



Annual Financial  
Statements

2012

**Management Report for the Group and Parent Company**

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



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Note: Due to calculation processes, tables and references may produce rounding differences from the mathematically exact values (monetary units, percentage statements, etc.).

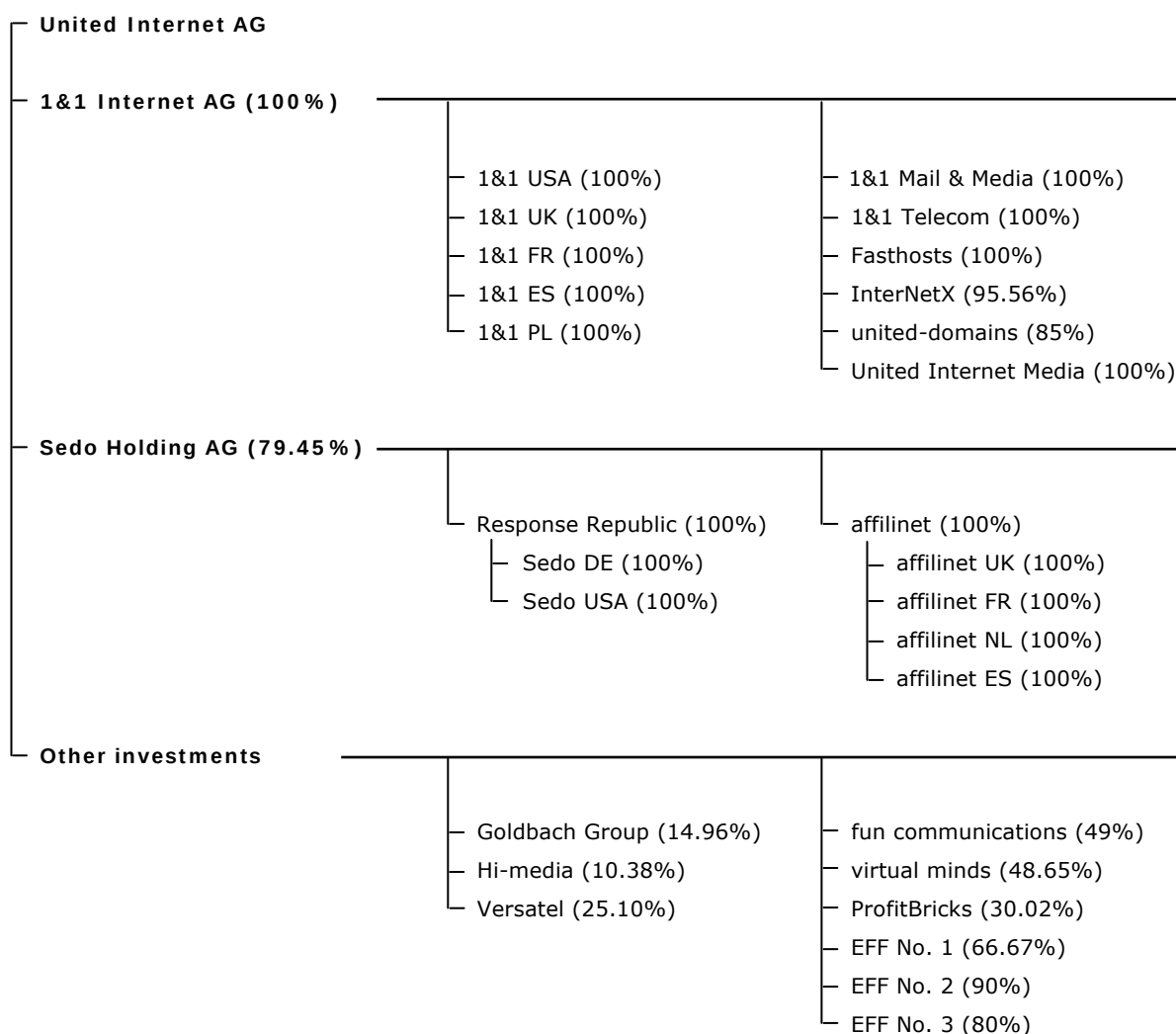
# 1 Group structure and business operations

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

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



In addition to its operative and fully consolidated subsidiaries, United Internet holds further direct and indirect investments. These mainly consist of the equity interests held in the listed online marketing companies Goldbach Group AG, Switzerland (14.96%) and Hi-media S.A., France (10.65%), the investment in Versatel GmbH (25.10% via Versatel's holding company VictorianFibre Holding & Co. S.C.A.), and the investments in fun communications GmbH (49%), virtual minds AG (48.65%), and ProfitBricks GmbH (30.02%), as well as a number of other internet investments (41 investments in total) via the investment funds EFF No. 1 (66.67%), EFF No. 2 (90%) and EFF No. 3 (80%) operated jointly with the Samwer brothers.

## **Business operations**

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

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

The **Applications segment** comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages, webhosting and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The applications are developed by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. In its Applications segment, United Internet is internationally aligned and among the leading companies in Germany, France, the UK, Canada, Austria, Poland, Switzerland, Spain and the USA. In May 2012, United Internet began operations in Italy and in January 2013 in Mexico. Applications are marketed to specific target groups via the differently positioned brands GMX, WEB.DE, 1&1, united-domains, Fasthosts and InterNetX. United Internet also offers its customers performance-based advertising and sales platforms on the internet via Sedo and affilinet.

## 2 Economic environment

### Further slowdown in global economic growth

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

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

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

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

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

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

### ICT markets return to growth

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

## Positive development of United Internet's growth markets

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

### Broadband fixed line connections

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

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

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

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

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

Source: Dialog Consult / VATM

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

### Mobile Internet

The German mobile internet market displayed much more dynamic growth in 2012. According to BITKOM figures, sales of mobile data services rose by 14.5% to € 8.6 billion in 2012.

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

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

Key market figures: mobile internet access in Germany

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

Source: BITKOM; Dialog Consult / VATM

## Online advertising

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

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

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

Key market figures: online advertising in Germany

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

Source: OVK

## Cloud computing

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

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

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

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

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

Source: Gartner, BITKOM / Experton Group

### 3 Business development of the Group

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

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

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

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

#### Segment development

##### Access segment

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

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

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

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

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

|        | 2012    | 2011    | Change  |
|--------|---------|---------|---------|
| Sales  | 1,586.1 | 1,368.0 | + 15.9% |
| EBITDA | 191.8   | 152.3   | + 25.9% |
| EBIT   | 164.3   | 122.2   | + 34.5% |

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

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

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

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

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

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

#### Development of customer contracts in the Access segment in Q4 2012

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

#### Product highlights 2012

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

- **The 1&1 Principle:** The 1&1 Principle is the logical continuation of the quality drive already introduced in Germany in 2009. With the 1&1 Principle, customers are given clear performance promises. The most important new features are the overnight delivery of hardware, a one-month test phase for all products, and on-site, next-day replacement of faulty equipment. This enables United Internet's 1&1 brand to clearly differentiate itself from the competition, strengthens the benefits of online business over bricks-and-mortar operations, and setting new standards in service quality and customer satisfaction. Implementing the 1&1 Principle involved optimizing a number of internal processes, investing in customer care services and improving other procedures.
- **1&1 Tablet Flat:** Tablet PCs are the latest trend. According to sector association BITKOM, approx. 2.1 million units were sold in Germany alone during 2011 – corresponding to year-on-year sales growth of 162%. To enable customers to get maximum use of their tablets, also while on the road, 1&1 launched its "1&1 Tablet Flat" tariff for the D-Network. The "1&1 Tablet Flat" offers unlimited mobile surfing with bandwidth of up to 14,400 kBit/s together with a new tablet device starting from € 0.
- **New All-Net-Flats:** In August 2012, the United Internet brand 1&1 greatly expanded its product range in Mobile Internet segment. Customers can now choose from three new 1&1 All-Net-Flat tariffs in D-Network quality (flat-rate fees for all networks). "1&1 All-Net-Flat Basic" offers unlimited phoning in all German mobile and fixed-line networks as well as unlimited surfing at HSDPA speeds of up to 7,200 kBit/s (high-speed volume 300 MB). "1&1 All-Net-Flat Plus" not only includes unlimited phoning in all German mobile and fixed-line networks and unlimited surfing at HSDPA speeds of up to 7,200 kBit/s (high-speed volume 500 MB), but also unlimited text messaging. The high-end "1&1 All-Net-Flat Pro" tariff comprises unlimited phoning in all fixed-line and German mobile networks, unlimited text messaging, and even faster unlimited surfing at an HSDPA speed of up to 14,400 kBit/s as well as a high-speed

volume of 1 gigabyte. In addition, the plan includes international data usage of 100 MB per month in 36 countries.

### **Outlook 2013**

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

### **Applications segment**

The **Applications segment** comprises United Internet's application business – whether ad-financed or via fee-based subscriptions. These applications include domains, home pages, webhosting and e-shops, Personal Information Management applications (e-mail, to-do lists, appointments, addresses), group work, online storage and office software. The applications are developed by the company's "Internet Factory" or in cooperation with partner firms and operated at the company's data centers. In its Applications segment, United Internet is internationally aligned and among the leading companies in Germany, France, the UK, Spain, Austria, Switzerland and the USA. United Internet also began operations in Poland in late 2010, in Canada in early 2011, in Italy in May 2012 and in Mexico in January 2013. Applications are marketed to specific target groups via the differently positioned brands GMX, WEB.DE, 1&1, united-domains, Fasthosts and InterNetX. United Internet also offers its customers performance-based advertising and sales platforms on the internet via Sedo and affilinet.

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

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

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

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

million (prior year: € 42.7 million) and EBIT-effective start-up losses of € 126.5 million (prior year: € 43.7 million).

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

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

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

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

|                                    | 2012   | 2011  | Change  |
|------------------------------------|--------|-------|---------|
| <b>Established business fields</b> |        |       |         |
| Sales                              | 769.4  | 712.1 | + 8.0%  |
| EBITDA                             | 256.2  | 226.1 | + 13.3% |
| EBIT                               | 193.1  | 168.7 | +14.5%  |
| <b>New business fields</b>         |        |       |         |
| Sales                              | 40.8   | 13.7  | + 197.8 |
| EBITDA                             | -124.1 | -42.7 |         |
| EBIT                               | -126.5 | -43.7 |         |
| <b>Total</b>                       |        |       |         |
| Sales                              | 810.2  | 725.8 | + 11.6% |
| EBITDA                             | 132.1  | 183.4 | - 28.0% |
| EBIT                               | 66.6   | 125.0 | - 46.7% |

Quarterly development of key financial figures in the Applications segment  
in € million; key figures including new business fields; without special items\*

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

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

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

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

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

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

Development of customer contracts in the Applications segment in Q4 2012

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

## Product highlights 2012

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

- **Neue WEB.DE mailboxes:** In January 2012, WEB.DE conducted one of the biggest migrations in German internet history. Around 15 million users received a new home for their e-mails: the new WEB.DE mailbox. It features a clear design and simple navigation, while the WEB.DE online storage facility offers secure space in the cloud for personal data. Important documents, photos or other files can be safely stored here. They can subsequently also be accessed on the move via any internet-capable PC or dedicated app. The WEB.DE MailCheck, a browser extension for Internet Explorer and Mozilla Firefox, also offers users fast mailbox log-in, secure encryption and immediate notification of new e-mails received. With its integrated phishing filter, MailCheck also provides added security while surfing outside the mailbox.
- **1&1 Dynamic Cloud Server:** In March 2012, 1&1 made its Dynamic Cloud Server significantly more flexible. All relevant features, such as the CPU (processor) and RAM (memory) can be adapted and expanded exactly according to the number of hours required. For small and mid-size companies, the change means they can administer their IT needs even more efficiently. That reduces costs – and strengthens their competitive standing. The 1&1 Dynamic Cloud Server offers users a virtual server environment with full root access. This allows users to adapt the basic settings according to their specific requirements. It is also possible to swap between Linux and Windows operating systems.
- **1&1 launches De-Mail for business clients:** As of late April, 1&1 business clients can register their desired name for the use of De-Mail. They have the possibility to reserve a De-Mail address based on their current .de domain – i.e. "MyFirm.de" will be joined by "MyFirm.de-mail.de". De-Mail enables private and business users to send or receive messages and documents in a secure, confidential and verifiable way. Easy and convenient via De-Mail's integration into existing e-mail environments.
- **WEB.DE offers German data security and entry-level tariffs for online storage:** Skydrive from Microsoft, iCloud from Apple, Google Drive or newcomer Dropbox – many of these so-called cloud products for Internet data storage originate in the USA. However, over 68% of all German Internet users are wary of storing their private data with US companies. This was the finding of a survey conducted by Convios Consulting GmbH. As of June 2012, WEB.DE offers such users a variety of tariff alternatives which comply with Germany's strict data protection laws.
- **Features of 1&1 MyWebsite greatly expanded:** As of October 2012, business customers can access up to 100 useful apps free of charge and simply integrate them into their websites. These business apps offer numerous sector-specific functions for e-commerce, communication, social media and

everyday business processes. The web apps can be easily integrated into the user's website by simply dragging and dropping the chosen application to any place on the page. As a result, visitors no longer have to be redirected to external websites.

### **Outlook 2013**

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

### **Group investments**

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

#### **Investments in listed companies**

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

Since the transfer of the Group's Display Marketing business "AdLINK Media" to Hi-media in mid 2009, United Internet has held a 10.65% stake in **Hi-media S. A.**, Paris / France. Hi-Media closed its fiscal year 2012 with sales of € 194.7 million (prior year: € 229.9 million) and a positive consolidated result of € 5.9 million (prior year: € 11.3 million). The company's market capitalization amounted to around € 94 million as of December 31, 2012.

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

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

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

### **Further significant investments as of December 31, 2012**

United Internet has held significant stakes in **fun communications GmbH** (49.00%) and **virtual minds AG** (48.65%) for several years. Both companies posted positive earnings in fiscal year 2012.

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

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

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

### Group earnings

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

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

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

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

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

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

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

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

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

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

Development of key financial figures for the Group  
in € million; without special items\*

|                                    | 2012    | 2011    | Change  |
|------------------------------------|---------|---------|---------|
| <b>Established business fields</b> |         |         |         |
| Sales                              | 2,355.8 | 2,080.4 | + 13.2% |
| EBITDA                             | 450.0   | 384.5   | + 17.0% |
| EBIT                               | 359.2   | 296.7   | + 21.1% |
| <b>New business fields</b>         |         |         |         |
| Sales                              | 40.8    | 13.7    | + 197.8 |
| EBITDA                             | -124.1  | -42.7   |         |
| EBIT                               | -126.5  | -43.7   |         |
| <b>Total</b>                       |         |         |         |
| Sales                              | 2,396.6 | 2,094.1 | + 14.4% |
| EBITDA                             | 325.9   | 341.8   | - 4.7%  |
| EBIT                               | 232.7   | 253.0   | - 8.0%  |

Quarterly development of key financial figures for the Group  
in € million; key figures including new business fields; without special items\*

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

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

## Cash flow, investment and finance

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

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

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

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

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

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

## Assets and equity

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

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

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

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

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

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

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

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

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

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

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

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

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

The parent company's **net income** reached € 71.5 million – following € 179.2 million in the previous year. In accordance with Sec. 58 (2) Sentence 1 AktG, the Management Board of United Internet AG has transferred part of the net profit for the year (€ 30 million) to other revenue reserves.

### Assets and financial position of United Internet AG

The parent company's balance sheet is mainly influenced by **shares in affiliated companies** amounting to € 1,105.6 million (prior year: € 1,105.0 million) as well as by **investments** of € 59.6 million (prior year: € 36.7 million). Additions to investments resulted from the acquisition of shares in the holding company of Versatel GmbH, VictorianFibre Holding & Co. S.C.A. (€ 59.6 million), while divestments comprised the sale of shares in freenet AG (€ -36.7 million).

**Bank liabilities** of United Internet AG were reduced by € 215.0 million to € 287.0 million in the reporting period (prior year: € 502.0 million). These bank

liabilities mainly comprise a syndicated loan, of which € 215.0 million had been drawn as of the balance sheet date (prior year: € 430.0 million), and a promissory note loan of € 72 million placed in 2008 (prior year: € 72 million).

