united internet

Management Report for the Group and Parent Company

Consolidated Annual Financial Statements acc. to IFRS

of the Management Board
for the fiscal year 2011

Highlights 2011

Further strong acceleration in customer growth

+910,000 contracts (prior year: +610,000) to 10.67 million

Dynamic mobile internet business

+520,000 contracts to 790,000

Growth in DSL complete packages, decline in old business

+190,000 DSL complete package contracts vs. -260,000 narrowband, T- and R-DSL contracts

Stable growth in fee-based applications

+460,000 contracts, of which +280,000 abroad, to 6.59 million

Dynamic growth in ad-financed applications

+1.7 million free accounts to 28.0 million

Strong sales growth

+9.8% to over € 2.09 billion

Significant rise in EBT despite high investments in new business fields

+16.1% to € 250.6 million

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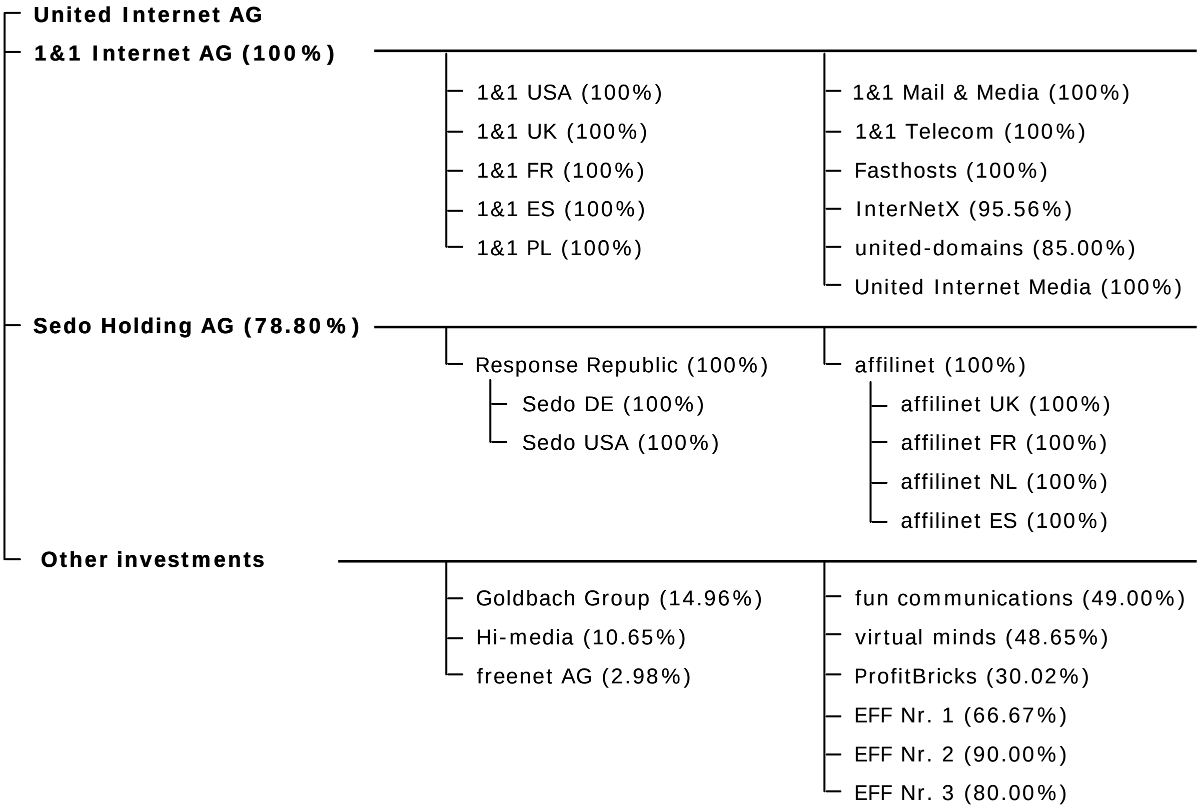
1 Group structure and business operations

Group structure

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 Telecom GmbH, 1&1 Mail & Media GmbH, United Internet Media AG, Fasthosts Internet Ltd., InterNetX GmbH and united-domains AG, as well as Sedo Holding AG, Sedo GmbH and affilinet GmbH, and their foreign subsidiaries.

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


United Internet AG
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 (85.00%)
United Internet Media (100%)
Sedo Holding AG (78.80%)
Response Republic (100%)
Sedo DE (100%)
Sedo USA (100%)
affilinet (100%)
affilinet UK (100%)
affilinet FR (100%)
affilinet NL (100%)
affilinet ES (100%)
Other investments
Goldbach Group (14.96%)
Hi-media (10.65%)
freenet AG (2.98%)
fun communications (49.00%)
virtual minds (48.65%)
ProfitBricks (30.02%)
EFF Nr. 1 (66.67%)
EFF Nr. 2 (90.00%)
EFF Nr. 3 (80.00%)

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 company freenet AG (United Internet shareholding: 2.98%), as well as the listed online marketing companies Goldbach Group AG, Switzerland (14.96%) and Hi-media S.A., France (10.65%), fun communications GmbH (49%), virtual minds AG (48.65%), and ProfitBricks GmbH (30.02%), as well as a number of other internet investments (45 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 then enhanced with end-user devices, self-developed applications and services from the company’s own “Internet Factory” in order to differentiate them from the competition. Access products are marketed by the strong brands GMX, WEB.DE and 1&1, which enable the company to offer a comprehensive range of products to a mass market while also targeting specific customer groups.

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

2 Economic environment

Slowdown in economic growth since summer 2011

Following strong growth in 2010 (+5.2%) and the first half of 2011, the global economy suffered a severe setback in the second half of the year. The International Monetary Fund (IMF) was repeatedly forced to downgrade its forecasts for 2011 during the course of the year. In the latest update to its World Economic Outlook in January 2012, the Fund finally recorded global growth of 3.8% for 2011 – after having forecast 4.4% before year-end.

According to the IMF's economists, the causes for the slowdown as of mid 2011 included the catastrophic earthquake in Japan, the Euro crisis, the weak US economy, and the resulting risk aversion of many investors.

Global growth in 2011 was driven mainly by the emerging and developing economies, which grew by 6.2% (after 7.3% in the previous year). Growth was much weaker in the developed economies of Europe, North America and Japan, which only managed growth of 1.6% (after 3.2% in the previous year).

At 1.6%, growth in the Euro zone was 0.3 percentage points below the prior-year figure of 1.9%. Germany continued to drive Europe's economic development: according to IMF calculations, it achieved growth of 3.0% (after 3.6% in the previous year) despite a difficult second half to the year. In contrast to the previous year, and many preceding years in which foreign trade was the main engine room for the German economy, this role was assumed by domestic demand in 2011 with a considerable increase in consumer and capital spending. Thanks to an increase in employment figures, significantly stronger consumer spending helped propel the country's economic development.

All in all, the German economy proved considerably more robust than those of many other target markets of United Internet: USA (+1.8%), Canada (+2.3%), UK (+0.9%), France (+1.6%), Spain (+0.7%).

ICT markets also return to growth

The global market for information technology, telecommunications and digital consumer electronics (ICT) grew by 3.5% in 2011. According to figures of the German ICT association BITKOM (Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e.V.), the German ICT sector grew by 0.5% to € 148.6 billion – following growth of 3.9% in 2010. The development of the 3 ICT markets differed greatly, however: whereas the market for information technology grew by 3.1%, the telecommunications and consumer electronics (digital entertainment electronics) markets shrank by 0.7% and 6.3%, respectively.

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

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 growth of 1.1 million in 2011 to 27.5 million, the number of new connections fell once again – following 1.3 million in 2010, 2.3 million in 2009 and 3.1 million in 2008 – 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 2011 published on October 27, 2011.

According to industry association BITKOM, sales of broadband internet access grew by 1.8% to €13.6 billion.

The volume of data used, however, is growing much more strongly than the total number of activated connections – as an indicator of the continued increase in usage – with growth of 22.9% to 4.3 billion GB.

Key figures for the German broadband market (fixed line)

	2010	2011	Growth
Broadband connections (in million)	26.4	27.5	4.2%
Broadband revenues (in € billion)	13.4	13.6	1.5%
Data volume (in billion GB)	3.5	4.3	22.9%

Source: BITKOM / EITO, Dialog Consult / VATM
(Broadband connections and data volumes 2011: extrapolations of Dialog Consult / VATM)

Mobile internet

The German mobile internet market displayed much more dynamic growth in 2011. According to BITKOM figures, sales of mobile data services rose by 16% to € 7.5 billion in 2011. At the same time, the data volume of the German mobile phone market – as an indicator of the growing use of mobile data services – grew by over 65% to 108 million gigabytes. A major reason for this growth is the boom in smartphones, sales of which increased by 31% to 11.8 million in 2011.

The success of portable computers has given a further boost to the mobile internet market. Tablet PCs are currently replacing netbooks as the preferred mobile end user device. With an expected volume of 2.1 million in Germany during 2011, sales of mobile computers grew by 160%. Most tablet PCs have a UMTS modem fitted as standard – enabling users to go online from virtually any location in Germany. As their screens are much larger than those of smartphones, tablet PCs are even better suited to mobile surfing, e-mail reading or data-intensive applications like video streaming.

Key figures for the German mobile internet market

	2010	2011	Growth
Smartphones (in units)	9.0	11.8	31%
Mobile internet revenues (in € billion)	6.5	7.5	15%
Data volume (in million GB)	65.4	108.0	65%

Source: BITKOM

Online advertising

The German online advertising market grew to € 5.7 billion in 2010. 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). As a result, the online proportion of the media mix continued to grow and has now reached about one fifth (19.6%) of the total advertising market. Online advertising therefore remains the second strongest advertising medium after TV.

The latest OVK survey uses adjusted valuations of data provided by Nielsen for the performance segment of the classic online advertising market. As a result of these adjustments, the nominal values of gross advertising volume and growth in 2011 are slightly lower than when using the assessment method of last year's OVK forecast. According to OVK, direct comparisons using market data of the preceding years (gross advertising spend 2010 based on former assessment method: € 5.36 billion) are "thus no longer possible nor permitted".

Cloud computing

Cloud computing was once again a central topic in 2011. In the annual trend survey conducted by BITKOM, cloud computing came top for the third time in a row. This technology is no short-term trend, however, but represents a fundamental shift in the provision and use of IT services.

In 2011, revenue generated with cloud applications in Germany – according to the Experton Group – grew by almost 67% to € 1.9 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.

Growth of cloud computing (B2B) in Germany

	2010	2011	Growth
Sales (in € billion)	1.14	1.90	67%

Source: BITKOM / Experton Group

3 Business development of the Group

Fiscal year 2011 was a successful period for United Internet. The company set new records in sales (+9.8% to € 2,094.1 million) and the number of customer contracts (+910,000 to 10.67 million). Despite considerably higher investments in customer growth, the establishment of new business fields, and further international expansion, there was also across-the-board growth in earnings figures compared to the previous year.

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 United Internet'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 then 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 strong brands GMX, WEB.DE and 1&1, which reach a mass market while also targeting specific customer groups.

In line with the positive development of customer figures, sales of the "Access" segment grew strongly by 11.2% from € 1,230.1 million to € 1,368.0 million in fiscal year 2011. As a result, the "Access" segment accounted for 65.3% of the Group's total sales.

Despite increased investments in customer growth (+450,000 contracts in 2011 compared to +130,000 in the previous year) and the full expensing of smartphone subsidies in the company's fast growing Mobile Internet business (+520,000 contracts in 2011 compared to +180,000 in the previous year), there was strong year-on-year growth in EBITDA of 24.2% to € 152.3 million (prior year: € 122.6 million), while EBIT climbed 32.8% to € 122.2 million (prior year: € 92.0 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 0.8% to 1,794 (prior year: 1,780).

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

	2010	2011
Sales	1,230.1	1,368.0
EBITDA	122.6	152.3
EBIT	92.0	122.2

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

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q4 2010
Sales	321.2	336.0	351.0	359.8	317.1
EBITDA	31.1	34.4	43.6	43.2	20.0
EBIT	23.8	27.2	36.2	35.0	9.2

In fiscal year 2011, the number of fee-based contracts in the “Access” segment increased by 450,000 contracts to 4.08 million as of December 31, 2011. Following a decline of 100,000 contracts in 2009 (excluding the acquired freenet DSL contracts) and an increase of 130,000 contracts in 2010, this contract growth not only confirmed the segment’s successful turnaround but also accelerated the pace of growth once again.

Broken down into the individual product lines, a total of 520,000 new customer contracts were activated in the segment’s Mobile Internet business, thus raising the number of customers to 790,000. There was also growth in the important complete DSL contracts of 190,000 customers to a total of 2.51 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 2011 (-260,000 customer relationships).

Development of customer contracts in the “Access” segment in fiscal year 2011

	Dec. 31, 2010	Dec. 31, 2011	+ / -
Access, total	3.63 million	4.08 million	+ 450,000
of which DSL complete packages	2.32 million	2.51 million	+ 190,000
of which Mobile Internet	0.27 million	0.79 million	+ 520,000
of which narrowband / T-DSL / R-DSL	1.04 million	0.78 million	- 260,000

Development of customer contracts in the “Access” segment in Q4 2011

	Sep. 30, 2011	Dec. 31, 2011	+ / -
Access, total	3.91 million	4.08 million	+ 170,000
of which DSL complete packages	2.45 million	2.51 million	+ 60,000
of which Mobile Internet	0.61 million	0.79 million	+ 180,000
of which narrowband / T-DSL / R-DSL	0.85 million	0.78 million	- 70,000

Product highlights 2011

In its operating business, the segment’s main focus in fiscal year 2011 was placed on enhanced performance and a “money back guarantee” for its DSL products, as well as new end-user devices and new international options for Mobile Internet products:

- Cloud storage for 1&1 DSL Home Network: As of January 2011, United Internet’s 1&1 brand provides 100 GB of free online storage space for all DSL premium tariffs. Data can be archived via any computer in the customer’s home network. The files are securely stored at one of 1&1’s high-performance data centers. With the aid of a password, this Personal Cloud Storage data can not only be accessed from all PCs in the home network, but also from outside the home via the internet – as easily as using a local hard drive. Moreover, users can choose to share holiday photos with friends and acquaintances, for example, with password protection. If necessary, the storage space can also be flexibly expanded.

- 1&1 DSL now with money-back guarantee: In July 2011, 1&1 added a new quality promise to its DSL tariffs with the introduction of a money-back guarantee for its DSL Surf and Double Flat tariffs with minimum contract terms. Customers have a right of return for up to 30 days after their DSL line has been activated. Anyone truly dissatisfied only has to call 1&1 and return the router. The DSL contract is immediately terminated and any fees paid so far are reimbursed.

- International options for 1&1 Mobile: Using a mobile device to send e-mails or make phone calls while abroad often used to result in a confusing list of additional charges. As of August 2011, 1&1 now offers greater transparency for such foreign charges with the addition of international options for its mobile tariffs. The new "1&1 Foreign Surf Package" option is available for both the "1&1 Notebook Flat" and "1&1 All-Net Flat" tariffs. Within the "1&1 All-Net Flat" tariff, a 50 MB data volume option costs € 9.99. As much as 100 MB is included in the Notebook Flat tariffs for €9.99. And to make the cost of phoning abroad cheaper and clearer, 1&1

also offers an optional "1&1 Travel Option" for users of its "1&1 All-Net Flat".

Outlook 2012

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

Considerable investments were made in customer growth and international expansion in the “Applications” segment during fiscal year 2011. Thanks to stable customer growth, sales of the “Applications” segment rose by 7.3% in fiscal 2011, from € 676.5 million to € 725.8 million. Adjusted for currency effects, growth amounted to 8.2%. As a result, the segment accounted for around 34.7% of total Group sales. Business outside Germany grew by 9.9% and contributed a total of € 219.2 million (prior year: € 199.5 million) to segment sales.

Key earnings figures in this segment comprise high expenditure for the development of new Cloud products, the cost of international expansion, and greatly increased marketing expenses – especially for the launch of 1&1’s Do-It-Yourself Homepage in 5 foreign markets. Start-up costs totaling € 61.1 million were expensed for these activities. In view of these burdens, there was an expected year-on-year decline in segment EBITDA of 21.2% to € 183.4 million (prior year: € 232.7 million) and in segment EBIT of 29.5% to € 125.0 million (prior year: € 177.3 million).

Customer acquisition costs in this segment also continue to be charged directly as expenses. The number of employees in this segment grew by 17.4% to 3,771 (prior year: 3,211).

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

	2010	2011
Sales	676.5	725.8
EBITDA	232.7	183.4
EBIT	177.3	125.0

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

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q4 2010
Sales	177.3	174.7	176.7	197.1	181.0
EBITDA	58.9	52.5	41.6	30.4	59.9
EBIT	46.0	39.1	27.6	12.3	44.8

The number of fee-based contracts world-wide grew by 460,000 to 6.59 million (of which +280.000 to 2.73 million abroad). This growth in contracts resulted from 370,000 new Business Application contracts and 90,000 new Consumer Application contracts, raising their respective totals to 4.67 million and 1.92 million.

In fiscal year 2011, the number of ad-financed accounts grew from 28.0 million to 30.8 million – whereby the free accounts of Mail.com (around 1.5 million) were included in reporting for the first time in September 2011.

In addition to this successful customer acquisition, United Internet continued to drive its international expansion in 2011 with the launch of fee-based products in Poland and entry into the Canadian and Argentinean markets.

