Annual Report

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united internet

1&1

GMX®

WEB.DE

fasthosts

InterNetX

united domains®
THE DOMAIN PEOPLE

affilinet
OUR MISSION: YOUR SUCCESS

sedo

united internet media
The fine Arts of digital Media

United Internet at a glance

in € million	2010	2009[1]
Net income		
Sales	1,907.1	1,658.9
EBITDA	357.7	356.1
EBIT	271.5	300.0
Balance Sheet		
Current assets	275.8	300.9
Non-current assets	995.5	1,022.6
Shareholders' equity	382.4	439.8
Total assets	1,271.3	1,323.4
Employees		
Germany (Headcount)	4,019	3,704
Abroad (Headcount)	999	867
Total (Headcount)	5,018	4,571
Personnel expenses	202.9	181.0
Share		
Share price at year-end (Xetra) in €	12.17	9.22
Earnings per share in €	0.57	0.70

[1] 2009: without positive special items

in million	Dec. 31, 2010	Dec. 31, 2009	+ / -
Customer contracts			
Access, total	3.63 million	3.50 million	+ 130,000
of which DSL complete packages (ULL)	2.32 million	1.82 million	+ 500,000
of which Mobile Internet	0.27 million	0.09 million	+ 180,000
of which narrowband / T-DSL / R-DSL	1.04 million	1.59 million	– 550,000
Applications, total	6.13 million	5.65 million	+ 480,000
of which "domestic"	3.68 million	3.43 million	+ 250,000
of which "foreign"	2.45 million	2.22 million	+ 230,000
Ad-financed accounts	28.0 million	26.3 million	+1,700,000

Highlights 2010

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First share buyback program 2010
United Internet decides to buy back 5 million shares via the stock exchange.

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Launch of new DSL tariffs
1&1 rolls out its new DSL offer which comprises four simple and transparent basic tariffs which can be flexibly combined with additional services.

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MVNO agreement with Vodafone
Signing of an MVNO agreement (Mobile Virtual Network Operator) with Vodafone, enabling us to offer our own Mobile Internet products and tariffs in the Access segment.

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Second share buyback program 2010
After completing the share buyback program adopted in January 2010, a new program is launched to buy back a further 4,809,154 shares.

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Annual Shareholders' Meeting approves dividend of € 88 million
The Annual Shareholders' Meeting votes in favor of a dividend of € 0.40 per share, comprising a regular amount of € 0.20 for fiscal year 2009 and a bonus dividend of a further € 0.20 for the lack of dividend for fiscal year 2008.

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De-Mail / Do-It-Yourself Homepage / Mobile Internet
GMX and WEB.DE begin accepting pre-registrations for De-Mail. Marketing activities also begin for the 1&1 Do-It-Yourself Homepage and the new Mobile Internet products.

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1&1 expands into Poland
In August, our Applications business began activities in Poland with a pre-launch phase. By the end of 2011 we had already gained 40,000 test customers.

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„United Internet for UNICEF“ collects over € 10 million
Just in time for its fourth anniversary, the „United Internet for UNICEF“ foundation breaks through the € 10 million donation barrier.

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Third share buyback program 2010
United Internet decides to launch a further share buyback program with a volume of 4 million shares.

United Internet is the leading European internet specialist with strong brands such as 1&1, GMX and WEB.DE. With growth in sales of 15% to over € 1.9 billion and an increase in pay contracts of 610,000 to around 9.8 million, we were able to set new records once again in 2010. We also repositioned our business in 2010 and laid the foundation for future growth in the Mobile Internet and Cloud Computing markets. Despite additional total investment of € 72 million in quality, new segments and further internationalization, we posted EBITDA of € 358 million in 2010 and thus succeeded in maintaining the record level of the previous year.


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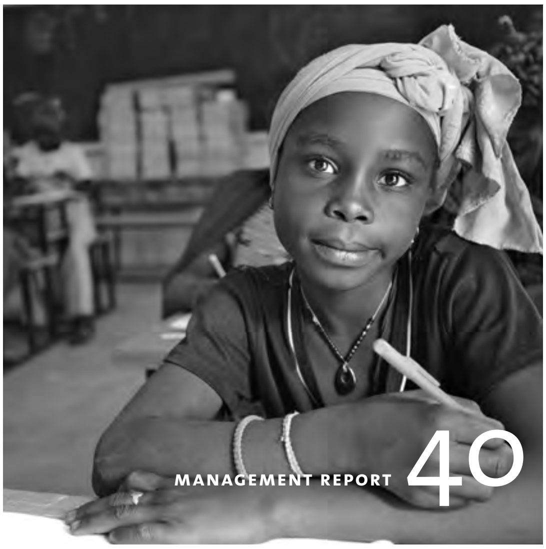
AT A GLANCE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Letter to the Shareholders

Dear shareholders, employees and friends of United Internet!

United Internet AG can look back on a successful fiscal year 2010.

We improved our positions on fiercely competitive markets and successfully laid the foundation for future growth. We achieved strong growth in sales of 15% to € 1,907.1 million and even raised EBITDA slightly year-on-year to € 357.7 million, despite high additional investment of € 71.9 million in new products and business fields. As expected, EBIT fell short of the prior-year figure – due in particular to scheduled write-downs of € 21.6 million on freenet's DSL customer base acquired in late 2009.

Our strategy is based on sustainable growth. The investments we make today will provide the foundation for long-term future profitability.

United Internet AG operates in highly competitive markets and a challenging sector environment. We therefore give top priority to customer satisfaction and have also invested heavily in this field. This strategy is borne out by our success: customer satisfaction improved steadily in 2010. This is also reflected in the number of customer contracts: United Internet AG recorded total growth in all contracts of 610,000 to 9.76 million contracts in 2010, corresponding to year-on-year growth of 6.7%. This once again proves that we are not only capable of keeping our existing customer base satisfied, but also of gaining further new customers.

This strong business development was also honored by the capital market. With growth of around 32% in 2010, our share easily outperformed the comparative TecDAX index.

In the "Access" segment, sales rose by 19.8% to € 1,230.1 million in fiscal year 2010. At € 122.6 million, EBITDA was down slightly on the previous year and, as expected, EBIT fell 22.2% to € 92.0 million as a result of the aforementioned write-downs on freenet's DSL customer base.

We decided to forego short-term profits in this segment in favor of our future-oriented corporate policy. In 2010, we therefore invested an additional € 50.2 million in the establishment and development of our new Mobile Internet business and in our DSL quality drive. We can already state that these investments have paid off: following a preparation period of just three months, we successfully entered the Mobile Internet market in July 2010 and gained 180,000 customers in just six months. The total number of fee-based contracts in the "Access" segment rose by 130,000 to 3.63 million contracts in 2010.

In the "Applications" segment, we succeeded in raising sales by 7.1% to € 675.5 million. Without the fall in sales of our subsidiary Sedo Holding AG – due to the contract conversion of a major customer of the affilinet brand – the remaining segment grew by as much as 12.5%.

We also made strong investments in this segment during 2010: a total of € 21.7 million was invested in developing new applications, marketing our new Do-it-Yourself Homepage and further expanding the segment's international presence. In view of these high expenditures, EBITDA and EBIT were in line with planning: with EBITDA of € 232.7 million and EBIT of € 177.3 million, both key earnings figures were up on the previous year.

The development of customer contracts in this segment also confirms the validity of our corporate policy. In total, we raised the number of Applications contracts by 480,000 to 6.13 million in 2010. This growth resulted from 290,000 new Business Applications contracts to 4.30 million and 190,000 new Consumer Applications contracts to 1.83 million. The number of ad-financed accounts also grew by 1.7 million to 28 million.

International expansion plays an important role in our long-term planning for the "Applications" segment. We have already taken decisive steps along this path: in August 2010, for example, we entered the Polish market.

We intend to continue our corporate policy geared to sustainable growth in 2011 and to make further strong investments in new business fields. One area of focus will be the development of new applications and entry into new foreign markets. We have already expanded into Canada and Argentina in 2011 and have targeted further international expansion in the medium term.

A further major target for the company is the expansion of the acquired Mail.com service, which will strengthen our efforts to access US customers in our Consumer Applications business.

› De-Mail

Following the implementation of the new De-Mail legislation, adopted by German Parliament in late February 2011, we plan to drive forward our plans for secure and legally binding e-mail. We have already received over 800,000 pre-registrations from WEB.DE and GMX users for personal De-Mail addresses.

United Internet AG also feels extremely well placed to benefit from the trend toward digitizing company's business processes. In this connection, we are working on our range of Cloud Computing solutions for smaller and mid-sized companies.

Despite the high start-up costs involved with such projects, we expect EBITDA in 2011 to reach approximately the same level as 2010 (€ 357.7 million). We also expect to generate sales of over € 2 billion for the first time. Sales growth in 2011 is expected to reach around 5% in the "Access" segment and around 10% in the "Applications" segment.

Based on our extraordinary efforts to constantly improve customer satisfaction, we aim to achieve further growth in new customers. To be precise, we have targeted over 700,000 new customer contracts for the Group as a whole in 2011.

We feel very well prepared for the next steps ahead and are both confident and determined with regard to our prospects for 2011. In view of the past year and the challenges that lie before us, we would like to express our gratitude to all employees for their dedicated efforts as well as to our shareholders and customers for the trust they have placed in United Internet AG.

Ralph Dommermuth	Norbert Lang
CEO	CFO

Montabaur, March 2011

"In fiscal 2010, we realigned our company to meet the needs of a changing market. Our new segments, Access and Applications, are specifically designed to harness the coming growth drivers Mobile Internet and Cloud Computing. In 2010, we gave the mid- and long-term development of our company priority over short-term profit maximization and invested an additional € 72 million in quality improvements, new segments and further internationalization. We intend to continue our policy of sustainable growth in 2011."

Ralph Dommermuth

"In addition to the foundation for future growth which we laid in 2010, we also succeeded in improving many of our key performance indicators in the past year. For example, we raised the number of fee-based customer contracts by 610,000 to 9.76 million and the number of ad-financed accounts by 1.7 million to 28.0 million. At the same time, consolidated sales grew by 15% to over € 1.9 billion. And despite our high investments in new business fields and foreign expansion, we were able to hold EBITDA at the record level of the previous year. We will once again invest heavily in new business fields in 2011. Due to the high start-up costs involved, EBITDA in 2011 is expected to remain constant at the level of fiscal year 2010."

Norbert Lang

RALPH DOMMERMUTH
CEO
since 1988

Ralph Dommermuth (47) laid the foundation for today's United Internet AG with the formation in 1988 of 1&1 Marketing GmbH. He originally offered systemized marketing services for smaller software suppliers. He later developed additional marketing services for major clients, such as IBM, Compaq and Deutsche Telekom. With the growing professionalization of the internet, these marketing services for third parties were gradually reduced and the company offered its own internet services. In 1998 the qualified banker took 1&1 to the stock exchange. It was the first IPO of an internet company in Germany. In 2000, Dommermuth restructured 1&1 as United Internet AG.

NORBERT LANG
CFO
since 2002

Norbert Lang (49) has been a member of the Management Board of United Internet AG since 2000 and responsible for Finance/Controlling, Press/Investor Relations, Risk Management/Internal Audit, Investment Management and Human Resources since 2002. He joined 1&1 in 1994. With the foundation of 1&1 Beteiligungen GmbH, Norbert Lang was appointed as Managing Director. In his role as Head of Finance, he accompanied the transformation and realignment of United Internet AG as a management holding company for all Group investments.

Interview with the CEO

Mr. Dommermuth, what's your opinion on the past fiscal year 2010?

Very positive on the whole. In addition to the clearly visible success in sales, earnings and customer contracts, as well as the establishment of completely new businesses such as Mobile Internet, we also invested considerable financial and staff resources – largely unnoticed – in the implementation of numerous internal projects which will bring about a sustainable improvement in the value and substance of our company. I'm referring here in particular to our successful DSL quality measures, the standardization of our e-mail core technologies, the complex adjustments to our billing and accounting systems in preparation for further international expansion and also the smooth integration of almost 600,000 former freenet DSL customers into our platforms and systems.

United Internet realigned itself in 2010 and made high additional investments. How do you judge the achievements so far?

In the past year, we invested an additional € 72 million in quality and future growth. Although these measures will not pay off in monetary terms until the medium term, we can already draw some initial positive conclusions: customer satisfaction has grown strongly and we succeeded in quickly penetrating the fiercely competitive Mobile Internet market and getting off to a strong start. With our Do-it-Yourself Homepage and Online Office products, we also launched new cloud applications and entered a further foreign market with Poland.

We gave priority to the mid- and long-term development of our company over short-term profit maximization and made strong investments in quality improvements, new business fields and further internationalization.

Despite generally firm progress in 2010, the United Internet share came under pressure on publication of your preliminary outlook for 2011 together with the 9-month figures for 2010. How do you assess the capital market's reaction?

In 2010, we already gave priority to the mid- and long-term development of our company over short-term profit maximization and made strong investments in quality improvements, new business fields and further internationalization. Together with our 9-month figures for 2010, we announced our intention to continue this strategy in 2011. This decision in favor of sustainable growth obviously disappointed the expectations of more short-term oriented investors, and as a result of our forecast the share price came briefly under pressure. At the same time, however, long-term oriented strategic investors were impressed by our growth strategy and increased their holdings. This is illustrated, for example, by the investment of a long-term oriented investor such as Warburg Pincus, which now holds over 5% of our shares.

What are your focus areas for investment in 2011 and what are your exact expectations for fiscal year 2011?

In addition to further increases in spending on customer acquisition, our focus in 2011 will be to develop new applications, tap new foreign markets for our Business Applications and – in the field of Consumer Applications – expand the acquired Mail.com service and launch De-Mail. Despite the high start-up costs involved with these projects, our EBITDA in 2011 is expected to reach the level of 2010 (€ 357.7 million). Sales growth in 2011 is likely to be around 5% in the Access segment and around 10% in the Applications segment. We have targeted over 700,000 new customer contracts for the Group as a whole and expect to reach sales of over € 2 billion for the first time in 2011.

Our focus in 2011 will be to develop new applications, tap new foreign markets for our Business Applications and expand the acquired Mail.com service and launch De-Mail.

The success of these projects will depend greatly on the efforts of United Internet's employees. What are your plans for future personnel development?

In connection with the expansion of business and our quality drive, the number of employees grew by almost 10% to over 5,000 in 2010. In the course of our growth strategy, we aim to hire further new staff in future. At the same time, it is important for us to develop our existing employees in order to offer them the necessary ongoing support for their professional and personal progress. We are also keenly aware of the challenges for future-oriented staff development against the backdrop of an increasing shortage of skilled labor. Active support for young talent and the targeted development of our management staff therefore play a major role for United Internet. At the same time, encouraging tomorrow's young talents also requires the state to provide strong support by creating the right conditions.

