

Annual Report 2002

## Vision

**Programmed for success:  
5 million customers  
in 5 years' time**

Our vision: United Internet is one of the market's most successful internet service providers. Our value-added technical services are tailored to the needs of discerning home users and small to mid-size companies. We are the partner of choice for the Internet Professional.

Our superior technology, effective marketing and flexible organization will continue to secure our innovative edge and competitive advantage in future. Over the next five years we aim to raise the number of customer accounts to five million.

The internet of the future will be used increasingly for more intelligent functions, designed to raise the user's efficiency in all areas. Data will be accessed and exchanged directly from the web via a variety of end-user devices. Programs currently reserved for stationary use on the PC will be used increasingly as web services. United Internet is driving this evolution. Our Internet Factory is preparing sophisticated technologies and digital services for the internet of the future.



Ralph Dommermuth

# United Internet at a glance

Key figures from the consolidated financial statements acc. to US-GAAP

€ million (except employees and stock)

<b>Income Statement</b>	<b>2002</b>	<b>2001</b>
Sales	320.0	230.7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	67.2	23.8
Earnings before interest and taxes (EBIT)	42.2	-37.1
Earnings before taxes (EBT)	41.1	-42.6
EBITDA (without special items*)	62.0	23.8
EBT (without special items*)	38.8	-42.6
<b>Balance Sheet</b>		
Non-current assets	120.0	112.1
Current assets	117.8	157.3
Shareholder's equity	117.1	78.0
Balance sheet total	237.8	269.4
<b>Employees</b>		
Germany		
– full-time	1,811	1,704
– part-time	492	551
Abroad	892	631
Total	3,195	2,886
Personnel expenses	89.5	86.2
<b>Stock</b>		
Share price at year end (XETRA)	6.65 €	4.40 €
Earnings per share	0.66 €	-0.63 €
Earnings per share (without special items*)	0.56 €	-0,63 €

## Quarterly development of key figures (US-GAAP) in € million

	Q1/2002	Q2/2002	Q3/2002	Q4/2002	Q4/2001
Sales	70.9	74.8	77.1	97.2	65.5
EBITDA	18.4	21.5	16.5	10.8	11.2
EBT	13.4	16.7	10.1	0.9	-2.7
EBITDA (without special items*)	13.1	14.2	16.5	18.2	11.2
EBT (without special items*)	8.1	9.4	10.1	11.2	-2.7

\* Sale of shares in AdLINK and jobpilot and restructuring charges of AdLINK for the integration of DoubleClick's European media business.



#### Products

**GMX GmbH**  
**GMX Internet Services GmbH**

**1&1 Internet AG**  
**1&1 Internet Ltd.**  
**1&1 Internet S.A.R.L.**  
**1&1 Internet Service GmbH**

**Schlund + Partner AG**

**val-U Marketing GmbH /**  
**A1 GmbH**

**CONVIGATE GmbH**

#### Outsourcing

**Schlund Technologies GmbH**

**twenty4help Knowledge Service AG (D)**  
**twenty4help Knowledge Service B.V. (NL)**  
**twenty4help Knowledge Service A.B. (S)**  
**twenty4help Knowledge Service Ltd. (UK)**

**MIP Multimedia Internet Park GmbH**

#### Shareholdings:

AdLINK Internet Media AG	67.62 %*
fun communications GmbH	33.33 %
imedia - Gesellschaft für neue Medien mbH	40.00 %
Metropolis AG	43.96 %
NT Plus AG	40.23 %
Sedo GmbH	41.04 %

\* 21 % deposited with trustee for call option held by DoubleClick Inc.

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# Dear shareholders, employees and friends of the company!

United Internet has successfully completed a decisive year in the company's development. Amid widespread market uncertainty, we were able to post the company's best-ever annual results.

The internet is a powerful and fascinating medium. This fact has not been altered by the stock market crash of the past few years, which tended to obliterate all positive news. Following the general consolidation of the market, the focus is now on the business potential and future opportunities of the internet.

The same applies to United Internet. We reacted quickly to market developments and focussed on those few business models which offered the greatest potential. We brought this process to a successful conclusion last year. Our business success in the past fiscal year is a clear vindication of this strategy. Once again we were able to exceed our ambitious targets—although raised twice during the year. In terms of growth and profitability, United Internet is now one of the most successful internet companies on the market.

This success can be attributed to five factors: firstly, our clear positioning as a premium supplier of internet services, which we presented in the first half of 2002. The realignment from a management holding company with an extensive network of affiliates to an

integrated internet group, which began in early 2001, has now been successfully completed. We have reduced our net bank liabilities to zero and are now profitable in all core business areas. The strength and earnings potential of our family of brands is becoming increasingly apparent.

Secondly: the core of our business model is the company's powerful "Internet Factory", in which we produce technical value-added products using our own technology. We deliberately chose the term "Internet Factory", because we have applied the successful principles of the "Old Economy" and the mechanisms of rationalized production to the Internet business. This enables us to extend our product lines as desired, to bundle them, scale them—and export them. In this way, we have both raised the entrance barriers for new competitors and created an excellent foundation for future growth.

Thirdly, we own a strong family of brands with wide market coverage and fourthly, we can extend this coverage with our highly efficient sales and marketing model. In the past year, we greatly improved our strong standing on the internet market with a highly visible marketing campaign. At a time when our competitors were forced to make cost savings, we succeeded in greatly enhancing our market share.

Fifthly and finally, United Internet profits from its long-term and stable customer relationships. The average duration of customer relations for our core brands GMX, 1&1 and Schlund+Partner is around seven years.

Since our IPO in 1998, we have invested exclusively in quickly expanding the company. Our strong earnings in 2002 now enable us to pay our first dividend—in addition to a sustained high level of investment. At the Annual Shareholders' Meeting on May 16, 2003 the Executive Board and the Supervisory Board will recommend a dividend of 50 cents (10 cents basic dividend plus 40 cents bonus) per share. We also plan to pay dividends in the coming years. The amount will depend on company

earnings and on our ability to continue financing the company's strong organic growth from cash flow.

We are convinced that our business model will ensure us a bright future—a belief which is confirmed by current market trends and technologies. And we intend to export this successful model to other European countries. We are working hard on achieving further growth and rising earnings.

We hope that you will accompany us on this journey.



A handwritten signature in dark ink, appearing to read 'Ralph Dommermuth'.

**Ralph Dommermuth**



A handwritten signature in dark ink, appearing to read 'Norbert Lang'.

**Norbert Lang**

## “Utilizing tried and trusted business principles”

United Internet has realigned itself as a premium internet service provider (ISP). Ralph Dommermuth discusses the reasons and success of this new positioning.

■ Mr. Dommermuth, last year you repositioned United Internet as a premium ISP. In the meantime, United Internet has sold almost all its minority shareholdings. Why? Had the old business model failed?

**Dommermuth:** Yes and no. Since the stock market crash, the idea of establishing a wide network of young internet companies which would finance growth through IPOs, can no longer be realized. In 2001 we therefore parted company with our loss-making minority shareholdings. Some of our investments, however, have proved to be tremendous successes, such as GMX and jobpilot. We have also used the time to steadily build up our family of brands, our customer relationships and our expertise in the development of new technologies. The realignment we presented at our shareholders' meeting in May 2002 is therefore the conclusion of a process started in early 2001—the transition from a management holding company to an operating unit with five strong brands in two business segments. In the past few years, we have created a fast-growing, integrated internet corporation by utilizing tried and trusted business principles.

■ Can you explain that in more detail?

**Dommermuth:** One of United Internet's greatest assets is its depth of production. From technology to marketing

to customer care, we cover almost the entire value chain of internet providing. Our business model as a premium ISP marketing our own products has several key advantages: By almost completely automating business processes, we have been able to break the direct correlation between cost and customer growth, allowing us to enjoy high economies of scale.

■ What consequences does this have for United Internet?

**Dommermuth:** It means that every extra customer produces a proportionately smaller increase in cost: making us more efficient—and more profitable. At the same time, production at our Internet Factory is highly flexible. The factory now consists of two high-performance data centers and nine customer interaction centers, with tremendous scope for further expansion. Our business has also become more stable and reliable. Both our Product business, with the brands GMX, 1&1 and Schlund+Partner, as well as our Outsourcing segment, with Schlund Technologies and twenty4help, are based on long-term contracts and subscriptions. Our revenues are hardly affected by seasonal or economic fluctuations—as is the case, for example, with business models based purely on advertising.

■ Almost half of German households are now connected to the internet. The proportion is similarly high in most other industrialized nations. Does this not mean that United Internet is reaching the limits of its growth potential?

**Dommermuth:** No, not necessarily. Even if the number of new internet connections starts slowing down, this does not mean United Internet has reached its limits. Our business is not focussed on internet access, but on high-quality internet applications. The number of Internet Professionals using such applications is still relatively low. There is plenty of room here for further growth. And even Internet Professionals are still not using all applications currently available or soon to become available.

You can compare the situation with a road network. If the whole country is already covered with multi-lane motorways, this is maybe bad news for the construction companies but good news for car manufacturers. All indicators relevant to United Internet's development point to further growth with attractive earnings potential.

■ In the internet access business, almost all major suppliers are dependent on the networks of just a few major telecommunication companies. To what degree is United Internet also affected by this dependency?

**Dommermuth:** Our products are largely independent of access providing. United Internet offers its customers technical value-added products and services, which provide an added functional benefit. In addition to pure

internet access, for example, 1&1 provides a wide range of functionalities, such as domains, home pages, virus protection or online backup solutions. We develop, administer and operate all applications in our own data centers. On the basis of this model, even customers accessing the internet via other ISPs can still subscribe to our value-added applications.

**“All indicators relevant to United Internet’s development point to further growth with attractive earnings potential.”**

■ Which user groups do your products target?

**Dommermuth:** Our customers are Internet Professionals. That means communication-oriented private users, small offices/home offices (SoHos) and small to mid-size enterprises (SMEs). These customers use the internet functionally. They need our products in their private lives, for example, to process large data quantities—such as private music or film files—or to set up and administer attractive websites for their family, friends or local club. At

work, the internet has become an indispensable tool for many of our customers. It is therefore natural for them to have to pay for certain services and value-added products.

**„Our current market standing and financial capabilities have put us in a position to achieve even international growth from our own means. This will be the springboard for our future success.“**

■ Surely there are only a limited number of such private users with a high affinity for technology. Where do you see the real growth levers for the new United Internet?

**Dommermuth:** We expect the number of private IT professionals to more than double in the coming years. The more intensively people use the Internet, the greater the number of such “power users”. This trend can already be seen clearly today: we are attracting an increasing number of customers from our basic, free-of-charge services, such as free e-mail addresses provided by GMX, to other products—including fee-based subscriptions. We will gradually build up our relationship with such customers. Our penetration in the SoHo

segment will also continue to grow. In this segment, we expect customers to gradually change from simple home pages to more complex solutions, such as online shops or database applications.

■ ...which you develop yourself?

**Dommermuth:** Yes—United Internet is one of the few providers capable of developing and quickly launching its own software solutions. Thanks to our lean structures and tight project schedules, new product lines can be developed within just a few months. We aim to maintain our pioneering role in innovative, value-added products, without irritating the consumer by overloading them with features. With our product management expertise and extensive team of developers, we have earned a reputation as a major market innovator. We intend to maintain, and if possible, extend this lead in future.

■ Your Outsourcing brand twenty4help has ventured into a number of foreign markets over the past few years and now has offices in England, Sweden and the Netherlands. What role does international expansion play in the Group’s overall strategy?

**Dommermuth:** Internationalization is one of the key elements in our future growth plans. In contrast to the content and access business, our technical value-added products offer a number of decisive advantages. Due to widespread international standards, they are the only part of the internet value chain which can be exported without much need for adaptation. At the same time,

the needs of our premium target groups are very similar throughout the highly developed world.

■ Where exactly do you see the next possibilities for expansion?

**Dommermuth:** The launch of our Internet products in England has been very promising. In the long-term, we aim to establish subsidiaries on further major European markets—either through acquisition or by developing our own sites.

■ How do you plan to finance such acquisitions or expansions?

**Dommermuth:** We clearly illustrated the strength of our business model last year. Our current market standing and financial capabilities have put us in a position to achieve even international growth from our own means. This will be the springboard for our future success.

# The United Internet Share

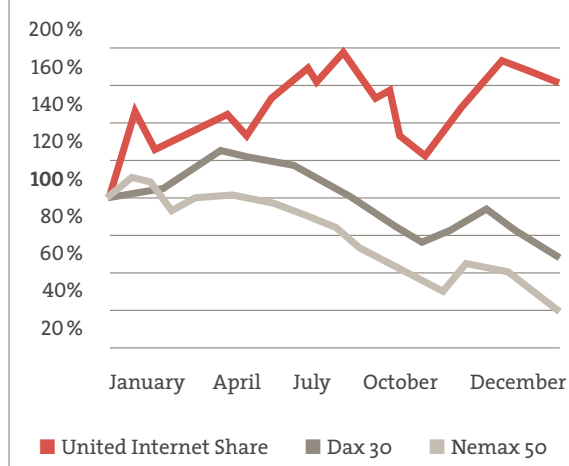
## First-ever dividend payment

At the Annual Shareholders' Meeting on May 16, 2003 the Executive Board and Supervisory Board will recommend a dividend of 50 cents (10 cents basic dividend plus 40 cents bonus) per share. This corresponds to an average of 10 cents per year since our IPO. We also plan to pay dividends in the coming years. The amount will depend on company earnings and on our ability to continue financing the company's strong organic growth from cash flow.

The company's strong development is reflected by the performance of the United Internet share. This clearly underlines the capital market's acceptance of our realignment as a premium ISP and documents the growing interest in our share as a result of the steady rise in sales and earnings. In 2002 the United Internet share succeeded in outperforming all comparative indices, such as the DAX and Nemax50, and finished the year as the most successful share in the Nemax50 (+ 51%).

United Internet's realignment was also warmly received by financial analysts and the media. This manifested itself in numerous purchase recommendations and positive press reports.

Share price 2002



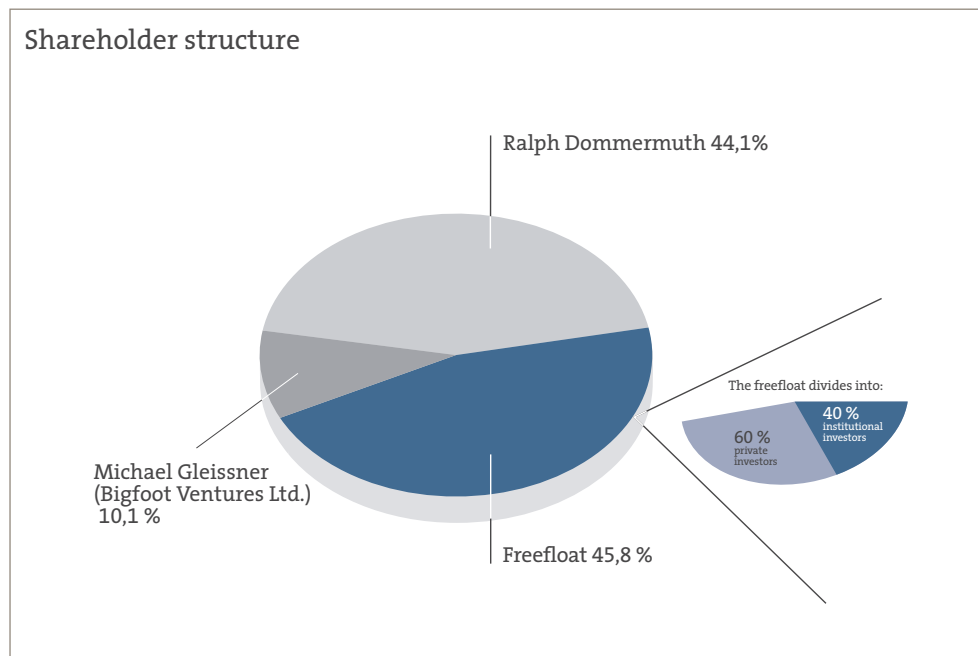
Stock	2002	2001
Year-end price	6.65 €	4.40 €
Performance over the year	+ 51%	+ 2%
Maximum price of the year	8.39 €	6.90 €
Minimum price of the year	4.37 €	2.05 €
Book value per share	2.06 €	1.37 €
Earnings per share (EPS)	0.66 €	-0.63 €
Number of shares (in million)	56.88	56.88
Market capitalization	€ 378.3m	€ 250.3m

## Stock facts

Share type	Registered common stock with a notional share of capital stock of 1,00 € each
Stock code (SIN)	508903
ISIN	DE0005089031
Symbol	EIE3
Issuing price	4,09 €

Stock exchange in 2002:	Frankfurter Wertpapierbörse
Segment:	Neuer Markt
Index:	Nemax 50

Stock exchange in 2003:	Frankfurter Wertpapierbörse
Segment:	Prime Standard
Index:	TecDax, Nemax 50



#### **New stock exchange segments— United Internet listed in TecDax**

United Internet welcomes the restructuring of the German stock exchange, which came into effect on January 1, 2003. In addition to the minimum legal requirements of the General Standard segment, the Prime Standard was established as a premium segment for companies meeting stricter obligations. The Prime Standard was intended for companies aiming to attract also international investors. United Internet has been fulfilling the stricter transparency requirements of the Prime Standard for a number of years now.

The restructuring also allowed the stock exchange to introduce a new family of indices, based on the companies of the Prime Standard segment:

The “Deutsche Aktienindex” (DAX) continues to include Germany’s 30 largest companies by stock exchange turnover

and market capitalization. Below the DAX, companies are divided into classic and technology sectors. The largest 50 companies in the classic sector are listed in the MDAX. The new TecDax index is designed for fast-growing technology companies, such as United Internet, and includes the 30 largest technology stocks below the DAX.

United Internet expects awareness among private and institutional investors to increase from its listing in the TecDax index.

At the selection date for TecDax companies United Internet was among the top ten TecDax companies with regard to its free-float market capitalization.

Due to the sustained growth and rising earnings of our business model, we are convinced that we will remain one of the leading companies in future.

# Company Chronicle 2002

## February

■ United Internet AG sells its shares in jobpilot AG to Adecco S.A. (Switzerland). The deal generates cash flow of € 18.7 million.

■ United Internet AG exercises its put option and sells 15 % of stock in AdLINK Internet Media AG to DoubleClick Inc. (USA). A further 21 % is transferred to a trustee. United Internet AG receives € 35.5 million.

## March

■ At the CeBIT computer fair, Microsoft and 1&1 present Europe's first communication solutions based on .NET hosting technology. The applications allow private and business users to connect their computers via the internet. By storing data centrally on internet servers at 1&1's high-performance data centers, users can work together more efficiently. The .NET applications provided by 1&1's data centers can be accessed by any PC and from any location.

■ Via 1&1, United Internet increases its share in Afiliac Inc., the registration organization for the new .info internet addresses. As part of a capital increase, United Internet increases its shareholding to 8.6 %, making it one of the new registrar's largest shareholders.

## May

■ At the annual shareholders' meeting, United Internet explains its realignment as a premium internet service provider and presents itself as an integrated internet group with powerful Internet Factory. In the growth market for technical value-added services and fast internet connections, United Internet now covers all high-margin areas of the internet value chain.

## June

■ United Internet's net bank liabilities of € 86.1 million at year-beginning are now paid off in full. The company's half-year accounts already show a positive credit balance of € 2.0 million.

## July

■ 1&1 presents a new application package: 1&1 FotoWeb enables users without any previous experience to publish photos on their home page in just three simple steps. The new solution package includes software for transferring photos to home pages, as well as storage space on our high-performance servers (web space) and optional hardware (digital camera).

**October**

- AdLINK reaches break-even and starts generating profits in its operating business.
- In addition to its e-mail and messaging solutions, GMX now offers internet access for different levels of usage.
- Schlund+Partner expands its product range. The premium brand now offers its business customers new e-business solutions, ASP applications (such as Microsoft Sharepoint and the content management system CM4all), as well as DSL broadband connections.

**November**

- GMX greatly expands its entire product portfolio. The product campaign "Next Generation (NG) Mail" focuses on the new fee-based product GMX TopMail NG as well as on new functionality for GMX FreeMail NG and GMX ProMail NG.
- 1&1 presents three new broadband rates. They enable DSL speeds of 1,536 kBit per second and are aimed equally at private and business users. Twice the speed of normal DSL, the new connections enable much faster download times.

**December**

- The United Internet Group now hosts three million domains and is thus one of the world's largest internet providers. With a market share of 37 %, Group member Schlund+Partner registers more .de-domains with DENIC than any other company.

# Product Segment

## Development of business

United Internet's Product segment continued its strong development in fiscal 2002. The value-added internet services and access tariffs of the segment's three brands—GMX, 1&1 and Schlund+Partner—are tailored to the needs of expert private users as well as to those of SoHos and SMEs. The three brands succeeded in defending or expanding their strong positions in nearly all target markets.

Sales in fiscal 2002 climbed by 58 % to € 210.9 million (prior year: € 133.9 million). At the same time, EBITDA more than doubled to € 54.4 million (prior year: € 25.3 million) and EBT more than tripled to € 40.9 million (prior year: € 12.2 million). These excellent results reflect the continued strong growth in customer figures (from 1.5 million accounts at year-end 2001 to 2.1 million at year-end 2002) as well as a number of other factors: firstly, the positive development of prices throughout the

internet sector due to increasing market consolidation and the trend to value-added, fee-based services; secondly, the economies of scale resulting from increasing use of our Internet Factory capacities, i. e. every extra customer produces a proportionately smaller increase in cost and thus makes our Product business more efficient—and more profitable.

The segment also benefited from consistently high demand for web hosting services and the dynamic growth of our internet access business—driven mainly by rising demand for DSL connections and aided by a marketing and product campaign launched in the third quarter of 2002. At a time when many of our competitors were forced to make savings, United Internet used the opportunity to greatly extend its position in the premium ISP segment. The company succeeded in convincing a growing number of customers—especially GMX users—to upgrade from free,

## Quarterly development in € million

	Q1/2002	Q2/2002	Q3/2002	Q4/2002	Q4/2001
Sales	44.3	47.4	52.0	67.2	40.8
EBITDA	11.9	13.9	14.7	13.9	10.2
EBT	9.2	10.9	10.9	9.9	6.9

basic services to more sophisticated, and thus fee-based services.