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

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

## **Share and dividend**

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

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

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

## 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 2013.

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

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

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

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

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

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

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

issued decreased correspondingly by 6,000,000, from 200,000,000 shares to 194,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

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

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

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

## **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 when the virtual options were granted.

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

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

### **Principles of the Supervisory Board remuneration system**

The 3 members of the Supervisory Board of United Internet AG also form the supervisory board of United Internet's most important subsidiary, 1&1 Internet AG. The Supervisory Board members each receive separate compensation for their work on behalf of the two companies. This compensation consists of a fixed element and a variable element which depends on the success of the respective company.

In the case of United Internet, the fixed remuneration for an ordinary member of the Supervisory Board amounts to € 10,000 per full fiscal year. The Chairman of the Supervisory Board receives twice the amount attributable to an ordinary member. The variable, performance-oriented element for each member of the Supervisory Board, including the Chairman, amounts to € 1,000 for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 for United Internet AG, calculated according to IFRS. As of fiscal year 2013, there will be a variable long-term compensation component for each member of the Supervisory Board, including the Chairman. This will consist of an additional payment per full fiscal year of € 500 per starting percentage point by which the EPS of United Internet AG in the past fiscal year exceeds the EPS

of the fiscal year completed 3 years previously. This long-term, variable compensation component is limited to a maximum of € 10,000 per member. There are no stock option plans for members of the Supervisory Board.

With regard to their activities for 1&1 Internet AG, the fixed remuneration for ordinary members of the Supervisory Board amounts to € 20,000 per full fiscal year. The Chairman of the Supervisory Board receives € 30,000. Variable, performance-oriented compensation for each member of the Supervisory Board, including the Chairman, is based on the key earnings figures of 1&1 Internet AG. Variable compensation amounts to at least € 30,000 and a maximum of € 70,000 per member.

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

### **Stock-based compensation**

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

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

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right to fulfill its commitment to pay the SAR in cash by also transferring United Internet AG shares from its stock of treasury shares to the beneficiary, at its own discretion. Employees may exercise their option rights after expiry of certain minimum retention periods. The increase in value represents a taxable gain for employees. The SARs have a maturity of no more than six years.

Option rights can be exercised as follows: up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option; a total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Detailed information on stock-based compensation is provided in section 36 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, marketing communication clerk, commercial clerk and media designer. Over a three-year training period, all participants experience a wide variety of different company departments and take part in numerous events and workshops. The apprentice workshops at the facilities in Karlsruhe and Montabaur have proved especially successful. Technical apprentices in particular spend part of their training period in the workshops in order to learn the basics for their later careers. In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg - DHBW) United Internet also offers degree courses in Applied Computer Sciences, Information Management, Business Administration / Accounting and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

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

## Headcount development 2012

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

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

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

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

### Headcount development

|                      | Dec. 31, 2012 | Dec. 31, 2011 | Change  |
|----------------------|---------------|---------------|---------|
| Access segment       | 1,928         | 1,794         | + 7.5%  |
| Applications segment | 4,292         | 3,771         | + 13.8% |
| Headquarters         | 34            | 28            | + 21.4% |
| Total Group          | 6,254         | 5,593         | + 11.8% |

## **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 is rooted in an ability to develop, combine or adapt innovative products and services and launch them on major markets.

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

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

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

### **Focus areas 2012**

#### **First prototype of container-based data center**

United Internet's development departments have been working toward the technological realization of mobile data centers for several years now. Using these so-called container units, data centers can be flexibly scaled or just temporarily operated depending on current demand. With the aid of modular units, data centers can also be operated locally – and thus close to the customer. Such short distances minimize network latencies (delays) for cloud applications and the provision of resources can be optimally spread by using small basic

units. An intelligent cooling system using outside air means United Internet can operate the units with low energy consumption, while maintaining the highest safety standards. In fiscal year 2012, a first prototype was put into operation and optimized for serial production for our data center in France. At the same time, the development departments are working on “translating” the European technological design to country-specific requirements in the USA.

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

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

### **Further development of 1&1 logistics**

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

### **IPv6 roll-out**

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

### **MARS – development of a long-distance replication solution**

The mirroring of databases between data centers is currently based on an open source solution which is ideally suited to short distances. In order to reliably perform such operations over long distances, or even across continents, work was commenced in fiscal year 2012 on “MARS” (Multiversion Asynchronous Replicated Storage) – the new development of a 1&1 long-distance replication solution as open source software. The recently completed prototype enables the first-ever long-distance replication of databases between data centers, even

across continents, using pioneering patent-relevant technology. Network disruptions are almost completely separated from the application. It is planned to make the application ready for mass use in data centers during fiscal year 2013. The main field of use for the replication solution will in the field of shared hosting products.

### **Virtualization platform developed into a global self-service system**

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

## 10 Risk and opportunity report

### Risk and opportunity management system

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

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

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

The risk management system comprises those measures which enable United Internet AG to identify, classify, steer and monitor from an early stage all possible risks for the attainment of its corporate objectives. The current risk status is communicated to the Management Board and Supervisory Board four times per year. Sudden important risk occurrences or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately to the CFO of United Internet AG, who in turn reports it to the Supervisory Board where necessary. In this way, significant risks can be addressed as quickly as possible. In order to support the centralized risk management system, additional local risk managers have been installed with monthly reporting in the field of Technology & Development. In order to facilitate the group-wide exchange and comparison of risk information, these local risk managers meet with the Group's central risk management team at regular Risk Manager Meetings.

**Opportunity management** is based on strategic planning and the resulting measures for the development of products and their positioning for various target groups, markets and countries during the product life cycle. The Group Management Board, as well as the operative management level of the respective business segments in the form of Divisional Managers and Managing Directors, have the direct responsibility for the early and continual identification, assessment, and steering of opportunities. The management team of United Internet AG makes extensive use of detailed evaluations, models and scenarios on current and future trends regarding sectors, technologies, products,

markets/market potential and competitors in the Group's fields of activity. The potential opportunities identified during these strategic analyses are then examined with regard to the critical success factors and existing external conditions and possibilities of United Internet AG in planning discussions between the Management Board, Supervisory Board and operational managers before being implemented in the form of specific measures, targets and milestones. The progress and success of these measures is continually monitored by operational management and the Managing Directors and Management Board members of the respective companies.

## **Risks for United Internet**

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

### **Provision of services**

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

United Internet AG generates its commercial success largely within the environment of the internet. In order to provide products and services, the company uses information and telecommunication technologies (data centers, transmission systems, connection nodes etc.) in its business processes which are closely networked with the internet and whose availability may be endangered by threats from the internet. For example, there is a risk of DDoS attacks (DDoS = Distributed Denial of Service), which may lead to an overloading of technical systems and server downtime. In order to deal with such risks more quickly, the existing monitoring and alarm system, together with the necessary processes and documentation, is continually optimized.

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

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

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

United Internet's products and related business processes are based on a complex technical infrastructure and a number of success-critical software systems (servers, customer relationship databases and statistics systems etc.). Constantly adapting this infrastructure to changing customer needs leads to greater complexity and regular changes. In addition to major events like the migration of databases, this may lead to various disruptions or defects. Should

this affect our business systems or their databases, for example, daily account debiting may be delayed or no longer possible. Should this affect our performance systems, for example, United Internet may not be able to provide its customers with the promised service, on a temporary or longer-term basis. The company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing spatially separated (geo-redundant) core functionalities.

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

## **Legal & political**

### **Regulation**

In the Access segment, the decisions of the German Federal Network Agency and Federal Cartel Office have an influence on the pricing of broadband internet access tariffs. Price increases of network providers from whom United Internet purchases pre-services for its own customers can have a negative impact on the profitability of tariffs. In the same way, there is also the possibility that a lack of regulation may lead to a deterioration of market circumstances for United Internet. United Internet attempts to counter this increasing regulation risk by cooperating with various pre-service providers and by actively participating in the activities of industry representatives, such as the Association of Telecommunications and Value-Added Service Providers (VATM).

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

### **Minimum wage**

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

**Property rights / licenses**

Like other internet and software suppliers, United Internet AG is also confronted with a growing number of patent infringement claims. The majority of these claims originate in the USA. There is also a risk that United Internet might use protected rights or licenses without permission or not according to their terms of use. United Internet counters this risk by expanding its license management capabilities and defends its interests and claims fiercely in all proceedings.

**Data protection**

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

**Market****Competition**

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

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

**Product development**

A key success factor for United Internet is the development of new products and services in order to constantly raise the number of our customer contracts and strengthen customer retention. There is always a risk, however, that new developments might be launched too late on the market or not accepted by the target group. United Internet counters such risks by closely observing market trends and the competition as well as by undertaking product development which constantly responds to customer feedback.

## **Fraud**

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

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

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

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

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

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

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

### **Liquidity risk**

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

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

transactions.

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

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

#### **Risks from financial covenants**

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

#### **Market risk**

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

#### **Interest risk**

The Company is fundamentally exposed to interest risks as the major share of its borrowing bears variable interest rates with varying terms. In order to hedge against such interest risks, a number of interest hedging agreements have been concluded over the past few years.

As part of its liquidity planning, the Company constantly monitors the various investment possibilities and debt conditions. Any borrowing requirements are met by using suitable instruments to manage liquidity. Surplus cash is invested on the money market to achieve the best possible return. Due to developments on the global finance markets, the interest risk remained largely unchanged.

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

#### **Currency risk**

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

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

A stock exchange risk mainly results from investments in listed companies.

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

### **Capital management**

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, purchase treasury shares and where necessary place them again or issue new shares. As of December 31, 2012 and December 31, 2011, no changes were made to the Company's targets, methods and processes.

### **Tax risks from the change in internal transfer pricing**

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

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

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

### **Opportunities for United Internet**

In view of the dynamic market development of United Internet's core markets, the company's growth opportunities are clearly apparent: universally accessible, permanently available and increasingly powerful broadband connections are

enabling new and more sophisticated cloud applications. From the current perspective, these internet-based programs for home users, freelancers and small companies are likely to be our growth drivers over the coming years – both as stand-alone products in the Applications segment as well as in combination with fixed-line and mobile access products in our Access segment.

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

### **Expansion of market positions**

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

### **Participation in market growth**

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

### **Entry into new business fields**

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

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

## **Internationalization**

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

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

Further countries and product roll-outs will gradually follow.

## **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, 2012 amounts to € 215,000,000 divided into 215,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution.

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

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

The Company's CEO, Mr. Ralph Dommermuth, Montabaur, Germany, owns 88,000,000 shares or 40.93% of the 215,000,000 shares in United Internet AG as of December 31, 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 May 26, 2011 and originally limited until November 26, 2012 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 31, 2012 on expiration of May 31, 2012 with a future effect.

In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of May 31, 2012 at the same time authorized the Management Board to acquire, sell or cancel treasury shares of up to ten percent of its capital stock in the period directly following the expired authorization and ending on November 30, 2013.

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

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

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

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

Moreover, the Management Board is authorized to use the acquired treasury shares, subject to the approval of the Supervisory Board, to grant shares to members of the Management Board and other Company employees, as well as the management and employees of affiliated companies pursuant to Secs. 15 ff. AktG, should such persons be entitled to subscription on the basis of employee stock ownership plans. Insofar as treasury shares are to be transferred to members of the Company's Management Board, the decision shall be incumbent upon the Company's Supervisory Board.

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

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

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

## 12 Corporate governance declaration

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

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

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

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

### Management and corporate structure

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

The **Supervisory Board** is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2012. The members of the Supervisory Board are generally elected for a period of five years. Members of the Supervisory Board should not generally be older than 70. In accordance with German law, the company's articles and its rules of procedure, the Supervisory Board is in regular contact with the Management Board and monitors and advises it with regard to the management of business, and the company's risk and opportunity management system. The Supervisory Board meets at regular intervals to discuss with the Management Board all matters of relevance to the company regarding strategy and its implementation, as well as planning, the development of business, the risk position, risk management and compliance. Together with the Management Board, it discusses the quarterly and half-year reports before publication and approves annual budgets as well as the annual financial statements of the parent company and the group. In doing so, it also takes the reports of the company's external auditors into account. Its responsibilities also include appointing members of the Management Board as well as determining and regularly monitoring their remuneration. The Supervisory Board conducts regular tests to assess its own efficiency. The members of the Supervisory Board complete the training and

further education measures required for their tasks on their own, but receive appropriate support in this context from the company.

The **Management Board** is the body charged with managing the group's operations and consisted of two persons in fiscal year 2012. The Management Board conducts operations in accordance with its legal and statutory obligations as well as the rules of procedure approved by the Supervisory Board. It is responsible for preparing the quarterly and annual financial statements as well as for appointing key managers within the company. Resolutions are always adopted with a simple majority. Should the vote result in a tie, the Chairman of the Management Board has a casting vote. Decisions of fundamental importance require the approval of the Supervisory Board. The Management Board regularly informs the Chairman of the Supervisory Board. There is also an age limit of 70 for members of the Management Board.

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

## **Composition of the Management Board and Supervisory Board**

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

In the case of new appointments, the Supervisory Board takes account of diversity aspects as defined by the German Corporate Governance Code. In particular, it strives to ensure that women are appropriately represented.

The **Supervisory Board** elected by the Annual Shareholders' Meeting currently comprises Kurt Dobitsch (Chairman), Kai-Uwe Rieke and Michael Scheeren.

The Supervisory Board of United Internet AG is composed in such a way that its members together have the knowledge, skills and professional experience necessary for them to carry out their tasks correctly. The members of the Supervisory Board also have considerable business experience in countries other than Germany.

The Supervisory Board comprises an adequate number of independent members,

who have no business or personal relationship with the company or its Management Board. Moreover, these independent members do not exercise functions on a management body or perform advisory duties at major competitors.

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

## **Control systems**

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

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

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

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

The Company's operating business is monitored and controlled primarily via the key figures: sales, EBITDA and EBIT, as well as via a number of other significant non-financial figures, such as customer contracts, free accounts, reach/active

users of our own websites and marketable third-party domains and websites.

### **Accounting-related internal control and risk management system**

In accordance with Sec. 289 (5) and Sec. 315 (2) No. 5 German Commercial Code (HGB), United Internet AG is obliged to describe the main features of its accounting-related internal control and risk management system in its Management Report.

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

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

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

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

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

United Internet AG regards risk management as the total of all measures designed to detect and assess risks, reduce them to an acceptable level, and

monitor recognized risks. A risk management system requires organized action to deal suitably with uncertainty and threats and urges employees to utilize the regulations and instruments required to ensure compliance with the risk management principles. In addition to operative risk management, it also includes the systematic early recognition, management and monitoring of risks. The accounting-related risk management system focuses on the risk of false statements in accounting and external reporting.

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

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

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

## **Compliance**

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

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

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

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

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

## **Financial disclosures / transparency**

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

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

United Internet provides shareholders, analysts and the press with four reports each fiscal year on the company's business development and its financial and earnings position. The publication dates of these reports are stated in a binding financial calendar, which the company posts on its website and regularly updates in accordance with legal obligations.

The Management Board also provides immediate information in the form of ad-hoc announcements about any events not known to the public which might significantly affect the share price.

As part of its investor relations activities, the company's management team regularly meets with analysts and institutional investors. We also hold analyst conferences to announce our semi-annual and annual figures, which investors and analysts can also participate in via telephone.

## **Accounting and auditing**

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS). However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements for the parent company and the group are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was elected to audit the annual financial statements for the fiscal year 2011. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

## **Remuneration of Management Board and Supervisory Board**

The principles of remuneration for the Management Board and Supervisory Board are presented in section 7 of this Management Report. The disclosure of total remuneration for members of the Management Board and Supervisory Board and its breakdown into fixed and variable compensation components is to be found in section 41 of the notes to the consolidated financial statements.

## **Stock option plans**

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

## **Directors' Dealings**

According to Sec. 15a of the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG), members of the Management Board and Supervisory Board of United Internet AG are legally obliged to declare their purchase and sale of shares in United Internet AG or related financial instruments whenever the transaction conducted by an executive body or related persons reaches or exceeds the amount of € 5,000 within one calendar year.

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

Beteiligungen GmbH. The total volume amounted to € 32,200k. On November 30, 2012, Mr. Michael Scheeren sold 100,000 shares at a price of € 17.33. The total volume amounted to € 1,733k.

No further Directors' Dealings were reported to the company.