Development of customer contracts in the “Applications” segment in fiscal year 2011

	Dec. 31, 2010	Dec. 31, 2011	+ / -
Total fee-based contracts	6.13 million	6.59 million	+ 460,000
of which “domestic”	3.68 million	3.86 million	+ 180,000
of which “foreign”	2.45 million	2.73 million	+ 280,000
Ad-financed accounts	28.0 million	30.8 million	+ 2,800,000

Development of customer contracts in the “Applications” segment in Q4 2011

	Sep. 30, 2011	Dec. 31, 2011	+ / -
Total fee-based contracts	6.46 million	6.59 million	+ 130,000
of which “domestic”	3.83 million	3.86 million	+ 30,000
of which “foreign”	2.63 million	2.73 million	+ 100,000
Ad-financed accounts	30.4 million	30.8 million	+ 400,000

Product highlights 2011

In fiscal year 2011, operating activities focused mainly on the expansion of sales activities for Business Applications, the launch of new Consumer Applications and business servers, and the geo-redundant operation of applications:

- 1&1 rolls out indirect sales for hosting and cloud products: United Internet’s 1&1 brand aims to enhance its appeal for professional sales partners with a new marketing and support program. 1&1 plans to extend its indirect sales activities to hosting and cloud products. The 1&1 Hosting Partner concept targets professional internet service providers and aims to support the sale of websites, domains, e-shops, mail and server solutions, for example, by offering attractive services and individualized partner support. 1&1 partners include IT companies which focus on the SoHo/SMB customer segment, especially web agencies, IT service providers, smaller computer retailers and full-service internet providers. 1&1 provides these business partners with a broad spectrum of products, which not only comprises attractive commissions but also a wide range of services.

- WEB.DE mailbox becomes Online Office: The new WEB.DE Online Office is a free office solution with programs for word processing, spreadsheet calculations and presentations. WEB.DE users can thus access all common office applications via their mailbox and open, create or edit documents, presentations and tables without installing any additional software. The service supports all standard office formats, such as doc, docx, ppt and xls. Files can be easily edited – even if they were created with other office applications – without having to be downloaded. A spell-check function is available for numerous languages. WEB.DE Online Office applications can access either the local hard drives on the respective computer or the virtual WEB.DE SmartDrive. Users who store their documents online on the WEB.DE SmartDrive can securely view, save, edit and mail them from any PC with an internet connection.

- Double protection with geo-redundancy: These days, companies simply cannot afford to have a website which cannot be accessed by its customers. As the first major provider world-wide, 1&1 is now offering the double protection of geo-redundant server technology also for freelancers, the self-employed and mid-sized companies. Such location-independent redundancy was previously the exclusive domain of financially strong users, such as banks and insurance companies, as it ensures maximum availability 365 days per year. In order to guarantee such geo-redundancy, 1&1 uses so-called geo-cluster systems. All data and processes are mirrored “live” and synchronously via cloud technology at various separately located data centers. Should any unexpected problems arise at one of the sites, such as a power cut or server failure, any requests received are automatically taken over by a different data center.

- As of September 2011, 1&1 provides dedicated servers with 32 processor cores as standard. The most powerful hosting package ever offered on the mass market ensures that even users with the highest needs for computing power and reliability will find a suitable solution. The geo-redundant 1&1 data centers with a network connection of 275 GBit/s provide the perfect environment for this latest product innovation. The new flagship is the 1&1 Server XXL 32 Core, which features 64 gigabytes of ECC-RAM and a professional Raid-6 system (2.4 terabytes of usable storage space). At the heart of this high-end computer are two fast AMD Opteron 6272 processors, each with a clock speed of 2.1 gigahertz which – depending on the respective workload of their 32 processor cores – can be speeded up to 3.0 gigahertz.

Outlook 2012

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 2012, the company intends to tap the opportunities offered by launching its Business Applications in new foreign markets (especially via the international rollout of its Do-It-Yourself Homepage). In the field of Consumer Applications, the main focus will be on entering the field of 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

As of December 31, 2011 United Internet holds 2.98% (prior year: 4.98%) of shares in freenet AG, Büdelsdorf, Germany. According to preliminary figures, freenet posted a strongly positive consolidated net income of € 144.0 million (prior year: € 112.5 million) in fiscal year 2011. The company's market capitalization amounted to around € 1.28 billion as of December 31, 2011.

United Internet has held an investment in Goldbach Group AG, Küsnacht-Zurich / Switzerland since 2007. As of December 31, 2011 its share of voting rights amounted to 14.96% (prior year: 14.99%). The Goldbach Group posted a positive consolidated net income of € 15.4 million in its financial year 2011 (prior year: € 10.0 million). The market capitalization of Goldbach Media amounted to around € 100 million as of December 31, 2011.

Since the transfer of the Group's Display Marketing business "AdLINK Media" to Hi-media S.A. in mid 2009, United Internet has held a 10.65% stake in Hi-media, Paris / France. According to a press release of January 25, 2012, Hi-media expects a consolidated net profit of € 10-11 million for its fiscal year 2011 (prior year: € -58.6 million). The company's market capitalization amounted to around € 98.2 million as of December 31, 2011.

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 2011, United Internet invested € 2.3 million via EFF No. 1 and € 0.4 million via the fully consolidated EFF No. 3 fund in portfolio companies. No investments were made via EFF No. 2 fund.

Proceeds from the sale of shares in portfolio companies totaled € 18.9 million in 2011.

As of December 31, 2011 a total of 45 investments in internet companies were held via the 3 funds.

Further significant investments as of December 31, 2011

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

In early November 2010, United Internet acquired a 30.02% shareholding in ProfitBricks GmbH, a start-up in the field of cloud hosting. The company is currently still involved with establishing business and developing products.

Sale of Versatel investments in 2011

Sale of Versatel investment to KKR

On May 19, 2011, VictorianFibre Holding GmbH, a holding company of Kohlberg Kravis Roberts & Co. L.P. (KKR), announced its intention to make a public offer to all shareholders of Versatel. United Internet AG had previously undertaken – as had the two other major shareholders Apax and Cyrte – to sell the Versatel shares it held (11,492,000 units) to VictorianFibre Holding at a price of € 5.50 per share. The total purchase price of € 63.2 million consists of a cash component of € 3.4 million and an interest-free vendor loan of € 59.8 million, payment of which is deferred until the expiry of 17 months from completion of the transaction.

Receipt of call options

United Internet also received a call option to purchase 25.1% of shares in the holding company founded by KKR for the Versatel acquisition at the same conditions as KKR on expiry of 17 months from completion of the transaction. In addition, United Internet received a second call option for 100% of shares in the purchasing company founded by KKR for the acquisition. This option runs for a period of 17 months from completion of the transaction and can be exercised during specific exercise windows.

Proceeds of € 18.7 million

A net positive balance of € 18.7 million was recognized in EBT from the sale of Versatel shares, the recognition of call options, and the negative at-equity result of Versatel included in the consolidated figures for the last time in the second quarter of 2011.

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

Group earnings

Consolidated sales of United Internet AG grew by 9.8% (currency adjusted: 10.1%) in fiscal year 2011, from € 1,907.1 million in the previous year to € 2,094.1 million. Sales of the "Access" segment rose by 11.2%, from € 1,230.1 million last year to € 1,368.0 million, while sales in the "Applications" segment grew by 7.3% from € 676.5 million to € 725.8 million.

In fiscal year 2011, 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 to a total of +910,000 in 2011 – following +440,000 contracts in 2009 and +610,000 in 2010.

Consolidated gross margin fell from 35.7% in the previous year to 34.3%. This was mainly due to increased purchases of pre-services in the Access segment as a result of strong customer growth (+450,000 contracts in the period under review), as well as the complete recognition of smartphone subsidies for the fast growing Mobile Internet business (+520,000 contracts in the period under review compared to +180,000 in the previous year) with a corresponding effect on earnings, and the resulting change in the overall product mix.

Due to greatly increased customer acquisition efforts, sales and marketing expenses rose from € 306.2 million (16.1% of sales) in the previous year to € 356.8 million (17.0% of sales) in the period under review. Administrative expenses increased more slowly than sales to € 102.8 million (4.9% of sales), compared to € 94.7 million (5.0% of sales) in the previous year.

Despite high investments in new business fields, international expansion and customer growth, earnings before interest, taxes, depreciation and amortization (EBITDA) improved year on year by 2.0% to € 364.8 million (prior year: € 357.7 million), while earnings before interest and taxes (EBIT) grew by 1.7% to € 276.0 million (€ 271.5 million).

Earnings before taxes (EBT) increased by 16.1% from € 215.8 million to € 250.6 million. This disproportionately strong growth was due to reduced writedowns on investments of € 6.3 million (Hi-media), compared to € 13.8 million in the previous year (Hi-media and freenet), as well as a significantly improved at-equity result following the sale of Versatel shares (€ -6.6 million compared to € -31.8 million in the previous year) and – in contrast – a worse financial result (€ -12.5 million compared to €-10.1 million in the previous year), especially due to an expected interest expense (€ 7.3 million) from the preliminary result of the tax audit for the years 2006-2008.

Consolidated net income from continued operations increased from € 127.7 million to € 162.3 million, while net income including discontinued operations rose from € 129.5 million to € 162.3 million. Earnings per share (EPS) improved by 36.2% from € 0.58 in the previous year to € 0.79 in fiscal year 2011.

These earnings figures include a positive net balance from the sale of Versatel shares in the second quarter, the valuation of call options received in this connection, and the at-equity result of Versatel. There was a resulting net effect on EBITDA and EBIT of € 23.0 million, on EBT of € 18.7 million, on consolidated profit of € 15.5 million, and on EPS of € 0.07.

Development of key financial figures for the Group
in € million

	2010	2011
Sales	1,907.1	2,094.1
EBITDA	357.7	364.8
EBIT	271.5	276.0
EBT	215.8	250.6

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

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q4 2010
Sales	498.6	510.8	527.7	557.0	498.1
EBITDA	90.5	110.4	85.0	78.9	86.9
EBIT	70.3	89.7	63.6	52.4	60.9
EBT	64.8	79.4	66.0	40.4	34.2

Cash flow, investment and finance

Despite greatly accelerated customer growth from the marketing of Mobile Internet products and the Do-It-Yourself Homepage, as well as the complete expensing of the resulting costs, operative cash flow only fell moderately from € 238.1 million to € 229.2 million.

Net cash inflows from investing activities fell from € 290.4 million in the previous year to € 194.8 million in the period under review. This was mainly due to the adjusted tax payments in 2011 and the resulting reduction in tax accruals of € 30 million, as well as the suspension of direct debiting in the Access segment (around € 32 million) during the period December 22 to 31, 2011. The suspended direct debits were necessitated by changes to the technical systems of 1&1 Internet AG and were conducted in January 2012.

Net cash inflows from investing activities amounted to € 2.0 million in the period under review. This mainly comprise outlows for capital expenditures of € 54.4

million and – opposing – inflows from the sale of EFF Fund investments (€ 18.9 million), the sale of freenet shares (€ 24.8 million), and the repayment of the vendor loan by Hi-media (€ 12.2 million). In the previous year, net cash outflows for investing activities amounted to € 71.2 million. Outflows mainly comprised investments in intangible assets and property, plant and equipment amounting to € 72.4 million and € 21.4 million for the acquisition of Mail.com, while inflows were dominated by cash proceeds from the sale of investments from the EFF Fund amounting to € 30.9 million.

Net cash outflows for financing activities changed from € 240.5 million in the previous year to € 228.0 million in the period under review. The main items in fiscal year 2011 included outgoings of € 340.3 million for the purchase of treasury shares (prior year: € 118.2 million) and an outflow of € 42.0 million for the dividend payment (prior year: € 88.0 million), as well as an – opposing – net cash inflow of € 155.2 million from the assumption of loans (assumption: € 443.2 million; redemption: € 288.0 million). In the previous year, a net total of € 30.8 million was repaid (assumption: € 20.0 million; redemption: € 50.8 million).

Assets and equity

The consolidated balance sheet total fell from € 1,271.3 million as of December 31, 2010 to € 1,187.0 million on December 31, 2011.

Shares held in associated companies were reduced from € 84.1 million to € 33.6 million, mainly as a result of the sale of Versatel shares.

The decline in other non-current financial assets from € 145.3 million to € 102.6 million resulted primarily from the partial sale of freenet shares, investment sales of EFF Fund No. 3, amortized book values of the investment in the Goldbach Group, and writedowns on the book value of Hi-media.

Goodwill remained virtually unchanged at € 401.3 million (€ 402.9 million as of December 31, 2010) and resulted exclusively from the highly profitable “Applications” segment.

At € 64.9 million as of the balance sheet date, cash and cash equivalents were somewhat below the prior-year figure of € 96.1 million.

The increase in other current financial assets from € 24.7 million to € 83.3 million resulted from the valuation of options received in connection with the sale of Versatel shares to KKR, and the vendor loan.

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

Due in particular to the increased use of funds for share buybacks (€ 340.3 million), net bank liabilities rose from € 273.3 million to € 459.7 million.

Following the cancellation of 25,000,000 treasury shares and further share buybacks in fiscal year 2011, United Internet AG held 21,225,158 treasury shares as of December 31, 2011 (compared to 20,563,522 as of December 31, 2010).

The Group's equity ratio amounted to 13.0% as of December 31, 2011 (prior year: 30.1%). The decline in the equity ratio resulted mainly from the buyback of treasury shares in fiscal year 2011. In 2011, United Internet cancelled 25 million shares. This involved the derecognition of treasury stock amounting to € 303.3 million and a reduction in the items capital stock, additional paid-in capital and accumulated profit. Treasury shares held as of the balance sheet date (€ 270.8 million) were deducted from equity.

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

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

Earnings of United Internet AG

In the period under review, sales of United Internet AG amounted to € 2.7 million (prior year: € 2.9 million) and mostly comprised services and rent charged to the Group's subsidiaries.

Other operating income totaled € 18.6 million (prior year: € 0.5 million) and resulted mainly from the change in market valuation in connection with a hedging transaction (€ 1.7 million), from 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) due to share price increases in 2011.

The income statement of the previous year included write-downs on financial assets of € 45.7 million (mainly from writing down the carrying values of investments in freenet AG and Versatel AG).

Income from profit transfer agreements with 1&1 Internet AG and United Internet Beteiligungen GmbH amounted to € 253.7 million in the period under review. In the previous year, this income totaled € 951.3 million. The main reason for the significantly higher prior-year amount was the disclosure of hidden reserves on the level of 1&1 Internet AG, whereby additional income of € 701.7 million was recognized in 2010.

The parent company's result from ordinary activities amounted to € 256.0 million – compared to € 889.8 million in the previous year. The parent company's net income reached € 179.2 million – following € 779.5 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 (€ 75 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 € 1,105.0 million (prior year: € 405.0 million) as well as by investments of € 36.7 million (prior year: € 106.7 million).

Additions to shares in affiliated companies totaled € 700 million and resulted from a voluntary contribution to capital reserves of 1&1 Internet AG.

The reduction in investments resulted from the sale of freenet shares (€ -20.2 million), the sale of Versatel shares (€ -56.3 million) and an – opposing – write-up on the freenet shares held at year-end (€ 6.6 million).

Following the dividend payment and increased share buybacks, bank liabilities of United Internet AG increased by € 131.8 million to € 502.0 million (prior year: € 370.2 million). These bank liabilities mainly comprise a syndicated loan, of which € 430 million had been drawn as of the balance sheet date (prior year: € 220 million), and a promissory note loan of € 72 million placed in 2008 (prior year: € 150 million). The equity ratio fell from 67.8% in the previous year to 57.5% as of December 31, 2011.

Dividend

The Annual Shareholders' Meeting of United Internet AG on May 26, 2011 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.20 per share. The total dividend payment of € 42.0 million was made on May 27, 2011.

For fiscal year 2011, the Management Board and Supervisory Board will propose a further dividend of € 0.20 per share. The Management Board and Supervisory Board will discuss this dividend proposal at the Supervisory Board meeting on March 28, 2012 (and thus after the editorial deadline for this Management Report). The Annual Shareholders' Meeting on May 31, 2012 will vote on the joint proposal of the Management Board and Supervisory Board.

6 Subsequent events

According to leading market analysts, the predominantly positive conditions for those target markets of relevance to United Internet will remain unchanged in 2012.

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.

7 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.

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

Principles of the Supervisory Board remuneration system

The three 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. As of fiscal year 2010, the Supervisory Board members each receive separate compensation for their work on behalf of the two companies. In each case, this compensation consists of a fixed element and a variable element which depends on the success of the respective company.

In the case of United Internet, the fixed remuneration for an ordinary member of the Supervisory Board amounts to € 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.

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

8 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, 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 Information Management and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

Over 160 young people were serving their apprenticeships with Group companies at year-end 2011. After successfully passing their examinations, over 85% of apprentices are currently employed at one of the Group’s companies.

Headcount development 2011

As a result of the expansion of business, the number of employees increased once again in 2011. As of December 31, 2011, United Internet employed a total of 5,593 people – an increase of 11.5% over the previous year (5,018 employees). There were 1,794 employees in the Access segment, 3,771 in the Applications segment and 28 employed at the Group’s headquarters. Headcount at the non-German subsidiaries increased from 999 people in the previous year to 1,218. Personnel expenses rose by 13.4%, from € 202.9 million in the previous year to € 230.1 million.