Active support for young talent and the targeted development of our management staff play a major role for United Internet.

Report of the Supervisory Board for Fiscal Year 2010

The members of the Supervisory Board are:

- **Kurt Dobitsch,** self-employed entrepreneur, 56 (chair)
- **Kai-Uwe Ricke,** businessman, 49
- **Michael Scheeren,** qualified banker, 53

The Supervisory Board of United Internet AG fulfilled its legal and statutory consultation and control duties in the fiscal year 2010. We regularly advised the Management Board and monitored their management of the company. We were directly involved in all decisions of fundamental significance for the company. The Management Board provided us with regular and comprehensive reports, both written and oral, about all relevant questions concerning corporate planning and strategic development, as well as the development and progress of business, planned and current investments, the status of the company, its exposure to risk, the risk management system, and issues of compliance. The Management Board discussed the company's strategic alignment with the Supervisory Board and presented us with a comprehensive report every quarter about the state of business, the development of sales and earnings, and the position of the company and its business policy. These reports were made available to all members of the Supervisory Board. The Chairman of the Supervisory Board was also kept regularly informed by the Management Board on all business activities, also between the meetings, and gave advice on questions of business policy.

The Supervisory Board held four meetings during fiscal year 2010, in which the Management Board informed us in detail about the business situation and the development of the company and Group, as well as about significant business events. The meetings were each attended by all members. On completion of a four-year term of office, the Annual Shareholders' Meeting of June 2, 2010 re-elected the incumbent Supervisory Board members Mr. Kurt Dobitsch, Mr. Michael Scheeren and Mr. Kai-Uwe Ricke. At the constituent Supervisory Board meeting on June 2, 2010, Mr. Kurt Dobitsch was elected Chairman of the Supervisory Board.

In addition to the meetings, further resolutions on current topics were adopted by means of circular written consent. For example, on March 29, June 21, July 12 and October 20, 2010, resolutions were adopted concerning the issue of a total of 860,000 virtual stock options (SARs), on September 21/22, 2010 concerning the acquisition of a 30% shareholding in ProfitBricks GmbH, a start-up in the field of cloud hosting, and on December 15, 2010 the conclusion of a consultancy agreement between Mr. Scheeren and affilinet GmbH was approved.

The Supervisory Board consists of three members and did not form any committees. The Supervisory Board is not aware of any conflict of interest of one of its members.

Meeting on March 24, 2010:
The main topic of this Supervisory Board meeting was the presentation of the annual financial statements and the consolidated financial statements for fiscal 2009, as well as the joint management report for fiscal 2009, and the audit reports and explanations of the chief auditor. In the presence of the appointed chief auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, the audited annual financial

statements for 2009 of United Internet AG and audited consolidated financial accounts according to IFRS were approved. The invitation and agenda for the Annual Shareholders' Meeting 2010, the remuneration report of the Chairman of the Supervisory Board and the Supervisory Board's report to the Annual Shareholders' Meeting were discussed with the Management Board and adopted. The target achievement of the Management Board in the past year was adopted and the payment of the variable remuneration elements approved by the Supervisory Board. The Management Board reported on the development of the company and the progress of the share buyback program. The Management Board then informed the Supervisory Board about the plan for the internal audit and current development of the United Internet for UNICEF Foundation.

Meeting on June 2, 2010:
The meeting was held directly after the Annual Shareholders' Meeting of United Internet AG in Frankfurt am Main, at which the incumbent members of the Supervisory Board were re-elected for a further term of office. At the constituent meeting, Mr. Dobitsch was re-elected as Chairman of the Supervisory Board. Moreover, the Management Board reported on the current development of business and various strategic options were evaluated jointly by the Management Board and Supervisory Board.

Meeting on August 25/26, 2010:
The main focus of this meeting was a discussion of strategic topics and the interim financial report as of June 30, 2010. The Supervisory Board was informed about the status of ongoing strategic cooperation talks. In addition, the updated version of the Risk Management Manual was adopted and the Internal Audit report for the first half of 2010 presented and explained. The Management Board also reported on the development of the United Internet for UNICEF Foundation.

Meeting on November 10, 2010:
In addition to the Management Board's report on company events as of September 30, 2010, the Group's planning for fiscal 2011 and investment projects were discussed in detail. Customer growth in Mobile Internet, the internationalization of email services, the preparation of the De-Mail launch and the expansion and harmonization of platforms for the expansion of the Application business are granted priority over growth in earnings. Following the adoption of the investment programs, consolidated EBITDA in 2011 is expected to reach the same nominal level as in 2010. The Management Board also informed us about the planned restructuring in the sub-group 1&1 Internet AG and jointly adopted with the Supervisory Board the prolongation and expansion of the employee stock ownership plan and the dates for the meetings to be held in 2011.

Corporate Governance

The Supervisory Board discussed the further development of United Internet's corporate governance during fiscal year 2010. Together with the Management Board, we submitted the current declaration of conformity with Sec. 161 AktG regarding the recommendations of the Government Commission on the German Corporate Governance Code on March 3, 2011 and made it permanently accessible to the company's shareholders on the website and the government's electronic Federal Gazette. In accordance with section 3.10 of the German Corporate Governance Code, the Management Board reports separately on the corporate governance strategy of United Internet AG, also on behalf of the Supervisory Board, in the Corporate Governance Report.

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 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.

Discussion of the annual financial statements 2010 for the company and the Group

The Annual Shareholders' Meeting of United Internet AG on June 2, 2010 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, based in Eschborn/Frankfurt am Main, as auditors for the fiscal year 2010. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft audited the accounting system, the annual financial statements of United Internet AG, the consolidated financial statements according to IFRS and the combined management report for United Internet AG and the Group for the fiscal year 2010. As part of its audit of the annual financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft also audited and analyzed key aspects of the company's risk management system. The auditor awarded an unqualified certificate in each case.

The Supervisory Board satisfied itself as to the independence of the auditors and received a written declaration to this end.

The aforementioned annual financial statement documents, the proposal for the appropriation of profit and the auditor's report were presented to all members of the Supervisory Board in due time. The chief auditor attended the relevant meeting of the Supervisory Board on March 23, 2011, where he answered the Supervisory Board's questions and gave further explanations where necessary. Following its own inspection, the Supervisory Board came to the conclusion that the annual financial statements, the combined management report, the consolidated financial statements and the auditor's report gave no cause for objections. With a resolution on March 23, 2011, the Supervisory Board approved the annual financial statements of United Internet AG, as prepared by the company on March 16, 2011 and the consolidated annual financial statements according to IFRS for fiscal 2010, also prepared by the company on March 16, 2011. The annual financial statements are therefore adopted pursuant to Sec. 172 AktG. The Supervisory Board supports the proposal of the Management Board concerning the allocation of retained earnings.

The report prepared by the Management Board about relations with affiliated companies (Dependent Company Report) was also audited by the external auditors. The following certificate was awarded in this respect:

"On the basis of our statutory examination and evaluation, we can confirm that
1. the details made in the report are accurate,
2. the company was compensated adequately for each transaction mentioned in the report,
3. in the case of those measures mentioned in the report, there is no evidence to suggest a significantly different assessment to that provided by the Management Board."

The Supervisory Board examined the Dependent Company Report as prepared by the Management Board and approves its content. We also concur with the verdict of the chief auditor's examination. On the basis of our final examination, we have no objections to raise regarding the Management Board's declaration at the end of the Dependent Company Report.

Montabaur, March 23, 2011

For the Supervisory Board
Kurt Dobitsch

Corporate Governance Report

United Internet's corporate governance is based on internationally and nationally recognized standards of sound and responsible management. In accordance with Sec. 3.10 of the German Corporate Governance Code, the Management Board and Supervisory Board have prepared the following joint report concerning the corporate governance of United Internet:

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 Shareholders' Meeting and currently consists of three members. The Supervisory Board is generally elected for a period of five years. Members of the Supervisory Board and Management Board should generally not be older than 70. The Supervisory Board is involved in all decisions of material importance for the company. It monitors and advises the Management Board in the management of the company. The Supervisory Board regularly discusses business development, 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. The Supervisory Board's 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. 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.

Composition of the Management Board and Supervisory Board

The Supervisory Board appoints and dismisses the members of the Management Board and appoints one member of the Management Board as Chairman or Speaker. In the case of new appointments, it takes account of diversity aspects as defined by the German Corporate Governance Code. In particular, it strives to ensure that women are appropriately represented.

The Supervisory Board of United Internet AG is composed in such a way that its members together have the knowledge, skills and professional experience necessary for them to carry out their tasks correctly. The members of the Supervisory Board also have considerable business experience in countries other than Germany. The Supervisory Board comprises an adequate number of independent members, who have no business or personal relationship with the company or its Management Board. Moreover, these independent members do not exercise functions on a management body of or perform advisory duties at major competitors.

Members of the Supervisory Board complete the training and further education measures required for their tasks on their own, but receive appropriate support in this context from the company.

Financial Disclosures

United Internet provides shareholders, analysts and the press with four reports each fiscal year on the company's business development and its financial and earnings position. The publication dates of these reports are stated in a binding financial calendar, which the company posts on its website and regularly updates in accordance with legal obligations. The Management Board also provides immediate information in the form of ad-hoc announcements about any events not known to the public which might significantly affect the share price.

As part of its investor relations activities, the company's management team regularly meets with analysts and institutional investors. We also hold analyst conferences to announce our semi-annual and annual figures, which investors and analysts can also participate in via telephone. Access to financial information and further economically relevant information about the United Internet Group is provided on our website (www.united-internet.com).

www.united-internet.com

Risk management

The management of risks arising in connection with the company's business activities is of fundamental importance to the Management Board and Supervisory Board with regard to good and sustainable corporate governance. The Management Board receives regular reports from the Risk Management department set up by the Company concerning current risks and their development. It reports to the Supervisory Board on the risk exposure and the risk management system.

The Management Board is responsible for the internal monitoring and risk management system as well as for determining its structure. Principles, guidelines, processes and responsibilities are defined and established in such a way that they guarantee correct and prompt accounting of business transactions, facilitate early identification of risks and supply the flow of reliable information about the company's financial situation. The various components of our risk management culture are designed to recognize and control business risks at an early stage, and to secure the company's business objectives; they cannot, however, prevent such risks completely and do not therefore offer absolute protection against loss or fraudulent actions.

Accounting and Auditing

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS). However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements for the parent company and the group are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting.
Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was elected to audit the annual financial statements for the fiscal year 2010. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

Remuneration Report

Management Board
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 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 ends at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets. There is no minimum guaranteed bonus. There are no retirement benefits from the company to members of the Management Board.

In fiscal year 2010, remuneration of the two members of the Management Board amounted to € 1,027k (prior-year: € 1,076k). Of this total, € 600k was fixed (prior year: € 600k) and € 427k variable remuneration (prior year: € 476k).

The Chief Executive Officer, Mr. Ralph Dommermuth, received total remuneration of € 538k (prior year: € 566k). Of this total, € 300k (prior year: € 300k) was fixed and € 238k (prior year: € 266k) variable. The Chief Financial Officer, Mr. Norbert Lang, received total remuneration of € 489k (prior year: € 510k). Of this total, € 300k (prior year: € 300k) was fixed and € 189k (prior year: € 210k) variable.

Management Board remuneration in 2010	Fixed component €	Variable component €	Total €
Ralph Dommermuth	300,000	238,000	538,000
Norbert Lang	300,000	189,000	489,000
Total	**600,000**	**427,000**	**1,027,000**

In the fiscal years 2008 and 2009, Mr. Norbert Lang was granted 800,000 virtual stock options (so-called Stock Appreciation Rights, SARs) in each year at an exercise price of € 12.85 and € 5.52. The exercise hurdle is 120% of the share price. Payment of value growth is limited to 100% of the calculated share price at the time when the virtual stock options were granted (cap). The fair values of the virtual stock options on issuance amounted to € 2,384k and € 1,104k. The SAR program is described in more detail below, in the section "Stock-based compensation".

Supervisory 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.

Total remuneration for members of the Supervisory Board amounted to € 269k in fiscal year 2010 (prior year: € 440k). Of this total, the fixed component was € 110k (prior year: € 80k) and the variable component € 159k (prior year: € 360k).

The chairman of the Supervisory Board, Mr. Kurt Dobitsch, received total remuneration of € 93k (prior year: € 160k) in fiscal year 2010. Of this total, the fixed component was € 40k (prior year: € 40k) and the variable component € 53k (prior year: € 120k). Mr. Kai-Uwe Ricke received total remuneration of € 83k (prior year: € 140k). Of this total, the fixed component was € 30k (prior year: € 20k) and the variable component € 53k (prior year: € 120k). Mr. Michael Scheeren received total remuneration of € 93k (prior year: € 140k). Of this total, the fixed component was € 40k (prior year: € 20k) and the variable component € 53k (prior year: € 120k). Under the terms of the current remuneration system, there will be no long-term variable remuneration component until the fiscal year 2013.

Supervisory Board remuneration in 2010

	United Internet AG			1&1 Internet AG			Total		
	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
Kurt Dobitsch (Chair)	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
Total	**40**	**0**	**40**	**70**	**159**	**229**	**110**	**159**	**269**

Stock-Based Compensation

United Internet AG operates a stock-based compensation plan which enables its managers to participate in the company's success and is aimed at enhancing staff loyalty. The plan takes the form of a virtual stock option program.

Virtual stock options (so-called Stock Appreciation Rights - SARs) refer to the commitment of United Internet AG to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option 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 when the virtual options were granted (cap).

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 to fulfill its commitment to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion. Employees may exercise their option rights after expiry of certain minimum retention periods. The increase in value represents a taxable gain for employees. The SARs have a maturity of no more than six years.

Option rights can be exercised as follows: 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.

Detailed information on the stock-based compensation plan via virtual stock options is provided in the notes to the consolidated financial statements.

Shareholdings of the Management and Supervisory Board – Directors' Dealings

According to Sec. 15a of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG), members of the Management Board and Supervisory Board of United Internet AG are legally obliged to declare their purchase and sale of shares in United Internet AG or related financial instruments whenever the transaction conducted by an executive body or related persons reaches or exceeds the amount of € 5,000 within one calendar year. On October 1, 2010, Mr. Norbert Lang sold 250,000 shares of United Internet AG at a price of € 11.85 per share via NBL Vermögensverwaltung GmbH & Co. KG. The total volume amounted to € 2,963k. Of the total shares sold, 173,700 are attributable to Mr. Norbert Lang. No further Directors' Dealings were reported to the company.