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

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

The corporate governance of United Internet is based on the German Corporate Governance Code, which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002. The tenth and currently valid version of the German Corporate Governance Code was completed on May 15, 2012 and published by the Ministry of Justice in the Federal Gazette (<http://www.bundesanzeiger.de/>) on June 15, 2012.

The Code contains three types of standard:

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

German corporations are obliged to observe the legal regulations.

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

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

On March 5, 2013, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity in accordance with Sec. 161 AktG and immediately published it on the Company's website ([www.united-internet.de](http://www.united-internet.de)), as well as in the Federal Gazette.

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

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

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

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

United Internet AG has adopted the legal requirements by amending the existing D&O insurance policies as of January 1, 2010 and has agreed a deductible for members of the Management Board. The Company has refrained from agreeing a deductible for Supervisory Board members. United Internet does not generally believe that the motivation and responsibility with which the members of United Internet's Supervisory Board conduct their duties will be affected by such a deductible.

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

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

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

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

The Code recommends that the Supervisory Board specifies concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity, and since June 15, 2012 also the number of independent supervisory board members in the meaning of section 5.4.2. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The objectives of the Supervisory Board and the status of their implementation shall be published in the Corporate Governance Report.

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

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

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

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

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

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

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

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

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

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

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

### **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 forecasts

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

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

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

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

### Market / sector expectations

#### Further growth expected for ICT sector

Further international and national growth is forecast for IT and telecommunications companies in 2013: according to the German industry association BITKOM, the global ICT market will grow by 5.1% to € 2.7 trillion in 2012.

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

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

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

### **Growth in German broadband market primarily qualitative**

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

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

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

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

Source: BITKOM

### **Dynamic growth in German mobile internet market**

All experts continue to predict dynamic growth for the mobile internet market, however. Following market growth of 14.5% to € 8.6 billion in 2012, BITKOM also expects growth of 7.0% to € 9.2 billion in 2013.

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

Market forecast: mobile internet access in Germany

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

Source: BITKOM

### **Further growth in German online advertising market**

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

## Market forecast: online advertising in Germany

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

Source: BVDW / OVK

## Megatrend cloud computing

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

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

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

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

Source: Gartner, BITKOM / Experton Group

## Expectations for the company

### Forecast for 2013 and 2014

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

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

Sales growth of approx. 10% is forecast.

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

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

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

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

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

### **Forward-looking statements**

This Management Report contains forward-looking statements based on current expectations, assumptions, and projections of the Management Board of United Internet AG and currently available information. These forward-looking statements are subject to various risks and uncertainties and are based upon expectations, assumptions, and projections that may not prove to be accurate. United Internet AG does not guarantee that these forward-looking statements will prove to be accurate and does not accept any obligation, nor have the intention, to adjust or update the forward-looking statements contained in this report.

Montabaur, March 15, 2013

The Management Board

Ralph Dommermuth

Robert Hoffmann

Norbert Lang

# Consolidated Annual Financial Statements

acc. to IFRS

as at  
December 31, 2012



## United Internet AG - Consolidated balance sheet acc. to IFRS as of December 31, 2012 in€k

| <b>ASSETS</b>                                             | Notes  | <b>December 31, 2012</b> | <b>December 31, 2011</b> |
|-----------------------------------------------------------|--------|--------------------------|--------------------------|
| <b>Current assets</b>                                     |        |                          |                          |
| Cash and cash equivalents                                 | 19     | 42.828                   | 64.867                   |
| Trade accounts receivable                                 | 20     | 148.766                  | 106.702                  |
| Inventories                                               | 21     | 25.678                   | 16.720                   |
| Prepaid expenses                                          | 22     | 45.177                   | 43.094                   |
| Other financial assets                                    | 23     | 19.531                   | 83.287                   |
| Other non-financial assets                                | 23     | 4.473                    | 3.632                    |
|                                                           |        | <u>286.453</u>           | <u>318.302</u>           |
| <b>Non-current assets</b>                                 |        |                          |                          |
| Shares in associated companies                            | 24     | 90.881                   | 33.559                   |
| Other financial assets                                    | 25     | 70.133                   | 102.594                  |
| Property, plant and equipment                             | 26     | 109.187                  | 110.922                  |
| Intangible assets                                         | 27     | 151.827                  | 187.377                  |
| Goodwill                                                  | 28     | 356.248                  | 401.295                  |
| Deferred tax assets                                       | 16     | 42.979                   | 32.962                   |
|                                                           |        | <u>821.255</u>           | <u>868.709</u>           |
| <b>Total assets</b>                                       |        | <u><b>1.107.708</b></u>  | <u><b>1.187.011</b></u>  |
| <b>Liabilities</b>                                        |        |                          |                          |
| <b>Current liabilities</b>                                |        |                          |                          |
| Trade accounts payable                                    | 30     | 268.668                  | 228.981                  |
| Liabilities due to banks                                  | 31     | 87.113                   | 125.152                  |
| Advance payments received                                 |        | 10.943                   | 9.077                    |
| Accrued taxes                                             | 32     | 49.312                   | 21.914                   |
| Deferred revenue                                          | 33     | 166.030                  | 138.789                  |
| Other accrued liabilities                                 | 34     | 2.145                    | 1.874                    |
| Other financial liabilities                               | 35     | 51.464                   | 51.748                   |
| Other non-financial liabilities                           | 35     | 29.944                   | 19.843                   |
|                                                           |        | <u>665.619</u>           | <u>597.378</u>           |
| <b>Non-current liabilities</b>                            |        |                          |                          |
| Liabilities due to banks                                  | 31     | 213.163                  | 399.441                  |
| Deferred tax liabilities                                  | 16, 37 | 7.569                    | 9.262                    |
| Other financial liabilities                               | 35     | 23.214                   | 26.177                   |
|                                                           |        | <u>243.946</u>           | <u>434.880</u>           |
| <b>Total liabilities</b>                                  |        | <u><b>909.565</b></u>    | <u><b>1.032.258</b></u>  |
| <b>Equity</b>                                             |        |                          |                          |
| Capital stock                                             | 38     | 215.000                  | 215.000                  |
| Additional paid-in capital                                | 39     | 25.468                   | 21.199                   |
| Accumulated profit                                        | 39     | 227.012                  | 185.065                  |
| Treasury stock                                            | 38     | -263.570                 | -270.751                 |
| Revaluation reserves                                      | 39     | 9.621                    | 18.276                   |
| Cash flow hedge reserve                                   | 39     | -7.942                   | -4.380                   |
| Currency translation adjustment                           |        | -17.301                  | -19.287                  |
| Equity attributable to shareholders of the parent company |        | <u>188.288</u>           | <u>145.122</u>           |
| Non-controlling interests                                 |        | 9.855                    | 9.631                    |
| <b>Total equity</b>                                       |        | <u><b>198.143</b></u>    | <u><b>154.753</b></u>    |
| <b>Total liabilities and equity</b>                       |        | <u><b>1.107.708</b></u>  | <u><b>1.187.011</b></u>  |

**United Internet AG - Statement of comprehensive income acc. to IFRS  
from January 1, 2011 to December 31, 2012 in €k**

|                                                                            |            | 2012               | 2011               |
|----------------------------------------------------------------------------|------------|--------------------|--------------------|
|                                                                            | Notes      | January - December | January - December |
| Sales                                                                      | 4          | 2.396.639          | 2.094.066          |
| Cost of sales                                                              | 5 , 9 , 11 | <u>-1.574.662</u>  | <u>-1.375.669</u>  |
| <b>Gross profit</b>                                                        |            | <b>821.977</b>     | <b>718.397</b>     |
| Selling expenses                                                           | 6 , 9 , 11 | -461.659           | -356.845           |
| General administrative expenses                                            | 7 , 9 , 11 | -112.066           | -102.759           |
| Other operating expenses                                                   | 8          | -41.752            | -32.923            |
| Other operating income                                                     | 8          | 58.467             | 68.221             |
| Amortization of intangible assets resulting<br>from company acquisitions   | 9          | -14.397            | -14.575            |
| Amortization of goodwill                                                   | 10         | <u>-46.268</u>     | <u>-3.500</u>      |
| <b>Operating result</b>                                                    |            | <b>204.302</b>     | <b>276.016</b>     |
| Interest and similar expenses                                              | 12         | -24.317            | -25.278            |
| Interest and similar income                                                | 13         | 14.546             | 12.765             |
| Amortization of investments                                                | 14         | 0                  | -6.298             |
| Result from associated companies                                           | 15         | <u>-1.576</u>      | <u>-6.629</u>      |
| <b>Pre-tax result</b>                                                      |            | <b>192.955</b>     | <b>250.576</b>     |
| Income taxes                                                               | 16         | <u>-84.669</u>     | <u>-88.243</u>     |
| <b>Net income before non-controlling interests</b>                         |            | <b>108.286</b>     | <b>162.333</b>     |
| Attributable to                                                            |            |                    |                    |
| non-controlling interests                                                  |            | 481                | 5                  |
| shareholders of United Internet AG                                         |            | 107.805            | 162.328            |
| <b>Result per share of shareholders<br/>of United Internet AG (in €)</b>   |            |                    |                    |
| - basic                                                                    | 17         | 0,56               | 0,79               |
| - diluted                                                                  | 17         | 0,55               | 0,78               |
| <b>Weighted average shares (in million units)</b>                          |            |                    |                    |
| - basic                                                                    | 17         | 193,91             | 206,42             |
| - diluted                                                                  | 17         | 195,36             | 208,08             |
| <b>Statement of comprehensive income</b>                                   |            |                    |                    |
| Net income                                                                 |            | 108.286            | 162.333            |
| Results directly included in equity                                        |            |                    |                    |
| Currency translation adjustment                                            |            | 1.968              | 757                |
| Market value changes of held-for-sale<br>financial instruments after taxes |            | -8.655             | -7.058             |
| Change in cash flow hedge reserve after taxes                              |            | -3.562             | -4.380             |
| Change in associated companies after taxes<br>not affecting net income     |            | <u>0</u>           | <u>-108</u>        |
|                                                                            |            | -10.249            | -10.789            |
| <b>Total net income</b>                                                    |            | <b>98.037</b>      | <b>151.544</b>     |
| Attributable to                                                            |            |                    |                    |
| non-controlling interests                                                  |            | 463                | 11                 |
| shareholders of United Internet AG                                         |            | 97.574             | 151.533            |

**United Internet AG - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS**  
**from January 1, 2012 to December 31, 2012**

|                                                  | Capital stock |         | Additional paid-in capital | Accumulated profit | Treasury shares |          | Revaluation reserves | Cash flow hedge reserve | 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, 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      |
| <b>Total net income</b>                          |               |         |                            | 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      |
| Balance as of January 1, 2012                    | 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      |
| Net income                                       |               |         |                            | 107.805            |                 |          |                      |                         |                                 | 107.805                                                   | 481                       | 108.286      |
| Other net income                                 |               |         |                            |                    |                 |          | -8.655               | -3.562                  | 1.986                           | -10.231                                                   | -18                       | -10.249      |
| <b>Total net income</b>                          |               |         |                            | 107.805            |                 |          | -8.655               | -3.562                  | 1.986                           | 97.574                                                    | 463                       | 98.037       |
| Issue of treasury shares                         |               |         |                            | -7.181             | -562.956        | 7.181    |                      |                         |                                 | 0                                                         |                           | 0            |
| Employee stock ownership program Sedo Holding    |               |         | 2                          |                    |                 |          |                      |                         |                                 | 2                                                         | 1                         | 3            |
| Employee stock ownership program United Internet |               |         | 4.267                      |                    |                 |          |                      |                         |                                 | 4.267                                                     |                           | 4.267        |
| Dividend payments                                |               |         |                            | -58.132            |                 |          |                      |                         |                                 | -58.132                                                   |                           | -58.132      |
| Profit distributions                             |               |         |                            |                    |                 |          |                      |                         |                                 | 0                                                         | -177                      | -177         |
| Change in amount of holdings                     |               |         |                            | -545               |                 |          |                      |                         |                                 | -545                                                      | -63                       | -608         |
| Balance as of December 31, 2012                  | 215.000.000   | 215.000 | 25.468                     | 227.012            | 20.662.202      | -263.570 | 9.621                | -7.942                  | -17.301                         | 188.288                                                   | 9.855                     | 198.143      |

**United Internet AG - Consolidated Cash Flow Statement acc. to IFRS**  
**from January 1, 2012 to December 31, 2012 in €k**

|                                                                                         |        | 2012                  | 2011                  |
|-----------------------------------------------------------------------------------------|--------|-----------------------|-----------------------|
|                                                                                         | Notes  | January -<br>December | January -<br>December |
| <b>Cash flow from operating activities</b>                                              |        |                       |                       |
| Net income                                                                              |        | 108,286               | 162,333               |
| <b>Adjustments to reconcile net income to net cash provided by operating activities</b> |        |                       |                       |
| Depreciation and amortization of intangible assets and property, plant and equipment    | 9      | 78,799                | 70,662                |
| Amortization of intangible assets resulting from company acquisitions                   | 9      | 14,397                | 14,575                |
| Amortization of other financial assets                                                  | 14     | 0                     | 6,298                 |
| Amortization of goodwill                                                                | 10     | 46,268                | 3,500                 |
| Compensation expenses from employee stock option plans                                  | 36     | 4,269                 | 3,051                 |
| Results of at-equity companies                                                          | 15, 24 | 1,576                 | 6,629                 |
| Distributed profit of associated companies                                              | 24     | 0                     | 730                   |
| Income from deconsolidation of other financial assets                                   | 8, 25  | -18,892               | -10,855               |
| Income from deconsolidation of associated companies                                     | 8, 24  | -4,875                | -22,994               |
| Change in deferred taxes                                                                | 16     | -10,858               | -17,021               |
| Non-cash expenses / income                                                              | 45     | -4,883                | -5,058                |
| <b>Operative cash flow</b>                                                              |        | <b>214,087</b>        | <b>211,850</b>        |
| <b>Change in assets and liabilities</b>                                                 |        |                       |                       |
| Change in receivables and other assets                                                  |        | -45,831               | -12,007               |
| Change in inventories                                                                   |        | -8,958                | 192                   |
| Change in deferred expenses                                                             |        | -2,083                | -6,559                |
| Change in trade accounts payable                                                        |        | 39,693                | 15,472                |
| Change in advance payments received                                                     |        | 1,652                 | 1,931                 |
| Change in other accrued liabilities                                                     |        | 270                   | -3,962                |
| Change in accrued taxes                                                                 |        | 27,397                | -21,156               |
| Change in other liabilities                                                             |        | 7,203                 | 9,468                 |
| Change in deferred income                                                               |        | 27,098                | -380                  |
| <b>Change in assets and liabilities, total</b>                                          |        | <b>46,441</b>         | <b>-17,001</b>        |
| <b>Cash flow from operating activities</b>                                              |        | <b>260,528</b>        | <b>194,849</b>        |
| <b>Cash flow from investing activities</b>                                              |        |                       |                       |
| Capital expenditure for intangible assets and property, plant and equipment             |        | -63,601               | -54,405               |
| Payments from disposals of intangible assets and property, plant and equipment          |        | 7,759                 | 1,902                 |
| Purchase of shares in affiliated companies less cash received                           | 3      | -154                  | 0                     |
| Payments from subsequent refunding of company acquisition costs                         | 3      | 0                     | 193                   |
| Purchase of shares in associated companies                                              | 24     | -60,153               | -2,260                |
| Payments from deconsolidation of financial assets                                       | 24     | 11,400                | 3,385                 |
| Refunding from shares in associated companies                                           | 24     | 5,202                 | 2,475                 |
| Capital expenditure for other financial assets                                          | 25     | -409                  | -1,234                |
| Payments of loans granted                                                               | 41     | -9,964                | -2,000                |
| Payments from deconsolidation of financial assets                                       | 25     | 49,321                | 41,207                |
| Refunding from other financial assets                                                   |        | 2,628                 | 501                   |
| Payments from the repayment of vendor loans                                             | 24     | 59,821                | 12,195                |
| <b>Cash flow from investment activities</b>                                             |        | <b>1,850</b>          | <b>1,959</b>          |
| <b>Cash flow from financing activities</b>                                              |        |                       |                       |
| Purchase of treasury stock                                                              | 38     | 0                     | -340,265              |
| Taking out of loans                                                                     | 31     | 15,722                | 443,193               |
| Repayment of loans                                                                      | 31     | -240,039              | -288,000              |
| Dividend payments                                                                       | 18     | -58,132               | -42,000               |
| Dividend payments to non-controlling interests                                          |        | -1,316                | -907                  |
| Purchase of further shares in affiliated companies                                      |        | -606                  | 0                     |
| <b>Cash flow from financing activities</b>                                              |        | <b>-284,371</b>       | <b>-227,979</b>       |
| Net decrease / increase in cash and cash equivalents                                    |        | <b>-21,993</b>        | <b>-31,171</b>        |
| Cash and cash equivalents at beginning of fiscal year                                   |        | 64,867                | 96,091                |
| Currency translation adjustments of cash and cash equivalents                           |        | -46                   | -53                   |
| Cash and cash equivalents at end of fiscal year                                         |        | <b>42,828</b>         | <b>64,867</b>         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012

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

### Nature of the business

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

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

In the last few years, United Internet AG has developed into an operating management holding company for investments in various internet target segments and in the field of internet service provision.

