Annual Report

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united internet

Key financial figures at a glance

in € million	2012	2011
Net income		
Sales	2,396.6	2,094.1
EBITDA from established business fields*	450.0	384.5
Start-up losses new business fields	–124.1	–42.7
EBITDA from operating business*	325.9	341.8
EBIT from established business fields*	359.2	296.7
Start-up losses new business fields	–126.5	–43.7
EBIT from operating business*	232.7	253.0
EBIT after special items	204.3	276.0
EBT after special items	193.0	250.6
Balance sheet		
Current assets	286.4	318.3
Non-current assets	821.3	868.7
Shareholders' equity	198.1	154.8
Total assets	1,107.7	1,187.0
Cash flow		
Operative cash flow	214.1	211.9
Cash flow from operating activities	260.5	194.8
Cash flow from investing activities	1.9	2.0
Free cash flow	262.4	196.8
Employees		
Germany (number)	4,904	4,375
Abroad (number)	1,350	1,218
Total (number)	6,254	5,593
Personnel expenses	275.1	230.1
Share		
Share price at year-end (Xetra)	16.31	13.80
Earnings per share	0.56	0.79

	Dec. 31, 2012	Dec. 31, 2011
Customer contracts, total	11.85 million	10.67 million
Access contracts, total	4.75 million	4.08 million
of which Mobile Internet	1.35 million	0.79 million
of which DSL complete packages (ULL)	2.79 million	2.51 million
of which narrowband / T-DSL / R-DSL	0.61 million	0.78 million
Applications contracts, total	7.10 million	6.59 million
of which "domestic"	4.05 million	3.86 million
of which "foreign"	3.05 million	2.73 million
Ad-financed accounts	31.8 million	30.8 million

* Without positive special items 2011 (sale of Versatel shares): EBITDA and EBIT effect: € 24.8 million
Without negative special items 2012 (Sedo impairments): EBIT effect: € -46.3 million
Without positive special items 2012 (sale of freenet shares): EBITDA and EBIT effect: € 17.9 million

Highlights

01 / 12

Launch of 1&1 Principle
The 1&1 Principle is the logical continuation of the quality drive already introduced in Germany in 2009. With the 1&1 Principle, customers are given clear performance promises.

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New WEB.DE mailboxes
In the 1st quarter, WEB.DE conducted one of the biggest migrations in German internet history, moving around 15 million users to the new WEB.DE mailbox.

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United Internet announces financial figures for fiscal year 2011
Sales up 9.8 % to 2,094 million € – Earnings before tax rise 16.1% to 250.6 million € – Growth in new customer contracts of 910,000 to 10.67 million – Earnings per share climb 36.2% to EUR 0.79 €

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1&1 launches De-Mail for business clients
As of late April 2012, 1&1 business clients can pre-register their desired name for the use of De-Mail. They have the possibility to reserve a De-Mail address based on their current .de domain.

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Market start Italy
In May 2012, we launched our Business Applications in Italy. We are now active in 10 countries.

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New 1&1 All-Net-Flats
In August 2012, 1&1 greatly expanded its product range in the Mobile Internet segment. Customers can now choose from three new 1&1 All-Net-Flat tariffs in D-Network quality.

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Features of 1&1 MyWebsite greatly expanded
As of October, business customers can access up to 100 useful apps free of charge and simply integrate them into their websites.

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Acquisition of 25.1% stake in Versatel
United Internet decides to acquire a 25.1% stake in Versatel's holding company and thus secures a significant investment in one of the leading infrastructure suppliers with Germany's second-largest fiber-optic network.

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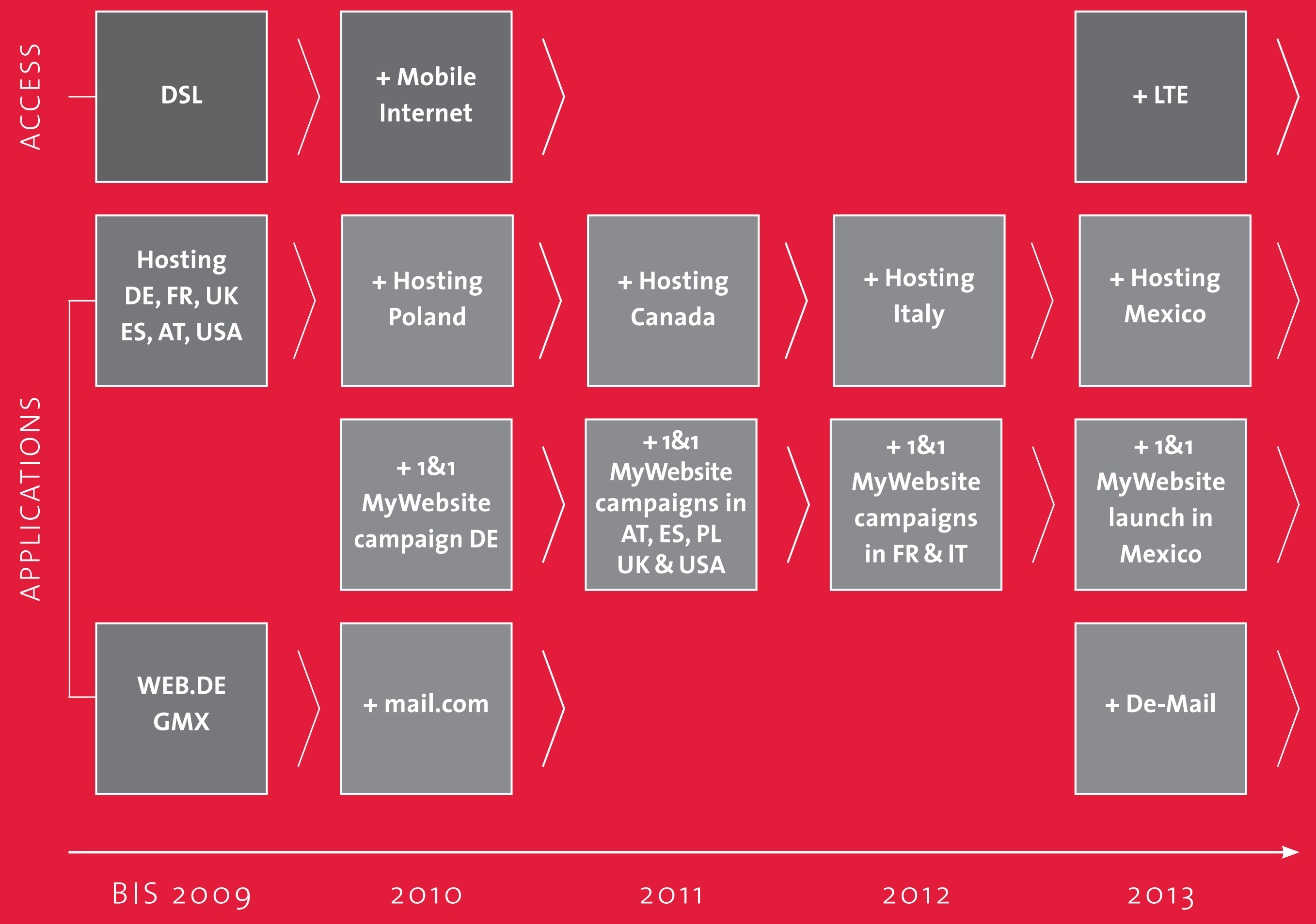
Robert Hoffmann appointed as additional Management Board member of United Internet AG
In December, Robert Hoffmann was appointed to the Management Board of United Internet as an additional member. In addition to this new role, Robert Hoffmann remains Management Board Speaker and Management Board member responsible for Hosting and E-Business Applications at 1&1.

Investment in solutions

Security. **Flexibility.** **Mobility.** **International Expansion.** **Success.** **Trust.**

UNITED INTERNET RECOGNIZES CUSTOMER WISHES AND NEW MARKETS AND TAKES SWIFT ACTION TO FULLY TAP THEM

Thanks to 43 million users of our services, United Internet can anticipate customer wishes and trends – and thus new business opportunities. The development of our "Access" segment illustrates that we have already successfully added the Mobile Internet business. We are also pursuing this path in the "Applications" segment and opening up additional business fields with the development of new e-business and cloud solutions, as well as our international expansion.



Flexibility.

International Expansion.

Mobility.

Trust.

Success.

Security.

Investment in solutions.

Content

SIGNS AND SYMBOLS

Internet Link

Glossary

Page Reference

1,000,000

Pre-registrations of users for De-Mail

We met the need of our customers for security by developing applications for legally secure electronic communication via De-Mail. This makes legally binding communication between people possible via the internet, in the same way as via letter and registered mail.

Security

STEFAN MINK
Head of Data Center & Networks

ROBIN RUDAT
Head of PM Domains & Productivity

Flexibility

7.1 million

customer contracts in the Applications segment

We support the flexibility of our customers with a wide variety of cloud applications. Users can now access their centrally stored data and applications, and manage their electronic communication – from anywhere, at any time, and using any device.

1.35 million

Mobile Internet contracts

The launch of our Mobile Internet access products in mid 2010 reflected the trend toward greater mobility in internet usage. A very simple and clear tariff structure and the use of the high-performance “D-Netz” mobile phone network helped us quickly achieve a high degree of customer acceptance.

Mobility

MATTHIAS SCHORB
Head of Technical Product Management Mobile

3.05 million

customer contracts abroad

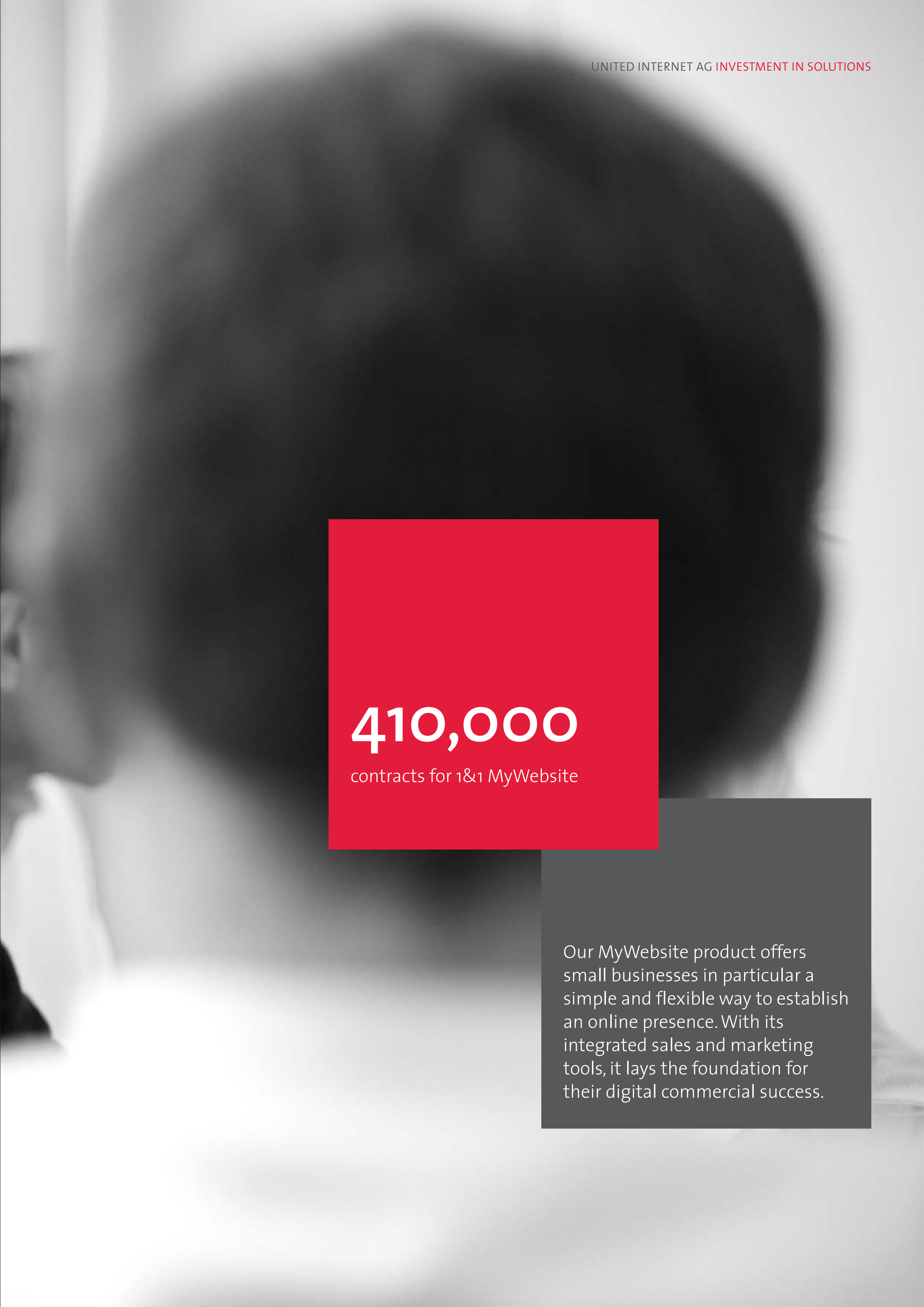
We not only offer our cloud and e-business solutions in Germany, but also in a growing number of new markets targeted for our international expansion. This enables us to fully exploit the potential to scale our online business.

International expansion

VANESSA FRANKLIN
Head of Content Management SEA

Success

PATRICK SCHAUDEL
Head of Features & Apps /
Product Management 1&1 MyWebsite Hosting



410,000

contracts for 1&1 MyWebsite

Our MyWebsite product offers small businesses in particular a simple and flexible way to establish an online presence. With its integrated sales and marketing tools, it lays the foundation for their digital commercial success.

Trust

11.85 million

customer contracts

Trust is the basis for our customer relationships. The highest standards of data protection and security, 24/7 availability of our competent contact partners, and 24-hour replacement of defective equipment – these are all elements which ensure our customers can rely fully on us at all times.

RALF NAGEL
Head of Logistics

Letter to the shareholders

Dear shareholders, employees and friends of United Internet!

United Internet AG can look back on a successful fiscal year 2012. We succeeded in raising both sales and customer contract figures to new record levels and significantly improved earnings in our established business fields. At the same time, we made considerable investments in the establishment and development of our new business fields in order to tap further growth potential for the future.

Consolidated sales reached a new all-time-high of € 2.397 billion in fiscal year 2012 – representing year-on-year growth of 14.4%.

Sales in our established business fields rose by 13.2% to € 2.356 billion. There was particularly strong sales growth of 15.9% to € 1.586 billion in the Access segment. Similar progress was also recorded by the Applications segment with sales growth in established business fields of € 57.3 million to € 769.4 million. In addition, there was revenue from new business fields of € 40.8 million (prior year: € 13.7 million) due to the encouraging international growth of our 1&1 MyWebsite product. All in all, sales of the Applications segment rose by 11.6%.

There was also a sharp rise in our customer contract figures in fiscal 2012: with the total addition of 1.18 million new contracts (Access: +670,000, Applications: +510,000), we were able to surpass the strong growth of the previous year (+910,000 new contracts). In addition to a total of 11.85 million pay contracts, we also had some 31.8 million free accounts at the end of 2012 (+1.0 million year on year).

Our earnings figures in the fiscal years 2011 and 2012 were influenced by various special items. In 2011, there was a positive effect on earnings at Group level from the sale of our shares in Versatel. In 2012, however, there was a net negative effect on earnings (balance of impairment charges for our Group subsidiary Sedo Holding AG and the – opposing – effect of selling our freenet shares).

Without consideration of these special items, we improved earnings significantly in our established business fields. Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 17.0%, from € 384.5 million last year to € 450.0 million, while earnings before interest and taxes (EBIT) improved by 21.1%, from € 296.7 million last year to € 359.2 million.

As already announced, we used this strong earnings growth of our established business fields to invest heavily in the development of new business fields in the Applications segment. The main focus was placed on the international marketing campaign for 1&1 MyWebsite and the development of De-Mail applications. We incurred total EBIT-effective start-up losses of € 126.5 million for these activities in fiscal year 2012 (prior year: € 43.7 million).

As a result of these start-up losses, there was an expected overall decline in our key earnings figures (without the above mentioned special items) compared to the previous year: EBITDA amounted to € 325.9 million (prior year: € 341.8 million) and EBIT totaled € 232.7 million (prior year: € 253.0 million). Pre-tax earnings (EBT) stood at € 221.4 million (prior year: € 231.9 million), while earnings per share (EPS) reached € 0.71 (prior year: € 0.72).

Consistently strong free cash flow underlines our Group's ability to generate high levels of cash – while at the same time achieving strong qualitative growth. Despite high start-up costs in our new business fields, free cash flow reached € 214.3 million (without proceeds from the sale of freenet shares) and was thus 8.9% above the prior-year figure of € 196.8 million.

We will continue to pursue our policy of sustainable growth in future. The number of fee-based customer contracts is expected to grow by approximately 1 million in 2013 with sales growth of around 10%. We also anticipate strong growth in earnings: EBITDA from established business fields is expected to improve to around € 500 million in 2013. We will use approximately 20% of this amount (around € 100 million) to finance start-up losses from the further expansion of our new business fields (1&1 MyWebsite and De-Mail). Earnings per share (EPS) are expected to rise strongly to € 1.00 – € 1.10.

We feel very well prepared for the next steps in our company's development and are upbeat about our future prospects. In view of the past year and the challenges that lie ahead, we would like to express our particular gratitude to all employees for their dedicated efforts as well as to our shareholders and customers for the trust they continue to place in United Internet AG.

Montabaur, March 2013

Ralph Dommermuth | Robert Hoffmann | Norbert Lang

"We can look back on a very successful 2012. We achieved our ambitious targets with strong growth in sales and healthy earnings in our established business fields. And thanks to this encouraging progress, we were able to widen the base for our future growth by also investing heavily in our new business fields."

Ralph Dommermuth

"In 2012, we once again added new features for our users and entered further markets in our business fields. In terms of Business Applications, we are evolving from a pure webhoster into a one-stop provider of e-business solutions and have added a further market with Italy. We are also continuing to expand our Consumer Applications – from providing e-mail services to becoming a control hub for the communication, information and identity management needs of our users."

Robert Hoffmann

"We will continue to pursue our policy of sustainable growth in future. The number of fee-based customer contracts is expected to grow by approximately 1 million in 2013 with sales growth of around 10%. EBITDA from established business fields is expected to improve to around € 500 million. We will use approximately 20% of this amount (around € 100 million) to finance start-up losses from the further development of new business fields. EPS is expected to rise strongly to € 1.00 - € 1.10."

Norbert Lang

RALPH DOMMERMUTH
CEO since 1988

Ralph Dommermuth (49) 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 advent of the internet, Ralph Dommermuth subsequently phased out these marketing services for third parties and began developing the company's own internet services and own direct customer relationships. 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, Ralph Dommermuth restructured 1&1 as United Internet AG.

ROBERT HOFFMANN
Member of the Management Board since 2013

Robert Hoffmann (43) was appointed to the Management Board of United Internet AG as additional member on January 1, 2013. In this new position, he supports the CEO with the company's strategic development and stands in for him when necessary. Robert Hoffmann has already held various Management Board positions at 1&1 Internet AG since June 2006 and played a major role in determining the company's strategic direction. As Management Board member responsible for the Access division, for example, he successfully changed the company's DSL business model to complete packages (ULL) and added mobile internet products to the portfolio. Since May 2008, he has also acted as the Management Board Speaker of 1&1. After realigning 1&1's international sales operations in 2011/2012 as Management Board member responsible for Sales, Robert Hoffmann has headed the "Hosting" division of 1&1 since October 2012.

NORBERT LANG
CFO since 2002

Norbert Lang (51) has been a member of the Management Board of United Internet AG since 2000 and responsible for Finance/Controlling, Investor Relations, Investment Management, Risk Management, Internal Audit, and Human Resources since 2002. Norbert Lang joined 1&1 in 1994 as Head of Finance, Accounts and Controlling. With the foundation of 1&1 Beteiligungen GmbH, Norbert Lang was appointed Managing Director and established the company's investment business. In his additional role as Head of Finance, he accompanied the subsequent transformation and realignment of United Internet AG as a management holding company for all Group investments.

Interview with the CEO

Mr. Dommermuth, how would you assess the past fiscal year 2012?
I am very satisfied with the past year. We set new records in a variety of areas. For example, we raised the number of customer contracts by almost 1.2 million to 11.85 million. This strong growth was also reflected in sales, which reached almost € 2.4 billion. Of particular importance though, was that our earnings in established business fields also improved strongly. This gave us the scope to invest heavily once again in the establishment of new business fields – and thus in the company's near and more distant future.

What do you expect to achieve with these investments?
We continue to target sustainable growth for our company. Fortunately, our existing business fields are still growing. But there are also new trends which we want to tap into at an early stage. In our Access segment, we have successfully added the Mobile Internet business to our original DSL activities. This business has become firmly established over the past few years and now plays a major role in driving our continued growth. Similarly, we are also widening our base in the Applications segment. In this area of our business, we are accessing new markets and new target groups by means of international expansion and the development of new cloud and e-business products. In the case of our Business Applications, for example, we are evolving from being a pure webhoster to becoming a one-stop provider of e-business solutions, offering all the instruments needed to secure online success for companies and freelancers. And in terms of Consumer Applications, we are developing our e-mail services more and more into a central hub for the communication, information and identity management needs of our users.

We expect two very encouraging developments in our fiscal year 2013. Firstly, our strong overall growth will continue. At the same time, however, we also expect a significant increase in earnings.

How will investments in 2013 compare with those of the previous year?
We will continue to invest in the development of our new business fields in 2013. At around € 100 million, however, start-up losses will be significantly lower than in 2012. This is due in no small part to the strongly growing contribution to earnings from our 1&1 MyWebsite product. We can use this income to meet a considerable share of the additional marketing investments needed for the further internationalization of our business. Overall, therefore, there will be opposing trends in our start-up losses. Although they are expected to fall to around € 75 million (from € 112 million last year) for our e-business products, such as the 1&1 MyWebsite, they will rise further for De-Mail this year to € 25 million (compared to € 14.5 million in 2012). In the case of De-Mail, we received final accreditation from the Federal Office for Information Security (Bundesamt für Sicherheit in der Informationstechnik – BSI) in March and can now launch operations with the support of a major marketing campaign. We aim to have already gained 500,000 fully registered De-Mail users by the end of the year.

What are your overall expectations for fiscal year 2013?

We expect two very encouraging developments in our fiscal year 2013. Firstly, our strong overall growth will continue. We anticipate an increase in customer contracts of around 1 million and sales growth of about 10%. At the same time, however, we also expect a significant increase in earnings. In our established business fields, we are aiming to reach an EBITDA result of € 500 million for the first time ever. The planned investments for the ongoing development of new business fields of around € 100 million will then be 20% of this amount. I believe we can cope well with this level of investment, also in view of the fact that such marketing expenditures can also be easily reduced if absolutely necessary and thus represent no great investment risk – as opposed to say a new factory which is subsequently underutilized. In 2013, we therefore expect the fruit of our company's growth to be clearly reflected in earnings after investments, with an EPS of € 1.00 to € 1.10.

In early 2013, the company became 25 years old. What does this anniversary mean for you personally?

I obviously have many fond memories of interesting events, close colleagues and key milestones in the period since I founded the company in early 1988. And of course there is a certain satisfaction in seeing how a small firm in Montabaur has now developed into an internationally successful company with over 6,000 employees. But above all, this anniversary motivates me to keep our focus firmly on the future: how can a growing company such as ours keep enhancing its agility and entrepreneurial spirit in the years ahead so that we can continue our success story?

In 2013, we therefore expect the fruit of our company's growth to be clearly reflected in earnings after investments, with an EPS of € 1.00 to € 1.10.

25 years in business is not the only anniversary this year, though!

That's right. For our shareholders, the 15 years we have been a listed company is probably the more important anniversary. We went public in March 1998 with an initial share price of € 1.02 – if you consider the share splits we have since made. This is the amount we are targeting for earnings per share this year. Despite the dot-com crash and financial crisis, however, the share has proven to be a very sound investment over the years: its value has grown by a factor of over 18 during these past 15 years. It is particularly gratifying to see that the results of our corporate policy based on sustainable growth – rather than short-term effects – are also reflected in the company's share price.

Report of the Supervisory Board

The members of the Supervisory Board are

- **Kurt Dobitsch,** entrepreneur, 58 (chair)
- **Kai-Uwe Ricke,** businessman, 51
- **Michael Scheeren,** qualified banker, 55

In the fiscal year 2012, the Supervisory Board of United Internet AG fulfilled its legal and statutory duties to regularly advise the Management Board and monitor its management of the company. The Supervisory Board was directly involved in all decisions of fundamental significance for the company. The Management Board provided the Supervisory Board with regular and comprehensive reports, both written and oral, and also between meetings, about all relevant questions concerning corporate strategy and planning, 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 it 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. With regard to both content and scope, these reports met all statutory requirements, the standards of good corporate governance, and the criteria set by the Supervisory Board. The Management Board's 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 critically analyzed and verified the plausibility of the reports and information provided by the Management Board.

The Supervisory Board was regularly informed by the Management Board about the internal control system, Group-wide risk management system and Internal Audit system which it had introduced. On the basis of its own reviews, the Supervisory Board came to the conclusion that the internal control system, Group-wide risk management system and Internal Audit system are fully functional and effective.

The Supervisory Board comprises three members and has formed no committees. The Supervisory Board is not aware of any conflict of interest of one of its members.

In addition to the regular statutory reports, the Supervisory Board discussed and reviewed the following issues in greater detail:

- Group planning and the investment projects for fiscal year 2012.
- The annual financial statements and consolidated financial statements for fiscal year 2011.
- The invitation to the Annual Shareholders' Meeting 2012, as well as the agenda and motions for resolutions.
- The Remuneration Report to be presented by the Chairman of the Supervisory Board, the Report of the Supervisory Board to the Annual Shareholders' Meeting and the Corporate Governance Report for fiscal year 2011.
- The dividend proposal for the Annual Shareholders' Meeting.
- Determining the Management Board's target achievement in fiscal year 2011 and approving the payment of variable compensation components, as well as agreeing new targets for the Management Board for fiscal year 2012.
- The authorization of the Management Board to convert a vendor loan into a 25.1% stake in Versatel's holding company VictorianFibre Holding & Co. S.C.A.

- The prolongation of Mr. Ralph Dommermuth's appointment to the Management Board.
- The new appointment of Mr. Robert Hoffmann to the Management Board of United Internet AG as of January 1, 2013.
- The increased investment in ProfitBricks GmbH.
- The issue of subscription rights as part of the employee stock ownership plan.
- Audit planning and the quarterly reports of the Internal Audit department.
- The current status of investments belonging to United Internet AG.
- The strategic alignment of the Group and company organization.
- The development of the charitable foundation United Internet for UNICEF.
- The setting of dates for the Supervisory Board's meetings and the financial calendar for fiscal year 2013.

Meetings and participation

The Supervisory Board held five meetings during fiscal year 2012 during which the Management Board presented detailed information 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. In addition to the meetings, further resolutions on current topics were adopted by means of circular written consent.

Corporate Governance

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, diversity issues, and since June 15, 2012 also the number of independent Supervisory Board meetings as defined by Section 5.4.2 of the Code. 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 new 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 2012 for the company and the Group

The Annual Shareholders' Meeting of United Internet AG on May 31, 2012 elected Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, based in Eschborn/Frankfurt am Main, as auditors for the fiscal year 2012. 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 2012. As part of its audit of the annual financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft also audited and analyzed the company's risk management system. The auditor did not detect any major weaknesses in the internal control system, Group-wide risk management system or Internal Audit 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 20, 2013, where he reported on his audits and their results, elaborated on the audit report, and answered the Supervisory Board's questions. 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. The Supervisory Board concurs with the auditor that there are no major weaknesses in the internal control and risk management system, especially with regard to the accounting process. With a resolution on March 20, 2013, the Supervisory Board approved the annual financial statements of United Internet AG, as prepared by the company on March 15, 2013 and the consolidated annual financial statements according to IFRS for fiscal 2012, also prepared by the company on March 15, 2013. 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.

Audit of the Management Board's report on relations with affiliated companies

The Management Board presented its report on relations with affiliated companies (Dependent Company Report) for fiscal year 2012 to the Supervisory Board in good time.

The report prepared by the Management Board about relations with affiliated companies 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 external auditors submitted the audit report to the Supervisory Board. The Dependent Company Report and audit report were made available to the Supervisory Board in good time. The Supervisory Board reviewed the Management Board's Dependent Company Report and the audit report. The Supervisory Board performed the final review at its meeting on March 20, 2013. The external auditors also attended this meeting and reported on their audit of the Dependent Company Report and their main audit results, explained their audit report, and answered questions from members of the Supervisory Board. On the basis of our final examination, we concur with the Management Board's Dependent Company Report and the audit report and have no objections to raise regarding the Management Board's declaration at the end of the Dependent Company Report.

The Supervisory Board thanks the Management Board and all employees for their outstanding commitment to the Company in fiscal year 2012.

Montabaur, March 20, 2013

For the Supervisory Board
Kurt Dobitsch

The share

The United Internet AG share continued its strong performance of the preceding years and exceeded its all-time-high of 2007 at year-end.

Buoyed by healthy macroeconomic data, the stock markets got off to a strong start in 2012. In the wake of growing uncertainty in the Euro zone, however, share prices had fallen back to their year-opening levels by June. The markets recovered in the second half of the year though and continued their healthy performance from early 2012.

The United Internet share was also able to continue its strong performance of the preceding years, especially in the second half of 2012. It closed the year with strong growth of 18% to € 16.31 – thus exceeding its prior-year growth rate of 13%.

Market capitalization of United Internet AG rose from around € 2.97 billion to € 3.51 billion as of December 31, 2012. In fiscal 2012, an average of 300,000 shares (prior year: 610,000) were traded daily via the XETRA electronic computer trading system, with an average value of € 4.9 million (prior year: € 8.0 million).

Annual Shareholders' Meeting 2012

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 31, 2012. A total of 80% of capital stock was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

With a resolution adopted on May 26, 2011, the Annual Shareholders' Meeting authorized United Internet AG to buy back treasury shares in accordance with Sec. 71 (1) No. 8 AktG representing up to a total of 10% of capital stock. In the course of the Annual Shareholders' Meeting on May 31, 2012, a new authorization was issued for the period ending November 30, 2013.

As at December 31, 2012, the Company's capital stock amounted to € 215,000,000 divided into 215,000,000 registered no-par shares with the same number of voting rights. As of this date, United Internet held a total of 20,662,202 treasury shares. At the time, this corresponded to 9.61% of the capital stock of 215,000,000 shares with the same number of voting rights. The average purchase price for treasury shares amounted to € 12.76 per share.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on January 7, 2013 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 € 15,000,000, from € 215,000,000 to € 200,000,000. The number of shares issued decreased correspondingly by 15,000,000, from 215,000,000 shares to 200,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

The capital reduction was aimed at optimizing the company's balance sheet and capital structure.

Following the cancellation of these 15,000,000 shares, United Internet still held 5,662,202 treasury shares.