Headcount development

	Dec. 31, 2010	Dec. 31, 2011	Year-on-year change
Access segment	1,780	1,794	+ 0.8%
Applications segment	3,211	3,771	+ 17.4%
Headquarters	27	28	+ 3.7%
Total Group	5,018	5,593	+ 11.5%

9 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's brands 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, over 1,500 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 2011

Start of 1&1 Webdesk

The 1&1 Webdesk, an online working environment, was developed for all customers of 1&1. The product pools e-mail, office applications, online data storage (1&1 SmartDrive), administration tools (1&1 Control Center) and many more features under a single interface, providing users with central access and usage. The applications can be used online at any time and from any place. In addition to this central access to all important 1&1 applications, the 1&1 Webdesk allows users to integrate third-party programs and gradually expand the application area.

Further development of 1&1 Do-It-Yourself Homepage

In July 2010, the United Internet subsidiary 1&1 rolled out its Do-It-Yourself Homepage in Germany. In 2011, the product was continually enhanced with a number of new features, such as the ability to display on mobile devices, the implementation of social media functions, and the addition of further business templates and layouts. A dedicated Content Management System (CMS) was developed to aid the flexible handling of sector texts and images and to simplify their creation. In addition, the system was prepared for the product's international rollout. As well adapting it for further languages, the product's performance was improved to prepare it for the requirements of an even larger customer base. With the addition of the corresponding interfaces, it will be possible in future to quickly and easily integrate third-party software into the 1&1-Do-It-Yourself Homepage.

Switch to UTF-8

In a further step toward internationalization, the company's internal business systems and databases were changed from an ISO character code to the internet's most widely used character encoding system UTF-8. The system shift was necessary to correctly display special characters in other languages and thus meet the technical requirements for further international expansion. In order to ensure the smoothest possible migration, some 200 performance tests (e.g. invoicing, address change, bank data change etc.) were conducted in a controlled environment with over 8,000 test cases.

Migration of Mail.com

Following the acquisition of the US brand Mail.com in late 2010, which included both the portal and its international e-mail customers, the migration process from the former service to GMX's mail systems was completed in the first half of 2011. As part of these efforts, a multi-national portal in five languages was developed and launched. In the USA, Europe and India, the portal also includes content magazines covering a wide range of topics provided by numerous local partners. To facilitate the migration of e-mail customers, a Mail.com edition of the international GMX e-mail client was developed, which also enables a pay-to-use variant based on a subscription model which can be processed via its own billing systems.

Development of standardized operating system platform "UNITIX"

The steadily growing need for quickly available additional computer capacities, proactive system management and rising security standards motivated United Internet's R&D departments to develop the operating system (OS) platform "UNITIX". The platform will enable the company to replace the various stand-alone solutions currently in use with a central standardized OS platform and thus enhance the efficiency of IT operations and development. At its core, UNITIX is based on the established Debian GNU/LINUX with additional components (user management, deployment, life cycle management, configuration/release management). New software is linked directly with the UNITIX components via the respective interfaces and can immediately communicate with the management tools. By simplifying platforms, the company can reduce installation times and accelerate its response speed when introducing measures to raise performance.

10 Risk report

Risk management system

The risk policy of United Internet AG 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 management system of United Internet AG regulates the responsible handling of those uncertainties which are involved with economic activity. This is achieved by establishing group-wide risk management and systematically dealing with potential risks while promoting a risk-oriented approach throughout the entire organization.

The concept, organization and task of group-wide risk management are defined by the Management Board and Supervisory Board of United Internet AG and documented in a risk manual which is valid for all members of the Group. These requirements are regularly adapted to changing legal conditions and continually developed. As part of his statutory auditing obligations for the annual financial statements, the external auditor also examines whether the risk early recognition system is suitable for the early identification of risks and developments which might endanger the company. Moreover, the company's Internal Audit division is responsible for independently auditing the functionality and efficiency of the risk management processes and compliance with the regulations defined in the risk manual.

Recognizing risks at an early stage and regularly updating their status as part of the risk management process enables United Internet AG to introduce timely measures aimed at achieving its corporate objectives. In particular, this concerns the recognition of developments which might endanger the continued existence of United Internet AG or its subsidiaries. In this way, the risk management system complies with the requirements of the German Business Monitoring and Transparency Act (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – KonTraG).

Risk management comprises those measures which enable United Internet to identify, classify, steer and monitor possible risks from an early stage. 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.

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 Management Board, and where necessary by them to the Supervisory Board. In this way, significant risks can be addressed as quickly as possible. In accordance with Sec. 107 (3) AktG, the efficiency of the risk management system is checked by the Internal Audit division and the Supervisory Board.

Risks for future business development

Of the total risks identified for the Group, the following sections describe the main risk categories and individual risks.

External risks

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.

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 traffic to a minimum. United Internet’s active participation in cross-border working groups also enables it to play a role in the definition of mail security standards, for example.

Market regulation

In the “Access” segment, the decisions of the German Federal Network Agency and Federal Cartel Office have an influence on the pricing of broadband internet access tariffs. 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 several 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).

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.

With the launch of new Mobile Internet products in 2010, United Internet added a further access product to its product portfolio and entered a new, additional growth market with major competitors. This entrepreneurial decision involves certain new risks, which may result from the pricing of products or from fraudulent use. United Internet attempts to minimize these risks with the aid of detailed planning based on past experience and external market studies, and by continually expanding its anti-fraud measures.

Dependency on customers / business partners

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

Operating risks

Product development

A key success factor for United Internet is the development of new products and services in order to raise the number of our customer contracts and strengthen customer retention. There is always a risk, however, that new developments might be launched too late on the market or not accepted by the target group. United Internet attempts to minimize such risks by closely observing market trends and undertaking product development which constantly responds to the customer feedback. Together with the Samwer brothers, United Internet also holds equity interests in 3 investment funds (comprising 45 investments in internet and technology companies), with the aim of also profiting in future from the innovations and technologies of these companies.

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, daily account debiting for example may be delayed or no longer possible. The company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing geo-redundant core functionalities.

For the operation of hardware and software, 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 “four-eye principle”. Manual and technical access restrictions also ensure that employees may only operate within their particular area of responsibility. As an additional precautionary measure against data loss, all data are regularly backed up and stored in separate, i.e. geo-redundant, data centers.

Legal risks

Property rights / 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 its servers. The handling of these data is subject to a variety of legal regulations. The company is aware of this responsibility and attaches great importance to data protection, which is given particularly high priority throughout the company. By using state-of-the-art technology and continually monitoring all data-protection and other legal regulations, the company endeavors to guarantee a high standard of security.

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.

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

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

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

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

Liquidity risk

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

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

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

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

Risks from financial covenants

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

Market risk

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

Interest risk

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

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

In order to reduce its interest risk, the Company concluded interest hedging transactions in the past years with a total amount of € 380 million.

Currency risk

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

Stock exchange risk (valuation risk)

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

Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can issue new shares or purchase treasury shares. As of December 31, 2011 and December 31, 2010, no changes were made to the Company's targets, methods and processes.

Tax risk from customer acquisition costs

In the course of a tax audit for the assessment periods 2002 to 2005, there were findings with regard to the income tax treatment of so-called customer acquisition costs. Due to their sales cost character, these costs were expensed when incurred. According to the tax authority, certain parts of these costs are to be deferred beyond the minimum contract terms. United Internet expects similar audit findings form the current tax audit for the 2006 to 2008 assessment periods.

In 2010, a lawsuit brought by a mobile phone operator against this opinion was rejected by the German Federal Finance Court (BFH). However, the question of whether the verdict applied retroactively to previous years was not settled. In order to settle this matter, the 1st Senate has referred the case to the Large Senate of the BFH.

United Internet has taken the verdict of the 1st Senate into account for its taxes since fiscal year 2010. Although there has still been no supreme court verdict of the Large Senate regarding the treatment of former years, United Internet has already formed corresponding tax provisions for these periods as a precaution.

Assessment of the overall level of risk

From the current perspective, the main risks for the company’s current and future net assets, financial situation and results of operations focus on the areas of potential threats via the internet, the use of hardware and software, market regulation, competition, and data protection. 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 2011, neither from individual risk positions nor from the overall risk situation.

11 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, 2011 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 90,000,000 shares or 41.86% of total shares in United Internet AG as of December 31, 2011. 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 June 2, 2010 and originally limited until May 25, 2012 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 26, 2011 with a future effect.

In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of May 26, 2011 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 26, 2012.

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.

In addition to the authorization to purchase treasury shares, the Management Board is authorized, subject to the approval of the Supervisory Board, to acquire United Internet shares also by using equity derivatives and to sell options which oblige the Company to acquire United Internet shares upon exercise of the options ("put options"), to acquire options which give the Company the right to purchase United Internet shares upon exercise of the options ("call options") and to acquire United Internet shares using a combination of put and call options.

All share purchases by means of equity derivatives are limited to a maximum volume of five percent of the capital stock. The term of maturity of the options must be chosen in such a way that the purchase of United Internet shares upon exercise of the options will take place no later than on November 26, 2012.

The terms and conditions of the options must ensure that the options are honored only with shares that were acquired via the stock exchange at the current stock exchange price for United Internet shares in XETRA trading at the time of purchase via the stock exchange and under observance of the principle of equal treatment. The purchase price agreed in the options to be paid per United Internet share upon exercise of the option ("strike price") shall neither exceed the opening price of United Internet shares in XETRA trading on the day on which the respective option transaction was conducted by more than ten percent nor fall below this price by more than ten percent (in each case excluding incidental transaction charges, but taking into account option premiums received or paid).

The option premium paid by the Company for options shall not be higher, and the option premium received by the Company for options shall not be lower, than the theoretical market price of the respective options calculated in accordance with generally accepted actuarial methods. Among other factors, the agreed strike price shall be taken into account when determining the theoretical market price.

The rules and subscription right exclusions set out as part of the authorization to buy, sell or retire treasury shares also apply to the use of treasury shares acquired using equity derivatives.

12 Corporate governance declaration acc. to Sec. 289a German Commercial Code (HGB)

Management and corporate structure

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.

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

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

The Management Board is the body charged with managing the group's operations and currently consists of two persons. 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.

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, gross margin, EBITDA, EBIT and EBT, 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.

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

In accordance with Sec. 289 (5) and Sec. 315 (2) No. 5 German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report. The scope and structure, under consideration of the specific requirements for United Internet AG, are at the discretion and within the responsibility of the Management Board.

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

Risk assessment

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

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

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

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

Description of the internal control system

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

The Supervisory Board and the Internal Audit division are involved in the internal control system by means of their auditing activities.

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.

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, 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.

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

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

The statements made refer solely to the non-listed, 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.

Corporate Governance

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

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

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

The Code contains three types of standard:

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

German corporations are obliged to observe the legal regulations.

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

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

On March 5, 2012, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity in accordance with Sec. 161 AktG and immediately published it on the Company's website (www.united-internet.de), as well as in the electronic Federal Gazette.

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

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

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

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

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

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

Supervisory Board conduct their duties will be affected by such a deductible.

Committees (Code 5.3)

The German Corporate Governance Code recommends that the Supervisory Board set up an Audit Committee which, in particular, should handle issues of accounting, risk management and compliance, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement. In addition, the German Corporate Governance Code recommends that the Supervisory Board form a Nomination Committee composed exclusively of shareholder representatives, which proposes suitable candidates to the Supervisory Board for recommendation to the Annual Shareholders' Meeting.

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

Composition of the Supervisory Board (Code section 5.4.1)

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

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

Compensation of Supervisory Board members (Code 5.4.6)

The German Corporate Governance Code recommends that the compensation of Supervisory Board members should also take into account the exercising of the

Chair and Deputy Chair positions in the Supervisory Board as well as the chair and membership of committees.

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

Publication of reports (Code 7.1.2)

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

Due to organizational, internal reasons, United Internet published its interim report for the first six months of 2011 on August 16, 2011. As already announced in its Financial Calendar 2012, United Internet will publish its interim report for the first nine months of 2012 on November 22, 2012.

Compliance

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

In order to guarantee uniform and exemplary behavior, the Management Board has developed ethical guidelines which apply to the overwhelming majority of the Group’s companies as a binding Code of Behavior. This Code contains management guidelines and should encourage each employee to take responsibility for their own behavior and provide suitable orientation. It also 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.

13 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.

14 Forecast report

Expectations for the economy

IMF downgrades its 2012 and 2013 forecasts

In its updated global economic outlook published in January 2012, the International Monetary Fund (IMF) – and before it the World Bank – downgraded its forecasts for global economic growth. Due in particular to the sovereign debt crisis in Europe, the IMF now expects global growth of 3.3% in 2012 and 3.9% in 2013 – 0.7 and 0.6 percentage points below its forecast of September 2011.

In the case of the EU nations and the Euro zone itself, both the IMF and EU Commission are now predicting a brief recession. This is due in particular to the 2012 forecasts of stagnation or decline among the Euro zone heavyweights Spain (-1.7%), Italy (-2.2%) and France (+0.2%). As a result, the IMF believes that the economy of the 17 states belonging to the Euro zone as a whole will shrink by 0.5% in 2012. The IMF experts are also very cautious about the prospects for 2013, with a growth forecast of 0.8%.

According to the IMF, Germany is expected to escape a recession in 2012 and 2013 as a whole. The IMF forecasts growth of 0.3% in the current year and then 1.5% for 2013. The IMF projections for 2012 are below those of the German government, which forecasts growth of 0.7% in its Annual Economic Report for 2012 – following 3.0% in 2011. The government states the uncertainty of the capital markets regarding the Euro zone debt and the lack of competitiveness of certain Euro states as the main causes for the slowdown. In 2013, the German government expects renewed growth of 1.6%.

Market / sector expectations

Further growth expected for ICT sector

Further international and national growth is forecast for IT and telecommunications companies in 2012: according to the German industry association BITKOM, the global ICT market will grow by 4.3% to € 2.7 trillion in 2012. Growth is expected to be particularly strong in the categories “Mobile Phones and Smartphones” and “Software”, with increases of 9.5% and 5.8%, respectively. Based on the calculations of BITKOM’s own research institute EITO, these figures were announced in the run-up to the CeBIT 2012 fair.

BITKOM expects the ICT market in the EU to grow by 1.8% to € 677 billion in 2012. Within the EU, the categories “Software” and “Telecommunication Devices and Infrastructure” are expected to grow fastest – by 4.6% and 4.4%, respectively.

The German market for IT, telecommunications and digital entertainment electronics is expected to pass the € 150-billion-mark for the first time in 2012. BITKOM anticipates growth of 1.6% to € 151 billion. The IT sector is likely to lead the overall market with growth of 3.1% to € 72.4 billion. Following a difficult year in 2011, the telecommunications sector is due to grow again in 2012 – by 0.6% to € 66.1 billion. Thanks to major sports events like the soccer European Championships, which regularly boost TV sales, the situation in the entertainment electronics market is likely to become increasingly stable and shrink by just 0.9% to € 12.5 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 almost 70% already achieved – and the trend toward mobile internet – experts continue to forecast only moderate growth for the German broadband market (fixed line-based). The sector association BITKOM, for example, forecasts revenue growth of 2.2% to € 13.9 billion in 2012 for broadband internet connections.

Revenue growth for broadband internet connections (fixed-line) in Germany

	2011	2012e	Growth
Sales (in € billion)	13.6	13.9	2.2%

Source: BITKOM

Dynamic growth in German mobile internet market

All experts continue to predict dynamic growth for the mobile internet market. Following market growth of 16.0% to € 7.5 billion in 2011, BITKOM also expects growth of 12.0% to € 8.4 billion in 2012. 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 35% to 15.9 million sold smartphones in 2012 (following 11.8 million in 2011), as well as increased sales of 29% to 2.7 million sold tablets.

Revenue growth for mobile internet market in Germany

	2011	2012e	Growth
Sales (in € billion)	7.5	8.4	12.0%

Source: BITKOM

Megatrend cloud computing

For many experts and the press in general, cloud computing is currently the most hyped topic in the business. In a survey published in June 2010, IDC (International Data Corporation) forecasts that the cloud market will triple in volume from 2009 to 2013 to a total of USD 44.9 billion. Based on a study of the Experton Group, the sector association BITKOM expects consumer and business cloud sales in Germany to grow by around 47% to € 5.3 billion in 2012 and reach € 17.1 billion by 2016. Average annual growth of 37% is predicted.

Revenue growth for cloud computing in Germany (B2B and B2C)

	2011	2012e	Growth
Sales (in € billion)	3.6	5.3	47.2%

Source: BITKOM

Moderate growth in German online advertising market

Online advertising activities continued to be dominated by a strong willingness to invest in 2011. As a result, the internet was able to maintain its position as the second most important medium in the media mix. In view of the difficult economic environment and the uncertain development of the Euro crisis, the Online Marketing Group (Online-Vermarkterkreis - OVK) forecasts moderate growth for 2012 of up to 11%.

Growth of German online advertising market

	2011	2012e	Growth
Gross advertising spend in € billion	5.7	6.3	11%

Source: BVDW / OVK

Expectations for the company

Opportunities for United Internet

Despite the uncertain economic conditions, United Internet and many of the leading sector analysts anticipate a positive development of those sub-markets of importance to the company.

United Internet is already market leader or among the market leaders in these sub-markets. The company intends to defend these leading positions and – where possible – to expand them in the coming years.

With its highly competitive Access products, its growing portfolio of cloud applications, its powerful and specialized brands, and existing business relationships with millions of private and commercial clients in Germany and abroad (over 40 million customer accounts), United Internet is well placed to benefit strongly from the expected market growth in its two segments.

In its “Access” segment, the company aims to enhance customer retention via further migration to complete DSL packages (ULL), more personalized service and more transparent and flexible products. Moreover, average revenue per contract is to be raised with the aid of integrated additional features and new applications aimed at generating further growth. Above all, contract and revenue growth in this segment will be driven by the further successful marketing of mobile internet products.