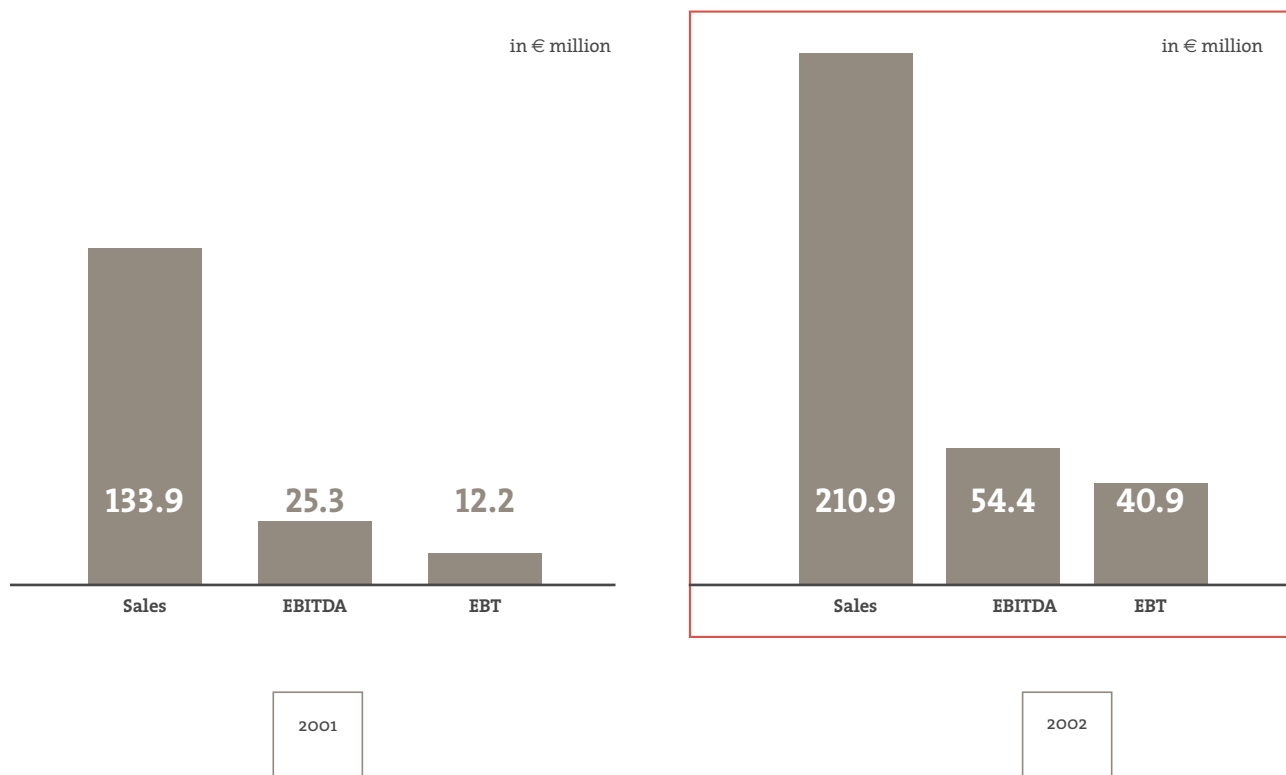
Our Product business will continue to benefit from several success factors in future:

- dynamic market growth and a clear trend toward increased data traffic, virtual data storage and generally higher-value Internet services,
- greater depth of production, covering the full internet value chain—from technical development through marketing to customer care,
- a full range of products enabling us to fully exploit market demand,
- stable sales revenues ensured by purely subscription-based business,
- the scalability of our Internet Factory,

- a strong innovative edge through our own product development,
- independence from third parties due to our own high-performance data centers,
- the separation of internet access and internet applications, enabling us to provide our value-added applications also to access customers of other ISPs.

**United Internet starts operation at new Karlsruhe data center**

The move to United Internet’s new data center in Karlsruhe, which began in late 2002, represents one of the biggest server relocations in the history of the internet. The move went according to plan and is expected to be largely



completed by April 2003. Over 3 million customer domains, administered by more than 10,000 servers, had to be transferred. Our high-performance data centers already host more internet domains than any other European computer facility. The new data center has boosted capacity to over 25,000 web servers. With a total investment volume of € 17 million, the facility provides the necessary flexibility to handle expected customer growth in coming years. Website owners and surfers directly benefit from the data center's new, even more powerful technologies. The computer rooms in Karlsruhe are given additional protection by improved power provision and air conditioning. The safety and availability of hosted websites has been further enhanced by state-of-the-art firewall and backup solutions.

#### **GMX launches new subscription rates**

GMX continued to extend its leading position in Germany in the field of e-mail and messaging and now administers over 14 million e-mail accounts (year-end 2001: 11 million). In 2002 GMX gained almost 90,000 paying customers, raising the total number of customers for fee-based services to over 130,000.

With its "GMX Next Generation (NG)" product campaign, launched in the fourth quarter of 2002, GMX added a new range of fee-based services as well as new functions for its core e-mail and messaging business. The company's new GMX TopMail NG product, for example, combines digital communica-

tion services with functions for storing and organizing documents, pictures and music files in a "digital file store". This virtual internet hard drive enables users to process their data from any location. By determining exclusive access rights, customers can also allow other users—even non-GMX customers—to use their files. GMX TopMail NG represents an intelligent combination of web mail services and multimedia data storage.

In addition to these core e-mail and messaging services, GMX also launched its own internet access tariffs on October 1, 2002—tailored specifically to the needs of GMX members. The new service comprises four rates for varying levels of internet usage. In addition to a standardized modem/ISDN rate, GMX also offers a variety of DSL tariffs.

The new product line extensions were well received by the company's target group. GMX is currently gaining over 15,000 customers per month for its new fee-based services.

#### **1&1: customer accounts doubled to 1.9 million since year-end 2000**

At the end of the period under review, 1&1 had almost 1.9 million active customer accounts (year-end 2001: 1.4 million). The brand has therefore almost doubled its customer base since the end of 2000. 1&1 attracts new customers via its highly efficient sales channels, such as the 1&1-ProfiSellers—one of Europe's largest direct sales networks with almost 150,000 sales agents. The company also uses direct marketing, supplements, advertise-

ments, cooperative marketing and online advertising.

At the 2002 CeBIT computer fair, 1&1 launched its new web-based services and applications using .NET technology. 1&1 is Microsoft's first certified partner in Europe for the services, which allow private and business users to store data centrally on our internet servers so that it can be shared with other users.

The brand's range of dedicated server services was extended in November 2002 with the presentation of the new Microsoft Windows server technology.

In fall 2002, 1&1 also launched new DSL rates for up to 10 gigabytes of data transfer per month and double-speed DSL connections. In fiscal 2002, 1&1's share of broadband internet connections rose with some 300,000 customers in Germany to almost 10 % of the market—thanks in part to the company's new "fair price" model.

In the past year, we successfully continued the international expansion of the 1&1 brand in Great Britain. In mid-2002 we extended our product range in this market with the addition of dedicated hosting services. 1&1 Internet Ltd. now registers every tenth new .co.uk domain. With over 75,000 customer accounts, 1&1 is already one of the top players on the UK market—in terms of new customers on a monthly basis, 1&1 is now number 2. We expect a further boost to growth in the coming years, as 1&1 gradually expands its product family on the UK market.

### **Schlund+Partner: new DSL tariffs for business customers**

United Internet's premium brand, Schlund+Partner, offers a full range of internet solutions for small to mid-size companies from a single source. Local customer support is provided by over 5,000 partner agencies.

In the past fiscal year, Schlund+Partner greatly expanded its product portfolio for business users in the growth segment of ASP applications. These applications allow companies to process part of their software functions via the internet. In 2002 the company also launched its content management system CM4all as well as DSL broadband connections tailored to the needs of small businesses. Together with the administered server and e-shop solutions it launched in 2001, Schlund+Partner has thus rounded off its range of premium solutions for SMEs.

Via the Schlund+Partner brand, United Internet remained market leader throughout the whole of 2002 in the field of .de domain registrations. At year-end 2002, United Internet hosted some 2.1 million .de domains at its high-performance data centers. In total, Schlund+Partner administered over 3 million domains as of December 31, 2002 and is therefore one of the world's top three registrars.

There was strong growth in web hosting, and in particular in dedicated hosting, which helped strengthen the company's market leadership last year. At year-end, Schlund+Partner admini-

stered some 10,000 dedicated and root servers—with approximately 1,000 new servers being added every month. United Internet now serves almost 60,000 small to mid-size companies via the Schlund+Partner brand.

### **Product segment outlook**

We have set ourselves ambitious targets in the Product segment and expect further dynamic growth in customer figures in the coming years. This growth will lead to a steady increase in both sales revenues and earnings. We aim to raise the number of fee-based customer accounts to some 2.8 million by the end of 2003. High growth rates are expected especially in the field of DSL connections, GMX subscriptions and dedicated hosting. New product lines and access tariffs are expected to generate further growth.

We also aim to push our ambitious international expansion program in the Product segment. We are carefully observing selected markets with similar internet conditions to Germany. Should we identify interesting opportunities with limited risks, we shall also enter new foreign markets.



# Outsourcing Segment

## Development of business

In the Outsourcing segment, which accounts for around 20 % of consolidated sales, United Internet utilizes its expertise in product management, software development and data center operation. These services are also marketed by Schlund Technologies to other ISPs as “white-label” products. In addition United Internet’s expertise in customer relationship management is so widely recognized that its twenty4help brand provides its extensive range of customer care services not only to internet and software companies. The company provides technical hotlines and internal user helpdesks also for customers such as AOL, Microsoft, Lexmark, Sharp, Datev and Sun Microsystems.

In contrast to the more recession-proof Product segment, the Outsourcing segment failed to escape the impact of a weak economy in fiscal 2002. Despite a 4 % decline in sales to € 69.8 million (2001: € 72.3 million), however, earnings remained relatively firm and

almost reached the high level of the previous year. Due in part to the timely introduction of cost-cutting measures, pre-tax earnings (EBT) reached € 10.5 million (2001: € 11.6 million).

## twenty4help

The economic downturn, a squeeze on costs and falling demand among several of twenty4help’s major customers, led to a decline in demand for technical hotline services in the past year. As a consequence, sales in the first three quarters of fiscal 2002 were down on the previous quarter, before recovering strongly in the fourth quarter. Timely adjustment to cost structures meant that the company succeeded in reaching an EBT margin of 15 %.

In the past year, the company expanded its business with existing customers by opening new centers in Madrid (Spain) and Strömstad (Sweden). twenty4help is now represented by 9 European locations and offers services in a total of 16 European languages.

## Quarterly development in € million

	Q1/2002	Q2/2002	Q3/2002	Q4/2002	Q4/2001
Sales	18.2	16.9	16.4	18.3	17.7
EBITDA	4.4	3.0	3.6	4.5	6.2
EBT	3.1	2.2	2.3	2.9	4.3

### Schlund Technologies

Under the Schlund Technologies brand, we offer a fully automatic software tool, with which resellers can register domains which they administer for customers. Schlund Technologies has now gained the custom of some 3,000 smaller ISPs and multimedia agencies.

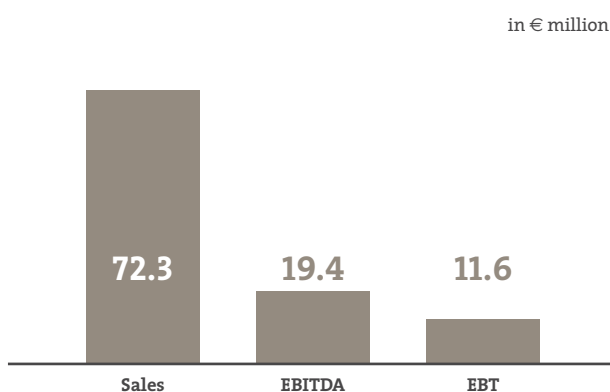
### Outsourcing segment outlook

twenty4help has established itself as an outsourcing expert in the field of information and communication technology by focussing clearly on its core competencies. As the “human interface” between new technologies and their users, twenty4help helps raise the availability and fully exploit the potential of digital systems. More professional cost management by

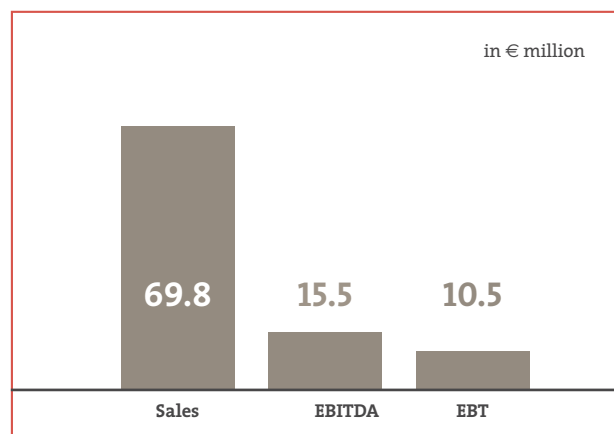
customers thus offers twenty4help the opportunity of generating new business, as outsourcing IT services often represents the more cost-efficient alternative for companies.

Schlund Technologies intends to gradually expand its product portfolio in the coming months. In addition to domains, the company plans to provide external ISPs with further value-added technical products from our Internet Factory.

On the basis of current developments in our business with new and existing customers, we expect increases in sales and earnings of our Outsourcing segment in 2003.



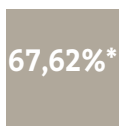
2001



2002

# Investments

## AdLINK Internet Media AG



[www.adlink.de](http://www.adlink.de)

AdLINK (SIN 549015) markets Internet advertising space and digital marketing concepts and is Europe's largest independent provider of digital, online communication solutions. In January 2002, AdLINK took over the European media business of its strategic partner DoubleClick Inc.

In 2002, AdLINK greatly strengthened its European position with major new accounts. The company's exclusive cooperation with OMS in Germany, Qualiclick in Switzerland and Publi-kompass in Italy added established media brands and greater reach to the company's marketing portfolio. In early 2003, the company succeeded in gaining a further high-reach, special-interest site: the German online travel agency "Expedia.de". AdLINK currently markets over 1,650 websites in 12 European nations with over 2.5 billion page impressions per month.

AdLINK once again suffered from the ongoing difficulties of the international advertising market. Nevertheless, the company succeeded in raising sales from € 24.5 million to € 39.2 million—partly as a result of the DoubleClick integration. Restructuring charges for the integration of DoubleClick's Europe-

an media business amounted to some € 7.0 million in 2002. Excluding once-only costs for the DoubleClick integration, the adjusted EBT figure amounted to € -8.7 million (prior year: € -21.9 million). In the fourth quarter of 2002, AdLINK posted its first-ever positive EBITDA result.

## fun communications GmbH



[www.fun.de](http://www.fun.de)

fun communications offers solutions for electronic banking, internet payment and IT security. The company also develops software for mobile end-devices and professional services. In the field of internet banking, fun communications has long been successfully established on the market: its product portfolio includes MobileFinancing for PDA's and mobile phones, tailored banking applications for home use and the development of server middleware enabling multibank-capable banking portals which support various platforms. The company's major customers include Telecom companies, banks and and also 1&1.

fun communications raised revenues during the past year and once again posted a strongly positive result in 2002.

\* 21 % deposited with trustee for call option held by DoubleClick Inc.

**imedia –  
Gesellschaft für neue Medien mbh**

40,00%

[www.imedia-online.de](http://www.imedia-online.de)

imedia operates the online platform [www.affili.net](http://www.affili.net), which enables companies to run and administer internet affiliate programs. imedia acts as an intermediary between affiliate program operators (merchants) and their partners (website owners, or affiliates). Affiliate programs offer the possibility of presenting products on a partner's home page. The merchant pays the affiliate a commission for every purchase, of which imedia also receives a share. Over 125,000 registered affiliates in 18 categories generate more than one billion page impressions per month. [affilinet](http://affilinet) is successfully used as an additional online sales channel by a wide variety of companies, including eBay, Scout24, o2, Deutsche Post WorldNet, Neckermann-Reisen, Schober Direktmarketing and PrimusOnline.

In the past fiscal year, imedia achieved a strong increase in sales and posted positive earnings—following a loss in the previous year.

**Metropolis AG**

43,96%

[www.metropolis-ag.de](http://www.metropolis-ag.de)

With over 1.6 million members, Metropolis operates the largest German-language online community via its [www.metropolis.de](http://www.metropolis.de) site. The know-how and technology the company has built up over the years now form the basis for its m:community project business. This modular m:community technology has already been used to create communities for ZDF, n-tv, Wella and NDR. Clients can choose and combine a variety of elements, including chatrooms, forums, homepage generators, FTP uploads, guestbooks, profiles, diaries, chatmails or postcards. m:community technology is offered as a resource-saving ASP solution. By using traffic syndication (docking of customer community with [metropolis.de](http://metropolis.de)), the community start process is accelerated and fee-based products can be activated as requested.

In 2002, Metropolis greatly expanded its share of the B2B sector and now generates over 50% of sales in this segment. The company more or less broke even over the year as a whole.

## NT plus AG

40,23%

[www.ntplus.de](http://www.ntplus.de)

Germany's leading IT/TC distributor, NT plus supplies over 7,000 products of more than 60 manufacturers and network operators via its 5,000 telecommunication and IT specialists. As a "value-added distributor" NT plus indirectly markets such products as fixed-line, end-user devices, office equipment, TC systems, car infotainment, mobile communication and IT. The company's service center helps its partners in the specialist retail trade with the professional, indirect marketing of fixed-line, internet and mobile phone connections. NT plus also supports its partners with professional marketing activities and an extensive range of training programs. The NT plus Group also includes Phonet Telecom AG, as well as its subsidiaries ABC Großhandels-gesellschaft mbH and Phonet Telecom Austria.

Despite adverse conditions, NT plus fared considerably better than the sector as a whole in 2002. With sales of € 433 million, the company even exceeded its record revenues of the previous year. The company posted positive operating results.

## Sedo GmbH

41,04%

[www.sedo.de](http://www.sedo.de)

With a total of 1.6 million domains, Sedo is the leading player in the secondary market for domains. The company has set itself the task of simplifying the transfer of "pre-registered" domains and optimizing the transaction process. Sedo offers a wide range of services for the purchase and sale of domains. It also operates domain watchlists, acts as a domain search engine and provides individual value appraisals. The Sedo exchange is integrated directly into 1&1's order and registration processes.

In fiscal 2002, Sedo greatly extended its market lead while boosting sales. Founded in 1999, the company achieved profits in every quarter of 2002.

■ **I. Management Report and Group Management Report**

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# General Economic Development and Sector Trend

## GENERAL ECONOMIC DEVELOPMENT

In 2002 the economy remained in the grip of a recessionary phase, which had begun in late 2000 and spread to virtually all areas of the global economy. The green shoots of recovery which had appeared in early 2002, failed to take root during the course of the year. The economies of the European Union and the USA continued to suffer from low levels of investment. Growth expectations in Germany were dealt a further blow last year. With real growth of just 0.2 %, Germany recorded its lowest growth rate since 1993. Following a meager 0.6 % growth in the previous year, the German economy was well below its ten-year average of 1.3 %. The only sector driving the economy last year was foreign trade. While exports grew by 2.9 %, however, weak domestic demand meant that imports increased by just 1.3 %.

There were a number of identifiable causes for the economy's sluggish performance last year—quite apart from the incalculable consequences of September 11, 2001 and the Iraq crisis. Firstly, consumer spending fell by 0.5 %, following a modest 1.5 % in 2001. This reluctance of private households to spend on consumer goods is one of the major causes for Germany's current economic woes. Consumers have

lost confidence in the country's economic future. Discussions about real or imaginary price rises caused by the change in national currency, from deutschmark to euro, were as much to blame as additional tax burdens, such as the new eco-tax.

At the same time, the country's labor situation continued to deteriorate. In the past year, some 38.7 million people were in employment—250,000 less than in the previous year. There was also a renewed decline in gross spending on plant and equipment, which fell by 6.4 % compared with the previous year. Capital spending had already fallen by 5.3 % in 2001. This period of low investment has not yet come to an end. Economists continue to cite excess capacity, falling profits and weak demand as the major causes. Business confidence is also hampered by continued uncertainty about future developments, and especially concerning possible new tax burdens.

## SECTOR TREND

### West European IT market posts slight growth

The end of dot.com euphoria plunged the IT sector into deep recession in 2001, from which it failed to recover in 2002. In the past year, the German market for information technology

and telecommunication (IT/TC) shrank by 1.3 % to € 136 billion. Germany was therefore one of the weakest markets in international comparison. Whereas the West European IT/TC market grew by a mere 1.1 %, sales in the USA rose by 3.2 % and in Japan by 4.4 % during the same period. Total global sales in 2002 reached around € 2,365 billion (+3.2 %). In general, there was a shift in demand from hardware to software and services. Investments in data communication and network infrastructures already fell strongly in 2001 and continued to decline in the past year by some 9.1 %. Many major network operators made debt reduction their chief priority—as a consequence there was less money to spend on investing in infrastructure networks.

#### **Dynamic growth of internet market**

In spite of these adverse economic conditions, the internet continued its rapid development almost unchecked. At 10 %, however, user growth in Europe and North America failed to reach the heady pace of previous years. Almost half of all German households are now connected to the internet. Some 600 million people around the globe have internet access. According to studies by Forrester Research, the number of internet users in Europe—whereby Germany remains the most important internet market—has reached 190 million, and thus exceeds slightly the number in North America (187 million).

All market forecasts point to strong growth in one particular segment:

broadband connections are growing at a much faster rate than the overall market. Greater network bandwidths and internet connection speeds will lead to higher-quality applications and larger data volumes.

There was already strong growth in the number of DSL connections in 2002. Within just one year, the number of these fast, broadband connections almost doubled. All currently available forecasts indicate that this trend to broadband internet connections will continue. Forrester Research forecasts an increase in the number of German broadband users to 9.3 million by the year 2005. A study by Frost & Sullivan predicts that the number of broadband connections in Europe will rise from 10 million last year to 28.1 million in 2006. And a market analysis by IDC forecasts that by 2006 over 60 % of all internet users will be using broadband connections. In comparison to users of normal modem connections, broadband customers spend almost three times more time on the internet and visit almost four times more sites.

2002 also saw the first signs of a further technological mega-trend: mobile internet. Wireless Local Area Network technology (WLAN) is currently displaying extremely high growth rates. According to the Gartner Group, almost 68 % of all mobile PCs will be equipped with integrated WLAN access by 2007. Due to the growing number of WLAN connection nodes, Frost & Sullivan estimates that some 20 million Europeans will be able to access the internet via hand-held computers or

laptops in hotels, airports, restaurants, trade fairs or shopping centers in the next few years. These users are generally not internet novices, but experienced internet professionals—a key target group for United internet. In future, users will enjoy broadband internet access almost everywhere—and with the aid of GPRS or UMTS, even with any end-user device.

Broadband internet with mobile access opens up new, data-intensive applications—both for private end-users and small to mid-size enterprises (SMEs). Strong growth is also expected globally from companies transferring to internet-based applications run by service providers. According to the market research institute IDC, almost every second European company plans to use web hosting and storage solutions offered by service providers in the next 20 months. More than half of all European IT managers see clear advantages for their companies from using web-

based services. These include closer customer and partner relationships and the possibility to provide services faster and more cheaply.

Whereas charts and text-based information represented the technical standard until recently, it is now digital photos and will soon be films, animations and music files. IDC estimates that by 2006 over 40 million consumers world-wide will regularly obtain their music from the internet—and pay for it.

The online sector will receive further impetus from a variety of technical innovations aimed at extending the internet's capabilities. This clearly indicates a further megatrend: growth in storage volumes, data transfer and the need for value-added services. This is exactly United internet's core business. Every indicator influencing our business therefore points to further growth and excellent earnings potential.

## Business Development

### Success of realignment

2002 was a very successful year for United internet. Despite a weak economy and the third consecutive year of high stock market losses, United Internet posted its best-ever annual results. The operating targets for fiscal 2002 set at the beginning of the year were raised twice during the year—and yet still exceeded. United Internet was thus able to uncouple itself, to a large

extent, from the effects of a sluggish economy.

United internet's excellent sales and earnings figures underline the success of the company's repositioning as a premium internet Service Provider (ISP). Presented in May 2002, the realignment marked the end of a transition process started in 2001—from a management holding company

with a network of affiliates to an operating company with two highly profitable business segments. The company's Product and Outsourcing segments are complemented by its Head Office / Affiliates division, in which it holds minority interests in related specialist companies as well as in AdLINK Internet Media AG.

In its Product segment, the Group markets technical, value-added internet services for discerning private users and SMEs under its premium brands GMX, 1&1 and Schlund+Partner. In the Outsourcing segment SchlundTechnologies markets these services as preprepared "white label" products to other ISPs. This segment also includes the high-quality customer relationship services provided by twenty4help.

