oriented premium is payable in four tranches, depending on the achievement of pre-defined annual distribution targets. 1&1 also has the option to pay the premium in cash.

This bonus agreement represents an agreement in which 1&1 Internet receives services and has the option to offer compensation in cash or in the form of shares.

In the case of share-based remuneration plans which grant the Company the contractual choice of settling in cash or issuing equity instruments, the Company must determine whether there is a current cash settlement commitment and disclose the stock-based remuneration transaction correspondingly. There is a current cash settlement commitment if the possibility to settle by means of equity instruments has no economic substance (e.g. because the Company is legally forbidden to issue shares), or cash settlement was common business practice or the declared Company guideline in the past, or the Company generally settles in cash if the beneficiary so desires. These requirements are not met.

This transaction is therefore accounted for in accordance with the regulations for equity-settled payment transactions.

In accordance with IFRS 2.10, calculations are not based on the fair value of the services received but on the fair value of the promised equity instruments; the fair value of the services received could not be reliably estimated as payment depends on meeting certain targets. The date of granting all tranches therefore corresponds to the date on which the agreement became effective (July 31, 2009). The fair value of the compensation component is to be determined once as of this date.

The fair values per share and tranche and the main valuation parameters can be seen from the following table:

Tranche	Valuation parameters			
	1 (2011)	2 (2012)	3 (2013)	4 (2014)
Share price on issuance	8.95 €	8.95 €	8.95 €	8.95 €
Exercise price on issuance	0.00 €	0.00 €	0.00 €	0.00 €
Average market value per option	8.31 €	8.05 €	7.81 €	7.57 €
Dividend yield	3.2 %	3.2 %	3.2 %	3.2 %
Volatility of the share	58 %	58 %	58 %	58 %
Expected term (years)	2.4	3.4	4.4	5.4
Risk-free interest rate	1.6 %	2.1 %	2.4 %	2.6 %

Fair value was measured using the share price on the date of granting, less the present value of the dividend yield.

The expense is distributed according to the agency services already rendered compared to the target performance. The price component (market value of the options granted) remains fixed; with regard to the quantity component, an estimate of the probability of target achievement is to be made on every balance sheet date.

As of the balance sheet date, no expense was recognized for tranches 1 to 4, as the brokerage service had not yet been rendered.

### **38. Deferred tax liabilities**

Please refer to Note 16 for details on deferred tax liabilities.

### **39. Capital stock**

As at the balance sheet date, the fully paid-in capital stock still amounts to €240,000,000.00 divided into 240,000,000 registered no-par shares having a theoretical share in the capital stock of €1 each.

As at the balance sheet date, United Internet AG held 20,563,522 treasury shares (prior year: 10,272,371) representing 8.57% of capital stock (prior year: 4.28%) as at the balance sheet date. Up to February 2011, a further 3,436,478 treasury shares were purchased, so that United Internet AG held 24,000,000 treasury shares or 10.0% of capital stock.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on June 2, 2010 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on February 22, 2011 to cancel a total of 15,000,000 shares from the Company's stock of treasury shares, purchased in the course of share buyback programs, and to reduce the Company's capital stock by €15,000,000.00, from €240,000,000.00 to €225,000,000.00. In execution of this resolution, 15,000,000 registered no-par value shares with a notional share of capital stock of €1 each were cancelled. Following the cancellation of these 15,000,000 shares, the Company still holds 9,000,000 treasury shares. This corresponds to 4% of the reduced capital stock of €225,000,000.00. The reduction served to optimize the Company's balance sheet and capital structure.



Due to further share buybacks, the Company holds 11,250,000 treasury shares or 5% of current capital stock of €225,000,000.00 as of March 16, 2011. Treasury shares reduce equity and have no dividend entitlement.

## Authorized capital

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by June 12, 2011 by a maximum of €124,550,402 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the Company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of Company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG under exclusion of subscription rights are to be accounted for in this limitation.

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

## Conditional capital

There are the following lots of conditional capital:

- The capital stock has been conditionally increased by up to €80,000,000.00, divided into 80,000,000 no-par registered shares. The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on June 2, 2010 authorized the company or a subordinated Group company to issue, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.
- Pursuant to Sec. 71 (1) No. 8 AktG, the company is entitled to acquire treasury shares until May 25, 2012 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of June 2, 2010.

## 40. Reserves

As of December 31, 2010, capital reserves amounted to €41,649k (prior year: €39,971k). The increase results from the corresponding booking of personnel expenses from the employee stock ownership plan totaling €3,919k (prior year: €4,207k). The decrease results from the issue of treasury shares to employees (€60k; prior year: €328k) and from the initial exercise of virtual stock options settled in cash (€2,181k). This cash settlement is treated in the balance sheet as a buyback of equity shares.

As of the balance sheet date, the revaluation reserve consisted of the following items:

	2010	2009
	€k	€k
- Goldbach shares	14,743	2,612
- Affilias shares	6,228	5,082
- EFF No. 3	4,363	2,131
- EFF Investment	108	353
- Hi-media shares	0	2,985
- EFF No. 1	0	23
- freenet shares	0	-469
<b>Total</b>	<b><u>25,442</u></b>	<b><u>12,717</u></b>

Profit and loss from subsequent valuation to fair value are recognized net in equity – i.e. less deferred taxes – and after non-controlling interests.

#### **41. Additional details on financial instruments**

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2010:

in €k	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2010	Amortized cost	Valuation acc. to IAS 39 Fair value not through profit or loss	Fair value through profit or loss	Fair value on Dec. 31, 2010
<b>Financial assets</b>						
Cash and cash equivalents	lar	96,091	96,091			96,091
Trade accounts receivable	lar	97,987	97,987			97,987
Other assets	lar	24,738	24,738			24,738
Other financial assets	lar/afs					
Others	lar	7,477	7,477			7,477
Purchase price receivable	lar	9,163	9,163			9,163
Investments	afs	128,634		128,634		128,634
<b>Financial liabilities</b>						
Trade accounts payable	flac	213,509	213,509			213,509
Liabilities due to banks	flac	369,400	369,400			369,400
Other liabilities	flac/hft	72,816	60,303		12,513	72,816
Convertible bonds	flac	0	0			0
Of which aggregated acc. to valuation categories						
Loans and receivables	lar	235,456	235,456	0	0	235,456
Available-for-sale	afs	128,634	0	128,634	0	128,634
Financial liabilities measured at amortized cost	flac	643,212	643,212	0	0	643,212
Held-for-trading	hft	12,513			12,513	12,513

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2010:

Net result acc. to valuation categories 2010 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			From disposal	Net result
			Fair value	Currency translation	Value adjusted		
Loans and receivables (lar)	lar	2,822	--	19	-22,346	--	-19,505
Available-for-sale (afs)	afs	--	--	--	--	--	0
- of which not affecting net income			17,144	--	--	--	17,144
- of which affecting net income		2,272	-13,840	--	--	--	-11,568
Financial liabilities measured at amortized cost (flac)	flac	-15,197	--	8	--	--	-15,189
Held-for-trading (hft)	hft	--	-799	--	--	--	-799
		-10,103	2,505	27	-22,346	0	-29,917

Cash and cash equivalents, trade accounts receivable and trade accounts payable mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

Trade accounts payable generally have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

Financial liabilities carried at fair value through profit or loss refer to an interest hedging transaction.

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2009:

in €k	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2009	Valuation acc. to IAS 39			Fair value on Dec. 31, 2009
			Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	
<b>Financial assets</b>						
Cash and cash equivalents	lar	116,812	116,812			116,812
Trade accounts receivable	lar	91,290	91,290			91,290
Other assets	lar	6,042	6,042			6,042
Other financial assets	lar/afs					
Others	lar	7,176	7,176			7,176
Vendor loan	lar	12,195	12,195			12,195
Beteiligungen	afs	141,153		141,153		141,153
<b>Financial liabilities</b>						
Trade accounts payable	flac	193,197	193,197			193,197
Liabilities due to banks	flac	400,229	400,229			400,229
Other liabilities	flac/hft	66,177	54,463		11,714	66,177
Convertible bonds	flac	4	4			4
Of which aggregated acc. to valuation categories						
Loans and receivables	lar	233,515	233,515	0	0	233,515
Available-for-sale	afs	141,153	0	141,153	0	141,153
Financial liabilities measured at amortized cost	flac	647,893	647,893	0	0	647,893
Held-for-trading	hft	11,714			11,714	11,714

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2009:

Net result acc. to valuation categories 2009 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			From disposal	Net result
			Fair value	Currency translation	Value adjusted		
Loans and receivables (lar)	lar	2,473	--	657	-33,087	--	-29,957
Available-for-sale (afs)	afs	--	--	--	--	--	0
- of which not affecting net income			3,479	--	--	--	3,479
- of which affecting net income		520	-3,478	--	--	--	-2,958
Financial liabilities measured at amortized cost (flac)	flac	-23,515	--	281	--	--	-23,234
Held-for-trading (hft)	hft	--	1,382	--	--	--	1,382
		<u>-20,522</u>	<u>1,383</u>	<u>938</u>	<u>-33,087</u>	<u>0</u>	<u>-51,288</u>

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2010, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 31 December 2010, and as in the previous year, the carrying amounts of such liabilities not materially different from their calculated fair values.
- Fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available.
- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models using present value calculations. These models use mainly interest rate curves as the valuation parameters.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

#### Assets and liabilities measured at fair value

	<u>As of</u> <u>Dec. 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	€k	€k	€k	€k
<b>Available-for-sale financial assets</b>				
Equity shares	95,249	95,249		
Shares in unlisted companies	33,385		33,385	
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swap	12,513		12,513	

During the reporting period ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

	<u>As of</u> <u>Dec. 31, 2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	€k	€k	€k	€k
<b>Available-for-sale financial assets</b>				
Equity shares	98,993	98,993		
Shares in unlisted companies	42,160		42,160	
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swap	11,714		11,714	

#### Derivative financial instruments

The United Internet Group holds the following derivative financial instruments:

On October 7, 2008 United Internet AG concluded two interest swap agreements. The nominal volume of each amounts to €100,000k with a term until October 9, 2013. Interest hedging transactions were concluded to hedge against the interest risk, but do not meet the requirements of IAS 39 on *Hedge Accounting* and were recognized at fair value through profit and loss. The negative fair value as of the balance sheet date amounts to €12,513k (prior year: €11,714k) and was disclosed under other liabilities.

In the course of the transfer of the Display Marketing business of the AdLINK Group to the Hi-media Group, a vendor loan in the amount of the cash component was granted with a standard market interest rate (see Note 17). The vendor loan is to be repaid by June 30, 2011 at the latest and is disclosed under other current financial liabilities.

## **42. Transactions with related parties**

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Accordingly, United Internet AG is subject to significant influence from Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board.

United Internet's premises in Montabaur are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements run until June 2019, April 2015 and April and December 2016. The resulting rent expenses are customary and amounted to €2,277k in fiscal year 2010 (prior year: 1,891k).

At the ordinary shareholders' meeting on June 2, 2010, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2014.