In the “Applications” segment, United Internet’s Business Applications will focus on new (also higher-priced) applications which will open up increased business opportunities on the internet for customers and help them digitize their processes. In a first step, the company aims to exploit the opportunities offered by foreign markets with the international rollout of its Do-It-Yourself Homepage. In the field of Consumer Applications, United Internet believes that an increasingly wide range of products will enable it to convert ever more ad-financed users (over 30 million) into paying customers. In the second half of 2012, the company will focus on its entry into the field of legally secure e-mail communication with the aid of De-Mail.

Forecasts for 2012 and 2013

United Internet AG will continue to pursue its policy of sustainable growth in fiscal year 2012.

United Internet expects an increase in sales of approx. 15% and strong growth in earnings in 2012. The company intends to use this growth in earnings for heavy investment in new business fields. United Internet’s investments will focus mainly on its market entry in Italy, a year-long international marketing campaign for the 1&1 Do-It-Yourself Homepage in 7 European nations and the USA, and the development and launch of De-Mail applications. The size of the investment will be based on market and customer developments in the respective target countries. Depending on the amount of the actual investments made, United Internet expects EBIT-effective start-up losses of € 86 - € 124 million in its new business fields (prior year: € 61.1 million). In addition to growth of approx. 900,000 customer contracts in its established business fields, the company believes that these investments will enable it to gain an additional 200,000 – 300,000 customer contracts for its 1&1 Do-It-Yourself Homepage. Depending on the actually incurred start-up losses in new business fields, consolidated EBIT in 2012 is expected to reach € 243 – € 281 million (prior year without Versatel effect: € 253.0 million). This corresponds to an EPS result of € 0.80 – € 0.90.

Based on strong customer growth in 2012, United Internet anticipates a significant improvement in earnings in 2013 – both in its established and in its new business fields. EPS is expected to then lie between € 1.00 and € 1.10.

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 21, 2012

The Management Board

United Internet AG,
Montabaur

Consolidated Annual Financial Statements
acc. to IFRS

as at
December 31, 2011

United Internet AG - Consolidated balance sheet acc. to IFRS as of December 31, 2011 in€k

ASSETS	Notes	December 31, 2011	December 31, 2010
Current assets			
Cash and cash equivalents	20	64,867	96,091
Trade accounts receivable	21	106,702	97,987
Inventories	22	16,720	16,912
Prepaid expenses	23	43,094	36,536
Other financial assets	24	83,287	24,738
Other non-financial assets	24	3,632	3,559
		318,302	275,823
Non-current assets			
Shares in associated companies	25	33,559	84,079
Other financial assets	26	102,594	145,274
Property, plant and equipment	27	110,922	108,675
Intangible assets	28	187,377	221,415
Goodwill	29	401,295	402,868
Deferred tax assets	16	32,962	33,194
		868,709	995,505
Total assets		**1,187,011**	**1,271,328**
Liabilities			
Current liabilities			
Trade accounts payable	31	228,981	213,509
Liabilities due to banks	32	125,152	178,167
Advance payments received		9,077	7,146
Accrued taxes	33	21,914	43,071
Deferred revenue	34	138,789	138,209
Other accrued liabilities	35	1,874	5,836
Other financial liabilities	36	51,748	45,637
Other non-financial liabilities	36	19,843	13,966
		597,378	645,541
Non-current liabilities			
Liabilities due to banks	32	399,441	191,233
Deferred tax liabilities	16, 38	9,262	28,483
Other financial liabilities	36	26,177	23,648
		434,880	243,364
Total liabilities		**1,032,258**	**888,905**
Equity			
Capital stock	39	215,000	240,000
Additional paid-in capital	40	21,199	41,649
Accumulated profit		185,065	326,663
Treasury stock	39	-270,751	-240,977
Revaluation reserves	40	18,276	25,442
Hedging reserve	40	-4,380	0
Currency translation adjustment		-19,287	-20,038
Equity attributable to shareholders of the parent company		**145,122**	**372,739**
Non-controlling interests		9,631	9,684
Total equity		**154,753**	**382,423**
Total liabilities and equity		**1,187,011**	**1,271,328**

United Internet AG - Statement of comprehensive income acc. to IFRS
from January 1, 2011 to December 31, 2011 in €k

	Notes	2011 January - December	2010 January - December
Sales	4	2,094,066	1,907,135
Cost of sales	5 , 9 , 11	-1,375,669	-1,226,185
Gross profit		**718,397**	**680,950**
Selling expenses	6 , 9 , 11	-356,845	-306,210
General administrative expenses	7, 9 , 11	-102,759	-94,712
Other operating expenses	8	-32,923	-33,653
Other operating income	8	68,221	44,868
Amortization of intangible assets resulting from company acquisitions	9	-14,575	-19,586
Amortization of goodwill	10	-3,500	-162
Operating result		**276,016**	**271,495**
Interest and similar expenses	12	-25,278	-15,197
Interest and similar income	13	12,765	5,094
Amortization of investments	14	-6,298	-13,840
Result from associated companies	15	-6,629	-31,778
Pre-tax result		**250,576**	**215,774**
Income taxes	16	-88,243	-88,068
Net income before non-controlling interests		**162,333**	**127,706**
(from continued operations)			
Result after tax from discontinued operations	17	0	1,790
Net income before non-controlling interests		**162,333**	**129,496**
(after discontinued operations)			
Attributable to			
non-controlling interests		5	379
shareholders of United Internet AG		162,328	129,117
Result per share of shareholders of United Internet AG (in €)			
- basic	18	0.79	0.58
- diluted	18	0.78	0.58
thereof result per share (in €) - from continued operations			
- basic	18	0.79	0.57
- diluted	18	0.78	0.57
thereof result per share (in €) - from discontinued operations			
- basic	18	0.00	0.01
- diluted	18	0.00	0.01
Weighted average shares (in million units)			
- basic	18	206.42	222.50
- diluted	18	208.08	224.15
Statement of comprehensive income			
Net income		162,333	129,496
Results directly included in equity			
Currency translation adjustment		757	4,324
Market value changes of held-for-sale financial instruments after taxes		-7,058	12,993
Market value of hedging instruments after taxes		-4,380	0
Change in associated companies after taxes not affecting net income		-108	-268
		-10,789	17,049
Total net income		**151,544**	**146,545**
Attributable to			
non-controlling interests		11	415
shareholders of United Internet AG		151,533	146,130

United Internet AG - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS

from January 1, 2011 to December 31, 2011

	Capital stock		Additional paid-in capital	Accumulated profit	Treasury shares		Revaluation reserves	Hedging reserves	Currency translation difference	Equity attributable to shareholders of United Internet AG	Non-controlling interests	Total equity
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2010	240,000,000	240,000	39,971	285,546	10,272,371	-123,786	12,717	0	-24,326	430,122	9,640	439,762
Net income				129,117						129,117	379	129,496
Other net income							12,725		4,288	17,013	36	17,049
Total net income				129,117			12,725	0 0	4,288	146,130	415	146,545
Issue of treasury shares			-60		-81,525	982				922		922
Employee stock ownership program Sedo Holding			184							184	50	234
Employee stock ownership program United Internet			1,554							1,554		1,554
Purchase of treasury shares					10,372,676	-118,173				-118,173		-118,173
Dividend payments				-88,000						-88,000		-88,000
Profit distributions										0	-341	-341
Change in amount of holdings										0	-80	-80
Balance as of December 31, 2010	240,000,000	240,000	41,649	326,663	20,563,522	-240,977	25,442	0	-20,038	372,739	9,684	382,423
Balance as of January 1, 2011	240,000,000	240,000	41,649	326,663	20,563,522	-240,977	25,442	0	-20,038	372,739	9,684	382,423
Net income				162,328						162,328	5	162,333
Other net income							-7,166	-4,380	751	-10,795	6	-10,789
Total net income				162,328			-7,166	-4,380	751	151,533	11	151,544
Issue of treasury shares				-7,198	-574,842	7,198				0		0
Cancellation of treasury shares	-25,000,000	-25,000	-23,565	-254,728	-25,000,000	303,293				0		0
Purchase of treasury shares					26,236,478	-340,265				-340,265		-340,265
Employee stock ownership program Sedo Holding			-236							-236	-64	-300
Employee stock ownership program United Internet			3,351							3,351		3,351
Dividend payments				-42,000						-42,000		-42,000
Balance as of December 31, 2011	215,000,000	215,000	21,199	185,065	21,225,158	-270,751	18,276	-4,380	-19,287	145,122	9,631	154,753

United Internet AG - Consolidated Cash Flow Statement acc. to IFRS
from January 1, 2011 to December 31, 2011 in €k

		2011	2010
	Notes	January - December	January - December
Cash flow from operating activities			
Net income (from continued operations)		162,333	127,706
Net income (from discontinued operations)		0	1,790
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of intangible assets and property, plant and equipment	9	70,662	66,468
Amortization of intangible assets resulting from company acquisitions	9	14,575	19,586
Amortization of other financial assets	14	6,298	13,840
Amortization of goodwill	10	3,500	162
Compensation expenses from employee stock option plans	37	3,051	4,891
Results of at-equity companies	15, 25	6,629	31,778
Distributed profit of associated companies	25	730	983
Income from deconsolidation of other financial assets	8, 26	-10,855	-8,440
Income from deconsolidation of associated companies	8, 25	-22,994	-7,768
Change in deferred taxes	16	-17,021	-14,664
Non-cash expenses / income from tax adjustments	16	17,363	0
Non-cash expenses / income	46	-5,058	1,740
Operative cash flow		**229,213**	**238,072**
Change in assets and liabilities			
Change in receivables and other assets		-12,007	23,937
Change in inventories		192	-2,851
Change in deferred expenses		-6,559	-6,174
Change in trade accounts payable		15,472	20,515
Change in advance payments received		1,931	67
Change in other accrued liabilities		-3,962	1,218
Change in accrued taxes		-30,016	6,528
Change in other liabilities		965	-821
Change in deferred income		-380	9,902
Change in assets and liabilities, total		**-34,364**	**52,321**
Cash flow from operating activities		**194,849**	**290,393**
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		-54,405	-72,435
Purchase of further shares in affiliated companies	3	0	-465
Purchase of other business units	3	0	-21,437
Payments from subsequent refunding of company acquisition costs	3	193	0
Purchase of shares in associated companies	25	-2,260	-4,697
Payments from deconsolidation of financial assets	26	41,207	20,465
Investments in other financial assets	26	-1,234	-565
Payments of loans granted	42	-2,000	-13,900
Payments from disposal of assets		1,902	1,716
Payments from deconsolidation of associated companies	24	3,385	6,000
Refunding from shares in associated companies	25	2,475	14,134
Payments from from deconsolidation of companies	17, 24	12,195	0
Refunding from other financial assets		501	0
Cash flow from investment activities		**1,959**	**-71,184**
Cash flow from financing activities			
Purchase of treasury stock	39	-340,265	-118,173
Taking out of loans	32	443,193	20,000
Repayment of loans	32	-288,000	-50,830
Dividend payments	19	-42,000	-88,000
Dividend payments to no-controlling interests		-907	-1,338
Other	37	0	-2,181
Repayments from convertible bonds		0	-4
Cash flow from financing activities		**-227,979**	**-240,526**
Net decrease in cash and cash equivalents		-31,171	-21,317
Cash and cash equivalents at beginning of fiscal year		96,091	116,812
Currency translation adjustments of cash and cash equivalents		-53	596
Cash and cash equivalents at end of fiscal year		**64,867**	**96,091**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011

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, Brussels, Buenos Aires, Bucharest, Cambridge (USA), Cebu City, Chesterbrook, Gloucester, Haarlem, Las Vegas, Melbourne (UK), Levallois-Perret, London, Madrid, Milan, Saargemünd, Sao Paulo, Slough, Vancouver, Warsaw and Vienna. With the exception of the building at Zweibrücken, all of the Company’s buildings are leased.

The reporting company

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

2. Accounting and valuation principles

2.1 Basis of preparation

In accordance with Article 4 of the so-called IAS Ordinance (Ordinance (EU) No. 1606/2002 of the European Parliament and Council of July 19, 2002 concerning the application of international accounting standards, ABl. EU No. L 243 p. 1), the United Internet Group prepares its consolidated annual financial statements according to IFRS (International Financial Reporting Standards). The Company also observed and applied the supplementary regulations of Section 315a (1) German Commercial Code (HGB). All IFRS standards valid on the balance sheet date and as applied 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, 2011.

The Supervisory Board approved the consolidated financial statements for 2010 at its meeting on March 23, 2011. The consolidated annual financial statements were published in the German Federal Gazette (“Bundesanzeiger”) on May 6, 2011.

The consolidated financial statements for 2011 were prepared by the Company’s Management Board on March 21, 2012 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for approval on March 28, 2012. 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 attributable to the shareholding with a controlling influence.

As of December 31, 2011, 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 (100.0%)
- 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
- 1&1 Telecom GmbH, Montabaur (100.0%)
  - 1&1 Breitband GmbH (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., Sao Paulo / Brazil (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, Munich (100.0%)
  - United Internet Dialog GmbH, Montabaur (100.0%)
- UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)

United Internet Beteiligungen:

- United Internet Beteiligungen GmbH, Montabaur (100.0%)

Sedo Holding:

- Sedo Holding AG, Cologne (78.80%)

- Response Republic Beteiligungsgesellschaft Deutschland GmbH, Montabaur (100.0%)
  - Sedo GmbH, Cologne (100.0%)
    - Sedo.com LLC, Cambridge (Boston) / USA (100.0%)
    - Sedo London Ltd., London / UK (100.0%)
    - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100.0%)

        - Intellectual Property Management Company Inc., Dover / USA (49.0%)
- affilinet GmbH, Munich (100.0%)
    - affilinet Ltd., London / UK (100.0%)
    - affilinet Espana S.L.U. Madrid / Spain (100.0%)
    - affilinet France SAS, Levallois-Perret, France (100.0%)
    - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)

Other:

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

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

Associated companies

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

- European Founders Fund Verwaltungs GmbH, Munich (66.67%)
- European Founders Fund Management GmbH, Munich (66.67%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr.1, Munich (66.67%)
- fun communications GmbH, Karlsruhe (49.00%)
- Virtual Minds AG, Freiburg (48.65%)
- DomainsBot Srl, Rome / Italy (49.00%)
- European Founders Fund Investment GmbH, Munich (33.33%)
- ProfitBricks GmbH, Berlin (30.02%)
- PunktBayern GmbH & Co. KG, Munich (25.00%)
- Travel-Trex GmbH, Cologne (25.00%)
- getAbstract AG, Lucerne / Switzerland (22.00%)
- internetstores AG, Esslingen (20.00%)

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

Other 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 (10.65%)
- Afilias Ltd, Dublin / Ireland (10.16%)
- Silverpop Systems Inc., Atlanta / USA (5.91%)
- Become Inc., Sunnyvale / USA (5.06%)

Changes in the reporting unit

In its fiscal year 2011, the United Internet Group acquired shares in

- MMC Investments Holding Company Ltd., Port Louis / Mauritius (11.36%) and
- PunktBayern GmbH & Co. KG, Munich (25.00%), which is classified as an associated company.

The following companies were renamed in fiscal year 2011:

- united-domains Reselling GmbH (formerly dopoly GmbH)
- 1&1 Mail & Media Beteiligungen GmbH (formerly United Internet Beteiligungen International GmbH

The following companies were founded by the Company or its subsidiaries in fiscal year 2011:

- Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
- Domain Robot Servicos de Hospedagem na Internet Ltda., Sao Paulo / Brazil (100.0%)

United Internet AG retired as a shareholder of the associated company Versatel AG. Please refer to Notes 8, 24 and 25.

All shares in Xactly Corporation, San Jose / USA (5.26%) were sold during the fiscal year.

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

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.

Due to the first-time adoption of hedge accounting regulations, the following were included in the individual financial statement elements:

- Balance sheet: the line “Hedging reserve” was added to shareholders’ equity.
- Statement of comprehensive income: the line “Market valuation of hedging instruments after taxes” was added in other comprehensive income.
- Statement of changes in shareholders’ equity: the column “Hedging reserve” was added.

In the balance sheet, the line “Convertible bonds” was deleted from non-current liabilities as there are no longer any significant positions for this item.

For reasons of clarity and transparency, assets and liabilities used to be broken down further with a reclassification of prior-year amounts, due to the increased amounts of financial assets and financial liabilities. In this connection, a distinction is now made between financial and non-financial assets and liabilities. This also necessitated adapting the prior-year figures stated in Note 42.

Due to its first-time relevance, the line “Repayments from other financial assets” was added in the cash flow statement (investing activities).

The column “Impairment charges” was added in the statement of changes to fixed assets. The prior-year figures were adapted accordingly.

Effects of new or amended IFRS standards

Accounting standards applied for the first time in 2011

IAS 24 - Related Party Disclosures

In November 2009, the IASB released the revised IAS 24. The revision first of all simplifies reporting obligations for companies in which the state has a holding (so-called state-controlled entities). In addition, the definition of related party was fundamentally revised. Application of the revised standard is mandatory for fiscal years beginning on or after January 1, 2011. The application of the revised standard did not have any effect on the Company’s consolidated financial statements.

IAS 32 - Financial Instruments: Presentation

In October 2009, the IASB released amendments to IAS 32 regarding the classification of rights issues. The standard clarifies those cases in which rights are issued in a currency different to the company’s functional currency. The published amendments to IAS 32 are the IASB’s swift reaction to the financial market crisis which saw an increase in the number of such cases as companies increasingly attempted to raise additional capital. The amendments are to be applied in fiscal year beginning on or after February 1, 2010. As there was no area of application, the amended standard had no effect on the Company’s consolidated financial statements.