At the heart of our new business model—which was very well received by both the capital markets and the media—is a powerful internet Factory producing technical value-added services. By realigning its business model, United Internet has positioned itself in a global growth market and now covers the most lucrative segments of the internet value chain.

The Group's dynamic growth in 2002 was driven by a strong increase in fee-based customer contracts in its Product segment. By the end of 2002, the company had achieved 2.1 million active customer accounts. By providing high-quality products, United Internet was able to strengthen the bonds with its customers and keep the churn rate as low as possible.

Customer growth was boosted by an increase in product and marketing campaigns in the second half of 2002. United internet is the clear market leader for value-added internet applications and succeeded in widening the gap once again to its competitors.

#### **Consolidated sales and earnings**

In fiscal 2002 consolidated sales of the United Internet Group rose by almost 39 % to € 320.0 million (prior year: € 230.7 million). Earnings in 2002 also underline the efficiency of the repositioning completed in the first half of the year. The company posted clearly positive pre-tax earnings (EBT) in all four quarters of 2002, whereby the development of earnings reflected increasing economies of scale from greater use of the Group's internet factory.

After elimination of special items, earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 160 % to € 62.0 million (prior year: € 23.8 million). The corresponding EBT figure improved from € -42.6 million last year to € 38.8 million.

This growth was driven mainly by a strong increase in fee-based customer contracts in the Product segment—with the brands GMX, 1&1 and Schlund+Partner. In October 2002, the number of paid subscriptions reached the 2-million mark. United Internet is increasingly steering its customers away from free services and toward higher-value, pay-to-use services. Sales in the Product segment climbed 58 % to

€ 210.9 million (prior year: € 133.9 million). At € 40.9 million, EBT was up 235% on the previous year (€ 12.2 million).

In the company's Outsourcing segment, with the brands twenty4help and Schlund Technologies, business was affected more strongly by the ongoing weakness of the economy. As a service provider to other companies, twenty4help was hit by the sales difficulties experienced by many of its clients. Sales in this segment fell to € 69.8 million (prior year: € 72.3 million). Due to the timely introduction of cost-cutting measures, however, pre-tax earnings remained relatively stable at € 10.5 million—just € 1.1 million below the prior year's excellent EBT result of € 11.6 million.

#### **Positive special item balance**

As a consequence of its realignment strategy, United Internet sold shares in a number of minority holdings during the past fiscal year. Our 26-percent holding in jobpilot was sold to Adecco in May 2002. In January 2002, DoubleClick acquired 15 % of AdLINK's share capital from United Internet. The company transferred a further 21 % of AdLINK shares to a trustee, as specified in an agreement signed with DoubleClick in November 2001. As part of this business combination agreement with DoubleClick, United Internet made a voluntary purchase offer during the second quarter of 2002 for part of the free float shares in AdLINK. In total, United Internet acquired 1,377,771 shares for around € 5.3 million and held 46.62 % of

AdLINK's share capital directly as of December 31, 2002.

The sale of shares during the year, the restructuring charges for AdLINK's integration of DoubleClick's media business and a valuation adjustment at year-end resulted in a positive special item balance of € 2.3 million. As a result, the adjusted EBITDA figure for 2002 amounted to € 67.2 million (prior year: € 23.8 million), while pre-tax earnings (EBT) reached € 41.1 million (prior year: € -42.6 million). Including special items, earnings per share (EPS) totaled € 0.66 (prior year: € -0.63).

#### **Cash flow**

The company's growing profitability is also reflected in the strong positive development of operative cash flow. During the period under review, it rose by 256 % to € 54.4 million (prior year: € 15.3 million). This development is a clear indication of the underlying economies of scale which result from greater use of our internet factory capacities. There were further additions to cash flow from the sale of shares in AdLINK and jobpilot. This inflow of cash not only allowed United internet to repay its bank liabilities, but also to make its largest-ever investments in new plant and equipment from cash flow.

#### **Capital expenditures**

Investment in 2002 focussed on expanding infrastructures in the Product segment as well as AdLINK's purchase of DoubleClick's European media business

in the first quarter of 2002. A total of € 32.8 million was invested in tangible and intangible assets, including some € 17 million for the construction of a new data center in Karlsruhe. The new center secures the basis for further steady growth in customer accounts in the Product segment and offers sufficient space for over 25,000 servers. The move began in November 2002 and is

due to be completed by April 2003. There are currently 14,000 servers under administration in United Internet's data centers. Up to 1,000 new servers are added every month.

#### Personnel

Due to the encouraging development of business, the number of employees rose

#### United Internet AG – Consolidated Income Statement according to US-GAAP

Quarterly development in € million

	Q1/2002	Q2/2002	Q3/2002	Q4/2002	Q4/2001
Sales	70.9	74.8	77.1	97.2	65.5
Cost of sales	-44.1	-45.0	-44.5	-57.5	-43.9
<b>Gross profit</b>	<b>26.8</b>	<b>29.8</b>	<b>32.6</b>	<b>39.7</b>	<b>21.6</b>
Selling expenses	-10.6	-12.2	-13.3	-18.2	-8.3
General administrative expenses	-9.0	-9.4	-8.5	-10.9	-9.8
Restructuring charges	-5.5	-1.5	0	0	-0.5
Other operating income / expenses	12.0	10.2	-0.4	-7.2	2.9
Amortization of goodwill	0	0	0	-2.2	-8.1
<b>Operating result</b>	<b>13.7</b>	<b>16.9</b>	<b>10.4</b>	<b>1.2</b>	<b>-2.2</b>
Interest and similar expenses	-0.8	-0.8	-0.6	-0.6	-0.8
Interest and similar income	0.4	0.5	0.5	0.2	0.0
Result from associated companies	0.1	0.1	-0.2	0.1	0.3
<b>Result from ordinary activities</b>	<b>13.4</b>	<b>16.7</b>	<b>10.1</b>	<b>0.9</b>	<b>-2.7</b>
<b>Pre-tax result</b>	<b>13.4</b>	<b>16.7</b>	<b>10.1</b>	<b>0.9</b>	<b>-2.7</b>
Income taxes	-4.0	-4.0	-4.4	3.7	5.3
<b>Net income</b>	<b>9.4</b>	<b>12.7</b>	<b>5.7</b>	<b>4.6</b>	<b>2.6</b>
Minority interests	4.0	0.9	1.5	-1.5	1.7
<b>Income after minority interests</b>	<b>13.4</b>	<b>13.6</b>	<b>7.2</b>	<b>3.1</b>	<b>4.3</b>
Result per share (in €), basic	0.23	0.24	0.13	0.06	0.08
Weighted average shares (in million), basic	56.88	56.88	56.88	56.88	56.88
Result per share (in €), basic	0.23	0.24	0.13	0.05	0.08
Weighted average shares (in million), basic	56.88	56.88	57.20	57.20	56.88

in the past fiscal year. As of December 31, 2002 United Internet employed a total of 3,195 people (prior year: 2,886), of which 892 were employed outside Germany (prior year: 631). At year-end 2002, the United Internet Group employed a total of 60 trainees and apprentices (prior year: 61).

#### **Sales and earnings of parent company**

In the period under review, sales of the parent company amounted to € 3.0 million (prior year: € 2.4 million). These revenues result mainly from services provided to the Group's subsidiaries, as well as from cost allocations.

Pre-tax earnings of United Internet AG (parent company) reached € 84.6 million, compared with a pre-tax loss in the previous year of € 14.7 million. This improvement in EBT resulted from the excellent earnings of the operating subsidiaries 1&1 Internet AG and twenty4help Knowledge Service AG, with whom profit transfer agreements have been signed, as well as from extraordinary earnings resulting from the sale of shares in jobpilot and AdLINK.

#### **Bank liabilities reduced to zero**

Due to the strong progress of the Group's operating divisions and cash flows of € 54.2 million from the sale of investments, United Internet AG was able to repay all outstanding bank liabilities in fiscal 2002. These liabilities amounted to € 86.1 million at year-end 2001. By December 31, 2002 the Group held positive bank balances of € 16.8 million. The equity ratio rose

from 36.1 % at year-end 2001 to 85.3 % on December 31, 2002.

#### **Proposed total dividend of 50 cents per share**

At the annual shareholders' meeting, the Management Board and Supervisory Board will propose the payment of a basic dividend of 10 cents and a bonus dividend of 40 cents per share for fiscal 2002. The Group's greatly improved earnings enable it to pay its first dividend since going public in March 1998. United Internet plans to pay further dividends in the coming years. The size of these dividends will depend on earnings and the Group's ability to finance its strong organic growth from cash flow.

#### **Investments**

In addition to its core business in the Product and Outsourcing segments, United Internet also holds minority interests in specialist companies which complement the Group's core activities. In 2002 these minority shareholdings made a positive contribution to consolidated earnings.

As of December 31, 2002 the United Internet Group owned minority interests in fun communications GmbH (shareholding: 33.33 %), imedia—Gesellschaft für neue Medien mbH (40.00 %), Metropolis AG (43.96 %), NT plus AG (40.23 %) and Sedo GmbH (41.04 %). After already selling 15 % of AdLINK's share capital directly to DoubleClick Inc. in early 2002 and transferring a further 21 % to

a trustee of DoubleClick as part of a call option, United Internet currently holds 46.62 % of voting capital in AdLINK Internet Media AG. The call option can be exercised by DoubleClick without further payment before April 30, 2004, if AdLINK reaches contractually agreed earnings targets.

AdLINK acquired and integrated the European media business of DoubleClick in fiscal 2002. Despite the necessary restructuring processes for integration and the continued slump in media sales, the company made modest progress in its operating business.

AdLINK once again suffered from the ongoing difficulties of the international advertising market. Never-

theless, the company succeeded in raising sales from € 24.5 million to € 39.2 million—partly as a result of the DoubleClick integration. Restructuring charges for the integration of DoubleClick's European media business amounted to some € 7.0 million in 2002. Including these restructuring charges, EBITDA in 2002 reached € -10.4 million (prior year: € -15.2 million), while EBT improved to € -15.7 million (prior year: € -21.9 million). Excluding once-only costs for the DoubleClick integration, the adjusted EBITDA figure amounted to € -3.4 million (prior year: € -15.2 million) and adjusted EBT € -8.7 million (prior year: € -21.9 million). In the fourth quarter of 2002, AdLINK posted its first-ever positive EBITDA result.

## Risk Report

### Risk management

United Internet's business activities are subject to a number of risks connected with technological progress in a dynamic market and competitive environment. In order to identify, evaluate and control the business risks emanating from these market conditions and from its own business activities, United Internet has established a risk management system which is implemented in accordance with the requirements of the German Business Monitoring and Transparency Act (KonTraG). With the aid of a comprehensive reporting and early-warning system, potential dangers and risks to

the Company's further existence can be recognized and dealt with at an early stage.

For United Internet, risk management means systematically identifying, analyzing, documenting and evaluating all relevant risks. The company's risk management system is closely integrated into its existing organizational structures and those of its subsidiaries.

United Internet's risk management organization is operated by the Group's subsidiaries and their respective processes and structures. They are

responsible for identifying and evaluating all risks in their area of responsibility as well as for formulating and implementing measures to deal with these risks. They are supported in this function by both central and local risk managers.

United Internet has established a management circle on the subject of risk management, which is responsible for the ongoing development of the Group's risk management system and its adaptation to changing market and risk situations. The risk management team, which includes the CFOs of the Group's subsidiaries as well as the risk managers themselves, reports directly to the CFO of United Internet AG, who also leads the group. The CFO informs and confers with his colleagues on the Management Board of United Internet AG with regard to all activities concerning the Group's risk management system.

United Internet AG regards efficient and forward-looking risk management as an important, value-adding activity. Risk management is one of the core aspects of United Internet's business approach and a decisive element in securing the company's long-term success.

#### **General economic and sector risks**

The most significant potential risks in connection with United Internet's business activities are the influence of the market and its competitors. Despite the relative strength of the company's operating business in

comparison to the overall market, United Internet is still dependent on the general economic situation as well as on the technical and business developments on its relevant markets, and especially the internet market. In the Outsourcing segment, twenty4help was affected by the economic downturn experienced by the IT/TC sector. Should the market continue to suffer, the willingness of clients to continually invest in customer relationships may begin to decline. This would have a negative impact on sales and earnings in the Outsourcing segment.

One condition for the success of United Internet is the wide acceptance of, and demand for, digital systems in general, and the internet in particular. Should there be strong rejection or a decline in trust, this might also negatively impact the business of United Internet. Decisions taken by the German Regulatory Authority for Telecommunications and Posts, which directly or indirectly affect internet access tariffs, represent a possible risk for United Internet's Product segment.

#### **Operating and technical risks**

United Internet's core business is stable in both its Product and Outsourcing segments: twenty4help has been providing its clients with support services for many years; GMX, 1&1 and Schlund+Partner offer fee-based access, hosting and value-added services purely on a subscription basis. Firm and long-standing customer relationships in both segments minimize the risk of a sudden collapse in market

demand or company sales. The Group's own data centers and depth of production of its internet factory (own product development, data center operation, marketing, sales, billing, customer care) have given United Internet a technological and competitive advantage in its Product segment and raised market entry barriers for new suppliers even higher. This depth of production also means that the Group is virtually independent of service providers and "suppliers".

There are possible risks from successful attacks on the technical infrastructure of companies belonging to the United Internet Group. Even though we have taken all imaginable precautions to guarantee the safety and availability of data, the risk of damage being caused to United Internet services by hackers or PC viruses still remains. The Group's image, and thus its operating business, may also be damaged by breakdowns in internet infrastructure, such as backbones, distribution servers, peering points or connections of United Internet data centers, which lead to longer response times or non-availability of United Internet services.

#### **Personnel risks**

The performance of our employees is a key determinant for the success of United Internet. There is intense competition on the labor market, especially for skilled and motivated employees or managers with industry experience. There is no guarantee that the company will be able to recruit, integrate and keep such skilled labor. The loss of

key employees could have a negative influence on United Internet. The company counters such personnel risks by offering an employee stock ownership plan and active personnel development.

#### **Investment and financial risks**

Since United internet's realignment as a premium ISP, risks from investment activities have decreased considerably and now only have a limited potential impact on the development of the Group as a whole. In the case of our investment in AdLINK Internet Media AG, sales and earnings are dependent to a large degree on the development of the general market, and in particular on that of the online advertising market.

With the aid of income from the sale of investments in early 2002 and from its operating business, United internet AG was able to pay off its complete bank liabilities by the middle of the year and thus significantly improve its balance sheet structure. As of December 31, 2002 the company's credit balances totaled € 16.8 million. The risk of interest rate fluctuations therefore affects both the investment of credit balances as well as possible new bank loans. In addition, currency risks from our foreign transactions cannot be ruled out.

# Outlook

## Subsequent events

The conditions on United Internet's target markets, and especially the positive prospects for future sales and earnings in our Product segment, have remained unchanged since the period under review ended. There have been no subsequent events since year-end which have significantly altered the business situation of United Internet.

## Anticipated developments

United Internet currently enjoys stable growth, which may gain pace as a result of further economies of scale. High growth rates are expected, in particular, in the field of web hosting and internet access. All current market and technology studies forecast that broadband access, in particular, will grow even faster in future and add further impetus to the development of United Internet. The future will belong to broadband technology, an area in which United Internet will expand and strengthen its position, especially with regard to DSL connections. United Internet intends to utilize these excellent prospects in order to export its successful business model increasingly to foreign markets.

## Outlook

United Internet is optimistic about its future prospects. This optimism is based on the wide market coverage it already enjoys, based on its strong brands and effective marketing and sales model. The company's highly effi-

cient internet factory, with its own technology and software development, adds further impetus to the company's business model. The company also plans to export this business model increasingly in future. We are still in the early phase of our international expansion program. United Internet sees considerable potential especially in Great Britain.

We plan to achieve significant growth in sales during fiscal 2003. This growth will be driven by a strong increase in revenues generated by our Product segment. Following a period of more stable revenues in the fourth quarter of 2002, we expect modest growth in our Outsourcing segment in fiscal 2003. Sales of the business segment Affiliates/Head Office are determined by revenues of our fully consolidated investment in AdLINK Internet Media AG. We anticipate a strong improvement in earnings in this segment during fiscal 2003, although no significant improvement is expected in the overall advertising sector.

In the medium term, we aim to achieve an EBT margin of 15 % to 20 % in our Product segment and 12 % to 15 % in the Outsourcing segment.

■ **II. Consolidated Financial Statements according to US-GAAP**

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**United Internet AG – Consolidated Balance Sheet** for the year ended December 31, 2002 and 2001 in €k

**ASSETS**

	<b>December 31, 2002</b>	<b>December 31, 2001</b>
<b>Current assets</b>		
Cash and cash equivalents	32,379	69,765
Accounts receivable and other assets (Note 11)	65,990	63,760
Inventories (Note 10)	3,984	2,062
Prepaid expenses	9,029	7,121
Deferred tax asset (Note 20)	6,420	14,579
	<b>117,802</b>	<b>157,287</b>
<b>Non-current assets</b>		
Equity investments (Note 9)	12,543	11,792
Other financial assets	1,801	5,930
Property, plant and equipment (Note 8)	35,575	30,390
Intangible assets (Note 7)	8,312	11,196
Goodwill (Note 7)	61,787	52,753
	<b>120,018</b>	<b>112,061</b>
<b>Total assets</b>	<b>237,820</b>	<b>269,348</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable, trade	29,452	18,226
Liabilities due to banks (Note 12)	373	73,235
Advance payments received	0	214
Other liabilities (Note 14)	19,624	21,532
Accrued taxes	5,795	9,824
Other accrued liabilities	18,574	16,985
Deferred revenue (Note 15)	24,888	25,114
	<b>98,706</b>	<b>165,130</b>
<b>Non-current liabilities</b>		
Convertible bonds	2,037	2,425
Liabilities due to banks (Note 12)	3,577	7,749
Deferred revenue (Note 15)	3,396	1,089
Other liabilities (Note 14)	0	1,682
	<b>9,010</b>	<b>12,945</b>
<b>Total liabilities</b>	<b>107,716</b>	<b>178,075</b>
<b>Minority interests</b>	<b>13,018</b>	<b>13,293</b>
<b>Equity</b>		
Stock capital (Note 6)	56,882	56,882
Subscribed capital (Note 6)	865	0
Additional paid-in capital	117,515	116,791
Accumulated deficit	-95,515	-59,712
Net income / loss	37,305	-35,803
Outstanding, unrealized compensation for employee stock ownership program	-156	-47
Currency translation adjustment	190	-131
<b>Total equity</b>	<b>117,086</b>	<b>77,980</b>
<b>Equity and liabilities</b>	<b>237,820</b>	<b>269,348</b>

**United Internet AG – Consolidated Income Statement according to US-GAAP**

for January 1, 2002 to December 31, 2002, in €k

	<b>2002</b>	<b>2001</b>
Sales (Note 15)	319,976	230,726
Cost of sales	-191,134	-149,102
<b>Gross profit</b>	<b>128,842</b>	<b>81,624</b>
Selling expenses	-54,360	-46,818
General administrative expenses	-37,787	-35,189
Restructuring charges (Note 19)	-6,968	-2,136
Other operating income / expenses (Note 18) -17,054		14,631
Amortization of goodwill (Note 7)	-2,204	-17,528
<b>Operating result</b>	<b>42,154</b>	<b>-37,101</b>
Interest and similar expenses	-2,791	-2,979
Interest and similar income	1,630	1,045
Result from associated companies (Note 9)	59	-3,604
<b>Pre-tax result</b>	<b>41,052</b>	<b>-42,639</b>
Income taxes (Note 20)	-8,661	1,215
<b>Net income / loss</b>	<b>32,391</b>	<b>-41,424</b>
Minority interests	4,914	5,621
<b>Loss / income after minority interests</b>	<b>37,305</b>	<b>-35,803</b>
Result per share (in €)		
– basic	0.66	-0.63
– diluted	0.65	-0.63
Weighted average number of shares outstanding		
– basic	56,881,887	56,881,887
– diluted	57,203,387	56,881,887

## United Internet AG – Development of Consolidated Equity

	Common stock Denomination	€k	Contribution for capital increase €k	Additional paid-in capital €k
Balance as of December 31, 2000	51,680,000	51,680	0	109,323
Capital increase through contribution in kind	5,201,887	5,202	-	7,751
Additional IPO expenses of AdLINK	-	-	-	-195
Adjustment of the intrinsic value shown as part of the capital reserve resulting from options granted in the context of the employee stock ownership program	-	-	-	-88
Currency translation adjustment 2001	-	-	-	-
Net loss 2001	-	-	-	-
<b>Comprehensive Loss</b>				
Balance as of December 31, 2001	56,881,887	56,882	0	116,791
Exercise of conversion rights	-	-	865	-
Additional IPO expenses of AdLINK	-	-	-	-184
Adjustment of the intrinsic value shown as part of the capital reserve resulting from options granted in the context of the employee stock ownership program	-	-	-	908
Currency translation adjustment 2002	-	-	-	-
Net income 2002	-	-	-	-
<b>Comprehensive Income</b>				
Balance as of December 31, 2002	56,881,887	56,882	865	117,515

Outstanding compensation for employee stock ownership program €k	Currency translation adjustment €k	Retained earnings/ Accumulated deficit €k	Total equity €k	Comprehensive Income / Loss €k
-128	-77	-59,712	101,086	-
-	-	-	12,953	-
-	-	-	-195	-
81	-	-	-7	-
-	-54	-	-54	-54
-	-	-35,803	-35,803	-35,803
				-35,857
-47	-131	-95,515	77,980	
-	-	-	865	-
-	-	-	-184	-
-109	-	-	799	-
-	321	-	321	321
-	-	37,305	37,305	37,305
				<b>37,626</b>
<b>-156</b>	<b>190</b>	<b>-58,210</b>	<b>117,086</b>	

**United Internet AG – Consolidated Statement of Cash Flows according to US-GAAP**  
from January 1, 2002 to December 31, 2002 in €k

	<b>2002</b>	<b>2001</b>
<b>Cash flow from operating activities</b>		
Income/loss after minority interests	37,305	-35,803
<b>Adjustments to reconcile net profit/loss to net cash provided by operating activities</b>		
Depreciation and amortization	22,802	19,770
Goodwill amortization	2,204	17,528
Write-downs on investments in associated companies	0	6,663
Write-downs on loans to associated companies	0	16,937
Compensation expenses from employee stock option plans	799	-6
Not distributed profits/not equalized losses of associated companies	-59	3,604
Distributed profits of associated companies	100	77
Minority interests	-4,914	-5,621
Change in currency translation adjustments	321	-54
Change in deferred taxes	8,159	-5,236
Gain from the sale of shares in associated companies	-8,684	-3,195
Gain from the sale of shares in affiliated companies	-3,500	0
Non-cash expenses / income	-134	682
<b>Total</b>	<b>54,399</b>	<b>15,346</b>
<b>Changes in assets and liabilities</b>		
Change in receivables and other assets	2,602	-3,100
Change in inventories	-1,923	701
Change in deferred expenses	-1,733	-1,088
Change in accounts payable, trade	7,088	-5,523
Change in advance payments received	-214	18
Change in other accrued liabilities	1,589	-936
Change in accrued taxes	-4,030	5,738
Change in other liabilities	-5,140	5,655
Change in deferred income	939	6,069
Change in pension accruals	0	-129
<b>Changes in assets and liabilities</b>	<b>-822</b>	<b>7,405</b>
<b>Net cash provided by operating activities</b>	<b>53,577</b>	<b>22,751</b>

Continued

	2002	2001
<b>Cash flow from investment activities</b>		
Capital expenditure for intangible assets and property, plant and equipment	-32,770	-19,635
Loans to associated companies, their shareholders and employees	-790	-12,782
Repayments of loans granted	4,251	958
Disposal of assets, net book value	1,684	1,666
Acquisitions, net of acquired cash	-11,533	-1,932
Sale of shares in associated companies	18,684	4,521
Acquisition of additional shares in associated companies	-125	-2,047
<b>Net cash used in investment activities</b>	<b>-20,599</b>	<b>-29,251</b>
<b>Cash flow from financing activities</b>		
Repayments of bank loans	-77,035	-11,948
Minority interests	0	-2,929
Subsidies received	6,193	0
Repayments of convertible bonds	-87	0
Payments from convertible bonds	565	1,186
<b>Net cash used in financing activities</b>	<b>-70,364</b>	<b>-13,691</b>
Net decrease in cash	-37,386	-20,191
Cash on hand and balances at the beginning of the fiscal year	69,765	89,956
<b>Cash on hand and balances at the end of the fiscal year</b>	<b>32,379</b>	<b>69,765</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	2,636	2,624
Cash paid for taxes	1,968	1,586

# Notes to the Consolidated Financial Statements as of December 31, 2002

## (1) NATURE OF BUSINESS

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

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

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

The Company is registered in Montabaur, Germany, and has branches or subsidiaries in Munich, Dortmund, Karlsruhe, Görlitz, Zweibrücken, Montabaur, Köln, Zug, Maastricht, Stockholm, Ljusdal, Oslo, Helsinki, Copenhagen, Amsterdam, Newcastle,

London, Zurich, Strombeek-Bever, Madrid, Dublin, Milan, Saargemünd and Paris. With the exception of the building at Zweibrücken, all of the Company's buildings are leased.