In fiscal year 2010, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- Nemetschek AG, Munich (Chairman)
- Bechtle AG, Gaildorf
- docuware AG, Munich
- Hybris AG, Zürich / Switzerland
- Graphisoft S.E, Budapest / Hungary

Kai-Uwe Ricke

- 1&1 Internet AG, Montabaur
- Assicurazioni Generali S.p.A, Trieste / Italy (until April 24, 2010)
- Kabel Baden-Württemberg GmbH & Co. KG, Heidelberg
- Saudi Oger Telecom Ltd., Dubai / Emirate of Dubai (until April 28, 2010)
- Exigen Capital Europa AG, Zürich / Switzerland
- Nordia Innovation AB, Stockholm / Sweden
- euNetworks Group Ltd. , Singapore / Singapore (as of April 12, 2010)
- Delta Partners, Dubai / Emirate of Dubai (as of January 21, 2010)

Michael Scheeren

- 1&1 Internet AG, Montabaur (Chairman)
- Sedo Holding AG, Montabaur (Chairman)
- United Internet Media AG, Montabaur (Deputy Chairman)
- Goldbach Group AG, Küssnacht-Zürich / Switzerland

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to €10k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to €1k for every cent which exceeds the consolidated earnings per share (EPS) value of €0.60 for United Internet AG, calculated according to IFRS.

In addition, each member of the Supervisory Board shall receive for fiscal year 2013 and the following fiscal years remuneration of €500 per starting percentage point by which EPS in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously, limited to a maximum of €10k per fiscal year.

The members of the Supervisory Board of United Internet AG also hold seats on the supervisory board of 1&1 Internet AG. As of fiscal year 2010, they receive separate compensation from 1&1 Internet AG consisting of a fixed and a variable element. The fixed remuneration for ordinary members of the supervisory board amounts to €20k per full fiscal year. The chairman of the supervisory board receives the double amount. The performance-oriented compensation for each member of the supervisory board, including the chairman, is based on the earnings figures of 1&1 Internet AG. It amounts to at least €30k and a maximum of €70k per full fiscal year.

The following table provides details on the compensation received by members of the Supervisory Board:

2010	United Internet AG			1&1 Internet AG			United Internet Group		
	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Kurt Dobitsch	20	---	20	20	53	73	40	53	93
Kai-Uwe Ricke	10	---	10	20	53	73	30	53	83
Michael Scheeren	10	---	10	30	53	83	40	53	93
	<u>40</u>	<u>0</u>	<u>40</u>	<u>70</u>	<u>159</u>	<u>229</u>	<u>110</u>	<u>159</u>	<u>269</u>
2009	Fixed	Variable	Total						
Kurt Dobitsch	40	120	160						
Kai-Uwe Ricke	20	120	140						
Michael Scheeren	20	120	140						
	<u>80</u>	<u>360</u>	<u>440</u>						

There are no subscription rights or share-based payments for members of the Supervisory Board.

On December 15, 2010 affilinet GmbH signed a consultancy agreement with Mr. Michael Scheeren. Mr. Scheeren will help affilinet GmbH implement the results of a completed strategic advice project and integrate them into its operating processes. This does not include those activities which are part of Mr. Scheeren's duties as a member of the Sedo Holding AG supervisory board. Consultancy services utilized as of December 31, 2010 amounted to €2k.

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2010. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 80% to 120%. No bonus is paid below 80% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2010, total remuneration of €1,027k (prior year: €1,076k) was agreed for the Management Board. Of this total, €600k or 58% was fixed and €427k or 42% variable.

There are no retirement benefits from the Company to members of the Management Board.

In the fiscal years 2008 and 2009, Mr. Norbert Lang was granted 800,000 virtual stock options (Stock Appreciation Rights; components with a long-term incentive) in each year at an exercise price of €12.85 and €5.52, respectively. When the virtual stock options were granted, their fair values

amounted to € 2,384k and € 1,104k. Mr. Norbert Lang can exercise the rights no sooner than in June 2011, as the exercise hurdles have not yet been exceeded.

The following table provides details on the compensation received by members of the Management Board:

<b>2010</b>	Fixed	Variable	Total
Ralph Dommermuth	300	238	538
Norbert Lang	300	189	489
	<u>600</u>	<u>427</u>	<u>1,027</u>
<b>2009</b>	Fixed	Variable	Total
Ralph Dommermuth	300	266	566
Norbert Lang	300	210	510
	<u>600</u>	<u>476</u>	<u>1,076</u>

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is given in the following table:

<b>Shareholding</b>	<b>Jan. 1, 2010</b>		<b>Jan. 1, 2010</b>	<b>Dec. 31, 2010</b>		<b>Dec. 31, 2010</b>
<b>Management Board</b>	Direct	Indirect	Total	Direct	Indirect	Total
Ralph Dommermuth	17,600,000	74,400,000	92,000,000	17,600,000	74,400,000	92,000,000
Norbert Lang	---	576,128	576,128	---	402,248	402,248
	<u>17,600,000</u>	<u>74,976,128</u>	<u>92,576,128</u>	<u>17,600,000</u>	<u>74,802,248</u>	<u>92,402,248</u>
<b>Supervisory Board</b>	Direct	Indirect	Total	Direct	Indirect	Total
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	700,000	---	700,000	700,000	---	700,000
	<u>700,000</u>	<u>---</u>	<u>700,000</u>	<u>700,000</u>	<u>---</u>	<u>700,000</u>

The United Internet Group can also exert a significant influence on its associated companies and joint ventures.

### Conditions of transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2010 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

As part of the cooperation with ProSiebenSat.1 Media AG, 1&1 Internet AG owned until December 31, 2010 an interest in the joint venture maxdome GmbH & Co. KG, which operates the video-on-demand portal maxdome. As part of this cooperation, 1&1 Internet AG provided hosting and other services. The revenues generated by order and on account of maxdome were forwarded to maxdome GmbH & Co. KG. Moreover, 1&1 Internet AG undertook to provide maxdome GmbH & Co. KG, under certain



circumstances, with subordinated partner loans to finance the operating business of maxdome GmbH & Co. KG. In this connection, loans of €13,900k were granted in fiscal year 2010.

In a contract signed on December 20, 2010 the joint venture maxdome GmbH & Co. KG was sold with effect from December 31, 2010. An amount of €6,000k of the total price of €16,515k was paid in cash in fiscal year 2010. The remaining purchase price of €10,515k has been deferred until December 30, 2014. Including the effect from discounting this receivable, the purchase price receivable amounts to €9,163k as of the balance sheet date. Prorated profits were assumed until the point of sale and are included in the result from associated companies. The other operating income amounts to €7,769k (see also Note 8).

In fiscal year 2009, United Internet AG purchased 1,090,000 shares in freenet AG from MSP Holding GmbH at a price of €9.10 per share. In a contract dated December 11, 2009, United Internet AG retired as shareholder of MSP Holding GmbH and in return received 50% of shares in freenet AG held by MSP Holding GmbH (5,285,591 shares). As of the balance sheet date, United Internet AG holds a total of 6,375,591 shares in freenet AG, corresponding to 4.98% of voting rights.

Interest income of €31k accrued from a loan granted during fiscal year 2009 to MSP Holding GmbH amounting to €1,700k. The loan was repaid in full during fiscal year 2009.

Customer relations in the amount of €126,348k (broadband customers) were acquired from freenet AG, which was included in the consolidation as an associated company when the contract was closed in fiscal year 2009. A distribution agreement was also signed with freenet AG. We refer to Notes 28 and 37.2.

The following table presents the outstanding balances and total transactions volumes with associated companies and joint ventures in the respective fiscal year.

	Purchases/services from related parties		Sales/services to related parties		Liabilities due to related parties		Receivables from related parties	
	2010 €k	2009 €k	2010 €k	2009 €k	2010 €k	2009 €k	2010 €k	2009 €k
maxdome GmbH & Co. KG	7,182	10,239	---	---	228	---	---	---
Other	705	1,518	30	30	32	14	3	18

	Interest income		Interest expense	
	2010 €k	2009 €k	2010 €k	2009 €k
MSP Holding GmbH	0	31	---	---
maxdome GmbH & Co. KG	739	81	---	---

### **43. Objectives and methods of financial risk management**

#### Principles of risk management

The risk management system introduced by the United Internet Group is based on the COSO-ERM framework and is described in detail in the Management Report.

The principles of finance policy are set by the Management Board and monitored by the Supervisory Board. Certain transactions require the prior approval of the Supervisory Board.

The main financial liabilities used by the Group include bank loans and overdraft facilities, convertible bonds, trade accounts payable and other financial liabilities.

The Group holds various financial assets which result directly from its business activities. They consist mainly of trade accounts receivable, available-for-sale financial investments and short-term deposits. As of the balance sheet date, the Group mainly held primary financial instruments. In addition, there are derivative financial instruments, which consist mainly of interest swaps.

The aim of financial risk management is to limit these risks through ongoing operating and financial activities. The Company is hereby exposed to certain risks with regard to its assets, liabilities and planned transactions, especially liquidity risks and market risks, as described below.

## Liquidity risk

As in the previous year, the general liquidity risk of United Internet consists of the possibility that the Company may not be able to meet its financial obligations, such as the redemption of financial debts. The Company's objective is the continual coverage of its financial needs and securing flexibility by using overdraft facilities and loans.

Our global cash requirements and surpluses are managed centrally by our cash management system. By netting these cash requirements and surpluses within the Group, we can minimize the amount of external bank transactions. Netting is managed via our cash pooling process. The Company has established standardized processes and systems to manage its bank accounts and internal netting accounts as well as for the execution of automated payment transactions.

In addition to operating liquidity, United Internet also holds other liquidity reserves, available at short notice. These liquidity reserves consist of syndicated credit lines with varying terms.

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2010 and 2009:

	<b>Dec. 31, 2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>&gt; 2015</b>	<b>Total</b>
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	369,400	183,365	123,145	73,953	0	0	380,463
Trade accounts payable	213,509	213,509	0	0	0	0	213,509
Other liabilities	83,251	59,603	4,639	2,537	9,800	6,672	83,251
	<b>Dec. 31, 2010</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>&gt; 2014</b>	<b>Total</b>
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	400,229	55,356	184,648	104,186	73,872	0	418,062
Convertible bonds	4	4	0	0	0	0	4
Trade accounts payable	193,197	193,197	0	0	0	0	193,197
Other liabilities	84,515	56,023	3,407	1,085	581	22,546	83,642

Please refer to Note 32 for details on interest and redemption payments for liabilities to banks. It is assumed that the revolving syndicated loan will be repaid by the end of its term in 2012. The obligations to minority shareholders of the Company's investment funds EFF No. 2 and EFF No. 3 disclosed under "Other liabilities" are only due on the sale of the underlying portfolio companies.

The Company has no significant concentration of liquidity risks.

## Market risk

The activities of United Internet are mainly exposed to financial risks from changes in interest rates, exchange rates, stock exchange prices, and credit or contingency risks.

### Interest risk

The Group is exposed to interest risks as the major share of its borrowing as of the balance sheet date bears variable interest rates with varying terms. As part of liquidity planning we constantly monitor the various investment and borrowing possibilities. Borrowing requirements are met by using suitable instruments to manage liquidity, while surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk has increased since the previous year.

In fiscal year 2008, the Company concluded two interest swaps with a total nominal amount of €200,000k in order to reduce its interest risk. As of the balance sheet date, liabilities due to banks amounting to €369,400k is thus covered to around 54%. The agreements have a term until October 9, 2013.

Market interest rate changes might have an adverse effect on the interest result and are included in our calculation of sensitive factors affecting earnings. In order to present market risks, United Internet has developed a sensitivity analysis which shows the impact of hypothetical changes to relevant risk variables on pre-tax earnings. The reporting period effects are illustrated by applying these hypothetical changes in risk variables to the stock of financial instruments as of the balance sheet date.

A change in the market interest level has an effect on interest swaps stated at fair value with an effect on income. A parallel shift in the interest structure curve of + / - 100 basis points might have resulted in a comparable increase in pre-tax earnings of €5,382k (prior year: €5,311k) or a decrease of €5,483k (prior year: €6,991k).

The interest risk is negligible for other interest-bearing liabilities.