On the same date, the Management Board of United Internet AG also resolved to launch a further share buyback program. In the course of this new share buyback program, up to 5,000,000 company shares (corresponding to 2.50% of the reduced capital stock of € 200 million at the time of the resolution) are to be bought back via the stock exchange. The buyback follows an authorization of the Annual Shareholders' Meeting of May 31, 2012 to buy back shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to November 30, 2013.

As part of this share buyback program, the Management Board of United Internet AG announced on February 1, 2013 that it had since purchased 337,798 treasury shares. Together with 5,662,202 treasury shares from earlier share buyback programs, United Internet therefore held a total of 6,000,000 treasury shares (corresponding to 3.00% of total capital stock of € 200,000,000 at the time).

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board resolved on the same date to cancel these 6,000,000 treasury shares and to reduce the capital stock of United Internet AG by € 6,000,000, from € 200,000,000 to € 194,000,000. The number of shares issued decreased correspondingly by 6,000,000, from 200,000,000 shares to 194,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each. This capital reduction was also aimed at optimizing the company's balance sheet and capital structure.

Following the cancellation of these 6,000,000 shares, United Internet no longer held any treasury shares.

The share buyback program resolved on January 7, 2013 remains in force and up to 4,662,202 company shares (as of February 1, 2013) can still be bought back via the stock exchange.

Dividend

The Annual Shareholders' Meeting of United Internet AG on May 31, 2012 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.30 per share. The total dividend payment of € 58.1 million was made on June 1, 2012.

For fiscal year 2012, the Management Board and Supervisory Board propose a dividend payment of € 0.30 per entitled share. The Annual Shareholders' Meeting convened for May 23, 2013 will vote on this proposal of the Management Board and Supervisory Board.

Investor Relations

In fiscal 2012, 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 Investor Relations 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 and conferences in Belgium, Denmark, Germany, France, the UK, Luxembourg, the Netherlands, Switzerland and the USA. Around 22 investment banks are in contact with the Investor Relations 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.com).

www.united-internet.com

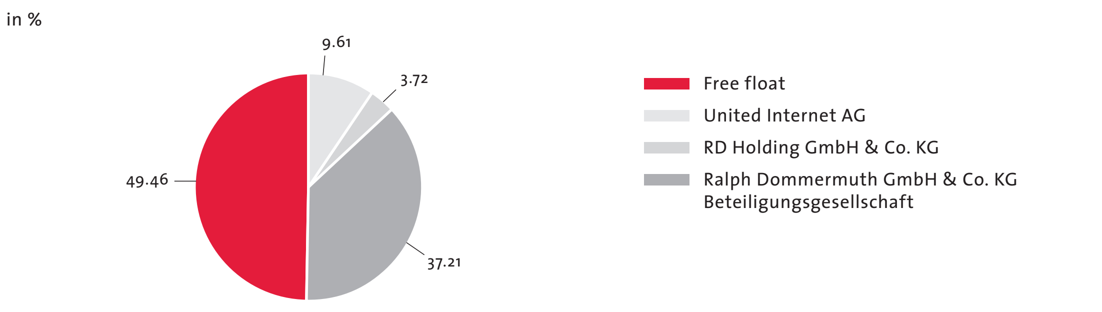
Share	2012	2011
Year-high	€ 17.55	€ 14.79
Year-low	€ 12.49	€ 10.58
Year-end	€ 16.31	€ 13.80
Performance	18%	13%
Average daily turnover	€ 4,906,732	€ 7,974,042
Average daily turnover	332,898	613,960
Number of shares at year-end	215 million	215 million
Market value at year-end	€ 3.507 billion	€ 2.967 billion
Earnings per share (EPS)	€ 0.56	€ 0.79
Dividend payment*	€ 58.2 million *	€ 58.1 million
Dividend per share*	€ 0.30 *	€ 0.30

* 2012: proposal to the Annual Shareholders' Meeting

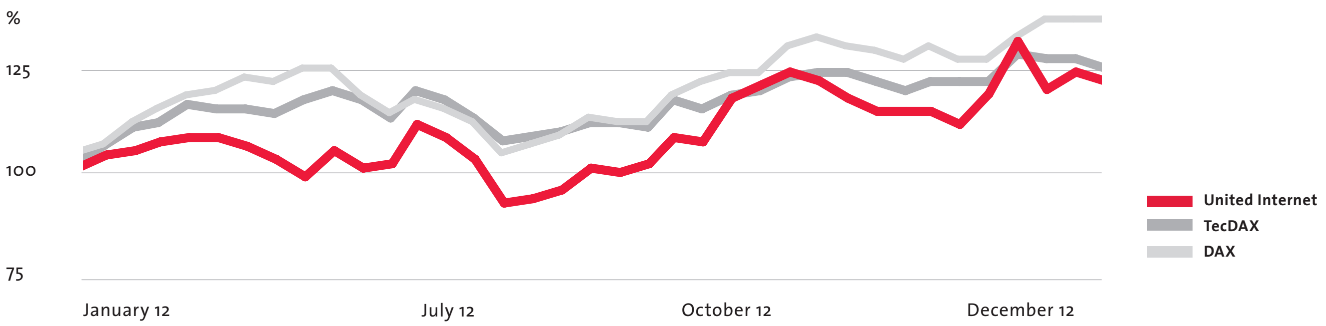
Share data

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 EURO STOXX 600 GEX

Significant shareholders (as of Dec. 31, 2012)



Development of share 2012 indexed



Shareholdings and subscription rights of the Management Board and Supervisory Board as of December 31, 2012

	Shares (units)	SAR (units)
Management Board		
Ralph Dommermuth	88,000,000	–
Norbert Lang	524,232	1,200,000
Total	**88,524,232**	**1,200,000**
Supervisory Board		
Kurt Dobitsch (Chair)	–	–
Kai-Uwe Ricke	–	–
Michael Scheeren	600,000	–
Total	**600,000**	**–**

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

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.

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. E-business is becoming an integral element of corporate strategy. Portals represent a universal home base within the internet and are changing from providers of e-mail and news services to a central hub for the communication, information and identity management needs of users.

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

Our business model

United Internet is Europe's leading internet specialist with over 11.8 million fee-based customer contracts and 31.8 million ad-financed free accounts.

Our operating business is divided into the two segments "Access" and "Applications".

The Access segment comprises our fee-based, fixed-line and mobile internet access products, as well as the respective applications (such as home networks, websites and e-mails, telephony and entertainment).

The Applications segment consists of our application business – whether ad-financed or via fee-based subscriptions. The applications are run from our own data centers and include domains, websites and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software.

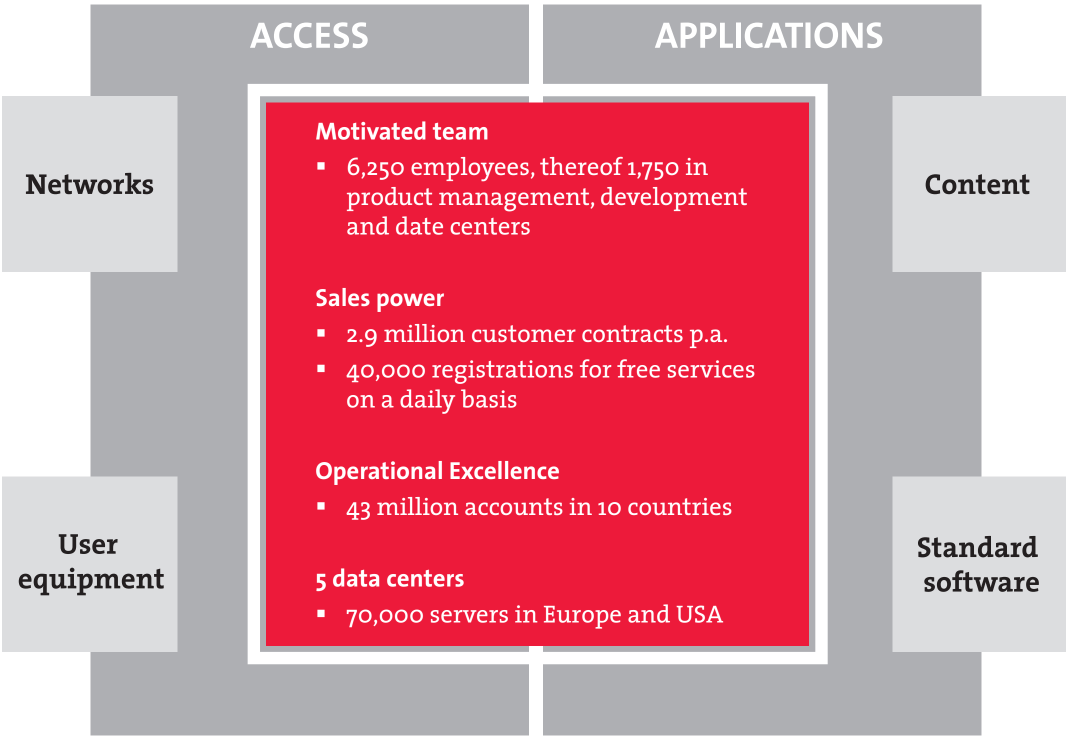
› Groupwork

Our "Internet Factory"

At the heart of our business is our powerful "Internet Factory" with around 6,250 employees, of which 1,750 are engaged in product management, development and at 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. These are then run on some 70,000 servers at our 5 data centers. Our "Internet Factory" enables us to extend, combine and scale our product lines almost at will – and then to export them throughout the world.

United Internet stands for high sales strength via its established and high-reach brands (GMX, WEB.DE, 1&1, united-domains, Fasthosts, InterNetX, Mail.com, Sedo and affilinet), as well as outstanding operational excellence with over 43 million customer accounts worldwide.

Internet Factory



Success factors of our business model

United Internet's business model offers various benefits: the contractual commitment of our customers via fee-based, fixed-term subscriptions (year-end 2012: 11.85 million customer contracts) secures long-lasting customer relationships and thus stable and predictable sales and earnings. And our 31.8 million ad-financed free accounts provide a huge reservoir for monetizing our applications via advertising and e-commerce as well as successively converting users to fee-based contracts.

Thanks to our existing business relationships with millions of customers and users, we have our ear close to the market. This often enables us to anticipate customer wishes and trends. We then consistently develop these business fields – at a national and international level.

We have already picked up a number of customer wishes and successfully transformed them into new solutions or completely new business fields:

- We met the need of our customers for **security** by developing applications for legally secure electronic communication via De-Mail. This makes legally binding communication between people possible via the internet, in the same way as via letter and registered mail.

- We support the **flexibility** of our customers with a wide variety of cloud applications. Users can now access their centrally stored data and applications, and manage their electronic communication – from anywhere, at any time, and using any device.

- The launch of our Mobile Internet access products in mid 2010 reflected the trend toward greater **mobility** in internet usage. A very simple and clear tariff structure and the use of the high-performance "D-Netz" mobile phone network helped us quickly achieve a high degree of customer acceptance.

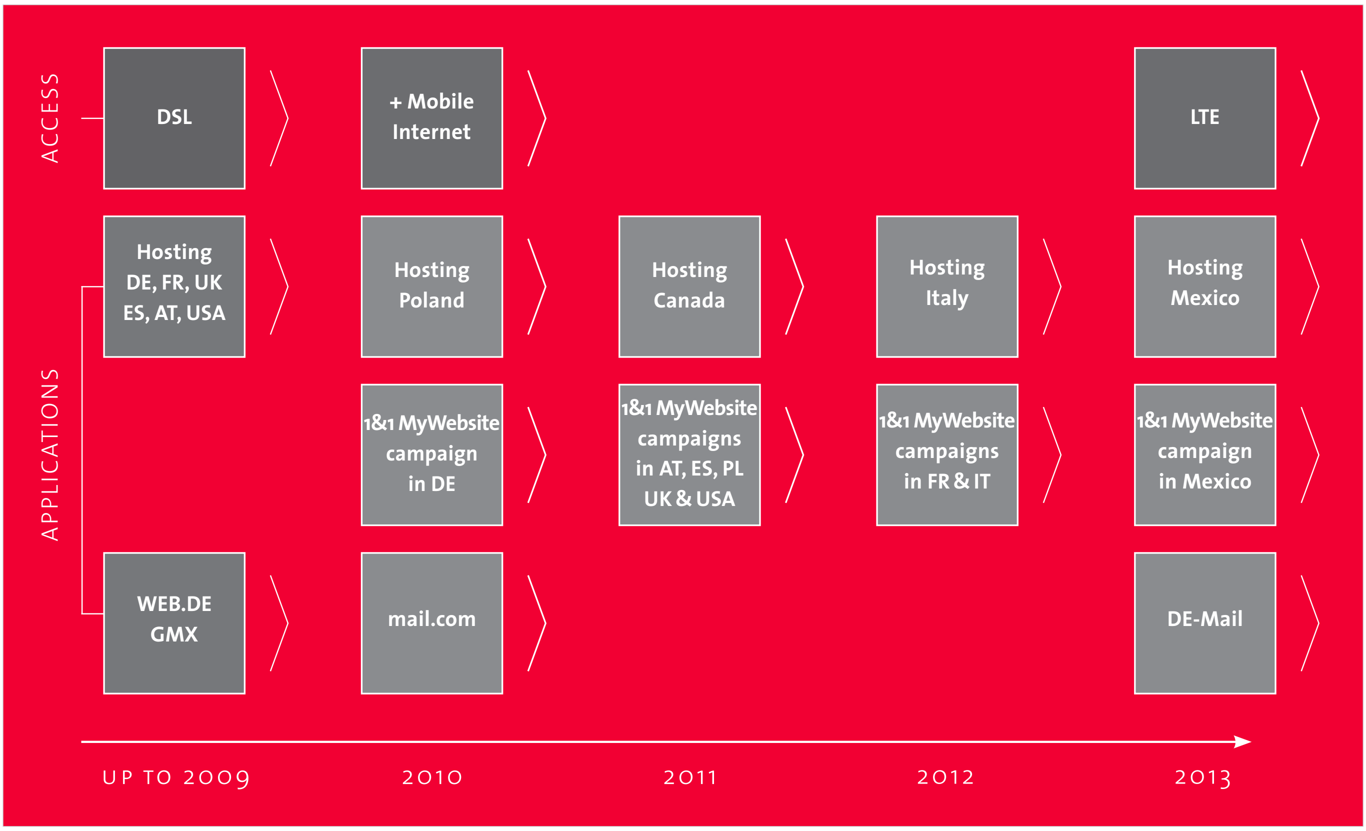
- We not only offer our cloud and e-business solutions in Germany, but also in a growing number of new markets targeted for our **international expansion.** This enables us to fully exploit the potential to scale our online business.

- Our MyWebsite product offers small businesses in particular a simple and flexible way to establish an online presence. With its integrated sales and marketing tools, it lays the foundation for their digital **commercial success**.

- **Trust** is the basis for our customer relationships. The highest standards of data protection and security, 24/7 availability of our competent contact partners, and 24-hour replacement of defective equipment – these are all elements which ensure our customers can rely fully on us at all times.

These endeavors are also reflected in our development plan.

Roadmap 2010–2013



Wherever it makes good business sense, we cover the entire value chain – from product development and data center operation, to 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. Our brands such as GMX, WEB.DE, Mail.com, 1&1, united-domains InterNetX and Fasthosts are positioned differently and target a wide variety of user groups.

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: universally accessible, 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 our many years of experience as an access and application provider, 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 customer relationships with millions of private users, freelancers and small companies in Germany and abroad, we are excellently placed to fully exploit the expected market growth in our two business fields.

Access segment

The Access segment comprises our three access product lines: "Mobile Internet", "DSL Complete Connections" and "Narrowband/T-DSL/R-DSL Connections".

› T-DSL, R-DSL

We operate solely in Germany in this segment, where we are one of the leading providers. We remain independent of network providers by procuring standardized network services from various pre-service providers. These are then enhanced with end-user devices, self-developed applications and services from our own "Internet Factory" in order to differentiate ourselves from the competition. Access products are marketed by the strong brands GMX, WEB.DE and 1&1, which reach a mass market while also targeting specific customer groups.

In fiscal year 2012, the number of fee-based contracts in this segment increased by 670,000 contracts to 4.75 million as of December 31, 2012. Following an increase of 450,000 contracts in 2011, we succeeded in accelerating the pace of growth once again.

Broken down into the individual product lines, we gained a total of 560,000 new customer contracts in our Mobile Internet business in 2012, thus raising the total number of customers to 1.35 million. There was also growth in the important complete DSL contracts of 280,000 customers to a total of 2.79 million. In contrast to this, the number of customer contracts for those business models gradually being phased out (narrowband, T-DSL and R-DSL) continued to fall as expected in 2012 (-170,000 customer relationships).

Development of customer contracts in the Access segment in fiscal year 2012

	Dec. 31, 2012	Dec. 31, 2011	Change
Access, total	4.75 million	4.08 million	+ 670,000
of which Mobile Internet	1.35 million	0.79 million	+ 560,000
of which DSL complete packages (ULL)	2.79 million	2.51 million	+ 280,000
of which narrowband, T-DSL, R-DSL	0.61 million	0.78 million	– 170,000

› ULL

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, contract growth in this segment is expected to result from the ongoing migration of customers to complete DSL packages (ULL = Unbundled Local Loop) – regarded as essential for improving customer retention – as well as from the marketing of Mobile Internet products.

The Access business model

DIFFERENTIATING FACTORS

- Value added within United Internet

Market Reach

Customer Support

Application Development

Data Centers

NETWORK INDEPENDENCE AS BUSINESS MODEL

- Cooperation with numerous pre-service providers with varying access technologies (mobile, DSL, fiber-optic)

Networks

A-DSL	V-DSL	UMTS/HSPA/LTE	FTTB
Dt. Telekom QSC Telefonica Vodafone	Dt. Telekom	Vodafone	Town nets Utilities (Open Access)

› UMTS, HSPA, LTE, FTTB, V-DSL, Open Access

We will benefit in particular from strong growth in the mobile internet market. Following market growth of 14.7% to € 8.6 billion in 2012, the industry association BITKOM expects further growth of 7.0% to € 9.2 billion in 2013.

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 tablet PCs, as well as their respective applications (or apps). BITKOM forecasts sales growth of 29.0% to 28.0 million sold smartphones in 2013 (following 21.7 million in 2012).

› BITKOM

Market forecast: Mobile Internet access in Germany

	2013e	2012	Change
Sales in € billion	9.2	8.6	+ 7.0%

Source: BITKOM

In view of the comparatively high level of household coverage of over 80% already achieved – and the trend toward mobile internet – experts continue to forecast only moderate growth for the German broadband market (fixed line-based).

According to the survey “German Entertainment and Media Outlook 2012-2016” of October 2012, PricewaterhouseCoopers expects sales of fixed-line broadband connections to increase by 4.0% to € 7.28 billion in 2013.

Market forecast: broadband access (fixed-line) in Germany

	2013e	2012	Change
Sales in € billion	7.28	7.00	+ 4.0%

Source: BITKOM

Applications segment

The Applications segment comprises our 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. We develop these applications at our "Internet Factory", or in cooperation with partner firms, and run them at our data centers.

The applications are marketed to specific target groups via our differently positioned brands GMX, WEB.DE, Mail.com, 1&1, united-domains, Fasthosts and InterNetX. We also offer customers performance-based advertising and sales platforms via our Sedo and affilinet brands.

Our applications business is broken down into ad-financed and fee-based applications, whereby the latter are in turn divided into Business and Consumer Applications.

In the field of Business Applications, we are among the leading companies in our target markets (Germany, France, the UK, Spain, Poland, Austria, Switzerland, the USA and Canada). In 2012, we began operations in Italy and in early 2013 in Mexico.

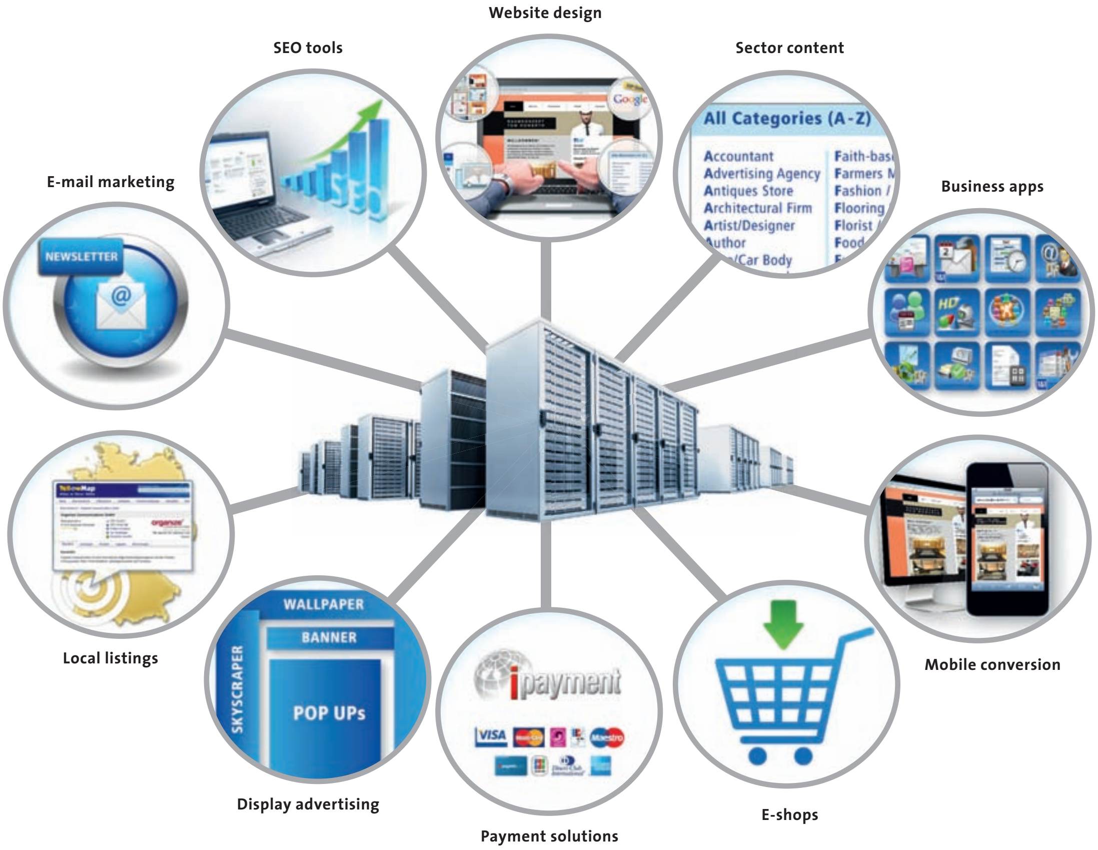
Our ad-financed applications and fee-based Consumer Applications are currently marketed via GMX and WEB.DE primarily in Germany, Austria and Switzerland. Since the acquisition of US provider Mail.com in late 2010, we have also driven our international expansion in this field and are increasingly targeting the US, UK, Spanish, French and Indian markets.

The number of fee-based contracts in the Applications segment grew by 510,000 to 7.10 million worldwide in 2012 (of which +320.000 to 3.05 million abroad). This growth in contracts resulted from 390,000 new Business Application contracts (of which +220,000 1&1 MyWebsite contracts to 410,000) and 120,000 new Consumer Application contracts, raising their respective totals to 5.06 million and 2.04 million. Our ad-financed accounts grew from 30.8 million in December 2011 to 31.8 million in December 2012.

Development of customer contracts in the "Applications" segment in fiscal year 2012

	Dec. 31, 2012	Dec. 31, 2011	Change
Total fee-based contracts	7.10 million	6.59 million	+ 510,000
of which "domestic"	4.05 million	3.86 million	+ 190,000
of which "foreign"	3.05 million	2.73 million	+320,000
Ad-financed accounts	31.8 million	30.8 million	+ 1,000,000

Business applications: from webhoster to e-business solutions provider



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 powerful cloud applications which will open up new business opportunities on the internet for our customers and help them digitize their processes. We have therefore expanded our product range over the past few years – based on our hosting products – with the addition of numerous cloud-based e-business solutions.

In our Consumer Applications business, we believe that an increasingly wide range of products will continue to enable us to convert purely ad-financed users (over 30 million) into paying customers. To this end, we have been converting our consumer portals – GMX, WEB.DE and Mail.com – in recent years from pure e-mail service providers to complete hubs for the communication, information and identity management needs of our users

As the leading German email provider with a market share of around 50% of all active email accounts in Germany, we will be offering our solutions for legally secure email communication with De-Mail in 2013 and will continue to drive the internationalization of our Consumer Applications via Mail.com.

Consumer applications: from e-mail service to command center for communication, information and identity management

The trend toward the increasing use of Cloud applications is working in our favor for all activities of our Applications segment – both for Business and Consumer Applications.

In its study "Forecast Overview: Public Cloud Services, Worldwide" of August 2012, Gartner forecasts global growth for Public Cloud Services of 18.8%, from $ 109.3 billion to $ 129.9 billion in 2013.

Based on a study of the Experton Group, the sector association BITKOM expects business cloud sales in Germany to grow by 53.3% to € 4.6 billion in 2013 and to reach € 13.7 billion by 2016.

Market forecast: cloud computing world-wide and in Germany (B2B)

	2013e	2012	Change
Sales world-wide (in $ billion)	129.9	109.3	+ 18.8%
Sales in Germany (in € billion)	4.6	3.0	+ 53.3%

Source: Gartner, BITKOM / Experton Group

The prospects for funding our free applications via online advertising are also promising. The Online Marketing Group (Online-Vermarkterkreis – OVK) forecasts a further positive development for the online advertising market in 2013 with growth in gross advertising spend of up to 11% to € 7.18 billion.

› OVK

Market forecast: online advertising in Germany

	2013e	2012	Change
Gross advertising spend (in € billion)	7.18	6.47	+ 11.0%

Source: BVDW / OVK

Management Report

Group structure and business operations

United Internet AG is the Group parent company of the United Internet Group. As the Group's holding company, United Internet AG focuses mainly on centralized functions such as corporate controlling and accounting, press relations, investor relations, investment management, risk management, internal audit, and HR management.

In its operating business, United Internet AG acts primarily via 1&1 Internet AG, including the latter's main subsidiaries in Germany and abroad such as 1&1 Mail & Media GmbH, 1&1 Telecom GmbH, United Internet Media AG, Fasthosts Internet Ltd., InterNetX GmbH and united-domains AG, as well as via Sedo Holding AG, including its main subsidiaries such as Sedo GmbH and affilinet GmbH, and their foreign subsidiaries.

The graphics on the next page shows a simplified illustration of the Group structure with significant operating subsidiaries and investments.

In addition to its operative and fully consolidated subsidiaries, United Internet holds further direct and indirect investments. These mainly consist of the equity interests held in the listed online marketing companies Goldbach Group AG, Switzerland (14.96%) and Hi-Media S.A., France (10.38%), the investment in Versatel GmbH (25.10% via Versatel's holding company VictorianFibre Holding & Co. S.C.A.), and the investments in fun communications GmbH (49%), virtual minds AG (48.65%), and ProfitBricks GmbH (30.02%), as well as a number of other internet investments (41 investments in total) via the investment funds EFF No. 1 (66.67%), EFF No. 2 (90%) and EFF No. 3 (80%) operated jointly with the Samwer brothers.

Business operations

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

The **Access segment** comprises the company's fee-based landline and mobile access products, including the respective applications (such as home networks, online storage, telephony or entertainment). United Internet operates exclusively 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 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 well-known brands GMX, WEB.DE and 1&1, which enable the company to offer a comprehensive range of products to a mass market while also targeting specific customer groups.

United Internet AG[1]

- **1&1 Internet AG** (100%)
  - 1&1 USA (100%)
  - 1&1 UK (100%)
  - 1&1 FR (100%)
  - 1&1 ES (100%)
  - 1&1 PL (100%)
  - 1&1 Mail & Media (100%)
  - 1&1 Telecom (100%)
  - Fasthosts (100%)
  - InterNetX (95.56%)
  - united-domains (85%)
  - United Internet Media (100%)
- **Sedo Holding AG (79.45%)**
  - Response Republic (100%)
    - Sedo DE (100%)
    - Sedo USA (100%)
  - affilinet (100%)
    - affilinet FR (100%)
    - affilinet UK (100%)
    - affilinet NL (100%)
    - affilinet ES (100%)
- Other investments
  - Goldbach Group (14.96%)
  - Hi-Media (10.38%)
  - Versatel (25.10%)
  - fun communications (49%)
  - virtual minds (48.65 %)
  - ProfitBricks (30.02%)
  - EFF No. 1 (66.67%)
  - EFF No. 2 (90%)
  - EFF No. 3 (80%)

[1] simplified illustration

The **Applications segment** comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages, webhosting 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. In its Applications segment, United Internet is internationally aligned and among the leading companies in Germany, France, the UK, Canada, Austria, Poland, Switzerland, Spain and the USA. In May 2012, United Internet began operations in Italy and in January 2013 in Mexico. 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 platforms on the internet via Sedo and affilinet.

Economic environment

Further slowdown in global economic growth

The International Monetary Fund (IMF) repeatedly downgraded its forecasts for the global economy in 2012. In the latest update to its World Economic Outlook on January 23, 2013, the Fund finally calculated growth for the **global economy** of 3.2% in 2012 (after 3.9% in the previous year). This is 0.3 percentage points less than the IMF had forecast in April 2012.

This weaker than expected global economic growth is mainly due to the European debt crisis and the struggling US economy, as well as the uncertainties these factors created.

Global growth in 2012 was driven mainly by the emerging and developing economies, which grew by 5.1% (following 6.3% in the previous year). Growth was much weaker in the developed economies of Europe, North America and Japan, which only managed growth of 1.3% (following 1.6% in the previous year).

The IMF calculated that economic output fell by 0.4% in the **Euro zone** during 2012 – 0.1 percentage point more than expected in its April 2012 forecast. This negative trend was largely driven by the Euro zone heavyweights Spain and Italy, which suffered strong recessions in 2012 according to IMF data.

The IMF puts economic growth in **Germany** for 2012 at 0.9%. Although 0.3 percentage points more than the IMF predicted in its April 2012 forecast, this is still 2.2 percentage points less than the German economy achieved in 2011. According to experts, the main reasons were the global economic downturn and its negative impact on Germany's traditionally strong export sector.

All in all, however, the German economy proved considerably more robust than many other economies of **United Internet's European target markets**, such as France (+0.2%), the UK (-0.2%), Spain (-1.4%) or Italy (-2.1%), but still lagged well behind its North American markets, the USA (+2.3%) and Canada (+2.0%).

ICT markets grew again

According to figures of the German ICT association BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.), the German ICT sector grew by 2.2% to € 151.2 billion in 2012 – following growth of 1.4% in 2011. The development of the 3 ICT markets was quite varied, though: whereas the market for information technology grew by 2.7% to € 73.4 billion and the telecommunications market by 1.9% to € 65.4 billion, the consumer electronics market (digital entertainment electronics) stagnated at € 12.4 billion.