Amendment of IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

In November 2009, the IFRIC issued an amendment to IFRIC 14, which is of relevance if a company which has to meet minimum funding requirements in connection with its pension plans makes prepayments to such plans. The amendments are effective for fiscal years beginning on or after January 1, 2011. As there was no area of application, the amended IFRIC 14 had no effect on the Company's consolidated financial statements.

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

This interpretation contains guidelines on the treatment of transactions also known as "Debt for Equity Swaps". It clarifies the IFRS requirements in the case that a company renegotiates the conditions of a financial liability with the creditor and the creditor accepts shares or other equity instruments of the company for the full or partial extinguishing of the financial liability. IFRIC 19 is to be applied in fiscal years beginning on or after July 1, 2010. Due to a lack of relevance, this interpretation had no effect on the Company's consolidated financial statements.

Annual Improvement Project – Improvements to IFRS 2010

On May 6, 2010 the IASB released the third final standard with amendments to existing IFRS (Omnibus Standard) as part of its annual improvement project. Among other things, it includes the amendment to IFRS 1 (First-time Adoption of IFRS), which was part of the draft standard on rate-regulated activities published in July 2009. By combining these amendments in a single document, the IASB aims to reduce the effort for all concerned. The Annual Improvement Project 2008 – 2010 led to the amendment of six standards and one interpretation of the IFRS Interpretations Committee, as follows:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards": Clarification on amendments to the accounting and measurement methods used in the year of adoption, on the new evaluation basis as assumed procurement costs as well as on the use of assumed procurement costs for business activities subject to price regulation.
- IFRS 3 "Business Combinations": Clarification of the transitional regulations for contingent considerations arising from a business combination which took place prior to the amended IFRS coming into force, on the measurement of minority interests as well as on non-replaced and voluntarily-replaced share-based compensation.
- IFRS 7 "Financial Instruments: Disclosures": Clarification of disclosures.
- IAS 1 "Presentation of Financial Statements": Clarification of the statement of changes in shareholders' equity.
- IAS 27 "Consolidated and Separate Financial Statements": Transitional regulations for amendments arising from IAS 27.
- IAS 34 "Interim Financial Reporting": Clarification of significant events and business transactions.
- IFRIC 13 "Customer Loyalty Programs": Explanations on fair value measurement of loyalty programs.

The adopted amendments are applicable for fiscal years beginning on or after January 1, 2011; with the exception of the amendments to IFRS 3 and IAS 27, which are already applicable as of July 1, 2010. The adoption of the amended standards had no effect on the Company's consolidated financial statements.

Accounting standards already published but not yet applied

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

Already endorsed by EU

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. The Group will adopt the additional notes which may be necessitated by this amendment.

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 2011 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 - 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, 2013. 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 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, 2013. 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, 2013. 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, 2013. 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, 2013. 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 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 is not currently expected to have any significant 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 21 "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. Due to a lack of relevance, this revision is not expected to have any 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.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

The interpretation published in October 2011 contains guidelines on the accounting of stripping costs incurred during the mining of ores or mineral deposits. IFRIC 20 is to be applied in fiscal years beginning on or after July 1, 2013. Due to a lack of relevance, this revision is not expected to have any effect on the Company's consolidated financial statements.

2.4 Significant accounting judgments, estimates and assumptions

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

Accounting judgments

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

Special-purpose entities

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

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

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

Derecognition of assets

Discretion is required in certain cases when examining the criteria for derecognizing assets. Based on the economic and contractual constellation presented in Note 24, the Company had to decide whether the criteria for derecognizing the associated company Versatel AG were fulfilled pursuant to IAS 39, as options for repurchasing were granted in connection with the sale. As these options were not “in-the-money” at the time of granting, the Company believes that the opportunities and risks from the shares in Versatel were transferred resulting in derecognition of the assets and recognition of income, as presented in Note 8.

Estimates and assumptions

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

Impairment of non-financial assets

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

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

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 € 82,705k as of December 31, 2011 (prior year: € 128,634k).

Calculating the profit contribution of associated companies and joint ventures

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

Estimations of the profit contribution of listed associated companies and joint ventures are subject in part to the profit forecasts of external financial analysts. 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 € 33,559k as of December 31, 2011 (prior year: € 84,079k). The result from associated companies in fiscal year 2011 amounted to € 6,629k (prior year: € 31,778k).

Impairment test for investments in associated companies and joint ventures

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

In the case of capital market-oriented companies, the calculation of the recoverable amounts is based mainly on the respective shares price on the balance sheet date. The recoverable amounts of non-listed companies is based both on available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2011, the fair value of investments in associated companies and joint ventures amounted to € 33,559k (prior year: € 84,079k).

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, 2011, the carrying value of deferred tax assets for tax losses considered amounted to € 14,440k (prior year: € 353k). Further details are provided in Note 16.

Trade accounts receivable

Trade receivables are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to € 106,702k as of December 31, 2011 (prior year: € 97,987k).

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 € 16,720k (prior year: € 16,912k). Please refer to Note 22 for further information.

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 € 251,680k as of December 31, 2011 (prior year: € 283,962k).

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 € 401,295k (prior year: € 402,868k€). The carrying values of intangible assets resulting from business combinations (excluding goodwill) amounted to € 77,905k as of the balance sheet date (prior year: € 92,026k).

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 € 1,874k as of December 31, 2011 (prior year: € 5,836k).

2.5 Summary of significant accounting and valuation methods

Revenue recognition

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

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

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

Access segment

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

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

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

Applications segment

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

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

Customers generally pay in advance for a contractually fixed time period for the services 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	
	12/31/2011	12/31/2010	2011	2010
US dollar	1.294	1.336	1.392	1.326
UK pound	0.835	0.861	0.868	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 limited and those with unlimited useful lives.

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

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

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

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

Investments in associated companies

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

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

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

Shares in joint ventures

The Company held an investment in a joint venture company. There was a contractual agreement between the partner companies to jointly manage the business activities of the company. The Group recognized its investments in the joint venture using the equity method. The annual financial statements of the joint venture were prepared as to the same balance sheet date as those of the parent company. Where necessary, adjustments were made to bring the methods in line with standard group-wide accounting and valuation methods.

Impairment of non-financial assets

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

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

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

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

Goodwill

At each balance sheet date, the Company reviews whether there is any indication that an asset might be impaired. Impairment of goodwill is reviewed at least once a year. A test is also performed if 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 unlimited useful lives is made at least once per year on the balance sheet date. Depending on the individual case, the re-view is performed for a single asset or on the level of the cash-generating unit.

Associated companies

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

Financial investments and other financial assets

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

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

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

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

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

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

Financial assets held at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial investments

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

Fair value

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

Amortized cost

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

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

Available-for-sale financial investments

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

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

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

Inventories

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

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

Treasury shares

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

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 current assets” or “Other liabilities” in the consolidated balance sheet.

Derivative financial instruments and hedging relationships

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

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

The fair value of interest derivatives is calculated with reference to the market values of similar instruments.

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 (“Hedging reserve”). 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 2011

No business combinations took place in fiscal year 2011.

3.2. Investments of fiscal year 2011

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.

3.3. Company transactions in the previous year

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

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

The purchase price of € 21,437k was settled fully in cash during fiscal year 2010. At the same time, the sellers were granted an additional purchase price as part of a so-called *earn-out agreement*. The size of this additional purchase price depended on the attainment of clearly defined success factors.

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

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

	€k
Cash disbursements	21,437
Earn-out agreement	1,169
Acquisition costs	22,606

	Fair values €k
Brand	21,309
Customer base	544
Service contracts	265
Intangible assets	22,118
Goodwill	488
Acquisition costs	22,606

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

In fiscal 2011, an amount of € 193k was repaid as part of the *earn-out agreement*.

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

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

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

Explanations of items in the statement of comprehensive income

4. Sales revenue / segment reporting

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

In order to fully exploit the identified growth business fields “Mobile Internet” and “Cloud Applications”, a new segmentation for management and reporting purposes was introduced at the beginning of 2010. The former segments, “Products” and “Online Marketing” were discontinued. In the course of repositioning the United Internet Group, management and consolidated reporting will be undertaken via the segments “Access” and “Applications” from the reporting period 2010 onward.

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 2011 was as follows:

	Access	Applications	Head Office /		United Internet
2011	segment	segment	Investments	Reconciliation	Group
	€k	€k	€k	€k	€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 (from continued operations)					162,333
Result from discontinued operations				---	---
Net income (after discontinued operations)					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 write-downs	0	3,500	0	---	3,500
Number of employees	1,794	3,771	28	---	5,593
- thereof domestic	1,718	2,629	28	---	4,375
- thereof non-domestic	76	1,142	0	---	1,218

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

Adjusted for the acquisition of the business operations of Mail.com in the previous year (€ 22,118k), the level of investment fell by € 16,791k.

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 account for 10.5% (prior year: 10.5%) of total Group revenues.

As only shares in associated companies, in available-for-sale investments and goodwill are monitored by the highest management committee, the segment assets of the Access segment 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.

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

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

Investments in fiscal year 2010 were dominated by the purchase of the business operations of Mail.com (€ 22,118k).

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

5. Cost of sales

	2011	**2010**
	€k	€k
Cost of services	1,061,848	971,387
Cost of goods	140,787	103,389
Personnel expenditure	76,076	63,806
Depreciation	38,789	36,799
Others	58,169	50,804
Total	1,375,669	1,226,185

Cost of sales increased in relation to sales revenue from 64.3% to 65.7% compared with the previous year. This resulted in a deterioration of gross margin from 35.7% to 34.3%. The main reason was the high cost of the strong customer growth in the Access segment, the expensing of increased hardware subsidies from the fast growing Mobile Internet business, and a resulting overall change in the product mix.

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

6. Selling expenses

There was a year-on-year increase in selling expenses from € 306,210k (16.1% of sales) to € 356,845k (17.0% of sales). This was mainly due to a significant rise in marketing expenditure, start-up costs for new products, and customer acquisition costs.

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

7. General and administrative expenses

General and administrative expenses rose more slowly than sales from € 94,712k (5.0% of sales) in the previous year to € 102,759k (4.9% of sales).

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

8. Other operating income / expenses

Other operating income in fiscal year 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 24 and 25. 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, corresponding to € 9.75 per share. Other operating income from this transaction amounted to € 4,613k. Following this sale, United Internet AG still holds 3,814,371 shares or 2.98% of capital stock in freenet AG.

Other operating income in fiscal year 2010 was dominated by the sale of shares in EFF No. 3 (€ 8,440k) and the sale of shares in maxdome GmbH & Co. KG (€ 7,769k). Proceeds of € 16,515k resulted from the sale of shares in maxdome GmbH & Co. KG. Part of these proceeds were deferred, resulting in a discounting effect of € 1,352k in fiscal year 2010. As there were no additional obligations for 2010, the prorated assumption of earnings amounting to € -7,394k resulting from the application of the equity method was netted with sales proceeds in order to present an economic view of the transaction. This prorated income was disclosed in the result from associated companies until the third quarter of 2010. Further details are provided in Note 42. The item also comprises other operating income in connection with the acquisition of the operating business of Mail.com (€ 1,570) as described in Note 3.

Losses due to account receivables of 1&1 amounted to € 22,889k (prior year: € 21,874k), while income of 1&1 from dunning and return debit charges totaled € 17,808k (prior year: € 17,364k).

Currency gains (net) in fiscal year 2011 amounted to € 479k (prior year: € 27k).

Expenses relating to other accounting periods totaled € 1,398k (prior year: € 278k).

9. Depreciation and amortization

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

	2011	**2010**
	€k	€k
Cost of sales	38,789	36,799
Selling expenses	24,691	23,816
General and administrative expenses	7,182	5,853
Total	70,662	66,468

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

	2011	**2010**
	€k	€k
Portal	9,031	9,031
Customer base / order backlog	5,139	9,389
Software	405	416
Trademark	0	750
Total	14,575	19,586

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

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

	2011	**2010**
	€k	€k
WEB.DE portal business	9,282	12,861
united-domains	2,828	2,828
Fasthosts	1,743	1,763
Dollamore	601	1,358
RevenueDirect	121	223
CibleClick	0	553
Total	14,575	19,586

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

10. Goodwill amortization

Goodwill write-downs made in the course of impairment tests amounted to € 3,500k for affilinet France. In fiscal year 2010, the goodwill write-down for Intellectual Property Management Company Inc. amounted to € 162k. Please refer to the explanations in Note 30.

11. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2011	**2010**
	€k	€k
Cost of sales	76,076	63,806
Selling expenses	115,809	102,277
General and administrative expenses	38,234	36,839
Total	230,119	202,922

The number of employees increased from 5,018 in the previous year to 5,593 at year-end 2011, representing growth of 11.5%:

	2011	**2010**
Germany	4,375	4,019
Outside Germany	1,218	999
Total	5,593	5,018

The average number of employees in fiscal year 2011 amounted to 5,334 (prior year: 4,809), of which 4,205 (prior year: 3,865) were employed in Germany and 1,129 (prior year: 945) 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 2011, they amounted to € 12,572k (prior year: € 11,056) 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 refers to contributions paid to related parties.

12. Financial expenses

	2011 €k	2010 €k
Loans and overdraft facilities	17,316	13,391
Interest expense from tax audit	7,323	325
Interest effect of put option united-domains AG	639	682
Expense from interest hedging transactions	0	799
Total financial expenses	25,278	15,197

The increase in financial expenses for loans and overdrafts results from financial loans taken out in 2011. Please refer to Note 32.

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

With regard to the interest effects from the put option of united-domains AG, reference is made to the explanations in Note 36.

The costs from interest hedging transactions in the previous year results from two interest swaps expensed at market value. In the period under review, there was income from interest hedges resulting from a change in the market value of these hedges. Please refer to Notes 13 and 41.

13. Financial income

	2011 €k	2010 €k
Income from financial investments	5,621	2,272
Income from subsequent valuation of options	2,680	0
Income from interest hedging transactions	1,989	0
Income from purchase price installments from the sale of shares in associated companies / joint ventures	1,296	0
Interest income from credit balances with banks	1,160	2,083
Income from loans to associated companies / joint ventures	19	739
Total financial income	12,765	5,094

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

With regard to income from the subsequent valuation of options, please refer to Note 24.2.

Income from interest hedges is in connection with the change in market value of these hedges. Please refer to Notes 12 and 41.

14. Amortization of investments

Amortization of investments amounted to € 6,298k (prior year: € 13,840k). Please see Note 26 for further details.

15. Result from associated companies

	2011	**2010**
	€k	€k
Result from associated companies	-6,629	-31,778
	-6,629	-31,778

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

16. *Income taxes*

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

	2011	**2010**
	€k	€k
Current income taxes		
- Germany	99,565	93,270
- Abroad	5,699	9,462
Total (current period)	105,264	102,732
Deferred taxes		
- Due to tax loss carryforwards	-14,087	-100
- Tax effect on temporary differences	-2,934	-14,564
Total deferred taxes	-17,021	-14,664
Total tax expense	88,243	88,068

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 2011 amounted to approx. 14.2% (prior year: 13.8%).

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:

- Tax income not relating to the period of € 2,056k for previous years, of which € 1,402k for corporate income tax and the solidarity surcharge, and € 654k for trade tax.

- Due to the expected results of the current tax audit for the periods 2006 to 2008, there are tax expenses not relating to the period of € 8,860k. There were also respective expenses not relating to the period for sales tax of € 1,180k (prior year: € 186k) and interest of € 7,323k (prior year: € 325k). These are disclosed under other operating expenses or in the financial result.

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

The tax income recognized directly in equity in fiscal year 2011 amounted to € 1,968k as of the balance sheet date (prior year: tax expense of € 647k).

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:

	2011	**2010**
	€k	€k
USA	10,791	0
France	3,649	353
	14,440	**353**

In fiscal year 2011, deferred tax assets were recognized for tax loss carryforwards of US and French subsidiaries. This resulted in tax income of € 14,440k. There was an opposing value adjustment for the Sedo sub-group for deferred tax assets recognized in previous years for tax loss carryforwards amounting to € 353k.

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

	2011	**2010**
	€k	€k
Spain	17,383	9,739
Germany	4,683	3,600
Poland	4,110	0
France	0	10,354
	26,176	**23,693**

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

In Germany, the loss carryforwards can be claimed for an indefinite period. As in the previous year, these relate mainly to loss carryforwards as of December 31, 2011 of Response Republic Beteiligungsgesellschaft Deutschland GmbH which cannot be utilized due to an existing profit transfer agreement.

Deferred taxes resulted from the following items:

	2011		2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade receivables	841	0	226	0
Inventories	388	0	1,107	0
Other financial assets - current	0	0	0	241
Other financial assets – non-current	0	0	481	0
Other assets	26,384	101	17,788	0
Property, plant and equipment	262	5,180	235	3,523
Intangible assets	6,909	22,596	5,737	21,213
Other accruals	795	625	1,182	1,615
Other liabilities	4,744	3,318	3,378	0
Prepaid expenses	2,180	0	1,963	0
Gross value	42,503	31,820	32,097	26,592
Tax loss carryforwards	14,440	0	353	0
Adjustments for consolidation	43	1,942	67	1,891
Other items	476	0	677	0
Offsetting	-24,500	-24,500	0	0
Consolidated balance sheet	**32,962**	**9,262**	**33,194**	**28,483**

The net balance of deferred tax assets increased from € 4,711k in the previous year to € 23,700k. As a result, the total change in the net balance of deferred taxes amounted to € 18,989k (prior year: € 13,526k). This change was mainly due to the following factors:

- The formation of deferred tax assets for tax loss carryforwards amounting to € 14,440k.
- The initial accrual of so-called customer acquisition costs in the tax balance sheet of fiscal year 2010, due to a change in tax regulations. For consolidation purposes, the underlying expenses are expensed when incurred. This resulted in deferred tax assets of € 25,257k (prior year: € 16,418k).