As of December 31, 2010 the members of the Management Board and Supervisory Board held the following share volumes:

Shareholding and subscription rights as of Dec. 31, 2010

	Shareholding (units)	SARs (units)
Management Board		
Ralph Dommermuth	92,000,000	-
Norbert Lang	402,428	1,600,000
Supervisory Board		
Kurt Dobitsch (Chair)	-	-
Kai-Uwe Ricke	-	-
Michael Scheeren	700,000	-

Annual Declaration of Conformity acc. to Sec. 161 AktG

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 on July 2, 2010. 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. It can be accessed at www.united-internet.de, Investor Relations, Corporate Governance and was also published in the government's electronic Federal Gazette. The corporate governance principles of United Internet AG anchored in the company's statutes (including its articles and rules of procedure), and thus our current and expected future behavior, comply with the recommendations of the German Corporate Governance Code in the version dated May 26, 2010, 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.

› D&O insurance

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 made publicly accessible within 45 days of the end of the reporting period.

As already announced in its Financial Calendar 2010, United Internet did not publish its interim report for the first six months of 2010 until August 27, 2010 for organizational, internal reasons.

Montabaur, March 23, 2011

For the Management Board
Ralph Dommermuth

For the Supervisory Board
Kurt Dobitsch

The share

In fiscal year 2010, the United Internet AG share was able to continue its good performance from the previous year and outpaced the comparative DAX and TecDAX indices over the year as a whole.

In the first half of 2010, the United Internet AG share initially performed better than the DAX and TecDAX. Toward the middle of the year, however, the share fell back to its year-opening level and reached a low of € 8.60 in early July.

Buoyed by the generally favorable stock exchange trend of the second half of 2010, and positively impacted by the successful launch of our Mobile Internet products in July 2010, the share performed very well in the following months and reached a year-high of € 13.61 in late October.

In its forecast for 2011 published together with the 9-month figures for 2010, United Internet announced it would continue its current policy of sustainable growth and invest heavily in business fields once again in 2011. The share initially fell sharply, but then recovered toward year-end and closed on December 31, 2010 at € 12.17 (prior year: € 9.22).

› TecDAX

For the year as a whole, the share displayed strong growth of 32% and thus outperformed the DAX (+16%) and TecDAX (+4%) indices.

Our market capitalization rose from around € 2.21 billion to € 2.92 billion as of December 31, 2010. In fiscal 2010 an average of 0.80 million (prior year: 0.67 million) shares were traded daily via the XETRA electronic computer trading system alone, with an average value of € 8.7 million (prior year: € 5.3 million).

Annual Shareholders' Meeting 2010

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on June 2, 2010. 71.0% of capital stock was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

As of December 31, 2010 the company's capital stock amounts to € 240,000,000 divided into 240,000,000 no-par value, registered shares with the same number of voting rights.

In the period from January 14, 2010 to May 14, 2010, United Internet AG purchased a total of 9,809,154 treasury shares at an average price of € 11.38 and thus exhausted the buyback programs adopted on January 14, 2010 and April 20, 2010.

In the period from December 10, 2010 to February 18, 2011, United Internet purchased a further 4,000,000 treasury shares through the stock exchange at an average price of € 12.18 as part of a share buyback program. The decision was based on an authorization granted by the Annual Shareholders' Meeting of June 2, 2010 regarding the acquisition of treasury shares representing up to 10% of capital stock. The authorization was granted for the period ending May 25, 2012. On December 31, 2010, United Internet AG held 20,563,522 treasury shares (around 8.57% of capital stock).

Based on the above mentioned authorization, 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 capital stock of United Internet AG by € 15 million, from € 240 million to € 225 million. The reduction served to optimize the company's balance sheet and capital structure. Following the cancellation of these 15,000,000 shares, United Internet AG still held 9,000,000 treasury shares. This corresponds to 4% of the reduced capital stock of € 225 million.

The Management Board of United Internet AG on the same day resolved to launch a further share buyback program. In the period between February 23, 2011 and April 8, 2011 United Internet bought back a total of 4,500,000 of its own shares (corresponding to 2% of the reduced capital stock of € 225 million). On April 11, 2011 the Executive Board of United Internet AG has resolved to launch a further share buyback program. In the course of this new share buyback program, up to 4,500,000 company shares (corresponding to 2% of the capital stock) are to be bought back via the stock exchange. 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.

Share data

Share type	Registered common stock with a notional share of capital stock of € 1.00 each
International Securities Identification Number (ISIN)	DE0005089031
Ticker symbol	Frankfurt Stock Exchange UTDI Reuters UTDI.DE Bloomberg UTDI.GR
Segment	Prime Standard
Index	TecDAX Stoxx-600 GEX

Shareholdings and subscription rights of the Management Board and Supervisory Board as of December 31, 2010

	Shareholding (units)	SARs (units)
Management Board		
Ralph Dommermuth	92,000,000	–
Norbert Lang	402,428	1,600,000
Total	**92,402,428**	**1,600,000**
Supervisory Board		
Kurt Dobitsch (Chair)	0	–
Kai-Uwe Ricke	0	–
Michael Scheeren	700,000	–
Total	**700,000**	**–**

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 comprised 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.

For fiscal year 2010, the Management Board and Supervisory Board propose a dividend payment of 20 cents per entitled share. The Annual Shareholders' Meeting convened for May 26, 2011 will vote on this proposal of the Management Board and Supervisory Board.

Share	2010	2009
Year-high	€ 13.61	€ 10.87
Year-low	€ 8.60	€ 4.22
Year-end	€ 12.17	€ 9.22
Performance	32%	47%
Average daily turnover	€ 8,659,606	€ 5,251,868
Average daily turnover	796,493	674,776
Number of shares at year-end	240 million	240 million
Market value at year-end	€ 2.921 billion	€ 2.213 billion
Earnings per share (EPS)	€ 0.58	€ 1.22
Dividend payment	€ 42.4 million *	€ 88.0 million
Dividend per share	€ 0.20 *	€ 0.40

* 2010: proposal to the Annual Shareholders' Meeting; as of April 8, 2011

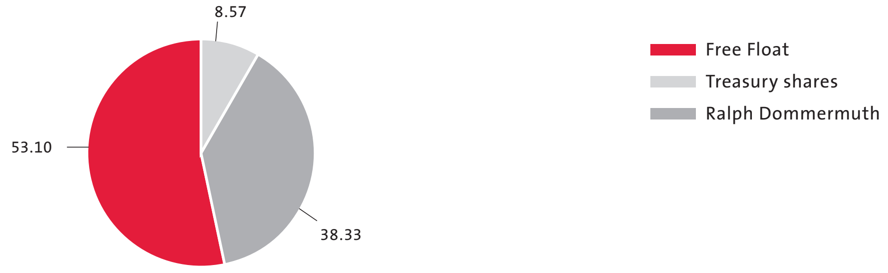
Investor Relations

In fiscal 2010, the Management Board and Investor Relations department of United Internet AG provided institutional and private investors with regular and comprehensive information. Information was provided to the capital market via the quarterly and annual reports, as well as at press and analyst conferences. The company's management and IR department explained the company's strategy and financial results in numerous one-on-one discussions at the company's offices in Montabaur, as well as at numerous roadshows in Germany, the USA, the UK, France and Switzerland. Around 25 investment banks are in contact with the IR department of United Internet AG and publish regular studies and comments on the company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the company around the clock via the company's website (www.united-internet.de).

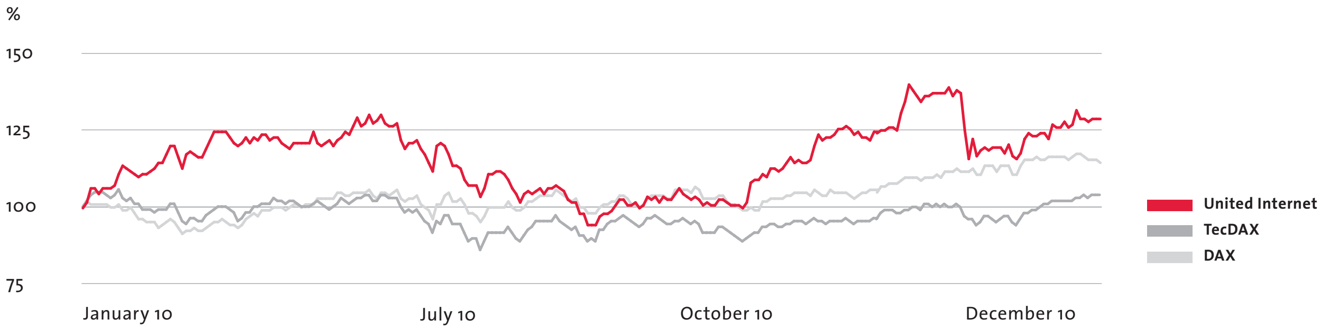
Thomson Reuters Extel Surveys, Wirtschaftswoche and DIRK (The German Investor Relations Association) regularly present awards for the Investor Relations activities of listed German companies. In the course of the "German Investor Relations Award 2010", over 800 capital market experts expressed their opinion on the quality of the IR communications work provided by companies in the main stock market indices. In 2010, United Internet AG once again achieved a very good result: in the TecDAX share category, the company came first in the individual ranking of IR managers and third in the company ranking.

Shareholder structure (as of Dec. 31, 2010)

in %



Development of share 2010 indexed



38 million

ACCOUNTS IN 9 NATIONS. We focused above all on our customers in 2010. This involved investing over € 20 million in our DSL quality drive alone. Improved processes, a free hotline and faster problem solutions led to a significant increase in customer satisfaction – and satisfied customers stay loyal longer and are happy to recommend us to others. Enhancing quality is therefore a sound investment, as it helps raise profits in the medium term.

United Internet at a glance

United Internet at a glance

The internet has firmly established itself with private users and companies as a universal medium for information, entertainment, communication, organization and e-business. This development is being driven by broadband internet access.

Our vision

Thanks to its permanent availability from any location and the relentless rise in access speeds, the internet is steadily developing into a universal infrastructure. it serves both our information and entertainment needs as well as providing us with private and corporate applications – via mobile or fixed-line networks.

At the same time, the internet opens up new kinds of sales and marketing channels. Portals pool and organize such services and content according to specific target group profiles and represent a universal home base within the internet.

This is exactly our vision: to supply private and commercial users with market-oriented information and entertainment products, as well as cloud applications, from our "Internet Factory" via increasingly powerful broadband mobile or fixed-line connections.

Our business model

United Internet is Europe's leading internet specialist with around 9.8 million fee-based customer contracts and 28 million ad-financed free accounts.

At the beginning of 2010, we introduced a new segmentation for management and reporting purposes. The former segments, "Products" and "Online Marketing" were discontinued and replaced by the segments "Access" and "Applications". This new positioning enables us to fully exploit the identified growth business fields "Mobile Internet" and "Cloud Applications".

The "Access" segment comprises the company's fee-based, fixed-line and mobile access products, including the respective applications (such as home networks, websites and e-mails, telephony and entertainment). We operate solely in Germany in this segment, where we are one of the leading providers. We remain 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 ourselves from the competition. Access products are marketed by our strong brands GMX, WEB.DE and 1&1, which enable us to reach a mass market while also targeting specific customer groups.

› group work

The "Applications" segment comprises our application business – whether ad-financed or via fee-based subscriptions. These applications include websites 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 in our own "Internet Factory" or in cooperation with partner firms and run at our data centers. Applications are marketed to various target groups via our brands GMX, WEB.DE, 1&1,

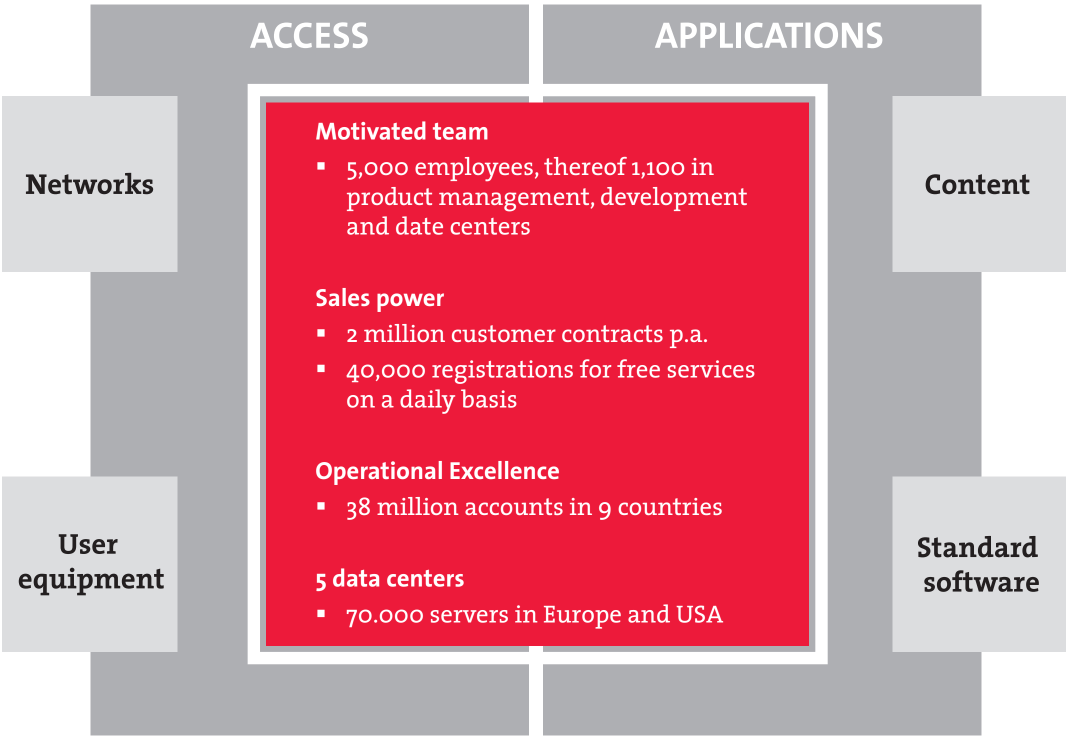
united-domains, Fasthosts and InterNetX. We also offer our customers performance-based advertising and sales possibilities via Sedo and affilinet.

Our "Internet Factory"

At the heart of our business is our powerful "Internet Factory" with over 5,000 employees, of which over 1,100 are engaged in product management, development and our data centers. The "Internet Factory" applies the mechanisms of rationalized production to the internet business. Our highly efficient development departments "manufacture" products which represent the backbone of our business in both the "Access" and "Applications" segments. Our "Internet Factory" enables us to extend, combine and bundle our product lines almost at will – and then to export them throughout the world.