## (2) 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 the effect as of 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.

## (3) TRANSACTIONS WITH RELATED PARTIES

United Internet's premises in Montabaur are leased from Mr. Ralph Dommermuth, the chairman of the Management Board and a major shareholder of the Company. The corresponding lease agreements run until September 30, 2009 and May 31, 2010. The resulting rent expenses are customary and amounted to € 769k in fiscal year 2002. In fiscal year 2001, the lessor of the buildings was a third party.

In the ordinary shareholders' meeting on May 16, 2002, Mr. Kurt Dobitsch (chairman), Mr. Bernhard Dorn and Mr. Michael Scheeren were appointed as members of the Company's Supervisory Board.

In addition to his duties at United Internet AG, Mr. Kurt Dobitsch is also a member of the supervisory boards of AdLINK Internet Media AG, Montabaur, 1&1 Internet AG, Montabaur, twenty4help Knowledge Service AG, Montabaur, Nemetschek AG (chairman), Munich, Bechtle AG, Gaildorf, Finex AG, Ebersberg and R+S AG, Denknordorf.

Mr. Bernhard Dorn is also a member of the supervisory boards of 1&1 Internet AG, Montabaur, twenty4help Knowledge Service AG, Montabaur, AXA Service AG, Köln, DB Systems GmbH, Frankfurt, ce CONSUMER ELECTRONIC AG, München, SYSTEMATICS AG, Hamburg, TDS AG, Neckarsulm and ATOSS Software AG, München.

Mr. Michael Scheeren is also a member of the supervisory boards of AdLINK Internet Media AG (chairman), Montabaur, 1&1 Internet AG (chairman), Montabaur, twenty4help Knowledge Service AG (chairman), Montabaur and NT plus AG, Osnabrück.

The members of the Supervisory Board received total compensation of € 80k in fiscal year 2002 (prior year: € 82k).

A member of the Supervisory Board delivered advisory services for the twenty4help Knowledge Service AG, for which remuneration of € 9k was paid in 2001. Another member of the Supervisory Board delivered advisory services for the AdLINK Internet Media AG in 2002, for which remuneration of € 20k was paid.

In the fiscal year the Management Board received a compensation of € 759k (prior year: € 697k) with a variable component of € 294k.

The ownership of shares in the United Internet AG by members of the Supervisory Board and the Management Board are shown in the table below.

Additionally, Mr. Norbert Lang held subscription rights to 112,000 shares. 28,000 subscription rights were exercised by Mr. Lang in 2002.

Share holdings of the	January 1, 2002		Total as of January 1, 2002	December 31, 2002		Total as of Dezember 31, 2002
	direct	indirect		direct	indirect	
<b>Management Board</b>						
Ralph Dommermuth	4,400,000	20,839,905	25,239,905	4,400,000	20,839,905	25,239,905
Norbert Lang	198,000	-	198,000	226,000	-	226,000
Richard Seibt	42,821	-	42,821	-	-	-
<b>Total</b>	<b>4,640,821</b>	<b>20,839,905</b>	<b>25,480,726</b>	<b>4,262,000</b>	<b>20.839.905</b>	<b>25,465,905</b>
<b>Supervisory Board</b>						
Kurt Dobitsch	-	1,280,000	1,280,000	-	-	-
Bernhard Dorn	-	-	-	-	-	-
Michael Scheeren	510,000	-	510,000	470,000	-	470,000
	<b>510,000</b>	<b>1,280,000</b>	<b>1,790,000</b>	<b>470,000</b>	<b>-</b>	<b>470,000</b>

#### **(4) SIGNIFICANT ACCOUNTING, VALUATION AND CONSOLIDATION POLICIES**

United Internet AG's consolidated financial statements are prepared according to the US Generally Accepted Accounting Principles (US-GAAP).

All amounts are in euros (€) or in thousands of euros (€k).

##### **a) Consolidation Policies**

The consolidated group comprises United Internet AG and the subsidiaries in which it controls and has a majority shareholding (hereinafter referred to as "the Company"). All material inter-company transactions have been eliminated as part of the consolidation process.

All companies the Company has invested in and over whose financial and business policies it has significant influence are recorded using the at equity method of accounting.

The Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the figures in brackets):

- val-U Marketing GmbH, Montabaur (100 %)
- 1&1 Internet AG, Montabaur (100 %)
- 1&1 Internet Ltd., London / United Kingdom (100 %)
- 1&1 Internet S.A.R.L., Saargemünd / France (100 %)
- Schlund + Partner AG, Karlsruhe (100 %)
- Convigate Network Solutions GmbH, Montabaur (100 %)
- 1 & 1 Internet Service GmbH, Zweibrücken (100 %)
- Schlund Technologies GmbH, Karlsruhe (100 %)
- GMX Internet Services GmbH, Montabaur (100 %)
- MIP Multimedia Internet Park GmbH, Zweibrücken (100 %)
- A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100 %)
- GMX GmbH, München (100 %)
- twenty4help Knowledge Service AG, Montabaur, (100 %)
- twenty4help Knowledge Service GmbH, Dortmund (100 %)
- twenty4help Knowledge Service GmbH, Zweibrücken (100 %)
- twenty4help Knowledge Service GmbH, Görlitz (100 %)
- twenty4help Knowledge Service B.V., Maastricht / Netherlands (100 %)
- twenty4help Knowledge Service AB, Ljusdal / Sweden (100 %)
- twenty4help Knowledge Service Ltd., Newcastle / United Kingdom (100 %)
- twenty4help Knowledge Service AG, Zug / Switzerland (100 %)
- United Internet Start-up GmbH, Montabaur (100 %)
- AdLINK Internet Media AG, Montabaur (67.62 %)
- AdLINK Internet Media AB, Stockholm / Sweden (67.62 %)
- AdLINK Internet Media S.A., Levallois Perret / France (67.62 %)
- Axial Trading et Participation S.A., Paris / France (67.62 %)
- AdLINK Internet Media AS, Oslo / Norway (67.62 %)
- AdLINK Internet Media GmbH Deutschland, Montabaur (67.62 %)
- AdLINK Internet Media ApS, Copenhagen / Denmark (67.62 %)

- AdLINK Internet Media N.V.,  
Strombeek-Bever / Belgium (67.62 %)
- AdLINK Internet Media AG,  
Zurich / Switzerland (67.62 %)
- AdLINK Internet Media S.L.U.,  
Madrid / Spain (67.62 %)
- AdLINK Internet Media Ltd.,  
London / United Kingdom (67.62 %)
- AdLINK Internet Media B.V.,  
Amsterdam / Netherlands (67.62 %)
- AdLINK Internet Media OY,  
Helsinki / Finland (67.62 %)
- AdLINK Internet Media SRL,  
Milan / Italy (67.62 %)
- Response Republic Europe GmbH,  
Montabaur (67.62 %)
- DoubleClick Internet Sales Ltd.,  
Dublin / Ireland (67.62 %)
- DoubleClick Internet Purchasing Ltd.,  
Dublin / Ireland (67.62 %)
- DoubleClick Italy Ltd.,  
Dublin / Ireland (67.62 %)
- DoubleClick Benelux Ltd.,  
Dublin / Ireland (67.62 %)
- DoubleClick Denmark A/S,  
Copenhagen / Denmark (67.62 %)
- DoubleClick Benelux B.V.,  
Amsterdam / Netherlands (67.62 %)

#### b) Trade Accounts Receivable

Trade accounts receivable are stated at nominal value net of adequate allowances for doubtful accounts.

Allowances for doubtful accounts are calculated based on management's best estimate to cover the credit risk from the large number of customer receivables.

#### c) Revenue Recognition

Revenue is recognized separately for each of the Company's different segments (see "Segment Reporting").

In December 1999, the US Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (SAB 101). SAB 101 describes the SEC's views on the application of US GAAP for revenue recognition. General and specific guidelines are laid down, especially with regard to the periods in which revenue should be recognized. SAB 101 also provides guidance on when to state gross or net revenues.

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

##### ▪ Produkt Business

The product business mainly comprises internet service provision/internet access and the provision of web hosting solutions.

##### Internet service provision / internet access

The Company recognizes its revenue from the provision of internet access in the period in which the service is rendered, allowing for the recoverability of amounts owed by customers, which are collected solely by direct debit. At the conclusion of the internet access contracts, new customers are predominantly provided with subsidised hardware. The amounts paid by the new customer at installation are recorded as revenue when received; they cover the direct costs incurred for the installation and the hardware only partially.

Based on a marketing and cooperation agreement for the acquisition of new customers for Deutsche Telekom AG in conjunction with United Internet's internet access offerings, the Company receives subsidies related to marketing expenses and bonuses for proven customer acquisition costs.

The bonuses are calculated based on agreed targets concerning the quantity of customer acquisitions. Revenue on these bonuses is recognized when the targets have been reached, the quantity of customer acquisitions is agreed to and accepted by Deutsche Telekom.

#### **Webhosting Solutions**

In the field of web hosting for demanding private customers (the 1&1 puretec brand) and small to medium-sized companies (the Schlund + Partner brand), customers generally pay in advance for services provided by the Company for a contractually specified term. All upfront fees are deferred and recognized over the estimated life of a customer relationship, which is estimated by management to be three years. Fees in advance related to the monthly service is deferred and recognized over the contract term.

#### **Outsourcing Business**

The outsourcing business includes the sale of technical value-added products as standard white-label products to other ISPs through Schlund Technologies. The Company also offers high-quality customer relationship services, primarily call center services. These relate to the operation of hotlines and user helpdesks for IT and telecommunications providers. Services are invoiced on the basis of criteria contractually agreed with customers, taking performance factors (speed, quality, etc.) into account.

Revenue is recognized when services have been rendered. Costs are expensed as incurred.

#### **Head Office / Investments**

The segment essentially includes several central services such as management and marketing services, leasing office space and technical equipment for other group companies. Revenues are recognized in line with contractual agreements.

Moreover, AdLINK Internet Media AG is shown as part of this segment. AdLINK generates its revenues by selling advertising space on internet pages (banners, microsites and pop-ups). Direct marketing to target groups by means of e-mail is regarded as a new business segment, but revenues generated in this area to date have only been insignificant.

When selling advertising space and placing advertisements, sales are billed depending on the levels of exposure achieved. Revenues are recognized depending on the recoverability when the campaign has been staged as agreed and the company and its client agree on its success (measured in terms of either thousands of contacts or of cost per click/expression of interest/order). Billing is done on a monthly basis. The amount agreed with and billed to the customer is recognized as revenue. The amounts credited to the operators of AdLINK websites are stated under cost of sales. The Company's usual business practice is to pay a flat-rate margin markup to website partners. The Company largely discloses the respective revenues gross as they carry the economic risk of loss from receivables in these cases in full. Costs are expensed as incurred.

**d) Inventories**

Inventories are measured at the lower of average cost or market value. Adequate valuation allowances for excess and obsolete inventories are made to provide for inventory risks.

**e) Property, Plant and Equipment**

Property, plant and equipment are valued at cost. Maintenance expenses that neither enhance the value of the assets nor prolong their useful life are expensed as incurred. Gains or losses from the disposal of fixed assets are recognized as other operating income or expenses. Additions to property, plant and equipment in connection with acquisitions of companies are carried at their estimated fair value.

Property, plant and equipment are depreciated over their expected useful lives using the straight-line method. Low-value items (acquisition costs of no more than € 410) are fully expensed in the year of acquisition due to their immateriality.

The following useful lives have been used to calculate depreciation:

	Useful life in years
Buildings	10
Vehicles	5 to 6
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13

Servers used for web hosting, which are part of operational and office equipment, are depreciated over 3 years. The depreciation of all other servers used by the Company is allocated over 5 years as they are used to a lesser extent.

**f) Intangible Assets and Goodwill**

Purchased software, licenses and other rights are stated at acquisition cost less scheduled straight-line amortization over a useful life of 1 to 6 years.

	Useful life in years
Goodwill (2001 and prior years)	6
Licenses and other rights	3 to 6
Software	3

The carrying value of assets is reviewed for impairment, in particular if a situation arises which indicates that the carrying amount may not be recoverable. This impairment test compares the carrying amounts of the respective asset with the cash flows generated from the use of the asset. If this impairment test reveals a shortfall in the cash flows, the carrying amount is written down to fair value based on the difference between the carrying amount and the present value of the future net cash flows which will be generated by the asset.

The Company adopted SFAS No. 142 "Goodwill and Intangible Assets" beginning January 1, 2002. In accordance with SFAS No. 142, goodwill of € 61,787k (prior year: € 52,753k) is not subject to scheduled amortization. Instead, the carrying value is reviewed for impairment at least annually, or when circumstances indicating a possible impairment arise. The impairment test is performed for each reporting unit. The goodwill is written down, if the carrying amount of the goodwill of the reporting unit is higher than the fair value, based on the present value of the future cash flows generated by the reporting unit. Write-downs of € 2,204k (prior year: € 17,527k) to goodwill were recorded for the fiscal year as of December 31, 2002.

## **g) Subsidies**

### **▪ Subsidies related to personnel expenses**

Government subsidies for current personnel expenses are recorded as other operating income. These subsidies are granted by the State of Saxony related to the creation and maintenance of jobs in Görlitz and by the State of Rhineland-Palatinate related to the Multimedia Internet Park in Zweibrücken. Subsidies for future personnel expenses already received are recorded under deferred income.

### **▪ Subsidies related to assets**

The investment subsidies granted by public authorities related to capital expenditure are treated as reductions in acquisition costs. The Company receives investment subsidies mainly for the Multimedia Internet Park in Zweibrücken by the state of Rhineland-Palatinate and for the capital expenditure related to the new computer center in Karlsruhe by the city of Karlsruhe.

## **h) Cash and Cash Equivalents**

This item comprises bank balances, checks and cash in hand, which are highly liquid and have maturities of 90 days or less. Additionally, restricted cash is included related to fixed-period deposits of AdLINK AG amounting to € 939k. These deposits collateralize guarantees of rental fees and liabilities of the remaining purchase price. Previous year fixed-period deposits amounting to € 3,529k and fixed bearing securities amounting to € 4,971k collateralized credit by way of bank guaranty and guarantees.

## **i) Foreign Currency Translation**

The functional currency of each of the Company's subsidiaries is the local currency of the

country in which each subsidiary is registered. Accordingly, assets and liabilities (except equity) which are recognized in the balance sheets of the foreign subsidiaries in a foreign currency are translated into Euros at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rates prevailing during the fiscal year. The difference which results between the valuation of equity at the historical rate and of assets and other liabilities at the rate on the balance sheet date is stated under equity as a currency translation adjustment.

## **j) Income Taxes**

Income taxes were calculated using the liability method in accordance with SFAS No. 109 "Accounting for Income Taxes". Deferred tax assets and liabilities were recorded for future tax effects related to differences between assets / liabilities stated in the US GAAP consolidated financial statements and the corresponding amounts in the tax balance sheet as well as for net losses in tax terms and tax loss carryforwards. Deferred tax assets and liabilities are valued on the basis of the current tax rates valid for the period in which the temporary differences will probably be reversed. The deferred tax assets are written down if it is more likely than not that the deferred tax assets cannot be used.

With the adoption of the Tax Reduction Act, a standard corporate income tax rate has applied since fiscal year 2001; this rate has been used to determine deferred tax assets and liabilities as of December 31, 2001 and 2002.

**k) Impairment of Long-Lived Assets**

In August 2001 the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 establishes a single accounting method for long-lived assets to be disposed of by sales consistent with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company adopted SFAS No. 144 on January 1, 2002.

These standards require that the carrying value of long-lived assets (including intangible assets) be reviewed regularly for impairment, in particular if a situation arises which indicate impairment of the carrying value. This impairment test compares the carrying amounts of the respective asset with its fair value, which is based on the cash flows generated with the asset. If this impairment test reveals a shortfall in the carrying amount, the carrying amount is written down to fair value based on the difference between the carrying amount and the present value of the future net cash flows which will be generated by the asset.

**l) Estimates**

The preparation of consolidated financial statements in accordance with US generally accepted accounting principles requires the Management Board to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results may differ from these estimates and assumptions.

**m) Accounting for Derivative Financial Instruments**

In June 1998, the Financial Accounting Standards Board adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement sets out guidelines for accounting for and disclosing derivatives and hedging activities. It requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability at its fair value. The standard also requires that changes in the fair value of derivatives be taken to income or expense, unless special provisions apply.

Special provisions for hedging transactions allow gains or losses from derivatives to be offset against gains and losses from hedging transactions in the income statement. To adopt hedge accounting, a Company must formally document, designate and assess the effectiveness of transactions that are hedged by derivative instruments. SFAS No. 133 is effective for all fiscal years beginning after June 15, 1999 and does not apply retroactively.

In June 2000, SFAS No. 138 ("Accounting for Certain Derivative Instruments and Certain Hedging Activities") was published. This statement addressed a limited number of circumstances that had caused many companies problems when SFAS No. 133 was introduced and resolved a number of questions regarding this statement.

SFAS No. 137 postponed the date of initial application of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 in fiscal year 2001.

The company does not use derivatives or have embedded derivatives. Therefore, the application of SFAS No. 133 or SFAS No. 138 did not have an effect on the Company's net worth or financial position in fiscal year 2002.

#### **n) Stock-Based Compensation**

SFAS No. 123 "Accounting for Stock-Based Compensation" established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. In accordance with the provisions of SFAS No. 123, the Company has elected to account for stock-based awards issued to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stocks Issued to Employees". Accordingly, compensation cost for stock-based awards granted to employees is measured as the excess of the market value of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock. Compensation expense is recognized over the options' service period, which is generally equivalent to the vesting period of the award.

The Company has adopted the disclosure requirements of SFAS No. 148. This Statement amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reports results.

#### **o) Earnings (Loss) per Share**

Earnings (loss) per share are calculated by dividing the income or loss attributable to the holders of registered shares by the weighted average number of shares outstanding during the period.

The diluted earnings per share is calculated similarly to the basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable options or conversion rights had been exercised unless the effect would be antidilutive.

As of December 31, 2002 and 2001, capital stock was divided up into 56,881,887 registered shares. This number of shares results in earnings per share of € 0.66 (prior year: -€ 0.63).

A dilutive effect must be taken into consideration from the exercise of the conversion rights resulting from the employee stock ownership program of United Internet AG in fiscal year 2002 (300,500 shares), without the corresponding increase in capital stock being entered in the commercial register by December 31, 2002, and from the conversion rights which could have been exercised as of December 31, 2002 (21,000 shares). Diluted earnings per share amount to € 0.65 in fiscal year 2002.

For conversion rights that are not exercisable as of December 31, 2002 (e.g. due to the fact that certain hurdles related to right to exercise the conversion rights have not been met) no dilutive effect has been taken into consideration.

**p) Differences between the Accounting, Valuation and Consolidation Policies Applied and the Methods Allowed by the Seventh Council Directive**

The United Internet Group applies the exempting provision of Sec. 292a of the German Commercial Code (HGB) to prepare consolidated financial statements in accordance with the internationally accepted accounting principles. They are in accordance with the Fourth and Seventh Council Directives on the basis of the interpretation pursuant to German Accounting Standard 1 (GAS 1) of the German Accounting Standards Committee (GASC).

The key differences between the accounting, valuation and consolidation methods under US GAAP and the provisions of the German Commercial Code for the United Internet Group are as follows:

The contribution of shares in 1&1 Geschäftsführungs GmbH in 1999 was recognized at market value. Under the German Commercial Code, it would have had to be recognized at book value.

Purchase price components agreed on with acquired companies are recognized as personnel expenses due to the close link with minimum employment periods for the general managers. These amounts would be capitalized as incidental acquisition costs in financial statements that used German accounting and valuation methods.

Since the introduction of SFAS No. 142, goodwill from acquisitions has no longer been subject to systematic amortization under US GAAP.

Under Sec. 280 (1) HGB, it is mandatory to reinstate original values (optional for financial assets), if the reason for an extraordinary write-

down no longer exists. Under SFAS No. 121 and subsequently SFAS No. 144, impairment losses may not be reversed even if the reasons for the impairment no longer exist.

In the US GAAP consolidated financial statements, amounts which result from employee stock ownership plans are recorded as personnel expenses/income. In consolidated financial statements prepared according to German accounting principles, this approach need not be followed.

Revenue recognition differences are caused by timing differences in the recording, recognition and allocation of amounts paid by customers. The related expenses are recorded in the same way.

Contrary to German accounting principles, under US-GAAP deferred tax assets are recognized for future benefits resulting from tax loss carryforwards.

Amounts spent on raising equity in IPOs or capital increases were netted with the additional paid-in capital for US-GAAP. Under German GAAP, these costs are expensed as incurred.

**q) Recently Issued Accounting Principles**

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143 "Accounting for Asset Retirement Obligations". SFAS No. 143 establishes provisions which must be observed in connection with obligations for the disposal and reduction of property, plant and equipment.

SFAS No. 143 requires that a liability for obligations in connection with the disposal or reduction of non-current assets be recognized in the period in which a legal or contractual obligation

occurs if a reasonable estimate of the value of the liability can be made. The corresponding costs for the disposal or reduction are capitalized at the acquisition cost of the property, plant and equipment and written off over their normal useful life. A company should recognize the changes in the liability due to the passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the fiscal year. The interest rate used to measure the changes should be based on the risk-free interest rate that existed when the liability was initially measured. The increase in the amount of the liability is to be recognized as an operating expense in the statement of income.

SFAS No. 143 is to be applied for the first time for fiscal years beginning after June 15, 2002; earlier application, however, is encouraged. The Company plans to apply SFAS No. 143 as of January 1, 2003, but anticipates that only insignificant effects on earnings will arise.

In April 2002, the Financial Accounting Standards Board passed SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections", which rescinded SFAS No. 4, 44 and 64, supplements SFAS No. 13 and contains application guidance. In accordance with this statement, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30 for extraordinary expenses and income. The second major change relates to lease agreements which are reclassified from capital leases to operating leases. Gains resulting from this reclassification must be deferred just as with sale-leaseback agreements and released over the residual term of the lease. The statement must be applied for the disclosure of debt extinguishment for fiscal years commencing after May 15, 2002. For

income deferral relating to the reclassification of lease agreements, application of this statement for corresponding transactions has been mandatory since May 15, 2002. For United Internet, this has not resulted in any effects on net assets, financial situation and results of operations.