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

› VATM

Due in part to the strong trend toward mobile internet usage, demand for new fixed line-based broadband connections in Germany has slowed since 2008. With expected growth of 0.8 million in 2012 to 28.1 million, the number of new connections fell once again – following 1.0 million in 2011, 1.3 million in 2010 and 2.3 million in 2009 – and remained well below previous record years. This trend was already calculated by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM) and Dialog Consult in their joint TC Market Analysis for Germany 2012 published on October 18, 2012.

According to the survey "German Entertainment and Media Outlook 2012-2016" of October 2012, PricewaterhouseCoopers expects sales of fixed-line broadband connections to increase by 4.2% to € 7.0 billion in 2012.

The average volume of data used, however, is growing much more strongly than the number of newly activated connections and sales of broadband connections – as an indicator of the continued increase in usage – with growth of 10.6% to 12.5 GB (per connection and month).

Key market figures: broadband access (fixed line) in Germany

	2012	2011	Change
Broadband connections (in million)	28.1	27.3	+ 2.9 %
Broadband revenues (in € billion)	7.00	6.72	+ 4.2 %
Data volume (per connection and month in GB)	12.5	11.3	+ 10.6 %

Source: PricewaterhouseCoopers, Dialog Consult / VATM (Broadband connections and data volumes 2012: extrapolations of Dialog Consult / VATM)

Mobile Internet

The German mobile internet market displayed much more dynamic growth in 2012. According to BITKOM figures, sales of mobile data services rose by 14.7% to € 8.6 billion in 2012.

At the same time, the average volume of data used (per connection and month) – as an indicator of the growing use of mobile data services – grew by over 33.3% to 196 MB.

A major reason for this growth is the boom in smartphones, sales of which increased by over 36.5% to 21.7 million in 2012 according to BITKOM.

Key market figures: mobile internet access in Germany

	2012	2011	Change
Smartphones (in million units)	21.7	15.9	+ 36.5 %
Mobile internet revenues (in € billion)	8.6	7.5	+ 14.7 %
Data volume (per connection and month in MB)	196	147	+ 33.3 %

Source: BITKOM; Dialog Consult / VATM

Online advertising

The German online advertising market broke the 6-billion-euro mark in 2012 with growth to € 6.47 billion. This was the finding of a survey on gross ad spending conducted by the Online Marketing Group (Online-Vermarkterkreis – OVK) of the German Digital Economy Association (Bundesverband Digitale Wirtschaft e.V. – BVDW).

› BVDW

Gross advertising volume for classic online advertising was up year on year by 14.9% to € 3.78 billion, while search word marketing increased by 9.6% to € 2.28 billion and affiliate networks by 9.9% to € 411 million.

As a result, the online proportion of the media mix continued to grow and has now reached over one fifth (21.8%) of the total advertising market. Online advertising therefore remains the second strongest advertising medium after TV.

Key market figures: online advertising in Germany

	2012	2011	Change
Total gross advertising spend (in € billion)	6.47	5.74	+ 12.7 %
thereof classic online advertising (in € billion)	3.78	3.29	+ 14.9 %
thereof search word marketing (in € billion)	2.28	2.08	+ 9.6 %
thereof affiliate networks (in € million)	411	374	+ 9.9 %

Source: OVK

Cloud computing

In its study “Forecast Overview: Public Cloud Services, Worldwide” of August 2012, Gartner forecasts global growth for Public Cloud Services of 19.6%, from $ 91.4 billion to $ 109.3 billion for 2012.

Cloud computing was also a central topic in Germany once again in 2012. In the annual trend survey conducted by BITKOM, cloud computing once again came top. 59% of those ICT companies interviewed regarded it as particularly important.

This technology is no short-term trend, however, but represents a fundamental shift in the provision and use of IT services. In 2012, revenue generated with cloud applications in Germany – according to the Experton Group – grew by almost 57.9% to € 3.0 billion in the B-to-B market alone. The figures indicate the dynamic potential of this market. IT users get better services for less money with cloud computing. Small and mid-size companies in particular can gain access to IT applications which previously only major corporations could afford.

Key market figures: cloud computing worldwide and in Germany (B2B)

	2012	2011	Change
Sales worldwide (in $ billion)	109.3	91.4	+ 19.6%
Sales in Germany (in € billion)	3.0	1.9	+ 57.9%

Source: Gartner, BITKOM / Experton Group

Business development of the Group

Fiscal year 2012 was a successful period for United Internet. The company set new records in sales (+14.4% to € 2.397 billion) and the number of customer contracts (+1.18 million to 11.85 million), while key earnings figures in the Group's established business fields – without consideration of special items – were greatly improved.

At the same time, the high level of cash generation in the established business fields was used – as planned – to invest heavily in the development and expansion of the new business fields and so create growth potential for the future.

The terms "established business fields" or "new business fields" are used to distinguish between established product lines (domains, homepages, webhosting and e-shops etc.) and new product lines (1&1 MyWebsite and De-Mail) within the Applications segment and at Group level.

The Group's encouraging development was based on the strong progress of its operating segments: Access and Applications.

Segment development

Access segment

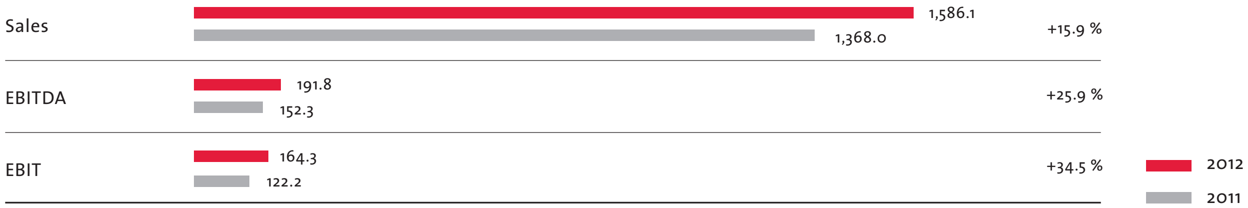
The **Access segment** comprises the company's fixed line and mobile access products, including the corresponding applications (such as home networks, online storage, telephony and entertainment). United Internet operates solely in Germany in this segment, where it is one of the leading providers. The company remains independent of network providers by procuring standardized network services from various pre-service providers. These are enhanced with end-user devices, self-developed applications and services from the company's own "Internet Factory" in order to differentiate it from the competition. Access products are marketed by the well-known brands GMX, WEB.DE and 1&1, which reach a mass market while also targeting specific customer groups.

In line with the dynamic development of customer figures, **segment sales** grew strongly by 15.9% from € 1,368.0 million to € 1,586.1 million in fiscal year 2012. As a result, the segment's share of total Group sales amounted to 66.2%.

Despite increased investments in customer growth (+670,000 contracts in 2012 compared to +450,000 in the previous year) and the full expensing of smartphone subsidies in the company's fast growing Mobile Internet business (+560,000 contracts in 2012 compared to +520,000 in the previous year), there was strong year-on-year growth in **segment EBITDA** of 25.9% to € 191.8 million (prior year: € 152.3 million), while **segment EBIT** climbed 34.5% to € 164.3 million (prior year: € 122.2 million). All customer acquisition costs and costs for the conversion of resale DSL connections to complete packages (ULL) continue to be charged directly as expenses.

The number of **employees** in this segment rose by 7.5% to 1,928 (prior year: 1,794).

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



Quarterly development in € million

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4 2011
Sales	375.6	388.4	405.0	417.1	359.8
EBITDA	41.3	47.1	57.1	46.3	43.2
EBIT	34.8	40.2	50.2	39.1	35.0

In fiscal year 2012, the number of **fee-based Access contracts** rose by 670,000 contracts to 4.75 million as of December 31, 2012. Following an increase of 130,000 in 2010 and 450,000 in 2011, the pace of growth once again accelerated strongly in the past year.

Broken down into the individual product lines, a total of 560,000 new customer contracts were gained in the segment's Mobile Internet business, thus raising the number of customers to 1.35 million. There was also growth in the important complete DSL contracts of 280,000 customers to a total of 2.79 million. In contrast to this, the number of customer contracts for those business models gradually being phased out (narrowband, T-DSL and R-DSL) continued to fall as expected in 2012 (-170,000 customer relationships). Nevertheless, there was a net total increase in fixed-line access of 110,000 contracts.

Development of customer contracts in the Access segment in fiscal year 2012

	Dec. 31, 2012	Dec. 31, 2011	Change
Access, total	4.75 million	4.08 million	+ 670,000
thereof Mobile Internet	1.35 million	0.79 million	+ 560,000
thereof DSL complete packages	2.79 million	2.51 million	+280,000
thereof narrowband, T-DSL, R-DSL	0.61 million	0.78 million	– 170,000

Development of customer contracts in the Access segment in Q4 2012

	Dec. 31, 2012	Sep. 30, 2012	Change
Access, total	4.75 million	4.54 million	+ 210,000
thereof Mobile Internet	1.35 million	1.18 million	+ 170,000
thereof DSL complete packages	2.79 million	2.71 million	+ 80,000
thereof narrowband, T-DSL, R-DSL	0.61 million	0.65 million	– 40,000

Product highlights 2012

In its operating business, the segment's main focus in fiscal year 2012 was the implementation of the 1&1 Principle launched in late 2011 (as a further extensive development of the DSL quality drive), as well as the launch of the "1&1 Tablet Flat" tariff and expansion of the product range in the Mobile Internet business:

- **The 1&1 Principle**: The 1&1 Principle is the logical continuation of the quality drive already introduced in Germany in 2009. With the 1&1 Principle, customers are given clear performance promises. The most important new features are the overnight delivery of hardware, a one-month test phase for all products, and on-site, next-day replacement of faulty equipment. This enables United Internet's 1&1 brand to clearly differentiate itself from the competition, strengthens the benefits of online business over bricks-and-mortar operations, and setting new standards in service quality and customer satisfaction. Implementing the 1&1 Principle involved optimizing a number of internal processes, investing in customer care services and improving other procedures.

- **1&1 Tablet Flat:** Tablet PCs are the latest trend. According to sector association BITKOM, approx. 2.1 million units were sold in Germany alone during 2011 – corresponding to year-on-year sales growth of 162%. To enable customers to get maximum use of their tablets, also while on the road, 1&1 launched its "1&1 Tablet Flat" tariff for the D-Network. The "1&1 Tablet Flat" offers unlimited mobile surfing with bandwidth of up to 14,400 kBit/s together with a new tablet device starting from € 0.

- **New All-Net-Flats:** In August 2012, the United Internet brand 1&1 greatly expanded its product range in Mobile Internet segment. Customers can now choose from three new 1&1 All-Net-Flat tariffs in D-Network quality (flat-rate fees for all networks). „1&1 All-Net-Flat Basic" offers unlimited phoning in all German mobile and fixed-line networks as well as unlimited surfing at HSDPA speeds of up to 7,200 kBit/s (high-speed volume 300 MB). „1&1 All-Net-Flat Plus" not only includes unlimited phoning in all German mobile and fixed-line networks and unlimited surfing at HSDPA speeds of up to 7,200 kBit/s (high-speed volume 500 MB), but also unlimited text messaging. The high-end "1&1 All-Net-Flat Pro" tariff comprises unlimited phoning in all fixed-line and German mobile networks, unlimited text messaging, and even faster unlimited surfing at an HSDPA speed of up to 14,400 kBit/s as well as a high-speed volume of 1 gigabyte. In addition, the plan includes international data usage of 100 MB per month in 36 countries.

Outlook 2013

› ULL

Thanks to a product strategy based on transparency and flexibility, with innovative products offering excellent value for money and a variety of optional applications, United Internet sees good opportunities to enhance customer retention and achieve a further increase in average revenue per contract in its Access business. In particular, contract growth in this segment is expected to result from the ongoing migration of customers to complete DSL packages (ULL = Unbundled Local Loop) – regarded as essential for improving customer retention – as well as from the marketing of Mobile Internet products.

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, webhosting 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. In its Applications segment, United Internet is internationally aligned and among the leading companies in Germany, France, the UK, Spain, Austria, Switzerland and the USA. United Internet also began operations in Poland in late 2010, in Canada in early 2011, in Italy in May 2012 and in Mexico in January 2013. 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 platforms on the internet via Sedo and affilinet.

Thanks to stable customer growth, **segment sales** rose by 11.6% in fiscal 2012, from € 725.8 million to € 810.2 million. Sales in established business fields grew by 8.0% to € 769.4 million. In addition, there was revenue from new business fields of € 40.8 million (prior year: € 13.7 million). As a result, the segment accounted for around 33.8% of total Group sales.

Business outside Germany grew by 21.8% and contributed a total of € 266.9 million (prior year: € 219.2 million) to segment sales.

In the **established business fields** – without consideration of non-cash extraordinary writedowns on goodwill of Sedo Holding AG amounting to € 46.3 million – EBITDA rose by 13.3% from € 226.1 million last year to € 256.2 million and EBIT by 14.5% from € 168.7 million last year to € 193.1 million.

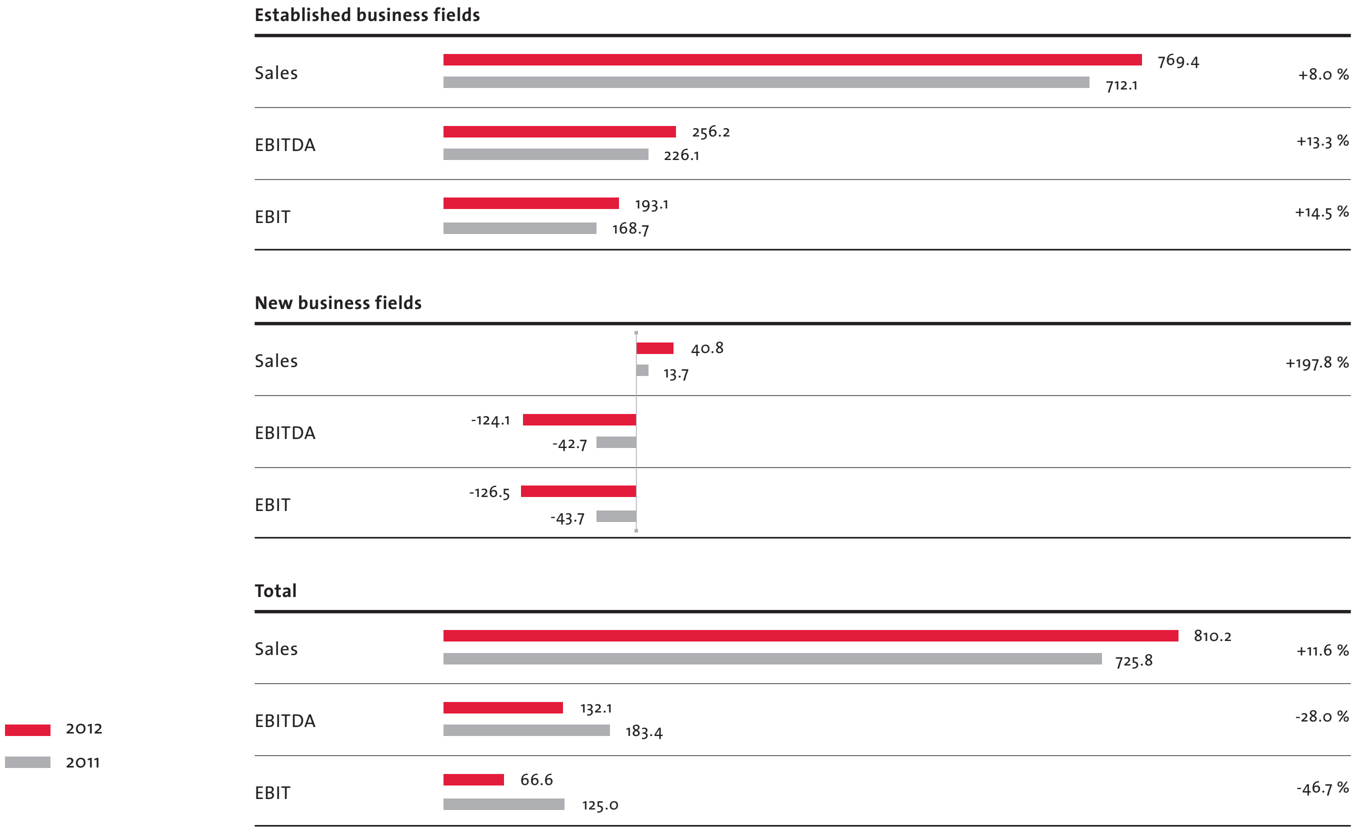
These strong earnings in established business fields enabled United Internet to make planned investments in **new business fields** (especially in the international marketing campaign for 1&1's MyWebsite and the development of De-Mail applications) and bear EBITDA-effective start-up losses of € 124.1 million (prior year: € 42.7 million) and EBIT-effective start-up losses of € 126.5 million (prior year: € 43.7 million).

As a result of these start-up losses, there was an expected year-on-year decline in **segment EBITDA** (before extraordinary factors) to € 132.1 million (prior year: € 183.4 million) and in **segment EBIT** (before extraordinary factors) to € 66.6 million (prior year: € 125.0 million).

Including the non-cash extraordinary writedowns on goodwill of Sedo Holding AG of € 46.3 million, segment EBIT is reduced € 20.3 million. Customer acquisition costs in this segment also continue to be charged directly as expenses.

The number of **employees** in this segment grew by 13.8% to 4,292 (prior year: 3,771).

Development of key financial figures in the Applications segment in € million; without special items*



Quarterly development in € million;
key figures including new business fields; without special items*

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4 2011
Sales	201.2	198.1	198.1	212.8	197.1
EBITDA	30.7	27.9	33.5	40.0	30.4
EBIT	14.9	12.3	16.8	22.6	12.3

* Negative special items Q2 2012 (Sedo impairment charges): EBIT effect: € 46.3 million

The number of **fee-based Application contracts** world-wide grew by 510,000 to 7.10 million (of which +320.000 contracts to 3.05 million abroad). This growth in contracts resulted from 390,000 new Business Application contracts (of which +220,000 1&1 MyWebsite contracts to 410,000) and 120,000 new Consumer Application contracts, raising their respective totals to 5.06 million and 2.04 million. Despite seasonal fluctuations during the year, the number of ad-financed accounts grew from 30.8 million in December 2011 to 31.8 million in December 2012.

In addition to this successful customer acquisition, United Internet continued to drive its **international expansion** with the launch of operations in Italy in May 2012 and Mexico in January 2013.

Development of customer contracts in the Applications segment in fiscal year 2012

	Dec. 31, 2012	Dec. 31, 2011	Change
Total fee-based contracts	7.10 million	6.59 million	+ 510,000
thereof “domestic”	4.05 million	3.86 million	+ 190,000
thereof “foreign”	3.05 million	2.73 million	+320,000
Ad-financed accounts	31.8 million	30.8 million	+ 1,000,000

Development of customer contracts in the Applications segment in Q4 2012

	Dec. 31, 2012	Sep. 30, 2012	Change
Total fee-based contracts	7.10 million	6.99 million	+ 110,000
thereof “domestic”	4.05 million	4.03 million	+20,000
thereof “foreign”	3.05 million	2.96 million	+90,000
Ad-financed accounts	31.8 million	30.6 million	+ 1,200,000

Product highlights 2012

In its operating business, the segment’s main focus in fiscal year 2012 was the migration of some 15 million active users to the new WEB.DE mailboxes – in the field of Consumer Applications – and the roll-out of new Dynamic Cloud Servers and expanded features of the 1&1 MyWebsite in the field of Business Applications:

- **New WEB.DE mailboxes:** In January 2012, WEB.DE conducted one of the biggest migrations in German internet history. Around 15 million users received a new home for their e-mails: the new WEB.DE mailbox. It features a clear design and simple navigation, while the WEB.DE online storage facility offers secure space in the cloud for personal data. Important documents, photos or other files can be safely stored here. They can subsequently also be accessed on the move via any internet-capable PC or dedicated app. The WEB.DE MailCheck, a browser extension for Internet Explorer and Mozilla Firefox, also offers users fast mailbox log-in, secure encryption and immediate notification of new e-mails received. With its integrated phishing filter, MailCheck also provides added security while surfing outside the mailbox.

- **1&1 Dynamic Cloud Server:** In March 2012, 1&1 made its Dynamic Cloud Server significantly more flexible. All relevant features, such as the CPU (processor) and RAM (memory) can be adapted and expanded exactly according to the number of hours required. For small and mid-size companies, the change means they can administer their IT needs even more efficiently. That reduces costs – and strengthens their competitive standing. The 1&1 Dynamic Cloud Server offers users a virtual server environment with full root access. This allows users to adapt the basic settings according to their specific requirements. It is also possible to swap between Linux and Windows operating systems.

- **1&1 launches De-Mail for business clients:** As of late April, 1&1 business clients can register their desired name for the use of De-Mail. They have the possibility to reserve a De-Mail address based on their current .de domain – i.e. “MyFirm.de” will be joined by “MyFirm.de-mail.de”. De-Mail enables private and business users to send or receive messages and documents in a secure, confidential and verifiable way. Easy and convenient via De-Mail’s integration into existing e-mail environments.

- **WEB.DE offers German data security and entry-level tariffs for online storage:** Skydrive from Microsoft, iCloud from Apple, Google Drive or newcomer Dropbox – many of these so-called cloud products for Internet data storage originate in the USA. However, over 68% of all German Internet users are wary of storing their private data with US companies. This was the finding of a survey conducted by Convios Consulting GmbH. As of June 2012, WEB.DE offers such users a variety of tariff alternatives which comply with Germany's strict data protection laws.

- **Features of 1&1 MyWebsite greatly expanded:** As of October 2012, business customers can access up to 100 useful apps free of charge and simply integrate them into their websites. These business apps offer numerous sector-specific functions for e-commerce, communication, social media and everyday business processes. The web apps can be easily integrated into the user's website by simply dragging and dropping the chosen application to any place on the page. As a result, visitors no longer have to be redirected to external websites.

Outlook 2013
With its strong and specialized brands, a steadily growing portfolio of cloud applications, and existing relations with millions of small businesses, freelancers and private users, United Internet is well positioned to utilize the opportunities offered by cloud computing. In 2013, the company intends to tap the opportunities offered by launching its Business Applications in new foreign markets (especially via the ongoing international rollout of its 1&1 MyWebsite). In the field of Consumer Applications, the main focus will be on launching legally secure email communication with the German "De-Mail" system.

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

United Internet has held an investment in **Goldbach Group AG**, Küsnacht-Zurich / Switzerland since 2007. As of December 31, 2012 its share of voting rights was unchanged at 14.96%. In its financial year 2012, the Goldbach Group posted sales CHF 445.6 million or € 368.9 million (prior year: € 366.4 million) and a positive consolidated net income of € 19.2 million (prior year: € 15.4 million). The market capitalization of Goldbach Media amounted to around € 89 million as of December 31, 2012.

Since the transfer of the Group's Display Marketing business "AdLINK Media" to Hi-Media in mid 2009, United Internet has held a 10.38% stake in **Hi-Media S. A.**, Paris / France. Hi-Media closed its fiscal year 2012 with sales of € 194.7 million (prior year: € 229.9 million) and a positive consolidated result of € 5.9 million (prior year: € 11.3 million). The company's market capitalization amounted to around € 94 million as of December 31, 2012.

Investment fund with the Samwer brothers

Together with the Samwer brothers, United Internet has been investing in funds with a variety of focus areas since mid 2007. United Internet has held a stake in the **European Founders Fund GmbH & Co. Beteiligungs KG No. 1** (EFF 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** (EFF 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** (EFF No. 3). This fund specializes in small percentage investments in "later-stage companies".

In fiscal year 2012, no investments were made within the framework of these funds. Proceeds from the sale of shares in portfolio companies totaled € 16.7 million in 2012. As of December 31, 2012 a total of 41 investments in internet companies were still held via the 3 funds.

Further significant investments as of December 31, 2012

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 fiscal year 2012.

In early November 2010, United Internet acquired a 30.02% shareholding in **ProfitBricks GmbH**, a start-up in the field of cloud hosting. After completing the development of its products, ProfitBricks has since begun marketing them in Germany and the USA.

On December 12, 2012, United Internet exercised its option to purchase 25.1% of shares in the parent company of **Versatel GmbH**, VictorianFibre Holding & Co. S.C.A., a company belonging to funds managed by Kohlberg Kravis Roberts & Co. L.P. ("KKR"). This option was granted to United Internet when selling its Versatel shares to KKR in May 2011. At the time, United Internet's sale paved the way for a delisting of the company. Following its successful delisting and the completion of restructuring measures, the key earnings figures and free cash flow of Versatel have improved. KKR and United Internet already closely accompanied this development in the past. By exercising the option, United Internet has secured a significant investment in one of the leading infrastructure suppliers with Germany's second-largest fiber-optic network.

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

Group earnings

Consolidated **sales** of United Internet AG grew by 14.4% from € 2,094.1 million in the previous year to € 2,396.6 million in fiscal year 2012. Sales of the Access segment rose by 15.9%, from € 1,368.0 million last year to € 1,586.1 million, while sales in the Applications segment grew by 11.6% from € 725.8 million to € 810.2 million. **Foreign sales** increased by 21.8% from € 219.2 million in the previous year to € 266.9 million.

In fiscal year 2012, United Internet invested heavily in the establishment, development and marketing of new business fields, further international expansion and customer growth. As a result, annual **contract growth** was increased strongly again by 29.7% to 1.18 million – following 610,000 contracts (2010) and 910,000 (2011). The number of fee-based customer contracts rose to a total of 11.85 million as of December 31, 2012.

Despite increased purchases of pre-services in the Access segment as a result of strong customer growth (+670,000 contracts in the reporting period compared to +450,000 in the previous year), as well as the complete recognition of smartphone subsidies for the fast growing Mobile Internet business with a corresponding effect on earnings, and the resulting overall change in the product mix, **consolidated gross margin** remained stable at 34.3%.

Due to the further expansion of the "1&1" brand (especially in foreign markets) and the ongoing drive to contact and gain new customers, **sales and marketing expenses** rose strongly from € 356.8 million (17.0% of sales) in the previous year to € 461.7 million (19.3% of sales) in the reporting period.

Administrative expenses increased more slowly than sales from € 102.8 million (4.9% of sales) to € 112.1 million (4.7% of sales).

Earnings in the fiscal years 2011 and 2012 were influenced by various **special items**. In 2011, there was a positive effect on consolidated earnings from the sale of Versatel shares in the second quarter of 2011 amounting to € 23.0 million (EBITDA and EBIT effect), € 18.7 million (EBT effect), and € 0.07 (EPS effect). In 2012, there was a negative effect on earnings from impairment charges, as the United Internet subsidiary Sedo Holding AG recognized impairment on goodwill in the second quarter of 2012 – as a result of non-scheduled impairment tests due to reduced profit expectations. United Internet included these impairments in its consolidated financial statements on the level of the Applications segment. Specifically, there was a non-cash-effective extraordinary impairment charge of € 46.3 million (EBIT and EBT effect) and € 0.24 per share (EPS effect). At Group level, there was an (already planned) opposing effect in 2012 from the sale of freenet shares in the fourth quarter of 2012 amounting to € 17.9 million (EBITDA, EBIT and EBT effect) or € 0.09 (EPS effect).

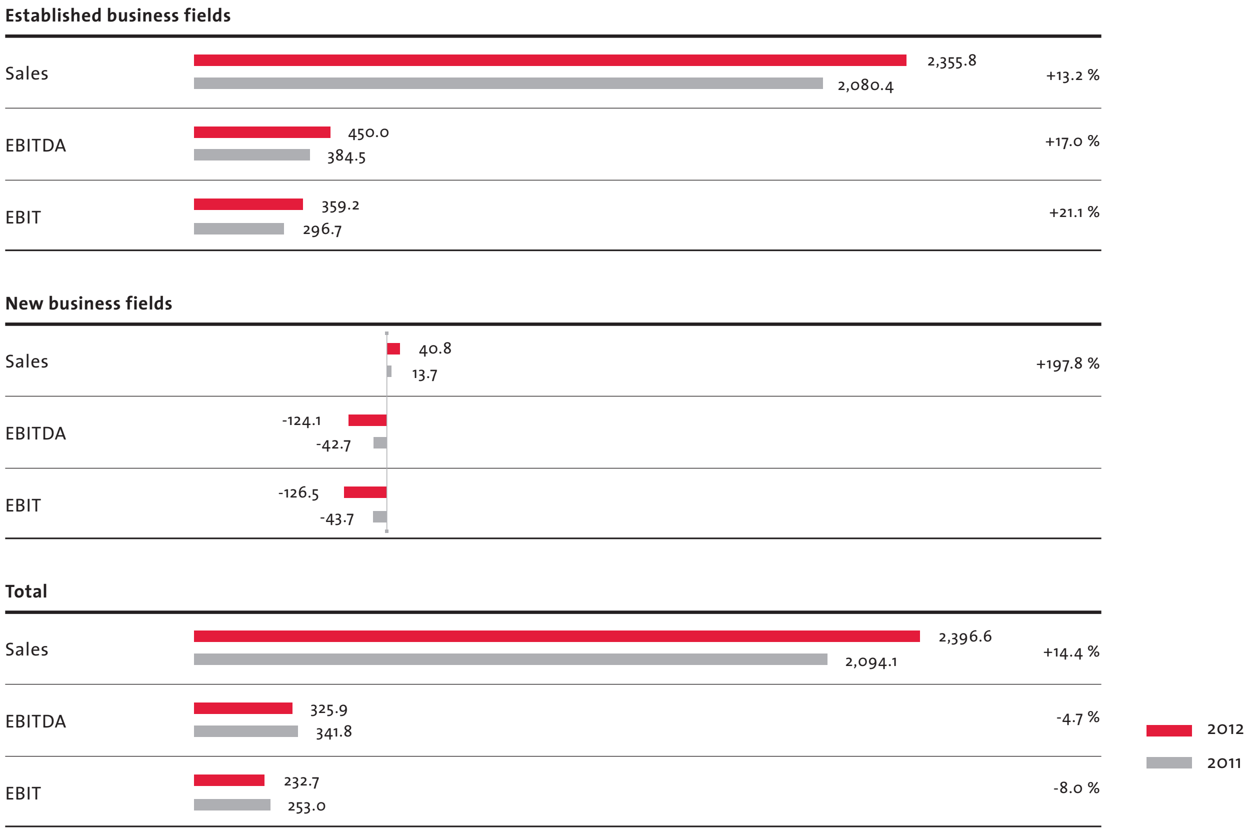
In its **established business fields**, United Internet succeeded in raising earnings significantly in fiscal 2012. Without consideration of the special items stated above, EBITDA grew by 17.0%, from € 384.5 million last year to € 450.0 million, while EBIT improved by 21.1% from € 296.7 million to € 359.2 million.

As announced in the guidance of United Internet AG, this positive earnings development in established business fields was used to invest heavily in the development of **new business fields**. The main focus was on the international marketing campaign for the 1&1 MyWebsite and the development of De-Mail applications. In line with planning, United Internet AG expensed EBITDA-effective start-up losses of € 124.1 million (prior year: € 42.7 million) and EBIT-effective start-up losses of € 126.5 million (prior year: € 43.7 million) for these activities in its fiscal year 2012.

Due to this sharp increase in start-up losses in the new business fields, key earnings figures (adjusted for special items) fell short of the prior-year levels. **EBITDA** amounted to € 325.9 million (prior year: € 341.8 million) and **EBIT** to € 232.7 million (prior year: € 253.0 million).