### Currency risk

A currency risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in the exchange rates. The Group is mainly exposed to currency risks as a result of its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries. The currency risk of United Internet results from investments, financing activities and operations. Currency risks which do not affect cash flows (i.e. risks from translating the assets and liabilities of foreign operations into the Group's reporting currency) are not hedged against. In the period under review, there were no foreign exchange risks with a significant impact on the cash flows.

With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the Company therefore regards the currency risk from operations as low. Certain Group companies are exposed to foreign exchange risks in connection with planned payments outside their functional currency.

Foreign exchange risks arise from financial instruments which are denominated in a different currency to the functional currency and are of a monetary nature; exchange rate differences from the translation of annual financial statements into the Group's reporting currency are not considered. The relevant risk variables include all non-functional currencies in which the Company holds financial instruments.

### Stock exchange risk (valuation risk)

The Company classifies certain (quoted) assets as available-for-sale and records changes in their fair value in equity without an effect on profit or loss. If there is a significant or persistent decrease in the

fair value of an equity instrument below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement. The fair value of these listed assets amounted to €95,249k as of the balance sheet date (prior year: €98,993k).

Impairments may result from the share price development of listed investments.

The Company has no significant concentration of market risks.

## Credit and contingency risk

In the course of its operating activities, the Company is exposed to a contingency risk. Outstanding amounts are therefore monitored locally and on a continual basis. Individual and lump-sum allowances are made to account for such contingency risks. The Group does not see any significant increase in the contingency risk over the previous year.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see Note 21).

### Internal rating system

In the 1&1 sub-group, a pre-contractual fraud check is conducted and collection agencies are also used for the management of receivables. In the Sedo sub-group, a pre-contractual check of creditworthiness is made in the media sales business and collection agencies are also used for the management of receivables.

In the 1&1 sub-group, individual allowances for receivables overdue are generally made on the basis of the respective age profile. These allowances are mainly derived from success rates of the agencies used for collecting such debts. 100% individual allowances are made for all receivables overdue more than 365 days. In the Sedo sub-group, individual allowances are made for each customer according to various criteria (e.g. dunning level, insolvency, fraud cases etc.).

The Company has no significant concentration of credit risks.

## Risks from financial covenants

The existing credit lines of United Internet AG are tied to so-called financial covenants. An infringement of these covenants may cause the lender to terminate the financial arrangement and demand immediate repayment of the amounts drawn. The covenants contained in the loan agreements of United Internet require the Company to maintain a specified net debt-to-EBITDA ratio and a specified EBITDA-to-interest ratio. These ratios are used to calculate the relative burden which the financial liabilities and interest payments place on the Company. In view of the far superior ratios of United Internet at present, the probability of infringement is regarded as low. Compliance with the covenants is regularly monitored by the Company's Management Board.

## Capital management

In addition to the legal provisions for stock corporations, the Company has no further obligations to maintain capital according to its statutes or other agreements. The key financial indicators used by the Company are mainly performance-oriented. The targets, methods and processes of capital management are thus subordinate to these performance-oriented financial indicators.

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can issue new shares or purchase treasury shares. As of December

31, 2010 and December 31, 2009, no changes were made to the Company's targets, methods and processes.

#### **44. Specific contingencies and commitments**

##### Litigation

Litigation risks mainly relate to various legal disputes of 1&1 and Sedo Holding.

An accrual for litigation was formed for any commitments arising from these disputes (see Note 35).

##### Guarantees

As of the balance sheet date, the Company has issued no guarantees.

#### **45. Other financial commitments, guarantees and contingent liabilities**

##### Operating lease commitments

At the end of the fiscal year, there were fixed-term obligations from the renting of buildings, offices and movables.

Most leases have options to prolong the contractual relationship. The terms of these prolongation options are negotiable or identical with the current terms.

As of December 31, the future minimum lease obligations were as follows:

	<b>2010</b>	<b>2009</b>
	€k	€k
Up to 1 year	18,657	22,380
1 to 5 years	40,595	34,982
Over 5 years	23,124	16,427
	<u>82,376</u>	<u>73,789</u>

In the period under review, these operating leases incurred expenses of €14,273k (prior year: €12,537k).

## Guarantees and other obligations

The Company is jointly and severally liable for credit lines granted to companies of the United Internet Group by a bank. The credit facilities had only been utilized with regard to guarantees as of the balance sheet date.

The Management Board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

## Contingent liabilities

In the course of the completed tax audit for the assessment periods 2002 to 2005, there were findings with regard to the income tax treatment of so-called customer acquisition costs. Due to their sales cost character, these costs are expensed when incurred. According to the tax authority, certain parts of these costs are to be deferred beyond the minimum contract terms.

In 2010, a lawsuit brought by a mobile phone operator against this opinion was rejected by the German Federal Finance Court (BFH). However, the question of whether the verdict applied retroactively to previous years was not settled. In order to settle this matter, the 1st Senate has referred the case to the Large Senate of the BFH. United Internet has taken the verdict of the 1st Senate into account for its taxes in fiscal year 2010 and formed corresponding tax accruals. As United Internet does not currently expect a retroactive application of the verdict, no tax accruals have been formed for previous years.

Should this expectation not be met, income tax expenses in the low tens of millions may result, in line with the Group's business volume.

## **46. Cash flow account**

In fiscal year 2010, cash flow from operating activities includes interest payments of €11,558k (prior year: €17,789k) and interest income of €1,564k (prior year: €2,981k). Income tax payments in fiscal year 2010 amounted to €84,208k (prior year: 85,520k) while income tax proceeds totaled €31,856k (prior year: €0k). Proceeds from dividends distributed by other investments amounted to €2,272k (prior year: €520k) in fiscal year 2010. Proceeds from dividends paid by associated companies totaled €983k (prior year: €392k).

A total of €4,697k (prior year: €4,802k) was paid in cash for the purchase of shares in associated companies and joint ventures in fiscal year 2010. Further details are provided in Note 25.

An amount of €465k (prior year: €1,858k) was paid for the purchase of additional shares of Sedo Holding in fiscal year 2010. The acquisition costs for the purchase of the operating business of Mail.com amounted to €22,606k at the time of acquisition, of which €21,437k was settled in cash in fiscal year 2010.

The sale of shares in associated companies and investments resulted in total cash proceeds of €26,465k (prior year: €116,903k) in fiscal year 2010.

The acquisition costs for the purchase of shares in united-domains AG in the previous year amounted to €34,951k, of which €34,070k was settled in cash. As part of the acquisition of united-domains AG, cash and cash equivalents of €1,762k were received.

Cash of €1,154k was disbursed in the previous year in connection with the deconsolidation of the Display Marketing business of Sedo Holding AG in fiscal year 2009.

#### **47. Exemption pursuant to Sec. 264 (3) HGB**

The following companies of United Internet AG make use of the exempting provisions of Sec. 264 (3) HGB:

- 1&1 Internet AG, Montabaur
- 1&1 Internet Applications GmbH, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Internet Service GmbH Zweibrücken, Zweibrücken
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- United Internet Beteiligungen GmbH, Montabaur
- United Internet Media AG, Montabaur
- United Internet Dialog GmbH, Montabaur

#### **48. Subsequent events**

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on June 2, 2010 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on February 22, 2011 to cancel a total of 15,000,000 shares from the Company's stock of treasury shares, purchased in the course of share buyback programs, and to reduce the Company's capital stock by €15,000,000.00, from €240,000,000.00 to €225,000,000.00. In execution of this resolution, 15,000,000 registered no-par value shares with a notional share of capital stock of € 1 each were cancelled.

There were no further significant events subsequent to the balance sheet date which may have resulted in a different representation of United Internet's situation.

#### **49. Auditing fees**

In fiscal year 2010, auditing fees totaling € 1,563k (prior year: € 2,139k) were expensed in the consolidated financial statements. These include auditing fees of € 970k (prior year: 937k), tax consultancy services of € 383k (prior year: 499k), and other services of € 210k (prior year: 703k).

In addition, auditing fees for tax consultancy services and other services amounting to € 0k (prior year: 22k) were carried in the consolidated financial statements without effect on income and capitalized as transaction costs in connection with company acquisitions.

#### **50. Corporate Governance Code**

The declaration pursuant to Sec. 161 AktG on observance of the German Corporate Governance Code was submitted by the Management Board and Supervisory Board and has been made available to shareholders via the internet portal of United Internet AG ([www.united-internet.de](http://www.united-internet.de)) and Sedo Holding AG ([www.sedoholding.com](http://www.sedoholding.com)).

Montabaur, March 16, 2011

The Management Board

United Internet AG - Development of fixed assets acc. to IFRS for the fiscal year 2010 and 2009 (€k)

Exhibit

2010	Acquisition and production costs						Accumulated depreciation						Net book value		
	Jan. 1, 2010	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2010	Jan. 1, 2010	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
<b>Intangible assets</b>															
Licenses	28,416		276	11		123	28,804	26,264	840			90	27,194	2,152	1,610
Order backlog	2,141	264				-8	2,397	2,141	171				2,312	0	85
Software	48,934		14,768	473		53	63,282	34,632	6,204	471		36	40,401	14,302	22,881
Trademark	26,041	21,309				-448	46,902	23	750			1	774	26,018	46,128
Customer base	183,586	544	3,778			980	188,888	32,332	31,061			369	63,762	151,254	125,126
Portal	72,240						72,240	37,625	9,031			-1	46,655	34,615	25,585
Goodwill	413,018	488	535			3,081	417,122	14,092	162				14,254	398,926	402,868
<b>Total (I)</b>	<b>774,376</b>	<b>22,605</b>	<b>19,357</b>	<b>484</b>	<b>0</b>	<b>3,781</b>	<b>819,635</b>	<b>147,109</b>	<b>48,219</b>	<b>471</b>	<b>0</b>	<b>495</b>	<b>195,352</b>	<b>627,267</b>	<b>624,283</b>
<b>Property, plant and equipment</b>															
Land and buildings	8,049		1				8,050	4,122	94				4,216	3,927	3,834
Operational equipment	225,222	35	42,835	21,644	6,248	4,126	256,822	145,095	37,903	19,981		2,205	165,222	80,127	91,600
Payments in advance	9,867		9,504	40	-6,248	158	13,241	0					0	9,867	13,241
<b>Total (II)</b>	<b>243,138</b>	<b>35</b>	<b>52,340</b>	<b>21,684</b>	<b>0</b>	<b>4,284</b>	<b>278,113</b>	<b>149,217</b>	<b>37,997</b>	<b>19,981</b>	<b>0</b>	<b>2,205</b>	<b>169,438</b>	<b>93,921</b>	<b>108,675</b>
<b>Total</b>	<b>1,017,514</b>	<b>22,640</b>	<b>71,697</b>	<b>22,168</b>	<b>0</b>	<b>8,065</b>	<b>1,097,748</b>	<b>296,326</b>	<b>86,216</b>	<b>20,452</b>	<b>0</b>	<b>2,700</b>	<b>364,790</b>	<b>721,188</b>	<b>732,958</b>