In June 2002, the Financial Accounting Standards Board passed SFAS No. 146 "Accounting for Exit or Disposal of Activities". SFAS No. 146 supersedes EITF 94-3 ("Liability Recognition for Certain Employee Termination Benefits and Other Activities (Including Certain Costs Incurred in a Restructuring)") and covers recognition of accrued liabilities for liabilities in connection with the cessation or sale of business activities. These mainly relate to restructuring expenses, expenses for termination benefits and contract termination costs in connection with restructuring (with the exception of capital leases). The major amendment to the statement is that, with the exception of termination benefits, all liability criteria must be met for a corresponding accrued liability to be recognized. For termination benefits, in contrast, an accrued liability must be recognized, if a formal resolution on the termination benefits has been passed and communicated to the employees by the management. Depending on the structure of the termination benefits, the accrued liability can either be recognized in full upon announcement or accumulated over the period in which the employees affected by the termination are available to the enterprise. A new element is also that the accrued liability must be recognized at fair value under SFAS No. 146. The new statement applies to exit or disposal activities commencing after December 31, 2002 and is correspondingly implemented in the United Internet Group.

## (5) CORPORATE ACQUISITIONS

### DoubleClick

Effective as of January 27, 2002, the AdLINK Internet Media Group acquired the European media operations of DoubleClick Inc., New York, ("DoubleClick"). The purchase price was € 39.2m including incidental acquisition costs and was paid in cash. In addition to the business, financial liabilities of € 5m to other companies of DoubleClick were assumed.

In connection with this acquisition, United Internet AG also concluded an option agreement with DoubleClick. Under the provisions of this option agreement, United Internet AG is entitled to sell 3,862,500 AdLINK shares, corresponding to 15 % of the current capital stock of AdLINK, to DoubleClick at a purchase price of € 35.5m (put option). If United Internet AG exercises the put option, DoubleClick shall receive a call option for a further 5,407,500 AdLINK shares, corresponding to 21 % of AdLINK's current capital stock. In the event of the call option, which is linked to AdLINK meeting specific earnings targets, being exercised at a later date, no further purchase price shall be due from DoubleClick.

With the declaration dated January 31, 2002, United Internet AG exercised its put option, transferring 3,862,500 AdLINK shares to DoubleClick on February 8, 2002 and a further 5,407,500 shares to the escrow agent, Contor Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft to be held in the event Doubleclick exercises its call option.

Under US GAAP, the business acquired from DoubleClick is valued at market price calculated in accordance with EITF 99-12 Determination of the Measurement for the Market Price of Acquirer Securities Issued in a Purchase Business Combination. The basis for this is the market value of the AdLINK shares transferred by United Internet to DoubleClick, derived from the price of the AdLINK share in the few days before and after publication of the

transaction (€ 2.58) and is independent of the actual purchase price agreed for the shares between the parties. Based on this calculation, the acquisition cost, including transaction costs, was € 18.7m (the calculation was based on 3,862,500 shares). The shares are issued on the basis of the aforementioned conditions.

In carrying out the transaction, management initially assumed that, due to the trend on the online advertising market, AdLINK would attain the profit conditions set, so DoubleClick exercising the call option was considered to be beyond a reasonable doubt. As a result of the performance of the internet advertising market, in particular in the fourth quarter of fiscal year 2002, meeting the profit conditions and thus also the exercise of the option are now considered in doubt. As a result, the transfer of these call shares and the associated original valuation of the acquired business have been adjusted.

The shares relating to this call option are therefore to be considered as a contingent consideration. They may only be accounted for as additional purchase price, if the uncertainty regarding attainment of the profit conditions is eliminated and the call option is consequently exercised by DoubleClick. The shares must be valued at the market price at that time. If DoubleClick does not exercise the call option, these shares will return to United Internet AG. In this case, DoubleClick will receive no refund or compensation.

Assets, liabilities and expenses and income from the acquired business have been included in the consolidated financial statements since January 28, 2002. Allocation of the purchase price to the fair value of assets acquired and liabilities assumed are as follows:

	€k
Cash in hand and bank balances	1,330
Accounts receivable and other assets	5,006
Non-current assets	602
Liabilities and other liabilities	-6,830
Goodwill	18,587
Acquisition cost	<b>18,695</b>

Had the European media business of DoubleClick been included in the consolidated financial statements since January 1, 2001, this would have produced the following financial figures (pro forma figures):

	2002 (unaudited)	2001 (unaudited)
Pro forma revenues (in €k)	321,635	260,626
Pro forma net income (loss) for the year (in €k)	37,022	-52,870
Pro forma earnings (loss) per share (in €)	0.65	-0.93

In connection with the acquisition, AdLINK has commenced restructuring activities. In this regard, restructuring expenses of € 6,968k were incurred in fiscal year 2002. These primarily relate to termination of employment relationships, lease agreements, software license agreements and other expenses. We refer to Note (19) in this context.

#### **W+R Software**

Based on the sale and purchase agreement dated October 21, 2002, 1&1 Internet AG acquired all shares in W+R Software GmbH, Regensburg, with the purchase and assignment contract dated October 21, 2002. The sale and purchase agreement became effective on January 1, 2003. The purpose of W+R Software GmbH is to develop software of internet-specific desktop applications. W+R Software GmbH

developed software for sending SMS, which makes it easier for users to send SMS via their personal computer. The share capital of the company amounts to € 25k. The purchase price amounts to € 490k and has to be paid in three installments until September 30, 2004.

#### **(6) CAPITAL STOCK**

The Company's capital stock was increased in May 2000 by € 38,468,218 from € 13,211,782 to € 51,680,000 by converting additional paid-in capital without issuing new shares. The 5,168,000 no-par shares € 2.56 (rounded) each were re-denominated as 51,680,000 no-par shares each with a theoretical share in the capital stock of € 1. The share details were adjusted retroactively to present this share split. All of the Company's shares were converted from bearer shares to registered shares.

Through partial use of authorized capital, the capital stock of the Company was increased in December 2001 by € 5,201,887 from € 51,680,000 to € 56,881,887 by issuing 5,201,887 new no-par registered shares in return for contributions in kind in form of shares in 1&1 Internet AG, twenty4help Knowledge Service AG and GMX AG. The contributions have been recorded at their fair market value.

Through partial use of conditional capital, the capital stock of the Company was increased in December 2002 by € 300,500 from € 56,881,887 by issuing 300,500 new no-par registered shares in settlement of the conversion of convertible bonds issued under the Company's employee stock ownership plan. The increase in capital stock had not yet been entered in the Company's commercial register as of the balance sheet date. The increase in the capital stock was entered on January 13, 2003. The contributions made in this regard are therefore recognized in equity under "Subscribed capital".

Since January 13, 2003, the Company's capital stock has amounted to € 57,182,387, divided up into 57,182,387 no-par registered shares with a theoretical share in the capital stock of € 1.

### Authorized Capital

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by May 2, 2005 by a maximum of € 20,638,113 by issuing on one or more occasions common and/or non-voting preference bearer shares in return for cash or non-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 following cases:

- When capital increases of up to a total of € 5,168,000 are made, if the new shares are issued in return for cash contributions and the issue amount of the new shares is not substantially—and never more than 5%—lower than the quoted market price of shares with the same terms at the time of finalizing the issue amount. If the Company has acquired its own shares by virtue of authorization under Sec. 71 (1) No. 8 of the Stock Corporation Act (AktG), and without granting a subscription right to shareholders, sold them in any way other than through the stock market, the above-mentioned authorization to preclude the shareholders' subscription rights is reduced by the pro rata amount of the capital stock attributable to the treasury shares sold in this way;
- When capital increases of up to a total of € 5,134,113 are made, if the new shares are issued in return for non-cash contributions;
- To equalize fractional amounts created by a capital increase.

### Conditional Capital

There are three lots of conditional capital:

- The capital stock has been conditionally increased by up to € 2,000,000, divided into 2,000,000 no-par bearer shares. A portion of the conditional capital of € 1,200,000 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, and € 800,000 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issuance of both types of bond was decided by the shareholders' meeting on February 18, 1998.
- The capital stock has been conditionally increased by up to a further € 5,867,490, divided into 5,867,490 no-par registered shares. The conditional capital increase will only be executed to the extent that the bearers of warrants or conversion rights exercise or are obligated to convert the convertible bonds issued by the Company, or issued by a direct or indirect German or foreign wholly-owned subsidiary in accordance with the resolution passed by the general meeting of shareholders on May 3, 2000 by May 2, 2005. The new shares will participate in profits from the beginning of the fiscal year in which they are created by exercise of options or conversion rights or by conversion obligations being met.
- The capital stock is increased conditionally by up to € 2,199,500, divided into 2,199,500 no-par shares. The conditional capital increase serves to grant conversion options to bearers of convertible bonds for the issue of which an authorization resolution was passed by the shareholders' meeting on May 16, 2001. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercise of the conversion option.

- In accordance with Sec. 71 (1) No. 8 AktG, the Company is authorized until November 15, 2003 to acquire treasury shares of up to ten percent of its capital stock. The price for the acquisition of these shares may not be more than 5 % lower or higher than the stock market price.

### **Employee Stock Ownership Plans**

In the United Internet Group, there are a total of three different plans allowing executives and managers to participate in profits. Whereas two of these plans are covered by the conditional capital at the parent company, the third plan was set up by AdLINK Internet Media AG. This company has also issued convertible bonds to its employees, entitling them to exchange them for shares in AdLINK Internet Media AG.

On December 31, 2002 the convertible bonds have, overall, an intrinsic value of € 1,044k (prior year: € 136k), which has been recognized as additional paid-in capital. The portion of the intrinsic value of the convertible bonds that has not been attributed to the period as personnel expenses (€ 156k, prior year: € 47k) is shown as an adjustment item under equity, "Unrealized compensation for employee stock ownership program".

### **United Internet AG**

#### **Convertible Bonds**

##### **a) Convertible Bonds with Exercise Hurdles**

Two convertible bonds can be issued under the employee stock ownership plan (tranche (a): up to a total nominal value of € 1,200k and tranche (b): up to a total nominal value of € 800k).

Whereas tranche (a) can be issued to managers of the United Internet Group, only members of the Management Board of United Internet AG can receive tranche (b) bonds.

The convertible bonds, which bear interest of 4 % per annum, may be exchanged as a whole or in part for shares in United Internet AG. Every € 2.56 of the convertible bonds can be exchanged for 10 no-par shares having an accounting share in the capital stock of € 1 each. If the conversion option is exercised, a cash payment of € 3.83 has to be made for the purchase of one share.

The conversion option may be exercised for the first time if in the first three years since the date of issue of the convertible bond (first reference period) the stock market price (i. e. the cash price on the Frankfurt Stock Exchange) of the Company's share has increased by at least 10 % per annum over its initial value (i. e. by at least 30 %) and the increase in the first reference period is equal to or greater than the percentage increase of the German stock market index (DAX) in the same period (exercise hurdles).

If these exercise hurdles are not reached for the first reference period, the conversion right may only be exercised if in one of the following reference periods, i. e. on average in the first four years (second reference period) or on average in the first five years (third reference period) after the convertible bonds were issued, the stock market price of the company's share has increased by at least 10 % per annum over its initial value (i. e. by at least 40 % or 50 %, respectively) and the increase in the respective reference period is at least equal to the increase of the DAX in the same period.

For tranche (a), the date of issue of the convertible bonds is deemed to be the date on which the resolution was passed by the Company's Management Board. For tranche (b), it is deemed to be the date on which the resolution was passed by the Supervisory Board of the Company.

The conversion option is dependent upon the reference period in which the exercise hurdles are reached for the first time. It may not be exercised before the end of the first reference period, and then only in a partial amount of up to 60 %. After the end of the third reference period a total (i. e. including conversion options exercised previously) of up to 80 % may be exercised and, when the convertible bond matures, 100 % of the conversion options may be exercised. The conversion option lapses if the exercise hurdles are not met in any of the three reference periods.

The related compensation expense/income based on variable plan accounting according to APB 25 (on the basis of the intrinsic value as of the balance sheet date which is the difference between the quoted market price and the exercise price) amounts to € -799k in fiscal year 2002 and to € 7k in fiscal year 2001. The compensation income/expense is primarily included in general administrative expenses.

#### **b) Convertible Bonds Without Exercise Hurdles**

In accordance with the resolution passed by the shareholders' meeting on May 16, 2001, convertible bonds may be issued to members of the Management Board and other executives of the Company and of subsidiaries of the Company and to executive body members of subsidiaries of the Company, with the exception of Supervisory Board members of subsidiaries with their seat in Germany. Conditional capital of € 2,500k was created for this purpose. On the basis of this resolution, up to € 750k may be issued to Management Board members of the Company.

The authorized subscribers are entitled, after specified periods, to convert the convertible bonds in full or part to shares in the Company. In the event that this conversion option is exercised, an additional payment in cash is to be

made to acquire each share; this is the amount by which the conversion price exceeds the nominal amount of the convertible bond.

Up to 20 % may be converted at the earliest 12 months after the date of issue of the convertible bonds; up to 40 % (i. e. including the previously exercised conversion options) at the earliest 24 months after the date of issue of the convertible bonds. A total of up to 70 % may be exercised at the earliest 36 months after the date of issue of the convertible bonds; the full amount may be exercised at the earliest 48 months after the date of issue of the convertible bonds.

Due to the fact that the intrinsic value of the conversion rights was zero when the conversion rights were issued (measurement date) no compensation expense was recorded both in fiscal year 2002 and in fiscal year 2001.

#### **Stock Option Plan**

After the shareholders' meeting on June 7, 1999, United Internet AG had a second set of conditional capital to service the exchange rights of the bearers of the Company's stock options. This was rescinded at the shareholders' meeting on May 16, 2002 by means of a rescission resolution without stock options ever being granted.

#### **AdLINK Internet Media AG**

##### **Convertible Bonds**

AdLINK Internet Media AG, which has been listed on the Neuer Markt at the Frankfurt Stock Exchange since May 2000, has also issued convertible bonds to employees of the AdLINK Group.

In addition to the convertible bonds of € 864k issued in 2001, the Management Board approved a

second tranche of € 234k in May 2001 of which € 206k was paid out to employees in December 2001. In total, employees of the AdLINK Group, the two members of the Management Board and one member of the Supervisory Board of AdLINK Internet Media AG have purchased € 373k, € 400k and € 8k, respectively.

Every nominal amount of € 1 of a partially convertible bond can be converted into a no-par share in AdLINK Internet Media AG having an accounting share in the capital stock of € 1. If converted, a cash premium in the amount of the difference between € 1 and the conversion price has to be paid. The conversion price is the cash settlement price of the AdLINK Internet Media AG share as recorded during trade in the electronic trading system of Deutsche Börse AG at the time the convertible bond was issued.

A 20 % portion of the company's convertible bonds may be converted into shares in the company no earlier than 12 months after the date of issue. Up to 40 % may be converted no earlier than 24 months, up to 70 % no earlier than 36 months, and the whole amount no earlier than 48 months after they were issued. AdLINK Internet Media AG has conditional capital of € 1,992k to service the conversion rights.

#### **Disclosure Provisions of SFAS No. 123 as amended by SFAS No. 148**

If the intrinsic value of the related options is zero when the convertible bonds were granted (date of grant corresponds to the measurement date), no expense has to be recorded in the consolidated financial statements according to APB 25. The convertible bonds of United Internet AG which are not linked to exercise hurdles and to the convertible bonds of AdLINK Internet Media AG have an intrinsic value of zero.

The Company applies the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148 but has decided to continue to determine and record the effects of the various employee stock ownership plans on results in accordance with APB No. 25. If personnel expenses had been determined in accordance with SFAS No. 123 on the basis of an option pricing model, a total of € 2,912k (prior year: € 5,653k) would have had to be reported as an expense in fiscal year 2002.

The net income / (loss) for the year and the earnings / (loss) per share would then have been as shown below:

	2002	2001
	€k	€k
Net income / loss for the year		
under US-GAAP		
– As reported	37,305	–35,803
– Pro forma	34,393	–41,456
Earnings (loss) per share		
under US-GAAP (in €)		
– As reported	0.66	–0.63
– Pro forma	0.60	–0.73

The changes in the options granted and outstanding are shown on the next page.

Using an option pricing model (Black-Scholes stock option pricing model) in accordance with SFAS No. 123, the weighted average fair value of the options linked to the conversion rights granted in 1998 and 1999 totaled € 11,813k on each grant date. A volatility of 85.2 % for the United Internet share and a risk-free interest rate of 5.1 %, an expected life of 5 years and expected dividends of 3 % were used in the calculation.

The value of the convertible bonds issued by United Internet AG in May 2000 amounted to € 3,006k. The following weighted average assumptions were used:

	United Internet AG			AdLINK Internet Media AG		
	Convert- ible bond	Average strike price (€)	Options	Average strike price (€)	Convert- ible bond	Average strike price (€)
Outstanding as of						
December 31, 2000	1,068,500	4.09	335,000	7.24	966,500	4.96
Issued	1,635,000	2.88	-	-	205,500	1.84
Exercised	-	-	-	-	-	-
Expired	-633,000	4.09	-335,000	7.24	-102,500	4.96
Outstanding as of						
December 31, 2001	2,070,500	3.14	-	-	1,069,500	4.35
Issued	137,500	5.97	-	-	130,800	1.28
Exercised	-300,500	2.88	-	-	-	-
Expired	-10,000	5.97	-	-	-340,000	4.96
Expired	-32,500	4.09	-	-	-79,000	1.84
Expired	-304,500	2.88	-	-	-	-
Outstanding as of						
December 31, 2002	1,56,500	3.45	-	-	781,300	3.84
Exercisable as of						
December 31, 2002	21,000		-		234,900	

- Dividend yield: none
- Volatility of United Internet share: 83.62 %
- Expected term: 5 years
- Risk-free interest rate: 4.90 %

The value of the stock options issued by United Internet AG in October 2000 amounted to € 1,829k. The following weighted average assumptions were used:

- Dividend yield: none
- Volatility of United Internet share: 84.70 %
- Expected term: 5 years
- Risk-free interest rate: 4.87 %

The weighted average fair value of the stock options linked to the convertible bonds issued by AdLINK Internet Media AG on November 25, 2000 was € 3,347k. The following assumptions were used:

- Dividend yield: none
- Volatility of AdLINK share: 76.20 %
- Expected term: 4 years
- Risk-free interest rate: 4.93 %

The weighted average fair value of the convertible bonds of United Internet AG issued on August 20, 2001 amounted to € 5,289k. In this regard, the following assumptions were made:

- Dividend yield: none
- Volatility of United Internet share: 107.00 %
- Expected term: 5 years
- Risk-free interest rate: 4.60 %

The weighted average fair value of the stock options linked to the convertible bonds issued by AdLINK Internet Media AG on December 3, 2001 was € 536k. The following assumptions were used:

▪ Dividend yield:	none
▪ Volatility of AdLINK share:	112.00 %
▪ Expected term:	4 years
▪ Risk-free interest rate:	5.00 %

The weighted average fair value of the stock options linked to the convertible bonds issued by AdLINK Internet Media AG on May 16, 2002 was € 460k. The following assumptions were used:

▪ Dividend yield:	none
▪ Volatility of AdLINK share:	102.80 %
▪ Expected term:	4 years
▪ Risk-free interest rate:	3.64 %

The weighted average fair value of the convertible bonds of United Internet AG issued on May 24, 2002 amounted to € 689k. The following assumptions were made:

▪ Dividend yield:	3 %
▪ Volatility of United Internet share:	88.60 %
▪ Expected term:	5 years
▪ Risk-free interest rate:	3.64 %

## (7) INTANGIBLE ASSETS AND GOODWILL

	2002 €k	2001 €k
<b>Cost</b>		
– Goodwill	89,604	84,312
– Licenses	16,492	15,517
– Software	14,956	13,520
	<b>121,052</b>	<b>112,989</b>
<b>Less</b>		
Accumulated amortization and impairment	-50,953	-49,040
<b>Intangible assets, net</b>	<b>70,099</b>	<b>63,949</b>

An alternative analysis of intangible assets and goodwill in fiscal year 2002 is shown in the exhibit to the notes to the consolidated financial statements (assets movement schedule).

The goodwill reported as of the balance sheet date relates to the companies acquired in the fiscal year or in prior years. The goodwill is presented for each of United Internet's segments:

	2002 €k		2001 €k	
	Gross	Net	Gross	Net
Product business (1&1 Internet AG)	46,707	32,493	46,707	32,780
Outsourcing business (twenty4help Knowledge Service AG)	3,767	2,833	3,798	2,864
Head office/ investments	40	0	15,360	10,000
AdLINK Internet Media AG	39,090	26,461	18,447	7,109
	<b>89,604</b>	<b>61,787</b>	<b>84,312</b>	<b>52,753</b>

### Product business

The goodwill presented for the product business (1&1 Internet) mainly stems from the acquisition of shares in 1&1 Geschäftsführungs GmbH in 1999, in Schlund + Partner AG in 1998 and 1999 as well as in GMX GmbH (formerly GMX AG) in 1999 and 2001.

In fiscal year 2001, outstanding purchase price obligations from the acquisition of GMX of € 3.5m were paid in cash in accordance with the agreement dated April 30, 2001. The remaining shares were assumed from the former management of GMX AG on December 13, 2001 at a cost of € 4.7m.

Moreover, United Internet AG increased its share in 1&1 Internet AG by 8,78 % based on a contract dated October 10, 2001 from 91,22 % to 100 % through the

acquisition of shares from members of the management of 1&1 Internet AG. The acquisition of the shares was settled through the transfer of 2.723.736 shares in United Internet AG with a nominal value of € 1 each to the members of the management of 1&1 Internet AG. The acquisition costs have been determined based on the fair value of the shares of United Internet AG as of the acquisition date.

#### **AdLINK Internet Media AG**

The goodwill presented for AdLINK Internet Media AG mainly stems from the acquisition of businesses in several European countries. The main addition in 2002 results from the acquisition of the European media business of DoubleClick.

In the fiscal year 2002 the business environment in the advertising market showed a negative trend. Therefore AdLINK reevaluated the fair value of AdLINK's reporting units. As of the balance sheet date, the Company compared the carrying amounts of the reporting units for which goodwill is recognized with the fair market values based on the expected future cash flows of those reporting units. This resulted in an impairment write-down of € 2,204k (prior year: € 4,964k). This is split between AdLINK Austria (€ 912k), AdLINK France (€ 1,176k) and AdLINK AG (€ 116k).

The acquisition of the DoubleClick business resulted in goodwill of € 18,587k. Goodwill resulted from the excess of the purchase price over the fair value of the net assets acquired and is mainly due to synergies expected to be realized from the acquisition of the European media business, the increase in the order volume, the resulting effects on the existing fixed costs and the loss of a competitor on the European online advertising market. The effects of the acquisition of DoubleClick's European media business can be seen at all European branches of AdLINK. Goodwill on the date of the acquisition was allocated on the basis of Management's estimate of the potential for future earnings and growth of the

individual foreign offices with due consideration to the integration of the DoubleClick business. On the date of acquisition, goodwill from the acquisition of the media business was split up as follows between the subsidiaries: AdLINK Austria (€ 912k), AdLINK Belgium (€ 594k), AdLINK Switzerland (€ 1,065k), AdLINK Germany (€ 3,174k), AdLINK Denmark (€ 1,228k), AdLINK Spain (€ 2,093k), AdLINK France (€ 1,890k), AdLINK Netherlands (€ 1,773k), AdLINK Norway (€ 1,057k), AdLINK Sweden (€ 1,592k), AdLINK UK (€ 2,307k) and AdLINK Italy (€ 902k).