In addition to the high sales strength of its established and high-reach brands (GMX, WEB.DE, 1&1, united-domains, Fasthosts, InterNetX, Sedo and affilinet), United Internet stands for outstanding operational excellence with around 38 million customer accounts worldwide and around 70,000 servers at our five data centers.

Our "Internet Factory"



Success factors of our business model

United Internet's business model offers various benefits: the contractual commitment of customers via subscriptions (year-end 2010: around 9.8 million customer contracts) secures stable sales and earnings. And our 28 million ad-financed free accounts provide a huge reservoir for successive conversion to fee-based contracts and the monetarization of our applications via advertising and e-commerce.

Wherever it makes good business sense, we cover the entire value chain – from the technological base to self-developed software products, effective sales and marketing and active customer support.

Economies of scale represent a further key success factor for our business. Every new customer enhances the profitability of our "Internet Factory". After making the investments in our "factory" and developing products in the form of applications, it is then a question of utilizing them as fully as possible. The greater the number of customers using products already developed and operated in our "Internet Factory", the greater our profit will be.

A further advantage is our marketing strategy tailored to specific target groups. Every United Internet customer gets the exact product he needs. This special service is made possible by our variously positioned brands (such as GMX, WEB.DE, Mail.com, 1&1, united-domains, InterNetX and Fasthosts) and, in some cases, exclusive sales channels.

And last but not least, the exportability of our products is a further trump card. Our applications can often be used anywhere in the world and work on the same principle in Frankfurt as they do in London, Paris or New York.

Growth opportunities

In view of the dynamic market development of Cloud Applications and Mobile Internet, our growth opportunities are clearly apparent: increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. These internet-based programs for end users and companies will be our growth drivers over the coming years – both as stand-alone products in our "Applications" segment as well as in combination with fixed-line and mobile access products in our "Access" segment.

With over 10 years of experience as a provider of internet access, webhosting and applications, our expertise in software development and data center operation, marketing, sales and customer support, as well as our strong and well-known brands, and our existing customer relationships with millions of private users, freelancers and small companies, we are excellently placed to fully exploit the expected market growth.

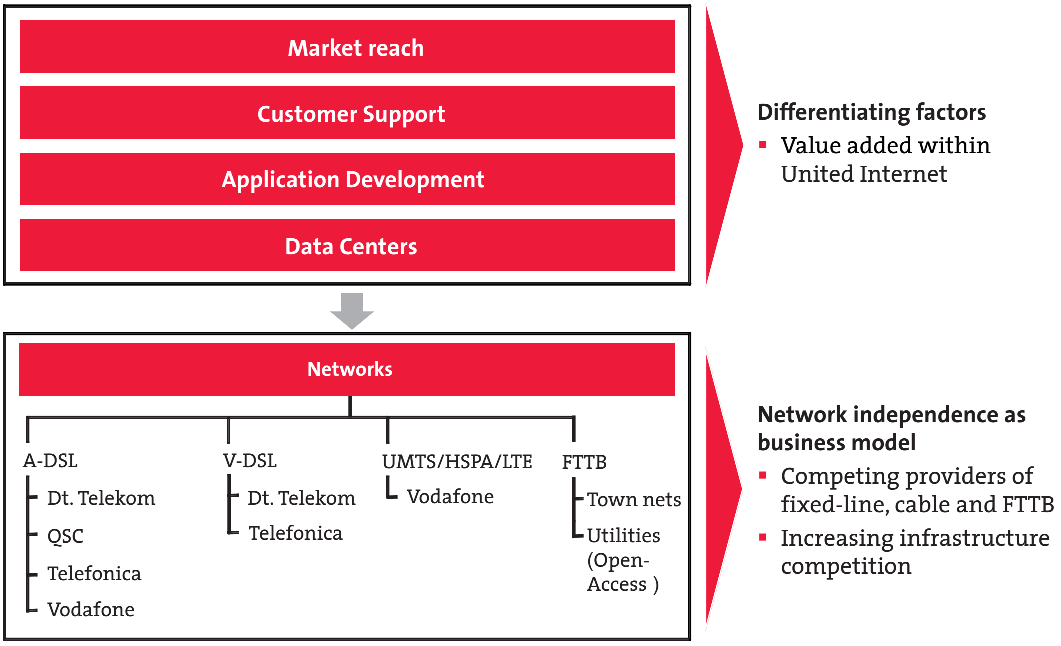
"Access" segment

› T-DSL, R-DSL

We have pooled the access products of our brands and their respective applications in the "Access" segment. We currently operate three product lines: "Mobile Internet", "DSL Complete Connections" and "Narrowband/T-DSL/R-DSL Connections".

In fiscal year 2010, the number of fee-based Access contracts grew in total by 130,000 contracts, from 3.50 million contracts as of December 31, 2009 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

Business Model „Access“



› UMTS, HSPA, LTE, FTTB, Open Access

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 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 as expected.

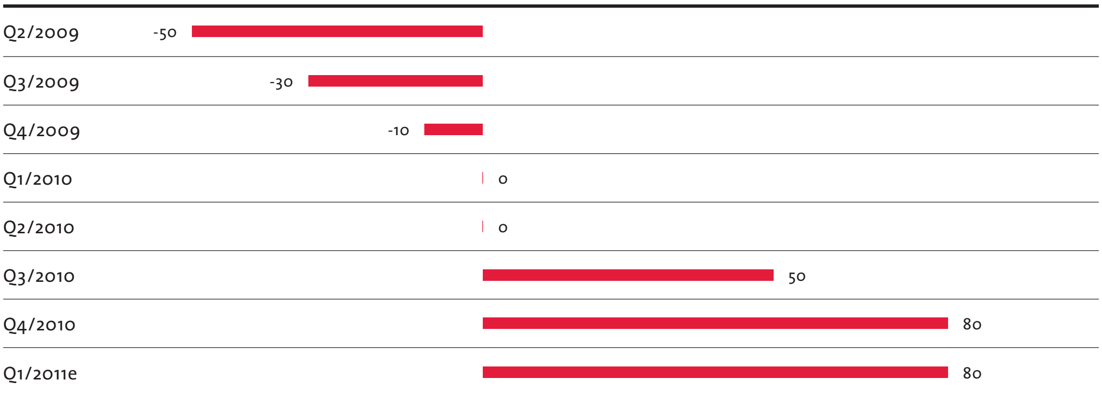
Development of customer contracts in the "Access" segment in 2010

	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

› ULL

Following customer losses in 2009 (without the takeover of freenet's DSL customers), we have therefore succeeded in achieving a remarkable turnaround in the "Access" segment within a very short space of time.

Organic growth in thousands



We feel well prepared for the years ahead in this segment and expect further growth in our customer figures.

With regard to our fixed-line products, we aim to enhance customer retention via migration to complete packages (ULL) with more personalized service and more transparent and flexible offers. 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.

Customer growth in this segment is expected to be driven above all by Mobile Internet products and services. All experts forecast sustained growth for this market. Following growth of 18.2% to € 6.5 billion in 2010, the sector association BITKOM also forecasts growth of 14.0% and 10.4% for 2011 and 2012 respectively. This growth will be driven mainly 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 as well as related sales growth of 35% to € 2.2 billion.

"Applications" segment

In the "Applications" segment, we distinguish between ad-financed and fee-based applications, whereby the latter are in turn divided into Consumer and Business Applications.

In the field of Business Applications, we are among the leading companies in each of our target markets (Germany, France, the UK, Spain, Austria, Switzerland and the USA). We recently also entered the Polish market.

Our ad-financed applications and Consumer Applications are currently marketed primarily in Germany, Austria and Switzerland. We intend to drive our international expansion in this field in future and to this end acquired the US provider Mail.com in the third quarter of 2010. 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.

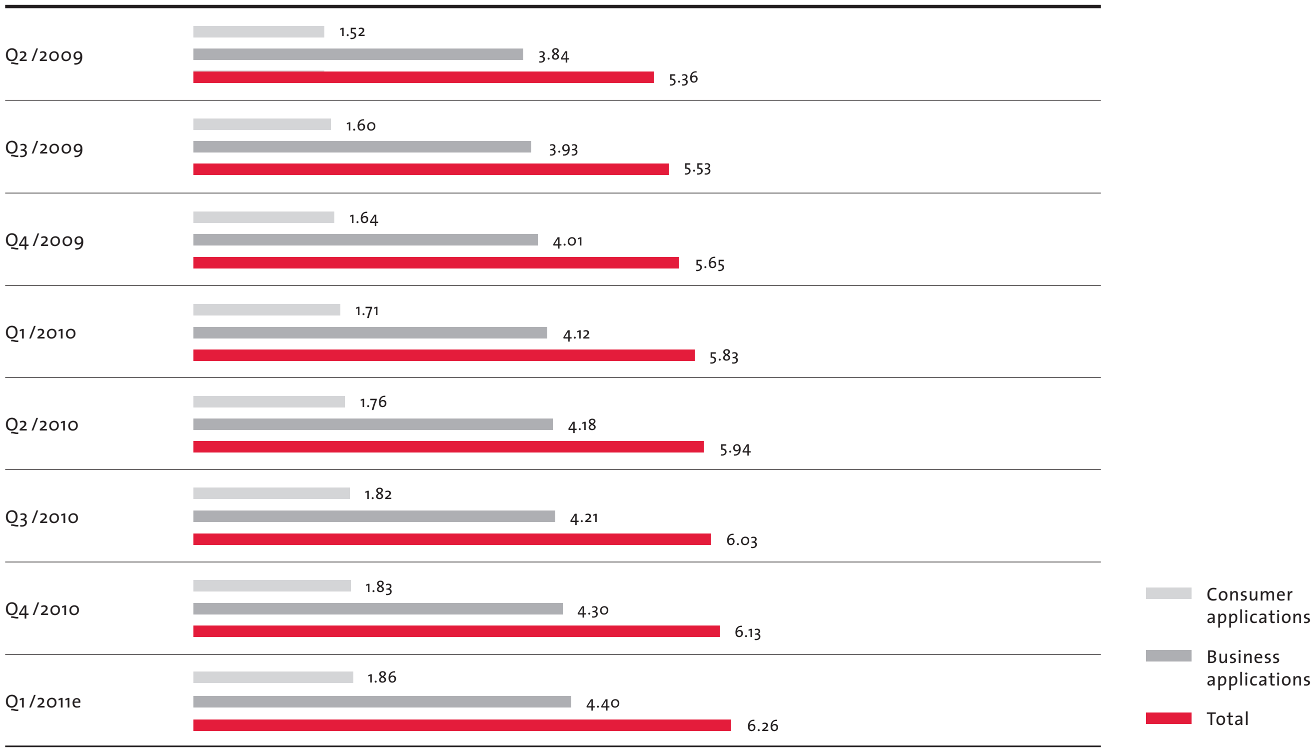
In addition to this acquisition, we also invested heavily in customer growth in 2010. The number of fee-based contracts grew by 480,000 to 6.13 million (2.45 million of which were abroad). This growth in customer contracts resulted from the addition of 290,000 new Business Applications contracts to 4.30 million and 190,000 new Consumer Applications contracts to 1.83 million. At the same time, the number of ad-financed accounts also grew from 26.3 million to 28.0 million.

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

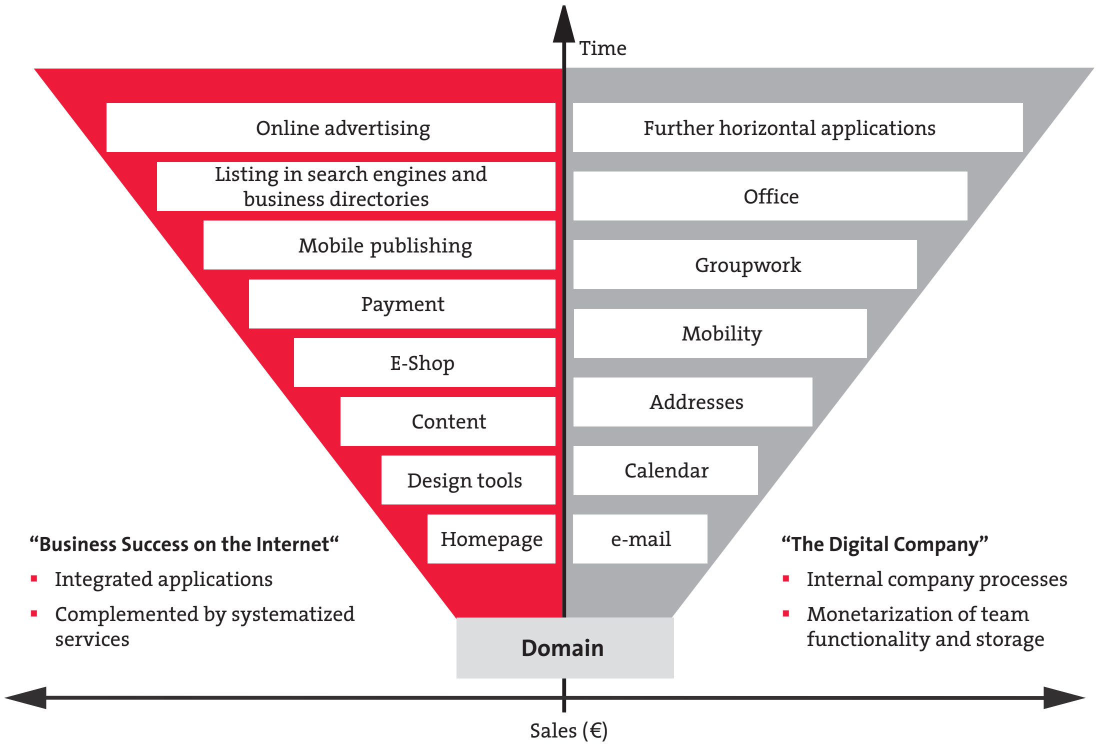
	Dec. 31, 2009	Dec. 31, 2010	+ / -
Total fee-based contracts	5.65 million	6.13 million	+ 480,000
of which "domestic"	3.43 million	3.68 million	+ 250,000
of which "foreign"	2.22 million	2.45 million	+ 230,000
Ad-financed accounts	26.3 million	28.0 million	+ 1,700,000

The stable and consistent growth in the number of Applications contracts has therefore continued.