Including the above mentioned positive special items in 2011 (sale of Versatel shares) and the net negative special items in 2012 (from Sedo impairments and the sale of freenet shares), EBITDA totaled € 343.9 million (prior year: € 364.8 million), EBIT € 204.3 million (prior year: € 276.0 million) and EBT € 193.0 million (prior year: € 250.6 million). EPS fell to € 0.56 (prior year: € 0.79).

Development of key financial figures for the Group in € million (without special items*)



Quarterly development in € million
(key figures including new business fields; without special items*)

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4 2011
Sales	576.9	586.6	603.1	630.0	557.0
EBITDA	70.5	78.1	89.1	88.2	78.9
EBIT	48.3	55.5	65.4	63.5	52.4

* Positive special items Q2 / 2011 (Versatel): EBITDA and EBIT effect: € 23.0 million
Negative special items Q2 2012 (Sedo impairment charges): EBIT effect: € 46.3 million
Positive special items Q4 / 2012 (freenet): EBITDA and EBIT effect: € 17.9 million

Cash flow, investment and finance

Despite high start-up losses in new business fields (€ 126.5 million compared to € 43.7 million in the previous year), **operative cash flow** of € 214.1 million was slightly above the prior-year figure of € 211.9 million.

In spite of strong sales growth (+14.4%) and the recognition in earnings of start-up losses in the new business fields, **net cash inflows from operating activities** even rose from € 194.8 million in the previous year to € 260.5 million in the reporting period.

There were **net cash inflows from investing activities** of € 1.9 million (prior year: € 2.0 million) in the reporting period. This resulted mainly from disbursements of € 63.6 million for investments in intangible assets and property, plant and equipment, payments of € 60.2 million for the purchase of shares in associated companies (especially for shares in Versatel's holding company, VictorianFibre Holding & Co. S.C.A.), as well as payments of € 10.0 million for loans granted. These outflows were offset by inflows of € 11.4 million from the disposal of associated companies (sale of investments belonging to the EFF funds), as well as inflows of € 49.3 million from the sale of financial assets (especially freenet shares), and inflows of € 59.8 million from the repayment of a vendor loan by KKR.

In the previous year, investments in intangible assets and property, plant and equipment amounted to € 54.4 million. These outflows were mainly offset by inflows of € 41.2 million from the disposal of financial assets (sale of investments belonging to the EFF funds) and of € 12.2 million from the disposal of companies (repayment of vendor loan by Hi-Media).

Free cash flow, defined as the balance of net cash inflows from operating activities and net cash outflows or inflows from investing activities, rose from € 196.8 million in the previous year to € 262.4 million – despite the high start-up costs in new business fields. This demonstrates the Group's ability to consistently generate high levels of cash while at the same time achieving strong qualitative growth.

Net cash flow for financing activities in fiscal year 2012 was dominated by a net outflow for the redemption of loans totaling € 224.3 million and the dividend payment of € 58.1 million. In the previous year, net cash flow for financing activities was influenced by a cash outflow of € 340.3 million for the purchase of treasury shares and of € 42.0 million for the dividend payment, as well as an opposing cash inflow of € 155.2 million from the assumption of loans.

Assets and equity

The consolidated **balance sheet** total fell from € 1,187.0 million on December 31, 2011 to € 1,107.7 million as of December 31, 2012.

Non-current assets fell from € 868.7 million as of 31 December 2011 to € 821.3 million. Within this item, additions to **property, plant and equipment and intangible assets** of € 63.6 million were opposed by depreciation and amortization of € 93.2 million. **Goodwill** declined from € 401.3 million to € 356.2 million. This was primarily the result of extraordinary impairment charges on goodwill of Sedo Holding AG, which were stated in the consolidated financial statements of United Internet AG for fiscal year 2012 in the amount of € 46.3 million. **Other non-current financial assets** fell from € 102.6 million to € 70.1 million, mainly due to the sale of freenet shares. The rise in **shares in associated companies** of € 33.6 million to € 90.9 million resulted mainly from the investment in the holding company of Versatel GmbH (VictorianFibre Holding & Co. S.C.A.).

Due to the repayment of loans, **cash and cash equivalents** of the **current assets** fell from € 64.9 million as of December 31, 2011 to € 42.8 million. **Trade accounts receivable** increased due to the expansion of business from € 106.7 million to € 148.8 million. The fall in **other current assets** from € 83.3 million to € 19.5 million resulted mainly from the repayment of an interest-free vendor loan extended to VictorianFibre Holding GmbH in May 2011.

Further details on financial instruments used by the Group are provided in section 40 of the notes to the consolidated financial statements.

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In the period under review, **bank liabilities** were reduced by € 224.3 million from € 524.6 million to € 300.3 million. **Net bank liabilities** (the balance of bank liabilities and cash and cash equivalents) fell in the same period from € 459.7 million to € 257.5 million.

The number of **treasury shares** held by United Internet AG as of December 31, 2012 amounted to 20,662,202 (prior year: 21,225,158).

After deduction of these treasury shares, the Group's **equity ratio** amounted to 17.9% as of December 31, 2012 (compared to 13.0% as of December 31, 2011).

Further details on the objectives and methods of the Group's financial risk management are provided in section 42 of the notes to the consolidated financial statements.

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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 € 3.2 million (prior year: € 2.7 million) and mostly comprised services and rent charged to the Group's subsidiaries.

Other operating income totaled € 15.9 million (prior year: € 18.6 million) and resulted mainly from income in connection with a hedging transaction (€ 4.1 million) and from the sale of shares in freenet AG (€ 11.3 million). In the previous year, other operating income mainly comprised income from a hedging transaction (€ 1.7 million), the sale of shares in Versatel AG (€ 3.7 million), the partial sale of shares in freenet AG (€ 4.6 million), and the write-up of shares held in freenet AG as of the balance sheet date (€ 6.6 million).

Income from the profit transfer agreement with 1&1 Internet AG amounted to € 159.8 million in the period under review (prior year: € 253.7 million). The decline results from the high level of investment of sub-group 1&1 with a corresponding impact on earnings, as well as the change in transfer pricing for certain subsidiaries of the sub-group 1&1 (extraordinary expenses of € 121.6 million).

For the same reasons, the parent company's **result from ordinary activities** amounted to € 153.7 million, compared to € 256.0 million in the previous year.

Income taxes of € 70.0 million refer to current taxes for corporate income tax and the solidarity surcharge, as well as trade tax. Due to the results of the tax audit for the years 2006 to 2008 completed in the reporting period, and the consequential effects, there were tax expenses not relating to the period of € 13.3 million.

The parent company's **net income** reached € 71.5 million – following € 179.2 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 (€ 30 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 € 1,105.6 million (prior year: € 1,105.0 million) as well as by **investments** of € 59.6 million (prior year: € 36.7 million). Additions to investments resulted from the acquisition of shares in the holding company of Versatel GmbH, VictorianFibre Holding & Co. S.C.A. (€ 59.6 million), while divestments comprised the sale of shares in freenet AG (€ -36.7 million).

Bank liabilities of United Internet AG were reduced by € 215.0 million to € 287.0 million in the reporting period (prior year: € 502.0 million). These bank liabilities mainly comprise a syndicated loan, of which € 215.0 million had been drawn as of the balance sheet date (prior year: € 430.0 million), and a promissory note loan of € 72 million placed in 2008 (prior year: € 72 million).

The **equity ratio** rose from 57.5% in the previous year to 65.6% as of December 31, 2012.

Cash flow of the parent company's financial statements is dominated by cash flows from the profit transfer agreement with the operating company 1&1 Internet AG and opposing effects from the reduction of financial liabilities. There are also unused credit lines available. Further details are provided in the notes to the consolidated financial statements.

Share and dividend

The Annual Shareholders' Meeting of United Internet AG on May 31, 2012 voted to accept the proposal of the Management Board and Supervisory Board to pay a **dividend** of € 0.30 per share for fiscal year 2011. The total dividend payment of € 58.1 million was made on June 1, 2012.

For fiscal year 2012, the Management Board and Supervisory Board will propose a further dividend of € 0.30 per share. The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 20, 2013 (and thus after the editorial deadline for this Management Report). The Annual Shareholders' Meeting on May 23, 2013 will vote on the joint proposal of the Management Board and Supervisory Board.

The United Internet AG **share** performed strongly in fiscal 2012 closing at € 16.31 on December 31 2012, corresponding to growth of 18.2% over the closing price of the previous year (€ 13.80).

Subsequent events

According to leading market analysts, the predominantly positive conditions for those target markets of relevance to United Internet will remain unchanged in 2013.

There were no significant events subsequent to the balance sheet date which may have resulted in a different representation of the Company's assets, financial position and earnings, or which had any impact on the Company's accounting and reporting.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on **January 7, 2013** 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 € 15,000,000, from € 215,000,000 to € 200,000,000. The number of shares issued decreased correspondingly by 15,000,000, from 215,000,000 shares to 200,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

The capital reduction was aimed at optimizing the company's balance sheet and capital structure.

Following the cancellation of these 15,000,000 shares, United Internet still held 5,662,202 treasury shares.

On the same date, the Management Board of United Internet AG also resolved to launch a further share buyback program. In the course of this new share buyback program, up to 5,000,000 company shares (corresponding to 2.50% of the reduced capital stock of € 200 million at the time of the resolution) are to be bought back via the stock exchange. The buyback follows an authorization of the Annual Shareholders' Meeting of May 31, 2012 to buy back shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to November 30, 2013.

As part of this share buyback program, the Management Board of United Internet AG announced on **February 1, 2013** that it had since purchased 337,798 treasury shares. Together with 5,662,202 treasury shares from earlier share buyback programs, United Internet therefore held a total of 6,000,000 treasury shares (corresponding to 3.00% of total capital stock of € 200,000,000 at the time).

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board resolved on the same date to cancel these 6,000,000 treasury shares and to reduce the capital stock of United Internet AG by € 6,000,000, from € 200,000,000 to € 194,000,000. The number of shares issued decreased correspondingly by 6,000,000, from 200,000,000 shares to 194,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

This capital reduction was also aimed at optimizing the company's balance sheet and capital structure.

Following the cancellation of these 6,000,000 shares, United Internet no longer held any treasury shares.

The share buyback program resolved on January 7, 2013 remains in force and up to 4,662,202 company shares (as of February 1, 2013) can still be bought back via the stock exchange.

Remuneration report

Principles of the Management Board remuneration system

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.

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 key sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% 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. No minimum payment of the variable remuneration component is guaranteed. 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 when the virtual options were granted.

There are no retirement benefits from the Company to members of the Management Board. The size of the remuneration components is regularly reviewed.

Further details on Management Board remuneration are provided in section 41 of the notes to the consolidated financial statements.

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Principles of the Supervisory Board remuneration system

The 3 members of the Supervisory Board of United Internet AG also form the supervisory board of United Internet's most important subsidiary, 1&1 Internet AG. The Supervisory Board members each receive separate compensation for their work on behalf of the two companies. 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 € 10,000 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 € 1,000 for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 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 € 10,000 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 € 20,000 per full fiscal year. The Chairman of the Supervisory Board receives € 30,000. Variable, performance-oriented compensation for each member of the Supervisory Board, including the Chairman, is based on the key earnings figures of 1&1 Internet AG. Variable compensation amounts to at least € 30,000 and a maximum of € 70,000 per member.

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Further information on Supervisory Board compensation is provided in section 41 of the notes to the consolidated financial statements.

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.

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% 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.

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Detailed information on stock-based compensation is provided in section 36 of the notes to the consolidated financial statements.

Personnel report

The rapidly developing internet market represents a considerable challenge for employees and thus for the HR policy of United Internet. The company meets this challenge primarily by actively nurturing our junior staff, promoting the targeted development of managers and implementing a variety of 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 the company’s 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, the company strives to find those positions for its 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 employees. These are key reasons for many applicants to select their future employer. As United Internet’s 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, United Internet seeks to raise their representation provided they have the same qualifications, skills and suitability. However, the company always decides on a case-by-case basis.

Targeted support and ongoing development

In order to give all employees at all locations and in all divisions the same opportunities, common programs and development measures have been defined in the field of personnel development. Staff can progress within their department by taking on successively more responsibility and tasks. Once employees have reached the highest competency profile for their respective function, or so-called “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 and “know-how owners” 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 development measures.

United Internet also offers all employees an extensive range of training opportunities. In addition to seminars and courses on general – mostly soft skill – topics, staff are also encouraged to enhance their hard skills with professional training and vocational certificates specific to their particular functions. Further development programs are offered for staff with exceptional abilities and potential in all areas of the company. Such employees are then accompanied through a structured program of individual development and training plans in order to prepare them for their future personal challenges, and those of the company. With the aid of junior management programs, such as the 1&1 Graduate or Master+ plans, United Internet develops young talents fresh from university from an early stage. The main target is to be able to recruit and train future managers and specialists from within the company.

Training held in high regard

The United Internet Group also attaches great importance to the field of education and training. United Internet trains young people to meet its future needs and offers them a successful start to their professional lives. The company currently offers apprenticeships in commercial and technical professions, including IT specialist (application development/systems integration), IT systems clerk, dialogue marketing clerk, marketing communication 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 the 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) United Internet also offers degree courses in Applied Computer Sciences, Information Management, Business Administration / Accounting and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

Around 120 young people were serving their apprenticeships with Group companies at year-end 2012. After successfully passing their examinations, United Internet endeavors to offer jobs to as many apprentices as possible and to make an attractive offer to every graduate.

Headcount development 2012

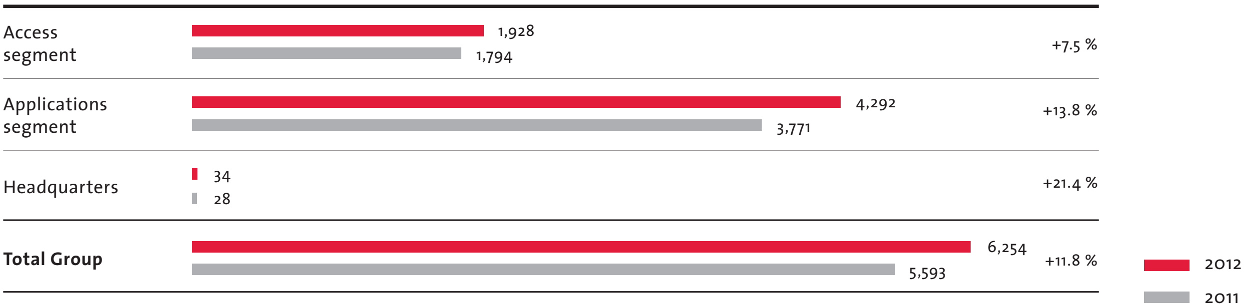
As a result of the expansion of business, the number of employees increased once again in 2012. As of December 31, 2012, United Internet employed a total of 6,254 people – an increase of 11.8% over the previous year (5,593 employees).

There were 1,928 employees in the Access segment, 4,292 in the Applications segment and 34 employed at the Group's headquarters.

Headcount at the non-German subsidiaries increased from 1,218 people in the previous year to 1,350.

Personnel expenses rose by 19.6%, from € 230.1 million in the previous year to € 275.1 million.

Headcount development



Group research and development

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

Thanks to its own development teams, United Internet is able to react fast and flexibly to new ideas and trends and continually enhance its established products, adapting them to changing market needs – a key success factor in the fast-moving internet market. The company's expertise in product development, enhancement and roll-out minimizes its reliance on third party developments and supplies in many areas and thus ensures decisive competitive and time-to-market advantages.

At United Internet's development centers in Karlsruhe and Bucharest, around 1,750 developers, product managers and technical administrators use mainly open source code (Linux) in clearly defined and modeled development environments. Third-party programming services are also used to swiftly and efficiently implement specific projects. This enables the company to quickly change existing basic applications of products and adapt them to changing customer needs. United Internet also procures solutions from partners, which are then modified according to needs and integrated into its systems. With the aid of its self-developed and integrated applications, United Internet has a set of 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 – a huge benefit when tailoring products to varying target groups or for international rollouts.

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

Focus areas 2012

First prototype of container-based data center

United Internet's development departments have been working toward the technological realization of mobile data centers for several years now. Using these so-called container units, data centers can be flexibly scaled or just temporarily operated depending on current demand. With the aid of modular units, data centers can also be operated locally – and thus close to the customer. Such short distances minimize network latencies (delays) for cloud applications and the provision of resources can be optimally spread by using small basic units. An intelligent cooling system using outside air means United Internet can operate the units with low energy consumption, while maintaining the highest safety standards. In fiscal year 2012, a first prototype was put into operation and optimized for serial production for our data center in France. At the same time, the development departments are working on "translating" the European technological design to country-specific requirements in the USA.

Development of 1&1 market concept for its growth and international expansion strategy

As part of its growth and international expansion strategy, a market concept was developed in fiscal year 2012, which will enable United Internet to quickly and flexibly target new markets with regard to “brand”, “language”, “currency” and “product line”. The variability this provides is achieved by separating country-specific specifications from the technical systems. This new concept enabled the company to prepare for its new target countries, Italy and Mexico, in record time.

Further development of 1&1 logistics

As part of the “1&1 Principle”, forward logistics were enhanced in fiscal 2012 in order to achieve overnight delivery of new devices or the next-day replacement of defect devices. In a second development step, the backward logistics process and underlying IT systems were revised. This involved adapting and expanding standard SAP modules to internal needs and linking logistics systems more closely with the central business system. This enhancement of the logistics systems and further automation of data processing enabled the company to significantly improve its customer deliveries, as well as on-site device replacements and its handling of returns.

IPv6 roll-out

In mid 2012, fundamental services in the field of infrastructure, networks and domains were adapted or newly developed in order to enable them in future to also process the Internet Protocol Version 6 (IPv6). The websites of those customers who chose a dual hosting package have since been automatically configured additionally with IPv6 so they can be accessed via both the IPv4 and IPv6 protocols. In addition, further applications available to the customer – such as the Control Center – can also be accessed via IPv6. Customers can thus select or deselect IPv6 individually for each domain, for example.

MARS – development of a long-distance replication solution

The mirroring of databases between data centers is currently based on an open source solution which is ideally suited to short distances. In order to reliably perform such operations over long distances, or even across continents, work was commenced in fiscal year 2012 on “MARS” (Multiversion Asynchronous Replicated Storage) – the new development of a 1&1 long-distance replication solution as open source software. The recently completed prototype enables the first-ever long-distance replication of databases between data centers, even across continents, using pioneering patent-relevant technology. Network disruptions are almost completely separated from the application. It is planned to make the application ready for mass use in data centers during fiscal year 2013. The main field of use for the replication solution will in the field of shared hosting products.

Virtualization platform developed into a global self-service system

In the course of implementing our internal cloud strategy, extensive improvements in 2012 regarding cost savings and the speed with which IT resources are provided. The establishment of a virtualization platform and development of an integrated self-service portal for internal requirements helped create a dedicated environment which enables the optimized provision of systems, regarding time and processes, within just a few minutes (previously days or weeks). This means that project requirements can be met swiftly and efficiently. At the same time, further cost savings were achieved for hardware and data centers – by optimizing processes – while also reaching a high level of user-friendliness and ease-of-use. Numerous projects, such as the creation of a quality assurance environment for De-Mail products, have since proven the system's success. The massive expansion of the internal cloud infrastructure will also lead to a further reduction in energy costs and thus continue efforts to improve ecological aspects and conserve resources. A further increase in the virtualization rate at the company's data centers is planned for fiscal year 2013.

Risk and opportunity report

Risk and opportunity management

The risk policy of the United Internet Group is based on the objective of maintaining and sustainably enhancing the company's value by utilizing opportunities while at the same time recognizing and managing risks from an early stage in their development.

The risk and opportunity management system regulates the responsible handling of those uncertainties which are involved with economic activity.

The concept, organization and task of group-wide **risk management** are defined by the Management Board and Supervisory Board and documented in a risk manual which is valid for all members of the Group. These requirements are regularly adapted to changing legal conditions and continually developed. The Internal Audit department regularly examines the functioning and efficiency of the risk management system. As part of his statutory auditing obligations for the annual financial statements and consolidated financial statements, the external auditor also examines whether the risk early recognition system is generally suitable for the early identification of risks and developments which might endanger the company. The system complies with statutory requirements regarding risk early recognition systems as well as with the German Corporate Governance Code. In accordance with regulations of Sec. 107 (3) AktG, the Supervisory Board also examines the efficacy of the risk management system.

The risk management system comprises those measures which enable United Internet AG to identify, classify, steer and monitor from an early stage all possible risks for the attainment of its corporate objectives. The current risk status is communicated to the Management Board and Supervisory Board four times per year. 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 CFO of United Internet AG, who in turn reports it to the Supervisory Board where necessary. In this way, significant risks can be addressed as quickly as possible. In order to support the centralized risk management system, additional local risk managers have been installed with monthly reporting in the field of Technology & Development. 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.

Opportunity management is based on strategic planning and the resulting measures for the development of products and their positioning for various target groups, markets and countries during the product life cycle. The Group Management Board, as well as the operative management level of the respective business segments in the form of Divisional Managers and Managing Directors, have the direct responsibility for the early and continual identification, assessment, and steering of opportunities. The management team of United Internet AG makes extensive use of detailed evaluations, models and scenarios on current and future trends regarding sectors, technologies, products, markets/market potential and competitors in the Group's fields of activity. The potential opportunities identified during these strategic analyses are then examined with regard to the critical success factors and existing external conditions and possibilities of United Internet AG in planning discussions between the Management Board, Supervisory Board and operational managers before being implemented in the form of specific measures, targets and milestones. The progress and success of these measures is continually monitored by operational management and the Managing Directors and Management Board members of the respective companies.

Risks for United Internet

Of the total risks identified for the Group, the following sections describe the main risk categories and individual risks from the company's point of view.

Provision of services

Threat potential of the internet

United Internet AG generates its commercial success largely within the environment of the internet. In order to provide products and services, the company uses information and telecommunication technologies (data centers, transmission systems, connection nodes etc.) in its business processes which are closely networked with the internet and whose availability may be endangered by threats from the internet. For example, there is a risk of DDoS attacks (DDoS = Distributed Denial of Service), which may lead to an overloading of 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.

› DDos

There is also the risk of hacker attacks with the aim of stealing or deleting customer data or using services fraudulently. United Internet counters this risk with the aid of virus scanners, firewalling concepts, self-initiated tests and various technical monitoring mechanisms.

Over the past years there has been a steady increase in the amount of spam e-mails on the internet. There is a risk that spammer abuse the company's e-mail systems and that these are then blocked by other e-mail providers. In order to counter this risk, various precautions are taken to keep spam to a minimum. United Internet's active participation in cross-border working groups also enables it to play a role in the ongoing development of mail security standards, for example.

Use of hardware and software

United Internet's 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.). Constantly adapting this infrastructure to changing customer needs leads to greater complexity and regular changes. In addition to major events like the migration of databases, this may lead to various disruptions or defects. Should this affect our business systems or their databases, for example, daily account debiting may be delayed or no longer possible. Should this affect our performance systems, for example, United Internet may not be able to provide its customers with the promised service, on a temporary or longer-term basis. The company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing spatially separated (geo-redundant) core functionalities.

For the operation of systems, there is also a risk of targeted attacks from inside and outside the company, e.g. from hackers or manipulation by staff with access rights, which may result in non-availability or a deterioration of services. In order to counter this risk, the company takes a wide variety of software- and hardware-based safety precautions to protect the infrastructure and its availability. By dividing responsibilities, the company has made sure that activities or business transactions involving risks are not carried out by single employees but on the basis of the "double-check 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 & political

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. 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 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 various pre-service providers and by actively participating in the activities of industry representatives, such as the Association of Telecommunications and Value-Added Service Providers (VATM).

› German Federal Network Agency and Federal Cartel Office

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 and would thus greatly impede certain aspects of business in the Applications segment.

Minimum wage

In certain areas of its customer services, United Internet AG works with external call center providers. Should these service providers be affected by the introduction of a minimum wage, currently being discussed, this may lead to increased costs for United Internet depending on the measures introduced.

Property rights / licenses

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. There is also a risk that United Internet might use protected rights or licenses without permission or not according to their terms of use. United Internet counters this risk by expanding its license management capabilities and defends its interests and claims fiercely in all proceedings.

Data protection

United Internet stores the data of several million customers on the servers of its own data centers. The handling of these data is subject to a variety of legal regulations. The company is aware of this great responsibility and attaches great importance to data protection. At the same time, however, the possibility can never be excluded that data protection regulations are contravened due to human error or technical weaknesses. By using state-of-the-art technology and continually monitoring all data-protection and other legal regulations, the company endeavors to guarantee a high standard of security.

Market

Competition

There is intense competition in both the Access and Application segments which may increase further, for example, via the market entry of new major competitors. This would have a negative impact on growth and/or achievable margins.

United Internet expanded its product portfolio with Mobile Internet products and entered a new, additional growth market with major competitors in its Access segment. Such entrepreneurial decisions for new products and business fields generally involve new risks which may result, for example, from the pricing of products or from fraudulent use. A change in termination charges, for example, may directly or indirectly result in increased competition and strongly increased prices. United Internet attempts to minimize these risks with the aid of detailed planning based on past experience and external market studies, and by using various suppliers and continually expanding its anti-fraud measures.

Product development
A key success factor for United Internet is the development of new products and services in order to constantly 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 counters such risks by closely observing market trends and the competition as well as by undertaking product development which constantly responds to customer feedback.

Fraud

In order to meet the requirements of dynamic customer growth and provide services as quickly as possible in the interests of its customers, United Internet AG has largely automated its order and provision processes – as have many other companies in such mass market businesses. The nature of such automated processes provides possibilities for attacks from internet fraudsters. For example, United Internet AG may suffer considerable damage from automated hosting and domain orders made under false names and not paid for.

The fraudulent use of SIM cards may also incur significant damage due to large-scale call forwarding or roaming calls, for example.

United Internet attempts to prevent such fraud attacks – or at least to recognize and end them at a very early stage – by permanently expanding its fraud management capabilities, working closely with pre-service providers and taking account of such risks in the design of its products.

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, for example 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 company's existing credit lines 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 (e.g. from 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 fundamentally exposed to interest risks as the major share of its borrowing bears variable interest rates with varying terms. In order to hedge against such interest risks, a number of interest hedging agreements have been concluded over the past few years.

  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. 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.

- **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, EBITDA, 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, purchase treasury shares and where necessary place them again or issue new shares. As of December 31, 2012 and December 31, 2011, no changes were made to the Company's targets, methods and processes.

Tax risks from the change in internal transfer pricing
In fiscal year 2012, the sub-group 1&1 made changes to its internal transfer pricing system for certain subsidiaries. For United Internet AG as parent company, there are risks in respect of profits already taxed at the level of a UK subsidiary with regard to subsequent taxation of this income in Germany. Depending on the outcome of the expected mutual agreement procedures, this may lead to an additional tax burden at the level of United Internet AG (as parent company). Should this occur, the additional tax expenses at the level of United Internet AG (parent company) would be opposed by compensatory effects from tax rebates at the level of the UK subsidiary.

Assessment of the overall level of risk

The assessment of the overall level of risk results from taking a consolidated view of all significant risk fields and individual risks. The overall risk situation in 2012 was not significantly different to that of the previous year. From the current perspective, the main challenges focus on the areas of potential threats via the internet, the use of hardware and software, political and legal risks, as well as risks from the market and fraud. The further expansion of its risk management system enables United Internet to limit such risks to a minimum, where sensible, by implementing specific measures. There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2012, neither from individual risk positions nor from the overall risk situation.

Opportunities for United Internet

In view of the dynamic market development of United Internet's core markets, the company's growth opportunities are clearly apparent: universally accessible, permanently available and increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. From the current perspective, these internet-based programs for home users, freelancers and small companies are likely to be our growth drivers over the coming years – both as stand-alone products in the Applications segment as well as in combination with fixed-line and mobile access products in our Access segment.

A business model based predominantly on electronic subscriptions – with fixed monthly amounts and contractually agreed terms – ensures stable and plannable revenue and cash flows, protects against macroeconomic effects and provides the financial scope to grasp opportunities in new business fields and markets – organically or via acquisitions.

Expansion of market positions

United Internet AG is now one of the market leaders in many of its business fields. Based on its existing technological know-how, its high level of product and service quality, the widespread popularity of Group brands such as 1&1, GMX, WEB.DE, united-domains, InterNetX and Fasthosts, its business relationships with millions of private and business customers, and its high customer retention ratio, United Internet sees good opportunities to build on its current market shares.

Participation in market growth

Despite the uncertain macroeconomic conditions, United Internet – as well as many of the sector's leading analysts – expects further progress in those subsectors of importance to the company. In these markets, United Internet is one of the leading market players. At home and abroad. With its highly competitive Access products, its growing portfolio of cloud applications, its strong and specialized brands, its high sales strength, and already established business relationships with millions of private and business customers (cross-selling and up-selling potential), United Internet is also well positioned to participate in the expected market growth of both its business segments.

Entry into new business fields

One of United Internet's core competencies is to recognize customer wishes, trends and thus new markets at an early stage. With its broadly based value chain (from product development and data center operation, to effective marketing, powerful sales organization and active customer support), United Internet is often faster at placing innovations on the market and – thanks to the high level of cash generation in its existing business fields – capable of providing them with strong marketing support.

When new opportunities appear on the horizon, such as De-Mail, United Internet is well prepared and also capable of financing many years of cost-intensive preparation thanks to its strong cash generation in existing business fields. With a market share of some 50% of all German e-mail users, the company is excellently placed to participate in the digital, legally secure post business (especially from "postal charges" and "ad mailings").

Internationalization

Cloud applications can be used anywhere in the world and work on the same principle in Frankfurt as they do in London, Rome or New York. In the past, United Internet has already successfully adapted cloud products – such as the 1&1 MyWebsite – to various languages and country-specific features and gradually rolled them out in different nations.

Thanks to the high degree of exportability which these products offer, United Internet is already active in numerous European countries (Germany, Austria, Switzerland, the UK, France, Spain, Italy and Poland), as well as abroad (USA, Canada and now Mexico) in its Applications segment.

Further countries and product roll-outs will gradually follow.

Disclosures required by takeover law

The following disclosures according to Secs. 289 (4) and 315 (4) German Commercial Code (HGB) represent conditions as of the balance sheet date. As required by Sec. 176 (1) Sentence 1 AktG, the disclosures are explained in the sections below.

Composition of capital

The subscribed capital of United Internet AG as of December 31, 2012 amounts to € 215,000,000 divided into 215,000,000 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 88,000,000 shares or 40.93% of the 215,000,000 shares in United Internet AG as of December 31, 2012. 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 May 26, 2016 by a total of € 112,500,000.00 by issuing new no-par shares for cash and/or non-cash contributions (Authorized Capital 2011). 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 of the Annual Shareholders' Meeting granted on May 26, 2011 and originally limited until November 26, 2012 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 31, 2012 on expiration of May 31, 2012 with a future effect.

In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of May 31, 2012 at the same time 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 November 30, 2013.