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

### The reporting company

The parent company, United Internet AG, was founded on January 29, 1998 as 1&1 Aktiengesellschaft & Co. KGaA. As a holding company, it assumed the functions of 1&1 Holding GmbH, which was merged into 1&1 Aktiengesellschaft & Co. KGaA with effect from January 1, 1998. Until its general meeting of shareholders on February 22, 2000, it traded under the name of 1&1 Aktiengesellschaft & Co. KGaA. At this general meeting it was

decided to change the Company's name to United Internet Aktiengesellschaft & Co. KGaA and then to transform the Company into a stock corporation named United Internet AG. United Internet AG is registered at the district court of Montabaur under HR B 5762.

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

### **2.1 Basis of preparation**

The consolidated financial statements of United Internet AG were prepared in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB). The Company also observed and applied the supplementary regulations of Section 315a (1) German Commercial Code (HGB). All IFRS standards valid on the balance sheet date and as applied with-in the European Union were observed.

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

The balance sheet date is December 31, 2012.

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

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

### **2.2 Consolidation principles**

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

and using the same standardized accounting and valuation methods as those applied by the parent company.

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

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

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

As of December 31, 2012, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

1&1 Internet:

- 1&1 Internet AG, Montabaur (100.0%)
  - 1&1 Internet Applications GmbH, Montabaur (100.0%)
  - 1&1 Internet Development SRL, Bucharest / Romania (99.0%)
  - 1&1 Internet Inc., Chesterbrook / USA (100.0%)
    - A1 Media LLC, Chesterbrook / USA (100.0%)
- 1&1 Internet Ltd., Slough / UK (100.0%)
- 1&1 Internet S.A.R.L., Saargemünd / France (100.0%)
- 1&1 Internet Espana S.L.U., Madrid / Spain (100.0%)
- 1&1 Internet Service GmbH, Montabaur (100.0%)
  - 1&1 Internet Service GmbH Zweibrücken, Zweibrücken (100.0%)
- 1&1 Internet (Philippines) Inc., Cebu City, Philippines (100.0%)
- 1&1 Internet Sp.z o.o, Warsaw / Poland (100.0%)
- 1&1 Mail & Media Holding GmbH, Montabaur (100.0%)
  - 1&1 Mail & Media GmbH, Montabaur (100.0%)
  - 1&1 Mail & Media Beteiligungen GmbH, Montabaur (100.0%)

- 1&1 De-Mail GmbH, Montabaur (100.0%)
- 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
- 1&1 Telecom Holding GmbH, Montabaur (100.0%)
- 1&1 Telecom GmbH, Montabaur (100.0%)
  - 1&1 Breitband GmbH, Montabaur (100.0%)
- 1&1 UK Holdings Ltd., Slough / UK (100.0%)
  - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
    - Dollamore Ltd, Gloucester / UK (100.0%)
    - Fasthosts Internet Inc., Chesterbrook / USA (100.0%)
- A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0%)
- Immobilienverwaltung AB GmbH, Montabaur (100.0%)
- Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
- InterNetX GmbH, Regensburg (95.56%)
  - InterNetX LAC S.A, Buenos Aires / Argentina (100.0%)
  - Schlund Technologies GmbH, Regensburg (100.0%)
  - PSI-USA, Inc., Las Vegas / USA (100.0%)
  - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
  - Domain Robot Servicos de Hospedagem na Internet Ltda., São Paulo / Brazil (100.0%)
  - mySARL GmbH, Regensburg (100.0%)
  - myLLC GmbH, Regensburg (100.0%)
  - myLLP GmbH, Regensburg (100.0%)
  - myLTD GmbH, Regensburg (100.0%)
  - mySRL GmbH, Regensburg (100.0%)
  - InterNetX Corp., Miami / USA (100.0%)
- united-domains AG, Starnberg (85.0%)
  - united-domains Reselling GmbH, Starnberg (100.0%)
  - United Domains, Inc., Cambridge / USA (100.0%)
- United Internet Media AG, Montabaur (100.0%)
  - United Internet Dialog GmbH, Montabaur (100.0%)
- UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)
- 1&1 Datacenter SAS, Strasbourg / France (100.0%)

#### United Internet Beteiligungen:

- United Internet Beteiligungen GmbH, Montabaur (100.0%)

#### Sedo Holding:

- Sedo Holding AG, Cologne (79.45%)
  - Response Republic Beteiligungsgesellschaft Deutschland GmbH, Montabaur (100.0%)
    - Sedo GmbH, Cologne (100.0%)
      - Sedo.com LLC, Cambridge (Boston) / USA (100.0%)
      - Sedo London Ltd., London / UK (100.0%)
      - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100%)
      - Intellectual Property Management Company Inc., Dover / USA (49.0%)
- affilinet GmbH, Munich (100.0%)
  - affilinet Ltd., London / UK (100.0%)
  - affilinet Espana S.L.U. Madrid / Spain (100.0%)
  - affilinet France SAS, Saint-Denis, France (100.0%)
  - affilinet Nederland B.V., Haarlem / Netherlands (100.0%)
  - Cleafs B.V. Groningen, Netherlands (100.0%)

#### Other:

- MIP Multimedia Internet Park GmbH, Zweibrücken (100.0%)
- 1&1 Access Holding GmbH, Montabaur (100.0%)
- 1&1 Internet Service Holding GmbH, Montabaur (100.0%)
- 1&1 Corporate Services GmbH, Montabaur (100.0%)
- European Founders Fund Nr. 2 Verwaltungs GmbH, Munich (90.0%)
- European Founders Fund Nr. 2 Geschäftsführungs GmbH, Munich (90.0%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 2, Munich (90.0%)
- European Founders Fund Nr. 3 Verwaltungs GmbH, Munich (80.0%)
- European Founders Fund Nr. 3 Management GmbH, Munich (80.0%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 3, Munich (80.0%)
- European Founders Fund Nr. 3 Beteiligungs GmbH, Munich (100.0%)

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

#### Associated companies

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

- European Founders Fund Verwaltungs GmbH, Munich (66.67%)
- European Founders Fund Management GmbH, Munich (66.67%)

- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 1, Munich (66.67%)
- TLDDOT GmbH, Berlin (53.50%)
- fun communications GmbH, Karlsruhe (49.00%)
- DomainsBot Srl, Rome / Italy (49.00%)
- Virtual Minds AG, Freiburg (48.65%)
- European Founders Fund Investment GmbH, Munich (33.33%)
- ProfitBricks GmbH, Berlin (30.02%)
- VictorianFibre Holding & Co. S.C.A., Luxembourg/ Luxembourg (25.10%)
- PunktBayern GmbH & Co. KG, Munich (25.00%)
- Travel-Trex GmbH, Cologne (25.00%)
- getAbstract AG, Lucerne / Switzerland (22.00%)

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

#### Other investments

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

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

#### Changes in the reporting unit

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

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

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

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

## 2.3 Changes in accounting methods

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

For reasons of clarity, the following adjustments were made:

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

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

## **Effects of new or amended IFRS standards**

### ***Accounting standards applied for the first time in 2012***

#### **Amendment to IFRS 7 – Financial Instruments: Disclosures**

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

#### **Amendments to IAS 12 – Income Taxes**

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

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

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

#### ***Already endorsed by EU***

#### **Amendments to IAS 1 – Presentation of Financial Statements**

In June 2011, the IASB published amendments to the standard IAS 1 which mainly concern the presentation of other comprehensive income. The

revised standard is to be applied in accounting periods beginning on or after July 1, 2012. Adoption of the new standard will have no significant effect on the Company's consolidated financial statements.

### **IFRS 10 - Consolidated Financial Statements**

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

### **IFRS 11 – Joint Arrangements**

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

### **IFRS 12 – Disclosure of Interests in Other Entities**

In May 2011, the IASB published the new standard IFRS 12 as part of a "package" of five new and revised standards. IFRS 12 defines the necessary disclosures for those companies accounting in accordance with the two new standards IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements"; the standard replaces the disclosure requirements currently contained in IAS 28 "Investments in Associates". According to the new standard IFRS 12, companies must disclose information that enables users of financial statements to assess the nature, risks and financial effects associated with their investment in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). The new standard is to be applied in accounting periods beginning on or after January 1, 2014. Earlier adoption is permitted – also in part –

without this leading to the mandatory adoption of IFRS 10, IFRS 11 or the revised IAS 27 and IAS 28. Adoption of the new standard is not currently expected to have any effect on the Company's consolidated financial statements.

### **IFRS 13 – Fair Value Measurement**

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

### **IAS 27 – Separate Financial Statements (revised 2011)**

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

### **IAS 28 – Investments in Associates and Joint Ventures (revised 2011)**

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

### **Amendments to IAS 19 – Post-Employment Benefits**

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

### **Amendments to IFRS 7 / IAS 32 – Adjustments to the offsetting of financial assets and financial liabilities**

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

### ***Not yet endorsed by EU***

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

### **IFRS 9 – Financial Instruments**

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

### **IFRS 10, IFRS 11 and IFRS 12 – Amendments to the transitional regulations on consolidation standards**

In June 2012, the IASB published amendments to the transitional regulations of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities. The amendment sets out to clarify the transitional regulations in IFRS 10. The amendments also include additional relief for transition to IFRS 10, IFRS 11 and IFRS 12, for example by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. In connection with disclosures on non-consolidated structured entities, the amendment also eliminates the requirement to provide comparative information for periods prior to the initial application of IFRS 12. The amendments are to be applied in accounting periods beginning on or after January 1, 2013. For EU-IFRS users, however, mandatory application of

IFRS 10, IFRS 11 and IFRS 12 is not required until accounting periods beginning on or after January 1, 2014. Adoption of the amended standards is not currently expected to have a material effect on the Company's consolidated financial statements.

### **Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)**

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

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

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

### **Annual Improvement Project – Improvements to IFRS 2011**

In May 2012, the IASB published its “Improvements to IFRS 2009-2011” (Annual Improvements), comprising amendments to five International Financial Reporting Standards (IFRSs).

The amendments in detail were:

- IFRS 1 “First-time Adoption of International Financial Reporting Standards”: Clarification on repeated application of IFRS 1 as well as on borrowing costs relating to qualifying assets for which the commencement date for capitalization is before the date of transition to IFRSs.
- IAS 1 “Presentation of Financial Statements”: Clarification of the requirements for comparative information
- IAS 16 “Property, plant and equipment”: Classification of servicing equipment
- IAS 32 “Financial Instruments”: Presentation – classification of tax effects of dividends to investors and on transaction costs from equity transactions

- IAS 34 “Interim Financial Reporting”: Clarification of interim reporting of segment information for total assets and liabilities in interim reporting

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

## 2.4 Significant accounting judgments, estimates and assumptions

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

### Accounting judgments

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

#### *Special-purpose entities*

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

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

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

### Estimates and assumptions

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

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

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

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

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

## **Fair value of financial assets and impairment of available-for-sale financial investments**

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

The Company classifies certain assets as available-for-sale and recognizes changes in their fair value directly in equity. If the fair value falls, management makes assumptions about the loss in value in order to determine whether it constitutes an impairment which must be expensed in the income statement. A significant or persistent decrease in the fair value of an equity instrument below its acquisition cost may constitute an objective indication of impairment. The carrying value of available-for-sale financial investments amounted to € 42,927k as of December 31, 2012 (prior year: € 82,705k).

## **Calculating the profit contribution of associated companies**

Investments in associated companies are valued according to the equity method and carried in the consolidated financial statements. As the financial information from associated companies and joint ventures is in part incomplete as of the balance sheet date, the prorated transfer of results considers in part assumptions made by the management of the United Internet Group. These assumptions concern, for example, adaptations to

standard accounting and valuation methods (IAS 28.26), effects from purchase price allocations to be conducted (IAS 28.23) and the underlying period results. In the course of such estimations there are areas of discretion and uncertainty.

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

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

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

The recoverable amounts of non-listed companies is based both on available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2012, the fair value of investments in associated companies and joint ventures amounted to € 90,881k (prior year: € 33,559k).

### **Share-based payments**

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

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

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

## **Taxes**

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

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

## **Deferred tax assets**

Deferred tax assets are recognized for all unused tax loss carryforwards, to the extent for which it is probable that future taxable profit will be available. In order to assess the amount of deferred tax assets, management must make significant judgments based on the likely timing and level of future taxable income as well as future tax planning strategies. As of December 31, 2012, the carrying value of deferred tax assets for tax losses considered amounted to € 9,251k (prior year: € 14,440k). Further details are provided in Note 16.

## **Trade accounts receivable**

Trade receivables are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to € 148,766k as of December 31, 2012 (prior year: € 106,702k).

## **Inventories**

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

## **Tangible and intangible assets**

Property, plant and equipment and intangible assets are valued at cost on initial recognition. Property, plant and equipment and intangible assets with limited useful lives are then depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 214,718k as of December 31, 2012 (prior year: € 251,680k).

## **Accounting for business combinations**

Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

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

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

## **Provisions**

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions amounted to € 2,145k as of December 31, 2012 (prior year: € 1,874k).

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

### **Revenue recognition**

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

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

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

#### ***“Access” segment***

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

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

Revenue is recognized according to service provision, which generally corresponds to the receipt of monthly fees paid by customers (usage charges and basic fees). Revenue from the sale of hardware is recognized on transfer of risk. Payments on account received from customers are carried as deferred income. Revenue is recognized pro rata over the period of service provision. Payment is mainly by direct debit.

#### ***“Applications” segment***

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

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

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

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

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

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

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

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

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

United Internet operates an internet platform for Affiliate Marketing via the company affilinet GmbH. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The

advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser's offer.

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

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

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

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

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

#### Foreign currency translation

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

resulting from the acquisition of this foreign operation, are carried as assets and liabilities of the foreign operation and translated at the closing rate.

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

The exchange rates of major currencies developed as follows:

| (in relation to 1 euro) | Closing rate |            | Average rate |       |
|-------------------------|--------------|------------|--------------|-------|
|                         | 31.12.2012   | 31.12.2011 | 2012         | 2011  |
| US dollar               | 1.319        | 1.294      | 1.286        | 1.392 |
| UK pound                | 0.817        | 0.835      | 0.811        | 0.868 |

## 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<br>(depending on lease period) |
| Buildings                              | 10 or 50                                |
| Vehicles                               | 5 to 6                                  |
| Other operational and office equipment | 3 to 10                                 |
| Office furniture and fixtures          | 5 to 13                                 |

## Borrowing costs

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

## Business combinations and goodwill

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

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

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

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

## Intangible assets

Individually acquired intangible assets are carried at cost on initial recognition. The acquisition cost of intangible assets resulting from the business combination corresponds to its fair value at the time of acquisition. In the following periods, intangible assets are valued at cost less cumulative amortization and cumulative impairment charges. With the exception of those development costs which can be capitalized, costs for internally generated intangible assets are expensed in the period incurred.

A difference is made between intangible assets with finite and those with indefinite useful lives.

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

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

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

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

## Investments in associated companies

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

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

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

### Impairment of non-financial assets

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

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

A review is made of assets, with the exception of goodwill, on each balance sheet date to determine whether there is any indication that a previously recognized impairment loss no longer exists or has decreased in size. In the case of such an indication, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is only reversed if there has been a change in the assumption used to determine the recoverable amount since recognition of the last impairment loss. If this

is the case, the asset's carrying value is raised to its recoverable amount. This amount may not exceed the carrying amount, less depreciation, that would have been determined had no impairment loss been recognized for the asset in prior years.