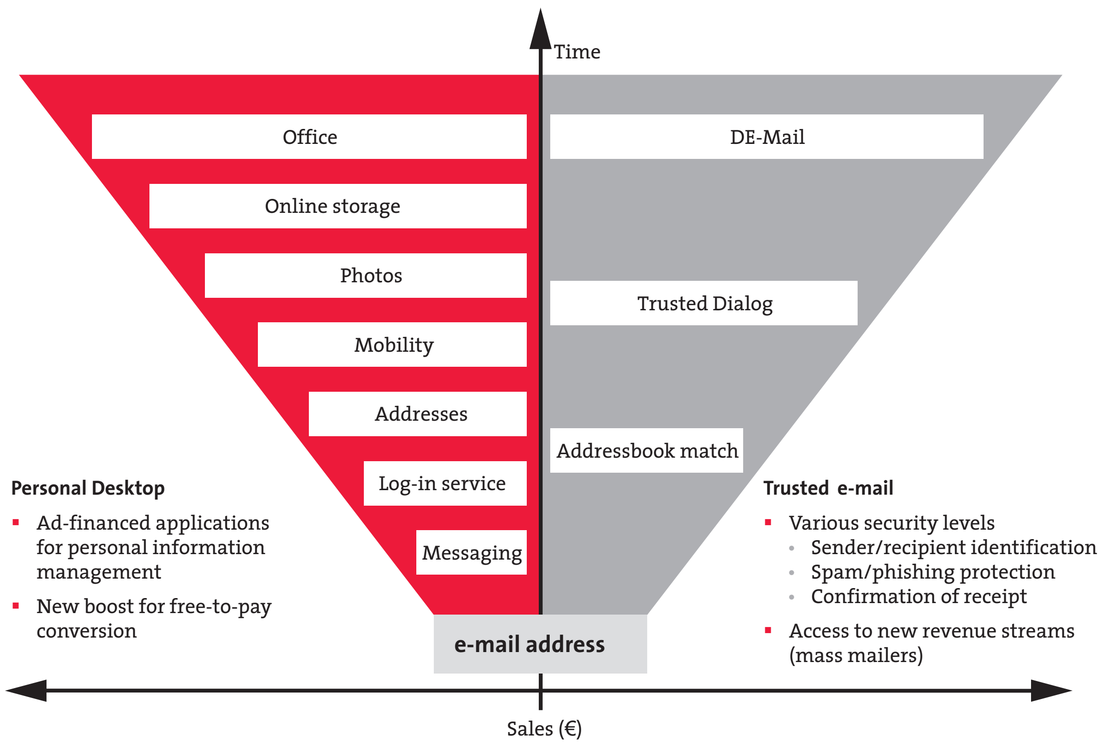
Customer contracts in million



B-to-B Applications



B-to-C Applications



With our strong brands and existing customer relationships with millions of private users, freelancers and small companies, we are excellently positioned for the future in this segment.

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 processes. We shall also continue the international expansion of our business.

In our Consumer Applications business, we believe that an increasingly wide range of products will continue to enable us to convert ad-financed users into paying customers. As Germany's leading email provider, we also intend to enter the field of legally secure email communication (De-Mail) in 2011 and to drive the internationalization of our Consumer Applications via Mail.com.

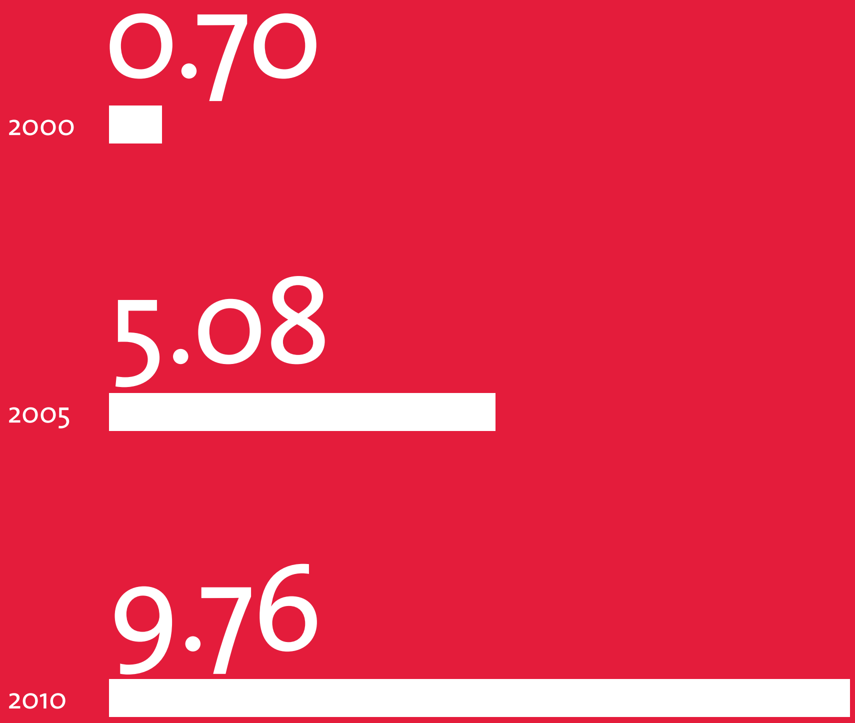
The dynamic development of the Cloud Computing market is also working in our favor. In a survey published in June 2010, IDC forecast that the cloud market would triple in volume from 2009 to 2013 to a total of USD 44.9 billion. Based on a study of the Experton Group, the sector association BITKOM expects 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%.

10 million

EUROS DONATED. Helping together to shape the future of others creates lasting value for future generations. Economic success secures our future – not only for the company and its employees, it also serves major human ideals. The United Internet for UNICEF Foundation marked its fourth year of existence by reaching € 10 million in donations. We regard this as both confirmation and motivation to continue our commitment to corporate social responsibility in future.

CUSTOMER CONTRACTS

in million as of December 31



Management Report

Group structure and business operations

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.

A simplified illustration of the Group structure with significant operating subsidiaries and investments is shown on the right page.

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%).

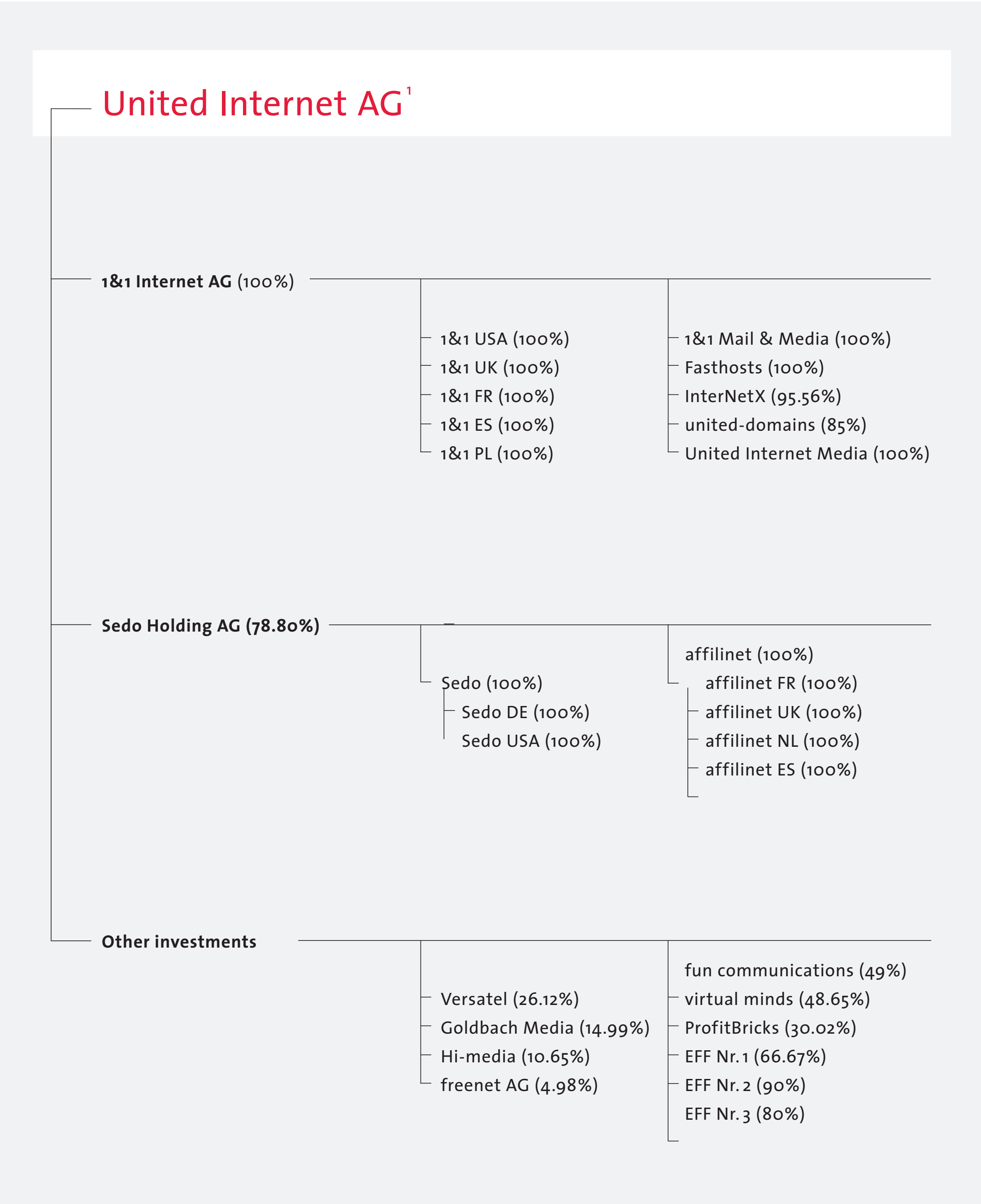
The indirect investments held via United Internet Beteiligungen GmbH (100%) consist mainly of the listed online marketing companies Goldbach Media AG, Switzerland (14.99%), Hi-media S.A., France (10.65%), fun communications GmbH (49%), virtual minds AG (48.65%), and ProfitBricks GmbH (30,02%), as well 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.



[1] Simplified illustration

Corporate Governance

Declaration acc. to Sec. 289a HGB

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.

www.ebundesanzeiger.de

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.com), as well as in the electronic Federal Gazette.

www.united-internet.com

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 indispensible 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.

see page 168

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.

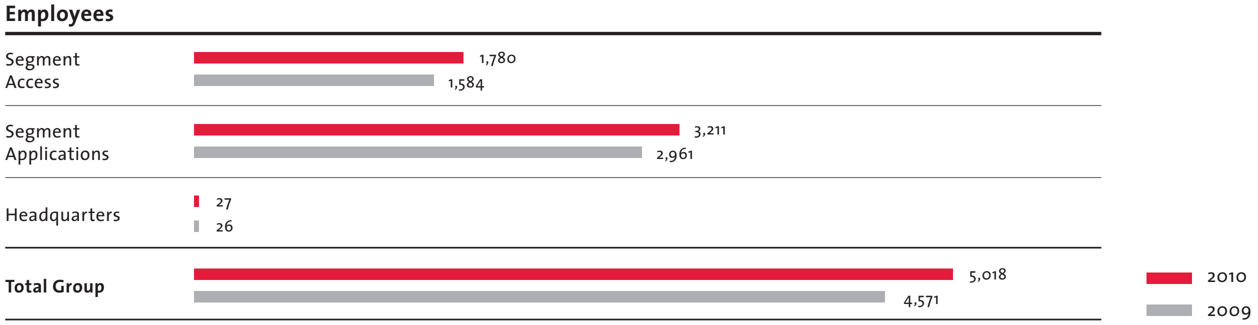
In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg – DHBW) we also offer degree courses in Information Management and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

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.

Employees



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).

› 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.

› TAL

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 German, 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

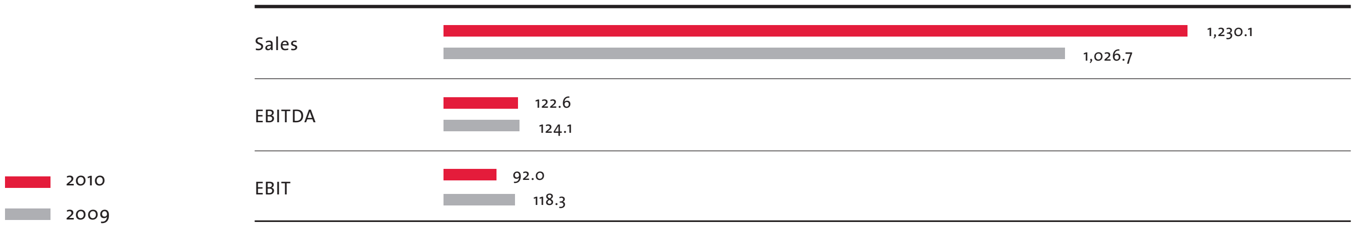
The “Access” segment comprises our fixed line and mobile access products, including the corresponding applications. We operate in Germany in this segment, where we are among the top providers. We remain independent of network providers by purchasing standardized network services from various pre-service 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



Quarterly development 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

- 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.

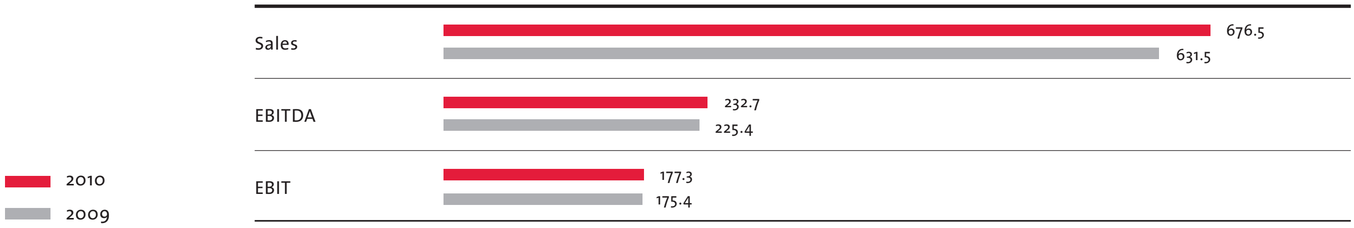
We also invested heavily in customer growth in the "Applications" segment during 2010. The number of fee-based contracts grew by 480,000 to 6.13 million. Although the statistics were pruned of 40,000 contracts following a change in debt collection policy abroad in the third quarter, there was growth 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



Quarterly development 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 p**rovide 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

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, Büdelsdorf. 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, Küsnacht-Zürich / 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.

› Goodwill

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.