The authorization may be exercised by the Company wholly or in installments, once or several times for the pursuit of one or more purposes; it can, however, also be exercised by dependent or majority-owned corporations of the Company or by third parties for the Company's or their own account. The authorization may not be used for the purposes of trading with Company shares.

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 to sell 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, as well as the management and employees of affiliated companies pursuant to Secs. 15 ff. AktG, 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 acquired treasury shares in full or in part, 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.

Corporate governance declaration

As a German public company listed on the stock exchange, the management of United Internet AG is primarily determined by the German Stock Corporation Act (AktG) and the rules set forth in the currently valid version of the German Corporate Governance Code.

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 following report contains the Declaration on Corporate Governance in accordance with Sec. 289a HGB and the Corporate Governance Report of the Management Board and Supervisory Board pursuant to Section 3.10 of the German Corporate Governance Code.

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 consisted of three members in fiscal year 2012. The members of the Supervisory Board are generally elected for a period of five years. Members of the Supervisory Board should not generally be older than 70. In accordance with German law, the company's articles and its rules of procedure, the Supervisory Board is in regular contact with the Management Board and monitors and advises it with regard to the management of business, and the company's risk and opportunity management system. The Supervisory Board meets at regular intervals to discuss with the Management Board all matters of relevance to the company regarding strategy and its implementation, as well as planning, the development of business, the risk position, risk management and compliance. 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 Supervisory Board conducts regular tests to assess its own efficiency. The 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.

The **Management Board** is the body charged with managing the group's operations and consisted of two persons in fiscal year 2012. The Management Board conducts 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. Resolutions are always adopted with a simple majority. Should the vote result in a tie, the Chairman of the Management Board has a casting vote. Decisions of fundamental importance require the approval of the Supervisory Board. The Management Board regularly informs the Chairman of the Supervisory Board. There is also an age limit of 70 for members of the Management Board.

The **Annual Shareholders' Meeting** is the body which formulates and expresses the interests of the shareholders of United Internet AG. At the Annual Shareholders' Meeting, the annual financial statements are presented to the 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. 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

In the fiscal year 2012, the **Management Board** of United Internet AG comprised Ralph Dommermuth (CEO) and Norbert Lang (CFO). On December 18, 2012, the Supervisory Board appointed Robert Hoffmann as an additional member of the company's Management Board. In this new position as of January 1, 2013, Robert Hoffmann will support the CEO, Ralph Dommermuth, with the strategic development of the company and stand in for him whenever necessary.

In the case of new appointments, the Supervisory Board 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** elected by the Annual Shareholders' Meeting currently comprises Kurt Dobitsch (Chairman), Kai-Uwe Ricke and Michael Scheeren.

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.

The German Corporate Governance Code recommends that the Supervisory Board specifies concrete objectives regarding its composition which are to be taken into account when the Supervisory Board makes recommendations to the competent election bodies. The Supervisory Board has not formulated any concrete objectives in this connection. 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.

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 corporate control system's aim is the continual and sustainable development of United Internet and its subsidiaries.

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.

The Company's operating business is monitored and controlled primarily via the key figures: sales, EBITDA and EBIT, as well as 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.

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.

› COSO

United Internet AG regards risk management as part of its internal control system, which is based on the internationally recognized framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Internal Control – Integrated Framework).

The Supervisory Board of United Internet AG monitors the functionality of the internal control system (ICS). The scope and structure, under consideration of the specific requirements for United Internet AG, are at the discretion and within the responsibility of the Management Board. Within the United Internet Group, the Internal Audit division is responsible for independently auditing the appropriateness, effectiveness and 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. The audit actions of Internal Audit are based on a risk-oriented audit plan which may also include regular audits of domestic and foreign subsidiaries. In addition, Internal Audit conducts fundamental audits regarding the proper functioning of important inventory and asset stock-taking. In addition, those areas of ICS of relevance for financial reporting are audited with regard to efficiency by the external auditors as part of their risk-oriented audit approach.

The accounting-related ICS is continually being developed and comprises principles, procedures and measures to secure the effectiveness, economic efficiency and compliance of the accounting system and to ensure that the relevant legal regulations are observed.

However, a fundamental aspect of every ICS, irrespective of its particular design, is that it cannot provide absolute safety. This may be due, for example, to incorrect discretionary decisions of individuals, faulty controls or criminal acts. With regard to the accounting-related ICS, there can only be relative but never absolute certainty that material misrepresentations in the accounting are avoided or discovered.

The following statements refer solely to the non-listed, fully consolidated subsidiaries included in the 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.

United Internet AG regards risk management as the total of all measures designed 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. 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. 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.

Clearly defined internal controls are embedded into the accounting process with the aid of risk aspects. The respective accounting-related internal control system comprises organizational, preventive and investigative controls, including IT-aided and manual coordination, ordering and payment guidelines, standardized reporting formats, the functional separation of administrative, executive and approval processes, the “four-eye principle”, general IT controls, e.g. access rights to IT systems, or change management and its monitoring. In order to ensure the high quality of the accounting-related ICS, the Internal Audit division is closely integrated into all stages of the process.

With the aid of clearly defined organizational, control and monitoring structures, 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.

Compliance

Compliance is an integral component of corporate and management culture throughout the United Internet Group. For United Internet AG, compliance means ensuring its activities comply with all laws of relevance to its business, as well as with its own principles and regulations.

This includes open and fair communication with our employees, business partners, shareholders and the public as well as acting correspondingly. As a service company with several million customers and business partners, United Internet's impeccable behavior is vital for gaining and retaining the trust of these customers and business associates.

In order to guarantee uniform and exemplary behavior in line with the relevant laws and the company's principles and regulations, the Management Board has developed various guidelines which apply to the overwhelming majority of the Group's companies as a binding Code of Behavior.

In addition to the statutory regulations, this Code contains the company's own management guidelines and should encourage each employee to take responsibility for their own behavior and provide suitable orientation. It therefore creates a safe operational framework for choosing the right decisions to difficult questions in everyday business situations. Moreover, it specifies how the company understands its role and 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.

Financial disclosures / transparency

It is the declared aim of United Internet to inform institutional investors, private shareholders, financial analysts, employees and the public simultaneously and with equal treatment about the company's situation by means of regular, open and up-to-date communication.

To this end, all important information, such as press releases, ad-hoc announcements and other mandatory disclosures (e.g. directors' dealings and notifications of voting rights), as well as all financial reports, are published in accordance with statutory regulations. In addition, United Internet provides extensive information on its corporate website (www.united-internet.com), where documents and information on Annual Shareholders' Meetings and other economically relevant facts can be found.

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.

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 2011. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

Remuneration of Management Board and Supervisory Board

The principles of remuneration for the Management Board and Supervisory Board are presented in the Remuneration Report. The disclosure of total remuneration for members of the Management Board and Supervisory Board and its breakdown into fixed and variable compensation components is to be found in section 41 of the notes to the consolidated financial statements.

see pages 67 and 185

Stock option plans

The principles of the stock-based compensation plan of United Internet AG are described in the Remuneration Report in section 7 of this Management Report. Further details are provided in section 36 of the notes to the consolidated financial statements.

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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 June 14, 2012, Mr. Norbert Lang exercised 200.000 subscription rights and received in return 81,355 shares in United Internet AG. The total volume amounted to € 1,104k. On September 28, 2012, Mr. Ralph Dommermuth sold 2,000,000 shares at a price of € 16.10 each via Ralph Dommermuth Beteiligungen GmbH. The total volume amounted to € 32,200k. On November 30, 2012, Mr. Michael Scheeren sold 100,000 shares at a price of € 17.33. The total volume amounted to € 1,733k.

No further Directors' Dealings were reported to the company.

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Further details on shares held by members of the Management Board and Supervisory Board are also disclosed in section 41 of the notes to the consolidated financial statements.

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

www.bundesanzeiger.de

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 tenth and currently valid version of the German Corporate Governance Code was completed on May 15, 2012 and published by the Ministry of Justice in the Federal Gazette (www.bundesanzeiger.de) on June 15, 2012.

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.

www.united-internet.com

On March 5, 2013, 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 Federal Gazette.

In accordance with Sec. 161 of the German Stock Corporation Act (AktG), the Management Board and Supervisory Board of United Internet AG declare that:

United Internet AG has complied with the recommendations of the German Corporate Governance Code in its currently valid version dated May 15, 2012 (the "Code") since it came into effect on June 15, 2012, and plans to comply with these recommendations in future with the following exceptions:

Deductibles in the case of D&O insurance policies (Codex 3.8)

The German Stock Corporation Act (AktG) stipulates that in D&O insurance policies for management board members an obligatory deductible equivalent to at least 10% of the loss up to at least 1.5 times the level of annual fixed salary is to be adopted (§93 AktG). Beyond the scope of the German Stock Corporation Act, the Code recommends that a similar deductible be agreed for the supervisory board in any D&O policy.

United Internet AG has adopted the legal requirements by amending the existing D&O insurance policies as of January 1, 2010 and has agreed a deductible for members of the Management Board. The Company has refrained from agreeing a deductible for Supervisory Board members. 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 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 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.

Targets for the composition of the Supervisory Board (Code section 5.4.1)

The 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, and since June 15, 2012 also the number of independent supervisory board members in the meaning of section 5.4.2. 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.

To the extent that the Supervisory Board addresses all topics on a plenary basis, and no committees have been formed, United Internet takes only the position of the Chair of the Supervisory Board into separate consideration.

The Code has recommended since June 15, 2012 that performance-based compensation of supervisory board members should be oriented to sustainable corporate development. United Internet has diverged from the Code since it was amended.

As recommended by the Code until June 15, 2012, the Supervisory Board members of United Internet AG received both fixed and performance-based compensation for the 2012 fiscal year. The performance-based compensation is connected with exceeding a threshold in terms of consolidated earnings per share in the fiscal year, in line with the Code until June 15, 2012. For the 2013 and following fiscal years, part of the variable compensation is measured in terms of the change in consolidated earnings per share in the given fiscal year compared with the status three years previously. The Company introduced these components by way of implementing a suggestion by the Code in the version of May 26, 2010.

United Internet AG regards a performance-based compensation component as appropriate if it is oriented to the actual reported earnings per share in the respective fiscal year. For this fiscal year and for the future, the total of variable compensation components in this compensation scheme is also connected to sustainable corporate development. As a consequence, the executive bodies identify no direct need for action for the compensation scheme which has been implemented in compliance with the version of the Code which was valid until June 15, 2012. They will observe and analyze developments in compensation schemes for supervisory board members, and propose a new compensation scheme at the end of the Annual Shareholders' Meeting if required.

Publication of reports (Code 7.1.2)

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

Due to organizational, internal reasons, United Internet published its interim report for the first nine months of 2012 on November 22, 2012. As already announced in its 2013 financial calendar, United Internet will publish its interim report for the first quarter of 2013 on May 21, 2013.

In addition, the Management and Supervisory boards declare that United Internet AG complied with the recommendations of the Code in the version of May 26, 2010 in the period from the submission of the last Declaration of Conformity on March 5, 2012 until June 14, 2012, with the exceptions mentioned therein.

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 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.

Forecast report

Expectations for the economy

IMF downgrades its forecasts

In its updated global economic outlook published in January 2013, the International Monetary Fund (IMF) downgraded its forecasts slightly for the **global economy**. Due in particular to the slower than expected recovery of the Euro zone, the IMF now expects global growth of just 3.5% in 2013 and 4.1% in 2014 – in both cases, 0.1 percentage point below its October forecast.

For the **Euro zone** itself, the IMF now expects the recession to last until early 2014. Following a decline of 0.6% in 2012, a further fall of 0.2% is forecast for 2013 – after the Fund had previously projected minimal growth of 0.1%. The Euro zone is not expected to return to growth until 2014 (1.0%). The IMF blames the Euro zone's sluggish recovery on the continued uncertainty of companies and consumers as to whether the political measures already taken will actually be sufficient to tackle the debt crisis.

The IMF has also downgraded its forecast for economic growth in **Germany** for 2013 from 0.9% (in October 2012) to 0.6%. The Fund predicts growth of 1.4% in 2014.

The IMF forecasts for **United Internet's most important target markets** in 2013 are as follows: whereas growth is predicted for the economies of France (+0.3%), Germany (+0.6%), the UK (+1.0%), Canada (+1.8%), the USA (+2.0%) and Mexico (+3.5%), the IMF forecasts a further decline in economic output for Italy (-1.0%) and Spain (-1.5%).

Market / sector expectations

Further growth expected for ICT sector

Further international and national growth is forecast for IT and telecommunications companies in 2013: according to the German industry association BITKOM, the global ICT market will grow by 5.1% to € 2.7 trillion in 2013.

BITKOM expects the ICT market in the EU to grow by 0.9% in 2013.

The overall market for IT, telecommunications and digital entertainment electronics in Germany is expected to grow by 1.4% to € 153 billion in 2013. The IT sector is likely to lead the overall market with expected growth of 2.2% to € 75.0 billion. The telecommunications sector is also likely to grow by a further 1.4% to € 66.3 billion. According BITKOM's calculations, however, the entertainment electronics market is expected to decline by 3.2% to € 12.0 billion.

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.

Growth in German broadband market primarily qualitative

In view of the comparatively high level of household coverage of over 80% already achieved – and the trend toward mobile internet – experts continue to forecast only moderate growth for the German broadband market (fixed line-based).

According to the survey "German Entertainment and Media Outlook 2012-2016" of October 2012, PricewaterhouseCoopers expects sales of fixed-line broadband connections to increase by 4.0% to € 7.28 billion in 2013.

Market forecast: broadband access (fixed-line) in Germany

	2013e	2012	Change
Sales in € billion	7.28	7.00	+ 4.0%

Source: PricewaterhouseCoopers

Dynamic growth in German mobile internet market

All experts continue to predict dynamic growth for the mobile internet market, however. Following market growth of 14.7% to € 8.6 billion in 2012, BITKOM also expects growth of 7.0% to € 9.2 billion in 2013.

This growth will be driven above all by favorable – and thus for the consumer attractive – prices, as well as by the boom in smartphones and tablet PCs, as well as their respective applications (or apps). BITKOM forecasts sales growth of 29% to 28.0 million sold smartphones in 2013 (following 21.7 million in 2012).

Market forecast: mobile internet access in Germany

	2013e	2012	Change
Sales in € billion	9.2	8.6	+ 7.0%

Source: BITKOM

Further growth in German online advertising market

Online advertising activities continued to be dominated by a strong willingness to invest in 2012. As a result, the internet was able to expand its position as the second most important medium in the media mix by 2.2 percentage points. The Online Marketing Group (Online-Vermarkterkreis - OVK) forecasts a further positive development for the online advertising market in 2013 with growth in gross advertising spend of up to 11% to € 7.18 billion.

Market forecast: online advertising in Germany

	2013e	2012	Change
Gross advertising spend in € billion	7.18	6.47	+ 11.0%

Source: BVDW / OVK

Megatrend cloud computing

In its study "Forecast Overview: Public Cloud Services, Worldwide" of August 2012, Gartner forecasts global growth for Public Cloud Services of 18.8%, from $ 109.3 billion to $ 129.9 billion for 2013.

Based on a study of the Experton Group, the sector association BITKOM expects business cloud sales in Germany to grow by 53.3% to € 4.6 billion in 2013 and to reach € 13.7 billion by 2016.

Key market figures: cloud computing worldwide and in Germany (B2B)

	2013e	2012	Change
Sales worldwide (in $ billion)	129.9	109.3	+ 18.8%
Sales in Germany (in € billion)	4.6	3.0	+ 53.3%

Source: Gartner, BITKOM / Experton Group

Expectations for the company

Forecast for 2013 and 2014

United Internet AG will continue to pursue its policy of sustainable growth in future.

Specifically, United Internet expects that the number of fee-based customer contracts will grow by approx. 1 million to approx. 12.85 million in **2013**.

Sales growth of approx. 10% is forecast.

EBITDA from established business fields is expected to rise to approx. € 500 million. Around 20% of this amount (approx. € 100 million) will be used to finance start-up losses from the ongoing establishment of the company's new business fields (1&1 MyWebsite and De-Mail).

Free cash flow (after investment in intangible assets and property, plant and equipment) is expected to exceed € 200 million in fiscal year 2013.

EPS is expected to increase from € 0.56 to € 1.00 – € 1.10.

On the basis of current market estimates and strong customer growth targeted for 2013, United Internet expects a further increase in sales and earnings in **2014**.

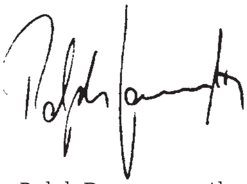
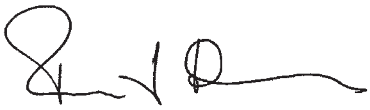
Due to its role as a holding company, the earnings of United Internet AG at parent company level are mainly influenced by its investment result. The key driver of this result is the profit transfer agreement with subsidiary 1&1 Internet AG. The above statements on the Group's earnings therefore also apply qualitatively for United Internet AG itself.

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 subject to various risks and uncertainties and are based upon expectations, assumptions, and projections that may not prove to be accurate. United Internet AG does not guarantee that these forward-looking statements will prove to be accurate and does not accept any obligation, nor have the intention, to adjust or update the forward-looking statements contained in this report.

Montabaur, March 15, 2013

The Management Board


Ralph Dommermuth | Robert Hoffmann | Norbert Lang

Consolidated Financial Statement

Balance Sheet

from January 1 to December 31, 2012 in €k

	Notes	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Cash and cash equivalents	19	42,828	64,867
Trade accounts receivable	20	148,766	106,702
Inventories	21	25,678	16,720
Prepaid expenses	22	45,177	43,094
Other financial assets	23	19,531	83,287
Other non-financial assets	23	4,473	3,632
		286,453	318,302
Non-current assets			
Shares in associated companies	24	90,881	33,559
Other financial assets	25	70,133	102,594
Property, plant and equipment	26	109,187	110,922
Intangible assets	27	151,827	187,377
Goodwill	28	356,248	401,295
Deferred tax assets	16	42,979	32,962
		821,255	868,709
Total assets		**1,107,708**	**1,187,011**

	Notes	December 31, 2012	December 31, 2011
LIABILITIES			
Current liabilities			
Trade accounts payable	30	268,668	228,981
Liabilities due to banks	31	87,113	125,152
Advance payments received		10,943	9,077
Accrued taxes	32	49,312	21,914
Deferred revenue	33	166,030	138,789
Other accrued liabilities	34	2,145	1,874
Other financial liabilities	35	51,464	51,748
Other non-financial liabilities	35	29,944	19,843
		665,619	597,378
Non-current liabilities			
Liabilities due to banks	31	213,163	399,441
Deferred tax liabilities	16, 37	7,569	9,262
Other financial liabilities	35	23,214	26,177
		243,946	434,880
Total liabilities		**909,565**	**1,032,258**
Equity			
Capital stock	38	215,000	215,000
Additional paid-in capital	39	25,468	21,199
Accumulated profit	39	227,012	185,065
Treasury stock	38	–263,570	–270,751
Revaluation reserves	39	9,621	18,276
Cash flow hedge reserve	39	–7,942	–4,380
Currency translation adjustment	39	–17,301	–19,287
Equity attributable to shareholders of the parent company		**188,288**	**145,122**
Non-controlling interests		9,855	9,631
Total equity		**198,143**	**154,753**
Total liabilities and equity		**1,107,708**	**1,187,011**

Net Income

from January 1, to December 31, 2012 in €k

	Notes	2012 January – December	2011 January – December
Sales	4	2,396,639	2,094,066
Cost of sales	5 , 9 , 11	–1,574,662	–1,375,669
Gross profit		**821,977**	**718,397**
Selling expenses	6 , 9 , 11	–461,659	–356,845
General administrative expenses	7, 9 , 11	–112,066	–102,759
Other operating expenses	8	–41,752	–32,923
Other operating income	8	58,467	68,221
Amortization of intangible assets resulting from company acquisitions	9	–14,397	–14,575
Amortization of goodwill	10	–46,268	–3,500
Operating result		**204,302**	**276,016**
Interest and similar expenses	12	–24,317	–25,278
Interest and similar income	13	14,546	12,765
Amortization of investments	14	0	–6,298
Result from associated companies	15	–1,576	–6,629
Pre-tax result		**192,955**	**250,576**
Income taxes	16	–84,669	–88,243
Net income before non-controlling interests		**108,286**	**162,333**
Attributable to			
- non-controlling interests		481	5
- shareholders of United Internet AG		107,805	162,328

	Notes	**2012** January – December	**2011** January – December
Result per share of shareholders of United Internet AG (in €)			
- basic	17	0,56	0,79
- diluted	17	0,55	0,78
Weighted average shares (in million units)			
- basic	17	193,91	206,42
- diluted	17	195,36	208,08
Statement of comprehensive income			
Net income		108,286	162,333
Results directly included in equity			
- Currency translation adjustment		1,968	757
- Market value changes of held-for-sale financial instruments after taxes		–8,655	–7,058
- Change in cash flow hedge reserve after taxes		–3,562	–4,380
- Change in associated companies after taxes not affecting net income		0	–108
		–10,249	–10,789
Total net income		**98,037**	**151,544**
Attributable to			
- non-controlling interests		463	11
- shareholders of United Internet AG		97,574	151,533

Cash Flow

from January 1 to December 31, 2012 in €k

	Notes	2012 January – December	2011 January – December
Cash flow from operating activities			
Net income		108,286	162,333
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of intangible assets and property, plant and equipment	9	78,799	70,662
Amortization of intangible assets resulting from company acquisitions	9	14,397	14,575
Amortization of other financial assets	14	0	6,298
Amortization of goodwill	10	46,268	3,500
Compensation expenses from employee stock option plans	36	4,269	3,051
Results of at-equity companies	15, 24	1,576	6,629
Distributed profit of associated companies	24	0	730
Income from deconsolidation of other financial assets	8, 25	–18,892	–10,855
Income from deconsolidation of associated companies	8, 24	–4,875	–22,994
Change in deferred taxes	16	–10,858	–17,021
Non-cash expenses / income	45	–4,883	–5,058
Operative cash flow		**214,087**	**211,850**
Change in assets and liabilities			
Change in receivables and other assets		–45,831	–12,007
Change in inventories		–8,958	192
Change in deferred expenses		–2,083	–6,559
Change in trade accounts payable		39,693	15,472
Change in advance payments received		1,652	1,931
Change in other accrued liabilities		270	–3,962
Change in accrued taxes		27,397	–21,156
Change in other liabilities		7,203	9,468
Change in deferred income		27,098	–380
Change in assets and liabilities, total		**46,441**	**–17,001**
Cash flow from operating activities		**260,528**	**194,849**

	Notes	**2012** January – December	**2011** January – December
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		–63,601	–54,405
Payments from disposals of intangible assets and property, plant and equipment		7,759	1,902
Purchase of shares in affiliated companies less cash received	3	–154	0
Payments from subsequent refunding of company acquisition costs	3	0	193
Purchase of shares in associated companies	24	–60,153	–2,260
Payments from deconsolidation of associated companies	24	11,400	3,385
Refunding from shares in associated companies	24	5,202	2,475
Capital expenditure for other financial assets	25	–409	–1,234
Payments of loans granted	41	–9,964	–2,000
Payments from deconsolidation of financial assets	25	49,321	41,207
Refunding from other financial assets		2,628	501
Payments from the repayment of vendor loans	24	59,821	12,195
Cash flow from investment activities		**1,850**	**1,959**
Cash flow from financing activities			
Purchase of treasury stock	38	0	–340,265
Taking out of loans	31	15,722	443,193
Repayment of loans	31	–240,039	–288,000
Dividend payments	18	–58,132	–42,000
Dividend payments to non-controlling interests		–1,316	–907
Purchase of further shares in affiliated companies		–606	0
Cash flow from financing activities		**–284,371**	**–227,979**
Net decrease in cash and cash equivalents		–21,993	–31,171
Cash and cash equivalents at beginning of fiscal year		64,867	96,091
Currency translation adjustments of cash and cash equivalents		–46	–53
Cash and cash equivalents at end of fiscal year		**42,828**	**64,867**

Development of fixed assets acc. to IFRS

for the fiscal year 2012 und 2011 in €k

2012	Acquisition and production costs						
	Jan. 1, 2012	Additions from initial consolidation	Additions	Disposals	Reclassifica-tions	Currency translation	Dec. 31, 2012
Intangible assets							
Licences	29,833		291	53		–50	30,021
Order backlog	2,403					–5	2,398
Software	73,196		11,121	608		32	83,741
Trademark	47,495					–304	47,191
Customer base	189,334	432				477	190,243
Portal	72,240	63					72,303
Goodwill	419,049	300		698		1,619	420,270
Total (I)	**833,550**	**795**	**11,412**	**1,359**	**0**	**1,769**	**846,167**
Property, plant and equipment							
Land and buildings	8,229						8,229
Operational equipment	292,730	4	47,706	13,663	10,710	–768	336,719
Payments in advance	13,282		4,483		–10,710	13	7,068
Total (II)	**314,241**	**4**	**52,189**	**13,663**	**0**	**–755**	**352,016**
Total	**1,147,791**	**799**	**63,601**	**15,022**	**0**	**1,014**	**1,198,183**

2011	Acquisition and production costs						
	Jan. 1, 2011	Additions from initial consolidation	Additions	Disposals	Reclassifica-tions	Currency translation	Dec. 31, 2011
Intangible assets							
Licences	28,804		982			47	29,833
Order backlog	2,397					6	2,403
Software	63,282		9,977	88		25	73,196
Trademark	46,902		2			591	47,495
Customer base	188,888					446	189,334
Portal	72,240						72,240
Goodwill	417,122		685	193		1,435	419,049
Total (I)	**819,635**	**0**	**11,646**	**281**	**0**	**2,550**	**833,550**
Property, plant and equipment							
Land and buildings	8,050		179				8,229
Operational equipment	256,822		34,350	7,840	7,715	1,683	292,730
Payments in advance	13,241		8,915	1,149	–7,715	–10	13,282
Total (II)	**278,113**	**0**	**43,444**	**8,989**	**0**	**1,673**	**314,241**
Total	**1,097,748**	**0**	**55,090**	**9,270**	**0**	**4,223**	**1,147,791**

Accumulated depreciation						Net book value	
Jan. 1, 2012	Additions	Impairment	Disposals	Currency translation	**Dec. 31, 2012**	**Dec. 31, 2011**	**Dec. 31, 2012**
27,915	367		34	–18	28,230	1,918	1,791
2,403				–5	2,398	0	0
49,205	11,107		608	8	59,712	23,991	24,029
876				19	895	46,619	46,296
91,040	26,756			292	118,088	98,294	72,155
55,685	9,062				64,747	16,555	7,556
17,754		46,268			64,022	401,295	356,248
244,878	**47,292**	**46,268**	**642**	**296**	**338,092**	**588,672**	**508,075**
5,318	92				5,410	2,911	2,819
198,001	45,812		5,925	–469	237,419	94,729	99,300
0					0	13,282	7,068
203,319	**45,904**	**0**	**5,925**	**–469**	**242,829**	**110,922**	**109,187**
448,197	**93,196**	**46,268**	**6,567**	**–173**	**580,921**	**699,594**	**617,262**

Accumulated depreciation						Net book value	
Jan. 1, 2012	Additions	Impairment	Disposals	Currency translation	**Dec. 31, 2011**	**Dec. 31, 2010**	**Dec. 31, 2011**
27,194	660			61	27,915	1,610	1,918
2,312	81			10	2,403	85	0
40,401	8,861		88	31	49,205	22,881	23,991
774		46		56	876	46,128	46,619
63,762	27,001			277	91,040	125,126	98,294
46,655	9,030				55,685	25,585	16,555
14,254		3,500			17,754	402,868	401,295
195,352	**45,633**	**3,546**	**88**	**435**	**244,878**	**624,283**	**588,672**
4,216	1,102				5,318	3,834	2,911
165,222	38,456		7,087	1,410	198,001	91,600	94,729
						13,241	13,282
169,438	**39,558**	**0**	**7,087**	**1,410**	**203,319**	**108,675**	**110,922**
364,790	**85,191**	**3,546**	**7,175**	**1,845**	**448,197**	**732,958**	**699,594**

Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS

from January 1, 2011 to December 31, 2012

	Capital stock		Additional paid-in capital	Accumulated profit	Treasury shares	
	Share	€k	€k	€k	Share	€k
Balance as of January 1, 2011	**240,000,000**	**240,000**	**41,649**	**326,663**	**20,563,522**	**-240,977**
Net income				162,328		
Other net income						
Total net income				**162,328**		
Issue of treasury shares				-7,198	-574,842	7,198
Cancellation of treasury shares	-25,000,000	-25,000	-23,565	-254,728	-25,000,000	303,293
Purchase of treasury shares					26,236,478	-340,265
Employee stock ownership program Sedo Holding			-236			
Employee stock ownership program United Internet			3,351			
Dividend payments				-42,000		
Balance as of December 31, 2011	**215,000,000**	**215,000**	**21,199**	**185,065**	**21,225,158**	**-270,751**
Balance as of January 1, 2012	**215,000,000**	**215,000**	**21,199**	**185,065**	**21,225,158**	**-270,751**
Net income				107,805		
Other net income						
Total net income				**107,805**		
Issue of treasury shares				-7,181	-562,956	7,181
Employee stock ownership program Sedo Holding			2			
Employee stock ownership program United Internet			4,267			
Dividend payments				-58,132		
Profit distributions						
Change in amount of holdings				-545		
Balance as of December 31, 2012	**215,000,000**	**215,000**	**25,468**	**227,012**	**20,662,202**	**-263,570**

Revaluation reserves	Cash flow hedge reserve	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
€k	€k	€k	€k	€k	€k
25,442	**0**	**–20,038**	**372,739**	**9,684**	**382,423**
			162,328	5	162,333
–7,166	–4,380	751	–10,795	6	–10,789
–7,166	**–4,380**	**751**	**151,533**	**11**	**151,544**
			0		0
			0		0
			–340,265		–340,265
			–236	–64	–300
			3,351		3,351
			–42,000		–42,000
18,276	**–4,380**	**–19,287**	**145,122**	**9,631**	**154,753**
18,276	**–4,380**	**–19,287**	**145,122**	**9,631**	**154,753**
			107,805	481	108,286
–8,655	–3,562	1,986	–10,231	–18	–10,249
–8,655	**–3,562**	**1,986**	**97,574**	**463**	**98,037**
			0		0
			2	1	3
			4,267		4,267
			–58,132		–58,132
			0	–177	–177
			–545	–63	–608
9,621	**–7,942**	**–17,301**	**188,288**	**9,855**	**198,143**

Notes to the Consolidated Financial Statements as of December 31, 2012

1. Information on the company

Nature of the business

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

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

In the last few years, United Internet AG has developed into an operating management holding company for investments in various internet target segments and 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, Buenos Aires, Bucharest, Cambridge (USA), Cebu City, Chesterbrook, Groningen, Gloucester, Haarlem, Las Vegas, Saint-Denis, London, Miami, Milan, Saargemünd, Sao Paulo, Slough, Strasbourg, Vancouver, Warsaw, Vienna and Zug. 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

The consolidated financial statements of United Internet AG were prepared in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB). 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 with-in 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, 2012.