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

### **Goodwill**

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

### **Intangible assets**

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

### **Associated companies**

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

### **Financial investments and other financial assets**

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

- financial assets held at fair value through profit or loss
- held-to-maturity financial investments
- loans and receivables
- available-for-sale financial investments

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

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

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

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

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

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

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

### **Loans and receivables**

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

### **Available-for-sale financial instruments**

Available-for-sale financial assets are non-derivative financial assets which are classified as being available for sale and which have not been assigned to any of the three categories above. After initial recognition, available-for-

sale financial assets are carried at fair value, unless there is significant uncertainty in the estimation of value. Non-realized profits or losses are recognized directly in equity in the revaluation reserve. On disposal of financial investments, the cumulative profit or loss previously recognized in equity is reclassified to the income statement.

### **Fair value**

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

### **Amortized cost**

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

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

### **Impairment of financial assets**

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

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

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

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

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

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

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

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

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

### **Inventories**

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

Write-downs for slow-moving products are used when calculating the net realizable values of domains held for resale. A longer holding period indicates a less attractive/marketable domain. The reduced marketability of a domain is interpreted as a declining sales prospect, which reduces the net recoverable sales revenue as a result of higher costs up to the time of sale in conjunction with lower sales price expectations. The write-downs are first made at the end of the fiscal year following purchase. After a holding period

of seven years, the Company regards the probability of sale as almost zero and thus zero is assumed for the sake of simplicity. In addition to such write-downs for slow-moving products, the Company also tests the domain portfolio on each balance sheet date for signs of a sharper fall in the net realizable value than which indicated by the underlying write-downs for slow-moving products.

## Treasury shares

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

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

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

## Cash and cash equivalents

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

## Financial liabilities

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

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

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

## Derecognition of financial assets and financial liabilities

### **Financial assets**

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

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

### **Financial liabilities**

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

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

## Provisions

Provisions are formed if the Company has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of

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

### Share-based payment

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

### **Equity-settled transactions**

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective valuation process, the value component is determined at the time of granting, also for subsequent valuation until the end of the term. On every valuation date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available.

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

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

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

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

## **Earnings per share**

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

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised. Net income is also adjusted for interest expenses after taxes, payable on potentially exchangeable subscription rights.

## **Pensions and other post-employment benefits**

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

## **Leases**

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

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

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

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

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

## Financial income

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

## Government grants

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

## Taxes

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

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

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

### **Deferred taxes**

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

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is

settled, based on tax rates (and tax laws) that have been enacted as of the balance sheet date. Future changes in tax rates are to be considered on the balance sheet date, providing material effectiveness conditions are met as part of the legislative process.

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

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

### **Sales tax**

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

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

The net amount of sales tax recoverable from, or payable to, the taxation authority is included under “Other 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 on the basis of present value models using market information (interest rate curves).

### **Hedging relationships**

When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions

which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity ("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 2012***

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

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

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

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

**Figures in €k**

**Assets**

|                               |            |
|-------------------------------|------------|
| Cash and cash equivalents     | 271        |
| Trade receivables             | 200        |
| Other financial assets        | 21         |
| Intangible assets             | 495        |
| Property, plant and equipment | 4          |
|                               | <u>991</u> |

**Liabilities**

|                            |            |
|----------------------------|------------|
| Trade payables             | 314        |
| Advanced payments received | 215        |
| Other current liabilities  | 88         |
| Deferred tax liabilities   | 124        |
|                            | <u>741</u> |

**Total identifiable net assets at fair value**

**250**

|                                   |     |
|-----------------------------------|-----|
| Goodwill from company acquisition | 300 |
|-----------------------------------|-----|

**Transferred compensation** **550**

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

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

|               | Fair value (in €k) | Useful life (in years) |
|---------------|--------------------|------------------------|
| Customer base | 432                | 5                      |
| Technology    | 63                 | 1                      |
|               | <u>495</u>         |                        |

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

### ***3.2. Investments of fiscal year 2012***

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

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

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

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

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

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

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

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

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

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

The Management Board of United Internet AG mainly controls operations on the basis of key earnings figures. The Management Board of United Internet

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

Segment reporting of United Internet AG in fiscal year 2012 was as follows:

|                                                            | Access<br>segment | Applications<br>segment | Head Office /<br>Investments | Reconcil-<br>iation | United Internet<br>Group |
|------------------------------------------------------------|-------------------|-------------------------|------------------------------|---------------------|--------------------------|
| 2012                                                       | €k                | €k                      | €k                           | €k                  | €k                       |
| Total revenues                                             | 1,587,112         | 819,824                 | 4,154                        | ---                 | ---                      |
| - thereof internal revenues                                | 1,015             | 9,629                   | 3,807                        | ---                 | ---                      |
| External revenues                                          | 1,586,097         | 810,195                 | 347                          | ---                 | 2,396,639                |
| - thereof domestic                                         | 1,586,097         | 543,303                 | 347                          | ---                 | 2,129,747                |
| - thereof non-domestic                                     | 0                 | 266,892                 | 0                            | ---                 | 266,892                  |
| EBITDA                                                     | 191,766           | 132,163                 | 19,837                       | 0                   | 343,766                  |
| EBIT                                                       | 164,253           | 20,351                  | 19,698                       | 0                   | 204,302                  |
| Financial result                                           |                   |                         | -7,807                       | -1,964              | -9,771                   |
| Result from at-equity companies                            |                   |                         | -1,629                       | 53                  | -1,576                   |
| EBT                                                        |                   |                         | 10,262                       | 182,693             | 192,955                  |
| Tax expense                                                |                   |                         |                              | -84,669             | -84,669                  |
| Net income                                                 |                   |                         |                              |                     | 108,286                  |
| Segment assets (non-current)                               | 0                 | 385,531                 | 131,731                      | ---                 | 517,262                  |
| - thereof domestic                                         | 0                 | 305,692                 | 27,547                       | ---                 | 333,239                  |
| - thereof shares in associated companies                   | 0                 | 0                       | 19,599                       | ---                 | 19,599                   |
| - thereof other financial assets                           | 0                 | 16,639                  | 7,948                        | ---                 | 24,587                   |
| - thereof goodwill                                         | 0                 | 289,053                 | 0                            | ---                 | 289,053                  |
| - thereof non-domestic                                     | 0                 | 79,839                  | 104,184                      | ---                 | 184,023                  |
| - thereof shares in associated companies                   | 0                 | 1,052                   | 69,977                       | ---                 | 71,029                   |
| - thereof other financial assets                           | 0                 | 11,592                  | 34,207                       | ---                 | 45,799                   |
| - thereof goodwill                                         | 0                 | 67,195                  | 0                            | ---                 | 67,195                   |
| Investments in intangible assets,                          |                   |                         |                              |                     |                          |
| property, plant and equipment                              | 4,829             | 58,566                  | 206                          | ---                 | 63,601                   |
| Amortization/depreciation                                  | 27,513            | 111,812                 | 139                          | ---                 | 139,464                  |
| - thereof intangible assets, property, plant and equipment | 27,513            | 51,147                  | 139                          | ---                 | 78,799                   |
| - thereof intangible assets capitalized                    |                   |                         |                              |                     |                          |
| during company acquisitions                                | 0                 | 14,397                  | 0                            | ---                 | 14,397                   |
| - thereof goodwill amortization                            | 0                 | 46,268                  | 0                            | ---                 | 46,268                   |
| Number of employees                                        | 1,928             | 4,292                   | 34                           | ---                 | 6,254                    |
| - Germany                                                  | 1,845             | 3,025                   | 34                           | ---                 | 4,904                    |
| - abroad                                                   | 83                | 1,267                   | 0                            | ---                 | 1,350                    |

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

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

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

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

Segment reporting of United Internet AG in fiscal year 2011 was as follows:

|                                                                    | Access<br>segment | Applications<br>segment | Head Office /<br>Investments | Reconciliation | United Internet<br>Group |
|--------------------------------------------------------------------|-------------------|-------------------------|------------------------------|----------------|--------------------------|
| 2011                                                               | €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                                                         |                   |                         |                              |                | 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,<br>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<br>equipment      | 30,125            | 40,380                  | 157                          | ---            | 70,662                   |
| - thereof intangible assets capitalized                            |                   |                         |                              |                |                          |
| during company acquisitions                                        | 0                 | 14,575                  | 0                            | ---            | 14,575                   |
| - thereof goodwill amortization                                    | 0                 | 3,500                   | 0                            | ---            | 3,500                    |
| Number of employees                                                | 1,794             | 3,771                   | 28                           | ---            | 5,593                    |
| - Germany                                                          | 1,718             | 2,629                   | 28                           | ---            | 4,375                    |
| - abroad                                                           | 76                | 1,142                   | 0                            | ---            | 1,218                    |

## **5. Cost of sales**

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

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

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

## **6. Selling expenses**

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

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

## **7. General and administrative expenses**

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

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

## **8. Other operating income / expenses**

Other operating income in fiscal year 2012 amounted to € 58,467k. Of this total, € 17,928k resulted from income received from the sale of all

3,814,371 shares in freenet AG in October 2012. The sales proceeds amounted to € 48,061k.

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

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

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

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

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

## **9. Depreciation and amortization**

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

|                                     | <b>2012</b>   | <b>2011</b>   |
|-------------------------------------|---------------|---------------|
|                                     | €k            | €k            |
| Cost of sales                       | 46,272        | 38,789        |
| Selling expenses                    | 25,178        | 24,691        |
| General and administrative expenses | 7,349         | 7,182         |
| <b>Total</b>                        | <u>78,799</u> | <u>70,662</u> |

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

|                               | <b>2012</b>          | <b>2011</b>          |
|-------------------------------|----------------------|----------------------|
|                               | €k                   | €k                   |
| Portal                        | 9,031                | 9,031                |
| Customer base / order backlog | 4.961                | 5,139                |
| Software                      | <u>405</u>           | <u>405</u>           |
| <b>Total</b>                  | <u><u>14,397</u></u> | <u><u>14,575</u></u> |

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

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

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

## **10. Goodwill amortization**

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

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

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

## **11. Personnel expenses**

Personnel expenses are divided among the various divisions as follows:

|                                     | <b>2012</b>           | <b>2011</b>           |
|-------------------------------------|-----------------------|-----------------------|
|                                     | €k                    | €k                    |
| Cost of sales                       | 90,543                | 76,076                |
| Selling expenses                    | 136,352               | 115,809               |
| General and administrative expenses | <u>48,192</u>         | <u>38,234</u>         |
| <b>Total</b>                        | <u><u>275,087</u></u> | <u><u>230,119</u></u> |

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

|                 | <b>2012</b>         | <b>2011</b>         |
|-----------------|---------------------|---------------------|
| Germany         | 4,904               | 4,375               |
| Outside Germany | <u>1,350</u>        | <u>1,218</u>        |
| <b>Total</b>    | <u><u>6,254</u></u> | <u><u>5,593</u></u> |

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

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

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

## **12. Financial expenses**

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

The interest cost from a tax audit resulted 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 35.3.

## **13. Financial income**

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

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

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

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

With regard to income from the subsequent valuation of options, please refer to Note 3.2.

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

#### **14. Amortization of investments**

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

#### **15. Result from associated companies**

|                                  | <b>2012</b>   | <b>2011</b>   |
|----------------------------------|---------------|---------------|
|                                  | €k            | €k            |
| Result from associated companies | -1,576        | -6,629        |
|                                  | <u>-1,576</u> | <u>-6,629</u> |

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

#### **16. Income taxes**

The income tax expense is comprised as follows:

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

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

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax on income. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate in fiscal year 2012 amounted to approx. 14.2% (prior year: 14.2%).

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

In addition to taxes on the current result, income taxes also include the following effects:

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

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

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

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

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

|        | <b>2012</b>         | <b>2011</b>          |
|--------|---------------------|----------------------|
|        | €k                  | €k                   |
| USA    | 7,723               | 10,791               |
| France | <u>1,528</u>        | <u>3,649</u>         |
|        | <b><u>9,251</u></b> | <b><u>14,440</u></b> |

In fiscal year 2012, deferred tax assets for tax loss carryforwards of US and French subsidiaries were used in the amount of € 5,189k. This resulted

mainly from the change in transfer pricing methods for certain Group companies. In this connection, prior-year losses were netted and existing loss carryforwards used. The decline in tax loss carryforwards in Spain and Poland is to be seen in this context (see table below). The corresponding deferred tax assets were formed in the previous year.

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

|         | <b>2012</b>          | <b>2011</b>          |
|---------|----------------------|----------------------|
|         | €k                   | €k                   |
| Germany | 7,676                | 7,724                |
| UK      | 5,587                | 4,310                |
| France  | 2,210                | 1,862                |
| Poland  | 2,702                | 4,110                |
| Spain   | 0                    | 17,383               |
|         | <b><u>18,175</u></b> | <b><u>35,389</u></b> |

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

- Spain: 15 years
- Germany: indefinite, but minimum taxation
- Poland: 5 years
- France: indefinite, but minimum taxation
- USA: indefinite
- UK: indefinite

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

Deferred taxes resulted from the following items:

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

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

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

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

|                                                    |               |
|----------------------------------------------------|---------------|
| Deferred tax income                                | 10,734        |
| Deferred tax expense recognized directly in equity | 976           |
| <b>Change in the net balance of deferred taxes</b> | <b>11,710</b> |

Deferred tax liabilities of € 22,359k (prior year: € 22,596k) result mainly from the different treatment of capitalized intangible assets from business combinations in the consolidated accounts and the tax balance sheet.

Deferred taxes also include deferred tax assets without an effect on profit and loss amounting to € 731k (prior year: € 1,707k).

As in the previous year, no deferred tax liabilities were recognized as of December 31, 2012 for differences in the balance sheet treatment of the investment in 1&1 Mail & Media GmbH in the IFRS and tax balance sheets, as it is probable that this difference will not reverse in the foreseeable future.

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

|                                                                                      | <b>2012</b>        | <b>2011</b>        |
|--------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                      | <u>%</u>           | <u>%</u>           |
| Anticipated tax rate                                                                 | 30.1               | 30.0               |
| - Actual and deferred taxes for previous years                                       | 11.0               | 2,7                |
| - Amortization of goodwill<br>non-deductible for tax purposes                        | 7.2                | 0,4                |
| - Amortization of investments<br>non-deductible for tax purposes                     | 0.0                | 0,8                |
| - Amortization of intangible assets<br>non-deductible for tax purposes               | 3.0                | 2,3                |
| - Tax-reduced profit from disposals and income<br>from investments                   | -3.7               | -3,3               |
| - Differences in foreign tax rates                                                   | -0.7               | 0,4                |
| - Employee stock ownership plan                                                      | -1.2               | 0,0                |
| - Tax losses of previous years, for which no deferred<br>taxes have been capitalized | 0.5                | 1.5                |
| - First-time capitalization of tax losses<br>not recognized in previous years        | 0.0                | -1,2               |
| - Allowances for deferred taxes                                                      | 0.2                | 0,0                |
| - Consolidation effects                                                              | -2.3               | 0,0                |
| - Non-taxable at-equity results                                                      | 0.2                | 0,8                |
| - Balance of other tax-free income<br>and non-deductible expenses                    | -0.7               | 0,8                |
| <b>Effective tax rate</b>                                                            | <b><u>43.6</u></b> | <b><u>35.2</u></b> |

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

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

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

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

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

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

## **17. Earnings per share**

As of December 31, 2012, capital stock was divided up into 215,000,000 registered no-par shares each with a theoretical share in the capital stock of € 1. On December 31, 2012, United Internet held 20,662,202 treasury shares (prior year: 21,225,158). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating undiluted earnings per share was 193,906,687 for fiscal year 2012 (prior year: 206,416,123).

A dilutive effect must be taken into consideration for option rights resulting from the employee stock ownership program of United Internet AG which were contained in cash as of December 31, 2012. All option rights existing on December 31, 2012 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the total of potential shares. On the basis of the average fair value, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the rights plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued without consideration.

The calculation of diluted earnings per share was based on 4,448,375 (prior year: 3,977,250) potential shares (from the assumed use of rights). Based on an average market price of € 14.79 (prior year: € 13.10), this would result in the issuance of 1,451,240 (prior year: 1,663,082) shares without consideration.

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

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

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

## **18. Dividend per share**

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

According to section 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of retained earnings. The Management Board and Supervisory Board will discuss their dividend proposal for fiscal year 2012 at the Supervisory Board meeting on March 20, 2013.