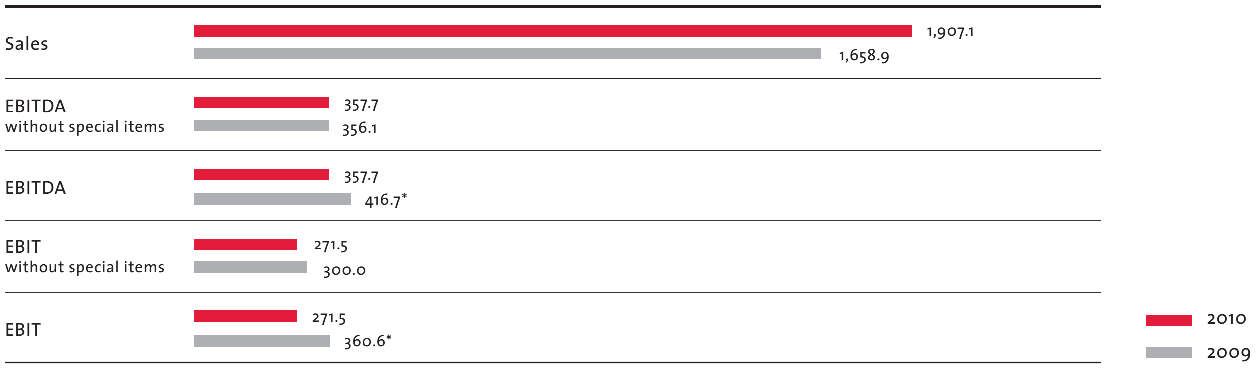
Due to scheduled write-downs on the acquired freenet DSL customer base, greatly increased total marketing expenditure, high pre-launch costs for new products, and customer acquisition costs, sales and marketing expenses grew from € 228.0 million (13.7% of sales) in the previous year to € 306.2 million (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



* 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.

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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

› API

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.

› DDos

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.

› Federal Network Agency, Federal Cartel Office

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 € 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

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

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

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.

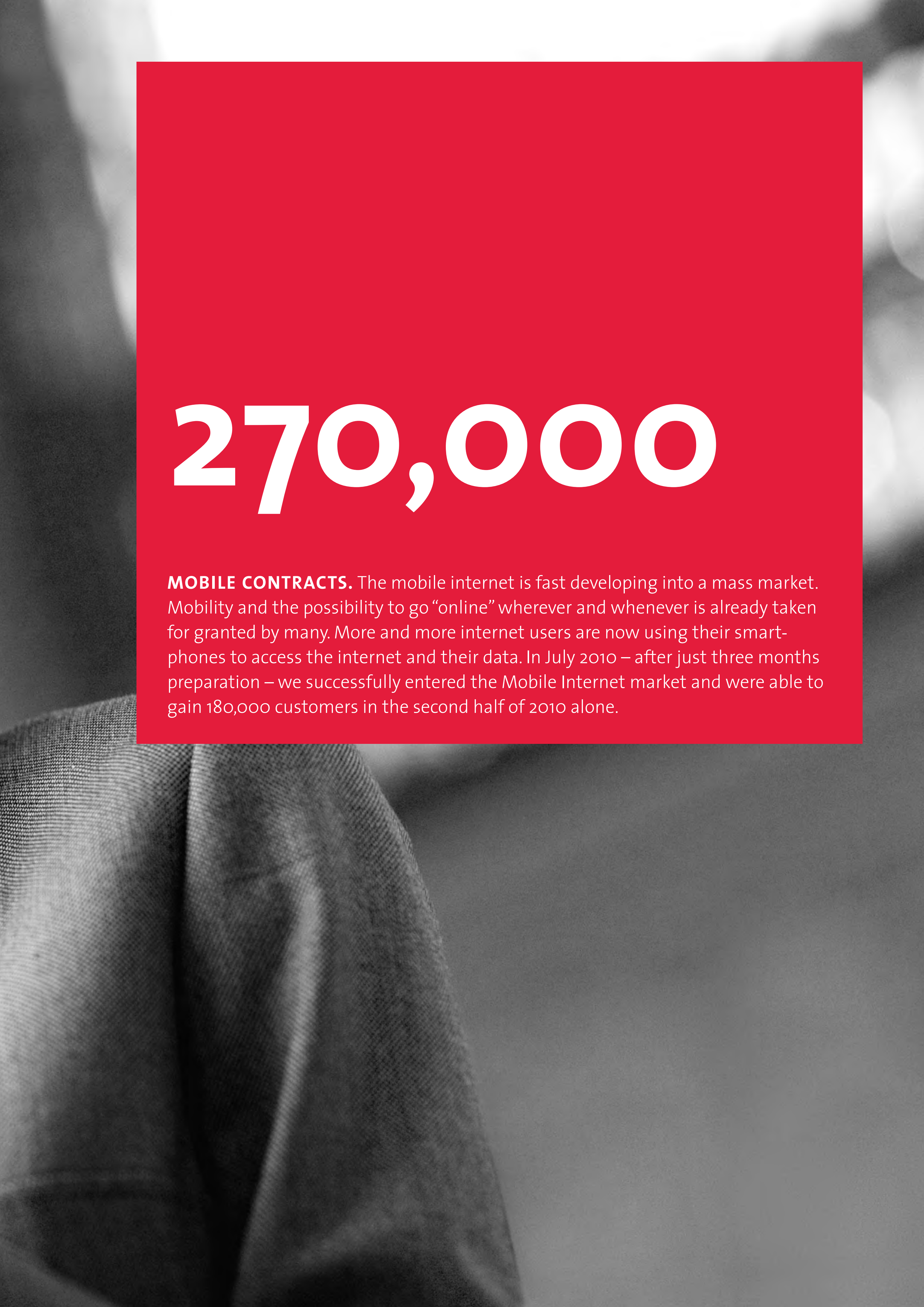
Forward-looking statements

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

Ralph Dommermuth Norbert Lang

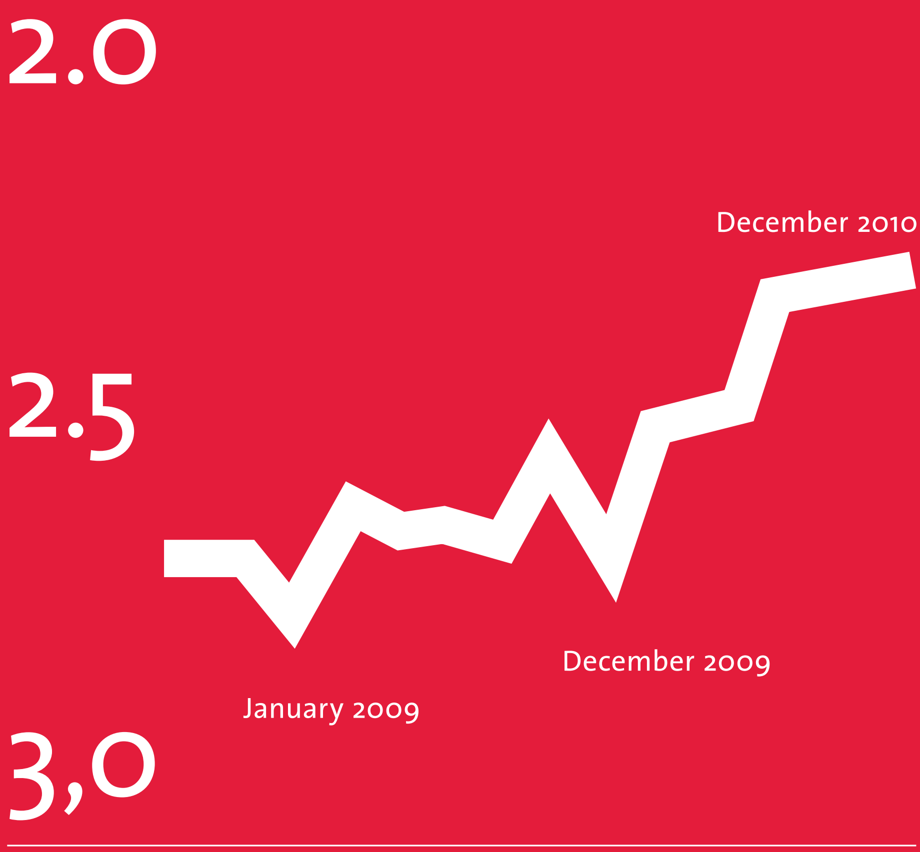


270,000

MOBILE CONTRACTS. The mobile internet is fast developing into a mass market. Mobility and the possibility to go “online” wherever and whenever is already taken for granted by many. More and more internet users are now using their smart-phones to access the internet and their data. In July 2010 – after just three months preparation – we successfully entered the Mobile Internet market and were able to gain 180,000 customers in the second half of 2010 alone.

CUSTOMER SATISFACTION

in school grades (from 1 = excellent to 6 = failed)



Consolidated Financial Statement

Balance Sheet

from January 1 to December 31, 2010 in €k

	Notes	December 31, 2010	31. Dezember 2009
ASSETS			
Current assets			
Cash and cash equivalents	20	96,091	116,812
Accounts receivable and other assets	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
		275,823	300,859
Non-current assets			
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 asset	16	33,194	14,236
		995,505	1,022,576
Total assets		**1,271,328**	**1,323,435**

	Notes	December 31, 2010	December 31, 2009
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
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
		645,541	489,210
Non-current liabilities			
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
		243,364	394,463
Total liabilities		**888,905**	**883,673**
Equity			
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		–20,038	–24,326
Equity attributable to shareholders of the parent company		**372,739**	**430,122**
Non-controlling interests		9,684	9,640
Total equity		**382,423**	**439,762**
Total liabilities and equity		**1,271,328**	**1,323,435**

Net Income

from January 1 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	–1,226,185	–1,016,532
Gross profit		**680,950**	**642,345**
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
Amortisation of goodwill	10	–162	0
Operating result		**271,495**	**360,612**
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
Results from associated companies	15	–31,778	–8,938
Pre-tax result		**215,774**	**327,674**
Income taxes	16	–88,068	–56,509
Net income before minority interests (from continued operations)		**127,706**	**271,165**
Result from discontinued operations	17	1,790	12,010
Net income before minority interests (after discontinued operations)		**129,496**	**283,175**
Attributable to			
non-controlling interests		379	3,248
shareholders of United Internet AG		129,117	279,927

	Note	**2010** January – December	**2009** January – December
Result per share of shareholders of United Internet AG (in €)			
- 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
Weighted average shares (in Million units)			
- basic	18	222.50	229.56
- diluted	18	224.15	230.64
Statement of comprehensive income			
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 financial instruments after taxes		12,993	3,526
- Change in associated companies after taxes not affecting net income		–268	261
		17,049	8,074
Total net income		**146,545**	**291,249**
Attributable to			
- non-controlling interests		415	4,241
- shareholders of United Internet AG		146,130	287,008

Segment development

from January 1 to December 31, 2010 and 2009 in €k

2010	Segment Access €k	Segment Applications €k	Head Office/ Investments €k	Reconciliation €k	United Internet Group €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
Writedowns 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**
Non-current assets	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 tangible and intangible assets	11,732	81,525	57	–	93,314
Amortizations	30,590	55,464	162	–	86,216
- thereof tangible and intangible assets	30,590	35,716	162	–	66,468
- thereof intangible assets resulting from company acquisitions	0	19,586	0	–	19,586
- thereof amortization of goodwill	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

2009	Segment Access €k	Segment Applications €k	Head Office/ Investments €k	Reconciliation €k	United Internet Group €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
Writedowns 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**
Non-current assets	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 tangible and intangible assets	147,754	27,501	41	–	175,296
Amortizations	5,764	50,124	197	–	56,085
- thereof tangible and intangible assets	5,764	31,071	197	–	37,032
- thereof intangible assets resulting from company acquisitions	0	19,053	0	–	19,053
- thereof amortization of goodwill	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

Cash Flow*

from January 1 to December 31, 2010 in €k

	Note	2010 January – December	2009 January – December
Cash flow from operating activities			
Net income (from continued operations)		127,706	271,165
Net income (from discontinued operations)		1,790	12,010
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization (from continued operations)			
Depreciation and amortization of intangible assets and property, plant and equipment a	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
Depreciation and amortization (from discontinued operations)			
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 affiliated companies	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
Operative cash flow		**238,072**	**251,150**
Change in assets and liabilities			
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
Change in assets and liabilities, total		**52,321**	**61,926**
Cash flow from operating activities		**290,393**	**313,076**

	Note	**2010** January – December	**2009** January – December
Cash flow from investing activities			
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
Cash flow from investment activities		**–71,184**	**–110,234**
Cash flow from financing activities			
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 minority interests		–1,338	–144
Others	37	–2,181	0
Repayment from convertible bonds		–4	–32
Cash flow from financing activities		**–240,526**	**–142,773**
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		**96,091**	**116,812**

* see note 46

Development of Intangible Assets, Property, Plant and Equipment

for fiscal year 2010 and 2009 in €k

2010	Acquisition and production costs						
	Jan. 1, 2010	Additions from initial consolidation	Additions	Disposals	Reclassifi-cations	Currency translation	**Dec. 31, 2010**
Intangible assets							
Licenses	28,416		276	11		123	28,804
Order backlog	2,141	264				–8	2,397
Software	48,934		14,768	473		53	63,282
Trademark	26,041	21,309				–448	46,902
Customer base	183,586	544	3,778			980	188,888
Portal	72,240						72,240
Goodwill	413,018	488	535			3,081	417,122
Total (I)	**774,376**	**22,605**	**19,357**	**484**	**0**	**3,781**	**819,635**
Property, plant and equipment							
Land and buildings	8,049		1				8,050
Operational equipment	225,222	35	42,835	21,644	6,248	4,126	256,822
Payments in advance	9,867		9,504	40	–6,248	158	13,241
Total (II)	**243,138**	**35**	**52,340**	**21,684**	**0**	**4,284**	**278,113**
Total	**1,017,514**	**22,640**	**71,697**	**22,168**	**0**	**8,065**	**1,097,748**

2009	Acquisition and production costs						
	Jan. 1, 2009	Additions from initial consolidation	Additions	Disposals	Reclassifi-cations	Currency translation	**Dec. 31, 2009**
Intangible assets							
Licenses	28,337		311	204		–28	28,416
Order backlog	2,141						2,141
Software	37,695	2,211	9,974	1,016		70	48,934
Trademark	21,423	4,198	75			345	26,041
Customer base	42,927	12,295	126,979			1,385	183,586
Portal	72,240						72,240
Goodwill	399,172	24,399	20,414	35,540		4,573	413,018
Total (I)	**603,935**	**43,103**	**157,753**	**36,760**	**0**	**6,345**	**774,376**
Property, plant and equipment							
Land and buildings	8,047		2				8,049
Operational equipment	196,645	345	29,571	3,701	1,948	414	225,222
Payments in advance	3,464		8,443	117	–1,948	25	9,867
Total (II)	**208,156**	**345**	**38,016**	**3,818**		**439**	**243,138**
Total	**812,091**	**43,448**	**195,769**	**40,578**	**0**	**6,784**	**1,017,514**