The Supervisory Board approved the consolidated financial statements for 2011 at its meeting on March 28, 2012. The consolidated annual financial statements were published in the German Federal Gazette ("Bundesanzeiger") on April 24, 2012.

The consolidated financial statements for 2012 were prepared by the Company's Management Board on March 15, 2013 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for approval on March 20, 2013. Theoretically, there may still be changes until the consolidated financial statements are approved and released for publication by the Supervisory Board. However, the Management Board expects that the consolidated financial statements will be approved in the present version.

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 as a transaction with the shareholders.

As of December 31, 2012, 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 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 Beteiligungen GmbH, Montabaur (100.0%)
    - 1&1 De-Mail GmbH, Montabaur (100.0%)
- 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
- 1&1 Telecom Holding GmbH, Montabaur (100.0%)
- 1&1 Telecom GmbH, Montabaur (100.0%)
  - 1&1 Breitband 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%)
  - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
  - Domain Robot Servicos de Hospedagem na Internet Ltda., São Paulo / Brazil (100.0%)
  - mySARL GmbH, Regensburg (100.0%)

  - myLLC GmbH, Regensburg (100.0%)
  - myLLP GmbH, Regensburg (100.0%)
  - myLTD GmbH, Regensburg (100.0%)
  - mySRL GmbH, Regensburg (100.0%)
  - InterNetX Corp., Miami / USA (100.0%)
- united-domains AG, Starnberg (85.0%)
  - united-domains Reselling GmbH, Starnberg (100.0%)
  - United Domains, Inc., Cambridge / USA (100.0%)
- United Internet Media AG, Montabaur (100.0%)
  - United Internet Dialog GmbH, Montabaur (100.0%)
- UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)
- 1&1 Datacenter SAS, Strasbourg / France (100.0%)

United Internet shares:
- United Internet Beteiligungen GmbH, Montabaur (100.0%)

Sedo Holding:
- Sedo Holding AG, Cologne (79.45%)
  - 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%)
      - 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, Saint-Denis / France (100.0%)
    - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)
    - Cleafs B.V., Groningen / Netherlands (100.0%)

Other:
- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- 1&1 Access Holding GmbH, Montabaur (100.0%)
- 1&1 Internet Service Holding GmbH, Montabaur (100.0%)
- 1&1 Corporate Services GmbH, Montabaur (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.

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%)
- TLDDOT GmbH, Berlin (53.50%)
- fun communications GmbH, Karlsruhe (49.00%)
- DomainsBot Srl, Rome / Italy (49.00%)
- Virtual Minds AG, Freiburg (48.65%)
- European Founders Fund Investment GmbH, Munich (33.33%)
- ProfitBricks GmbH, Berlin (30.02%)
- VictorianFibre Holding & Co. S.C.A., Luxembourg/ Luxembourg (25.10%)
- PunktBayern GmbH & Co. KG, Munich (25.00%)
- Travel-Trex GmbH, Cologne (25.00%)
- getAbstract AG, Lucerne / Switzerland (22.00%)

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 investments

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 assets:

- Goldbach Group AG, Küsnacht-Zurich / Switzerland (14.96%)
- MMC Investments Holding Company Ltd., Port Louis / Mauritius (11.36%)
- Hi-Media S.A., Paris / France (10.38%)
- Afilias Ltd, Dublin / Ireland (9.82%)
- Silverpop Systems Inc., Atlanta / USA (5.91%)
- Become Inc., Sunnyvale / USA (5.06%)

Changes in the reporting unit

In its fiscal year 2012, the United Internet Group acquired 100.0% of shares in the fully consolidated Cleafs B.V. Groningen, Netherlands, and exercised it option to acquire 25.1% of shares in the parent company of Versatel GmbH (formerly Versatel AG) VictorianFibre Holding & Co. S.C.A.. VictorianFibre Holding & Co S.C.A. is classified as an associated company. In addition, 53.0% of shares in TLDDOT GmbH were acquired are consolidated at equity.

The following companies were founded by the Company or its subsidiaries in fiscal year 2012:

- 1&1 Access Holding GmbH, Montabaur (100.0%)
- 1&1 Internet Service Holding GmbH, Montabaur (100.0%)
- 1&1 Corporate Services GmbH, Montabaur (100.0%)
- 1&1 Datacenter SAS, Strasbourg / France (100.0%)
- 1&1 De-Mail GmbH, Montabaur (100.0%)
- 1&1 Telecom Holding GmbH, Montabaur (100.0%)
- mySARL GmbH, Regensburg (100.0%)
- myLLC GmbH, Regensburg (100.0%)
- myLLP GmbH, Regensburg (100.0%)
- myLTD GmbH, Regensburg (100.0%)
- mySRL GmbH, Regensburg (100.0%)
- InterNetX Corp., Miami / USA (100%)

In fiscal year 2012, United Internet Beteiligungen GmbH retired as a shareholder of the associated company internetstores AG, Esslingen (20.00%) due to sale.

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 new and revised IFRS standards and interpretations presented further below 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.

For reasons of clarity, the following adjustments were made:

- In the balance sheet and statement of changes in Shareholders' equity, the prior-year disclosure “Market value of hedging instruments after taxes” was changed to “Cash flow hedge reserve”. There was a corresponding change in the statement of comprehensive income from “Market value of hedging instruments after taxes” in the previous year to “Change in cash flow hedge reserve after taxes”.
- In the cash flow statement, the item “Payments from disposal of assets” was renamed as “Payments from disposals of intangible assets and property, plant and equipment”.
- Also in the cash flow statement, the item “Payments from deconsolidation of companies” was changed to “Payments from the repayment of vendor loans”.

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For reasons of simplicity, the following prior-year figure in the cash flow statement was adjusted: in the “Cash flow from operating activities” section, the prior-year item “Non-cash expenses / income from tax adjustments” (€ 17,363k) was deleted. There was a corresponding rise in the “Change in accrued taxes” of € 8,860k and the “Change in other liabilities” of € 8,503k.

Effects of new or amended IFRS standards

Accounting standards applied for the first time in 2012

Amendment to IFRS 7 – Financial Instruments: Disclosures
In October 2010, the IASB published a standard with amendments to IFRS 7 which increased the disclosure requirements for transactions involving transfers of financial assets. The amendments are intended to improve the clarity of financial reports and thus provide greater insight for users regarding transactions involving the transfer of asset, for example securitizations. In addition, a significant standardization of the disclosure requirements according to IFRS and US-GAAP is achieved. The changes are to be applied in fiscal years which start on or after July 1, 2011. As there was no area of application, the amended standard had no effect on the Company's consolidated financial statements.

Amendments to IAS 12 – Income Taxes
In December 2010, the IASB published amendments to the standard IAS 12, resulting from proposals published in a draft standard in September 2010 for public comment. According to IAS 12, the assessment of deferred taxes depends on whether the carrying value of assets is realized through their use or their disposal. The amendment offers a practical solution to this problem through the introduction of a refutable assumption that the realization of the carrying value is normally effected through disposal. In this connection, SIC 12 "Realization of revalued assets with unscheduled amortization" is withdrawn. The revised standard is to be applied in accounting periods beginning on or after January 1, 2012. The amended standard must be applied for fiscal years which start on or after January 1, 2012. As there was no area of application, this amendment had no effect on the Company's consolidated financial statements.

Accounting standards already published but not yet mandatory
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.

Already endorsed by EU

Amendments to IAS 1 – Presentation of Financial Statements
In June 2011, the IASB published amendments to the standard IAS 1 which mainly concern the presentation of other comprehensive income. The revised standard is to be applied in accounting periods beginning on or after July 1, 2012. Adoption of the new standard will have no significant effect on the Company's consolidated financial statements.

IFRS 10 – Consolidated Financial Statements
In May 2011, the IASB published the new standard IFRS 10 as part of a "package" of five new and revised standards. IFRS 10 replaces the guidelines in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" regarding consolidation and control. IAS 27 was renamed "Separate Financial Statements"; the standard will only treat regulations regarding separate financial statements in future. IFRS 10 changes the definition of "control" so that the same criteria are applied to all companies to determine a controlling relationship. This definition is supported by wide-ranging application guidelines illustrating the various ways that a reporting company (investor) can control another company (investment). The new standard is to be adopted in fiscal years beginning on or after January 1, 2014. Earlier adoption is permitted if the entire "package of standards" is adopted at the same time. The Company is currently still examining whether these changes will have any effect on the Company's consolidated financial statements.

IFRS 11 – Joint Arrangements
In May 2011, the IASB published the new standard IFRS 11 as part of a "package" of five new and revised standards. The amended definitions have led to two "types" of joint arrangement now: joint operations and joint ventures. The previous option of pro-rata consolidation of joint ventures has been abolished. Parties to a joint venture must account for the investment using the equity method. Parties to joint operations will have to adopt regulations in future which similar to the current accounting regulations for joint assets or joint operations. The new standard is to be applied in accounting periods beginning on or after January 1, 2014. Earlier adoption is permitted if the entire "package of standards" is adopted at the same time. Adoption of the new standard is not currently expected to have any effect on the Company's consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities
In May 2011, the IASB published the new standard IFRS 12 as part of a "package" of five new and revised standards. IFRS 12 defines the necessary disclosures for those companies accounting in accordance with the two new standards IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements"; the standard replaces the disclosure requirements currently contained in IAS 28 "Investments in Associates". According to the new standard IFRS 12, companies must disclose information that enables users of financial statements to assess the nature, risks and financial effects associated with their investment in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). The new standard is to be applied in accounting periods beginning on or after January 1, 2014. Earlier adoption is permitted – also in part – without this leading to the mandatory adoption of IFRS 10, IFRS 11 or the revised IAS 27 and IAS 28. Adoption of the new standard is not currently expected to have any effect on the Company's consolidated financial statements.

IFRS 13 – Fair Value Measurement
In May 2011, the IASB published the new standard IFRS 13. IFRS 13 describes how fair value is to be measured and extends the disclosures to be made on fair value: however, the standard does not stipulate in which cases fair value is to be used. IFRS 13 is to be applied in accounting periods beginning on or after January 1, 2013; earlier adoption is permitted. The standard is to be applied prospectively at the beginning of reporting periods in which it is applied for the first time. Adoption of the new standard is not currently expected to have any effect on the Company's consolidated financial statements.

IAS 27 – Separate Financial Statements (revised 2011)
In May 2011, the IASB published the revised standard IAS 27 as part of a "package" of five new and revised standards. Following the publication of IFRS 10, IAS 27 (revised 2011) now only contains regulations on separate financial statements. The revised standard is to be applied in accounting periods beginning on or after January 1, 2014. Earlier adoption is permitted if the entire "package of standards" is adopted at the same time. Due to a lack of relevance, the revised standard is not expected to have any effect on the Company's consolidated financial statements.

IAS 28 – Investments in Associates and Joint Ventures (revised 2011)
In May 2011, the IASB published the revised standard IAS 28 as part of a "package" of five new and revised standards. The revised aspects result from the publication of the new standards IFRS 10, IFRS 11 and IFRS 12. The revised standard is to be applied in accounting periods beginning on or after January 1, 2014. Earlier adoption is permitted if the entire "package of standards" is adopted at the same time. Adoption of the new standard is not currently expected to have any significant effect on the Company's consolidated financial statements.

Amendments to IAS 19 – Post-Employment Benefits
In June 2011, the IASB published amendments to the standard IAS 19 with the aim of making the balance sheet presentation of pension obligations more transparent. The key amendments include the elimination of the option to recognize actuarial gains in profit or loss. The revised standard is to be applied in accounting periods beginning on or after January 1, 2013. Due to a lack of relevance, this revision is not expected to have any effect on the Company's consolidated financial statements.

Amendments to IFRS 7 /IAS 32 – Adjustments to the offsetting of financial assets and financial liabilities
In December 2011, the IASB published amendments to IAS 32 and IFRS 7. The IASB clarified certain details regarding the netting of financial assets with financial liabilities and called for additional disclosures. This additional information is mandatory for fiscal years beginning on or after January 1, 2013 (additional disclosures) or 2014 (clarifications) and is to be applied retrospectively. Adoption of the new standard is not currently expected to have any significant effect on the Company's consolidated financial statements.

Not yet endorsed by EU

The IASB and the IFRIC have published the following standards and interpretations which have not yet been endorsed by the EU. The adoption of these standards and interpretations is not yet mandatory in fiscal 2012 and will therefore not be adopted by the Group.

IFRS 9 – Financial Instruments
In November 2009, the IASB released the new standard IFRS 9 for the classification and measurement of financial assets. The publication of IFRS 9 closes phase 1 of a three-part IASB project for the complete revision of accounting for financial instruments and will thus replace IAS 39. IFRS 9 contains a new and less complex approach to the classification and measurement of financial assets. There are now just two instead of four measurement categories for financial assets. Regulations concerning the recognition of financial liabilities were added to IFRS 9 in October 2010; the mandatory date for first-time adoption was postponed in December 2011. Initial application of IFRS 9 is now mandatory as of January 1, 2015. In line with the requirements of the G20, however, voluntary earlier adoption is already permissible for fiscal years ending in 2009 or later. Adoption of the new standard is not currently expected to have any effect on the Company's consolidated financial statements.

IFRS 10, IFRS 11 and IFRS 12 – Amendments to the transitional regulations on consolidation standards
In June 2012, the IASB published amendments to the transitional regulations of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities. The amendment sets out to clarify the transitional regulations in IFRS 10. The amendments also include additional relief for transition to IFRS 10, IFRS 11 and IFRS 12, for example by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. In connection with disclosures on non-consolidated structured entities, the amendment also eliminates the requirement to provide comparative information for periods prior to the initial application of IFRS 12. The amendments are to be applied in accounting periods beginning on or after January 1, 2013. For EU-IFRS users, however, mandatory application of IFRS 10, IFRS 11 and IFRS 12 is not required until accounting periods beginning on or after January 1, 2014. Adoption of the amended standards is not currently expected to have a material effect on the Company's consolidated financial statements.

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)
On October 31, 2012, the IASB published the standard Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27). The exposure draft of August 2011 already proposed to define investment entities as a separate company form excluded from the consolidation regulations of IFRS 10. By instead requiring companies to measure at fair value, it is hoped that the information benefit of financial reporting can be raised.

The final standard retains the main elements of the exposure draft. However, there are basic differences with regard to the changed definition of an investment entity. For example, the definition is no longer based on six strictly defined criteria, but on a less restrictive definition (criteria requirements) together with other factors to be considered.

The amendments are valid for accounting periods beginning on or after January 1, 2014. Voluntary prior adoption is permitted. There is therefore synchronicity between the initial adoption date of the investment entity standard and the initial adoption date proposed by EFRAG for the consolidation standards IFRS 10, IFRS 11 and IFRS 12.

Annual Improvement Project – Improvements to IFRS 2011
In May 2012, the IASB published its “Improvements to IFRS 2009-2011” (Annual Improvements), comprising amendments to five International Financial Reporting Standards (IFRSs). The amendments in detail were:
- IFRS 1 “First-time Adoption of International Financial Reporting Standards”: Clarification on repeated application of IFRS 1 as well as on borrowing costs relating to qualifying assets for which the commencement date for capitalization is before the date of transition to IFRSs.
- IAS 1 “Presentation of Financial Statements”: Clarification of the requirements for comparative information
- IAS 16 “Property, plant and equipment”: Classification of servicing equipment
- IAS 32 “Financial Instruments”: Presentation – classification of tax effects of dividends to investors and on transaction costs from equity transactions
- IAS 34 “Interim Financial Reporting”: Clarification of interim reporting of segment information for total assets and liabilities in interim reporting

The amendments are applicable for fiscal years beginning on or after January 1, 2013.

2.4 Significant accounting judgements, 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 idefinite useful lives".

The most important management assumptions for the measurement of the recoverable value of cash-generating units include assumptions regarding the development of sales, margins and the discount rate.

Fair value of financial assets and impairment of available-for-sale financial investments
Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow method. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 € 42,927k as of December 31, 2012 (prior year: € 82,705k).

Calculating the profit contribution of associated companies

Investments in associated companies 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 associated companies are subject in part to profit forecasts. On presentation of more robust financial information, these are adjusted in the following year in the case of significant deviations. The carrying value of investments in associated companies and joint ventures amounted to € 90,881k as of December 31, 2012 (prior year: € 33,559k). The result from associated companies in fiscal year 2012 amounted to € -1,576k (prior year: € -6,629k).

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.

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, 2012, the fair value of investments in associated companies and joint ventures amounted to € 90,881k (prior year: € 33,559k).

Share-based payments

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

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

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective 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, 2012, the carrying value of deferred tax assets for tax losses considered amounted to € 9,251k (prior year: € 14,440k). 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 € 148,766k as of December 31, 2012 (prior year: € 106,702k).

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less the necessary expected costs up to the time of sale. Valuation is based in part on time-related write-downs for inventories. In the case of domains, the Company makes write-downs which increase over time as the holding period of the domains increases (>12 months). Both the size and distribution over time of such write-downs represents a best-possible estimation of net realizable value and is thus subject to uncertainties. The carrying values of inventories as of the balance sheet date amounted to € 25,678k (prior year: € 16,720k). Please refer to Note 21 for further information.

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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 € 214,718k as of December 31, 2012 (prior year: € 251,680k).

Accounting for business combinations

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.

However, assumptions made to determine the respective fair value of these assets and liabilities as of the date of acquisition are subject to significant uncertainties. For the identification of intangible assets, depending on the type of intangible asset and complexity of determining its fair value, the Company either uses the independent appraisal of an external assessor or fair value is determined internally using a suitable assessment technique, generally based on a forecast of total expected future cash flow generation. These valuations are closely related to assumptions which management has made about the future development of the respective assets and the applicable discounted interest rate.

The carrying values of goodwill as of the balance sheet date amounted to € 356,248k (prior year: € 401,295k). The carrying values of intangible assets resulting from business combinations (excluding goodwill) amounted to € 63,775k as of the balance sheet date (prior year: € 77,905k).

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 € 2,145k as of December 31, 2012 (prior year: € 1,874k).

2.5 Summary of significant accounting and valuation methods

Revenue recognition

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

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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. 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), 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. Payments on account received from customers are carried as deferred income. Revenue is recognized pro rata over the period of service provision. 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 to be 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.

The exchange rates of major currencies developed as follows:

(in relation to 1 euro)	Closing rate		Average rate	
	31.12.2012	31.12.2011	2012	2011
US dollar	1.319	1.294	1.286	1.326
UK pound	0.817	0.835	0.811	0.858

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 finite and those with indefinite useful lives.

Intangible assets with finite 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 finite 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 finite useful lives are recognized in the in-come statement under the expense category corresponding to the function of the intangible asset in the Company.

In the case of intangible assets with indefinite 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 indefinite useful life is reviewed annually to ascertain whether the assumption of an indefinite useful life is still justified. If this is not the case, a prospective change is made from indefinite useful life to limited useful life.

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

	Useful life in years
Trademarks	Indefinite
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.

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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.

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 significant 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 indefinite 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 instruments

Available-for-sale financial assets are non-derivative financial assets which are classified as being available for sale and which have not been assigned to any of the three categories above. After initial recognition, available-for-sale financial assets are carried at fair value, unless there is significant uncertainty in the estimation of value. Non-realized profits or losses are recognized directly in equity in the revaluation reserve. 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 instruments traded on organized markets is determined by the quoted market price (buying rate) on the balance sheet date. The fair value of financial instruments 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

If the fair value of available-for-sale financial assets cannot be reliably calculated, they are measured at amortized cost. If they were previously classified as financial assets held at fair value through profit or loss, they are reclassified correspondingly in the case of is significant uncertainty in the estimation of value. Fair value at this moment represents the acquisition cost under the new valuation category.

Held-to-maturity financial instruments, 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 available-for-sale financial assets, or 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.

The cancellation of treasury shares results in the pro rata reversal of the item "Treasury shares" disclosed in shareholders' equity at the expense of the remaining shareholders' equity. The Group uses the following application sequence:

- The cancellation of treasury shares is always deducted from share capital in the amount of the par value.
- The amount exceeding par value is first derecognized in the amount of the value contribution from employee stock ownership plans (SARs and convertible bonds) against capital reserves.
- Any amount exceeding the value contribution from employee stock ownership plans is derecognized against accumulated profit.

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 subscription rights resulting from employee stock participation programs had been exercised. Net income is also adjusted for interest expenses after taxes, payable on potentially exchangeable subscription rights.

Pensions and other post-employment benefits

Payments to defined contribution retirement benefit plans are expensed on payment of salary to the employee. There are no defined benefit retirement benefit plans.

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 profit according to IFRS 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 non-financial assets” or “Other non-financial 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.

The fair value of interest derivatives is calculated on the basis of present value models using market information (interest rate curves).

Hedging relationships
When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity. Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as at the end of the reporting period using the hypothetical derivative method.

The amounts recognized in equity are reclassified to the statement of comprehensive income in the period in which the hedge influences the period result, e.g. when hedged financial income or expenses are recognized or when an expected sale is made.

3. Business combinations and investments

3.1 Business combinations in fiscal year 2012

Cleafs B.V., Groningen, Netherlands, a company operating in the field of Affiliate Marketing, was acquired on July 3, 2012. Founded in 2007, the company operates affiliate programs in the Netherlands, mainly in the field of travel, ticketing and retail. The acquisition of Cleafs B.V. strengthens and extends affilinet's portfolio in these areas and promises synergy effects from the expansion of the advertiser and publisher network. Moreover, the experts and know-how of Cleafs B.V. in retail and ticketing could be gained. 100% of shares in Cleafs B.V. were acquired.

In accordance with IFRS 3 "Business Combinations", the initial consolidation of Cleafs B.V. was made using the purchase method. The results of the acquired company were included in the Group's consolidated financial statements as of the acquisition date.

The market value of the compensation (purchase price) amounted to € 550k, of which € 425k was settled in cash. A conditional amount of € 125k is carried as a financial liability. The conditional amount is subject to the achievement of agreed operating targets. Ancillary acquisition costs amounted to € 97k. Of this total, € 77k were expensed in fiscal year 2012 and € 20k in fiscal year 2011.

The fair values of the identifiable assets and liabilities of Cleafs B.V. are as follows:

	€k
Assets	
Cash and cash equivalents	271
Trade receivables	200
Other financial assets	21
Intangible assets	495
Property, plant and equipment	4
	991
Liabilities	
Trade payables	314
Advanced payments received	215
Other current liabilities	88
Deferred tax liabilities	124
	741
Total identifiable net assets at fair value	**250**
Goodwill from company acquisition	300
Transferred compensation	**550**

Goodwill of € 300k mainly reflects the synergy effects and the corresponding income prospects from the increased network reach of advertisers and publishers to be achieved by both companies. Goodwill was allocated to the cash-generating unit “affilinet Netherlands” in the Affiliate Marketing segment and is not tax-deductible.

The acquired intangible assets were measured using income-oriented approaches. The fair values of acquired technology were measured using the “royalty relief” method, the fair value of the customer base was calculated using the multi-period excess earnings method. The useful lives of acquired intangible assets are as follows:

	Fair value (in €k)	Useful life (in years)
Customer base	432	5
Technology	63	1
	495	

The contribution of Cleafs B.V. to earnings – from the initial consolidation date to December 31, 2012 – amounted to € 71k, while revenue generated in the same period reached € 1,164k. If the acquisition had already been made at the beginning of fiscal year 2012, the Group’s sales revenue would have increased by € 1,145k and consolidated net income by € 24k.

3.2 Investments of fiscal year 2012

On November 14, 2012, United Internet AG announced that it would to exercise its option to purchase 25.1% of shares in the parent company of Versatel GmbH, VictorianFibre Holding & Co. S.C.A., Luxembourg, a company belonging to funds managed by Kohlberg Kravis Roberts & Co. L.P. (together with its associated companies "KKR"). This call option was granted to United Internet AG when selling its Versatel shares to KKR in May 2011. The shares in Versatel's parent company were purchased on December 12, 2012.

The total acquisition costs of € 68,318k comprise the exercise price settled in cash of € 59,608k and the value of the call option on the acquisition date amounting to € 8,710k. The shares are disclosed as "Shares in associated companies".

At the same time, the vendor loan of € 59,821k granted during the sale of Versatel shares in May 2011 was repaid in cash.

3.3 Company transactions in the previous year

united-domains AG and InterNetX GmbH acquired a total stake of 25.00% in PunktBayern GmbH & Co. KG, Munich. The acquisition costs amounted to € 75k.

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.

Management and consolidated reporting is undertaken via the segments "Access" and "Applications".

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

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

Segment reporting of United Internet AG in fiscal year 2012 was as shown in the table on the following page.

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

In the periods under review, there was no significant concentration of individual customers in the customer profile. The United Internet Group does not generate more than 10% of total external sales revenues with one customer. Foreign sales accounted for 11.1% (prior year: 10.5%) of total Group revenues.

The highest management committee only monitors shares in associated companies, available-for-sale investments and goodwill. As there are no such assets in the Access segment, its segment assets are disclosed as zero. The depreciation disclosed in this segment refers to other, non-monitored intangible assets and Property, plant and equipment. Presentation is made as depreciation represents a reconciliation amount for the cash flow statement.

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

2012	Access segment €k	Applications segment €k	Head Office / Investments €k	Reconciliation €k	United Internet Group €k
Total revenues	1,587,112	819,824	4,154	-	-
- thereof internal revenues	1,015	9,629	3,807	-	-
External revenues	1,586,097	810,195	347	-	2,396,639
- thereof domestic	1,586,097	543,303	347	-	2,129,747
- thereof non-domestic	0	266,892	0	-	266,892
EBITDA	191,766	132,163	19,837	0	343,766
EBIT	164,253	20,351	19,698	0	204,302
Financial result			–7,807	–1,964	–9,771
Result from at-equity companies			–1,629	53	–1,576
EBT			10,262	182,693	192,955
Tax expense				–84,669	–84,669
Net income					**108,286**
Segment assets (non-current)	0	385,532	131,730	-	517,262
- thereof domestic	0	305,693	27,546	-	333,239
- thereof shares in associated companies	0	253	19,599	-	19,852
- thereof other financial assets	0	16,387	7,947	-	24,334
- thereof goodwill	0	289,053	0	-	289,053
- thereof non-domestic	0	79,839	104,184	-	184,023
- thereof shares in associated companies	0	1,052	69,977	-	71,029
- thereof other financial assets	0	11,592	34,207	-	45,799
- thereof goodwill	0	67,195	0	-	67,195
Investments in intangible assets, property, plant and equipment	4,829	58,566	206	-	63,601
Amortization/depreciation	27,513	111,812	139	-	139,464
- thereof intangible assets, property, plant and equipment	27,513	51,147	139	-	78,799
- thereof intangible assets capitalized during company acquisitions	0	14,397	0	-	14,397
- thereof goodwill amortization	0	46,268	0	-	46,268
Number of employees	1,928	4,292	34	-	6,254
- Germany	1,845	3,025	34	-	4,904
- abroad	83	1,267	0	-	1,350

2011	Access segment €k	Applications segment €k	Head Office / Investments €k	Reconciliation €k	United Internet Group €k
Total revenues	1,368,944	733,601	3,647	-	-
- thereof internal revenues	960	7,801	3,365	-	-
External revenues	1,367,984	725,800	282	-	2,094,066
- thereof domestic	1,367,984	506,633	282	-	1,874,899
- thereof non-domestic	0	219,167	0	-	219,167
EBITDA	152,301	183,409	29,043	0	364,753
EBIT	122,176	124,954	28,886	0	276,016
Financial result			–2,656	–9,857	–12,513
Write-downs on investments			–6,298	0	–6,298
Result from at-equity companies			–6,706	77	–6,629
EBT			13,226	237,350	250,576
Tax expense				–83,860	–88,243
Net income					**162,333**
Segment assets (non-current)	0	427,822	109,626	-	537,448
- thereof domestic	0	350,450	71,331	-	421,781
- thereof shares in associated companies	0	0	30,891	-	30,891
- thereof other financial assets	0	17,589	40,440	-	58,029
- thereof goodwill	0	332,861	0	-	332,861
- thereof non-domestic	0	77,372	38,295	-	115,667
- thereof shares in associated companies	0	999	1,669	-	2,668
- thereof other financial assets	0	7,939	36,626	-	44,565
- thereof goodwill	0	68,434	0	-	68,434
Investments in intangible assets, property, plant and equipment	5,180	49,187	38	-	54,405
Amortization/depreciation	30,125	58,455	157	-	88,737
- thereof intangible assets, property, plant and equipment	30,125	40,380	157	-	70,662
- thereof intangible assets capitalized during company acquisitions	0	14,575	0	-	14,575
- thereof goodwill amortization	0	3,500	0	-	3,500
Number of employees	1,794	3,771	28	-	5,593
- Germany	1,718	2,629	28	-	4,375
- abroad	76	1,142	0	-	1,218

Segment reporting of United Internet AG in fiscal year 2011 was as is shown in the table on the previous page.

5. Cost of sales

	2012 €k	2011 €k
Cost of services	1,204,730	1,061,848
Cost of goods	167,074	140,787
Personnel expenditure	90,543	76,076
Depreciation	46,272	38,789
Others	66,043	58,169
Total	**1,574,662**	**1,375,669**

The cost of sales remained stable in relation to sales revenue at 65.7% compared with the previous year. This resulted in an unchanged gross margin of 34.3%.

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.

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6. Selling expenses

There was a year-on-year increase in selling expenses from € 356,845k (17.0% of sales) to € 461,659k (19.3% of sales). This increase was caused by the further expansion of the 1&1 brand and the ongoing drive to contact and gain new customers.

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.

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7. General and administrative expenses

As in the previous year, general and administrative expenses rose more slowly than sales from € 102,759k (4.9% of sales) in the previous year to € 112,066k (4.7% of sales).

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

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8. Other operating income / expenses

Other operating income in fiscal year 2012 amounted to € 58,467k. Of this total, € 17,928k resulted from income received from the sale of all 3,814,371 shares in freenet AG in October 2012. The sales proceeds amounted to € 48,061k.

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The findings from the tax audit of 2006 to 2008 completed in the reporting period resulted in income of € 1,007k. Please refer to Note 16 for further information.

Further other operating income of € 4,875k resulted from the sale of shares in associated companies of EFF No. 2.

Other operating expenses in fiscal year 2012 totaled € 41,752k (prior year: € 32,923k). They mainly comprised losses due to account receivables of € 31,420k (prior year: € 22.889k), which were countered by income from dunning and return debit charges of € 21,216k (prior year: € 17,808k).

Currency losses (net) in fiscal year 2012 came to € 200k (prior year: currency gains of € 479k).

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Other operating income in fiscal year 2011 was dominated by the sale of shares in Versatel AG amounting to € 16,964k (sales proceeds with call option) or € 6,030k (fair value of granted call option). Please refer to Notes 23 and 24. In addition, the sale of shares in EFF No. 3 resulted in other operating income of € 6,382k. On December 5, 2011 a total of 2,561,220 shares in freenet AG were sold. The sales proceeds amounted to € 24,972k. Other operating income from this transaction amounted to € 4,613k.