Pursuant to Sec. 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of signing the annual financial statements, United Internet AG holds no treasury shares (prior year: 21,225,158). We refer to Note 47.

## **Explanations to the balance sheet**

### **19. Cash and cash equivalents**

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

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

## **20. Trade accounts receivable**

|                                       | <b>2012</b><br>€k | <b>2011</b><br>€k |
|---------------------------------------|-------------------|-------------------|
| Trade accounts receivable             | 167,873           | 123,757           |
| <b>less</b>                           |                   |                   |
| Bad debt allowances                   | -19,107           | -17,055           |
| <b>Trade accounts receivable, net</b> | <u>148,766</u>    | <u>106,702</u>    |

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

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

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

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

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

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

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

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

## **21. Inventories**

Inventories consisted of the following items:

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

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

## **22. Prepaid expenses**

Prepaid expenses of € 45,177k (prior year: € 43,094k) consist mainly of prepayments for domain fees, which were deferred and charged to the income statement on the basis of the underlying contractual period of customers.

## **23. Other current assets**

### **23.1 Other current financial assets**

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

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

### **23.2 Other current non-financial assets**

|                                        | <b>2012</b>         | <b>2011</b>         |
|----------------------------------------|---------------------|---------------------|
|                                        | €k                  | €k                  |
| Receivables from tax office            | 4,473               | 3,632               |
| <b>Other non-financial assets, net</b> | <b><u>4,473</u></b> | <b><u>3,632</u></b> |

## **24. Shares in associated companies**

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

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

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

Other adjustments totaling € 2,166k resulted from profit contributions to associated companies with an investment value of € 0k. The negative profit contributions of associated companies with an investment value of € 0k were only considered if the associated companies were provided with long-term loans or if there were credit / liability commitments.

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

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

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

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

## 25. Other non-current financial assets

The development of these shares was as follows:

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

|                              | Jan. 1,<br>2011 | Additions    | Amortization of<br>revaluation reserve<br>not recognized in<br>income |                 | Impairment    | Reclass-<br>ification | Disposals      | Dec. 31,<br>2011 |
|------------------------------|-----------------|--------------|-----------------------------------------------------------------------|-----------------|---------------|-----------------------|----------------|------------------|
|                              | €k              | €k           | Recycling<br>€k                                                       | Additions<br>€k | €k            | €k                    | €k             | €k               |
| Goldbach<br>shares           | 28,120          |              | -12,662                                                               |                 |               |                       | -501           | 14,957           |
| Hi-media<br>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<br>companies       |                 |              |                                                                       |                 |               |                       |                |                  |
| of EFF No. 3                 | 26,630          | 446          | -3,521                                                                |                 |               |                       | -12,350        | 11,205           |
| Purchase price<br>receivable | 9,163           | 356          |                                                                       |                 |               |                       |                | 9,519            |
| Others                       | 7,477           | 3,072        |                                                                       |                 |               | -164                  | -15            | 10,370           |
|                              | <u>145,274</u>  | <u>3,874</u> | <u>-16,183</u>                                                        | <u>9,191</u>    | <u>-6,298</u> | <u>-164</u>           | <u>-33,100</u> | <u>102,594</u>   |

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

The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. As part of the cooperation with ProSiebenSat.1 Media AG, 1&1 Internet AG owned until December 31, 2010 an interest in the joint venture maxdome GmbH & Co. KG, which operates the video-on-demand portal maxdome. In a contract signed on December 20, 2010 the

joint venture maxdome GmbH & Co. KG was sold with effect from December 31, 2010. An amount of € 6,000k of the total price of € 16,515k was paid in cash in fiscal year 2010. The remaining purchase price of € 10,515k has been deferred until December 30, 2014. Including the effect from discounting this receivable of € 297k, the purchase price receivable amounts to € 9,816k as of the balance sheet date (prior year: € 9,519k).

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

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

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

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

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

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

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

The recognition of customer relations includes an amount of € 130,158k which mainly results from the purchase of freenet AG broadband customers in fiscal years 2009 and 2010. These externally acquired customer relations will be amortized in scheduled amounts over a period of 6 years. Amortization amounted to € 21,694k in fiscal year 2012 (prior year: € 21,694k), and the carrying amount was € 63,270k.

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

The following table provides an overview of trademarks:

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

## **28. Goodwill**

|                      | <b>2012</b>    |                | <b>2011</b>    |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | €k             |                | €k             |                |
|                      | gross          | net            | gross          | net            |
| Applications segment | <b>420,270</b> | <b>356,248</b> | <b>419,049</b> | <b>401,295</b> |

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Domain Marketing**

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

### **Affiliate Marketing**

Contrary to original planning, affilinet France failed to achieve a turnaround in the first half of 2012. The results fell short of both planning and the prior-year figures. Revenues were down and there was a decline in the gross margin ratio. In consideration of the first half-year 2012 results and the uncertain market situation due to deteriorating economic conditions in France, planning needed to be revised for the subsequent years. The

carrying value of the cash-generating unit affilinet France exceeded the recoverable amount and resulted in an impairment charge of € 3,154k. As on December 31, 2011, there was no impairment need for goodwill of affilinet Germany.

#### Goodwill from the purchase of non-controlling interests

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

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

#### **Scheduled impairment test on December 31, 2012**

The recoverable amounts of the cash-generating units are calculated on the basis of a value-in-use calculation using cash flow forecasts. The cash flow forecasts are based on the Company's budgets for fiscal 2013. These budgets were prepared by management on the basis of external market studies and internal assumptions, extrapolated for a period of five years. Following this period – and as in the previous year – management assumes an annual increase in cash flow of 1.0% to 2.0%, corresponding to long-term average growth of the sector in which the respective cash-generating unit operates. The discounted pre-tax interest rates used in the period under review range from 11% to 13% (prior year: 8% to 12%).

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

| CGU                 | Parameter<br><i>Previous year</i> | Proportion<br>of total<br>goodwill | 2012 | 2013     | 2014 | 2015 | 2016   | > 2017 |
|---------------------|-----------------------------------|------------------------------------|------|----------|------|------|--------|--------|
|                     |                                   |                                    | 2012 | 2013     | 2014 | 2015 | > 2016 |        |
| 1&1                 |                                   |                                    |      |          |      |      |        |        |
| Mail & Media        | Sales growth                      | 64%                                |      | 3%       | 14%  | 13%  | 12%    | 1.5%   |
|                     | <i>Previous year</i>              |                                    | 14%  | 13%      | 12%  | 10%  | 1.5%   |        |
|                     | Discount rates                    |                                    |      | 11%      | 11%  | 11%  | 11%    | 9.2%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 9%       | 9%   | 9%   | 7.9%   |        |
| Fasthosts           | Sales growth                      | 16%                                |      | 5%       | 15%  | 14%  | 14%    | 2.0%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 10%      | 10%  | 11%  | 2.0%   |        |
|                     | Discount rates                    |                                    |      | 11%      | 11%  | 11%  | 11%    | 9.0%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 9%       | 9%   | 9%   | 7.0%   |        |
| united-<br>domains  | Sales growth                      | 8%                                 |      | 4%       | 15%  | 14%  | 14%    | 1.0%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 10%      | 10%  | 11%  | 1.0%   |        |
|                     | Discount rates                    |                                    |      | 11%      | 11%  | 11%  | 11%    | 10.3%  |
|                     | <i>Previous year</i>              |                                    | 9%   | 9%       | 9%   | 9%   | 7.7%   |        |
| InterNetX           | Sales growth                      | 1%                                 |      | 12%      | 15%  | 14%  | 14%    | 2.0%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 10%      | 10%  | 11%  | 2.0%   |        |
|                     | Discount rates                    |                                    |      | 11%      | 11%  | 11%  | 11%    | 8.8%   |
|                     | <i>Previous year</i>              |                                    | 8%   | 8%       | 8%   | 8%   | 6.3%   |        |
| Dollamore*          | Sales growth                      | 2%                                 |      | -10%     | 48%  | -17% | -21%   | -17.8% |
|                     | <i>Previous year</i>              |                                    | 9%   | 10%      | 10%  | 11%  | 2.0%   |        |
|                     | Discount rates                    |                                    |      | 11%      | 11%  | 11%  | 11%    | 9.4%   |
|                     | <i>Previous year</i>              |                                    | 9%   | 9%       | 9%   | 9%   | 7.0%   |        |
| Sedo Holding<br>CGU | Sales growth                      | 8%                                 |      | 5%-46.7% |      |      |        | 1.0%   |
|                     | <i>Previous year</i>              |                                    |      | 6%-20%   |      |      |        | 1.5%   |
|                     | Discount rates                    |                                    |      | 12%-13%  |      |      |        | 10.6%  |
|                     | <i>Previous year</i>              |                                    | 12%  | 12%      | 12%  | 12%  | 10.5%  |        |

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

Trademarks recognized in the Applications segment amount to € 46,296k (prior year: € 46,619k; see Note 27). In the course of business combinations, the trademarks were valued at their fair values using appropriate valuation methods (generally the so-called “royalty relief” method, in the cash-generating unit Mail.com using the residual value method) and tested again for impairment on the balance sheet date. The market-relevant cash flows were multiplied with the trademark-relevant royalty rates. These amounted to 2.0% (prior year: 2.0%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the

calculation of value-in-use of the cash-generating units. The test resulted in no impairment (prior year: € 46k).

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

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

- Sales revenue

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

- Growth rates

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

- Gross margin

The planned gross margins are based on market assumptions made by the management of the respective cash-generating unit. Management make assumptions of the developments of gross margins based on market analyses.

- Discount rates

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

### **Sensitivity of assumptions**

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

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

### **Sub-group 1&1**

The 1&1 sub-group comprises the following cash-generating units or groups of cash-generating units:

- 1&1 Mail & Media
- Fasthosts
- united-domains
- InterNetX
- Dollamore
- Mail.com

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

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

- Discount rates

A change in the virtually risk-free interest rate or specific risk premium also changes the underlying discount rates of the impairment test. A change in the discount rates used of 2 percentage points (prior year: 1 percentage point) would have no effect on the impairment test. Management rates the current risk from interest variations as low.

- Growth rates

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

### **Sub-group Sedo**

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

- Affiliate Marketing
- Domain Marketing
- Non-controlling interests

#### *Affiliate Marketing*

Management of the sub-group Sedo believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of the cash-generating unit "affilinet Germany" could cause the carrying value to significantly exceed its recoverable value.

#### *Domain Marketing*

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

#### *Non-controlling interests*

Goodwill from the purchase of non-controlling interests is monitored on the level of United Internet AG. The management of United Internet AG believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of the cash-generating unit "non-controlling interests" could cause the carrying value to significantly exceed its recoverable value.

### **30. Trade accounts payable**

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

### 31. Liabilities due to banks

#### a) Liabilities due to banks

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

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

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

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

The loans have variable interest rates. The effective interest rates for the interest periods of one, two, three, six or twelve months are tied to the EURIBOR rate plus a margin p.a.. This margin depends on key performance indicators of the United Internet Group. As of the balance sheet date, the loan interest rates including margin range from 1.01% and 1.09% (prior year: 2.02% and 2.36%). No collateral was provided for these syndicated loans.

Further liabilities due to banks result from a promissory note loan of € 72.0 million. The promissory note loan was issued on July 23, 2008 at an amount of € 150.0 million. The promissory note is a bullet loan and divided into a Tranche A of € 78.0 million with a term ending July 23, 2011 and a Tranche B of € 72.0 million with a term ending July 23, 2013. Tranche A was redeemed on schedule in the third quarter of 2011. The loans have variable

interest rates. The effective interest rate for the interest period of three months is tied to the EURIBOR rate plus a margin p.a.. As of the balance sheet date, the loan interest rate including margin amounts to 1.32% (prior year: 2.64%). No separate collateral was provided for this promissory note loan.

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

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

#### b) Credit lines

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

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

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

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

With regard to credit lines granted to the companies of the United Internet Group by one bank, United Internet AG is liable as co-debtor as in the previous year. The stated average interest rate as of the reporting date is based on the utilization of the credit line.

### **32. Accrued taxes**

Accrued taxes consist of the following items:

|         | <b>2012</b>          | <b>2011</b>          |
|---------|----------------------|----------------------|
|         | €k                   | €k                   |
| Germany | 45,441               | 20,155               |
| UK      | 2,000                | 1,732                |
| France  | 1,855                | 0                    |
| Spain   | 12                   | 8                    |
| USA     | 4                    | 19                   |
|         | <u><b>49,312</b></u> | <u><b>21,914</b></u> |

### **33. Deferred revenue**

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

### **34. Other accrued liabilities**

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

|                          | Litigation risks    | Others              | Total               |
|--------------------------|---------------------|---------------------|---------------------|
|                          | €k                  | €k                  | €k                  |
| Jan. 1, 2012             | 1,063               | 811                 | 1.874               |
| Utilization              | 718                 | 385                 | 1.103               |
| Reversal                 | 200                 | 0                   | 200                 |
| Addition                 | 927                 | 647                 | 1.574               |
| <b>December 31, 2012</b> | <u><b>1.072</b></u> | <u><b>1,073</b></u> | <u><b>2,145</b></u> |

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

Other accruals refer mainly to provisions for impending losses.

## **35. Other liabilities**

### **35.1 Other current financial liabilities**

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

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

### **35.2 Other current non-financial liabilities**

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

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

### **35.3 Other non-current financial liabilities**

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

In a contract dated December 12, 2008, United Internet Beteiligungen GmbH acquired the shares in united-domains AG. Following the approval of the anti-trust authorities on January 30, 2009, the acquisition was completed on February 27, 2009. united-domains AG continues to be run by its founders, who acquired a total shareholding of 15% in united-domains AG after the acquisition. Payment for these shares was deferred. In the course of this share acquisition, the founders were also granted a put option for their shares, which cannot be exercised until 2014. The purchase price will be determined mainly by the company's profit development. The put option is carried as a contingent consideration, i.e. adjustments to the fair value of the commitment from this put option are carried without effect on profit and loss as a purchase price adjustment and thus influence the amount of goodwill. The effect from the accrued interest expense is recognized as an interest expense in the financial result. As of December 31, 2012 the effect from goodwill adjustment amounted to € -698k (prior year: € 685k), while the effect from accrued interest amounted to € 931k (prior year: € 639k).

## **36. Share-based payment**

### **36.1 Employee stock ownership plans**

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

#### **United Internet AG**

##### **Virtual stock options**

The employee stock ownership plans 2006 - 2012 employ virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

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

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

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

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

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

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

| Valuation parameters            |            |            |            |            |
|---------------------------------|------------|------------|------------|------------|
| Issue date                      | 14.08.2006 | 14.03.2007 | 12.11.2007 | 29.01.2008 |
| Fair value                      | 1,790 €K   | 1,200 €K   | 1,394 €K   | 596 €K     |
| Average market value per option | 2.24 €     | 3.00 €     | 3.49 €     | 2.98 €     |
| Dividend yield                  | 1.0 %      | 1.4 %      | 1.6 %      | 1.5 %      |
| Volatility of the share         | 39 %       | 44 %       | 46 %       | 46 %       |
| Expected term (years)           | 5          | 5          | 5          | 5          |
| Risk-free interest rate         | 3.8 %      | 3.8 %      | 3.9 %      | 3.6 %      |
|                                 |            |            |            |            |
| Issue date                      | 30.05.2008 | 20.11.2008 | 31.03.2009 | 17.08.2009 |
| Fair value                      | 1,309 €K   | 1,424 €K   | 3,414 €K   | 2,173 €K   |
| Average market value per option | 3.27 €     | 0.95 €     | 1.38 €     | 2.17 €     |
| Dividend yield                  | 1.4 %      | 0.0 %      | 3.8 %      | 2.5 %      |
| Volatility of the share         | 46 %       | 55 %       | 57 %       | 58 %       |
| Expected term (years)           | 5          | 5          | 5          | 5          |
| Risk-free interest rate         | 4.3 %      | 2.6 %      | 2.2 %      | 2.5 %      |
|                                 |            |            |            |            |
| Issue date                      | 29.03.2010 | 21.06.2010 | 12.07.2010 | 20.10.2010 |
| Fair value                      | 47 €K      | 813 €K     | 758 €K     | 107 €K     |
| Average market value per option | 2.37 €     | 2.03 €     | 1.90 €     | 2.67 €     |
| Dividend yield                  | 1.8 %      | 2.0 %      | 2.2 %      | 1.6 %      |
| Volatility of the share         | 57 %       | 57 %       | 56 %       | 55 %       |
| Expected term (years)           | 5          | 5          | 5          | 5          |
| Risk-free interest rate         | 2.2 %      | 1.6 %      | 1.5 %      | 1.6 %      |
|                                 |            |            |            |            |
| Issue date                      | 14.01.2011 | 30.03.2011 | 01.06.2011 | 28.03.2012 |
| Fair value                      | 224 €K     | 1,403 €K   | 1,203 €K   | 27 €K      |
| Average market value per option | 2.80 €     | 2.81 €     | 3.01 €     | 2.72 €     |
| Dividend yield                  | 1.6 %      | 2.7 %      | 2.3 %      | 2.2 %      |
| Volatility of the share         | 47 %       | 43 %       | 37 %       | 34 %       |
| Expected term (years)           | 5          | 5          | 5          | 5          |
| Risk-free interest rate         | 1.9 %      | 2.6 %      | 2.3 %      | 0.8 %      |

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

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

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

## **Sedo Holding AG**

### **Virtual stock options**

The employee stock ownership plan 2007 to 2011 employs virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of AdLINK Internet Media AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the issue price on the date of granting the option and the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The issue price is the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option, plus a surcharge of 20%. Payment of value growth to the entitled person is limited to 100% of the strike price.