2009	Acquisition and production costs						Accumulated depreciation						Net book value		
	Jan. 1, 2009	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2009	Jan. 1, 2009	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
<b>Intangible assets</b>															
Licenses	28,337	0	311	204	0	-28	28,416	25,211	1,186	121	0	-12	26,264	3,126	2,152
Order backlog	2,141	0	0	0	0	0	2,141	2,141	0	0	0	0	2,141	0	0
Software	37,695	2,211	9,974	1,016	0	70	48,934	30,675	4,680	896	0	173	34,632	7,020	14,302
Trademark	21,423	4,198	75	0	0	345	26,041	44	79	0	0	-100	23	21,379	26,018
Customer base	42,927	12,295	126,979	0	0	1,385	183,586	20,585	11,401	0	0	346	32,332	22,342	151,254
Portal	72,240	0	0	0	0	0	72,240	28,595	9,030	0	0	0	37,625	43,645	34,615
Goodwill	399,172	24,399	20,414	35,540	0	4,573	413,018	20,296	2	6,206	0	0	14,092	378,876	398,926
<b>Total (I)</b>	<b>603,935</b>	<b>43,103</b>	<b>157,753</b>	<b>36,760</b>	<b>0</b>	<b>6,345</b>	<b>774,376</b>	<b>127,547</b>	<b>26,378</b>	<b>7,223</b>	<b>0</b>	<b>407</b>	<b>147,109</b>	<b>476,388</b>	<b>627,267</b>
<b>Property, plant and equipment</b>															
Land and buildings	8,047	0	2	0	0	0	8,049	4,028	110	16	0	0	4,122	4,019	3,927
Operational equipment	196,645	345	29,571	3,701	1,948	414	225,222	117,634	29,744	2,613	14	316	145,095	79,011	80,127
Payments in advance	3,464	0	8,443	117	-1,948	25	9,867	0	0	0	0	0	0	3,464	9,867
<b>Total (II)</b>	<b>208,156</b>	<b>345</b>	<b>38,016</b>	<b>3,818</b>	<b>0</b>	<b>439</b>	<b>243,138</b>	<b>121,662</b>	<b>29,854</b>	<b>2,629</b>	<b>14</b>	<b>316</b>	<b>149,217</b>	<b>86,494</b>	<b>93,921</b>
<b>Total</b>	<b>812,091</b>	<b>43,448</b>	<b>195,769</b>	<b>40,578</b>	<b>0</b>	<b>6,784</b>	<b>1,017,514</b>	<b>249,209</b>	<b>56,232</b>	<b>9,852</b>	<b>14</b>	<b>723</b>	<b>296,326</b>	<b>562,882</b>	<b>721,188</b>



## **Audit opinion of the Independent Auditor**

We have audited the consolidated financial statements prepared by United Internet AG, Montabaur – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the management report for the group and the company for the fiscal year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the management report for the group and the company in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the group and the company based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with [German] principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report for the group and the company are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management report for the group and the company. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report for the group and the company is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, March 21, 2011

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Bösser

Kemmerich

Wirtschaftsprüfer

Wirtschaftsprüfer

[German Public Auditor]

[German Public Auditor]

## **Responsibility Statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report and Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Montabaur, March 16, 2011

Board of Management

Ralph Dommermuth

Norbert Lang



**United Internet AG,  
Montabaur**

**Annual Financial Statements of the  
Parent Company**  
acc. to HGB

as at  
December 31, 2010

## United Internet AG - Balance Sheet acc. to HGB

as of December 31, 2010 in €k

<u>ASSETS</u>	December 31, 2010	December 31, 2009	<u>EQUITY AND LIABILITIES</u>	December 31, 2010	December 31, 2009
<u>FIXED ASSETS</u>			<u>EQUITY</u>		
Intangible assets			Capital stock	240,000	
Concessions, industrial and similar rights and assets as well as licenses in such rights and assets	15	27	./. treasury stock	-20,564	240,000
	<u>15</u>	<u>27</u>	Capital reserves	70,977	70,977
			Revenue reserves		
Property, plant and equipment			Other revenue reserves	276,620	0
Other equipment, operational and office equipment	238	269	Reserves for treasury stock	0	94,711
	<u>238</u>	<u>269</u>	Retained earnings	418,578	91,834
				<u>985,611</u>	<u>497,522</u>
			<u>ACCRUALS</u>		
Financial assets			Accrued taxes	38,008	30,980
Shares in affiliated companies	404,999	404,533	Other accrued liabilities	21,151	18,644
Loans to affiliated companies	1,750	1,750		<u>59,159</u>	<u>49,624</u>
Investments	106,681	150,137	<u>LIABILITIES</u>		
	<u>513,430</u>	<u>556,420</u>	Liabilities due to banks	370,166	400,000
	<u>513,683</u>	<u>556,716</u>	Trade accounts payable	58	318
			Liabilities due to affiliated companies	19,613	9,515
<u>CURRENT ASSETS</u>			Liabilities due to companies in which an investment is held	797	745
Accounts receivable and other assets			Other liabilities	2,548	9,048
Trade accounts receivable	0	23		<u>393,182</u>	<u>419,626</u>
Receivables due from affiliated companies	913,613	203,934	<u>DEFERRED TAX LIABILITIES</u>		
Receivables due from companies in which an investment is held	3	3		16,215	0
Other assets	17	37,539			
	<u>913,633</u>	<u>241,499</u>			
Securities					
Treasury stock	0	94,711			
	<u>0</u>	<u>94,711</u>			
Cash in hand and bank balances	26,811	73,806			
	<u>26,811</u>	<u>73,806</u>			
	<u>940,444</u>	<u>410,016</u>			
<u>PREPAID EXPENSES</u>	40	40			
	<u>40</u>	<u>40</u>			
	<u>1,454,167</u>	<u>966,772</u>		<u>1,454,167</u>	<u>966,772</u>

## United Internet AG - Income Statement acc. to HGB

from January 1, 2010 to December 31, 2010 in €k

	<b>2010</b>	<b>2009</b>
	<b>January - December</b>	<b>January - December</b>
Sales	2,904	3,567
Other operating income	504	121,817
Cost of materials		
Cost of purchased services	-1,973	-2,457
Personnel expenses		
a. Wages and salaries	-3,155	-5,434
b. Social security contributions	-190	-204
Amortization and depreciation of intangible assets and property, plant and equipment	-99	-103
Other operating expenses	-5,407	-6,750
Income from profit transfer agreements	951,270	278,933
Income from investments	1,275	0
Other interest and similar income	3,238	4,549
Amortization and depreciation of financial assets and securities	-45,673	-27,619
Interest and similar expenses	-12,915	-21,117
Result from ordinary operations	<u>889,779</u>	<u>345,182</u>
Taxes on income	-110,491	-46,511
Other taxes	184	-441
Net profit for the year	<u><u>779,472</u></u>	<u><u>298,230</u></u>
Profit carried forward	3,834	-176,940
Asset reduction due to cancellation of treasury shares	0	-73,125
Drawing from reserve for treasury stock	10,272	43,669
Transfer to other revenue reserves	-375,000	0
Income from capital reduction	0	11,626
Transfer to capital reserves acc. to the regulations governing simplified capital reduction	0	-11,626
Balance sheet profit	<u><u>418,578</u></u>	<u><u>91,834</u></u>

## **UNITED INTERNET AG, MONTABAUR**

Notes to the Financial Statements for Fiscal Year 2010

### **GENERAL PROVISIONS**

The annual financial statements for fiscal year 2010 were prepared in accordance with Sections 242 ff. and Sections 264 ff. German Commercial Code (HGB), as well as with the respective provisions of the German Stock Corporation Law (AktG).

Due to its capital market orientation, United Internet AG, Montabaur, is classified as a large corporation pursuant to Sec. 267 (3) HGB.

The annual financial statements are based on the provisions of the German Commercial Code and Stock Corporation Act, as amended.

The income statement is prepared according to the cost summary method.

We make reference to the fact that consolidated financial statements have been prepared according to International Financial Reporting Standards (IFRS) to comply with the listing requirements for the Prime Standard segment of the Frankfurt Stock Exchange and have been disclosed in accordance with Sec. 325 HGB. We refer to Sec. 315 a HGB.

### **INFORMATION ABOUT THE COMPANY**

The business activities of United Internet AG go back to "Eins & Eins EDV Marketing GmbH", which was founded by Mr. Ralph Dommermuth and two other shareholders in 1988. The name of this marketing company was changed to "1&1 EDV Marketing GmbH", before being finally renamed as "1&1 Holding GmbH" in 1993.

United Internet AG was founded on January 29, 1998 as a new holding company for the 1&1 Group, with the name 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, a partnership limited by shares. The company was entered into the commercial register at the Local Court of Montabaur against HRB 5762 on February 16, 1998; 1&1 Holding GmbH was then merged into the company with effect from January 1, 1998.

On March 20, 1998 the company's shares were admitted to the regulated market with a listing in the Neuer Markt segment of the Frankfurt Stock Exchange. The shares were traded for the first time on March 23, 1998.

The extraordinary shareholders' meeting on February 22, 2000 adopted a resolution to change the name of the company to United Internet Aktiengesellschaft & Co. KGaA. The new name was entered in the commercial register on February 23, 2000.

The change of legal form to a stock corporation by the name of United Internet AG, also decided on February 22, 2000, was entered in the commercial register on March 23, 2000.

### **PURPOSE OF THE COMPANY**

The purpose of the company is to provide marketing, selling and other services, especially in the fields of telecommunications, information technology, including the Internet, and data processing or related areas. The company's purpose also includes

the acquisition, holding and management of investments in other companies, especially those operative in the aforementioned business segments. The company is entitled to bring companies in which it holds an investment under its common control and may restrict itself to the management or administration of its investments.

The company is authorized to acquire or hold investments in all types of companies in Germany and other countries and to transact all business that is conducive to its purpose. The company is also authorized to conduct its business through subsidiaries, associated companies and joint ventures. It may outsource or transfer all or part of its operations to affiliated companies.

## **MANAGEMENT AND REPRESENTATION OF THE COMPANY**

The company's Management Board manages and represents the company. According to its by-laws, the Management Board has one or more members, the number of which is determined by the Supervisory Board. If the Management Board has only one member, the company is represented by this person. If it has more than one member, the company is represented by two members of the Management Board or by one member of the Management Board collectively with a person holding power of attorney; however, the Supervisory Board may authorize particular members of the Management Board to represent the company on their own.

## **NOTES TO BALANCE SHEET ITEMS**

All figures are in euro (€), thousand euro (€k) or million euro (€m).

## **ACCOUNTING AND VALUATION METHODS**

The following accounting and valuation methods were used in the preparation of the annual financial statements.

Changes result from the initial adoption of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz - BilMoG) with regard to the accounting of deferred taxes and treasury shares (treatment same as capital reduction) and the discounting of long-term provisions. Details are provided in the respective sections of these Notes.

**Intangible assets** acquired for consideration are carried at cost and, insofar as their value diminishes, amortized in scheduled amounts according to their expected useful life.

Property, plant and equipment are depreciated over their expected useful lives. For assets acquired up to December 31, 2007 and between January 1, 2009 and December 31, 2009, the declining balance method is applied. The straight-line method is applied in the year in which it leads to higher annual depreciation rates. Other fixed assets are depreciated using the straight-line method. Individual items with a low net value of up to €150.00 are fully expensed in the year of acquisition; it is assumed that they are disposed of immediately. For reasons of simplification, the tax method used to compile omnibus items is also applied in the commercial balance sheet for individual assets with a net value of over €150.00 and up to €1,000.00. This omnibus item is then written off in a lump sum of 20 percent in the year of addition as well as in each of the following four years. Other depreciation of additions to property, plant and equipment is always made pro rata temporis.



Operational equipment is usually depreciated over 4 to 5 years. Leasehold improvements are generally written off over a period of 10 years or the shorter lease period. The normal useful life of office furniture and equipment is 8 to 13 years, that of the vehicles 5 to 6 years.

Shares and securities disclosed under **financial assets** are reported at the lower of cost or market value, while loans are always stated at their nominal value.

**Receivables and other assets** are stated at nominal value. All risk-bearing items, which are significant in terms of amount, are covered by reasonable allowances.