9. Depreciation and amortization

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

	2012 €k	2011 €k
Cost of sales	46,272	38,789
Selling expenses	25,178	24,691
General and administrative expenses	7,349	7,182
Total	**78,799**	**70,662**

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

	2012 €k	2011 €k
Portal	9,031	9,031
Customer base / order backlog	4,961	5,139
Software	405	405
Total	**14,397**	**14,575**

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

	2012 €k	2011 €k
WEB.DE portal business	9,282	9,282
united-domains	2,828	2,828
Fasthosts	1,823	1,743
Dollamore	268	601
RevenueDirect	121	121
Cleafs	75	0
Total	**14,397**	**14,575**

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

Contrary to original expectations, the trend toward a downturn in the Domain Parking business became firmer in the first half of fiscal year 2012 – and especially the second quarter. As a consequence, the earnings forecast of the Sedo sub-group was downgraded for fiscal year 2012. In this connection, a non-scheduled impairment test was conducted on June 30, 2012 for the cash-generating unit “Domain Marketing”. This impairment test concluded that goodwill was to be written down by € 43,114k (prior year: € 0k).

In addition, the Sedo sub-group detected a need to write down an amount of € 3,154k (prior year: € 3,500k) for affilinet France. The main reason for this impairment was a further deterioration in earnings of the cash-generating unit “Affiliate Marketing”.

The entire goodwill write-downs of the reporting period 2012 amounted to € 46,268k (prior year: € 3,500k). Please refer to Note 29.

see page 161

11. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2012 €k	2011 €k
Cost of sales	90,543	76,076
Selling expenses	136,352	115,809
General and administrative expenses	48,192	38,234
Total	**275,087**	**230,119**

The number of employees increased from 5,593 in the previous year to 6,254 at year-end 2012, representing growth of 11.8%:

	2012	2011
Germany	4,904	4,375
Abroad	1,350	1,218
Total	**6,254**	**5,593**

The average number of employees in fiscal year 2012 amounted to 6,028 (prior year: 5,334), of which 4,707 (prior year: 4,205) were employed in Germany and 1,321 (prior year: 1,129) abroad.

With regard to company pension plans, the Group only has defined contribution plans. The Company pays contributions to the state pension fund as a result of statutory obligations. There are no other benefit obligations for the Company after payment of the contributions. The current contribution payments are disclosed as an expense in the respective year. In fiscal year 2012, they amounted to € 16,097k (prior year: € 12,572k) and mostly concerned contributions paid to the state pension fund in Germany.

As a result of contribution exemptions, an amount of € 0k (prior year: € 0k) of this total referred to contributions paid to related parties.

12. Financial expenses

	2012 €k	2011 €k
Loans and overdraft facilities	8,610	11,988
Interest expense from interest swap agreements	8,617	5,328
Interest expense from tax audit	6,159	7,323
Interest effect of put option united-domains AG	931	639
Total financial expenses	**24,317**	**25,278**

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The interest cost from a tax audit resulted from interest accruing on tax liabilities. Please refer to Note 16.

see page 170

With regard to the interest effects from the put option of united-domains AG, reference is made to the explanations in Note 35.3.

13. Financial income

	2012 €k	2011 €k
Income from financial investments	5,438	5,621
Income from interest hedging transactions	3,424	1,989
Income from purchase price installments from the sale of shares in associated companies / joint ventures	2,598	1,296
Income from subsequent valuation of options	0	2,680
Interest income from tax audit	1,706	0
Interest income from credit balances with banks	1,152	1,160
Income from loans to associated companies / joint ventures	228	19
Total financial income	**14,546**	**12,765**

Income from financial investments resulted mainly from dividends received for the investment in freenet AG.

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Income from interest hedges is in connection with the change in market value of these hedges. Please refer to Notes 12 and 40.

see page 141

Income from purchase price installments mainly resulted from discounting in connection with the interest-free vendor loan granted on the sale of Versatel shares. Discounting up to the exercise of the call option and resulting repayment of the vendor loan amounted to € 2,301k. Please refer to Note 3.2.

With regard to income from the subsequent valuation of options, please refer to Note3.2.

see page 149

With regard to income from the tax audit, please refer to Note 16.

14. Amortization of investments

Amortization of investments amounted to € 0k (prior year: € 6,298k). Please see Note 25 for further details.

see page 159

15. Result from associated companies

	2012 €k	2011 €k
Result from associated companies	–1,576	–6,629
	–1,576	**–6,629**

The result from associated companies in the previous year resulted mainly from the prorated profit transfer of Versatel GmbH (formerly Versatel AG) sold in May 2011. Please refer to Note 24.

see page 157

16. Income taxes

The income tax expense is comprised as follows:

	2012 €k	2011 €k
Current income taxes		
- Germany	89,761	99,565
- Abroad	5,642	5,699
Total (current period)	**95,403**	**105,264**
Deferred taxes		
- Due to tax loss carryforwards	5,189	–14,087
- Tax effect on temporary differences	–15,923	–2,934
Total deferred taxes	**–10,734**	**–17,021**
Total tax expense	**84,669**	**88,243**

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 2012 amounted to approx. 14.2% (prior year: 14.2%).

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, income taxes also include the following effects:

- Due to the results of the completed tax audit for the assessment periods 2006 to 2008, there are tax expenses not relating to the period of € 13,354k (prior year: € 8.860k). There was also respective income not relating to the period for sales tax of € 1,007k (prior year: expense € 1.180k) and interest income of € 1,706k (prior year: € 0k) as well as interest expenses of € 6,159k (prior year: € 7.323k). These are disclosed under other operating income or in the financial result.

In fiscal year 2011 there were also tax income not relating to the period of € 2.056k.

The tax income recognized directly in equity in fiscal year 2012 amounted to € 976k as of the balance sheet date (prior year: € 1,968k).

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:

	2012 €k	2011 €k
USA	7,723	10,791
France	1,528	3,649
	9,251	**14,440**

In fiscal year 2012, deferred tax assets for tax loss carryforwards of US and French subsidiaries were used in the amount of € 5,189k. This resulted mainly from the change in transfer pricing methods for certain Group companies. In this connection, prior-year losses were netted and existing loss carryforwards used. The decline in tax loss carryforwards in Spain and Poland is to be seen in this context (see table below). The corresponding deferred tax assets were formed in the previous year.

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

	2012 €k	2011 €k
Germany	7,676	7,724
UK	5,587	4,310
France	2,210	1,862
Poland	2,702	4,110
Spain	0	17,383
	18,175	**35,389**

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
- Germany: indefinite, but minimum taxation
- Poland: 5 years
- France: indefinite, but minimum taxation
- USA: indefinite
- UK: indefinite

In Germany, the loss carryforwards can be claimed for an indefinite period. As in the previous year, these relate with a amount of €3.600k to loss carryforwards of Response Republic Beteiligungsgesellschaft Deutschland GmbH which cannot be utilized due to an existing profit transfer agreement.

Deferred taxes resulted from the following items:

	2012		2011	
	Deferred tax assets €k	Deferred tax liabilities €k	Deferred tax assets €k	Deferred tax liabilities €k
Trade receivables	584	1,262	841	0
Inventories	76	0	388	0
Other financial assets - current	904	89	0	0
Other financial assets – non-current	12	181	0	0
Other assets	38,297	0	26,384	101
Property, plant and equipment	2,427	6,457	262	5,180
Intangible assets	7,549	23,263	6,909	22,596
Other accruals	951	531	795	625
Other liabilities	5,063	546	4,744	3,318
Prepaid expenses	2,274	0	2,180	0
Gross value	**58,137**	**32,329**	**42,503**	**31,820**
Tax loss carryforwards	9,251	0	14,440	0
Adjustments for consolidation	117	0	43	1,942
Other items	308	74	476	0
Offsetting	–24,834	–24,834	–24,500	–24,500
Consolidated balance sheet	**42,979**	**7,569**	**32,962**	**9,262**

The net balance of deferred tax assets increased from € 23,700k in the previous year to € 35,410k. As a result, the total change in the net balance of deferred taxes amounted to € 11,710k (prior year: € 18,989k). This change was mainly due to the following factors:

- Increase in deferred tax assets for customer acquisition costs of € 12,599k,
- Decrease in deferred tax liabilities in connection with the call option received for the sale of shares in Versatel GmbH amounting to € 2,614k,
- An opposing effect from the use of deferred tax assets for tax loss carryforwards amounting to € 5,189k.

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

	2012 €k
Deferred tax income	10,734
Deferred tax expense recognized directly in equity	976
Change in the net balance of deferred taxes	**11,710**

Deferred tax liabilities of € 22,359k (prior year: € 22,596k) 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 tax assets without an effect on profit and loss amounting to € 731k (prior year: € 1,707k).

As in the previous year, no deferred tax liabilities were recognized as of December 31, 2012 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:

	2012 %	2011 %
Anticipated tax rate	30.1	30.0
- Actual and deferred taxes for previous years	11.0	2.7
- Amortization of goodwill non-deductible for tax purposes	7.2	0.4
- Amortization of investments non-deductible for tax purposes	0.0	0.8
- Amortization of intangible assets non-deductible for tax purposes	3.0	2.3
- Tax-reduced profit from disposals and income from investments	-3.7	-3.3
- Differences in foreign tax rates	-0.7	0.4
- Employee stock ownership plan	-1.2	0.0
- Tax losses of previous years, for which no deferred taxes have been capitalized	0.5	1.5
- First-time capitalization of tax losses not recognized in previous years	0.0	-1.2
- Allowances for deferred taxes	0.2	0.0
- Consolidation effects	-2.3	0.0
- Non-taxable at-equity results	0.2	0.8
- Balance of other tax-free income and non-deductible expenses	-0.7	0.8
Effective tax rate	**43.6**	**35.2**

With regard to tax effects from other periods, we refer to the disclosures made further above.

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The non-tax-deductible amortization of goodwill refers to the writedowns of the Sedo subgroup in the previous year. Please refer to Note 10.

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.

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With regard to tax breaks on disposal gains, we refer to Note 8.

Consolidation effects include the reversal of deferred tax liabilities formed in the previous year from the measurement of the call option and shares in VictorianFibre Holding & Co. S.C.A., Luxembourg. This item also includes the reversal of deferred tax liabilities from consolidation transactions, as there is no longer any basis for measurement.

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

17. Earnings per share

As of December 31, 2012, capital stock was divided up into 215,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2012, United Internet held 20,662,202 treasury shares (prior year: 21,225,158). 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 193,906,687 for fiscal year 2012 (prior year: 206,416,123).

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, 2012. All option rights existing on December 31, 2012 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 rights 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 4,448,375 (prior year: 3,977,250) potential shares (from the assumed use of rights). Based on an average market price of € 14.79 (prior year: € 13.10), this would result in the issuance of 1,451,240 (prior year: 1,663,082) shares without consideration.

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

	2012 €k	2011 €k
Profit attributable to the shareholders of United Internet AG	**107,805**	**162,328**
Earnings per share (in €)		
- undiluted	0.56	0.79
- diluted	0.55	0.78
Weighted average number of outstanding shares (in million units)		
- undiluted	193.91	206.42
- diluted	195.36	208.08

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

18. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 31, 2012 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.30 per share. The total dividend payment of € 58.1 million was made on June 1, 2012.

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 2012 at the Supervisory Board meeting on March 20, 2013.

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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 signing the annual financial statements, United Internet AG holds no treasury shares (prior year: 21,225,158). We refer to Note 47.

Explanations to the balance sheet

19. 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.

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20. Trade accounts receivable

	2012 €k	2011 €k
Trade accounts receivable	167,873	123,757
less		
Bad debt allowances	–19,107	–17,055
Trade accounts receivable, net	**148,766**	**106,702**

As of December 31, 2012 trade accounts receivable amounting to € 19,107k (prior year: € 17,055k) were impaired. The development of bad debt allowances can be seen below:

	2012 €k	2011 €k
As of January 1	17,055	15,019
Utilization	–12,757	–11,433
Additions charged to the income statement	17,942	14,795
Reversals	–3,023	–1,502
Exchange rate differences	–110	176
As of December 31	**19,107**	**17,055**

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the balance sheet date.

As of the balance sheet date there is no recognizable indication that payment obligations for receivables not adjusted cannot be met.

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

Trade accounts receivable are always stated at nominal value as they are immediately due. Overdue receivables are tested for possible impairment. Individual allowances are mainly formed by classifying receivables according to their age profile. We refer to Note 42.

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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:

	2012 €k	2011 €k
Trade accounts receivable, net		
< 30 days	141,460	98,278
30-60 days	3,158	3,891
60-90 days	1,993	2,365
90-120 days	1,295	1,239
>120 days	860	929
	148,766	**106,702**

21. Inventories

Inventories consisted of the following items:

	2012 €k	2011 €k
Merchandise		
- Mobile telephony / mobile internet	17,377	6,443
- DSL hardware	5,189	4,784
- SIM cards	1,140	1,644
- Video-on-demand hardware	90	604
- Webhosting hardware	261	936
- Other	1,001	1,238
Domain stock held for sale		
- Domain stock	2,122	2,463
	27,180	**18,112**
less		
Allowances	–1,502	–1,392
Inventories, net	**25,678**	**16,720**

The impairment of inventories expensed in the period under review amounted to € 110k (prior year: € 637k). This charge is disclosed in “Cost of sales”.

22. Prepaid expenses

Prepaid expenses of € 45,177k (prior year: € 43,094k) 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.

23. Other current assets

23.1 Other current financial assets

	2012 €k	2011 €k
Creditors with debit balances	11,492	8,060
Payments on account	2,862	2,862
KKR (vendor loan)	0	57,520
KKR (options)	0	8,710
Other	5,177	6,135
Other financial assets, net	**19,531**	**83,287**

The decline in other current assets results mainly from the repayment of an interest-free vendor loan granted to the holding company VictorianFibre Holding GmbH in May 2011 during the sale of Versatel shares. Please refer to Note 3.2.

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23.2 Other current non-financial assets

	2012 €k	2011 €k
Receivables from tax office	4,473	3,632
Other non-financial assets, net	**4,473**	**3,632**

24. Shares in associated companies

	2012 €k	2011 €k
Carrying amount at the beginning of the fiscal year	33,559	84,079
Additions	68,863	2,260
Adjustments		
- Dividends	0	–730
- Impairments	–3,924	0
- Shares in result	2,348	–6,629
- Other	2,166	55
Disposals	–12,131	–45,476
	90,881	**33,559**

The addition to shares in associated companies results mainly from the investment in the parent company of Versatel GmbH, VictorianFibre Holding & Co. S.C.A., Luxembourg. United Internet holds 25.1% of shares in the parent company. Due to the proximity of the balance sheet date, a preliminary price allocation was employed. Please to Note 3.2.

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Impairment charges of € -3,924k mainly refer to shares in associated companies held by EFF No. 2.

Other adjustments totaling € 2,166k resulted from profit contributions to associated companies with an investment value of € 0k. 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 from the sale of shares in internetstores AG, as well as from capital repayments of the investment EFF No. 1. 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 other significant investments in associated companies and joint ventures held as of the balance sheet date:

	2012 **€k**	**2011** **€k**
Current assets	151,880	17,434
Non-current assets	584,927	23,086
Current liabilities	495,408	7,115
Non-current liabilities	159,427	2,052
Shareholders' equity	**81,972**	**31,353**
Sales revenue	643,181	23,112
Net profit	12,808	1,987

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

25. Other non-current financial assets

The development of these shares was as follows:

	Jan. 1, 2012 €k	Additions €k	Amortization of revaluation reserve not recognized in income: Recycling €k	Amortization of revaluation reserve not recognized in income: Additions €k	Impairment €k	Reclassification €k	Disposals €k	Dec. 31, 2012 €k
Goldbach shares	14,957			–657			–530	13,770
Hi-Media shares	10,464			–710				9,754
Afilias shares	7,936			784				8,720
freenet shares	38,143		–8,010				–30,133	0
Portfolio companies of EFF No. 3	11,205	161	–392				–291	10,683
Purchase price receivable	9,519	297						9,816
Others	10,370	11,288				–2,166	–2,102	17,390
	102,594	**11,746**	**–8,402**	**–583**	**0**	**–2,166**	**–33,056**	**70,133**

	Jan. 1, 2011 €k	Additions €k	Amortization of revaluation reserve not recognized in income: Recycling €k	Amortization of revaluation reserve not recognized in income: Additions €k	Impairment €k	Reclassification €k	Disposals €k	Dec. 31, 2011 €k
Goldbach shares	28,120		–12,662				–501	14,957
Hi-Media shares	16,762				–6,298			10,464
Afilias shares	6,755			1,181				7,936
freenet shares	50,367			8,010			–20,234	38,143
Portfolio-Unternehmen der EFF Nr. 3	26,630	446	–3,521				–12,350	11,205
Purchase price receivable	9,163	356						9,519
Others	7,477	3,072				–164	–15	10,370
	145,274	**3,874**	**–16,183**	**9,191**	**–6,298**	**–164**	**–33,100**	**102,594**

The disposal of shares in freenet resulted from the sale of all shares. Please see Note 8.

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The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. 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. 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 of € 297k, the purchase price receivable amounts to € 9,816k as of the balance sheet date (prior year: € 9,519k).

The addition to other financial assets mainly comprises the increase in the loan to ProfitBricks GmbH. At the end of the reporting period, the receivable plus interest amounted to € 8,722k (prior year: € 2,019k). Please refer to Note 41.

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26. Property, plant and equipment

	2012 €k	2011 €k
Acquisition costs		
– Land and buildings	8,229	8,229
– Furniture and fixtures	336,719	292,730
– Payments on account	7,068	13,282
	352,016	**314,241**
Less		
Accumulated depreciation	–242,829	–203,319
Property, plant and equipment, net	**109,187**	**110,922**

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An alternative presentation of the development of property, plant and equipment in the fiscal years 2012 and 2011 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

27. Intangible assets (without goodwill)

	2012 €k	2011 €k
Acquisition costs		
– Licenses	30,021	29,833
– Order backlog	2,398	2,403
– Software	83,741	73,196
– Trademarks	47,191	47,495
– Customer base	190,243	189,334
– Portal	72,303	72,240
	425,897	**414,501**
Less		
Accumulated amortization and impairment	–274,070	–227,124
Intangible assets, net	**151,827**	**187,377**

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An alternative presentation of the development of intangible assets in the fiscal years 2012 and 2011 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 years 2009 and 2010. These externally acquired customer relations will be amortized in scheduled amounts over a period of 6 years. Amortization amounted to € 21,694k in fiscal year 2012 (prior year: € 21,694k), and the carrying amount was € 63,270k.

Intangible assets with indefinite useful lives (trademarks), are allocated to the Applications segment. The carrying values amounted to € 46,296k. Intangible assets with indefinite useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date. There was therefore no impairment in the reporting period (prior year: € 46k).

The following table provides an overview of trademarks:

	2012 €k	2011 €k
Mail.com	20,686	21,112
WEB.DE	17,173	17,173
Fasthosts / Dollamore	4,239	4,136
united-domains	4,198	4,198
	46,296	**46,619**

28. Goodwill

	2012		2011	
	gross €k	net €k	gross €k	net €k
Applications segment	**420,270**	**356,248**	**419,049**	**401,295**

An alternative presentation of the development of goodwill in the fiscal years 2012 and 2011 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

see page 108

29. Impairment of goodwill and intangible assets with indefinite useful lives

The goodwill and intangible assets with indefinite 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.

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

Contrary to original expectations, the trend toward a downturn in the Domain Parking business became firmer in the first and especially the second quarter of 2012. As a consequence, the earnings forecast of the Sedo sub-group was downgraded for fiscal year 2012. In this connection, a non-scheduled impairment test was conducted on June 30, 2012 for the cash-generating unit “Domain Marketing”. This impairment test concluded that goodwill was to be written down by € 43,114k (prior year: € 0k).

In addition, a further deterioration in earnings of the cash-generating unit “Affiliate Marketing” in the Sedo sub-group for affilinet France led to a further impairment need in the amount of € 3,154k (prior year: € 3,500k).

The entire goodwill write-downs of the reporting period 2012 amounted to € 46,268k (prior year: € 3,500k). The impairment charge is disclosed separately in the consolidated assets movement schedule. Please refer to Note 11.

see page 147

Reference is made to the explanations on sensitivities further below. The impairment loss was disclosed separately in the income statement and consolidated assets movement schedule.

Goodwill as of December 31 is distributed among the Applications segment as follows:

	2012 €k	2011 €k
1&1 Mail & Media	228,501	228,501
Fasthosts	57,830	56,419
united-domains	27,970	28,668
InterNetX	5,032	5,032
Dollamore	8,781	8,568
Mail.com	285	291
Domain Marketing	0	43,114
Minority interests	24,649	24,649
Affiliate Marketing	3,200	6,054
	356,248	**401,296**

Non-scheduled impairment test on June 30, 2012 in the Sedo sub-group

Contrary to original expectations, the trend toward a downturn in the Domain Parking business became firmer in the first half of fiscal year 2012 – and especially the second quarter. In this connection, a non-scheduled impairment test was conducted on June 30, 2012 for the goodwill relating to the Sedo sub-group.

In order to test impairment of goodwill, the recoverable amounts of the cash-generating units are measured on the basis of a value-in-use calculation using cash flow forecasts. The value-in-use calculation was based on the respective three-year planning (2012 to 2014) of each cash-generating unit, as approved by management and revised as of the end of the first six months of 2012, as well as a management forecast for 2015. Cash flows of the cash-generating unit Affiliate Marketing expected after the planning period were extrapolated on the basis of a growth rate of 1.0% (balance sheet date December 31, 2011: 1.0%), while in the cash-generating unit Domain Marketing a growth rate of 0% was applied (balance sheet date December 31, 2011: 1.0%). Revenue growth in the planning period 2012 to 2015 was estimated to be within a range of -9% to 20% (balance sheet date December 31, 2011: 6% to 20%). Value-in-use was calculated using a discounted cash flow valuation. The pre-tax discount rates lay between 10% and 14% (balance sheet date December 31, 2011: 10% to 12%). Calculation of the discount rate takes into account the Group's specific circumstances and is based on its weighted average cost of capital (WACC). WACC considers the cost of both debt and equity finance. The company-specific risk is included by using market-observable beta factors calculated annually on the basis of freely available market data.

Domain Marketing
The Sedo sub-group reported a further decline in the revenues and margins of its Domain Parking business. An acceleration of this development in the second quarter of 2012 led Sedo Holding AG to review its parking business, resulting in a significantly more pessimistic assessment of its prospects. The company does not expect any turnaround in future and intends to continue the business on a profitable basis by adapting its structures and using any remaining opportunities. In consideration of this development, planning for the subsequent years was downgraded accordingly. The carrying value of the cash-generating unit thus exceeded the recoverable amount and resulted in an impairment charge of € 43,114k.

Affiliate Marketing
Contrary to original planning, affilinet France failed to achieve a turnaround in the first half of 2012. The results fell short of both planning and the prior-year figures. Revenues were down and there was a decline in the gross margin ratio. In consideration of the first half-year 2012 results and the uncertain market situation due to deteriorating economic conditions in France, planning needed to be revised for the subsequent years. The carrying value of the cash-generating unit affilinet France exceeded the recoverable amount and resulted in an impairment charge of € 3,154k. As on December 31, 2011, there was no impairment need for goodwill of affilinet Germany.

Goodwill from the purchase of non-controlling interests
The purchase of non-controlling interests in the Sedo sub-group resulted in additional goodwill carried on the level of United Internet AG. This goodwill was tested for impairment at sub-group level. Following the write-downs already made, the recoverable amount of the group of cash-generating units “Non-controlling interests” exceeded the carrying value and there is thus no further impairment need.

The impairment test conducted in the first half of 2012 had resulted in total write-downs of € 46,268k. This amount is disclosed separately in the statement of comprehensive income and consolidated assets movement schedule.

Scheduled impairment test on December 31, 2012

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 2013. 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 11% to 13% (prior year: 8% to 12%).

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

CGU	Parameter Previous year	Proportion of total goodwill	2012	2013 2013	2014 2014	2015 2015	2016 > 2016	> 2017
1&1 Mail & Media	Sales growth	64%		3%	14%	13%	12%	1.5%
	Previous year		14%	13%	12%	10%	1.5%	
	Discount rates			11%	11%	11%	11%	9.2%
	Previous year		9%	9%	9%	9%	7.9%	
Fasthosts	Sales growth	16%		5%	15%	14%	14%	2.0%
	Previous year		9%	10%	10%	11%	2.0%	
	Discount rates			11%	11%	11%	11%	9.0%
	Previous year		9%	9%	9%	9%	7.0%	
united-domains	Sales growth	8%		4%	15%	14%	14%	1.0%
	Previous year		9%	10%	10%	11%	1.0%	
	Discount rates			11%	11%	11%	11%	10.3%
	Previous year		9%	9%	9%	9%	7.7%	
InterNetX	Sales growth	1%		12%	15%	14%	14%	2.0%
	Previous year		9%	10%	10%	11%	2.0%	
	Discount rates			11%	11%	11%	11%	8.8%
	Previous year		8%	8%	8%	8%	6.3%	
Dollamore*	Sales growth	2%		–10%	48%	–17%	–21%	–17.8%
	Previous year		9%	10%	10%	11%	2.0%	
	Discount rates			11%	11%	11%	11%	9.4%
	Previous year		9%	9%	9%	9%	7.0%	
Sedo Holding CGU	Sales growth	8%		5–47%				1.0%
	Previous year		6–20%				1.5%	
	Discount rates			12–13%				10.6%
	Previous year		12%	12%	12%	12%	10.5%	

*** Reallocation of business model to 1&1 Internet Ltd. – detailed planning period up to 2018 (-7.8%), >2019 (2.0%)**

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Trademarks recognized in the Applications segment amount to € 46,296k (prior year: € 46,619k; see Note 27). In the course of business combinations, the trademarks were valued at their fair values using appropriate valuation methods (generally the so-called "royalty relief" method, in the cash-generating unit Mail.com using the residual value 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 amounted to 2.0% (prior year: 2.0%). 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 no impairment (prior year: € 46k).

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 varied development of sales within its planning horizon. For cash-generating units, a change of between -21% and 48% is expected for the fiscal years 2013 to 2016 (prior year: between 6% and 20%).

- **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 make assumptions of the developments of gross margins based on market analyses.

- **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 following statements on sensitivity analyses are based on varying risk weightings according to sub-groups.

Sub-group 1&1

The 1&1 sub-group comprises the following cash-generating units or groups of cash-generating units:
- 1&1 Mail & Media
- Fasthosts
- united-domains
- InterNetX
- Dollamore
- Mail.com

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 2 percentage points (prior year: 1 percentage point) would have no effect on the impairment test. Management rates the current risk from interest variations 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.

Sub-group Sedo

At the end of the reporting period, the Sedo sub-group comprised the following cash-generating units or groups of cash-generating units:

- Affiliate Marketing
- Domain Marketing
- Non-controlling interests

Affiliate Marketing
Management of the sub-group Sedo 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 the cash-generating unit “affilinet Germany“ could cause the carrying value to significantly exceed its recoverable value.

Domain Marketing
In a non-scheduled impairment test on June 30, 2012, the recoverable value of the cash-generating unit “Domain Marketing” was found to have fallen below its carrying value. As a consequence, an impairment charge in the full amount of the carrying value was expensed.

Non-controlling interests
Goodwill from the purchase of non-controlling interests is monitored on the level of United Internet AG. The management of United Internet AG 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 the cash-generating unit “non-controlling interests” could cause the carrying value to significantly exceed its recoverable value.

30. Trade accounts payable

Trade accounts payable amounting to € 268,668k (prior year: € 228,981k) are owed to independent third parties with terms of less than one year.

31. Liabilities due to banks

a) Liabilities due to banks

	2012 €k	2011 €k
Bank loans	300,276	524,593
Less		
Current portion of liabilities due to banks	–87,113	–125,152
Non-current portion of liabilities due to banks	**213,163**	**399,441**
Short-term loans/overdrafts	87,113	125,152
Current portion of liabilities due to banks	**87,113**	**125,152**
Total	**300,276**	**524,593**

Bank liabilities as of December 31, 2012, result mainly from a syndicated loan (II).

Syndicated Loan II was concluded on June 7, 2011. The credit line II comprises a Tranche A amounting to € 120 million and a Tranche B of € 360 million. Tranche A is a bullet loan with a term of five years. Tranche B is a revolving syndicated loan which is also used to refinance Tranche B of the syndicated loan of September 14, 2007. Syndicated Loan II expires on June 6, 2016. As of December 31, 2012, € 120 million have been used from Tranche A and € 95 million from Tranche B.

The syndicated loan (I) of September 14, 2007 had a term of five years and expired on September 13, 2012. It was divided into a Tranche A amounting to € 300 million and a Tranche B of originally € 200 million. The outstanding amount as of December 31, 2011 of € 100 million was repaid in full during the reporting period.

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 1.01% and 1.09% (prior year: 2.02% and 2.36%). No collateral was provided for these syndicated loans.

Further liabilities due to banks result from a promissory note loan of € 72.0 million. The promissory note loan was issued on July 23, 2008 at an amount of € 150.0 million. 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 redeemed on schedule in the third quarter of 2011. 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 rate including margin amounts to 1.32% (prior year: 2.64%). No separate collateral was provided for this promissory note loan.

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 Commerzbank AG, Frankfurt, since July 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:

	2012 € million	2011 € million
Credit line	75.0	55.0
Credit line utilization	15.0	0.0
Available credit line	60.0	55.0
Utilization of guarantees	12.3	10.4
Average interest rate (in%)	0.83	n.a.
Unutilized credit facilities	47.7	44.6

Credit facilities have been granted by the banks for limited periods. € 20.0 million expire in November 2013, € 55 million are available until further notice.

A further amount of € 265 million is also available until June 7, 2016 from the unutilized proportion of Syndicated Loan II.

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 as in the previous year. The stated average interest rate as of the reporting date is based on the utilization of the credit line.

32. Accrued taxes

Accrued taxes consist of the following items:

	2012 €k	2011 €k
Germany	45,441	20,155
UK	2,000	1,732
France	1,855	0
Spain	12	8
USA	4	19
	49,312	**21,914**

33. 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.

34. Other accrued liabilities

The development of accruals in fiscal year 2012 was as follows:

	Litigation risks €k	Others €k	Total €k
Jan. 1, 2012	1,063	811	1,874
Utilization	718	385	1,103
Reversal	200	0	200
Addition	927	647	1,574
December 31, 2012	**1,072**	**1,073**	**2,145**

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

Other accruals refer mainly to provisions for impending losses.

35. Other liabilities

35.1 Other current financial liabilities

	2012 €k	2011 €k
Other current financial liabilities		
- Salary liabilities	17,544	13,472
- Marketing and selling expenses / commissions	14,618	17,330
- Liability from interest hedging	10,903	7,243
- Service / maintenance / restoration obligations	2,035	2,139
- Legal and consulting fees, auditing fees	1,903	1,948
- Marketing campaigns	917	957
- Public relations	354	550
- Debitors with credit balances	0	2,318
- Transaction costs for sale of shares	0	200
- Others	3,190	5,591
Total	**51,464**	**51,748**

The liability from interest hedging concerns negative market values as of the balance sheet date. Please refer to Note 40 for a description of these interest hedges.