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

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% at the earliest 36 months after the date of issue of the option. A total of up 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 € 3k, compared to a personnel income in the previous year of € 300k.

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

**Valuation parameters**

|                                 | <b>03.09.2007</b> | <b>28.11.2007</b> | <b>22.02.2008</b> |
|---------------------------------|-------------------|-------------------|-------------------|
| Issue date                      |                   |                   |                   |
| 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 %             |
|                                 |                   |                   |                   |
|                                 | <b>06.03.2008</b> | <b>30.10.2008</b> | <b>25.03.2009</b> |
| Issue date                      |                   |                   |                   |
| 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 %             |
|                                 |                   |                   |                   |
|                                 | <b>30.03.2009</b> | <b>25.05.2009</b> | <b>22.03.2010</b> |
| Issue date                      |                   |                   |                   |
| 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 |                                 |
|------------------------------------------------------------------------|--------------------|---------------------------------|-----------------|---------------------------------|
|                                                                        |                    | Average<br>strike price<br>in € |                 | Average<br>strike price<br>in € |
| Outstanding as of December 31, 2010                                    | 8,420,000          | 8.93                            | 490,000         | 11.48                           |
| Issued                                                                 | 80,000             | 12.12                           | ---             | ---                             |
| Issued                                                                 | 500,000            | 12.03                           | ---             | ---                             |
| Issued                                                                 | 400,000            | 13.43                           | ---             | ---                             |
| Expired / forfeited                                                    | -199,500           | 5.52                            | -200,000        | 17.41                           |
| Expired / forfeited                                                    | -200,000           | 13.89                           | -30,000         | 18.15                           |
| Expired / forfeited                                                    | -300,000           | 11.30                           | -30,000         | 3.72                            |
| Expired / forfeited                                                    | -9,750             | 6.07                            | -100,000        | 3.72                            |
| Expired / forfeited                                                    | ---                | ---                             | -40,000         | 4.32                            |
| Exercised                                                              | -500,000           | 9.89                            | ---             | ---                             |
| Exercised                                                              | -590,750           | 5.52                            | ---             | ---                             |
| Exercised                                                              | -250,000           | 8.96                            | ---             | ---                             |
| Exercised                                                              | -352,750           | 6.07                            | ---             | ---                             |
| Outstanding as of December 31, 2011                                    | 6,997,250          | 9.77                            | 90,000          | 10.49                           |
| Issued                                                                 | 10,000             | 13.65                           | ---             | ---                             |
| Issued                                                                 | 150,000            | 13.96                           | ---             | ---                             |
| Issued                                                                 | 60,000             | 13.30                           | ---             | ---                             |
| Issued                                                                 | 300,000            | 16.24                           | ---             | ---                             |
| Issued                                                                 | 300,000            | 16.06                           | ---             | ---                             |
| Expired / forfeited                                                    | -21,250            | 6.07                            | -10,000         | 15.51                           |
| Expired / forfeited                                                    | -15,950            | 5.52                            | ---             | ---                             |
| Exercised                                                              | -150,000           | 12.82                           | ---             | ---                             |
| Exercised                                                              | -346,625           | 6.07                            | ---             | ---                             |
| Exercised                                                              | -550,050           | 5.52                            | ---             | ---                             |
| Exercised                                                              | -250,000           | 8.96                            | ---             | ---                             |
| Exercised                                                              | -5,000             | 11.33                           | ---             | ---                             |
| Exercised                                                              | -100,000           | 9.73                            | ---             | ---                             |
| Exercised                                                              | -100,000           | 8.96                            | ---             | ---                             |
| Exercised                                                              | -10,000            | 11.73                           | ---             | ---                             |
| Outstanding as of December 31, 2012                                    | 6,268,375          | 10.84                           | 80,000          | 9.86                            |
| Exercisable as of December 31, 2012                                    | 600,000            | 12.85                           | 0               |                                 |
| Exercisable as of December 31, 2011                                    | 7,500              | 5.52                            | 0               |                                 |
| Weighted average remaining term as of<br>December 31, 2012 (in months) | 24                 |                                 | 23              |                                 |
| Weighted average remaining term as of<br>December 31, 2011 (in months) | 31                 |                                 | 34              |                                 |

## **Sedo Holding AG**

### **Convertible bonds**

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

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

### **Assumptions used in evaluating options**

The anticipated maturities of conversion rights from convertible bonds and virtual stock options are based on historical data and do not necessarily correspond to the actual exercise behavior of the beneficiaries. Expected volatility is based on the assumption that historical volatility is an indicator of future trends. Actual volatility can thus differ from the assumptions made.

## **36.2 Share-based payment to third parties**

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

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

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

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

or cash settlement was common business practice or the declared Company guideline in the past, or the Company generally settles in cash if the beneficiary so desires. These requirements are not met.

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

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

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

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

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

As in the previous year, no expense was recognized for tranches 2 to 4 as of the balance sheet date, as the brokerage service had not yet been rendered.

### **37. *Deferred tax liabilities***

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

### **38. *Capital stock***

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

As at December 31, 2012, United Internet AG held a total of 20,662,202 treasury shares (prior year: 21,225,158) representing 9.56% (prior year: 9.87%) of capital stock.

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

Treasury shares reduce equity and have no dividend entitlement.

#### **Authorized capital**

The company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by a maximum of € 112,500,000.00 in the period ending May 25, 2016 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the Company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of Company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG

under exclusion of subscription rights are to be accounted for in this limitation.

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

Pursuant to Sec. 71 (1) No. 8 AktG, the company is entitled to acquire treasury shares until November 30, 2013 up to a limit of ten percent of capital stock. The purchase price may not be lower than ten percent below the share's market price, nor higher than ten percent above its market price. Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of May 31, 2012.

### Conditional capital

There are the following lots of conditional capital:

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

### **39. Reserves**

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

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

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

|                   | <b>2012</b>  | <b>2011</b>   |
|-------------------|--------------|---------------|
|                   | €k           | €k            |
| - Afiliast shares | 8,175        | 7,398         |
| - Goldbach shares | 1,625        | 2,271         |
| - EFF No. 3       | 521          | 717           |
| - freenet shares  | 0            | 7,890         |
| - HiMedia shares  | -700         | 0             |
|                   | <u>9,621</u> | <u>18,276</u> |

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

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

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

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

#### 40. Additional details on financial instruments

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

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

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

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

| Net result acc. to valuation categories 2012 (in €k)    | Valuation category acc. to IAS 39 | From interest and dividends | Net profits and losses from subsequent valuation |                      |                | Net result |
|---------------------------------------------------------|-----------------------------------|-----------------------------|--------------------------------------------------|----------------------|----------------|------------|
|                                                         |                                   |                             | Fair value                                       | Currency translation | Value adjusted |            |
| Loans and receivables (lar)                             | lar                               | 1,380                       | --                                               | -140                 | -31,420        | -30,180    |
| Available for sale (afs)                                | afs                               | --                          | --                                               | --                   | --             |            |
| - of which not affecting net income                     |                                   | --                          | -583                                             | --                   | --             | -583       |
| - of which affecting net income                         |                                   | 5,438                       | 0                                                | --                   | --             | 5,438      |
| Financial liabilities measured at amortised cost (flac) | flac                              | -9,541                      | --                                               | -60                  | --             | -9,601     |
| Held for trading (hft) - affecting net income           | hft                               | -5,946                      | 3,424                                            | --                   | --             | -2,522     |
| Hedging derivatives (hd) – not affecting net income     | hd                                | -2,671                      | -5,014                                           | --                   | --             | -7,685     |
|                                                         |                                   | -11,340                     | -2,173                                           | -200                 | -31,420        | -45,133    |

Cash and cash equivalents, trade accounts receivable and trade accounts payable mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

Trade accounts payable generally have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

Financial liabilities carried at fair value through profit or loss refer to an interest hedging transaction.

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

| in €k                                                   | Valuation category acc. to IAS 39 | Carrying value on Dec. 31, 2011 | Valuation acc. to IAS 39 |                                       |                                   |                             |
|---------------------------------------------------------|-----------------------------------|---------------------------------|--------------------------|---------------------------------------|-----------------------------------|-----------------------------|
|                                                         |                                   |                                 | Amortized cost           | Fair value not through profit or loss | Fair value through profit or loss | Fair value on Dec. 31, 2011 |
| <b>Financial assets</b>                                 |                                   |                                 |                          |                                       |                                   |                             |
| Cash and cash equivalents                               | lar                               | 64,867                          | 64,867                   |                                       |                                   | 64,867                      |
| Trade accounts receivable                               | lar                               | 106,702                         | 106,702                  |                                       |                                   | 106,702                     |
| Other current financial assets                          | hft/lar                           |                                 |                          |                                       |                                   |                             |
| Call options                                            | hft                               | 8,710                           |                          |                                       | 8,710                             | 8,710                       |
| Others                                                  | lar                               | 74,577                          | 74,577                   |                                       |                                   | 74,577                      |
| Other non-current financial assets                      | lar/afs                           |                                 |                          |                                       |                                   |                             |
| Purchase price receivable                               | lar                               | 9,519                           | 9,519                    |                                       |                                   | 9,519                       |
| Investments                                             | afs                               | 82,705                          |                          | 82,705                                |                                   | 82,705                      |
| Others                                                  | lar                               | 10,370                          | 10,370                   |                                       |                                   | 10,370                      |
| <b>Financial liabilities</b>                            |                                   |                                 |                          |                                       |                                   |                             |
| 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)                             | lar                               | 266,035                         | 266,035                  | 0                                     | 0                                 | 266,035                     |
| Available-for-sale (afs)                                | afs                               | 82,705                          | 0                        | 82,705                                | 0                                 | 82,705                      |
| Financial liabilities measured at amortised cost (flac) | flac                              | 814,633                         | 814,633                  | 0                                     | 0                                 | 814,633                     |
| Held-for-trading (hft)                                  | hft                               | -1,814                          | 0                        | 0                                     | -1,814                            | -1,814                      |
| Hedging derivatives (hd)<br>(negative market value)     | hd                                | 6,342                           | 0                        | 6,342                                 | 0                                 | 6,342                       |

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

| Net result acc. to valuation categories 2011 (in €k)    | Valuation category acc. to IAS 39 | From interest and dividends | Net profits and losses from subsequent valuation |                      |                | Net result |
|---------------------------------------------------------|-----------------------------------|-----------------------------|--------------------------------------------------|----------------------|----------------|------------|
|                                                         |                                   |                             | Fair value                                       | Currency translation | Value adjusted |            |
| 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 amortised cost (flac) | flac                              | -12,627                     | --                                               | 144                  | --             | -12,483    |
| Held for trading (hft) - affecting net income           | hft                               | -4,765                      | 4,669                                            | --                   | --             | -96        |
| Hedging derivatives (hd) – not affecting net income     | hd                                | -563                        | -6,342                                           | --                   | --             | -6,905     |
|                                                         |                                   | -9,859                      | 1,220                                            | 479                  | -23,435        | -31,595    |

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2012, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 31 December 2012, and as in the previous year, the carrying amounts of such liabilities not materially different from their calculated fair values.

- Fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available.
- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.
- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models using present value calculations. These models use mainly interest rate curves as the valuation parameters.
- With regard to the call options received in the previous year as part of the Versatel transaction (Note 3.2), valuation is also based on input parameters observable on the market using a Black-Scholes model. The main valuation parameters of this model are the term, value of the underlying, volatility and risk-free interest rate.

### 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<br>Dec. 31,<br>2012 | Level 1 | Level 2 | Level 3 |
|-----------------------------------------------------------------------|---------------------------|---------|---------|---------|
|                                                                       | €k                        | €k      | €k      | €k      |
| <b>Available-for-sale financial assets</b>                            |                           |         |         |         |
| Listed shares                                                         | 23,524                    | 23,524  |         |         |
| <b>Financial liabilities at fair value through profit or loss</b>     |                           |         |         |         |
| Interest rate swap                                                    | 7,100                     |         | 7,100   |         |
| <b>Financial liabilities at fair value not through profit or loss</b> |                           |         |         |         |
| Interest rate swap                                                    | 11,356                    |         | 11,356  |         |

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

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

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

### Derivative financial instruments

The United Internet Group holds the following derivative financial instruments:

In fiscal year 2011, the United Internet Group was granted a call option in connection with the Versatel transaction (see Note 3.2) for shares in the company. The positive fair value as of the balance sheet date on December 31, 2011 amounted to € 8,710k and was disclosed under other current financial assets. The option was exercised in December 2012.

In fiscal year 2008, United Internet AG concluded two interest swap agreements. The nominal volume of each amounts to € 100,000k with a term until October 9, 2013. Interest hedging transactions were concluded to hedge against the interest rate risk, but do not meet the requirements of IAS 39 on *Hedge Accounting* and were recognized at fair value through profit and loss. The negative fair value as of the balance sheet date amounted to € 7,100k (prior year: € 10,524k) and is disclosed under other financial liabilities.

In fiscal year 2011, United Internet AG concluded four interest swap agreements. The total nominal volume amounts to € 180,000k with a term until June 7, 2016. The interest hedging transactions were concluded to hedge against the interest rate risk, meet the requirements of IAS 39 on *Hedge Accounting* and, if effective, were recognized in equity at fair value. The negative fair value as of the balance sheet date amounted to € 11,587k (prior year: € 6,342k) and is disclosed under other financial liabilities.

#### **41. Transactions with related parties**

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Accordingly, United Internet AG is subject to significant influence from Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board of United Internet AG.

United Internet's premises in Montabaur are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements run until April 2015 and April or December 2016, June 2019, and September 2021. The resulting rent expenses are customary and amounted to € 2,902k in fiscal year 2012 (prior year: € 2,407k).

At the ordinary shareholders' meeting on June 2, 2010, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2014.

In fiscal year 2012, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- Nemetschek AG, Munich (Chairman)
- Bechtle AG, Gaildorf
- docuware AG, Munich
- Graphisoft S.E, Budapest / Hungary
- Singhammer IT Consulting AG, Munich

Kai-Uwe Ricke

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

Michael Scheeren

- 1&1 Internet AG, Montabaur (Chairman)
- Sedo Holding AG, Montabaur (Chairman)
- United Internet Media AG, Montabaur (Deputy Chairman)
- Goldbach Group AG, Küsnacht-Zürich / Switzerland

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 10k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to € 1k for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 for United Internet AG, calculated according to IFRS.

In addition, each member of the Supervisory Board shall receive for fiscal year 2013 and the following fiscal years remuneration of € 500 per starting percentage point by which EPS in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously, limited to a maximum of € 10k per fiscal year.