The residual purchase price claim related to a prior year acquisition of a former shareholder of AdLINK France (formerly Accessite S.A., Paris/France) was paid out in fiscal year 2002. This led to subsequent acquisition costs of € 16k. Acquisition costs increased during the prior year due to payments made to two former shareholders (€ 76k).

All shares in AdLINK UK (formerly New Media Marketing and Sales Ltd., London/United Kingdom) were acquired with the purchase agreement dated January 28, 2000. Approximately 50 % of the purchase price was paid on March 22, 2000, while the residual purchase price was deferred until March 31, 2003. The residual purchase price claim was renegotiated in 2002. This resulted in additional acquisition costs of € 107k. As of December 31, 2002, there was a residual purchase price claim of € 1,789k; a corresponding liability has been recorded. It was agreed in the purchase agreement that the remaining purchase price claim of the former shareholder would be paid in the form of shares in AdLINK.

In the purchase agreement dated April 12, 2000, 100% of the shares in AdLINK Belgium (formerly Publicast N.V., Louvain/Belgium) were acquired by AdLINK effective as of April 1, 2000. Payment was divided into two installments. The first purchase price installment of € 520k was paid on April 13, 2000. The second installment was split in two installments with a maximum amount of € 711k

each and a minimum payment amount of € 427k each, which depended on the performance of AdLINK Belgium in 2000 and 2001. The additional purchase price was payable in AdLINK shares valued with the IPO price. In 2001 the Earn Out 2000 was settled at the minimum amount and paid in 25,092 treasury shares of AdLINK. In 2002 the Earn Out 2001 was also settled at the minimum amount and paid in 25,092 treasury shares of AdLINK.

100% of the shares in AdLINK Spain (formerly X Media Server S. L., Madrid/Spain) were acquired with the purchase agreement dated January 3, 2000. AdLINK renegotiated the contract in 2002 and agreed to pay € 571 to the general manager of AdLINK Spain in addition to the purchase price already paid for a minimum period of employment ("Part I Payment") until February 2002. € 73k were already paid out in fiscal year 2002 and € 498k are currently recognized as a liability. The payments are treated as subsequent acquisition costs.

Payments also had to be made to the former general manager for meeting specific revenue and profit targets in fiscal years 2000 to 2002 ("Part II Payment"). The Part II Payment was settled in 2002 and payments were made in the form of AdLINK shares. During 2002, 8,837 AdLINK shares were issued for the earn-out 2002 and compensation expenses of € 14k were recorded in fiscal year 2002.

With the purchase agreement dated May 3, 2002, AdLINK Switzerland took over the online media business from Qualiclick AG, Zollikon/Switzerland, at a purchase price of CHF 1,056k including incidental acquisition costs. The aim of the takeover was to realize synergy effects, increase the business volume of AdLINK Switzerland and to improve the market position of AdLINK by taking over a competitor. The fair value of the acquired net assets was insignificant. Goodwill of € 728k resulted from the transaction.

AdLINK acquired 100 % of the shares in AdLINK

Netherlands (formerly Netplus BV, Amsterdam/Netherlands) effective as of January 1, 2001. The purchase agreement provides for an initial purchase price of € 670k. The incidental acquisition costs amounted to € 72k.

AdLINK sold all shares in AdLINK Austria as of December 1, 2002. This resulted in a loss before taxes of € 1,125k. This amount includes the goodwill impairment of € 912k.

### **Outsourcing business**

The goodwill presented for the outsourcing business mainly results from the acquisition of a business in Sweden in 1999. Due to the earn-out clauses agreed with the seller, the acquisition costs increased by € 609k as of the balance sheet date in 2000 and by € 564k as of the balance sheet date in 2001. The earn-out clauses are based on the revenue performance and the ratio of EBIT to revenues for the periods for September 1, 1999 to December 31, 2000 and for January 1, 2001 to December 31, 2001. As the financial statements for the year ended December 31, 2001 under Swedish law—used as a basis for the calculation of the residual price payments—were not prepared until after the preparation of the consolidated financial statements for 2001, a subsequent adjustment of € 31k was made in 2002; this is disclosed as a disposal in the analysis of fixed assets. A payment of € 1,142k related to the earn-out clauses was paid in cash in 2002. The Company has no further obligation under the purchase agreement.

Moreover, United Internet AG increased its share in twenty4help Knowledge Service AG by 1,9 % based on a contract dated November 14, 2001 from 98,1 % to 100% through the acquisition of shares from members of the management of twenty4help Knowledge Service AG. The acquisition of the shares was settled through the transfer of 589,152 shares in United Internet AG with a nominal value of € 1 each to the members of the management of twenty4help Know-

ledge Service AG. The acquisition costs have been determined based on the fair value of the shares of United Internet AG as of the acquisition date.

#### Head office / investments

The decrease in goodwill results from the sale of the shares in jobpilot AG to Adecco S.A. based on the Tender Offer Commitment Agreement dated February 1, 2002. The gain on this sale is shown as other operating income. The investment in jobpilot has been accounted for according to the equity method of accounting through the date of the sale. In the course of the sale of the shares in jobpilot AG the related goodwill in the amount of € 10,000k has been fully eliminated and recognized as deduction from the gain in this sale.

Until fiscal year 2002, goodwill was subject to systematic amortization over a useful life of six years. United Internet applied the provisions of SFAS No. 142 ("Goodwill and Other Intangible Assets") for the first time in fiscal year 2002. In accordance with SFAS No. 142, the transition impairment test was conducted as of January 1, 2002 and in the Company's budgeting process in the fourth quarter of 2002. The required two-step impairment test was performed by the Company at each of its reporting units. The first step of the impairment test is to compare the fair value of the reporting unit with its carrying amount. Fair value is calculated on the basis of estimated future cash flows (discounted cash flow method) which requires certain management estimates to be made. Should the reporting unit's fair value be below its carrying amount, this indicates that goodwill may require a write down to fair value as calculated in step two. The fair value of goodwill is determined based on the difference between the fair value of the reporting unit and the excess amount over that fair value of the fair values of the reporting unit's assets and liabilities. Should the fair value of goodwill lie below its carrying amount, the difference is to be recognized as an impairment. Based on the Company's internal

budgeting process, the Company specified the fourth quarter of its fiscal year for the annual impairment test.

This resulted in a required impairment write-down in the AdLINK subgroup of € 2,204k. This is split between AdLINK Austria (€ 912k), AdLINK France (€ 1,176k) and AdLINK Germany (€ 116k).

#### (8) PROPERTY, PLANT AND EQUIPMENT

	2002	2001
	€k	€k
<b>Cost</b>		
– Land and buildings	13,305	13,305
– Furniture and fixtures	72,725	49,838
– Payments on account	537	227
Less subsidies	-12,964	-6,771
	<b>73,603</b>	<b>56,599</b>
<b>Less</b>		
Accumulated depreciation	-38,028	-26,209
<b>Property, plant and equipment, net</b>	<b>35,575</b>	<b>30,390</b>

An alternative analysis of property, plant and equipment in fiscal year 2002 is shown in the appendix to the notes to the consolidated financial statements (assets movement schedule).

The subsidies in the prior year relate to the construction work completed in 1999 in the Multimedia Internet Park in Zweibrücken. In the fiscal year 2002 subsidies of € 6,193k have been received. Thereof, € 5,113k relate to the construction of a new data processing center in Karlsruhe of Schlund + Partner AG. Further € 1,080k are subsidies related to the investment in fixed assets of twenty4help AG.

## (9) SHARES IN EQUITY-METHOD INVESTMENTS

	2002	2001	United	At-equity results	
	€k	€k	Internet shareholding %	incl. impairment 2002 €k	2001 €k
Carrying amount at the beginning of the fiscal year	11,792	22,333	ImmOnline 49.28	0	0
Additions at cost	792	2,047	gatrixx 48.44	0	-6,658
Disposals at residual carrying amounts	0	-2,244	car4you 45.00	0	-597
Adjustments			Metropolis 43.96	0	-496
– Dividends	-100	-77	preisauskunft 42.90	0	-1,599
– Shares in result and goodwill amortization	59	-3,604	sedo 41.04	35	-108
– Impairment	0	-6,663	NT plus 40.23	-410	167
	<b>12,543</b>	<b>11,792</b>	imedia 40.00	70	-112
			fun 33.33	364	130
			Disposals	0	-996
				<b>59</b>	<b>-10,269</b>

An alternative analysis of shares in equity-method investments in fiscal year 2002 is shown in the exhibit to the notes to the consolidated financial statements (assets movement schedule).

United Internet holds stakes in the following operative companies that are included in the consolidated financial statements using the equity method of accounting:

Shares held as of December 31, 2002:

- NT plus AG, Osnabrück
- fun communications GmbH, Karlsruhe
- Metropolis AG, Reutlingen
- imedia GmbH, Munich
- Sedo GmbH, Cologne

United Internet acquired additional shares in NT plus and Metropolis in fiscal year 2002.

The following table provides an overview of the shareholdings as of the balance sheet date and the composition of the at-equity results:

With the exception of the goodwill arising from the acquisition of NT plus, all goodwill was amortized over six years up to the fiscal year commencing after January 1, 2002. Goodwill relating to NT plus (€ 7,739k gross) was amortized over a period of ten years.

The shares in jobpilot AG were sold in fiscal year 2002 to Adecco S. A., Switzerland. This gave rise to a capital gain of € 8,684k.

Additional shares in NT plus AG were acquired in 2002 within the scope of a capital increase made by NT plus AG; € 591k of the addition resulted from the conversion of a loan granted by United Internet to NT plus AG into shares in NT plus AG. Additional shares amounting to € 125k have been acquired from an other shareholder of NT Plus by payment of the fair value of these shares.

A shareholder loan to Sedo GmbH amounting to € 77k has been converted into equity of Sedo GmbH when certain targets agreed in the loan contract for fiscal year 2002 were reached by Sedo GmbH.

In 2002, additional shares in Metropolis AG were

acquired from an employee of Metropolis AG for cash based on their fair value.

The following table shows selected financial information for the operative companies for the fiscal years 2002 and 2001:

	2002	2001
	€k	€k
Sales	446,907	415,183
Net income	626	1,053
Short-term assets	41,395	54,365
Long-term assets	8,093	10,395
Short-term liabilities	36,807	54,512
Long-term liabilities	2,178	2,822
Equity	10,503	7,426

#### (10) INVENTORIES

Inventories consist of the following merchandise:

	2002	2001
	€k	€k
T-DSL	997	430
PCs and printers	1,264	1,173
T-Online/internet products (Modems)	36	21
Internet Profi	27	73
Webhosting	73	0
ISDN products (PC adapter cards, analog converters and telephones)	1,693	415
Mobile telephony	53	0
Other	10	107
	<b>4,153</b>	<b>2,219</b>
<b>Less</b>		
Valuation allowances	-169	-157
<b>Inventories, net</b>	<b>3,984</b>	<b>2,062</b>

#### (11) ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2002	2001
	€k	€k
Accounts receivable	52.175	48.716
<b>Less</b>		
Specific bad debt allowances	-6.338	-4.089
<b>Accounts receivable, net</b>	<b>45.837</b>	<b>44.627</b>
<b>Other receivables</b>		
Accounts receivables from the tax office	3.075	6.411
ISDN premium claim	8.914	3.094
Outstanding sales invoicing	692	5.346
Payments on account	1.092	2.033
Other	6.380	2.249
<b>Other receivables, net</b>	<b>20.153</b>	<b>19.133</b>
	<b>65.990</b>	<b>63.760</b>

Accounts receivable from the tax office mainly result from refund claims for corporate income tax.

The premium claims from ISDN business represent claims from a cooperation agreement with Deutsche Telekom AG. They relate to earnings-based payments for the acquisition of new customers for the cooperation partner during the fiscal year. Reference is made to note 4c.

#### (12) LIABILITIES TO BANKS

	2002	2001
	€k	€k
Loans	3,820	8,063
<b>Less</b>		
Current liabilities	-243	-314
<b>Non-current liabilities</b>	<b>3,577</b>	<b>7,749</b>
Current portion of non-current liabilities	243	314
Short-term loans / overdrafts	130	72,921
<b>Current liabilities</b>	<b>373</b>	<b>73,235</b>
	<b>3,590</b>	<b>80,984</b>

In September 1997 the Company raised two long-term loans of € 2,045k and € 2,250k to finance the Multimedia Internet Park in Zweibrücken. The company started to repay the loans in October 2002. Annual repayment amounts to € 172k. Until July 2002, the loans accrued interest at 6.39 % and 5.40 % per annum, respectively. As of August 2002, the loans accrued interest at 6.39 % and 5.20 % per annum, respectively. A special repayment of € 460k was made in 2000. The loans are secured by encumbering the land and buildings in Zweibrücken.

A further loan of € 4,473k was raised in 1998 as part of the KfW program and is earmarked for the acquisition of shares in NT plus AG. It bears 4 % interest per annum and is to be repaid in equal installments semi-annually from March 31, 2001 until September 30, 2008. The loan was paid off on August 5, 2002.

A cash pooling agreement (overdraft service) has been in place between United Internet AG, the subsidiaries of which the company directly holds 100 % and WestLB AG, Düsseldorf, since October 1, 2002. Under this agreement, credit and debit balances are netted within the Company each banking day and summarized.

### (13) MATURITIES AND CURRENT LIABILITIES

#### a) Maturities

The Group was primarily financed by means of current liabilities as of December 31, 2001. Current liabilities to banks were considerably reduced in the first half of 2002 with the cash flows generated through the sale of investments.

The maturities of the non-current liabilities to banks and convertible bonds are shown in the table below. The table contains loans not relating to overdraft facilities of € 130k.

	€k
2003	687
2004	442
2005	380
2006	1,357
2007	378
Thereafter	2,371
<b>Total</b>	<b>5,615</b>

#### b) Credit lines

The Company has the following credit lines for advances on current accounts and other short-term loans with four banks:

	2002	2001
	€m	€m
Available credit facilities	50.0	45.2
Utilization		
(in 2002: guarantees only)	8.6	24.6
Average interest rate (in %)	4.98	4.28
Unutilized credit facilities	41.4	20.6

The credit facilities have been granted by the banks for limited periods. € 30.0m expire in June 2003; the remaining € 20.0m expire in April 2006.

With regard to credit lines granted to the companies of the United Internet Group by a bank, the Company is liable as co-debtor. The credit facilities had not been utilized as of the balance sheet date.

In addition, a portion of the credit lines granted until 2006 are secured by pledging shares in twenty4help Knowledge Service AG, Montabaur, and by assigning all of the rights and claims from the profit and loss transfer agreement between United Internet AG and twenty4help Knowledge Service AG.

**(14) OTHER LIABILITIES**

	2002	2001
	€k	€k
<b>Non-current liabilities</b>		
– Liabilities to former shareholders	0	1,682
	<b>0</b>	<b>1,682</b>
<b>Current liabilities</b>		
– Liabilities to the tax office	4,853	5,830
– Purchase price installments for the acquisition of investments	2,410	2,706
– Social security	2,503	2,399
– Liabilities to former shareholders / minority shareholders	670	5,089
– Outstanding invoices	1,084	0
– Transitory items	219	0
– Other	7,885	5,508
	<b>19,624</b>	<b>21,532</b>
	<b>19,624</b>	<b>23,214</b>

Non-current liabilities to former shareholders relate to liabilities to the former shareholder of AdLINK UK.

Liabilities to the tax office mainly relate to VAT liabilities. In the prior year, the residual purchase price obligations for the acquisition of investments related to twenty4help Knowledge Service AB, Ljusdal/Sweden (€ 1,096k), AdLINK France (€ 1,061k) and to AdLINK Belgium and AdLINK Norway (€ 549k). The purchase price installments for the acquisition of shares in subsidiaries relates to the residual purchase price obligations to the former shareholders of AdLINK UK (€ 1,789k), AdLINK Spain (€ 498k) and AdLINK Norway (€ 123k).

**(15) DEFERRED INCOME**

At 1&1 Internet, customers pay for certain contracts in advance for a maximum of 6 months and pay a one-time fee for setting up the services.

Whereas the prepaid charges are allocated and recognized as revenues over the underlying contractual period, the one-time fee is allocated over the expected term of the contractual relationship in accordance with SAB 101. The Company estimates that customer relations last three years. In fiscal year 2002, 1&1 Internet has deferred prepayments and one-time fees totaling € 24,892k (2001: € 20,980k).

twenty4help received subsidies for the creation of jobs at its premises in Görlitz. Subsidies which are related to personnel expenses that will be incurred in 2003 have been deferred and are shown as deferred income (2002: € 586k; 2001: € 1,197k).

In addition, prepayments from customers for annual organization of trade fair stands at CeBIT are also deferred (2002: € 1,744k; 2001: € 3,507k).

**(16) COST OF MATERIALS**

In fiscal year 2002, costs of materials totaled € 126,267k (prior year: € 91,063k). Cost of materials are mainly disclosed in the income statement prepared in accordance with the cost of sales method under "cost of sales". They mainly comprise cost of goods and purchased services.

**(17) PERSONNEL EXPENSES**

Personnel expenses in fiscal year 2002 totaled € 89,549k (prior year: € 86,205k). These are contained in cost of sales (€ 52,526k), selling expenses (€ 22,243k) and general and administrative expenses

(€ 14,780k). At year-end, United Internet employed a total of 3,195 people (prior year: 2,886).

### (18) OTHER OPERATING INCOME / EXPENSES

In fiscal year 2002, other operating income / expenses mainly contain income from the sale of shares in AdLINK (€ 3,500k) and in jobpilot (€ 8,684k). In fiscal year 2001, other operating income / expenses include income from the sale of shares in Cobion (€ 2,932k) and losses related to write-downs on loan receivables of € 16,937k and on shares in associated companies of € 6,663k.

Other operating income also includes subsidies for the current personnel expenses in connection with the Multimedia Internet Park in Zweibrücken (€ 613k, prior year: € 942k) and for current personnel expenses at twenty4help Görlitz (€ 2,279k, prior year: € 1,869k) and from premiums and credit notes for prior years at 1&1 Internet AG (€ 1,487k) and from income from subsequent collection of accounts receivable written off at 1&1 Internet AG (€ 1,647k). Losses of 1&1 Internet AG due to account receivables amount to € 3,615k. These losses represent the most significant position of other operating expenses.

### (19) RESTRUCTURING COSTS

Restructuring costs are solely related to AdLINK Internet Media AG. AdLINK began to reduce its cost structures in certain areas in fiscal year 2001 by means of restructuring measures. Restructuring measures covered by the restructuring plan were concluded in 2002. Restructuring measures mainly related to the discontinuation of operating presence, the termination of non profitable marketing agreements with guaranteed sales, the termination of work relationships in all reporting units, the termination of IT-service contracts and the change of

IT-systems from AdServer technology to DART technology.

In the prior year the restructuring expenses incurred amounted to € 2,136k with an accrued amount of € 586k. Restructuring costs of € 6,968 (prior year: € 1,550) have been charged as an expense and paid. As of December 31, 2002 no restructuring expenses were accrued.

	2002	2001
	€k	€k
Redundancy expenses	3,287	362
Termination of website guarantee and service agreements	1,611	1,388
Extraordinary write-downs on non-currents assets	712	0
Expenses in connection with the closure/assignment of subsidiaries and sales offices	580	378
Expenses for training on new systems and integration of new employees	353	0
Expenses for integrating DART technology	261	0
Other	164	8
<b>Total restructuring costs</b>	<b>6,968</b>	<b>2,136</b>

The restructuring expenses are split among the group companies as follows: AdLINK Austria (€ 635k), AdLINK Belgium (€ 102k), AdLINK Switzerland (€ 158k), AdLINK Germany (€ 375k), AdLINK Denmark (€ 655k), AdLINK Spain (€ 233k), AdLINK France (€ 437k), AdLINK Netherlands (€ 129k), AdLINK Norway (€ 835k), AdLINK Sweden (€ 314k), AdLINK UK (€ 249k) and AdLINK AG (€ 2,846k).

In terms of personnel, 41 employees from the product and traffic management area, 49 employees from sales, 6 employees from the IT-department and 24 employees from general administration have been affected by the measures.

**(20) INCOME TAXES AND DEFERRED TAXES**

The income tax credit (tax expense) is comprised as follows:

	<b>2002</b>	<b>2001</b>
	€k	€k
Current income taxes		
– Germany	388	-4,120
– Abroad	-833	-1,192
<b>Total (current period)</b>	<b>-445</b>	<b>-5,312</b>
Deferred taxes		
– Due to tax loss carryforwards	-8,244	6,876
– Tax effect on IPO	-107	-108
– Tax effect on temporary differences	135	-241
<b>Total deferred taxes</b>	<b>-8,216</b>	<b>6,527</b>
<b>Total tax expense (prior year: tax benefit)</b>	<b>-8,661</b>	<b>1,215</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 during the period under review was approx. 14 %.

German corporate income tax is levied at 25 % irrespective of whether the result is retained or distributed. Additionally, a solidarity surcharge of 5.5 % is imposed on the assessed corporate income tax.

In accordance with SFAS No. 109, 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:

■ Belgium:	indefinite
■ Denmark:	5 years
■ Norway:	10 years
■ Finland:	10 years
■ Spain:	10 years
■ Switzerland:	7 years
■ United Kingdom:	indefinite
■ Netherlands:	indefinite
■ Austria:	indefinite
■ Sweden:	indefinite
■ Italy:	5 years
■ Ireland:	indefinite

In Germany, the loss carryforwards can be claimed for an indefinite period. These relate to loss carryforwards as of December 31, 2002 of AdLINK Internet Media AG, AdLINK Internet Media GmbH Deutschland and GMX GmbH.

Deferred taxes were calculated using a composite tax rate (corporate income tax, solidarity surcharge and trade tax on income). This amounts to 36.8 %.

Deferred taxes are composed as follows:

	<b>2002</b>	<b>2001</b>
	€k	€k
Deferred tax assets due to		
– tax loss carryforwards	23,950	34,345
– adjustment of loss carryforwards	-17,434	-19,585
<b>Total deferred tax assets</b>	<b>6,516</b>	<b>14,760</b>
Deferred tax liabilities due to		
– consolidation adjustments	-7	-30
– differing carrying amounts	-89	-151
<b>Total deferred tax liabilities</b>	<b>-96</b>	<b>-181</b>
<b>Deferred taxes</b>	<b>6,420</b>	<b>14,579</b>

The above-mentioned valuation allowances have been made due to the fact that the Company believes that the loss carry forwards as of the balance sheet date will only be recovered to a limited extent in the near future.

The aggregate tax rate is reconciled to the Company's effective tax rate as follows:

	2002	2001
	%	%
Anticipated tax expense/income from result before taxes	-36.8	36.8
- Goodwill amortization non-deductible for tax purposes	-5.4	-15.1
- Differences in foreign tax rates	-1.0	-3.1
- Employee stock ownership plan	1.9	0.0
- Allowances on deferred tax assets on tax losses of fully consolidated companies	-12.5	-31.7
- Reversal of allowances for deferred tax assets on tax losses of fully consolidated companies	6.2	15.5
- Non-taxable capital gains	29.7	0.0
- Non-deductible expenses	-3.3	0.4
<b>Tax expense/income based on statement of income</b>	<b>-21.2</b>	<b>2.8</b>

## (21) OTHER FINANCIAL OBLIGATIONS AND CONTINGENCIES

### a) Leases and Rent

As of December 31, 2002, the future minimum lease obligations for buildings and business premises and for movable items (vehicles, telephone systems, copiers, etc.) totaled € 7,198k, € 6,968k, € 6,499k, € 5,628k and € 5,909k for the fiscal years 2003 to 2007.