**Tax accruals** and **other accruals** consider all contingent liabilities, recognizable risks, and impending losses. They are carried at the settlement amount computed in accordance with prudent commercial practice (i.e. including future cost and price increases). Accruals with a remaining term of more than one year are discounted.

**Liabilities** are stated at their settlement amount.

For the calculation of **deferred taxes** due to temporary or quasi-permanent differences between the commercial law valuation of assets, liabilities and prepaid expenses and their tax valuation, or due to tax loss carryforwards, the amounts of the resulting tax burden or relief are measured using the company's individual tax rates at the point in time when the differences reverse and are not discounted. Deferred tax assets and liabilities are disclosed after offsetting.

**Assets and liabilities denominated in foreign currencies** are translated at the average spot rate on the balance sheet date. In the case of remaining terms of over one year, the realization principle (Sec. 252 (1) No. 4 Half-sentence 2 HGB) and the acquisition cost principle (Sec. 253 (1) Sentence 1 HGB) are applied.

## **FIXED ASSETS**

Reference is made to the fixed asset movement schedule (exhibit 1 of the notes) for the classification and development of fixed assets.

### **Intangible assets and property, plant and equipment**

Investments in this area mainly concern vehicles.

### **Financial assets**

Information on the equity situation and results of operations of the affiliated companies and associated companies, stating the respective shareholding, is included in the list of shareholdings (exhibit 2 of the notes).

Additions to shares in affiliated companies amount to €466k and result from the purchase of further shares in Sedo Holding AG via the stock exchange.

The additions to investments amount to €2,218k. Of this total, an amount of €2,212k results from the purchase of further shares in Versatel AG.

The investments in Versatel AG and freenet AG were written down to fair value as at the balance sheet date and amounted to €34,637k and €11,033k respectively.

## CURRENT ASSETS

### Receivables and other assets

The classification and maturities of receivables and other assets are shown in the following table (€k):

	Dec. 31, 2010	Dec. 31, 2010		Dec. 31, 2009	
	Total	Up to 1 year	Remaining term 1 to 5 years	Over 5 years	Total*
Trade accounts receivable	0	0			23
Accounts receivable from affiliated companies	913,614	913,614			203,934
Accounts receivable from companies in which an investment is held	3	3			3
Other assets	17	17			37,539
	<u>913,634</u>	<u>913,634</u>	<u>0</u>	<u>0</u>	<u>241,499</u>

\* Remaining term up to 1 year"

Receivables from affiliated companies mainly comprise receivables due from 1&1 Internet AG (€911,656k). Receivables result primarily from the profit and loss transfer agreement concluded with 1&1 Internet AG, as well as from balances of the United Internet Group's internal cash management system and receivables from these companies for services rendered.

In the previous year, other assets comprised receivables from the tax authority.

## EQUITY

The company has the legal form of a stock corporation ("Aktiengesellschaft").

### Capital stock and shares

As at the balance sheet date, the fully paid-in capital stock amounts to €240,000,000.00 divided into 240,000,000 registered no-par shares having a theoretical share in the capital stock of €1.00 each. As of December 31, 2010 the company held 20,563,522 treasury shares, which in accordance with Sec. 272 (1)a HGB are deducted from capital stock on the face of the balance sheet.

### Approved capital

The company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by a maximum of €124,550,402.00 in the period ending June 12, 2011 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case

of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG under exclusion of subscription rights are to be accounted for in this limitation.

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

### **Conditional capital**

With a resolution adopted by the shareholders' meeting of June 2, 2010, the conditional capital of €4,711,892.00 (authorized by the shareholders' meeting on May 16, 2003) and of €3,000,000.00 (authorized by the shareholders' meeting on May 18, 2005) was canceled with effect for the future.

The conditional capital of up to €92,000,000.00 (authorized by the shareholders' meeting on May 18, 2005, limited to the period ending May 17, 2010) will no longer be used due to expiry and is thus invalid.

There are the following lots of conditional capital:

The capital stock has been conditionally increased by up to €80,000,000.00, divided into 80,000,000 no-par registered shares (Conditional Capital 2010). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on June 2, 2010 authorized the company or a subordinated Group company to issue, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.

The conditional capital increase will only be executed to the extent that the bearers exercise their warrant or conversion rights from the aforementioned bonds or to the extent that conversion obligations from such bonds are fulfilled and the company does not service warrant or conversion rights from its stock of treasury shares or from approved capital. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercising the conversion or option rights. The Management Board is authorized to set the further details regarding the execution of the conditional capital increase.

Pursuant to Sec. 71 (1) No. 8 AktG, the company is entitled to acquire treasury shares until May 25, 2012 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent

above its market price. As of the balance sheet date 20,563,522 treasury shares were held.

The company's Management Board is authorized, subject to the approval of the Supervisory Board, to sell treasury stock it has acquired in other ways than through the stock exchange or by offering to all shareholders, if the acquired treasury stock is sold for cash contribution at a price not significantly below the market price for such shares at the time of sale, or for reasonable non-cash consideration.

Subject to approval by the Supervisory Board, the Management Board is authorized to use the own shares acquired on the basis of this authorization to grant shares to members of the Management Board, to other company employees as well as to the management and employees of affiliated companies acc. to Sec. 15 ff. AktG, who are entitled to them on the basis of employee stock ownership plans. The company's Supervisory Board shall decide in all cases where own shares are to be transferred to members of the Management Board.

The Management Board is also permitted, subject to the approval of the Supervisory Board, to use the acquired treasury shares to meet conversion or option rights, or option commitments.

The Management Board is further permitted, subject to the approval of the Supervisory Board, to call in shares without a further resolution of the general meeting of shareholders.

The shareholders' subscription rights to treasury shares are excluded insofar as these shares are used according to the above authorizations. The authorization to purchase, sell or withdraw treasury shares can be exercised once or severally and either in total or in parts.

Total shareholders' equity developed as follows (€):

**Capital stock**

- Balance as of December 31, 2009	240,000,000.00
- Open disclosure of treasury shares acc. to Sec. 272 (1)a HGB	-20,563,522.00
- Balance as of December 31, 2010	<u><b>219,436,478.00</b></u>

**Capital reserves**

- Balance as of December 31, 2009	70,976,677.74
- Balance as of December 31, 2010	<u><b>70,976,677.74</b></u>

**Reserves for treasury stock**

- Balance as of December 31, 2009	94,711,260.62
- Offsetting with treasury shares acc. to Sec. 272 (1)a HGB	-84,438,889.62
- Drawing from reserves for treasury stock	-10,272,371.00
- Balance as of December 31, 2010	<u><b>0.00</b></u>

**Other revenue reserves**

- Balance as of December 31, 2009	0.00
- Formation of deferred taxes not affecting income	8,749,812.00
- Transfer to other revenue reserves	375,000,000.00
treasury stock	-107,800,469.21
- Transfer to other revenue reserves	670,135.50
- Balance as of December 31, 2010	<u><b>276,619,478.29</b></u>

**Balance sheet profit / loss**

- Balance as of December 31, 2009	91,833,916.77
- Dividend payment	-88,000,000.00
- Net profit for the year	779,471,825.55
- Drawing from reserve for treasury stock	10,272,371.00
- Transfer to other revenue reserves	-375,000,000.00
- Balance as of December 31, 2010	<u><b>418,578,113.32</b></u>

**Total shareholders' equity**

**985,610,747.35**

Due to the application of the regulations pursuant to the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz - BilMoG), treasury shares held at the time of conversion are derecognized pursuant to Sec. 272 (1)a HGB and deducted from subscribed capital at their nominal amount and deducted from reserves for treasury stock in the amount of the difference (carrying amount less nominal amount). The nominal amount of treasury shares was deducted from subscribed capital on the face of the balance sheet. The reserves for treasury stock were cancelled by the same amount and transferred to the balance sheet profit. Further treasury shares were purchased in fiscal year 2010. The nominal amount was once again deducted from subscribed capital on the face of the balance sheet, the difference was offset with other revenue reserves. In future, treasury shares will be treated in the same way as a capital reduction. The nominal value of shares held as at the balance sheet date amounting to €20,563,522.00 was deducted from capital stock and disclosed in a sub-column on the face of the balance sheet.

In accordance with Sec. 58 (2) Sentence 1 AktG, the Management Board of United Internet AG resolved to transfer a partial amount of the annual net income of €375,000k to other revenue reserves. Following the purchase of treasury shares in fiscal year 2010, revenue reserves fell by €107,130k. Due to the issue of employee stocks, the difference of €670k was transferred to other revenue reserves. In addition, the initial adoption of the accounting regulations of the German Accounting Law Modernization Act led to an allocation to other revenue reserves for deferred taxes.

Following allocation to other revenue reserves, the balance sheet profit as of the balance sheet date amounts to €418,578,113.32. The balance sheet profit contains a loss carryforward from the previous year amounting to €91,833,916.77. This amount is reduced under consideration of the dividend paid in 2010 to €3,833,916.77.

The Management Board and Supervisory Board will discuss their dividend proposal for fiscal year 2010 at the Supervisory Board meeting on March 23, 2011. According to section 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of the balance sheet profit.

Pursuant to Sec. 71b AktG, the company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights.

### **Treasury shares**

As of December 31, 2010 the company held 20,563,522 treasury shares, representing 8.57% of current capital stock. The average purchase price per share of the 10,272,371 treasury shares purchased in the previous years was €12.04. The carrying value per share at the time of conversion to the German Accounting Law Modernization Act amounted to €9.22, under consideration of write-downs to the lower fair value in previous years. The reserves for treasury stock formed for treasury shares acquired in the previous years pursuant to Sec. 71 (1) No. 8 AktG, in conjunction with Sec. 272 (4) HGB (old version) have been dissolved. As part of an employee stock ownership plan, 81,525 treasury shares were issued in fiscal year 2010. The average purchase cost per share of the 10,372,676 shares purchased in fiscal year 2010 amounted to €11.39.

Up to February 18, 2011 a further 3,436,478 treasury shares were purchased, so that the company held 24,000,000 treasury shares or 10.0% of capital stock. The average

purchase cost per share of those shares purchased in fiscal year 2011 amounted to €12.23.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on June 2, 2010 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on February 22, 2011 to cancel a total of 15,000,000 shares from the company's stock of treasury shares, purchased in the course of share buyback programs, and to reduce the company's capital stock by €15,000,000.00, from €240,000,000.00 to €225,000,000.00. In execution of this resolution, 15,000,000 registered no-par value shares with a notional share of capital stock of 1 euro each were cancelled. Following the cancellation of these 15,000,000 shares, the company still holds 9,000,000 treasury shares. This corresponds to 4% of the reduced capital stock of €225,000,000.00.

The Management Board of United Internet AG resolved on the same date to launch a further share buyback program, which began once the cancellation and capital reduction became effective. In the course of this new share buyback program, up to 4,500,000 company shares (corresponding to 2% of the reduced capital stock of €225,000,000.00) are to be bought back via the stock exchange. The buyback follows an authorization of the Annual Shareholders' Meeting of June 2, 2010 to buy back shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to May 25, 2012.

As of the date of the signed annual financial statements, United Internet AG holds 11,250,000 treasury shares.

Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of June 2, 2010, in particular for current and future employee stock ownership plans and/or as an acquisition currency, but may also be cancelled.

## **ACCRUALS**

Accrued taxes of €24,069k refer to corporation tax, the solidarity surcharge and trade tax for fiscal 2010. Accrued taxes from the completed tax audit for the years 2002 to 2005 including consequential effects amount to €13,940k.