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35.2 Other current non-financial liabilities

	2012 €k	2011 €k
Other current non-financial liabilities		
- Liabilities to the tax office	17,256	11,358
- Liabilities from tax audit	12,607	8,485
- Others	81	0
Total	**29,944**	**19,843**

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Liabilities to the tax office mainly refer to sales tax liabilities. Please refer to Note 16 with regard to the liability from tax audits.

35.3 Other non-current financial liabilities

The non-current financial liabilities of € 23,214k (prior year: € 26,177k) result mainly from the non-controlling interests of the partnerships EFF No. 2 and EFF No. 3 (€ 4,074k; prior year: € 5,430k), as well as from the negative present values of interest hedging transactions as of the balance sheet date (€ 7,784k; prior year: € 9,623k). The purchase price liability in connection with the purchase of shares in united-domains AG amounts to € 11,356k (prior year: € 11,124k).

In a contract dated December 12, 2008, United Internet Beteiligungen GmbH acquired the shares in united-domains AG. Following the approval of the anti-trust authorities on January 30, 2009, the acquisition was completed on February 27, 2009. 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. 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, 2012 the effect from goodwill adjustment amounted to € -698k (prior year: € 685k), while the effect from accrued interest amounted to € 931k (prior year: € 639k).

36. Share-based payment

36.1 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 - 2012 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 United Internet AG shares 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.

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% at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model in accordance with IFRS 2, the personnel expense for options issued amounted to € 2,674k (prior year: € 3,351k).

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%

	Valuation parameters			
Issue date	14.01.2011	30.03.2011	01.06.2011	28.03.2012
Fair value	224 €k	1,403 €k	1,203 €k	27 €k
Average market value per option	2.80 €	2.81 €	3.01 €	2.72 €
Dividend yield	1.6%	2.7%	2.3%	2.2%
Volatility of the share	47%	43%	37%	34%
Expected term (years)	5	5	5	5
Risk-free interest rate	1.9%	2.6%	2.3%	0.8%

Valuation parameters

Issue date	12.04.2012	02.07.2012	01.10.2012	18.12.2012
Fair value	399 €k	158 €k	992 €k	788 €k
Average market value per option	2.66 €	2.64 €	3.31 €	2.63 €
Dividend yield	2.2%	2.2%	1.9%	1.8%
Volatility of the share	34%	32%	27%	24%
Expected term (years)	5	5	5	5
Risk-free interest rate	0.8%	0.6%	0.4%	0.5%

The total expense from the stock ownership plan amounted to € 22,481k (prior year: € 20,118k). The cumulative expense as of December 31, 2012 totaled € 18,155k (prior year: € 15,480k). Expenses of € 4,326k (prior year: € 4,638k) therefore relate to future years.

Moreover, in fiscal year 2012 an individual commitment for the transfer of 100,000 shares of United Internet AG was granted. The total value o the commitment amounted to € 1,593 thousand on the grant date. Although the shares are not linked to vesting conditions, they will not be transferred until the blocking period ends on December 31, 2015.

Sedo Holding AG

Virtual stock options

The employee stock ownership plan 2007 to 2011 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% 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 € 3k, compared to a personnel income in the previous year of € 300k.

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 in €	**SAR**	Average strike price in €
Outstanding as of December 31, 2010	8,420,000	8,93	490,000	11.48
Issued	80,000	12,12	–	–
Issued	500,000	12,03	–	–
Issued	400,000	13,43	–	–
Expired / forfeited	–199,500	5,52	–200,000	17.41
Expired / forfeited	–200,000	13,89	–30,000	18.15
Expired / forfeited	–300,000	11,30	–30,000	3.72
Expired / forfeited	–9,750	6,07	–100,000	3.72
Expired / forfeited	–	–	–40,000	4.32
Exercised	–500,000	9,89	–	–
Exercised	–590,750	5,52	–	–
Exercised	–250,000	8,96	–	–
Exercised	–352,750	6,07	–	–
Outstanding as of December 31, 2011	6,997,250	9,77	90,000	10.49
Issued	10,000	13,65	–	–
Issued	150,000	13,96	–	–
Issued	60,000	13,30	–	–
Issued	300,000	16,24	–	–
Issued	300,000	16,06	–	–
Expired / forfeited	–21,250	6,07	–10,000	15.51
Expired / forfeited	–15,950	5,52	–	–
Exercised	–150,000	12,82	–	–
Exercised	–346,625	6,07	–	–
Exercised	–550,050	5,52	–	–
Exercised	–250,000	8,96	–	–
Exercised	–5,000	11,33	–	–
Exercised	–100,000	9,73	–	–
Exercised	–100,000	8,96	–	–
Exercised	–10,000	11,73	–	–
Outstanding as of December 31, 2012	6,268,375	10,84	80,000	9.86
Exercisable as of December 31, 2012	600,000	12,85	0	
Exercisable as of December 31, 2011	7,500	5,52	0	
Weighted average remaining term as of December 31, 2012 (in months)	24		23	
Weighted average remaining term as of December 31, 2011 (in months)	31		34	

Sedo Holding AG

Convertible bonds

A further stock ownership plan existed in 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 5,630 outstanding convertible bonds of Sedo Holding AG as of December 31, 2010 at an average strike price of € 3.60 expired in fiscal year 2011. On the prior-year balance sheet date of December 31, 2011, there were therefore no more outstanding convertible bonds. As in fiscal year 2010, there were no expenses recognized in fiscal year 2011 for the issued convertible bonds.

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.

36.2 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 receives sales 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	2 (2012)	3 (2013)	4 (2014)
Share price on issuance	8.95 €	8.95 €	8.95 €
Exercise price on issuance	0.00 €	0.00 €	0.00 €
Average market value per option	8.05 €	7.81 €	7.57 €
Dividend yield	3.2 %	3.2 %	3.2 %
Volatility of the share	58 %	58 %	58 %
Expected term (years)	3.4	4.4	5.4
Risk-free interest rate	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 in the previous year, no expense was recognized for tranches 2 to 4 as of the balance sheet date, as the brokerage service had not yet been rendered.

37. Deferred tax liabilities

Please refer to Note 16 for details on deferred tax liabilities.

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38. Capital stock

As at the balance sheet date, the fully paid-in capital stock amounted to € 215,000,000.00 (prior year: € 215,000,000.00) divided into 215,000,000 (prior year: 215,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

As at December 31, 2012, United Internet AG held a total of 20,662,202 treasury shares (prior year: 21,225,158) representing 9.61% (prior year: 9.87%) of capital stock.

On the basis of existing employee stock ownership plans, 562,956 treasury shares (prior year: 574,842) were issued to employees in two tranches during fiscal year 2012.

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 a maximum of € 112,500,000.00 in the period ending May 25, 2016 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. Pursuant to Sec. 71 (1) No. 8 AktG, the company is entitled to acquire treasury shares until November 30, 2013 up to a limit of ten percent of capital stock. The purchase price may not be lower than ten percent below 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 May 31, 2012.

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.

39. Reserves

As of December 31, 2012, capital reserves amounted to € 25,468k (prior year: € 21,199k). The increase by € 4,269k results from the addition in connection with employee stock ownership plans.

The accumulated result includes the past results of consolidated companies insofar as no dividends were paid.

As of the balance sheet date, the revaluation reserve consisted of the following items:

	2012 €k	2011 €k
- Afilias shares	8,175	7,398
- Goldbach shares	1,625	2,271
- EFF No. 3	521	717
- freenet shares	0	7,890
- Hi-Media shares	–700	0
	9,621	**18,276**

Profit and loss from subsequent valuation to fair value are recognized net in equity – i.e. less deferred taxes – and after non-controlling interests.

Changes in the fair value of interest swaps concluded as part of cash flow hedges, as well as the opposing deferred taxes on these fair value changes, are recognized in the cash flow hedging reserve. It should be noted that only the effective part of the value change is considered in equity. The ineffective part of the change is recognized in the financial result. Due to the level of effectiveness, no ineffective part was recognized in profit or loss for hedges formed in fiscal year 2012 or the previous year.

Translation differences from the annual financial statements of foreign subsidiaries without an effect on profit or loss are recognized in the currency translation adjustment.

An overview of the composition and changes in the reserves described above for the fiscal years 2012 and 2011 is provided in the statement of changes in shareholders' equity.

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40. Additional details on financial instruments

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2012:

	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2012	Valuation acc. to IAS 39: Amortized cost	Valuation acc. to IAS 39: Fair value not through profit or loss	Valuation acc. to IAS 39: Fair value through profit or loss	Fair value on Dec. 31, 2012
	€k	€k	€k	€k	€k	€k
Financial assets						
Cash and cash equivalents	lar	42,828	42,828			42,828
Trade accounts receivable	lar	148,766	148,766			148,766
Other current financial assets	lar	19,531	19,531			19,531
Other non-current financial assets	lar/afs					
Purchase price receivable	lar	9,816	9,816			9,816
Investments	afs	42,927	19,403	23,524		42,927
Others	lar	17,390	17,390			17,390
Financial liabilities						
Trade accounts payable	flac	268,668	268,668			268,668
Liabilities due to banks	flac	300,276	300,276			300,276
Other financial liabilities	flac/hft/hd					
Interest swaps - not hedge accounting	hft	7,100			7,100	7,100
Interest swaps - hedge accounting	hd	11,356		11,356		11,356
Others	flac	56,222	56,222			56,222
Of which aggregated acc. to valuation categories:						
Loans and receivables (lar)	lar	238,331	238,331	0	0	238,331
Available-for-sale (afs)	afs	42,927	19,403	23,524	0	42,927
Financial liabilities measured at amortised cost (flac)	flac	625,166	625,166	0	0	625,166
Held-for-trading (hft)	hft	–7,100	0	0	–7,100	–7,100
Hedging derivatives (hd) (negative market value)	hd	11,356	0	11,356	0	11,356

Due to valuation uncertainties, investments classified as available for sale amounting to € 19,403k were reclassified from "Fair value not affecting income" to the category "Amortized cost" in the reporting period.

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2012:

Net result acc. to valuation categories 2012 (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	Net result
Loans and receivables (lar)	lar	1,380	–	–140	–31,420	–30,180
Available for sale (afs)	afs					
- erfolgsneutral		–	–583	–	–	–583
- erfolgswirksam		5,438	0	–	–	5,438
Financial liabilities measured at amortised cost (flac)	flac	–9,541	–	–60	–	–9,601
Held for trading (hft) – affecting net income	hft	–5,946	3,424	–	–	–2,522
Hedging derivatives (hd) – not affecting net income	hd	–2,671	–5,014	–	–	–7,685
		–11,340	**–2,173**	**–200**	**–31,420**	**–45,133**

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 2011:

	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2011	Valuation acc. to IAS 39 Amortized cost	Valuation acc. to IAS 39 Fair value not through profit or loss	Valuation acc. to IAS 39 Fair value through profit or loss	Fair value on Dec. 31, 2011
	€k	€k	€k	€k	€k	€k
Financial assets						
Cash and cash equivalents	lar	64,867	64,867			64,867
Trade accounts receivable	lar	106,702	106,702			106,702
Other current financial assets	hft/lar					
Call options	hft	8,710			8,710	8,710
Others	lar	74,577	74,577			74,577
Other non-current financial assets	lar/afs					
Purchase price receivable	lar	9,519	9,519			9,519
Investments	afs	82,705		82,705		82,705
Others	lar	10,370	10,370			10,370
Financial liabilities						
Trade accounts payable	flac	228,981	228,981			228,981
Liabilities due to banks	flac	524,593	524,593			524,593
Other financial liabilities	flac/hft/hd					
Interest swaps - not hedge accounting	hft	10,524			10,524	10,524
Interest swaps - hedge accounting	hd	6,342		6,342		6,342
Others	flac	61,059	61,059			61,059
Of which aggregated acc. to valuation categories:						
Loans and receivables (lar)	lar	266,035	266,035	0	0	266,035
Available-for-sale (afs)	afs	82,705	0	82,705	0	82,705
Financial liabilities measured at amortised cost (flac)	flac	814,633	814,633	0	0	814,633
Held-for-trading (hft)	hft	–1,814	0	0	–1,814	–1,814
Hedging derivatives (hd) (negative market value)	hd	6,342	0	6,342	0	6,342

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2011:

Net result acc. to valuation categories 2011 (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	Net result
Loans and receivables (lar)	lar	2,475	–	335	–23,435	–20,625
Available for sale (afs)	afs					
- erfolgsneutral		–	9,191	–	–	9,191
- erfolgswirksam		5,621	–6,298	–	–	–677
Financial liabilities measured at amortised cost (flac)	flac	–12,627	–	144	–	–12,483
Held for trading (hft) – affecting net income	hft	–4,765	4,669	–	–	–96
Hedging derivatives (hd) – not affecting net income	hft	–563	–6,342	–	–	–6,905
		–9,859	**1,220**	**479**	**–23,435**	**–31,595**

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 2012, 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 2012, 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.
- With regard to the call options received in the previous year as part of the Versatel transaction (Note 3.2), valuation is also based on input parameters observable on the market using a Black-Scholes model. The main valuation parameters of this model are the term, value of the underlying, volatility and risk-free interest rate.

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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, 2012 €k	Level 1 €k	Level 2 €k	Level 3 €k
Available-for-sale financial assets				
Listed shares	23,524	23,524		
Financial liabilities at fair value through profit or loss				
Interest rate swap	7,100		7,100	
Financial liabilities at fair value not through profit or loss				
Interest rate swap	11,356		11,356	

During the reporting period ending 31 December 2012, there were no transfers between Level 1 and Level 2. Due to valuation uncertainties, investments classified as available for sale amounting to € 19,403k were reclassified from “Fair value not affecting income” to the category “Amortized cost” in the reporting period. There was therefore a derecognition from Level 3 fair value measurements.

	As of Dec. 31, 2011 T€	Level 1 €k	Level 2 €k	Level 3 €k
Available-for-sale financial assets				
Listed shares	63,564	63,564		
Shares in unlisted companies	19,141			19,141
Financial assets at fair value through profit or loss				
Call option	8,710		8,710	
Financial liabilities at fair value through profit or loss				
Interest rate swap	10,524		10,524	
Financial liabilities at fair value not through profit or loss				
Interest rate swap	6,342		6,342	

The valuation of shares in unlisted companies is mainly based on present value models, using planning calculations and market-observable interest rates. The resulting fair values are compared with information from market transactions of comparable shares.

Derivative financial instruments

The United Internet Group holds the following derivative financial instruments:

- In fiscal year 2011, the United Internet Group was granted a call option in connection with the Versatel transaction (see Note 3.2) for shares in the company. The positive fair value as of the balance sheet date on December 31, 2011 amounted to € 8,710k and was disclosed under other current financial assets. The option was exercised in December 2012.
- In fiscal year 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 rate 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 amounted to € 7,100k (prior year: € 10,524k) and is disclosed under other financial liabilities.
- In fiscal year 2011, United Internet AG concluded four interest swap agreements. The total nominal volume amounts to € 180,000k with a term until June 7, 2016. The interest hedging transactions were concluded to hedge against the interest rate risk, meet the requirements of IAS 39 on Hedge Accounting and, if effective, were recognized in equity at fair value. The negative fair value as of the balance sheet date amounted to € 11,587k (prior year: € 6,342k) and is disclosed under other financial liabilities.

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41. 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 of United Internet AG.

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 April 2015 and April or December 2016, June 2019, and September 2021. The resulting rent expenses are customary and amounted to € 2,902k in fiscal year 2012 (prior year: € 2,407k).

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 2012, 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
- Graphisoft S.E, Budapest / Hungary
- Singhammer IT Consulting AG, Munich

Kai-Uwe Ricke
- 1&1 Internet AG, Montabaur
- Exigen Capital Europa AG, Zurich / Switzerland (departed on October 30, 2012)
- SUSI Partner AG, Zürich / Switzerland (since February 22, 2012)
- euNetworks Group Ltd., Singapore / Singapore
- Delta Partners, Dubai / Emirate of Dubai

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 € 30k per full fiscal year. 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 of United Internet and 1&1 Internet AG:

	United Internet AG			1&1 Internet AG			Total		
2012	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
Kurt Dobitsch	20	0	20	20	47	67	40	47	87
Kai-Uwe Ricke	10	0	10	20	47	67	30	47	77
Michael Scheeren	10	0	10	30	47	77	40	47	87
Total	**40**	**0**	**40**	**70**	**141**	**211**	**110**	**141**	**251**
2011	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
Kurt Dobitsch	20	20	40	20	47	67	40	67	107
Kai-Uwe Ricke	10	20	30	20	47	67	30	67	97
Michael Scheeren	10	20	30	30	47	77	40	67	107
Total	40	60	100	**70**	**141**	**211**	**110**	**201**	**311**

In addition, Mr. Michael Scheeren receives remuneration as a member of the Supervisory Board of Sedo Holding AG. In accordance with a resolution adopted by the Annual Shareholders' Meeting of May 26, 2008, 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 € 15k 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 € 250 for every € 0.01 of earnings per share of Sedo holding AG, as disclosed in the Company's consolidated financial statements according to IFRS, which exceeds a minimum amount of € 0.30 per share.

As the chairman of the Supervisory Board of Sedo Holding AG, Mr. Michael Scheeren received remuneration of € 30k for fiscal year 2012 (prior year: € 30k).

On December 15, 2010 affilinet GmbH signed a consultancy agreement with Mr. Michael Scheeren. Mr. Scheeren helped affilinet GmbH implement the results of a completed strategic advice project and integrate them into its operating processes. This did 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 in fiscal year 2011 amounted to € 60k. The consultancy agreement was ended on July 31, 2011 on successful completion of the project.

There are no subscription rights or share-based payments for members of the Supervisory Board.

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 2011. 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 90% to 120%. No bonus is paid below 90% 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 2012, total remuneration of € 872k (prior year: € 1,046k) was agreed for the Management Board. Of this total, € 600k or 69% was fixed and € 272k or 31% 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. In fiscal year 2012, Mr. Norbert Lang exercised 200,000 rights at a strike price of € 5.52 each.

The following table provides details on the compensation received by members of the Management Board:

2012	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	152	452
Norbert Lang	300	120	420
Total	**600**	**272**	**872**

2011	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	249	549
Norbert Lang	300	197	497
Total	**600**	**446**	**1,046**

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:

			Jan. 1, 2012			Dec. 31, 2012
Executive Board	Direct	Indirect	Total	Direct	Indirect	Total
Ralph Dommermuth	17,600,000	72,400,000	90,000,000	0	88,000,000	88,000,000
Norbert Lang	40,449	402,428	442,877	121,804	402,428	524,232
Total	**17,640,449**	**72,802,428**	**90,442,877**	**121,804**	**88,402,428**	**88,524,232**
Supervisory Board	Direct	Indirect	Total	Direct	Indirect	Total
Kurt Dobitsch	-	-	-	-	-	-
Kai-Uwe Ricke	-	-	-	-	-	-
Michael Scheeren	700,000	-	700,000	600,000	-	600,000
Total	**700,000**	**-**	**700,000**	**600,000**	**-**	**600,000**

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 2012 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.

There are a total of 3 loan agreements with the associated company ProfitBricks GmbH with a total volume of € 12.7 million. The total volume can be drawn in individual tranches. The interest on the loans is not due until March 31, 2016 and March 31, 2020. The contract provides for special repayment possibilities. At the end of the reporting period, the receivable including interest amounted to € 8,722k (prior year: € 2,019k).

There is a loan agreement with der TLDDOT GmbH, Berlin, with a volume of € 510k as of December 31, 2012. The loan can be drawn in three tranches, which are each linked to certain conditions. The loan bears interest of 1.75% p.a.. Interest is due at the end of each year. The loan expires on December 31, 2023. The loan agreement includes a repayment plan and special repayment possibilities. As of the balance sheet date, the receivable amounted to € 30k.

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	
2012	2011	2012	2011	2012	2011	2012	2011
€k	€k	€k	€k	€k	€k	€k	€k
885	424	124	30	601	718	8,883	1,855

Receivables from other related parties mainly result from interest due on loans to ProfitBricks GmbH. Interest income of € 228k accrued in this connection.

Interest income		Interest expense	
2012	2011	2012	2011
€k	€k	€k	€k
228	19	13	11

42. 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.

The 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 the 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, 2012 and 2011:

	Dec. 31, 2012 €k	2013 €k	2014 €k	2015 €k	2016 €k	> 2017 €k	Total €k
Liabilities to banks	300.276	88.344	2.587	3.046	216.885	0	310.862
Trade accounts payable	268.668	268.668	0	0	0	0	268.668
Other financial liabilities	74.678	51.813	14.642	3.152	1.283	4.074	74.964

	Dec. 31, 2011 €k	2012 €k	2013 €k	2014 €k	2015 €k	> 2016 €k	Total €k
Liabilities to banks	524.593	133.294	79.361	7.283	9.053	335.587	564.578
Trade accounts payable	228.981	228.981	0	0	0	0	228.981
Other financial liabilities	77.925	51.747	7.563	12.676	607	5.332	77.925

Please refer to Note 31 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 2016. 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.

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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 possibilities and borrowing structure. 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.

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In fiscal years 2008 and 2011, the Company concluded a total of six interest swaps with a total nominal amount of € 380,000k (prior year: € 380,000k) in order to reduce its interest risk. As of the balance sheet date, all liabilities due to banks are therefore covered (prior year: € 524,593k; around 72%). The agreements have terms until October 9, 2013 and June 7, 2016. Please refer to Note 40.

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 € 1,521k (prior year: € 3,530k) or a decrease of € 1,545k (prior year: € 3,579k).

A change in the market interest level also has an effect on interest swaps concluded in fiscal year 2012 stated at fair value with no 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 € 5,898k or a decrease of € 6,115k.

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 its foreign currency risks. On the basis of this analysis, there are no indications for significant currency risks which require reporting.

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 € 23,524k as of the balance sheet date (prior year: € 63,564k).

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 20).

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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 purchase treasury shares and place them again if required, or issue new shares. As of December 31, 2012 and December 31, 2011, no changes were made to the Company's targets, methods and processes.

43. Specific contingencies and commitments

Litigation

Litigation risks mainly relate to various legal disputes of 1&1 and Sedo Holding.

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An accrual for litigation was formed for any commitments arising from these disputes (see Note 34).

Guarantees

As of the balance sheet date, the Company has issued no guarantees.

44. 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:

	2012 €k	2011 €k
Up to 1 year	20,095	17,554
1 to 5 years	50,614	45,217
Over 5 years	22,237	19,018
	92,946	**81,789**

In the period under review, these operating leases incurred expenses of € 17,637k (prior year: € 16,067k).

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.

45. Cash flow statement

In fiscal year 2012, cash flow from operating activities includes interest payments of € 16,096k (prior year: € 24,236k) and interest income of € 520k (prior year: € 3,550k). Income tax payments in fiscal year 2012 amounted to € 68,748k (prior year: € 141,905k) while income tax proceeds totaled € 4,569k (prior year: € 16,768k). Proceeds from dividends distributed by other investments amounted to € 5,438k (prior year: € 5,621k) in fiscal year 2012.

A total of € 60,153k (prior year: € 2,260k) was paid in cash for the purchase of shares in associated companies and € 59,821k was received in cash from the repayment of a vendor loan in fiscal year 2012. Proceeds from dividends paid by associated companies totaled € 0k (prior year: € 730k). Further details are provided in Note 24.

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The sale of shares in associated companies and investments resulted in total cash proceeds of € 59,461k (prior year: € 44,592k) in fiscal year 2012.

Other non-cash expenses and income mainly comprise income recognized through profit or loss from the discounting of deferred loan repayments, as well as income recognized through profit or loss for market value changes in interest swaps.

46. 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 Holding GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 De-Mail 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
- 1&1 Access Holding GmbH, Montabaur
- 1&1 Internet Service Holding GmbH, Montabaur
- 1&1 Corporate Services GmbH, Montabaur

47. Subsequent events

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on January 7, 2013, 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 € 15,000,000, from € 215,000,000 to € 200,000,000. The number of shares issued decreased correspondingly from 215,000,000 shares to 200,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on February 1, 2013, to cancel a total of 6,000,000 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 € 6,000,000, from € 200,000,000 to € 194,000,000. The number of shares issued decreased correspondingly from 200,000,000 shares to 194,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

48. Auditing fees

In fiscal year 2012, auditing fees totaling € 2,798k (prior year: € 2,315k) were expensed in the consolidated financial statements. These include auditing fees of € 1,064k (prior year: € 1,068k), tax consultancy services of € 1,306k (prior year: € 946k), and other services of € 260k (prior year: 301k).

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).

www.united-internet.com
www.sedoholding.com

Montabaur, March 15, 2013

Board of Management

Ralph Dommermuth | Robert Hoffmann | 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, 2012. 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.

Eschborn/Frankfurt am Main, March 18, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Grote	Kemmerich
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report and Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Montabaur, March 15, 2013

Board of Management

Ralph Dommermuth   Robert Hoffmann   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
- Cambridge
- Chesterbrook
- Lenexa
- Las Vegas
- Miami

Philippines
- Cebu City

Brazil
- Sao Paolo

Canada
- Vancouver

EUROPE

Germany
- Montabaur
- Cologne
- Duesseldorf
- Hamburg
- Hanover
- Karlsruhe
- Munich
- Regensburg
- Starnberg
- Zweibrücken

France
- Paris
- Saargemund
- Saint-Denis
- Strassburg

United Kingdom
- Gloucester
- London
- Slough

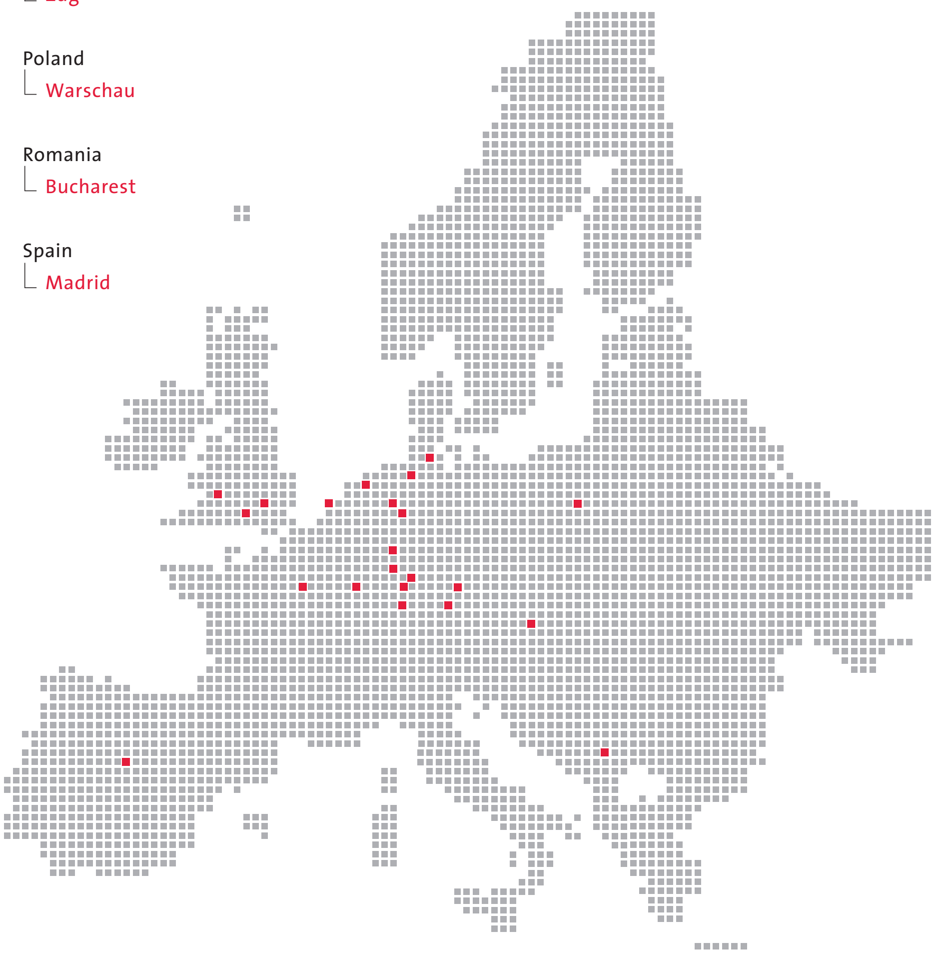
The Netherlands
- Haarlem
- Groningen

Austria-
- Wien
- Zug

Poland
- Warschau

Romania
- Bucharest

Spain
- Madrid



Glossary

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.

COSO
= Committee of Sponsoring Organizations of the Treadway Commission. Organization in the USA dedicated to improving the internal control systems of companies and which has issued various guidelines.

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.

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

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.

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.

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.

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.

V-DSL
= Very High Speed Digital Subscriber Line. VDSL is a DSL technology which provides higher data transfer rates than conventional DSL connections. In Germany, maximum transfer rates of 50 MBit/s downstream and 10 MBit/s upstream are currently offered.

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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This annual report is available in German and English. Both versions can be downloaded from www.united-internet.com. In all cases of doubt, the German version shall prevail.

Financial calendar

March 21, 2013	Annual financial statements for fiscal year 2013 press and analyst conference
May 21, 2013	3-Month Report 2013
May 23, 2013	Annual Shareholders' Meeting, Alte Oper, Frankfurt/Main
August 14, 2013	6-Month Report 2013
November 14, 2013	9-Month Report 2013

Quarterly development

in € million	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4 2011
Sales	576.9	586.6	603.1	630.0	557.0
Cost of sales	–380.6	–391.2	–394.8	–408.0	–357.2
Gross profit	**196.3**	**195.4**	**208.3**	**222.0**	**199.8**
Selling expenses	–119.4	–112.8	–108.3	–121.2	–116.5
General administrative expenses	–24.6	–27.9	–27.1	–32.4	–31.5
Other operating income / expense	–0.3	4.4	–3.9	16.5	7.8
Amortization of intangible assets resulting from company acquisitions	–3.7	–3.6	–3.6	–3.5	–3.7
Amortization of goodwill	0.0	–46.3	0.0	0.0	–3.5
Operating result	**48.3**	**9.2**	**65.4**	**81.4**	**52.4**
Financial result	–3.9	0.4	–3.2	–3.0	–8.8
Amortization of investments	0.0	0.0	0.0	0.0	–6.3
Result from associated companies	0.0	–4.5	–0.5	3.4	3.1
Pre-tax result	**44.4**	**5.1**	**61.7**	**81.8**	**40.4**
Income taxes	–15.2	–18.8	–17.2	–33.5	–24.4
Net income before non-controlling interests	**29.2**	**–13.7**	**44.5**	**48.3**	**16.0**
Attributable to					
non-controlling interests	0.3	0.0	0.0	0.2	–0.7
shareholders of United Internet AG	28.9	–13.7	44.5	48.1	16.7
Result per share of shareholders of United Internet AG (in €)					
– basic	0.15	–0.07	0.23	0.25	0.10
– diluted	0.15	–0.07	0.23	0.24	0.09

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