### b) Contingent Liabilities 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 not been utilized as of the balance sheet date.

In acquiring AdLINK UK in 2000, approximately 50% of the purchase price was deferred. The residual purchase price payment of € 1,789k will be payable on March 31, 2003 and may be settled in the form of AdLINK shares.

In connection with the acquisition of the European media operations of DoubleClick Inc., United Internet AG has concluded an option agreement with DoubleClick. Under the provisions of this option agreement, DoubleClick has received a call option for 5,407,500 shares in AdLINK. These shares were transferred to the escrow agent, Contor Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft, by United Internet. The exercise of the call option is linked to AdLINK meeting specific earnings targets. If DoubleClick does not exercise the call option, these shares will return to United Internet.

twenty4help AG was granted subsidies totaling € 8,293k for the expansion of the Görlitz site by Sächsische AufbauBank GmbH in Dresden. As of December 31, 2002, the Company had received subsidies from this of € 4,140k for 424 newly created jobs and a cumulative amount of € 3,215k was taken to income in 2000, 2001 and 2002. These subsidies may be repayable in part or in full in the future, if the necessary number of jobs is not maintained until March 27, 2008. The management board of twenty4help AG expects that all conditions stipulated by Sächsische AufbauBank will be fulfilled, that repayment of the subsidies received is unlikely and that risks resulting from this are low. As a result, this commitment is not disclosed in the balance sheet. An accrual of € 357k (prior year € 144k) was only set up for job structure-related risks.

Schlund + Partner AG was granted one-time subsidies of € 5,113k by the City of Karlsruhe in connection with the construction of a new computer center in Karlsruhe; this was paid in three installments. To cover possible repayment claims and any claims for contractual penalties by the City of Karlsruhe against Schlund + Partner AG, 1&1 Internet AG has provided a directly enforceable guarantee for each installment. The total amounts to € 5,113k. The guarantees assumed by BHF Bank, Mainz, are for an indefinite period and may not be terminated for the period in which repayment claims and claims for contractual penalties may be made. The guarantee commission is 0.75 % and is payable in advance every six months.

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.

## (22) SEGMENT REPORTING

Segment reporting applies exclusively to the organizational structure aligned to products/customers created at the beginning of fiscal year 2002. It therefore relates to the product business, outsourcing business, head office/investments (including AdLINK).

With its brands GMX, 1&1 and Schlund + Partner in the product segment, the Group markets technical internet services for demanding private users and small and medium-sized companies.

The Company recognizes its revenue from providing internet access in the period in which the service is rendered, allowing for the recoverability of amounts owed by customers, which are collected solely by direct debit.

In the field of web hosting for demanding private customers and small and medium-sized companies, customers generally pay in advance for services provided by the Company for a contractually specified term. Revenue is allocated over these periods. Revenues and associated expenses relating to the following fiscal year are deferred on the balance sheet date.

The outsourcing segment markets these services under the Schlund Technologies brand as standard white-label products to other ISPs. With twenty4help, United Internet also offers high-quality customer relationship services in this segment, primarily call center services. These relate to the operation of hotlines and user helpdesks for IT and telecommunications providers. Services are invoiced on the basis of criteria agreed with customers, taking performance factors (speed, quality, etc.) into account. Revenue is recognized when services have been rendered and once customers have accepted the Company's invoices.

This range of services is supplemented by complementary specialists in the head office/investments segment. These companies are either technology partners complementing the products with special components or are sales and marketing partners. AdLINK Internet Media AG is the key player in this segment.

When selling advertising space and placing advertisements, sales are billed by AdLINK Internet Media AG depending on the levels of exposure achieved. Revenues are recognized depending on the recoverability when the campaign has been staged as agreed and the company and its client agree on its success (measured in terms of either thousands of contacts or of cost per click/expression of interest/order). Billing is done on a monthly basis. The amount agreed with and billed to the customer is recognized as revenue. The amounts credited to the operators of AdLINK websites are stated under

	Product business	Outsourcing business	Head office / Investments	Group
<b>2002</b>	€k	€k	€k	€k
External revenues	210,860	69,797	39,320	319,976
Internal revenues	1,251	1,098	2,914	5,263
Total revenues	212,111	70,894	42,234	325,239
EBITDA	54,387	15,538	-2,766	67,160
EBT	40,865	10,472	-10,285	41,052
Assets	100,464	31,158	106,198	237,820
– thereof long-term invested assets	50,610	16,922	52,486	120,018
Domestic	50,506	14,033	50,727	115,266
Non-domestic	104	2,889	1,759	4,752
Investments in intangible assets and property, plant and equipment	25,623	6,095	1,052	32,770
Amortization/depreciation	14,386	4,892	5,728	25,006
– of which goodwill impairment	0	0	2,204	2,204
– of which impairment of other assets	0	0	768	768
Number of employees	1,156	1,877	162	3,195
<b>2001</b>	€k	€k	€k	€k
External revenues	133,886	72,263	24,577	230,726
Internal revenues	2,041	2,186	2,336	6,564
Total revenues	135,927	74,450	26,913	237,290
EBITDA	25,280	19,368	-20,851	23,797
EBT	12,229	11,641	-66,508	-42,639
Assets	87,398	36,296	145,654	269,348
– thereof long-term invested assets	29,868	16,994	65,199	112,061
Domestic	29,775	14,744	63,480	107,999
Non-domestic	93	2,250	1,719	4,062
Investments in intangible assets and property, plant and equipment	12,859	4,755	2,021	19,635
Amortization/depreciation	12,783	7,108	41,007	60,898
– of which goodwill impairment	2,211	500	14,817	17,528
– of which impairment of other assets	0	0	23,600	23,600
Number of employees	947	1,719	220	2,886

cost of sales. The company largely discloses the respective revenues gross as they carry the economic risk of loss from receivables in these cases in full. The company's usual business practice is to charge a flat-rate margin markup to website partners; this covers all AdLINK's claims from possible losses from receivables.

Transactions between segments are charged at market prices.

Due to the changes in reporting segments since the prior year, the data for 2001 has been adjusted to the 2002 structure. Management redefined the business segments of United Internet in the course of a realignment of corporate strategy, which focuses more on products than on legal entities. The segments of United Internet are as shown in the table on the previous page.

In the product business segment, the largest customer accounts for approximately 15.3 % (prior year: 16.1 %) of revenues, the second largest for approximately 2.1% (prior year: 2.8 %) of revenues and the third largest for approximately 0.3 % (prior year: 1.1 %) of revenues. A total of € 3,262k (prior year: € 1,097k) was generated in other European countries.

In the outsourcing segment, the largest customer accounts for approximately 13.6 % (prior year: 14.4 %) of revenues, the second largest for approximately 13.2 % (prior year: 9.9 %) of revenues and the third largest for approximately 8.2 % (prior year: 8.7 %) of revenues. A total of € 24,196k (prior year: € 21,794k) was generated in other European countries.

No more than 10 % of revenues were generated with any one customer in fiscal years 2002 and 2001 in the head office/investments segment. A total of € 33,298k (prior year: € 19,183k) was generated in other European countries.

### **(23) EXEMPTION PURSUANT TO SEC. 264 (3) HGB**

The following companies of United Internet make use of the exempting provisions of Sec. 264 (3) HGB and therefore refrain from disclosing their financial statements:

- val-U Marketing GmbH, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- twenty4help Knowledge Service AG, Montabaur
- twenty4help Knowledge Service GmbH, Dortmund
- twenty4help Knowledge Service GmbH, Görlitz
- twenty4help Knowledge Service GmbH, Zweibrücken
- 1&1 Internet AG, Montabaur
- Schlund + Partner AG, Karlsruhe
- 1&1 puretec GmbH, Karlsruhe
- 1&1 Internet Service GmbH, Zweibrücken
- Convigat Network Solutions GmbH, Montabaur
- Schlund Technologies GmbH, Karlsruhe
- GMX Internet Services GmbH, Montabaur

### **(24) CHANGES IN THE PRESENTATION OF EXPENSES**

The Company changed the mapping of some expenses in contrast to prior year. In order to ensure a proper comparison, group profit & loss sheet of prior year were adjusted.

United Internet AG has begun to distinguish between acquisition of own customers on the one hand and external customers on the other hand. As a consequence, marketing expenses that occurred in context with the acquisition of own customers are accounted for as sales expenses. The amount of reclassified marketing expenses of the year 2001 is € 10,773k. This amount was included in cost of sales in the prior year.

AdLINK Internet Media AG has already begun to reduce its cost structure in certain areas in 2001 by means of restructuring measures. In order to increase the transparency of its group P&L and balance sheet, these measures are classified as “restructuring expenses”. The amount of reclassified restructuring expenses of 2001 amounts to € 2,136k. This amount was classified as other operating income/expense in the prior year.

#### **(25) CORPORATE GOVERNANCE CODE**

The declaration pursuant to Sec. 161 AktG on observance of the German Corporate Governance Code has been made by the Management Board and Supervisory Board and has been published on the homepage of United Internet AG.

Montabaur, March 6, 2003

The Management Board

Ralph	Norbert
Dommermuth	Lang



United Internet AG – Assets Movement Schedule for Fiscal Year 2002 in €k

Acquisition and production costs

	Jan. 1, 2002	Additions	Disposals	Reclassifications	Dec. 31, 2002
<b>Intangible Assets</b>					
Licenses	15,157	3,428	1,447	-647	16,942
Software	13,520	2,794	1,373	16	14,956
Low-value items	0	204	204	0	0
Goodwill	84,312	21,321	16,660	631	89,604
<b>Total (I)</b>	<b>112,989</b>	<b>27,747</b>	<b>19,684</b>	<b>0</b>	<b>121,052</b>
<b>Property, plant and equipment</b>					
Land and buildings	6,534	0	0	0	6,534
Office furniture and equipment	49,838	18,833	2,139	0	66,531
Payments in advance	227	350	40	0	537
Low-value items	0	1,521	1,521	0	0
<b>Total (II)</b>	<b>56,599</b>	<b>20,704</b>	<b>3,700</b>	<b>0</b>	<b>73,603</b>
<b>Financial assets</b>					
Shares in associated companies	38,126	125	100	668	38,819
Other loans	23,593	790	4,251	-668	19,464
<b>Total (III)</b>	<b>61,719</b>	<b>915</b>	<b>4,351</b>	<b>0</b>	<b>58,283</b>
<b>Total</b>	<b>231,307</b>	<b>49,366</b>	<b>27,735</b>	<b>0</b>	<b>252,938</b>

Accumulated depreciation			Net book value		
Jan. 1, 2002	Additions	Disposals	Dec. 31, 2002	Jan. 1, 2002	Dec. 31, 2002
9,395	4,058	1,039	12,414	5,762	4,078
8,086	3,420	785	10,722	5,434	4,234
0	204	204	0	0	0
31,559	2,491	6,232	27,818	52,753	61,787
<b>49,040</b>	<b>10,174</b>	<b>8,260</b>	<b>50,954</b>	<b>63,949</b>	<b>70,099</b>
2,341	243	0	2,584	4,194	3,951
23,868	13,068	1,482	35,444	25,970	31,087
0	0	0	0	227	537
0	1,521	1,521	0	0	0
<b>26,209</b>	<b>14,832</b>	<b>3,013</b>	<b>38,028</b>	<b>30,390</b>	<b>35,575</b>
26,334	0	59	26,275	11,792	12,543
17,663	0	0	17,663	5,930	1,801
<b>43,997</b>	<b>0</b>	<b>59</b>	<b>43,938</b>	<b>17,722</b>	<b>14,344</b>
<b>119,245</b>	<b>25,006</b>	<b>11,331</b>	<b>132,919</b>	<b>112,061</b>	<b>120,018</b>

# Independent Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by United Internet AG, Montabaur, for the fiscal year from January 1 to December 31, 2002. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with United States generally accepted accounting principles (US GAAP).

We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the IDW ("Institut der Wirtschaftsprüfer in Deutschland": Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatement. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with US GAAP.

Our audit, which also extends to the Group management report prepared by the executive board for the fiscal year from January 1 to December 31, 2002, has not led to any reservations. In our opinion, on the whole the Group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the fiscal year from January 1 to December 31, 2002 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the Group management report in accordance with German law.

Ernst & Young  
Revisions- und Treuhandgesellschaft mbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Fluck	Cihlar
Wirtschaftsprüfer	Wirtschaftsprüfer

Eschborn/Frankfurt am Main,  
March 7, 2003

■ **III. Parent Company's Financial Statements according to HGB  
(German Commercial Code)**

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**United Internet AG – Balance Sheet according to HGB**

as of December 31, 2002 in €k

**ASSETS**

	Dec. 31, 2002	Dec. 31, 2001
<b>Fixed assets</b>		
Intangible assets		
Concessions, industrial and similar rights and assets and licenses in such rights and assets	48	91
	<b>48</b>	<b>91</b>
<b>Property, plant and equipment</b>		
Other equipment, operational and office equipment	292	450
	<b>292</b>	<b>450</b>
<b>Financial assets</b>		
Shares in affiliated companies	79,718	100,536
Investments	33,037	20,677
Loans to companies in which an investment is held	0	4,484
Other loans	580	770
	<b>113,335</b>	<b>126,467</b>
	<b>113,675</b>	<b>127,008</b>
<b>Current assets</b>		
Accounts receivable and other assets		
Accounts receivable, trade	17	3
Receivables due from affiliated companies	28,383	24,608
Receivables due from companies in which an investment is held	700	6
Other assets	2,416	3,861
	<b>31,516</b>	<b>28,478</b>
Cash in hand and bank balances	16,796	20
	<b>48,312</b>	<b>28,498</b>
Prepaid expenses	0	99
	<b>161,987</b>	<b>155,605</b>

**EQUITY AND LIABILITIES**

	<b>Dec. 31, 2002</b>	<b>Dec. 31, 2001</b>
<b>Equity</b>		
Capital stock	56,882	56,882
Additional paid-in capital	38,354	38,354
Revenue reserves	898	898
Retained earnings / losses	42,081	-39,973
	<b>138,215</b>	<b>56,161</b>
<b>Subscribed capital</b>	865	0
<b>Accruals</b>		
Accrued taxes	4,106	1,517
Other reserves and accrued liabilities	7,026	1,621
	<b>11,132</b>	<b>3,138</b>
<b>Liabilities</b>		
Bonds	1,257	1,743
Liabilities due to banks	0	81,018
Accounts payable, trade	118	826
Liabilities due to the issuance of bills	0	5,113
Liabilities due to affiliated companies	7,756	2,438
Other liabilities	2,644	5,168
	<b>11,775</b>	<b>96,306</b>
	<b>161,987</b>	<b>155,605</b>

**United Internet AG – Statement of Income according to HGB**

from January 1, 2002 to December 31, 2002 in €k

	<b>2002</b>	<b>2001</b>
Net sales	3,002	2,438
Other operating income	35,113	2,988
Cost of materials		
Cost of purchased services	-1,962	-1,723
Personnel expenses		
a. Wages and salaries	-1,487	-2,255
b. Social security contributions	-92	-321
Amortization and depreciation of intangible assets and property, plant, and equipment	-231	-327
Other operating expenses	-3,731	-9,417
Income from profit transfer agreements		56,105
24,410		
Income from investments	100	4,343
Other interest and similar income	737	1,119
Losses absorbed	0	-198
Depreciation on financial assets	0	-30,272
Interest and similar expenses	-2,983	-5,478
<b>Result from ordinary activities</b>	<b>84,571</b>	<b>-14,693</b>
<b>Result before taxes</b>	<b>84,571</b>	<b>-14,693</b>
Taxes on income	-2,516	-1,436
Other taxes	-1	-2
<b>Net profit / loss for the year</b>	<b>82,054</b>	<b>-16,131</b>
Accumulated deficit	-39,973	-23,842
<b>Balance sheet profit / loss</b>	<b>42,081</b>	<b>-39,973</b>

# United Internet AG

## Notes to the Financial Statements for Fiscal Year 2002

### GENERAL PROVISIONS

United Internet AG, Montabaur, is a large corporation pursuant to Sec. 267 (3) HGB (German Commercial Code).

The financial statements for fiscal year 2002 are based on the provisions of the German Commercial Code and the Stock Corporation Act (AktG), as amended.

The income statement has been prepared according to the cost summary method.

We make reference to the fact that consolidated financial statements have been prepared according to US accounting provisions (US-GAAP) to comply with the listing requirements for the Neuer Markt and Sec. 292a HGB, and have been published in accordance with Sec. 325 HGB.

### INFORMATION ABOUT THE COMPANY

The business activities of United Internet AG go back to "Eins & Eins EDV Marketing GmbH" which was founded by Mr. Ralph Dommermuth and two other shareholders in 1988. The name of this marketing company was changed to "1&1 EDV Marketing GmbH", before being finally renamed "1&1 Holding GmbH" in 1993.

United Internet AG was founded on January 29, 1998 as a new holding company for the 1&1 Group, with the name 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, a partnership limited by shares. The Company was entered into the commer-

cial register at the Local Court of Montabaur against HRB 5762 on February 16, 1998; 1&1 Holding GmbH was then merged into the company with effect from January 1, 1998.

On March 20, 1998 the Company's shares were admitted to the regulated market with listing in the Neuer Markt on the Frankfurt Stock Exchange. The shares were traded for the first time on March 23, 1998.

The extraordinary shareholders' meeting on February 22, 2000 adopted a resolution to change the name of the Company to United Internet Aktiengesellschaft & Co. KGaA. The new name was entered in the commercial register on February 23, 2000.

The change of legal form to a stock corporation by the name of United Internet AG, also decided on February 22, 2000, was entered in the commercial register on March 23, 2000.

### PURPOSE OF THE COMPANY

The purpose of the Company is to provide marketing, selling and other services, especially in the fields of telecommunications, information technology, including the Internet, and data processing or related areas. The Company's purpose also includes the acquisition, holding and management of investments in other companies, especially those operative in the aforementioned business segments. The Company is entitled to bring companies in which it holds an investment under its common control and may restrict itself to the management or administration of its investments.

The Company is authorized to acquire or hold investments in all types of companies in Germany and other countries and to transact all business that is conducive to its purpose. The Company is also

authorized to conduct its business through subsidiaries, associated companies and joint ventures. It may outsource or transfer all or part of its operations to affiliated companies.

## **MANAGEMENT AND REPRESENTATION OF THE COMPANY**

The Company's Management board manages and represents the Company. According to its by-laws, the Management Board has one or more members, the number of which is determined by the Supervisory Board. If the Management Board has only one member, the Company is represented by this person. If it has more than one member, the Company is represented by two members of the Management Board or by one member of the Management Board collectively with a person holding statutory authority; however, the Supervisory Board may authorize particular members of the Management Board to represent the Company on their own.

## **NOTES TO BALANCE SHEET ITEMS**

All figures are in euro (€) or thousand euro (€k).

## **ACCOUNTING AND VALUATION METHODS**

Additions of assets are capitalized at acquisition or production cost.

Intangible assets acquired for a consideration were capitalized at acquisition cost and were subject to scheduled amortization.

Property, plant and equipment are valued at acquisition or production cost less scheduled depreciation over their normal useful lives. Additions prior to 1995 were depreciated using the straight-line method. Additions from 1995 onwards have been

depreciated using the declining balance method. The Company has made use of the simplification rule of R 44 (2) of the German Income Tax Regulations (EStR), which allows half the annual depreciation charge to be allocated to additions until June 30 or the full charge for those acquired afterwards.

Software and corresponding licenses are amortized over a period of 2 to 5 years. Operational equipment is usually depreciated over 4 to 5 years. Leasehold improvements are written off over a period of ten years. The normal useful life of office furniture and equipment is 8 to 13 years, that of vehicles 4 to 6 years.

Low-value items are fully expensed in the year of acquisition; for the sake of simplicity it is assumed that they are disposed of immediately.

Shares in affiliated companies, investments and other financial assets are recorded at the lower of the acquisition cost or realizable value on the balance sheet date.

Receivables and other assets are recorded at nominal value. General risks that are significant in terms of amount are covered by lump-sum bad debt allowances.

Appropriate and adequate accruals have been recognized for contingent liabilities and recognizable risks.

Liabilities are stated at the amount repayable.

## **FIXED ASSETS**

Reference is made to the assets movement schedule (Exhibit 1 of the notes) for the classification and development of fixed assets.

### **Intangible Assets and Property, Plant and Equipment**

The most important investments in this area are operational equipment and vehicles.

### **Financial Assets**

Information on the equity situation and results of operations of the affiliated companies and associated companies, companies, stating the share held, is provided in the list of shareholdings (Exhibit 2 of the notes).

In fiscal year 2002 United Internet AG reported total additions to shares in affiliated companies of € 6.8 million. Of this total, € 5.4 million resulted from a business combination agreement with DoubleClick Inc., by which the free shareholders of AdLINK Internet Media AG were offered to sell up to 37.13 % of their shares by means of public offer. A total of 1.38 million shares (5 % of share capital) in AdLINK Internet Media AG were purchased. Together with a further 2.48 million AdLINK shares already held by United Internet AG, these shares were sold to DoubleClick Inc. (in total 15 % of share capital). As part of an option agreement, United Internet AG also agreed to transfer a further 5.4 million AdLINK shares (21 % of share capital) to DoubleClick Inc. without charge by the first quarter of 2004. This transfer right of DoubleClick Inc. is subject to AdLINK meeting agreed earnings targets within a contractually defined period (call option). The 5.4 million AdLINK shares were deposited with a trustee and included at book value under accrued delivery obligations.

Further additions to shares in affiliated companies amounting to € 1.4 million concern 1&1 Internet AG and resulted from the contribution of shares in GMX GmbH, which were transferred from United Internet AG to 1&1 Internet AG.

Disposals of shares in affiliated companies amounting to € 8.0 million, concern the sale of AdLINK

shares to DoubleClick Inc. and the sale of val-U Marketing GmbH to 1&1 Internet AG (€ 1.1 million).

Reclassifications of € 18.4 million resulted from disclosing shares in AdLINK Internet Media AG under the heading "Investments". As part of the sale agreement, 21 % of shares were transferred to a trustee, Contor Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft. As of December 23, 2002, the voting rights for this 21 % of share capital were also contractually transferred to the trustee. In an economic sense, therefore, United Internet AG's holding in the company has fallen below 50 %.

Additions to investments resulted mainly from an increased investment in NT plus AG (€ 0.5 million).

The disposal of investments (€ 7.2 million) was a consequence of the sale of shares in jobpilot AG, in which United Internet AG held a significant investment of 25.58 %, as part of a takeover agreement with Adecco S. A.

The disposals of loans related to the full redemption of a loan by NT plus AG (€ 0.2 million) and the repayment of a loan by inson HOLDING GmbH (€ 3.7 million).

## **CURRENT ASSETS**

### **Receivables and Other Assets**

No specific bad debt allowances had to be made for trade receivables. No lump-sum bad debt allowance to cover the general credit risk was recognized either due to the low volume of receivables.

Receivables from affiliated companies comprise receivables due from 1&1 Internet AG, twenty4help Knowledge Service AG, val-U Marketing GmbH and A1 Marketing, Kommunikation und neue Medien GmbH in accordance with the domination and

profit and loss transfer agreements concluded with these companies, as well as from trade and the balances from the United Internet Group's internal cash management operations.

The other assets include mostly tax refunds from corporate income tax credits on investment income.

Receivables from companies in which an investment is held refer to receivables for services and interest receivable from associated companies and their shareholders.