Accumulated depreciation						Net book value	
Jan. 1, 2010	Additions	Disposals	Reclassifications	Currency translation	**Dec. 31, 2010**	**Dec. 31, 2009**	**Dec. 31, 2010**
26,264	840			90	27,194	2,152	1,610
2,141	171				2,312	0	85
34,632	6,204	471		36	40,401	14,302	22,881
23	750			1	774	26,018	46,128
32,332	31,061			369	63,762	151,254	125,126
37,625	9,031			–1	46,655	34,615	25,585
14,092	162				14,254	398,926	402,868
147,109	**48,219**	**471**	**0**	**495**	**195,352**	**627,267**	**624,283**
4,122	94				4,216	3,927	3,834
145,095	37,903	19,981		2,205	165,222	80,127	91,600
0					0	9,867	13,241
149,217	**37,997**	**19,981**	**0**	**2,205**	**169,438**	**93,921**	**108,675**
296,326	**86,216**	**20,452**	**0**	**2,700**	**364,790**	**721,188**	**732,958**

Accumulated depreciation						Net book value	
Jan. 1, 2009	Additions	Disposals	Reclassifications	Currency translation	**Dec. 31, 2009**	**Dec. 31, 2008**	**Dec. 31, 2009**
25,211	1,186	121		–12	26,264	3,126	2,152
2,141					2,141	0	0
30,675	4,680	896		173	34,632	7,020	14,302
44	79			–100	23	21,379	26,018
20,585	11,401			346	32,332	22,342	151,254
28,595	9,030				37,625	43,645	34,615
20,296		6,204			14,092	378,876	398,926
127,547	**26,376**	**7,221**	**0**	**407**	**147,109**	**476,388**	**627,267**
4,028	110	16			4,122	4,019	3,927
117,634	29,746	2,615	14	316	145,095	79,011	80,127
					0	3,464	9,867
121,662	**29,856**	**2,631**	**14**	**316**	**149,217**	**86,494**	**93,921**
249,209	**56,232**	**9,852**	**14**	**723**	**296,326**	**562,882**	**721,188**

Statement of Changes in Shareholders' Equity

for fiscal year 2010 and 2009 in €k

	Capital stock		Additional paid-in capital	Accumulated profit	Capital stock	
	Share	€k	€k	€k	Share	€k
Balance as of January 1, 2009	**251,469,184**	**251,469**	**163,896**	**5,619**	**22,000,000**	**–264,987**
Net income				279,927		
Other net inocme						
Total net income				**279,927**		
Exercise of convertibles	156,472	157	526			
Issue of treasury shares			–328		–101,973	1,228
Cancellation of treasury shares	–11,625,656	–11,626	–128,347		–11,625,656	139,973
Employee stock ownership programme Sedo Holding			36			
Employee stock ownership programme United Internet			4,171			
Others			17			
Distribution of profits						
Change amount of holding						
Balance as of December 31, 2009	**240,000,000**	**240,000**	**39,971**	**285,546**	**10,272,371**	**–123,786**
Net income				129,117		
Other net income						
Total net income				**129,117**		
Issue of treasury shares			–60		–81,525	982
Employee stock ownership programme Sedo Holding			184			
Employee stock ownership programme United Internet			1,554			
Purchase of treasury shares					10,372,676	–118,173
Dividend payments				–88,000		
Distribution of profits						
Change amount of holding						
Balance as of December 31, 2010	**240,000,000**	**240,000**	**41,649**	**326,663**	**20,563,522**	**–240,977**

Revaluation reserves	Currency translation	Equity attributable to shareholders of the parent company	Minority interests	Total equity
€k	€k	€k	€k	€k
10,002	**–28,692**	**137,307**	**8,273**	**145,580**
		279,927	3,248	283,175
2,715	4,366	7,081	993	8,074
2,715	**4,366**	**287,008**	**4,241**	**291,249**
		683		683
		900		900
		0		0
		36	4	40
		4,171		4,171
		17		17
		0	–144	–144
		0	–2,734	–2,734
12,717	**–24,326**	**430,122**	**9,640**	**439,762**
		129.117	379	129.496
12.725	4.288	17.013	36	17.049
12.725	**4.288**	**146.130**	**415**	**146.545**
		922		922
		184	50	234
		1,554		1,554
		–118,173		–118,173
		–88,000		–88,000
		0	–341	–341
		0	–80	–80
25,442	**–20,038**	**372,739**	**9,684**	**382,423**

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", 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 afore-mentioned 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, ABl. 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 pre-pared 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, Gloucester / 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%)
    - InterNetX 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.

Associated companies

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.

Other shareholdings

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:
- **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
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 – Financial Instruments
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.

IAS 34 – Interim Reporting
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

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 counties 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 ex-tent 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.

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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

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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, online 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 as-set. 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 per-formed 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 or 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 avail able 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 consideration 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
Purchase price	**22,606**

	Fair values €k
Trademark	21,309
Customer base	544
Service agreements	264
Intangible assets	**22,118**
Goodwill	488
Acquisition costs	**22.606**

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 exercised 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 recog-niti-on. 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 shown on the next page

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 cus-tomer 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 reve-nues.

The reconciliation figure with regard to earnings before taxes represents the corresponding EBT con-tribu-tion of the Access and Applications segments.

Segment reporting of United Internet AG in fiscal year 2009 was as shown on the next page.

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.

2010	Access segment €k	Applications segment €k	Head Office / Investments €k	Reconciliation €k	United Internet Group €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

2009	Access segment €k	Applications segment €k	Head Office / Investments €k	Reconciliation €k	United Internet Group €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

5. Cost of sales

	2010 €k	2009 €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
Total	**1,226,185**	**1,016,532**

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.

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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.

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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).

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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.

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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.

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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, property, plant and equipment consist of the following:

	2010 €k	2009 €k
Cost of sales	36,799	27,731
Selling expenses	23,816	3,781
General and administrative expenses	5,853	5,520
Total	**66,468**	**37,032**

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:

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

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

	2010 €k	2009 €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
Total	**19,586**	**19,053**

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:

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

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

	2010	2009
Germany	4,019	3,704
Outside Germany	999	867
Total	**5,018**	**4,571**

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

	2010 €k	2009 €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
Total financial expenses	**15,197**	**23,515**

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
Total financial income	**5,094**	**2,993**

14. Amortization of investments

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

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15. Result from associated companies

	2010 €k	2009 €k
Result from associated companies	–31,778	–8,938
	–31,778	**–8,938**

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

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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)	**102,732**	**59,973**
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	**–14,664**	**–3,464**
Total tax expense	**88,068**	**56,509**

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:

	2010 €k	2009 €k
France	353	253
	353	**253**

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

	2010 €k	2009 €k
France	10,354	9,968
Spain	9,739	4,659
Germany	3,600	3,836
	23,693	**18,463**

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 €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
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	**32,097**	**26,592**	**13,483**	**20,210**
Tax loss carryforwards	353	0	253	0
Adjustments for consolidation	67	1,891	10	2,608
Other items	677	0	490	233
Consolidated balance sheet	**33,194**	**28,483**	**14,236**	**23,051**

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:

	2010 €k
Deferred tax income	14,664
Deferred tax expense recognized directly in equity	–647
Deferred tax expense from discontinued operations	–491
Change in the net balance of deferred taxes	**13,526**

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:

	2010 %	2009 %
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	**40.8**	**17.2**

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:

	2010 €k	2009 €k
Profit attributable to the shareholders of United Internet AG	**129,117**	**279,927**
Earnings per share (in €)		
- undiluted	0.58	1.22
- diluted	0.58	1.21
Thereof result from continued operations	**127,327**	**267,917**
Earnings per share (in €)		
- undiluted	0.57	1.17
- diluted	0.57	1.16
Thereof result from discontinued operations	**1,790**	**12,010**
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
less		
Bad debt allowances	–15,019	–22,687
Trade accounts receivable, net	**97,987**	**91,290**

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
As of December 31	**15,019**	**22,687**

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.

see page 171

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:

	2010 €k	2009 €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
	97,987	**91,290**

22. Inventories

Inventories consist of the following items:

	2010 €k	2009 €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
	22,887	**15,833**
less		
Allowances	–5,975	–1,772
Inventories, net	**16,912**	**14,061**

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 €k	2009 €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
Other assets, net	**28,297**	**48,336**

see page 139

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.

see page 146

In the previous year, this loan was disclosed under other financial assets. We refer to Note 26.

see page 136

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 €k	2009 €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
	84,079	**126,628**

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 €k	2009 €k
Versatel	0	9,958
EFF Nr. 2	0	2,181
BW2	0	509
	0	**12,648**

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 €k	2009 €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	**214,814**	**243,187**
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:

	2010 €k	2009 €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	**30,705**	**28,381**
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 €k	Additions €k	Amortization of revaluation reserve not recognized in income: Recycling €k	Amortization of revaluation reserve not recognized in income: Addition €k	Impairment €k	Reclassification €k	Disposals €k	Dec. 31, 2010 €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
	160,524	**9,728**	**–3,936**	**17,144**	**–13,840**	**–12,340**	**–12,006**	**145,274**

			Amortization of revaluation reserve not recognized in income					
	Jan. 1, 2009	**Additions**	**Recycling**	**Addition**	**Impair-ment**	**Reclassifi-cation**	**Disposals**	**Dec. 31, 2009**
	€k	**€k**	**€k**	**€k**	**€k**	**€k**	**€k**	**€k**
Goldbach shares	12,047			3,757				15,804
Drillisch shares	8,909						–8,909	0
Hi-media shares	0	20,313		3,031				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
	72,785	**98,324**	**0**	**3,479**	**–3,478**	**0**	**–10,586**	**160,524**

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

see page 133 and 167

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.

see page 139

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

27. Property, plant and equipment

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

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).

see page 98

28. Intangible assets (without goodwill)

	2010 €k	2009 €k
Acquisition costs		
- 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
	402,513	**361,358**
Less		
Accumulated amortization and impairment	–181,098	–133,017
Intangible assets, net	**221,415**	**228,341**

see page 98

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 acquisi-tion 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.

see page 125

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 re-sulted in impairment of € 750k (prior year: € 79k), as one trademark will not be used in future.

	2010 €k	2009 €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
	46,128	**26,018**

29. Goodwill

	2010		2009	
	gross	net	gross	net
	€k	€k	€k	€k
Applications Segment	**417,122**	**402,868**	**413,018**	**398,926**

An alternative presentation of the development of goodwill in the fiscal years 2009 and 2010 is shown in the Development of Intangible Assets, Property, Plant and Equipment.

see page 98

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 4th 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:

	2010	2009
	€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
	402,868	**398,926**

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:

	Parameter	2011	2012	2013	2014	> 2015
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%

see page 148

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

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:

	2010 €m	2009 €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:

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

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 €k	Others €k	Total €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	**4,653**	**1,183**	**5,836**

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 €k	2009 €k
Other current liabilities		
- 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
Total	**59,603**	**61,874**

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 shared-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 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	14.08.2006	14.03.2007	12.11.2007	29.01.2008
Fair value	1,790 €k	1,200 €k	1,394 €k	596 €k
Average market value per option	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	30.05.2008	20.11.2008	31.03.2009	17.08.2009
Fair value	1,309 €k	1,424 €k	3,414 €k	2,173 €k
Average market value per option	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	29.03.2010	21.06.2010	12.07.2010	20.10.2010
Fair value	47 €k	813 €k	758 €k	107 €k
Average market value per option	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 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	03.09.2007	28.11.2007	22.02.2008
Fair value	863 €k	723 €k	231 €k
Average market value per option	3.75 €	3.61 €	3.86 €
Dividend yield	0.0%	0.0%	0.0%
Volatility of the share	52%	55%	40%
Expected term (years)	5	5	5
Risk-free interest rate	4.0%	3.9%	3.6%

	Valuation parameters		
Issue date	06.03.2008	30.10.2008	25.03.2009
Fair value	870 €k	12 €k	18 €k
Average market value per option	4.35 €	1.65 €	0.62 €
Dividend yield	0.0%	0.0%	0.0%
Volatility of the share	39%	53%	73%
Expected term (years)	5	5	5
Risk-free interest rate	3.5%	3.2%	2.6%

	Valuation parameters		
Issue date	30.03.2009	25.05.2009	22.03.2010
Fair value	62 €k	54 €k	26 €k
Average market value per option	0.62 €	0.77 €	0.65 €
Dividend yield	0.0%	0.0%	0.0%
Volatility of the share	73%	78%	41%
Expected term (years)	5	5	5
Risk-free interest rate	2.5%	2.8%	1.7%

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

	United Internet AG		Sedo Holding AG	
	SAR	Average strike price (€)	SAR	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:

	Valuation parameters			
Tranche	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

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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 €k	2009 €k
- Goldbach shares	14,743	2,612
- Afilias 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
Total	**25,442**	**12,717**

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:

	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2010	Valuation acc. to IAS 39 Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Fair value on Dec. 31, 2010
	€k	€k	€k	€k	€k	€k
Financial assets						
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
Financial liabilities						
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: Fair Value	Currency translation	Value adjusted	From disposal	Net result
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:

			Valuation acc. to IAS 39			
	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2010	Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Fair value on Dec. 31, 2010
	€k	€k	€k	€k	€k	€k
Financial assets						
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
Purchase price receivable	lar	12,195	12,195			12,195
Investments	afs	141,153		141,153		141,153
Financial liabilities						
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 2010 (in €k)

			Net profits and losses from subsequent valuation				
	Valuation category acc. to IAS 39	From interest and dividends	Fair Value	Currency translation	Value adjusted	From disposal	Net result
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
		–20,522	**1,383**	**938**	**–33,087**	**0**	**–51,288**

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

	As of Dec. 31, 2010 €k	Level 1 €k	Level 2 €k	Level 3 €k
Available-for-sale financial assets				
Equity shares	95,249	95,249		
Shares in unlisted companies	33,385		33,385	
Financial liabilities at fair value through profit or loss				
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.

	As of Dec. 31, 2009 €k	Level 1 €k	Level 2 €k	Level 3 €k
Available-for-sale financial assets				
Equity shares	98,993	98,993		
Shares in unlisted companies	42,160		42,160	
Financial liabilities at fair value through profit or loss				
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.