The members of the Supervisory Board of United Internet AG also hold seats on the supervisory board of 1&1 Internet AG. As of fiscal year 2010, they receive separate compensation from 1&1 Internet AG consisting of a fixed and a variable element. The fixed remuneration for ordinary members of the supervisory board amounts to € 20k per full fiscal year. The chairman of the supervisory board receives € 30k per full fiscal year. The performance-oriented compensation for each member of the supervisory board, including the chairman, is based on the earnings figures of 1&1 Internet AG. It amounts to at least € 30k and a maximum of € 70k per full fiscal year.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet and 1&1 Internet AG:

|                  | United Internet AG |                |             | 1&1 Internet AG |                |             | Total       |                |             |
|------------------|--------------------|----------------|-------------|-----------------|----------------|-------------|-------------|----------------|-------------|
|                  | Fixed<br>€k        | Variable<br>€k | Total<br>€k | Fixed<br>€k     | Variable<br>€k | Total<br>€k | Fixed<br>€k | Variable<br>€k | Total<br>€k |
| <b>2012</b>      |                    |                |             |                 |                |             |             |                |             |
| Kurt Dobitsch    | 20                 | 0              | 20          | 20              | 47             | 67          | 40          | 47             | 87          |
| Kai-Uwe Ricke    | 10                 | 0              | 10          | 20              | 47             | 67          | 30          | 47             | 77          |
| Michael Scheeren | 10                 | 0              | 10          | 30              | 47             | 77          | 40          | 47             | 87          |
|                  | <u>40</u>          | <u>0</u>       | <u>40</u>   | <u>70</u>       | <u>141</u>     | <u>211</u>  | <u>110</u>  | <u>141</u>     | <u>251</u>  |

|                  | United Internet AG |                |             | 1&1 Internet AG |                |             | Total       |                |             |
|------------------|--------------------|----------------|-------------|-----------------|----------------|-------------|-------------|----------------|-------------|
|                  | Fixed<br>€k        | Variable<br>€k | Total<br>€k | Fixed<br>€k     | Variable<br>€k | Total<br>€k | Fixed<br>€k | Variable<br>€k | Total<br>€k |
| <b>2011</b>      |                    |                |             |                 |                |             |             |                |             |
| 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         |
|                  | <u>40</u>          | <u>60</u>      | <u>100</u>  | <u>70</u>       | <u>141</u>     | <u>211</u>  | <u>110</u>  | <u>201</u>     | <u>311</u>  |

In addition, Mr. Michael Scheeren receives remuneration as a member of the Supervisory Board of Sedo Holding AG. In accordance with a resolution adopted by the Annual Shareholders' Meeting of May 26, 2008, the members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 15k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to € 250 for every € 0.01 of earnings per share of Sedo holding AG, as disclosed in the Company's consolidated financial statements according to IFRS, which exceeds a minimum amount of € 0.30 per share.

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

On December 15, 2010 affilinet GmbH signed a consultancy agreement with Mr. Michael Scheeren. Mr. Scheeren helped affilinet GmbH implement the results of a completed strategic advice project and integrate them into its operating processes. This did not include those activities which are part of Mr. Scheeren's duties as a member of the Sedo Holding AG supervisory board. Consultancy services utilized in fiscal year 2011 amounted to € 60k. The consultancy agreement was ended on July 31, 2011 on successful completion of the project.

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

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2011. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2012, total remuneration of € 872k (prior year: € 1,046k) was agreed for the Management Board. Of this total, € 600k or 69% was fixed and € 272k or 31% variable.

There are no retirement benefits from the Company to members of the Management Board.

In the fiscal years 2008 and 2009, Mr. Norbert Lang was granted 800,000 virtual stock options (Stock Appreciation Rights; components with a long-term incentive) in each year at an exercise price of € 12.85 and € 5.52, respectively. When the virtual stock options were granted, their fair values amounted to € 2,384k and € 1,104k. In fiscal year 2012, Mr. Norbert Lang exercised 200,000 rights at a strike price of € 5.52 each.

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

| <b>2012</b>      | Fixed<br>€k | Variable<br>€k | Total<br>€k  |
|------------------|-------------|----------------|--------------|
| Ralph Dommermuth | 300         | 152            | 452          |
| Norbert Lang     | 300         | 120            | 420          |
|                  | <u>600</u>  | <u>272</u>     | <u>872</u>   |
| <b>2011</b>      | Fixed<br>€k | Variable<br>€k | Total<br>€k  |
| Ralph Dommermuth | 300         | 249            | 549          |
| Norbert Lang     | 300         | 197            | 497          |
|                  | <u>600</u>  | <u>446</u>     | <u>1.046</u> |

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is given in the following table:

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

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

## Conditions of transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2012 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

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

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

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

| <b>Purchases/services<br/>from related<br/>parties</b> |      | <b>Sales/services<br/>to related<br/>parties</b> |      | <b>Liabilities due to<br/>related parties</b> |      | <b>Receivables<br/>from related<br/>parties</b> |       |
|--------------------------------------------------------|------|--------------------------------------------------|------|-----------------------------------------------|------|-------------------------------------------------|-------|
| 2012                                                   | 2011 | 2012                                             | 2011 | 2012                                          | 2011 | 2012                                            | 2011  |
| €k                                                     | €k   | €k                                               | €k   | €k                                            | €k   | €k                                              | €k    |
| 885                                                    | 424  | 124                                              | 30   | 601                                           | 718  | 8,883                                           | 1,855 |

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

| <b>Interest income</b> |      | <b>Interest expense</b> |      |
|------------------------|------|-------------------------|------|
| 2012                   | 2011 | 2012                    | 2011 |
| €k                     | €k   | €k                      | €k   |
| 228                    | 19   | 13                      | 11   |

## **42. Objectives and methods of financial risk management**

### Principles of risk management

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

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

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

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

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

### Liquidity risk

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

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

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

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2012 and 2011:

|                             | <b>Dec. 31,<br/>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>&gt; 2017</b> | <b>Total</b> |
|-----------------------------|--------------------------|-------------|-------------|-------------|-------------|------------------|--------------|
|                             | <b>€k</b>                | <b>€k</b>   | <b>€k</b>   | <b>€k</b>   | <b>€k</b>   | <b>€k</b>        | <b>€k</b>    |
| Liabilities to banks        | 300,276                  | 88,344      | 2,587       | 3,046       | 216,885     | 0                | 310,862      |
| Trade accounts payable      | 268,668                  | 268,668     | 0           | 0           | 0           | 0                | 268,668      |
| Other financial liabilities | 74,678                   | 51,813      | 14,642      | 3,152       | 1,283       | 4,074            | 74,964       |

|                             | <b>Dec. 31,<br/>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>&gt; 2016</b> | <b>Total</b> |
|-----------------------------|--------------------------|-------------|-------------|-------------|-------------|------------------|--------------|
|                             | <b>€k</b>                | <b>€k</b>   | <b>€k</b>   | <b>€k</b>   | <b>€k</b>   | <b>€k</b>        | <b>€k</b>    |
| Liabilities to banks        | 524,593                  | 133,294     | 79,361      | 7,283       | 9,053       | 335,587          | 564,578      |
| Trade accounts payable      | 228,981                  | 228,981     | 0           | 0           | 0           | 0                | 228,981      |
| Other financial liabilities | 77,925                   | 51,747      | 7,563       | 12,676      | 607         | 5,332            | 77,925       |

Please refer to Note 31 for details on interest and redemption payments for liabilities to banks. It is assumed that the revolving syndicated loan will be repaid by the end of its term in 2016. The obligations to minority shareholders of the Company's investment funds EFF No. 2 and EFF No. 3 disclosed under "Other liabilities" are only due on the sale of the underlying portfolio companies.

The Company has no significant concentration of liquidity risks.

## Market risk

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

## Interest risk

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

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

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

A change in the market interest level has an effect on interest swaps stated at fair value with an effect on income. A parallel shift in the interest structure curve of + / - 100 basis points might have resulted in a comparable increase in pre-tax earnings of € 1,521k (prior year: € 3,530k) or a decrease of € 1,545k (prior year: € 3,579k).

A change in the market interest level also has an effect on interest swaps concluded in fiscal year 2012 stated at fair value with no effect on income. A parallel shift in the interest structure curve of + / - 100 basis points might have resulted in a comparable increase in pre-tax earnings of € 5,898k or a decrease of € 6,115k.

The interest risk is negligible for other interest-bearing liabilities

#### Currency risk

A currency risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in the exchange rates. The Group is mainly exposed to currency risks as a result of its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries. The currency risk of United Internet results from investments, financing activities and operations. Currency risks which do not affect cash flows (i.e. risks from translating the assets and liabilities of foreign operations into the Group's reporting currency) are not hedged against. In the period under review, there were no foreign exchange risks with a significant impact on the cash flows.

With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the Company therefore regards the currency risk from operations as low. Certain Group companies are exposed to foreign exchange risks in connection with planned payments outside their functional currency.

Foreign exchange risks arise from financial instruments which are denominated in a different currency to the functional currency and are of a monetary nature; exchange rate differences from the translation of annual financial statements into the Group's reporting currency are not considered. The relevant risk variables include all non-functional currencies in which the Company holds financial instruments.

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

#### Stock exchange risk (valuation risk)

The Company classifies certain (quoted) assets as available-for-sale and records changes in their fair value in equity without an effect on profit or loss. If there is a significant or persistent decrease in the fair value of an equity instrument below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement. The fair value of these listed assets amounted to € 23,524k as of the balance sheet date (prior year: € 63,564k).

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

The Company has no significant concentration of market risks.

#### Credit and contingency risk

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

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see Note 20).

#### Internal rating system

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

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

The Company has no significant concentration of credit risks.

## Risks from financial covenants

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

## Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. As of December 31, 2012 and December 31, 2011, no changes were made to the Company's targets, methods and processes.

## ***43. Specific contingencies and commitments***

### Litigation

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

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

### Guarantees

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

#### **44. Other financial commitments, guarantees and contingent liabilities**

##### Operating lease commitments

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

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

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

|              | <b>2012</b>   | <b>2011</b>   |
|--------------|---------------|---------------|
|              | €k            | €k            |
| Up to 1 year | 20,095        | 17,554        |
| 1 to 5 years | 50,614        | 45,217        |
| Over 5 years | <u>22,237</u> | <u>19,018</u> |
|              | <u>92,946</u> | <u>81,789</u> |

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

##### Guarantees and other obligations

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

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

#### **45. Cash flow account**

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

A total of € 60,153k (prior year: € 2,260k) was paid in cash for the purchase of shares in associated companies and € 59,821k was received in cash from the repayment of a vendor loan in fiscal year 2012. Proceeds

from dividends paid by associated companies totaled € 0k (prior year: € 730k). Further details are provided in Note 24.

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

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

#### **46. Exemption pursuant to Sec. 264 (3) HGB**

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

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

#### **47. Subsequent events**

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

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the

Executive Board resolved on February 1, 2013, to cancel a total of 6,000,000 shares from the company's stock of treasury shares, purchased in the course of share buyback programs, and thus reduce the capital stock of United Internet AG by € 6,000,000, from € 200,000,000 to € 194,000,000. The number of shares issued decreased correspondingly from 200,000,000 shares to 194,000,000 shares. Issued shares continue to represent a notional share of capital stock of € 1 each.

#### **48. Auditing fees**

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

#### **49. Corporate Governance Code**

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

Montabaur, March 15, 2013

The Executive Board

Ralph  
Dommermuth

Robert  
Hoffmann

Norbert  
Lang

**United Internet AG - Development of fixed assets acc. to IFRS for the fiscal year 2012 and 2011 (€k)**

| 2012                          | Acquisition and production costs |                                         |           |           |                   |                         |               | Accumulated depreciation |           |            |           |                         | Net book value |               |               |
|-------------------------------|----------------------------------|-----------------------------------------|-----------|-----------|-------------------|-------------------------|---------------|--------------------------|-----------|------------|-----------|-------------------------|----------------|---------------|---------------|
|                               | Jan. 1, 2012                     | Additions from<br>initial consolidation | Additions | Disposals | Reclassifications | Currency<br>translation | Dec. 31, 2012 | Jan. 1, 2012             | Additions | Impairment | Disposals | Currency<br>translation | Dec. 31, 2012  | Dec. 31, 2011 | Dec. 31, 2012 |
| Intangible assets             |                                  |                                         |           |           |                   |                         |               |                          |           |            |           |                         |                |               |               |
| Licenses                      | 29,833                           | 0                                       | 291       | 71        | 0                 | -32                     | 30,021        | 27,915                   | 367       | 0          | 24        | -28                     | 28,230         | 1,918         | 1,791         |
| Order backlog                 | 2,403                            | 0                                       | 0         | 0         | 0                 | -5                      | 2,398         | 2,403                    | 0         | 0          | 0         | -5                      | 2,398          | 0             | 0             |
| Software                      | 73,196                           | 0                                       | 11,121    | 590       | 0                 | 14                      | 83,741        | 49,205                   | 11,107    | 0          | 618       | 18                      | 59,712         | 23,991        | 24,029        |
| Trademark                     | 47,495                           | 0                                       | 0         | 0         | 0                 | -304                    | 47,191        | 876                      | 0         | 0          | 0         | 19                      | 895            | 46,619        | 46,296        |
| Customer base                 | 189,334                          | 431                                     | 0         | 0         | 0                 | 478                     | 190,243       | 91,040                   | 26,756    | 0          | 0         | 292                     | 118,088        | 98,294        | 72,155        |
| Portal                        | 72,240                           | 63                                      | 0         | 0         | 0                 | 0                       | 72,303        | 55,685                   | 9,062     | 0          | 0         | 0                       | 64,747         | 16,555        | 7,556         |
| Goodwill                      | 419,049                          | 300                                     | 0         | 698       | 0                 | 1,619                   | 420,270       | 17,754                   | 0         | 46,268     | 0         | 0                       | 64,022         | 401,295       | 356,248       |
| Total (I)                     | 833,550                          | 794                                     | 11,412    | 1,359     | 0                 | 1,770                   | 846,167       | 244,878                  | 47,292    | 46,268     | 642       | 296                     | 338,092        | 588,672       | 508,075       |
| Property, plant and equipment |                                  |                                         |           |           |                   |                         |               |                          |           |            |           |                         |                |               |               |
| Land and buildings            | 8,229                            |                                         | 0         | 0         | 0                 | 0                       | 8,229         | 5,318                    | 92        | 0          | 0         | 0                       | 5,410          | 2,911         | 2,819         |
| Operational equipment         | 292,730                          | 4                                       | 47,706    | 13,663    | 10,710            | -768                    | 336,719       | 198,001                  | 45,812    | 0          | 5,925     | -469                    | 237,419        | 94,729        | 99,300        |
| Payments in advance           | 13,282                           |                                         | 4,483     |           | -10,710           | 13                      | 7,068         | 0                        | 0         | 0          | 0         | 0                       | 0              | 13,282        | 7,068         |
| Total (II)                    | 314,241                          | 4                                       | 52,189    | 13,663    | 0                 | -755                    | 352,016       | 203,319                  | 45,904    | 0          | 5,925     | -469                    | 242,829        | 110,922       | 109,187       |
|                               |                                  |                                         |           |           |                   |                         |               |                          |           |            |           |                         |                |               |               |
| Total                         | 1,147,791                        | 798                                     | 63,601    | 15,022    | 0                 | 1,015                   | 1,198,183     | 448,197                  | 93,196    | 46,268     | 6,567     | -173                    | 580,921        | 699,594       | 617,262       |

| 2011                          | Acquisition and production costs |                                         |           |           |                   |                         |               | Accumulated depreciation |           |            |           |                         | Net book value |               |               |
|-------------------------------|----------------------------------|-----------------------------------------|-----------|-----------|-------------------|-------------------------|---------------|--------------------------|-----------|------------|-----------|-------------------------|----------------|---------------|---------------|
|                               | Jan. 1, 2011                     | Additions from<br>initial consolidation | Additions | Disposals | Reclassifications | Currency<br>translation | Dec. 31, 2011 | Jan. 1, 2011             | Additions | Impairment | Disposals | Currency<br>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        | 0                 | 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       |

## **Audit opinion of the Independent Auditor**

We have audited the consolidated financial statements prepared by United Internet AG, Montabaur – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the management report for the group and the company for the fiscal year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the management report for the group and the company in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the group and the company based on our audit.

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

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 18, 2013

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Grote

Wirtschaftsprüfer

[German Public Auditor]

Kemmerich

Wirtschaftsprüfer

[German Public Auditor]

## **Responsibility Statement**

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

Montabaur, March 15, 2013

Board of Management

Ralph Dommermuth

Robert Hoffmann

Norbert Lang