Other accrued liabilities contain appropriate accrued liabilities which have been set up for all foreseeable liabilities whose amount and nature are uncertain as well as for pending losses. They were formed mainly for an interest hedging transaction (€11,272k), legal, auditing and consulting fees (€583k) and bonuses and commissions (€427k). In addition, accrued liabilities were formed for the employee stock ownership plan (€4,149k) and for interest accruing from the tax audit (€3,292k).

As the accruals formed for the employee stock ownership plan are of a long-term nature, they were discounted for the first time in fiscal year 2010 pursuant to the regulations of the German Accounting Law Modernization Act. The effect of this initial discounting of €529k was recognized with an effect on the income statement. The effect from discounting in the fiscal year amounted to €16k.

## **LIABILITIES**

The classification and maturities of the liabilities are shown in the following table (€k):

	Dec. 31, 2010		Dec. 31, 2010		Dec. 31, 2009	
	Total	Up to 1 year	Remaining term 1 to 5 years	Over 5 years	Total	Remaining term Up to 1 year
Bank liabilities	370,166	178,166	192,000		400,000	50,000
Trade payables	58	58			318	318
Liabilities due to affiliated companies	19,613	19,613			9,515	9,915
Liabilities due to companies in which an investment is held	797	797			745	745
Other liabilities thereof for social security €0k (prior year: €0k)	2,548	2,548			9,048	9,048
	<b>393,182</b>	<b>201,182</b>	<b>192,000</b>	<b>0</b>	<b>419,626</b>	<b>69,626</b>

Bank liabilities of €220 million result from a syndicated loan, which was granted with a maturity until September 13, 2012. The total credit line amounts to €500.0 million. No collateral was required for the syndicated loan. The total credit facility is divided into Tranche A amounting to €300.0 million and Tranche B totaling €200.0 million. Repayment of Tranche A is to be made as of March 14, 2010 in six equal installments. On December 30, 2009 a part of Tranche A amounting to €50.0 million was repaid prematurely, so that the next contractual repayment was made on September 14, 2010. Tranche B is a revolving syndicated loan which was utilized in the amount of €20 million as of the balance sheet date.

Further liabilities due to banks result from a promissory note loan of €150.0 million. The promissory note loan was issued on July 23, 2008. The promissory note is a bullet loan and divided into a Tranche A of €78.0 million with a term ending July 23, 2011 and a Tranche B of €72.0 million with a term ending July 23, 2013. No separate collateral was provided for this promissory note loan.

Liabilities to affiliated companies mainly consist of liabilities due from balances as part of the United Internet Group's cash management system, and from liabilities for services received from these companies.

Other liabilities consist mainly of sales tax liabilities of €1,251k and the interest portion of liabilities from the interest hedging transaction amounting to €1,241k.

## DEFERRED TAXES

The introduction of the German Accounting Law Modernization Act (BilMoG) led to a revision of regulations regarding the accounting of deferred taxes. As a consequence, deferred taxes already existing as of December 31, 2009 were transferred to other revenue reserves without affecting the income statement during conversion to the BilMoG on January 1, 2010.

Due to deferred tax liabilities recognized in the fiscal year with an effect on income, there were net deferred tax liabilities of €16,215k as of December 31, 2010.

Due to existing direct and indirect tax pooling, the measurement of existing deferred taxes must be made across the entire tax pooling group.

Deferred tax liabilities as of December 31, 2010 result mainly from the following items (€k):



Development of Deferred tax liabilities	January 1, 2010		Dezember 21, 2010		Change
	Total		Total		
	Aktiv	Passiv	Aktiv	Passiv	
Intangible assets	1,234	0	1,593	-28,485	-28,126
Property, plant and equipment	122	0	223	0	101
Financial assets	1,218	0	486	-11,355	-12,087
Other assets	445	0	450	0	5
Prepaid expenses	376	0	16,820	0	16,444
Other accruals	5,355	0	4,258	0	-1,097
Treasury stock	0	0	0	-205	-205
	<b>8,750</b>	<b>0</b>	<b>23,830</b>	<b>-40,045</b>	
<b>Net total</b>	<b>8,750</b>		<b>-16,215</b>		<b>-24,965</b>

Deferred tax assets result mainly from

- Differences in useful lives (intangible assets)
- The formation of prepaid expenses in the tax balance sheet for so-called customer acquisition costs (pre-paid expenses)
- Accruals for impending losses (other accruals)

Deferred tax liabilities result mainly from

- Asset differences with regard to intangible assets (customer base)
- Quasi-permanent differences from the contribution in kind of 1&1 Mail & Media GmbH to 1&1 Mail & Media Holding GmbH at the present value (financial assets)

The calculation is based on a tax rate of 29.97%.

## NOTES TO THE INCOME STATEMENT

### SALES

The company's sales were generated exclusively in Germany and mainly comprise charges to subsidiaries for services rendered (€ 2,415k) and rent (€ 489k).

### OTHER OPERATING INCOME

Other operating income not relating to the period of € 117k results from the reversal of accruals.

### OTHER OPERATING EXPENSES

In addition to legal, consulting and audit fees and Supervisory Board remuneration (€ 1,413k) as well as expenses from an interest hedging transaction (€ 934k), other operating expenses mainly contain expenses for investor relations, marketing and press PR (€ 564k) and rent expenses (€ 150k). They also contain € 1k from foreign currency translation.

## **INCOME FROM PROFIT TRANSFER AGREEMENTS**

This item comprises the profit and loss transferred by 1&1 Internet AG (€941,790k) and United Internet Beteiligungen GmbH (€9,480k).

## **AMORTIZATION OF FINANCIAL ASSETS AND SHORT-TERM SECURITIES**

This item mainly includes the non-scheduled amortization of the carrying values of investments in Versatel AG and freenet AG to their fair values as of the balance sheet date amounting to €34,637k and €11,033k respectively.

For the calculation of non-scheduled amortization, a share price was assumed for Versatel AG of €4.90 per share and for freenet AG of €7.90 per share as of December 31, 2010.

## **INCOME TAXES**

Income taxes of €79,827k concern current taxes, of which €42,825k were corporation tax and the solidarity surcharge and €37,002k concerned trade tax.

Tax expenses relating to the years 2008 and 2009 amount to €5,003k, of which €2,694k was for corporation tax and the solidarity surcharge and €2,309k for trade tax.

As a result of the tax audit findings for the years 2002 to 2005, there are tax expenses not relating to the period for income taxes amounting to €695k. In addition, there was also income not relating to the period for sales tax of €186k and expenses not relating to the period for interest of €325k. These are disclosed under other taxes or in the interest result.

Deferred tax expenses amount to €24,965k. We refer to the explanations on the balance sheet item Deferred Taxes.

## **OTHER DISCLOSURES**

### **Average number of employees**

An average of 16 (prior year: 16) permanent salaried staff were employed in the past fiscal year (without Management Board members, apprentices, part-time staff and employees on maternity leave).

### **Executive bodies of United Internet AG**

The Management Board consists of the following members:

Ralph Dommermuth, (CEO), Montabaur

Norbert Lang, (CFO), Waldbrunn

The members of the Management Board also belong to the supervisory boards of the following companies:

Ralph Dommermuth

- United Internet Media AG, Montabaur (chair)
- Sedo Holding AG, Cologne

Norbert Lang

- Hi-Media SA, Paris / France (as of May 4, 2010)
- United Internet Media AG, Montabaur
- united-domains AG, Starnberg (chair)

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2010. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on the sales and earnings figures. The target attainment corridor is generally between 80% to 120%. No bonus is paid below 80% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2010, preliminary remuneration of €1,027k (prior-year: €1,076k) was agreed for the Management Board. Of this total, €600k or 58% was fixed and €427k or 42% variable.

There are no retirement benefits from the company to members of the Management Board.

In fiscal years 2008 and 2009, Mr. Norbert Lang was granted 800,000 virtual stock options each year (so-called Stock Appreciation Rights or SARs) at an exercise price of €12.85 and €5.52. At the time these virtual stock options were issued, the fair values amounted to €2,384k and €1,104k.

SARs refer to the company's commitment to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. The company retains the right, however, to fulfill its commitment to pay the SAR in cash by also transferring one United Internet AG share per SAR from its stock of treasury shares to the beneficiary, at its own discretion.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% (i.e. including the previously exercised options) at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option. Mr. Norbert Lang can exercise the rights no sooner than in June 2011, as in 2010 the exercise hurdle for the SARs granted were not exceeded.

The following table provides details on the compensation received by members of the Management Board (€k):

<b>2010</b>	Fixed	Variable	Total
Ralph Dommermuth	300	238	538
Norbert Lang	300	189	489
	<u>600</u>	<u>427</u>	<u>1,027</u>
<b>2009</b>	Fixed	Variable	Total
Ralph Dommermuth	300	266	566
Norbert Lang	300	210	510
	<u>600</u>	<u>476</u>	<u>1,076</u>

As of December 31, 2010, the Supervisory Board of United Internet AG consisted of the following members:

Kurt Dobitsch, chair,  
self-employed entrepreneur, Markt Schwaben

Kai-Uwe Ricke  
Managing Partner, Thalwil / Switzerland

Michael Scheeren, deputy chair  
qualified banker, Cologne

In fiscal year 2010, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- Nemetschek AG, Munich (Chairman)
- Bechtle AG, Gaildorf
- docuware AG, Munich
- Hybris AG, Zürich / Switzerland
- Graphisoft S.E, Budapest / Hungary

Kai-Uwe Ricke

- 1&1 Internet AG, Montabaur
- Assicurazioni Generali S.p.A, Trieste / Italy (until April 24, 2010)
- Kabel Baden-Württemberg GmbH & Co. KG, Heidelberg
- Saudi Oger Telecom Ltd., Dubai / Emirate of Dubai (until April 28, 2010)
- Exigen Capital Europa AG, Zürich / Switzerland
- Nordia Innovation AB, Stockholm / Sweden
- euNetworks Group Ltd. , Singapore / Singapore (as of April 12, 2010)
- Delta Partners, Dubai / Emirate of Dubai (as of January 21, 2010)

Michael Scheeren

- 1&1 Internet AG, Montabaur (Chairman)
- Sedo Holding AG, Montabaur (Chairman)
- United Internet Media AG, Montabaur (Deputy Chairman)
- Goldbach Group AG, Küsnacht-Zürich / Switzerland

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to €10k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to €1k for every cent which exceeds the consolidated earnings per share (EPS) value of €0.60 for United Internet AG, calculated according to IFRS.

In addition, each member of the Supervisory Board shall receive for fiscal year 2013 and the following fiscal years remuneration of €500 per starting percentage point by which EPS in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously, limited to a maximum of €10k per fiscal year.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet AG (€k):

<b>2010</b>	Fixed	Variable	Total
Kurt Dobitsch	20	---	20
Kai-Uwe Ricke	10	---	10
Michael Scheeren	10	---	10
	<u>40</u>	<u>0</u>	<u>40</u>
<b>2009</b>	Fixed	Variable	Total
Kurt Dobitsch	40	120	160
Kai-Uwe Ricke	20	120	140
Michael Scheeren	20	120	140
	<u>80</u>	<u>360</u>	<u>440</u>

There are no subscription rights or share-based payments for members of the Supervisory Board.

### **Share ownership and subscription rights as of December 31, 2010**

	Shares (units)	Subscription rights (units)
<b>Management Board</b>		
Ralph Dommermuth	92,000,000	---
Norbert Lang	402,428	1,600,000
<b>Supervisory Board</b>		
Kurt Dobitsch	---	---
Kai-Uwe Ricke	---	---
Michael Scheeren	700,000	---

### **Contingent liabilities**

The company is jointly and severally liable for a credit line granted by banks to companies of the United Internet Group. As of the balance sheet date, the credit line

was used for guaranties amounting to €9,785k. With regard to other bank liabilities, we refer to the explanations under “Liabilities”.