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

Deferred tax income	17,021
Deferred tax expense recognized directly in equity	1,968
Deferred tax expense from discontinued operations	
Change in the net balance of deferred taxes	**18,989**

Deferred tax liabilities of € 22,596k (prior year: € 21,213k) 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 € 1,707k (prior year: deferred tax liabilities of € 261k).

As in the previous year, no deferred tax liabilities were recognized as of December 31, 2011 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:

	2011 %	**2010** %
Anticipated tax rate	30.0	30.0
- Actual and deferred taxes for previous years	2.7	3.3
- Amortization of goodwill non-deductible for tax purposes	0.4	0.0
- Amortization of investments non-deductible for tax purposes	0.8	1.9
- Amortization of intangible assets non-deductible for tax purposes	2.3	2.7
- Tax-reduced profit from disposals	-3.3	-1.1
- Differences in foreign tax rates	0.4	-0.6
- Employee stock ownership plan	0.0	-1.5
- Tax losses of the fiscal year, for which no deferred taxes have been capitalized	1.5	1.0
- First-time capitalization of tax losses not recognized in previous years	-1.2	0.0
- Non-taxable at-equity results	0.8	4.4
- Balance of other tax-free income and non-deductible expenses	0.8	0.7
Effective tax rate	35.2	40.8

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

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.

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

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

17. Result from discontinued operations

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

The result from discontinued operations after tax in fiscal year 2010 amounting to € 1,790k resulted mainly from long-term contracts and concerns the provision of DART services for the former subsidiaries of Sedo Holding AG. In addition, accruals formed in fiscal year 2009 for losses from current contracts were reversed and existing accruals reassessed.

18. Earnings per share

As of December 31, 2011, 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, 2011, the Company held 21,225,158 treasury shares (prior year: 20,563,522). 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 206,416,123 for fiscal year 2011 (prior year: 222,503,961).

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, 2011. All option rights existing on December 31, 2011 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 3,977,250 (prior year: 5,860,000) potential shares (from the assumed use of rights). Based on an average market price of € 13.10 (prior year: € 10.88), this would result in the issuance of 1,663,082 (prior year: 1,641,448) shares without consideration. The weighted average number of shares used to calculate diluted earnings per share in fiscal year 2011 amounted to 208,079,205 (prior year: 224,145,409) shares.

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

	2011	**2010**
	€k	€k
Profit attributable to the shareholders of United Internet AG	**162,328**	**129,117**
Earnings per share (in €)		
- undiluted	0.79	0.58
- diluted	0.78	0.58
Thereof result from continued operations	**162,328**	**127,327**
Earnings per share (in €)		
- undiluted	0.79	0.57
- diluted	0.78	0.57
Thereof result from discontinued operations	**0**	**1,790**
Earnings per share (in €)		
- undiluted	0.00	0.01
- diluted	0.00	0.01
Weighted average number of outstanding shares (in million units)		
- undiluted	206.42	222.50
- diluted	208.08	224.15

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

19. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 26, 2011 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.20 per share. The total dividend payment of € 42.0 million was made on May 27, 2011.

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 2011 at the Supervisory Board meeting on March 28, 2012.

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 21,225,158 treasury shares (prior year: 11,250,000).

Explanations to the balance sheet

20. Cash and cash equivalents

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

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

21. Trade accounts receivable

	2011 €k	**2010** €k
Trade accounts receivable	123,757	113,006
less		
Bad debt allowances	-17,055	-15,019
Trade accounts receivable, net	106,702	97,987

As of December 31, 2011 trade accounts receivable amounting to € 17,055k (prior year: € 15,019k) were impaired. The development of bad debt allowances can be seen below:

	2011 €k	**2010** €k
As of January 1	15,019	22,687
Additions charged to the income statement	14,795	13,178
Utilization	-11,433	-20,370
Reversals	-1,502	-630
Exchange rate differences	176	154
As of December 31	17,055	15,019

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

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

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

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

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

	2011	**2010**
	€k	€k
Trade accounts receivable, net		
< 30 days	98,278	94,784
30-60 days	3,891	1,089
60-90 days	2,365	976
90-120 days	1,239	651
>120 days	929	487
	106,702	97,987

22. Inventories

Inventories consist of the following items:

	2011	**2010**
	€k	€k
Merchandise		
DSL hardware	4,784	4,231
Mobile telephony hardware	7,676	5,860
Mobile internet hardware	411	2,670
Video-on-demand hardware	604	2,053
Web hosting hardware	936	1,558
Other	1,238	694
Domain stock held for sale		
Domain stock	2,463	5,821
	18,112	**22,887**
less		
Allowances	-1,392	-5,975
Inventories, net	**16,720**	**16,912**

The impairment of inventories expensed in the period under review amounted to € 637k (prior year: € 5,443k). This charge is disclosed in "Cost of sales". The impairment of domain stock resulted in expenses of € 318k (prior year: € 3,383k).

23. Prepaid expenses

Prepaid expenses of € 43,094k (prior year: € 36,536k) consist mainly of prepayments for domain fees, which were deferred and charged to the income statement on the basis of the underlying contractual period of customers.

24. Other current assets

24.1 Other current financial assets

	2011 €k	2010 €k
KKR (vendor loan)	57,520	0
KKR (options)	8,710	0
Creditors with debit balances	8,060	4,646
Payments on account	2,862	747
Accounts receivable from billing service providers	0	1,104
Hi-media (vendor loan)	0	12,195
Other	6,135	6,046
Other assets, net	**83,287**	**24,738**

On May 19, 2011, VictorianFibre Holding GmbH, a holding company of Kohlberg Kravis Roberts & Co. L.P. (KKR), announced its intention to make a public offer to all shareholders of Versatel. United Internet AG had previously undertaken – as had the two other major shareholders Apax and Cyrte – to sell the Versatel shares it held (11,492,000 units) to this holding company at a price of € 5.50 per share. The corresponding contracts were signed on May 19, 2011. The total purchase price of € 63,206k consists of a cash component of € 3,385k and an interest-free vendor loan of € 59,821k, payment of which is deferred until the expiry of 17 months from completion of the transaction. The discounting effect at the time of sale amounted to € -3,241k. The disposal of the shares thus resulted in other operating income of € 16,964k. Discounting in fiscal year 2011 totaled € 940k. This effect is disclosed in financial income.

As part of this transaction, United Internet received a call option to purchase 25.1% of shares in the holding company founded by KKR for the Versatel acquisition at the same conditions as for the sale of Versatel shares to this holding company on expiry of 17 months from completion of the transaction. In addition, United Internet received a second call option for 100% of shares in the purchasing company founded by KKR for the acquisition. This option runs for a period of 17 months from completion of the transaction and can be exercised during specific exercise windows. As the above mentioned options were granted on the basis of a disjunction, only the higher fair value of the 25.1% option at the time of sale was recognized amounting to € 6,030k. This amount is contained in the disposal gain explained in Note 8. The increase in the positive fair value of the received call option from € 2,680k to € 8,710k resulted in the corresponding recognition of financial income from the subsequent valuation of the option. Reference is made to Note 13.

The Hi-media vendor loan in the previous year is in connection with the sale of the Display Marketing business (see Note 17).

24.2 Other current non-financial assets

	2011 €k	2010 €k
Receivables from tax office	3,632	3,559
Other current non-financial assets, net	**3,632**	**3,559**

25. Shares in associated companies

	2011 €k	2010 €k
Carrying amount at the beginning of the fiscal year	84,079	126,628
Additions	2,260	4,697
Adjustments		
- Dividends	-730	-983
- Shares in result	-6,629	-31,778
- Other	55	-268
Disposals	-45,476	-14,217
	33,559	**84,079**

The addition to shares in associated companies results mainly from the investment in EFF No. 1.
As in the previous year, the result from associated companies amounting to € -6,629k is dominated by the prorated assumption of the Versatel result. The investment in Versatel AG was sold in fiscal year 2011. Please see Note 24.1.

Other adjustments totaling € 55k T€ resulted from profit contributions to associated companies with an investment value of € 0k (€ 163k), and profit contributions recognized directly in equity of associated companies € -108k. 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 mainly result from the sale of shares in Versatel AG (€ 43,001k). Please see Note 24.1.

Further disposals result from capital repayments of the investment EFF No. 1 (€ 2,475k). 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:

	2011 €k	2010 €k
Current assets	17,434	14,453
Non-current assets	23,086	19,077
Current liabilities	7,115	2,825
Non-current liabilities	2,052	0
Shareholders' equity	31,354	30,705
Sales revenue	23,112	16,781
Net profit	1,987	20,601

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

26. Other non-current financial assets

The development of these shares was as follows:

			Amortization of revaluation reserve not recognized in income					
	Jan. 1, 2011	Additions	Recycling	Addition	Impairment	Reclassification	Disposals	**Dec. 31, 2011**
	€k	€k	€k	€k	€k	€k	€k	€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 companies of EFF No. 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**

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

The disposal of shares in freenet resulted from a partial sale of shares. Please see Note 8.

The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. The effect from discounting in fiscal year 2011 amounted to € 356k. We refer to Notes 8 and 42.

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

27. Property, plant and equipment

	2011	**2010**
	€k	€k
Acquisition costs		
- Land and buildings	8,229	8,050
- Furniture and fixtures	292,730	256,822
- Payments on account	13,282	13,241
	314,241	**278,113**
Less		
Accumulated depreciation	-203,319	-169,438
Property, plant and equipment, net	**110,922**	**108,675**

An alternative presentation of the development of property, plant and equipment in the fiscal years 2011 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

28. Intangible assets (without goodwill)

	2011	**2010**
	€k	€k
Acquisition costs		
- Licenses	29,833	28,804
- Order backlog	2,403	2,397
- Software	73,196	63,282
- Trademarks	47,495	46,902
- Customer base	189,334	188,888
- Portal	72,240	72,240
	414,501	**402,513**
Less		
Accumulated amortization and impairment	-227,124	-181,098
Intangible assets, net	**187,377**	**221,415**

An alternative presentation of the development of intangible assets in the fiscal years 2011 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The recognition of customer relations includes an amount of € 130,158k which mainly results from the purchase of freenet AG broadband customers in fiscal year 2009 (€ 126,348k). Subsequent acquisition costs of € 3,810k were incurred in fiscal year 2010. The acquisition was completed with economic effect from November 30, 2009. These externally acquired customer relations will be amortized in scheduled amounts over a period of 6 years. Amortization amounted to € 21,694k in fiscal year 2011 (prior year: € 21,626k), and the carrying amount was € 84,964k.

Intangible assets with unlimited useful lives (trademarks), are allocated to the Applications segment. The carrying values amount to € 46,619k. Intangible assets with unlimited useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date. This resulted in impairment of € 46k (prior year: € 750k), as one trademark will not be used in future.

The following table provides an overview of trademarks:

	2011	**2010**
	€k	€k
Mail.com	21,112	20,628
WEB.DE	17,173	17,173
Fasthosts / Dollamore	4,136	4,076
united-domains	4,198	4,198
Domain Marketing	0	53
	46,619	46,128

29. Goodwill

	2011		2010	
	€k		€k	
	gross	net	gross	net
Applications segment	**419,049**	**401,295**	**417,122**	**402,868**

An alternative presentation of the development of goodwill in the fiscal years 2011 and 2010 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

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

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

The scheduled annual impairment test conducted in the 4th quarter of 2011 resulted in amortization of € 3,500k for affilinet France in the Sedo sub-group (prior year: € 162k). Reference is made to the explanations on sensitivities further below. The main cause for the write-down was a deterioration of earnings of the respective cash-generating unit. The impairment loss was disclosed separately in the income statement and consolidated assets movement schedule.

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

	2011	2010
	€k	€k
1&1 Mail & Media	228,501	228,501
Fasthosts / Dollamore	64,986	63,562
united-domains	28,668	27,983
InterNetX	5,032	5,032
Mail.com	291	473
Domain Marketing	43,114	43,114
Minority interests	24,649	24,649
Affiliate Marketing	6,054	9,554
	401,295	402,868

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

The recoverable amounts of the cash-generating units are calculated on the basis of a value-in-use calculation using cash flow forecasts. The cash flow forecasts are based on the Company's budgets for fiscal 2012. 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 8% to 12% (prior year: 10% to 12%).

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

CGU	**Parameter**	**Proportion of total goodwill**		**2012**	**2013**	**2014**	**2015**	**> 2016**
	Previous year		***2011***	***2012***	***2013***	***2014***	***> 2015***	
WEB.DE	Sales growth	57%		14%	13%	12%	10%	1.5%
	Previous year		*9%*	*11%*	*10%*	*14%*	1.5%	
	Discount rates			9%	9%	9%	9%	7.9%
	Previous year		*10%*	*10%*	*10%*	*10%*	*8.6%*	
Fasthosts / Dollamore	Sales growth	16%		9%	10%	10%	11%	2.0%
	Previous year		*8%*	*8%*	*8%*	*9%*	*2.0%*	
	Discount rates			9%	9%	9%	9%	7.0%
	Previous year		*11%*	*11%*	*11%*	*11%*	*8.9%*	
united-domains	Sales growth	7%		9%	10%	10%	11%	1.0%
	Previous year		*8%*	*8%*	*8%*	*9%*	*1.0%*	
	Discount rates			9%	9%	9%	9%	7.7%
	Previous year		*11%*	*11%*	*11%*	*11%*	*8.6%*	
InterNetX	Sales growth	1%		9%	10%	10%	11%	2.0%
	Previous year		*8%*	*8%*	*8%*	*9%*	*2.0%*	
	Discount rates			8%	8%	8%	8%	6.3%
	Previous year		*10%*	*10%*	*10%*	*10%*	*7.5%*	
Sedo Holding CGU	Sales growth	19%		6% - 20%				1.0%
	Previous year		*10% - 19%*				*1.5%*	
	Discount rates			12%	12%	12%	12%	10.5%
	Previous year		*12%*	*12%*	*12%*	*12%*	*10.5%*	

Trademarks recognized in the Applications segment amount to € 46,619k (prior year: € 46,128k; see Note 28). 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: 1.5% to 2.5%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of value-in-use of the cash-generating units. The test resulted in impairment of € 46k (prior year: € 750k), as one trademark will not be used in future.

Basic assumptions for the calculation of value-in-use

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

- Sales revenue

  The management of the respective cash-generating unit expects a further in-crease in sales within its planning horizon. For cash-generating units, an in-crease of between 6% and 20% is expected for the fiscal years 2012 to 2015 (prior year: between 8% and 19%).

- 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
- Fashosts / Dollamore
- united-domains
- InterNetX
- 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 1%-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

The Sedo sub-group comprises 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. In the case of the cash-generating unit "affilinet France", an impairment need was determined at sub-group level. A negative change in one of the significant assumptions made would lead to further impairment charges.

Domain Marketing
In the case of the cash-generating unit "Domain Marketing", the recoverable value exceeds the carrying value slightly, so that a negative change in one of the significant assumptions made may lead to an impairment charge. If the growth rates for the years 2012 to 2015 had been 1.5% lower in the impairment tests of the Sedo sub-group, this would have reduced the excess of recoverable value over carrying value to zero. A reduction in the assumed gross margins for the years 2012 to 2015 of 2.5 percentage points during the impairment tests would have had the same effect.

Non-controlling interests
Non-controlling interests are 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.

31. Trade accounts payable

Trade accounts payable amounting to € 228,981k (prior year: € 213,509k) are owed to independent third parties with terms of less than one year.

32. Liabilities due to banks

a) Liabilities due to banks

	2011 €k	2010 €k
Bank loans	524,593	369,400
Less		
Current portion of liabilities due to banks	-125,152	-178,167
Non-current portion of liabilities due to banks	**399,441**	**191,233**
Short-term loans/overdrafts	125,152	178,167
Current portion of liabilities due to banks	**125,152**	**178,167**
Total	**524,593**	**369,400**

Bank liabilities result mainly from two syndicated loans (I and II).

Syndicated Loan I was signed on September 14, 2007 and is divided into a Tranche A amounting to € 300 million and a Tranche B of originally € 200 million. Tranche A has a term of five years and is to be redeemed from March 14, 2010 in six equal half-yearly installments. As of December 30, 2009 the first partial amount of Tranche A amounting to € 50 million was repaid prematurely. The second, third and fourth contractual repayments of € 50 million each were made in the third quarter of 2010, the first quarter of 2011 and the third quarter of 2011. As of December 31, 2011, € 100 million has thus been used from Tranche A. Tranche B was a revolving syndicated loan expiring on September 13, 2012, which was prematurely redeemed in connection with the conclusion of a new Syndicated Loan II with a total amount committed of € 480 million. At the time of redemption, € 110 million of Tranche B of the Syndicated Loan I had been used.

Syndicated Loan II was concluded on June 7, 2011. The credit line II is divided into 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, 2011, € 120 million have been used from Tranche A and € 210 million from Tranche B.