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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, 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 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:

	United Internet AG			1&1 Internet AG			Total		
2010	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
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
Total	**40**	**0**	**40**	**70**	**159**	**229**	**110**	**159**	**269**

2009	Fixed €k	Variable €k	Total €k
Kurt Dobitsch	40	120	160
Kai-Uwe Ricke	20	120	140
Michael Scheeren	20	120	140
Total	80	360	440

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:

2010	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	238	538
Norbert Lang	300	189	489
Total	**600**	**427**	**1,027**

2009	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	266	566
Norbert Lang	300	210	510
Total	**600**	**476**	**1,076**

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:

		January 1, 2010	January 1, 2010		December 31, 2010	Dezember 31, 2010
Management Board	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
Total	**17,600,000**	**74,976,128**	**92,576,128**	**17,600,000**	**74,802,248**	**92,402,248**
Supervisory Board	direct	indirect	total	direct	indirect	total
Kurt Dobitsch	-	-	-	-	-	-
Kai-Uwe Ricke	-	-	-	-	-	-
Michael Scheeren	700,000	-	700,000	700,000	-	700,000
Total	**700,000**	**-**	**700,000**	**700,000**	**-**	**700,000**

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.

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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	2009	2010	2009	2010	2009	2010	2009
	€k	€k	€k	€k	€k	€k	€k	€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	2009	2010	2009
	€k	€k	€k	€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:

	Dec. 31, 2010 €k	2011 €k	2012 €k	2013 €k	2014 €k	> 2015 €k	Total €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

	Dec. 31, 2009 €k	2010 €k	2011 €k	2012 €k	2013 €k	> 2014 €k	Total €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

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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.

The company has assessed the foreign currecncy risks. The analysis revealed no evidence of significant reportable currency risks.

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).

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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:

	2010 €k	2009 €k
Up to 1 year	18,657	22,380
1 to 5 years	40,595	34,982
Over 5 years	23,124	16,427
	82,376	**73,789**

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).

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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.com) and Sedo Holding AG (www.sedoholding.com).

Montabaur, March 16, 2011

The Management Board

Ralph Dommermuth

Norbert Lang

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
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

Locations

United Internet is successfully represented around the world by its various business fields. Its activities in Europe and the world are shown in the charts below.

UNITED INTERNET WORLDWIDE

America
- Boston
- Chesterbrook
- Lenexa

Philippines
- Cebu City

EUROPE

Germany
- Montabaur
- Cologne
- Düsseldorf
- Hamburg
- Hanover
- Karlsruhe
- Munich
- Regensburg
- Zweibrücken

France
- Paris
- Saargemünd

United Kingdom
- Gloucester
- London
- Slough

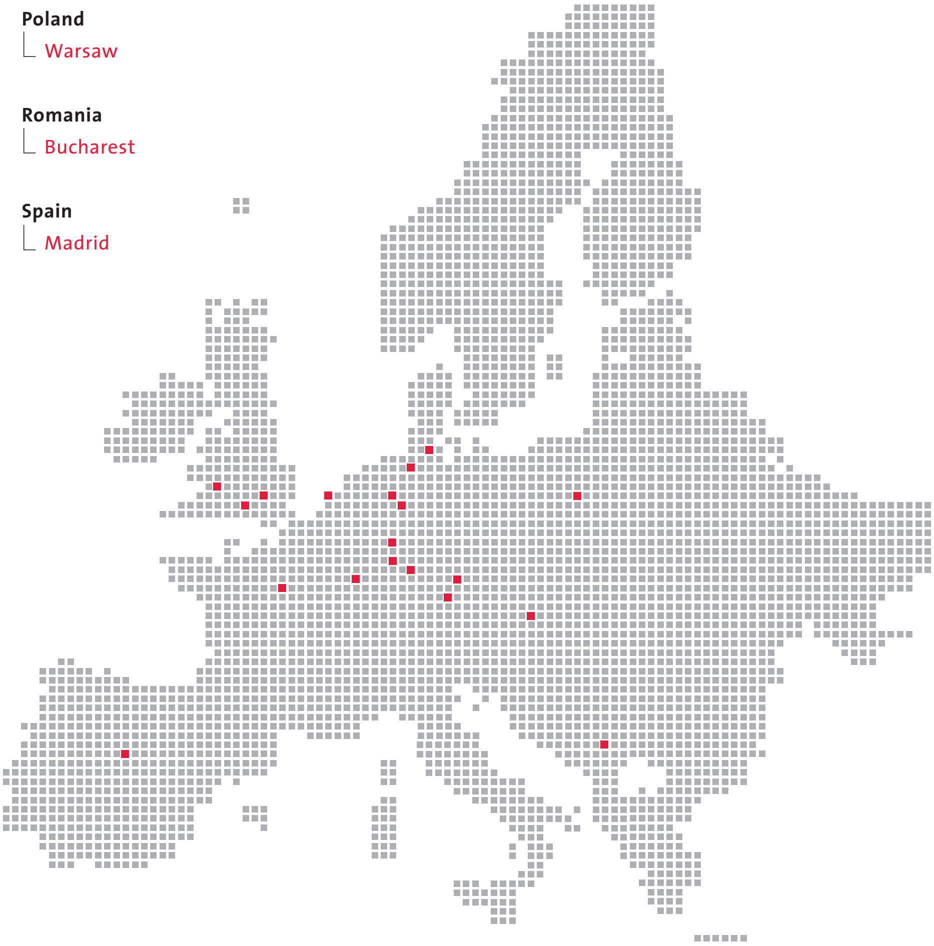
Netherlands
- Haarlem

Austria
- Vienna

Poland
- Warsaw

Romania
- Bucharest

Spain
- Madrid



Glossary

API
(Application Programming Interface) Term used in the programming for an interface that allows a system to help other programs to link with the system.

BITKOM
The Bundesverband Informationswirtschaft Telekommunikation und neue Medien e.V. (BITKOM) [German Association for Information Technology, Telecommunications and New Media] is the voice of the information technology, telecommunications, and new media industry in Germany.

BVDW
The Bundesverband Digitale Wirtschaft e.V. (BVDW) [German Association for the Digital Economy] represents the interests of companies in the field of interactive marketing, digital content and interactive value added.

Cash Flow
Balance of incoming and outgoing cash flows

Consolidation
Annual financial statements of a group, prepared as if all group companies were dependent parts of a single unit. All financial relationships between group companies are thus eliminated.

Corporate governance
Term used to signify responsible, long-term, value-oriented management and corporate control.

DDos
(Distributed Denial of Service) In a DDos attack, a server is bombarded with so many requests that it cannot process them all and is unable to respond to legitimate traffic. In order to avoid or limit such overloads, a number of counter-measures have been developed over the years.

De-Mail
De-Mail is a means of communication to facilitate the exchange of secure, legally binding electronic documents between citizens, public administrations and companies via the internet. The Citizens Portals project is being implemented by the German government and various private sector partners. DE-Mail providers must fulfill certain admission criteria.

Diluted
Earnings per share are termed “diluted” when not only all outstanding shares are used in the calculation, but also those theoretically convertible shares issued as part of employee stock option programs.

D&O insurance
(Directors & Officers Liability Insurance) D&O insurance refers to a liability insurance policy which a company takes out on behalf of its executive bodies and corporate officers. In the case of any breach of duty, D&O insurance offers protection against the financial consequences of personal liability. Cover is generally provided if the duty of care has been breached without intent or knowledge. The German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) requires that Management Board members accept an obligatory deductible for D&O insurance policies.

Domain
Specific area of hierarchical internet name system administered by domain name server. Divided into generic top-level domains, or gTLD, (such as .com, .net, .org or .info) and country-code top-level domains, in short ccTLD (such as .de or .uk).

DSL
(Digital Subscriber Line) Technology for high-speed data transfer via standard copper cable networks over distances of up to about three kilometers.

DSL telephony
(also called VoIP = Voice over Internet Protocol) Technology to establish phone connections via DSL data networks.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EBT
Earnings before taxes

ecommerce
(Electronic commerce) Generic term for business transactions using electronic media, such as the internet.

EPS
Earnings per share

Equity ratio
Shareholder’s equity as a proportion of the balance sheet total.

Federal Cartel Office
(Bundeskartellamt – BKartA) Higher federal authority for all antitrust issues. Its main tasks include implementing cartel bans, examining business combination requests and exercising its antitrust monitoring duties with regard to market-dominating companies.

Federal Network Agency
(German Federal Network Agency for electricity, gas, telecommunications, postal and railway networks) Higher federal authority (former Regulatory Authority for Telecommunications and Post, Reg TP). Its responsibilities include implementing cartel bans, examining business combination requests and exercising its antitrust monitoring duties with regard to market-dominating companies.

Free accounts
Accounts financed through advertising, where the customer is not paying a monthly fee.

FTTB
(Fiber To The Building or Fiber To The Basement) refers to the laying of optical fiber cables up to the building. The fiber cables are usually laid up to the cellar, from where the signals are then distributed to connection points in the building.

Goodwill
Positive difference between market value and net assets of an acquired company.

Groupwork
Functions which support several users/a group during joint work on projects, targets, tasks etc.. Users generally access centrally stored data and applications.

HGB
German Commercial Code (Handelsgesetzbuch)

Hosting
(also webhosting) Provision of storage space via the internet. In addition to registering and operating domains and renting out web servers, hosting mainly refers to the provision of value-added internet services enabling users to work more efficiently on the internet. Shared Hosting means that several customers share a physical server, while in Dedicated Hosting one customer has exclusive access to one sever.

HSPA
(High Speed Packet Access) is an extension of the UMTS standard which allows higher data transmission rates.

IFRS
(International Financial Reporting Standards) International accounting standard.

LTE
(Long Term Evolution) is a mobile telecommunications standard which enables even higher speeds than the UMTS standard. The corresponding frequencies were auctioned off by the German Federal Network Agency in 2010. The network development work commenced in summer 2010 focused initially on covering the “gaps on the map”, i.e. those areas of Germany which do not yet have broadband internet.

Market capitalization
Market price of a listed company. The result of share price multiplied by the number of shares.

Open Access
Model for open, non-discriminatory access to high-speed data networks, e.g. by connecting different infrastructures.

OVK
Under the umbrella of the BVDW (see BVDW), the Online-Vermarkterkreis (OVK) [Circle of Online Marketers] is Germany’s central committee for online marketing, which the country’s leading online marketers created to raise the profile of online advertising.

Portal
Central internet access point or start page. Usually contains a wide range of navigation functions, content and additional services, such as e-mail.

R-DSL
(Resale-DSL) In the case of Resale-DSL connections, the Internet Service Provider purchases switched DSL connections on the customer’s premises as a pre-service product from Deutsche Telekom and markets them to the customer as its own product together with a data tariff. R-DSL requires participants to have their own fixed-line Deutsche Telekom connection for which they are responsible themselves.

Risk management
Systematic process to identify and evaluate potential risks as well as to select and implement measures to deal with such risks.

TAL / local loop
Also referred to as the “last mile” as it represents the connection between the telephone exchange and the subscriber’s telephone connection.

T-DSL
In contrast to R-DSL connections, customers with a T-DSL connection receive both their telephone and DSL connections from Deutsche Telekom. The Internet Service Provider only markets data tariffs to the customer as an independent product.

TecDAX
Index of the Frankfurt Stock Exchange. The TecDAX is calculated from the market price of Germany’s top 30 technology shares.

Technical value-added services
(also value-added services) All services above the level of basic service provision are regarded as value-added services. Technical value-added services (in contrast to content value-added services) are solutions offering the user additional functionality.

UMTS
(Universal Mobile Telecommunications System) is a mobile telecommunications standard with much higher transmission rates (see also HSPA) than are possible with the older GSM standard (GSM: Global System for Mobile Communications).

Unbundled Local Loop
(ULL) By unbundling the local loop, competing fixed-line operators can have direct access to customers without having their own “last mile”. They are allowed to rent the local loop from Deutsche Telekom at regulated conditions. Internet Service Providers in turn purchase “complete packages” as a pre-service product from alternative fixed-line operators (e.g. QSC, Telefonica, Vodafone) and then market them as their own product to end users. A comparable complete package can also be bought from Deutsche Telekom. In contrast to R-DSL/T-DSL connections, the end user does not need a separate telephone connection from Deutsche Telekom.

VATM
Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM) The VATM is an association of over 90 telecommunications and value-added service providers operating on the German market, who are all in competition with the ex-monopolist Deutsche Telekom AG.

Video on Demand (VoD)
Service of an internet provider enabling subscribers to select and watch films at any time for money.

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Quarterly development

in € million	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q4 2009
Sales	462.8	468.0	478.2	498.1	434.1
Cost of sales	–291.7	–292.9	–296.7	–344.8	–267.4
Gross profit	**171.1**	**175.1**	**181.5**	**153.3**	**166.7**
Selling expenses	–70.0	–71.7	–85.3	–79.2	–60.4
General administrative expenses	–22.4	–22.6	–22.9	–26.8	–28.1
Other operating income / expense	–3.2	–4.3	0.0	18.7	7.8
Amortization of intangible assets resulting from company acquisitions	–4.8	–5.0	–4.9	–4.9	–5.2
Amortization of goodwill	0.0	0.0	0.0	–0.2	0.0
Operating result	**70.7**	**71.5**	**68.4**	**60.9**	**80.8**
Financial result	–6.1	–2.9	–0.2	–0.9	–4.9
Results from associated companies	0.0	0.0	0.0	–13.8	–0.7
Result from at-equity companies	–7.5	–8.4	–3.9	–12.0	11.7
Pre-tax result	**57.1**	**60.2**	**64.3**	**34.2**	**86.9**
Income taxes	–18.6	–21.9	–23.5	–24.1	8.7
Net income (from continued operations)	**38.5**	**38.3**	**40.8**	**10.1**	**95.6**
Result from discontinued operations	0.0	0.8	0.2	0.8	3.4
Net income (after discontinued operations)	**38.5**	**39.1**	**41.0**	**10.9**	**99.0**
Attributabel to					
non-controlling interests	0.2	0.3	0.1	–0.2	1.2
shareholders of United Internet AG	38.3	38.8	40.9	11.1	97.9
Result per share of shareholders of United Internet AG (in €)					
- basic	0.17	0.17	0.19	0.05	0.43
- diluted	0.17	0.17	0.18	0.05	0.42
thereof result per share (in €) – from continued operations					
- basic	0.17	0.17	0.19	0.04	0.41
- diluted	0.17	0.17	0.18	0.04	0.40
thereof result per share (in €) – from discontinued operations					
- basic	0.00	0.00	0.00	0.01	0.02
- diluted	0.00	0.00	0.00	0.01	0.02

Financial Calendar

March 24, 2011	Annual financial statements for fiscal year 2010
March 24, 2011	Press and analyst's conference
May 12, 2011	3-Month Report 2011
May 26, 2011	Annual Shareholders' Meeting, Alte Oper Frankfurt/Main
August 16, 2011	6-Month Report 2011
August 16, 2011	Press and analyst's conference
November 10, 2011	9-Month Report 2011

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