Due to the stable business position of the United Internet Group, the risk involved in the contingent liabilities is currently regarded as very low.

### **Disclosures to derivative financial instruments**

In fiscal year 2008, the company concluded two interest swaps with a total nominal amount of €200,000k in order to reduce its interest risk. The agreements have a term until October 9, 2013. The fair value including accrued interest of €1,241k amounts to €12,513k as of the balance sheet date. Negative market value of €11,272k was carried under accruals for pending losses, while deferred interest of €1,241k is included in other liabilities. The change in fair value is recognized in other operating expenses, while the cash-relevant interest component is included in interest expenses. The measurement of fair value was made on the basis of current market data using recognized mathematical valuation methods (discounted cash flow method).

### **Miscellaneous**

The stock exchange price of certain listed shares as of the balance sheet date is above the carrying value of these shares. In total, the revaluation reserve pursuant to Sec. 284 (2) No. 4 HGB amounts to €6,117k.

### **Significant transactions with related parties**

With a certificate of incorporation dated December 6, 2010, 1&1 Internet AG established 1&1 Mail & Media Holding GmbH by means of non-cash incorporation. The company's share capital amounts to €100,000k. The company was registered on December 14, 2010 at the Local Court of Montabaur.

In accordance with the articles of association set forth in the certificate of incorporation, 1&1 Internet AG did not provide the capital contribution in cash but by transfer to the company of all shares in 1&1 Mail & Media GmbH.

The fair value of the shares in 1&1 Mail & Media GmbH contributed for the non-cash incorporation was measured on the basis of an appraisal report.

The disclosure of hidden reserves resulted in the recognition of income amounting to €701,680k on the level of 1&1 Internet AG as a non-cash special item.

The transaction was conducted to facilitate internal restructuring, especially in respect of a realignment of consolidated segment reporting within the United Internet Group.

### **Other financial commitments**

The company has obligations from lease agreements, mostly for its offices and business premises in Montabaur.

	2010 €k
Liabilities from long-term financial obligations	3,780
of which due within one year	729
of which due between two and five years	1,627
of which due in more than five years	1,424

## **Publication of voting right announcements acc. to Sec. 26 WpHG**

### **Publication on January 29, 2009**

Deutsche Bank AG, London, United Kingdom informed our company on January 27, 2009 of the following:

Pursuant to Sec. 21 (1), 24 WpHG (German Securities Trading Act) in conjunction with section 32 (2) InvG (German Investment Act), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, crossed below the threshold of 5% on 26 January 2009 and amounts to 4.86% (12,213,000 voting rights) as per this date.

### **Publication on December 22, 2009**

In accordance with Sec. 21 (1) WpHG, Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft, Montabaur, Germany, has informed us that its proportion of voting rights in United Internet AG, Montabaur, exceeded the threshold of 30% due to a reduction in the total number of voting rights as of December 21, 2009, and amounted to 31.00% on this day (74,400,000 voting rights). Of this amount, 1.67% of voting rights (4,000,000 voting rights) are attributable to Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft according to Sec. 22 (1) Sentence 1 No. 1 WpHG.

In accordance with Sec. 21 (1) WpHG, Ralph Dommermuth Verwaltungs GmbH, Montabaur, Germany, has informed us that its proportion of voting rights in United Internet AG, Montabaur, exceeded the threshold of 30% due to a reduction in the total number of voting rights as of December 21, 2009, and amounted to 31.00% on this day (74,400,000 voting rights). Of this amount, 31.00% of voting rights (74,000,000 voting rights) are attributable to Ralph Dommermuth Verwaltungs GmbH according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Voting rights attributed to Ralph Dommermuth Verwaltungs GmbH are held by the following companies it controls, whose voting rights in United Internet AG amounted to 3% or more:

Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft.

### **Publication on February 18, 2010**

Pursuant to Sec. 26 (1) Sentence 2 WpHG, United Internet AG, Montabaur, Germany, notifies that on February 17, 2010 it exceeded the threshold of 5% of treasury shares and the proportion of treasury shares held as of this date amounted to 5.02% (12,058,932 voting rights). Of these shares, 0.06% (corresponding to 151,210 shares) are held by a person in their own name but acting on behalf of United Internet AG.

### **Publication on April 23, 2010**

In accordance with Sec. 21 (1) WpHG, Kizoo AG, Karlsruhe, Germany, has informed us that its proportion of voting rights in United Internet AG fell below the threshold of 5% on April 22, 2010 and now amounts to 4.96% (11,900.000 voting rights).

### **Publication on May 3, 2010**

In accordance with Sec. 21 (1) WpHG, Matthias Greve, Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 3% and 5% on December 7, 2005 and on this day amounted to 6.10% (3,800,000 voting rights).

Of this amount, 6.10% of voting rights (3,800,000 voting rights) are attributable to him according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via the following companies controlled by him, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH
- Kizoo AG

In accordance with Sec. 21 (1) WpHG, Michael Greve Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 3% and 5% on December 7, 2005 and on this day amounted to 6.10% (3,800,000 voting rights).

Of this amount, 6.10% of voting rights (3,800,000 voting rights) are attributable to him according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via the following companies controlled by him, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH
- Kizoo AG

In accordance with Sec. 21 (1) WpHG, Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH, Karlsruhe, Germany, has informed us that its proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 3% and 5% on December 7, 2005 and on this day amounted to 6.10% (3,800,000 voting rights).

Of this amount, 6.10% of voting rights (3,800,000 voting rights) are attributable to it according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via the following companies controlled by it, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Kizoo AG

In accordance with Sec. 21 (1) WpHG, Matthias Greve, Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 5% on April 22, 2010 and on this day amounted to 4.96% (11,900,000 voting rights).

Of this amount, 4.96% of voting rights (11,900,000 voting rights) are attributable to him according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via



the following companies controlled by him, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH
- Kizoo AG

In accordance with Sec. 21 (1) WpHG, Michael Greve, Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 5% on April 22, 2010 and on this day amounted to 4.96% (11,900,000 voting rights).

Of this amount, 4.96% of voting rights (11,900,000 voting rights) are attributable to him according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via the following companies controlled by him, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH
- Kizoo AG

In accordance with Sec. 21 (1) WpHG, Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH, Karlsruhe, Germany, has informed us that its proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 5% on April 22, 2010 and on this day amounted to 4.96% (11,900,000 voting rights).

Of this amount, 4.96% of voting rights (11,900,000 voting rights) are attributable to it according to Sec. 22 (1) Sentence 1 No. 1 WpHG. Attributable voting rights are held via the following companies controlled by it, whose proportion of voting rights in United Internet AG amounts to 3% or more:

- Kizoo AG

### **Publication on June 8, 2010**

Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt am Main, Germany, sent the following notification on June 4, 2010:

“In accordance with Sec. 21 (1) WpHG, Matthias Greve, Germany, we hereby inform you that our proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, exceeded the threshold of 3% on May 31, 2010 and on this day amounted to 3.03% of total voting rights in the aforementioned company (corresponding to 7,274,375 of a total 240,000,000 voting rights). Of this amount, 1.71% of total voting rights (corresponding to 4,113,314 of a total 240,000,000 voting rights) are attributable to us according to Sec. 22 (1) Sentence 1 No. 6 WpHG. No voting rights were acquired as defined by Sec. 17 (1) No. 7 WpAIV.”

### **Publication on October 26, 2010**

In accordance with Sec. 21 (1) WpHG, Matthias Greve, Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, fell below the threshold of 3% on October 20, 2010 and now amount to 0.00% (0 voting rights).

In accordance with Sec. 21 (1) WpHG, Michael Greve, Germany, has informed us that his proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410

Montabaur, Germany, fell below the threshold of 3% on October 20, 2010 and now amount to 0.00% (0 voting rights).

In accordance with Sec. 21 (1) WpHG, Cinetic Gesellschaft zur Entwicklung und Vertrieb von Medientechnik mbH, Karlsruhe, Germany, has informed us that its proportion of voting rights in United Internet AG, Elgendorfer Strasse 57, 56410 Montabaur, Germany, fell below the threshold of 3% on October 20, 2010 and now amount to 0.00% (0 voting rights).

In accordance with Sec. 21 (1) WpHG, Kizoo AG, Karlsruhe, Germany, has informed us that its proportion of voting rights in United Internet AG fell below the threshold of 3% on October 20, 2010 and now amount to 0.00% (0 voting rights).

#### **Publication on February 22, 2011**

Pursuant to Sec. 26 (1) Sentence 2 WpHG, United Internet AG (ISIN DE0005089031), Montabaur, Germany, notifies that on February 22, 2011 it reached the threshold of 10% of treasury shares and the proportion of treasury shares held as of this date amounted to 10.0% (24,000,000 shares) of the capital stock of € 240 million.

#### **Publication on February 22, 2011**

Pursuant to Sec. 26 (1) Sentence 2 WpHG, United Internet AG (ISIN DE0005089031), Montabaur, Germany, notifies that on February 22, 2011 it fell below the threshold of 10% and 5% of treasury shares after cancelling 15,000,000 shares and reducing capital and that the proportion of treasury shares held as of this date amounted to 4.0% (9,000,000 shares) of the capital stock of € 225 million.

#### **Publication on February 25, 2011**

On February 23, 2011, the following entities:

WP International I S.à r.l , Luxembourg, Grand Duchy of Luxembourg,

WP X International Holdings LLC, New York, USA,

Warburg Pincus Private Equity X, L.P., New York, USA,

Warburg Pincus X, L.P., New York, USA,

Warburg Pincus X LLC, New York, USA,

Warburg Pincus Partners LLC, New York, USA

Warburg Pincus & Co., New York, USA,

notified us pursuant to Sec. 21 (1) WpHG of the following:

WP International I S.à r.l., a company organized under the laws of the Grand Duchy of Luxembourg with an address in Luxembourg, Grand Duchy of Luxembourg, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date.

WP X International Holdings LLC, a Delaware limited liability company with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights

in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to WP X International Holdings LLC pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entity: WP International I S.à r.l.

Warburg Pincus Private Equity X, L.P., a Delaware limited partnership with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to Warburg Pincus Private Equity X, L.P., pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entities: WP X International Holdings LLC and WP International I S.à r.l.

Warburg Pincus X, L.P., a Delaware limited partnership with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to Warburg Pincus X, L.P., pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entities: Warburg Pincus Private Equity X, L.P., WP X International Holdings LLC, and WP International I S.à r.l.

Warburg Pincus X LLC, a Delaware limited liability company with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to Warburg Pincus X LLC pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entities: Warburg Pincus X, L.P., Warburg Pincus Private Equity X, L.P., WP X International Holdings LLC and WP International I S.à r.l.

Warburg Pincus Partners LLC, a New York limited liability company with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to Warburg Pincus Partners LLC pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entities: Warburg Pincus X LLC, Warburg Pincus X, L.P., Warburg Pincus Private Equity X, L.P., WP X International Holdings LLC and WP International I S.à r.l.

Warburg Pincus & Co., a New York general partnership with an address in New York, New York, USA, exceeded the thresholds of 3% and 5% of voting rights in United Internet Aktiengesellschaft on February 22, 2011 and held 5.29% (11,900,000 voting rights) as of this date. All of these voting rights are attributed to Warburg Pincus & Co. pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG through the controlled entities: Warburg Pincus Partners LLC, Warburg Pincus X LLC, Warburg Pincus X, L.P., Warburg Pincus Private Equity X, L.P., WP X International Holdings LLC and WP International I S.à r.l.