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 2.02% and 2.36% (prior year: 1.22% to 1.43%). 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 2.64% (prior year: 1.78% and 1.98%). 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 WestLB AG, Düsseldorf, since October 1, 2002. Under the agreement, credit and debit balances are netted within the Company each banking day and summarized.

b) Credit lines

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

	2011	**2010**
	€m	€m
Available credit lines	55.0	55.0
Utilization (guarantees only)	10.4	9.8
Average interest rate (in%)	n.a.	n.a.
Unutilized credit facilities	44.6	45.2

Credit facilities have been granted by the banks for limited periods. € 20.0 million expire in November 2013, € 35 million are available until further notice.

A further amount of € 150 million is also available until June 7, 2016 from the unutilized proportion of Syndicated Loan II.

In the previous year, credit facilities were granted by banks for limited periods. € 15.0 million expired in June 2011, € 15.0 million expired in November 2011, € 10 million expired in November 2012 and a further € 15.0 million were available until further notice. A further amount of € 180 million was also available until September 13, 2012 from the unutilized proportion of the syndicated loan (Tranche B – revolving syndicated loan).

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

33. Accrued taxes

Accrued taxes consist of the following items:

	2011	**2010**
	€k	€k
Germany	20,155	41,866
UK	1,732	1,197
USA	19	0
Spain	8	8
	21,914	**43,071**

34. Deferred revenue

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

35. Other accrued liabilities

The development of accruals in fiscal year 2011 was as follows:

	Litigation risks	Others	Total
	€k	€k	€k
Jan. 1, 2011	4,653	1,183	5,836
Utilization	3,228	374	3,602
Reversal	944	0	944
Addition	582	2	584
Dec. 31, 2011	**1,063**	**811**	**1,874**

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

Other accruals referred mainly to provisions for impending losses.

36. Other liabilities

36.1 Other current financial liabilities

	2011	**2010**
	€k	€k
Other current financial liabilities		
- Marketing and selling expenses / commissions	17,330	12,461
- Salary liabilities	13,472	12,251
- Liability from interest hedging	7,243	5,337
- Creditors with debit balances	2,318	1,063
- Service / maintenance / restoration obligations	2,139	1,315
- Legal and consulting fees, auditing fees	1,948	2,281
- Marketing campaigns	957	1,000
- Public relations	550	410
- Transaction costs for sale of shares	200	500
- Purchase price liabilities	0	1,132
- Others	5,591	7,887
Total	**51,748**	**45,637**

The liability from interest hedging concerns negative market values as of the balance sheet date. Please refer to Note 41 for a description of these interest hedges.

36.2 Other current non-financial liabilities

	2011 €k	2010 €k
- Liabilities to the tax office	11,358	10,435
- Liabilities from tax audit	8,485	3,531
Total	**19,843**	**13,966**

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

36.3 Other non-current financial liabilities

The non-current financial liabilities of € 26,177k (prior year: € 23,648k) result mainly from the non-controlling interests of the partnerships EFF No. 2 and EFF No. 3 (€ 5,430k; prior year: € 6,672k), as well as from the negative present values of interest hedging transactions as of the balance sheet date (€ 9,623k; prior year: € 7,176k). The purchase price liability in connection with the purchase of shares in united-domains AG amounts to € 11,124k (prior year: € 9,800k).

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, 2011 the effect from goodwill adjustment amounted to € 685k (prior year: € -93k), while the effect from accrued interest amounted to € 639k (prior year: € 682k).

37. Share-based payment

37.1 Employee stock ownership plans

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

United Internet AG

Virtual stock options

The employee stock ownership plans 2006 - 2011 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 € 3,351k (prior year: € 3,735k).

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

Valuation parameters

Issue date	8/14/2006	3/14/2007	11/12/2007	1/29/2008
Fair value	1,790 €k	1,200 €k	1,394 €k	596 €k
Average market value per 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 %

Issue date	5/30/2008	11/20/2008	3/31/2009	8/17/2009
Fair value	1,309 €k	1,424 €k	3,414 €k	2,173 €k
Average market value per 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 %

Issue date	3/29/2010	6/21/2010	7/12/2010	10/20/2010
Fair value	47 €k	813 €k	758 €k	107 €k
Average market value per 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 %

Issue date	1/14/2011	3/30/2011	6/1/2011
Fair value	224 €k	1,403 €k	1,203 €k
Average market value per option	2.80 €	2.81 €	3.01 €
Dividend yield	1.6 %	2.7 %	2.3 %
Volatility of the share	47 %	43 %	37 %
Expected term (years)	5	5	5
Risk-free interest rate	1.9 %	2.6 %	2.3 %

The total expense from the stock ownership plan amounts to € 20,118k (prior year: € 17,289k). The cumulative expense as of December 31, 2011 totals € 15,480k (prior year: € 12,129k). Expenses of € 4,638k (prior year: € 5,159k) therefore relate to future years.

Sedo Holding AG

Virtual stock options

The employee stock ownership plan 2007 to 201 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 income for options issued amounted to € 300k, compared to a personnel expense in the previous year of € 195k.

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

Valuation parameters

Issue date	9/3/2007	11/28/2007	2/22/2008
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	52.0 %	55.0 %	40.0 %
Expected term (years)	5	5	5
Risk-free interest rate	4.0 %	3.9 %	3.6 %

Issue date	3/6/2008	10/30/2008	3/25/2009
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	39.0 %	53.0 %	73.0 %
Expected term (years)	5	5	5
Risk-free interest rate	3.5 %	3.2 %	2.6 %

Issue date	3/30/2009	5/25/2009	3/22/2010
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	73.0 %	78.0 %	41.0 %
Expected term (years)	5	5	5
Risk-free interest rate	2.5 %	2.8 %	1.7 %

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

	United Internet AG		Sedo Holding AG	
	SAR	Average strike price (€)	SAR	Average strike price (€)
Outstanding as of December 31, 2009	7,978,000	8.71	470,000	12.27
Issued	20,000	11.33	40,000	4.21
Issued	400,000	9.73	---	---
Issued	400,000	8.96	---	---
Issued	40,000	11.73	---	---
Expired	-58,500	6.07	-20,000	15.51
Exercised	-359,500	6.07	---	---
Outstanding as of December 31, 2010	8,420,000	8.93	490,000	11.48
Issued	80,000	12.12	---	---
Issued	500,000	12.03	---	---
Issued	400,000	13.43	---	---
Expired	-199,500	5.52	-200,000	17.41
Expired	-200,000	13.89	-30,000	18.15
Expired	-300,000	11.30	-30,000	3.72
Expired	-9,750	6.07	-100,000	3.72
Expired	---	---	-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
Exercisable as of December 31, 2011	7,500	5.52	0	
Exercisable as of December 31, 2010	400,000	9.89	0	
Weighted average remaining term as of December 31, 2011 (in months)	31		34	
Weighted average remaining term as of December 31, 2010 (in months)	35		43	

Sedo Holding AG

Convertible bonds

A further stock ownership plan existed from the past based on the issue of convertible bonds and on the existing Conditional Capital 2004 of Sedo Holding AG. The last issue from this plan was made in fiscal year 2005.

The 5,630 outstanding convertible bonds of Sedo Holding AG as of December 31, 2010 with an average exercise price of € 3.60 expired in fiscal year 2011. As of the balance sheet date on December 31, 2011 there were therefore no more outstanding convertible bonds. As in the previous year, no expenses were 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.

37.2 Share-based payment to third parties

In a contract dated May 26, 2009, 1&1 Internet AG and freenet AG reached a sales agency agreement regarding DSL contracts with a term until 2014. As part of this agreement, a share-based volume bonus was granted in four tranches for the years 2011 to 2014 for the achievement of certain annual sales agent volumes. This contract became effective as of July 31, 2009.

Under the terms of the distribution agreement, 1&1 will pay freenet AG a premium of up to 6,551,000 United Internet shares in addition to its standard DSL commissions. The performance-oriented premium is payable in four tranches, depending on the achievement of pre-defined annual distribution targets. 1&1 also has the option to pay the premium in cash.

This bonus agreement represents an agreement in which 1&1 Internet receives services and has the option to offer compensation in cash or in the form of shares.

In the case of share-based remuneration plans which grant the Company the contractual choice of settling in cash or issuing equity instruments, the Company must determine whether there is a current cash settlement commitment and disclose the stock-based remuneration transaction correspondingly. There is a current cash settlement commitment if the possibility to settle by means of equity instruments has no economic substance (e.g. because the Company is legally forbidden to issue shares), or cash settlement was common business practice or the declared Company guideline in the past, or the Company generally settles in cash if the beneficiary so desires. These requirements are not met.

This transaction is therefore accounted for in accordance with the regulations for equity-settled payment transactions.

In accordance with IFRS 2.10, calculations are not based on the fair value of the services received but on the fair value of the promised equity instruments; the fair value of the services received could not be reliably estimated as payment depends on meeting certain targets. The date of granting all tranches therefore corresponds to the date on which the agreement became effective (July 31, 2009). The fair value of the compensation component is to be determined once as of this date. The fair values per share and tranche and the main valuation parameters can be seen from the following table:

Valuation parameters

Tranche	1 (2011)	2 (2012)	3 (2013)	4 (2014)
Share price on issuance	8.95 €	8.95 €	8.95 €	8.95 €
Exercise price on issuance	0.00 €	0.00 €	0.00 €	0.00 €
Average market value per option	8.31 €	8.05 €	7.81 €	7.57 €
Dividend yield	3.2 %	3.2 %	3.2 %	3.2 %
Volatility of the share	58 %	58 %	58 %	58 %
Expected term (years)	2.4	3.4	4.4	5.4
Risk-free interest rate	1.6 %	2.1 %	2.4 %	2.6 %

Fair value was measured using the share price on the date of granting, less the present value of the dividend yield.

The expense is distributed according to the agency services already rendered compared to the target performance. The price component (market value of the options granted) remains fixed; with regard to the quantity component, an estimate of the probability of target achievement is to be made on every balance sheet date.

As in the previous year, no expense was recognized for tranches 1 to 4 as of the balance sheet date, as the brokerage service had not yet been rendered.

38. Deferred tax liabilities

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

39. Capital stock

As at the balance sheet date, the fully paid-in capital stock amounts to € 215,000,000.00 (prior year: € 240,000,000.00) divided into 215,000,000 (prior year: 240,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

As at December 31, 2011, United Internet AG held a total of 21,225,158 treasury shares representing 9.87% of capital stock.

As at December 31, 2010, United Internet AG held 20,563,522 treasury shares, representing 8.57% of capital stock. Up to February 2011, a further 3,436,478 treasury shares were purchased, so that United Internet AG held 24,000,000 treasury shares or 10.0% of capital stock.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on June 2, 2010 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on February 22, 2011 to cancel a total of 15,000,000 shares from the Company's stock of treasury shares, purchased in the course of share buyback programs, and to reduce the Company's capital stock by €15,000,000.00, from € 240,000,000.00 to € 225,000,000.00. In execution of this resolution, 15,000,000 registered no-par value shares with a notional share of capital stock of € 1 each were cancelled.

The Management Board of United Internet AG resolved on the same date to launch a further share buyback program, which began once the cancellation and capital reduction became effective. In the course of this new share buyback program, a further 6,000,000 company shares were bought back via the stock exchange in the period up to May 12, 2011. The buyback followed an authorization of the Annual Shareholders' Meeting of June 2, 2010 to buy back shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to November 26, 2012.

The Annual Shareholders' Meeting of May 26, 2011 revoked the former authorization of June 2, 2010 to acquire and sell treasury shares on expiry of May 26, 2011 with effect in future.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 26, 2011 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Executive Board resolved on August 15, 2011 to cancel a total of 10,000,000 shares from the company's stock of treasury shares, purchased in the course of share buyback programs, and thus reduce the company's capital stock by € 10,000,000.00, from € 225,000,000.00 to € 215,000,000.00. In execution of this resolution, 10,000,000 registered no-par value shares with a notional share of capital stock of € 1 each were cancelled.

The capital reduction was aimed at optimizing the Company’s balance sheet and capital structure.

On the basis of existing employee stock ownership plans, two tranches of 305,616 and 269,226 treasury shares were issued to employees in fiscal year 2011.

Treasury shares reduce equity and have no dividend entitlement.

Authorized capital

The company’s Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by 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 26, 2012 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of May 26, 2011.

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.

40. Reserves

As of December 31, 2011, capital reserves amounted to € 21,199k (prior year: € 41,649k). The decrease results mainly from the cancellation of treasury shares (€ 23,565k). There was an opposing effect from corresponding bookings in connection with employee stock ownership plans amounting to € 3,115k (prior year: € 1,678k).

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:

	2011	2010
	€k	€k
- freenet shares	7,890	0
- Affilias shares	7,398	6,228
- Goldbach shares	2,271	14,743
- EFF No. 3	717	4,363
- EFF Investment	0	108
	18,276	25,442

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 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 of the fiscal year 2011 for hedges formed for the first time.

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 2011 and 2010 is provided in the statement of changes in shareholders' equity.

41. *Additional details on financial instruments*

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2011:

			Valuation acc. to IAS 39			
in €k	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2011	Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Fair value on Dec. 31, 2011
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					
Others	lar	10,370	10,370			10,370
Purchase price receivable	lar	9,519	9,519			9,519
Investments	afs	82,705		82,705		82,705
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					
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	266,035	266,035	0	0	266,035
Available-for-sale	afs	82,705	0	82,705	0	82,705
Financial liabilities measured at amortized cost	flac	814,633	814,633	0	0	814,633
Held-for-trading	hft	-1,814	0	0	-1,814	-1,814
Hedging derivatives	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:

		From interest and dividends	Net profits and losses from subsequent valuation			
Net result acc. to valuation categories 2011 (in €k)	Valuation category acc. to IAS 39		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	--	--	--	--	
- of which not affecting net income		--	9,191	--	--	9,191
- of which affecting net income		5,621	-6,298	--	--	-677
Financial liabilities measured at amortized cost (flac)	flac	-25,278	--	144	--	-25,134
Held-for-trading (hft)	hft	--	4,669	--	--	4,669
Hedging derivatives (hd) - not affecting net income	hd	--	-6,342	--	--	-6,342
		-17,182	1,220	479	-23,435	-38,918

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 2010:

			Valuation acc. to IAS 39			
in €k	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2010	Amortized cost	Fair value not through profit or loss	Fair value through profit or loss	Fair value on Dec. 31, 2010
Financial assets						
Cash and cash equivalents	lar	96,091	96,091			96,091
Trade accounts receivable	lar	97,987	97,987			97,987
Other current financial assets	lar	24,738	24,738			24,738
Other non-current financial assets	lar/afs					
Others	lar	7,477	7,477			7,477
Purchase price receivable	lar	9,163	9,163			9,163
Investments	afs	128,634		128,634		128,634
Financial liabilities						
Trade accounts payable	flac	213,509	213,509			213,509
Liabilities due to banks	flac	369,400	369,400			369,400
Other financial liabilities	flac/hft					
Interest swaps - not hedge accounting	hft	12,513	0		12,513	12,513
Others	flac	56,772	56,772			56,772
Of which aggregated acc. to valuation categories						
Loans and receivables	lar	235,456	235,456	0	0	235,456
Available-for-sale	afs	128,634	0	128,634	0	128,634
Financial liabilities measured at amortized cost	flac	639,681	639,681	0	0	639,681
Held-for-trading	hft	12,513	0	0	12,513	12,513

Due to the reclassification to other financial and other non-financial assets conducted in 2011, the prior-year figures had to be adjusted.

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2010:

		From interest and dividends	Net profits and losses from subsequent valuation			
Net result acc. to valuation categories 2010 (in €k)	Valuation category acc. to IAS 39		Fair value	Currency translation	Value adjusted	Net result
Loans and receivables (lar)	lar	2,822	--	19	-22,346	-19,505
Available-for-sale (afs)	afs	--	--	--	--	0
- of which not affecting net income			17,144	--	--	17,144
- of which affecting net income		2,272	-13,840	--	--	-11,568
Financial liabilities measured at amortized cost (flac)	flac	-15,197	--	8	--	-15,189
Held-for-trading (hft)	hft	--	-799	--	--	-799
		-10,103	2,505	27	-22,346	-29,917

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 2011, 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 2011, 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 as part of the Versatel transaction (Note 24), 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.

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, 2011	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Equity shares	63,564	63,564		
Shares in unlisted companies	19,141		19,141	
Financial liabilities at fair value through profit or loss				
Call options	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	

During the reporting period ending 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

	As of Dec. 31, 2010	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Equity shares	95,249	95,249		
Shares in unlisted companies	33,385		33,385	
Financial liabilities at fair value through profit or loss				
Interest rate swap	12,513		12,513	

Derivative financial instruments

The United Internet Group holds the following derivative financial instruments:

In connection with the Versatel transaction (see Notes 8 and 24), the United Internet Group was granted two call options for shares in the company. Both options run until December 2012 and are recognized at fair value through profit and loss. The positive fair value as of the balance sheet date amounts to € 8,710k and is disclosed under other current financial assets.

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 amounts to € 10,524k (prior year: € 12,513k) and was 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. They meet the requirements of IAS 39 on *Hedge Accounting* and were recognized in equity at fair value. The negative fair value as of the balance sheet date amounts to € 6,342k (prior year: € 0) and was disclosed under other financial liabilities.

42. Transactions with related parties

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Accordingly, United Internet AG is subject to significant influence from Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board 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 June 2019, April 2015 and April or December 2016, and September 2021. The resulting rent expenses are customary and amounted to € 2,407k in fiscal year 2011 (prior year: € 2,277k).

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 2011, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- Nemetschek AG, Munich (Chairman)
- Bechtle AG, Gaildorf
- docuware AG, Munich
- Hybris AG, Zürich / Switzerland (departed on October 12, 2011)
- Graphisoft S.E, Budapest / Hungary

Kai-Uwe Ricke

- 1&1 Internet AG, Montabaur
- Kabel Baden-Württemberg GmbH & Co. KG, Heidelberg (departed on December 15, 2011)
- Exigen Capital Europa AG, Zurich / Switzerland
- Nordia Innovation AB, Stockholm / Sweden (departed on November 4, 2011)
- 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 AG and 1&1 Internet AG:

	United Internet AG			1&1 Internet AG			Total		
2011	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
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
	40	60	100	70	141	211	110	201	311

	United Internet AG			1&1 Internet AG			Total		
2010	Fixed	Variable	Total	Fixed	Variable	Total	Fixed	Variable	Total
Kurt Dobitsch	20	---	20	20	53	73	40	53	93
Kai-Uwe Ricke	10	---	10	20	53	73	30	53	83
Michael Scheeren	10	---	10	30	53	83	40	53	93
	40	0	40	70	159	229	110	159	269

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 2011 (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 (prior year: € 2k). 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 2011, total remuneration of € 1,046k (prior year: € 1,027k) was agreed for the Management Board. Of this total, € 600k or 57% was fixed and € 446k or 43% 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 2011, Mr. Norbert Lang was able to exercise 200,000 rights for the first time at a strike price of € 5.52 each.

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

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

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

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:

Shareholding	**Jan. 1, 2011**		**Jan. 1, 2011**	**Dec. 31, 2011**		**Dec. 31, 2011**
Management Board	Direct	Indirect	Total	Direct	Indirect	Total
Ralph Dommermuth	17,600,000	74,400,000	92,000,000	17,600,000	72,400,000	90,000,000
Norbert Lang	---	402,248	402,248	40,629	402,248	442,877
	17,600,000	74,802,248	92,402,248	17,640,629	72,802,248	90,442,877
Supervisory Board	Direct	Indirect	Total	Direct	Indirect	Total
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	700,000	---	700,000	700,000	---	700,000
	700,000	---	700,000	700,000	---	700,000

The United Internet Group can also exert a significant influence on its associated companies and joint ventures.

Conditions of transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2011 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

As part of the cooperation with ProSiebenSat.1 Media AG, 1&1 Internet AG owned until December 31, 2010 an interest in the joint venture maxdome GmbH & Co. KG, which operates the video-on-demand portal maxdome. As part of this cooperation, 1&1 Internet AG provided hosting and other services. The revenues generated by order and on account of maxdome were forwarded to maxdome GmbH & Co. KG. Moreover, 1&1 Internet AG undertook to provide maxdome GmbH & Co. KG, under certain circumstances, with subordinated partner loans to finance the operating business of maxdome GmbH & Co. KG. In this connection, loans of € 13,900k were granted in fiscal year 2010.

In a contract signed on December 20, 2010 the joint venture maxdome GmbH & Co. KG was sold with effect from December 31, 2010. An amount of € 6,000k of the total price of € 16,515k was paid in cash in fiscal year 2010. The remaining purchase price of € 10,515k has been deferred until December 30, 2014. Including the effect from discounting this receivable, the purchase price receivable amounts to € 9,519k as of the balance sheet date (prior year: € 9,163k). In connection with this sale, the above mentioned loan receivables from maxdome GmbH & Co. KG were settled via the purchase price. Prorated profits were assumed until the point of sale and are included in the result from associated companies. The other operating income amounts to € 7,769k. Please refer to Note 8.

There is a loan agreement with the associated company ProfitBricks GmbH dated November 2, 2010 with a volume of € 7,125k. The total volume can be repaid in individual tranches. A first partial amount of € 2,000k was granted to ProfitBricks GmbH in fiscal year 2011. The interest on the loan is not due until the end of the term (March 31, 2020). The contract provides for special repayment possibilities.

The following table presents the outstanding balances and total transactions volumes with associated companies and joint ventures in the respective fiscal year:

	2011	2010	2011	2010	2011	2010	2011	2010
	€k	€k	€k	€k	€k	€k	€k	€k
maxdome GmbH & Co. KG	---	7,182	---	---	---	228	---	---
Other	424	705	30	30	718	828	1,855	3

Receivables from other related parties mainly result from loans to ProfitBricks GmbH. Interest income of € 19k accrued in this connection.

	Interest income		Interest expense	
	2011	2010	2011	2010
	€k	€k	€k	€k
maxdome GmbH & Co. KG	---	739	---	0
Other	19	0	11	5
Total	19	739	11	5

43. Objectives and methods of financial risk management

Principles of risk management

The risk management system introduced by the United Internet Group is based on the COSO-ERM framework and is described in detail in the Management Report.

The principles of finance policy are set by the Management Board and monitored by the Supervisory Board. Certain transactions require the prior approval of the Supervisory Board.

The main financial liabilities used by the Group include bank loans and overdraft facilities, convertible bonds, trade accounts payable and other financial liabilities.

The Group holds various financial assets which result directly from its business activities. They consist mainly of trade accounts receivable, available-for-sale financial investments and short-term deposits. As of the balance sheet date, the Group mainly held primary financial instruments. In addition, there are derivative financial instruments, which consist mainly of interest swaps.

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

Liquidity risk

As in the previous year, the general liquidity risk of United Internet consists of the possibility that the Company may not be able to meet its financial obligations, such as the redemption of financial debts. The Company's objective is the continual coverage of its financial needs and securing flexibility by using overdraft facilities and loans.

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

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

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2011 and 2010:

	Dec. 31, 2011	**2012**	**2013**	**2014**	**2015**	**> 2016**	**Total**
	€k	€k	€k	€k	€k	€k	€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 liabilities	77,925	51,747	7,563	12,676	607	5,332	77,925

	Dec. 31, 2010	**2011**	**2012**	**2013**	**2014**	**> 2015**	**Total**
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	369,400	183,365	123,145	73,953	0	0	380,463
Trade accounts payable	213,509	213,509	0	0	0	0	213,509
Other liabilities	83,251	59,603	4,639	2,537	9,800	6,672	83,251

Please refer to Note 32 for details on interest and redemption payments for liabilities to banks. It is assumed that the revolving syndicated loan will be repaid by the end of its term in 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.

The Company has no significant concentration of liquidity risks.

Market risk

The activities of United Internet are mainly exposed to financial risks from changes in interest rates, exchange rates, stock exchange prices, and credit or contingency risks.

Interest risk

The Group is exposed to interest risks as the major share of its borrowing as of the balance sheet date bears variable interest rates with varying terms. As part of liquidity planning we constantly monitor the various investment and borrowing possibilities. Borrowing requirements are met by using suitable instruments to manage liquidity, while surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk has increased since the previous year.

In fiscal years 2008 and 2011, the Company concluded a total of six interest swaps with a total nominal amount of € 380,000k (prior year: € 200,000k) in order to reduce its interest risk. As of the balance sheet date, liabilities due to banks amounting to € 524,593k (prior year: € 369,400k) is thus covered to around 72% (prior year: 54%). The agreements have terms until October 9, 2013 and June 7, 2016. Please refer to Note 41.

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 € 3,530k (prior year: € 5,382k) or a decrease of € 3,579k (prior year: € 5,483k).

A change in the market interest level also has an effect on interest swaps concluded in fiscal year 2011 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 € 7,189k or a decrease of € 7,510k.

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 € 63,564k as of the balance sheet date (prior year: € 95,249k).

Impairments may result from the share price development of listed investments.

The Company has no significant concentration of market risks.

Credit and contingency risk

In the course of its operating activities, the Company is exposed to a contingency risk. Outstanding amounts are therefore monitored locally and on a continual basis. Individual and lump-sum allowances are made to account for such contingency risks. The Group does not see any significant increase in the contingency risk over the previous year.

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see Note 21).

Internal rating system

In the 1&1 sub-group, a pre-contractual fraud check is conducted and collection agencies are also used for the management of receivables. In the Sedo sub-group, a pre-contractual check of creditworthiness is made in the media sales business and collection agencies are also used for the management of receivables.

In the 1&1 sub-group, individual allowances for receivables overdue are generally made on the basis of the respective age profile. These allowances are mainly derived from success rates of the agencies used for collecting such debts. 100% individual allowances are made for all receivables overdue more than 365 days. In the Sedo sub-group, individual allowances are made for each customer according to various criteria (e.g. dunning level, insolvency, fraud cases etc.).

The Company has no significant concentration of credit risks.

Risks from financial covenants

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

Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can issue new shares or purchase treasury shares. As of December 31, 2011 and December 31, 2010, no changes were made to the Company's targets, methods and processes.

44. Specific contingencies and commitments

Litigation

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

An accrual for litigation was formed for any commitments arising from these disputes (see Note 35).

Guarantees

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

45. Other financial commitments, guarantees and contingent liabilities

Operating lease commitments

At the end of the fiscal year, there were fixed-term obligations from the renting of buildings, offices and movables.

Most leases have options to prolong the contractual relationship. The terms of these prolongation options are negotiable or identical with the current terms.

As of December 31, the future minimum lease obligations were as follows:

	2011	**2010**
	€k	€k
Up to 1 year	17,554	18,657
1 to 5 years	45,217	40,595
Over 5 years	19,018	23,124
	81,789	82,376

In the period under review, these operating leases incurred expenses of € 16,067k (prior year: € 14,273k).

Guarantees and other obligations

The Company is jointly and severally liable for credit lines granted to companies of the United Internet Group by a bank. The credit facilities had only been utilized with regard to guarantees as of the balance sheet date.

The Management Board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

Contingent liabilities

In the course of the completed tax audit for the assessment periods 2002 to 2005, there were findings with regard to the income tax treatment of so-called customer acquisition costs. Due to their sales cost character, these costs are expensed when incurred. According to the tax authority, certain parts of these costs are to be deferred beyond the minimum contract terms. Similar results are expected from the current tax audit for the years 2006 to 2008.

In 2010, a lawsuit brought by a mobile phone operator against this opinion was rejected by the German Federal Finance Court (BFH). However, the question of whether the verdict applied retroactively to previous years was not settled. In order to settle this matter, the 1st Senate has referred the case to the Large Senate of the BFH. United Internet has taken the verdict of the 1st Senate into account for its taxes since fiscal year 2010 and formed corresponding tax accruals. United Internet does not currently expect a retroactive application of the verdict. Nevertheless, in view of the current tax audit, tax accruals have also been formed for previous years as a precaution.

46. Cash flow account

In fiscal year 2011, cash flow from operating activities includes interest payments of € 24,236k (prior year: € 11,558k) and interest income of € 3,550k (prior year: € 1,564k). Income tax payments in fiscal year 2011 amounted to € 141,905k (prior year: € 84,208k) while income tax proceeds totaled € 16,768k (prior year: € 31,856k). Proceeds from dividends distributed by other investments amounted to € 5,621k (prior year: € 2,272k) in fiscal year 2011.

A total of € 2,260k (prior year: € 4,697k) was paid in cash for the purchase of shares in associated companies and joint ventures in fiscal year 2011. Proceeds from dividends paid by associated companies totaled € 730k (prior year: € 983k). Further details are provided in Note 25.

The acquisition costs for the purchase of the operating business of Mail.com amounted to € 22,606k at the time of acquisition, of which € 21,437k was settled in cash in fiscal year 2010.

The sale of shares in associated companies and investments resulted in total cash proceeds of € 44,592k (prior year: € 26,465k) in fiscal year 2011.

Other non-cash expenses and income for tax adjustments concern the expected findings of the current tax audit for the years 2006 to 2008. Of the total amount of € 17,363k, an amount of € 8,860k refers to income taxes, € 7,323k to interest expenses and € 1,180k to other taxes. Please refer to Note 16.

Other non-cash expenses and income mainly comprise income recognized through profit or loss for market value changes in call options in connection with the disposal of shares in Versatel, as well as income recognized through profit or loss for market value changes in interest swaps.

47. Exemption pursuant to Sec. 264 (3) HGB

The following companies of United Internet AG make use of the exempting provisions of Sec. 264 (3) HGB:

- 1&1 Internet AG, Montabaur
- 1&1 Internet Applications GmbH, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Internet Service GmbH Zweibrücken, Zweibrücken
- 1&1 Mail & Media Holding GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- United Internet Beteiligungen GmbH, Montabaur
- United Internet Media AG, Montabaur
- United Internet Dialog GmbH, Montabaur

48. Subsequent events

There were no significant events subsequent to the balance sheet date which may have resulted in a different representation of United Internet's situation.

49. Auditing fees

In fiscal year 2010, auditing fees totaling € 2,315k (prior year: € 1,563k) were expensed in the consolidated financial statements. These include auditing fees of € 1,068k (prior year: € 970k), tax consultancy services of € 946k (prior year: € 383k), and other services of € 301k (prior year: 210k).

50. Corporate Governance Code

The declaration pursuant to Sec. 161 AktG on observance of the German Corporate Governance Code was submitted by the Management Board and Supervisory Board and has been made available to shareholders via the internet portal of United Internet AG (www.united-internet.de) and Sedo Holding AG (www.sedoholding.com).

Montabaur, March 21, 2012

The Management Board

United Internet AG - Development of fixed assets acc. to IFRS for the fiscal year 2011 and 2010 (€k)

2011	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2011	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2011	Jan. 1, 2011	Additions	Impairment	Disposals	Currency translation	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011
Intangible assets															
Licenses	28,804	0	982	0	0	47	29,833	27,194	660	0	0	61	27,915	1,610	1,918
Order backlog	2,397	0	0	0	0	6	2,403	2,312	81	0	0	10	2,403	85	0
Software	63,282	0	9,977	88		25	73,196	40,401	8,861	0	88	31	49,205	22,881	23,991
Trademark	46,902	0	2	0	0	591	47,495	774	0	46	0	56	876	46,128	46,619
Customer base	188,888	0	0	0	0	446	189,334	63,762	27,001	0	0	277	91,040	125,126	98,294
Portal	72,240	0	0	0	0	0	72,240	46,655	9,030	0	0	0	55,685	25,585	16,555
Goodwill	417,122	0	685	193	0	1,435	419,049	14,254	0	3,500	0	0	17,754	402,868	401,295
Total (I)	**819,635**	**0**	**11,646**	**281**	**0**	**2,550**	**833,550**	**195,352**	**45,633**	**3,546**	**88**	**435**	**244,878**	**624,283**	**588,672**
Property, plant and equipment															
Land and buildings	8,050		179	0	0	0	8,229	4,216	1,102	0	0	0	5,318	3,834	2,911
Operational equipment	256,822		34,350	7,840	7,715	1,683	292,730	165,222	38,456	0	7,087	1,410	198,001	91,600	94,729
Payments in advance	13,241		8,915	1,149	-7,715	-10	13,282	0	0	0	0	0	0	13,241	13,282
Total (II)	**278,113**	**0**	**43,444**	**8,989**	**0**	**1,673**	**314,241**	**169,438**	**39,558**	**0**	**7,087**	**1,410**	**203,319**	**108,675**	**110,922**
Total	**1,097,748**	**0**	**55,090**	**9,270**	**0**	**4,223**	**1,147,791**	**364,790**	**85,191**	**3,546**	**7,175**	**1,845**	**448,197**	**732,958**	**699,594**

2010	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2010	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2010	Jan. 1, 2010	Additions	Impairment	Disposals	Currency translation	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Intangible assets															
Licenses	28,416	0	276	11	0	123	28,804	26,264	840	0	0	90	27,194	2,152	1,610
Order backlog	2,141	264	0	0	0	-8	2,397	2,141	171	0	0	0	2,312	0	85
Software	48,934	0	14,768	473	0	53	63,282	34,632	6,204	0	471	36	40,401	14,302	22,881
Trademark	26,041	21,309	0	0	0	-448	46,902	23	0	750	0	1	774	26,018	46,128
Customer base	183,586	544	3,778	0	0	980	188,888	32,332	31,061	0	0	369	63,762	151,254	125,126
Portal	72,240	0	0	0	0	0	72,240	37,625	9,031	0	0	-1	46,655	34,615	25,585
Goodwill	413,018	488	535	0	0	3,081	417,122	14,092	0	162	0	0	14,254	398,926	402,868
Total (I)	**774,376**	**22,605**	**19,357**	**484**	**0**	**3,781**	**819,635**	**147,109**	**47,307**	**912**	**471**	**495**	**195,352**	**627,267**	**624,283**
Property, plant and equipment															
Land and buildings	8,049	0	1	0	0	0	8,050	4,122	94	0	0	0	4,216	3,927	3,834
Operational equipment	225,222	35	42,835	21,644	6,248	4,126	256,822	145,095	37,903	0	19,981	2,205	165,222	80,127	91,600
Payments in advance	9,867	0	9,504	40	-6,248	158	13,241	0	0	0	0	0	0	9,867	13,241
Total (II)	**243,138**	**35**	**52,340**	**21,684**	**0**	**4,284**	**278,113**	**149,217**	**37,997**	**0**	**19,981**	**2,205**	**169,438**	**93,921**	**108,675**
Total	**1,017,514**	**22,640**	**71,697**	**22,168**	**0**	**8,065**	**1,097,748**	**296,326**	**85,304**	**912**	**20,452**	**2,700**	**364,790**	**721,188**	**732,958**

Audit opinion of the Independent Auditior

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, 2011. The preparation of the consolidated financial statements and the management report for the group and the company in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the group and the company based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with [German] principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report for the group and the company are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management report for the group and the company. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The management report for the group and the company is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, March 21, 2012

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Bösser	Kemmerich
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

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

Montabaur, March 21, 2012

Board of Management

Ralph Dommermuth   Norbert Lang

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