#### **Publication on March 16, 2011**

Pursuant to Sec. 26 (1) Sentence 2 WpHG, United Internet AG (ISIN DE0005089031), Montabaur, Germany, notifies that on March 16, 2011 it reached the threshold of 5% of treasury shares and the proportion of treasury shares held as of this date amounted to 5.0% (11,250,000 shares) of the capital stock.

### **Auditing and consulting fees**

Auditing and consulting fees charged for the fiscal year are not disclosed as they are included in the details provided in the consolidated financial statements of United Internet AG.

### **Corporate Governance Code**

The declaration of conformity with the German Corporate Governance Code acc. to Sec. 161 AktG was filed by the Management Board and Supervisory Board and is available to shareholders via the internet portal of United Internet AG ([www.united-internet.de](http://www.united-internet.de)).

Montabaur, March 16, 2011

The Management Board

Ralph  
Dommermuth

Norbert  
Lang

**United Internet AG**

Development of Fixed Assets from January 1, 2010 to December 31, 2010

Exhibit 1

	Acquisition and production costs (€k)				Accumulated Depreciation (€k)				Net book value (€k)	
	1/1/2010	Additions	Disposals	12/31/2010	1/1/2010	Additions	Disposals	12/31/2010	12/31/2010	12/31/2009
<b>Intangible assets</b>										
Licenses	148	2		150	147			147	3	1
Software	656			656	630	14		644	12	26
<b>Total (I)</b>	<b>804</b>	<b>2</b>	<b>0</b>	<b>806</b>	<b>777</b>	<b>14</b>	<b>0</b>	<b>791</b>	<b>15</b>	<b>27</b>
<b>Property, plant and equipment</b>										
Operational equipment	944	2		946	912	9		921	25	32
Office equipment	584			584	581	1		582	2	3
Improvements	114			114	106	1		107	7	8
Vehicles	522	52		574	296	74		370	204	226
Low-cost assets	3			3	3			3	0	0
<b>Total (II)</b>	<b>2,167</b>	<b>54</b>	<b>0</b>	<b>2,221</b>	<b>1,898</b>	<b>85</b>	<b>0</b>	<b>1,983</b>	<b>238</b>	<b>269</b>
<b>Financial assets</b>										
Shares in affiliated companies	404,533	466		404,999	0			0	404,999	404,533
Loans to affiliated companies	1,750			1,750	0			0	1,750	1,750
Investments	271,020	2,217		273,237	120,883	45,673		166,556	106,681	150,137
<b>Total (III)</b>	<b>677,303</b>	<b>2,683</b>	<b>0</b>	<b>679,986</b>	<b>120,883</b>	<b>45,673</b>	<b>0</b>	<b>166,556</b>	<b>513,430</b>	<b>556,420</b>
<b>Total</b>	<b>680,274</b>	<b>2,739</b>	<b>0</b>	<b>683,013</b>	<b>123,558</b>	<b>45,772</b>	<b>0</b>	<b>169,330</b>	<b>513,683</b>	<b>556,716</b>

**United Internet AG, Montabaur**
**Exhibit 2**

Shareholdings as of December 31, 2010

	Share of capital in %	Equity of company as of December 31, 2010 T€	Net income / net loss FY 2010 T€
<b>Directly held shares</b>			
1&1 Internet AG, Montabaur (1)	100.00	216,301	0
MIP Multimedia Internet Park GmbH, Zweibrücken	100.00	677	-50
United Internet Beteiligungen GmbH, Montabaur (1)	100.00	128,416	0
Sedo Holding AG, Köln (3)	78.79	96,658	7,682
Versatel AG, Berlin (9)	26.12	161,367	-53,066
freenet AG, Büdelsdorf	< 20.00	---	---
<b>Indirectly held shares</b>			
1&1 Breitband GmbH, Montabaur	100.00	23	-1
1&1 Internet Applications GmbH, Montabaur (2)	100.00	25	0
1&1 Internet Development SRL, Bukarest / Rumänien	99.00	518	579
1&1 Internet Ltd., Slough / Großbritannien (14)	100.00	625	7,798
1&1 Internet S.A.R.L., Saargemünd / Frankreich	100.00	-10,889	-396
1&1 Internet Inc., Chesterbrook / USA	100.00	18,511	6,142
1&1 Internet Espana S.L.U., Madrid / Spanien	100.00	-9,744	-2,687
1&1 Internet Service GmbH, Montabaur (2)	100.00	370	0
1&1 Internet Service GmbH Zweibrücken, Zweibrücken (4)	100.00	25	0
1&1 Internet (Philippines) Inc., Cebu City / Philippinen	100.00	672	142
1&1 Internet Sp.z o.o., Warschau / Polen	100.00	-899	-1,145
1&1 Mail & Media Holding GmbH, Montabaur	100.00	913,356	-14
1&1 Mail & Media GmbH, Montabaur (2)	100.00	212,665	0
1&1 Mail & Media Inc., Chesterbrook / USA	100.00	8,529	924
1&1 Telecom GmbH, Montabaur (2)	100.00	25	0
1&1 UK Holdings Ltd., Slough / Großbritannien (14)	100.00	93,603	5,808
A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur (2)	100.00	31	0
A1 Media LLC, Chesterbrook / USA	100.00	153	-119
Dedicated Servers Ltd., Gloucester / Großbritannien (5)	100.00	n/a	n/a
Dollamore Ltd., Gloucester / Großbritannien (14)	100.00	89	765
Fasthosts Internet Ltd., Gloucester / Großbritannien (14)	100.00	3,193	7,109
Fasthosts Internet Inc., Chesterbrook / USA	100.00	1,406	-724
Fast Recruitment Ltd., Gloucester / Großbritannien (5)	100.00	n/a	n/a
General Media Services GMX S.L., Madrid / Spanien (5)	100.00	n/a	n/a
Global Servers Ltd., Gloucester / Großbritannien (5)	100.00	n/a	n/a
GMX Italia S.r.l., Mailand / Italien (5)	100.00	n/a	n/a
Immobilienverwaltung AB GmbH, Montabaur	100.00	680	26
Immobilienverwaltung NMH GmbH, Montabaur	100.00	1,023	-65
Matrix Servers Ltd., Gloucester / Großbritannien (5)	100.00	n/a	n/a
United Internet Media AG, Montabaur (2)	100.00	50	0
United Internet Dialog GmbH, Montabaur (15)	100.00	25	0
UIM United Internet Media Austria GmbH, Wien / Österreich	100.00	74	32
InterNetX GmbH, Regensburg (14)	95.56	5,298	3,785
InterNetX LAC S.A., Buenos Aires / Argentinien	100.00	100	0
Schlund Technologies GmbH, Regensburg (6)	100.00	25	0
united-domains AG, Starnberg	85.00	1,350	5,734
Dopoly GmbH, Starnberg (13)	100.00	-64	0
United Domains, Inc., Cambridge / USA	100.00	-341	-379
United Internet Beteiligungen International GmbH, Montabaur (14)	100.00	745	-2
Response Republic Beteiligungsgesellschaft Deutschland GmbH, Montabaur (8)	100.00	33,937	0
affilinet GmbH, München (8)	100.00	3,334	0
affilinet Ltd., London / Großbritannien	100.00	-2,867	-1,327
affilinet Nederland B.V., Haarlem / Niederlande	100.00	60	35
affilinet Espana S.L.U., Madrid / Spanien	100.00	77	18
affilinet France SAS, Levallois Perret / Frankreich	100.00	5,615	-297
Sedo GmbH, Köln (7)	100.00	13,428	0
Sedo.com LLC, Boston / USA	100.00	570	1,693
Sedo London Ltd., London / Großbritannien	100.00	22	12
Dom Collect Worldwide Intellectual Property AG, Zug / Schweiz	100.00	118	68
European Founders Fund Nr. 2 Verwaltungs GmbH, München	90.00	24	1
European Founders Fund Nr. 2 Geschäftsführungs GmbH, München	90.00	23	1
European Founders Fund GmbH & Co. Beteiligungs KG Nr. 2, München	90.00	14,539	-106

**United Internet AG, Montabaur**
**Exhibit 2**

Shareholdings as of December 31, 2010

	Share of capital in %	Equity of company as of December 31, 2010 T€	Net income / net loss FY 2010 T€
European Founders Fund Nr. 3 Verwaltungs GmbH, München	80.00	21	1
European Founders Fund Nr. 3 Management GmbH, München	80.00	23	1
European Founders Fund GmbH & Co. Beteiligungs KG Nr. 3, München	80.00	22,978	9,931
European Founders Fund Nr. 3 Beteiligungs GmbH, München	100.00	9,676	-11
European Founders Fund Verwaltungs GmbH, München	66.67	23	1
European Founders Fund Management GmbH, München	66.67	118	-2
European Founders Fund GmbH & Co. Beteiligungs KG Nr. 1, München	66.67	16,664	9,124
fun communications GmbH, Karlsruhe	49.00	1,732	348
Intellectual Property Management Company Inc., Dover (Delaware) / USA	49.00	-471	-308
DomainsBot S.r.l, Rom / Italien	49.00	746	117
Virtual Minds AG, Freiburg (9)	48.65	6,239	640
European Founders Fund Investment GmbH, München	33.33	806	-371
ProfitBricks GmbH, Berlin (12)	30.02	n/a	n/a
Travel-Trex GmbH, Köln (10)	25.00	-599	-570
getAbstract AG, Luzern / Schweiz (9)	22.00	3,157	63
internetstores AG, Stuttgart (11)	20.00	7,713	1,432
Goldbach Group AG, Küsnacht-Zürich / Schweiz	< 20.00	---	---
Hi-media S.A., Paris / Frankreich	< 20.00	---	---
Afilias Ltd., Dublin / Irland	< 20.00	---	---
Silverpop Systems Inc., Atlanta / USA	< 20.00	---	---
Become Inc., Sunnyvale / USA	< 20.00	---	---

(1) after profit transfer to United Internet AG, Montabaur

(2) after profit transfer to 1&amp;1 Internet AG, Montabaur

(3) thereof 17.76 % of shares via United Internet Beteiligungen GmbH

(4) after profit transfer to 1&amp;1 Service GmbH, Montabaur

(5) no operating business

(6) after profit transfer to InterNetX GmbH, Regensburg

(7) after profit transfer to Response Republic Beteiligungsgesellschaft GmbH, Montabaur

(8) after profit transfer to Sedo Holding AG, Köln

(9) on basis of published figures as of Dezember 31, 2009

(10) on basis of published figures as of Mai 31, 2009

(11) on basis of published figures as of August 31, 2009

(12) in startup phase

(13) after profit transfer to united-domains AG, Starnberg

(14) before profit distribution

(15) after profit transfer to United Internet Media AG, Montabaur

## **Audit opinion of the Independent auditor**

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report for the group and the company of United Internet AG, Montabaur, for the fiscal year from January 1 to December 31, 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report for the group and the company in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report for the group and the company based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report for the group and the company. We believe that our audit provides a reasonable basis for our opinion.



Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements [and supplementary provisions of the partnership agreement/articles of incorporation and bylaws] and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report for the group and the company is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, March 21, 2011  
Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Bösser  
Wirtschaftsprüfer  
[German Public Auditor]

Kemmerich  
Wirtschaftsprüfer  
[German Public Auditor]

## **Responsibility statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report and Group Management Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Montabaur, March 16, 2011

Board of Management

Ralph Dommermuth

Norbert Lang

The annual report is available in German and English. Both versions can be downloaded on [www.united-internet.de](http://www.united-internet.de). In all cases of doubt, the German version shall prevail.