Receivables and other assets are due in less than one year.

#### **Prepaid expenses**

In accordance with Sec. 250 (3) HGB, prepaid expenses contained deferred debt expenses of € 91k which were released to expenses due to repayment of the underlying loan.

#### **EQUITY**

The Company has the legal form of a stock corporation ("Aktiengesellschaft").

#### **Capital Stock and Shares**

The fully paid in capital stock amounts to € 56,881,887.00 as of the balance sheet date.

On the basis of the conditional increase of the Company's capital stock by up to € 2,500,000.00, as agreed at the general meeting of shareholders on May 16, 2001, a total of 300,500 registered, no-par shares with a theoretical share in the capital stock of € 300,500.00 were issued in exchange for convertible bonds in the past fiscal year, as part of the Company's employee stock ownership plan. As the transaction was entered in the commercial register on January 13, 2003, the corresponding contributions and additional payments are disclosed under the special item "Subscribed capital".

The Company's capital stock now amounts to € 57,182,387.00, divided into 57,182,387 registered no-par shares having a theoretical share in the capital stock of € 1.00 each.

#### **Approved Capital**

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by May 2, 2005 by a maximum of € 20,638,113.00 by issuing on one or more occasions common and/or non-voting preference shares in return for cash or non-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 following cases:

- a) Capital increases of up to a total of € 5,168,000.00, if the new shares are issued in return for cash contributions and the issue amount of the new shares is not substantially—and in no case more than 5 %—lower than the quoted market price of shares with the same terms at the time of finalizing the issue amount. If the Company has acquired its own shares by virtue of authorization under Sec. 71 (1) No. 8 AktG, and, without granting a subscription right to shareholders, sold them in any way other than through the stock market, the above mentioned authorization to exclude shareholders' subscription rights is reduced by the proportion of the capital stock attributable to the treasury stock sold in this way;
- b) Capital increases of up to a total of € 5,134,113.00, if the new shares are issued in return for contributions in kind;
- c) To equalize fractional amounts created by a capital increase.

### Conditional Capital

The following conditional capital exists:

- The capital stock has been conditionally increased by up to € 2,000,000.00, divided into 2,000,000 no-par registered shares. A portion of the conditional capital of € 1,200,000.00 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, a portion of € 800,000.00 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issue of both types of bond was decided by the shareholders' meeting on February 18, 1998. It will only be implemented to the extent that these conversion rights are exercised.
- The capital stock has been conditionally increased by up to a further € 5,867,490.00, divided in up to 5,867,490 no-par registered shares. The conditional capital increase will only be executed to the extent that the bearers of warrants or conversion rights from the warrant-linked bonds or convertible bonds issued by the Company or a direct or indirect German or foreign wholly-owned subsidiary until May 2, 2005 in accordance with the resolution passed by the general meeting of shareholders on May 3, 2000 exercise these rights, or to the extent that the bearers who are obligated to convert the convertible bonds issued by the Company or a direct or indirect German or foreign wholly owned subsidiary until May 2, 2005 meet their obligation to convert such bonds. The new shares will participate in profits from the beginning of the fiscal year in which they are created through the exercise of option or conversion rights or by meeting conversion obligations.
- The capital stock has been conditionally increased by up to a further € 2,199,500.00, divided into 2,199,500 no-par shares. The conditional capital increase is earmarked for conversion options to be granted to bearers of convertible bonds, the issue

of which was decided by the shareholders' meeting on May 16, 2001. The conditional capital increase will only be executed to the extent that the bearers exercise their conversion rights. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercising the conversion rights.

With regard to the Company's Management Board members, the Supervisory Board is entitled to determine further details of the conditional capital increase and its execution. With regard to all other persons entitled to the convertible bonds, the Management Board is entitled to determine the above-mentioned details and execution.

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire its own shares until November 15, 2003 up to a limit of ten percent of capital stock. The purchase price may be no lower than five percent of the share's market price, nor higher than five percent above its market price.

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to sell treasury stock it has acquired in other ways than through the stock exchange or by offering to all shareholders, if the acquired treasury stock is sold for cash contribution at a price not significantly below the market price for such shares at the time of sale, or for reasonable non-cash consideration.

This permission declines by the proportion of capital stock attributable to shares excluded from subscription rights by the Company's by-laws.

Subject to approval by the Supervisory Board, the Management Board is authorized to use the own shares acquired on the basis of this authorization to grant shares to members of the Management Board, to other Company employees as well as to the management and employees of affiliated companies acc. to Sec. 15 ff. AktG, who are entitled to them

on the basis of employee stock ownership plans. The Company's Supervisory Board shall decide in all cases where own shares are to be transferred to members of the Management Board.

The Management Board is further permitted, subject to the approval of the Supervisory Board, to call in shares without a further resolution of the general meeting of shareholders.

The shareholders' subscription rights to own shares are excluded insofar as these shares are used according to the above authorizations. The authorization to purchase, sell or withdraw own shares can be exercised once or severally and either in total or in parts.

Capital stock and capital reserves developed as follows (€):

#### **Capital stock**

– Balance on	
December 31, 2001	56,881,887.00
– Balance on	
December 31, 2002	<b>56,881,887.00</b>

#### **Capital reserves**

– Balance on	
December 31, 2001	38,353,520.22
– Balance on	
December 31, 2002	<b>38,353,520.22</b>

According to section 21 of the by-laws of United Internet AG, the general meeting of shareholders decides on the appropriation of retained earnings. The balance sheet profit amounts to € 42,081,130.59; the Management Board and Supervisory Board propose a dividend payment of 50 cents per share (10 cents basic dividend plus 40 cents bonus). The remaining amount is to be carried forward.

#### **ACCRUALS**

Accrued taxes include accrued corporation tax and trade earnings tax for risks arising from tax audits for the years 1994 to 1997 amounting to € 1,324k, as well corporation tax and solidarity surcharge for fiscal 2002 amounting to € 2,131k.

Other accrued liabilities contain appropriate accrued liabilities, which have been set up for all foreseeable liabilities whose amount and nature are uncertain. They relate to an obligation to transfer 5,407,500 AdLINK shares (corresponding to 21 % of AdLINK's current share capital) free of charge to DoubleClick (€ 5,725k) as part of a business combination agreement (call option). They also include provisions, especially for legal, auditing and consulting fees (€ 289k), outstanding invoices (€ 60k), bonuses (€ 252k) and personnel expenses.

#### **LIABILITIES**

The classification and maturities of the liabilities are shown in the table on the next page.

The bonds include convertible bonds granted to executives of the Company and its affiliated companies as part of the employee stock ownership plan. Their maturity has been determined according to their earliest possible date of conversion.

The Company's general meeting on February 18, 1998 authorized the following issues of convertible bonds to executives:

#### **Tranche (a)**

The Company's Management Board was authorized, subject to the approval of the Supervisory Board, to issue on one or more occasions until February 15, 2003 interest-bearing convertible bonds with a maximum total par value of € 1,200k and a maximum term of seven years to executive employees of

the Company and to members of the representative bodies of affiliated companies.

#### Tranche (b)

The Supervisory Board was authorized to issue on one or more occasions until February 15, 2003, interest-bearing convertible bonds of a maximum par value of € 800k and a term of no more than seven years to members of the Company's Management Board. The shareholders' statutory subscription right was excluded in each case.

The convertible bonds, which bear 4 % interest p. a., may be exchanged as a whole or in parts for shares in United Internet AG. Each DM 5 par value (€ 2.56) of the convertible bonds can be exchanged for ten registered shares.

If the conversion option is exercised, a cash payment of € 3.83 has to be made for the purchase of one

share. Bonds may be converted no sooner than three years after issuance, providing that certain conditions linked to the development of the share price are fulfilled.

In the fiscal year, no convertible bonds were granted out of tranches (a) and (b). € 8k was repaid when employees left the Company. Hence as of the balance sheet date, convertible bonds of tranche (a) amounting to € 104k are shown under bonds. This is equivalent to a total of 408,000 registered shares.

The general meeting of May 16, 2001 resolved that convertible bonds may also be granted to members of the Management Board and other executives of the Company and its subsidiaries, as well as to members of executive bodies of Company subsidiaries, with the exception of members of supervisory boards of subsidiaries headquartered in Germany. Conditional capital of € 2,500k was created for this purpose.

	Of which due in				Dec. 31, 2002 Total €k
	Dec. 31, 2002 Total €k	Dec. 31, 2002 less than one year €k	Dec. 31, 2002 between one and five years €k	Dec. 31, 2002 more than five years €k	
Bonds	1,257	0	1,257	0	1,743
thereof convertible € 1,257k (prior year € 1,743k)					
Liabilities due to banks	0	0	0	0	81,018
Trade payable	118	118	0	0	826
Notes payable	0	0	0	0	5,113
Liabilities due to					
affiliated companies	7,756	7,756	0	0	2,438
Other liabilities	2,644	2,644	0	0	5,168
thereof for social security € 10k (prior year: € 28k)					
	<b>11,775</b>	<b>10,518</b>	<b>1,257</b>	<b>0</b>	<b>96,306</b>

The convertible bonds, which bear 4.5 % interest p. a., may be exchanged as a whole or in parts for shares in United Internet AG. Each € 1 par value of the convertible bonds can be exchanged for a registered share.

If the conversion option is exercised, an additional payment has to be made for the purchase of one share. In the case of those convertible bonds issued on August 20, 2001, this additional payment amounts to € 1.88, while for those issued on May 24, 2002, the additional payment amounts to € 4.97. Bonds may be converted no sooner than one year after issuance.

In the period under review € 138k was issued to Company executives and members of executive bodies of subsidiaries. € 315k was repaid when employees left the Company. Conversion rights totaling € 301k were exercised. Hence as of the balance sheet date, convertible bonds amounting to € 1,153k are shown under bonds. This is equivalent to a total of 1,152,500 registered shares.

As of the balance sheet date a total of € 1,257k was shown under bonds. This corresponds to 1,560,500 registered shares.

The liabilities to affiliated companies consist of liabilities for services received and balances from the United Internet Group's internal cash management.

## **NOTES TO THE INCOME STATEMENT**

### **SALES**

The Company's sales were generated exclusively in Germany and mainly comprise charges to subsidiaries for services and rent.

### **OTHER OPERATING INCOME**

Other operating income mainly consists of income from the sale of AdLINK shares to DoubleClick (€ 21.7 million) and the sale of jobpilot shares to Adecco (€ 11.5 million). The item contains income of € 326k that does not relate to the period.

### **OTHER OPERATING EXPENSES**

In addition to expenses relating to the Company's realignment as a premium Internet Service Provider (€ 720k), the other operating expenses contain rent expenses and legal, consulting and audit fees. The item also contains expenses of € 148k that do not relate to the period.

### **INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS**

This item comprises the profits and losses transferred by 1&1 Internet AG (€ 45,615k), twenty4help Knowledge Service AG (€ 9,786k), val-U Marketing GmbH (€ 594k) and A1 Marketing, Kommunikation und neue Medien GmbH (€ 110k).

### **INCOME FROM INVESTMENTS**

Income from investments relates to dividend payments of fun communications GmbH, concerning its fiscal year 2001.

### **INCOME TAXES**

Income taxes include expected tax backpayments due to a tax audit of the years 1994 to 1997 carried out in 2001, as well as accrued taxes for 2002.

## OTHER DISCLOSURES

### Average Number of Employees

An average of 9 permanent salaried staff (including apprentices, but without Management Board members and part-time staff) were employed in the past fiscal year (prior year: 44).

### Executive bodies of United Internet AG

The Management Board has the following members:

- Ralph Dommermuth,  
qualified banker, Montabaur
- Norbert Lang,  
qualified banker, Waldbrunn
- Richard Seibt,  
business graduate, Königswinter  
(until December 10, 2002)

The members of the Management Board also belong to the supervisory boards of the following companies:

- **Ralph Dommermuth**
  - twenty4help Knowledge Service AG, Montabaur
- **Norbert Lang**
  - AdLINK Internet Media AG, Montabaur
  - twenty4help Knowledge Service AG, Montabaur
  - Metropolis AG, Reutlingen
  - UNION Actien-Gesellschaft für Versicherungen, Cologne (chairman)

Remuneration paid to the members of the Management Board totaled € 759k (prior year: € 697k) in the past fiscal year. Of this total, the fixed portion amounted to € 465k and the variable portion € 294k.

As of December 31, 2002, the Supervisory Board of United Internet AG consisted of the following members:

- Kurt Dobitsch, chairman  
entrepreneur, Baldham
- Bernhard Dorn,  
self-employed business consultant, Leonberg
- Michael Scheeren,  
qualified banker, Dreikirchen

The members of the Supervisory Board also belong to the supervisory boards of the following companies:

- **Kurt Dobitsch**
  - 1&1 Internet AG, Montabaur
  - twenty4help Knowledge Service AG, Montabaur
  - AdLINK Internet Media AG, Montabaur
  - Nemetschek AG, Munich (chairman)
  - Bechtle AG, Gaildorf
  - FINEX Finanzforum AG, Ebersberg
  - R + S AG, Denkendorf
- **Bernhard Dorn**
  - 1&1 Internet AG, Montabaur
  - twenty4help Knowledge Service AG, Montabaur
  - AXA Service AG, Cologne
  - DB Systems GmbH, Frankfurt
  - ce CONSUMER ELECTRONIC AG, Munich (deputy chairman)
  - SYSTEMATICS AG, Hamburg (deputy chairman)

- TDS AG, Neckarsulm  
(deputy chairman)
- ATOSS Software AG, Munich  
(deputy chairman)

▪ **Michael Scheeren**

- 1&1 Internet AG, Montabaur (chairman)
- twenty4help Knowledge Service AG,  
Montabaur (chairman)
- AdLINK Internet Media AG,  
Montabaur (chairman)
- NTplus AG, Osnabrück

Remuneration for members of the Supervisory Board amounts to € 10k per fiscal year, plus € 2k per meeting. The chairman receives twice the amount entitled to a normal member of the Supervisory Board. In fiscal 2002, there were five meetings of the Supervisory Board. Total remuneration granted to members of the Supervisory Board for fiscal year 2002 therefore amounted to € 80k.

**Share ownership (units) as of December 31, 2002**

▪ **Management Board**

Ralph Dommermuth	25,239,905
Norbert Lang	226,000

▪ **Supervisory Board**

Kurt Dobitsch	–
Bernhard Dorn	–
Michael Scheeren	470,000

**Subscription rights**

▪ **Norbert Lang**

Amount at year-beginning	140,000
Disposal	28,000
Amount at year-end	112,000

**Contingent liabilities**

The Company is jointly and severally liable for a credit line granted by a bank to companies of the United Internet Group. As of the balance sheet date, the credit line had not been used. There are no other bank liabilities.

**Other Financial Commitments**

The Company has obligations under rent agreements, mostly for its offices and business premises in Montabaur.

	<b>2002</b>
	€k
Liabilities from long-term rent obligations	5,464
of which due within one year	875
of which due between one and five years	4,257
of which due in more than five years	332

**Corporate Governance Code**

The declaration of conformity with the German Corporate Governance Code acc. to Sec. 161 AktG was filed by the Management Board and Supervisory Board and posted on the home page of United Internet AG.

Montabaur, February 20, 2003

The Management Board

Ralph Dommermuth	Norbert Lang
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**United Internet AG – Assets Movement Schedule**  
for Fiscal Year 2002 in €k

**Acquisition and production costs**

	Jan. 1, 2002	Additions	Disposals	Reclassifications	Dec. 31, 2002
<b>Intangible assets</b>					
Licenses	136	0	0	0	136
Software	613	0	0	0	613
<b>Total (I)</b>	<b>749</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>749</b>
<b>Property, plant and equipment</b>					
Operational equipment	859	34	11	0	882
Office and furniture equipment	589	0	0	0	589
Leasehold improvements	106	0	0	0	106
Motor vehicles	380	28	79	0	329
Low-value items	0	11	11	0	0
<b>Total (II)</b>	<b>1,934</b>	<b>73</b>	<b>101</b>	<b>0</b>	<b>1,906</b>
<b>Financial assets</b>					
Shares in affiliated companies	100,536	6,788	9,172	-18,434	79,718
Investments	40,881	461	7,203	19,102	53,241
Loans to companies in which an investment is held	20,548	77	3,893	-668	16,064
Other loans	2,370	0	190	0	2,179
<b>Total (III)</b>	<b>164,335</b>	<b>7,326</b>	<b>20,458</b>	<b>0</b>	<b>151,202</b>
<b>Total</b>	<b>167,018</b>	<b>7,399</b>	<b>20,559</b>	<b>0</b>	<b>153,857</b>

Exhibit 1

Accumulated depreciation			Net book value		
Jan. 1, 2002	Additions	Disposals	Dec. 31, 2002	Jan. 1, 2002	Dec. 31, 2002
76	17	0	94	60	42
582	25	0	607	31	6
<b>658</b>	<b>42</b>	<b>0</b>	<b>701</b>	<b>91</b>	<b>48</b>
734	84	7	811	125	71
450	42	0	491	138	97
84	5	0	89	21	18
216	49	41	223	166	106
0	11	11	0	0	0
<b>1,484</b>	<b>189</b>	<b>59</b>	<b>1,614</b>	<b>450</b>	<b>292</b>
0	0	0	0	100,536	79,718
20,205	0	0	20,205	20,677	33,037
16,064	0	0	16,064	4,484	0
1,599	0	0	1,599	770	580
<b>37,867</b>	<b>0</b>	<b>0</b>	<b>37,867</b>	<b>126,467</b>	<b>113,335</b>
<b>40,010</b>	<b>231</b>	<b>59</b>	<b>40,182</b>	<b>127,008</b>	<b>113,675</b>

**United Internet AG, Montabaur**

List of Shareholdings as at December 31, 2002

	Equity as at December 31, 2002 €k	Profit/loss of fiscal year 2002 €k	Shares in %
<b>Direct shareholdings</b>			
1 & 1 Internet AG, Montabaur <sup>(1)</sup>	62,021	0	100.00
twenty4help Knowledge Service AG, Montabaur <sup>(1)</sup>	11,034	0	100.00
United Internet Start-up GmbH, Montabaur	17	-6	100.00
MIP Multimedia Internet Park GmbH, Zweibrücken	209	-169	100.00
inson HOLDING GmbH, Ratingen <sup>(5)</sup>	n/a	n/a	100.00
<hr/>			
AdLINK Internet Media AG, Montabaur <sup>(6)</sup>	42,059	-44,722	67.62
Metropolis AG, Reutlingen	-350	416	43.96
Sedo GmbH, Cologne	165	87	41.04
NT plus AG, Osnabrück	13,502	301	40.23
fun communications GmbH, Karlsruhe	1,953	1,090	33.33
<hr/>			
<b>Indirect shareholdings</b>			
1&1 Internet Ltd., London / United Kingdom	-5,716	-2,310	100.00
1&1 Internet S.A.R.L., Saargemünd / France	90	89	100.00
1&1 Internet Service GmbH, Zweibrücken <sup>(2)</sup>	25	0	100.00
A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur <sup>(1)</sup>	31	0	100.00
Convigate Network Solutions GmbH, Montabaur <sup>(2)</sup>	507	0	100.00
General Media Xervices GMX S.L., Madrid / Spain <sup>(5)</sup>	n/a	n/a	100.00
GMX France S.A.R.L., Paris / France <sup>(5)</sup>	n/a	n/a	100.00
GMX GmbH, Munich	18,510	6,891	100.00
GMX Internet Services GmbH, Montabaur <sup>(2)</sup>	25	0	100.00
GMX Internet Services Ltd., Nottingham / United Kingdom <sup>(5)</sup>	n/a	n/a	100.00
GMX Italia S.R.L., Mailand / Italy <sup>(5)</sup>	n/a	n/a	100.00
Schlund + Partner AG, Karlsruhe <sup>(2)</sup>	395	0	100.00
Schlund Technologies GmbH, Karlsruhe <sup>(2)</sup>	25	0	100.00
val-U Marketing GmbH, Montabaur <sup>(1)</sup>	511	0	100.00
UNION Actien-Gesellschaft für Versicherungen, Cologne <sup>(5)</sup>	n/a	n/a	100.00
twenty4help Knowledge Service GmbH, Dortmund <sup>(3)</sup>	258	0	100.00
twenty4help Knowledge Service GmbH, Zweibrücken <sup>(4)</sup>	25	0	100.00
twenty4help Knowledge Service GmbH, Görlitz <sup>(4)</sup>	525	0	100.00
twenty4help Knowledge Service B.V., Maastricht / Netherlands <sup>(5)</sup>	535	42	100.00
twenty4help Knowledge Service AB, Ljusdal / Sweden	776	211	100.00
twenty4help Knowledge Service Ltd., Newcastle / United Kingdom <sup>(5)</sup>	247	125	100.00
twenty4help Knowledge Service AG, Zug / Switzerland	1,103	75	100.00

Continued

Exhibit 2

	Equity as at December 31, 2002 €k	Profit/loss of fiscal year 2002 €k	Shares in %
AdLINK Internet Media AB, Stockholm / Sweden	-1,134	-895	67.62
AdLINK Internet Media S.A., Levallois Perret / France	-2,735	-1,637	67.62
AdLINK Internet Media Axial, Paris / France	7	0	67.62
AdLINK Internet Media B.V., Amsterdam / Netherlands	-534	-56	67.62
AdLINK Internet Media AS, Oslo / Norway	-1,589	-1,094	67.62
AdLINK Internet Media GmbH Deutschland, Montabaur	-2,968	-441	67.62
AdLINK Internet Media S.L.U., Madrid / Spain	-1,015	-635	67.62
AdLINK Internet Media Ltd., London / United Kingdom	-2,369	-425	67.62
AdLINK Internet Media OY, Helsinki / Finland <sup>(5)</sup>	n/a	n/a	67.62
AdLINK Internet Media ApS, Copenhagen / Denmark	-1,058	-1,058	67.62
AdLINK Internet Media N.V., Strombeek-Bever / Belgium	-311	-397	67.62
AdLINK Internet Media SRL, Mailand / Italy	-267	-328	67.62
Response Republic Europe GmbH, Montabaur	25	0	67.62
DoubleClick Internet Sales Ltd., Dublin / Ireland <sup>(5)</sup>	n/a	n/a	67.62
DoubleClick Internet Purchasing Ltd., Dublin / Ireland <sup>(5)</sup>	n/a	n/a	67.62
DoubleClick Italy Ltd., Dublin / Ireland <sup>(5)</sup>	n/a	n/a	67.62
DoubleClick Benelux Ltd., Dublin / Ireland <sup>(5)</sup>	n/a	n/a	67.62
DoubleClick Denmark AS, Copenhagen / Denmark <sup>(5)</sup>	n/a	n/a	67.62
DoubleClick Benelux B.V., Amsterdam / Netherlands <sup>(5)</sup>	n/a	n/a	67.62
AdLINK Internet Media AG, Zürich / Switzerland	-2,968	-1,127	67.62
imedia – Gesellschaft für neue Medien mbH, Munich	698	175	40.00

(1) After transfer of profits to United Internet AG, Montabaur

(2) After transfer of profits to 1&amp;1 Internet AG, Montabaur

(3) After transfer of profits to twenty4help Knowledge Service AG, Montabaur

(4) After transfer of profits to twenty4help Knowledge Service GmbH, Dortmund

(5) No operative business

(6) 21 % held by a trustee

# Independent Auditor's Report

We have audited the financial statements, including the accounting system, and the combined management report and group management report of United Internet AG for the fiscal year from January to December 31, 2002. The Company's legal representatives are responsible for the accounting and preparation of the financial statements and management report in compliance with German commercial law and the supplementary regulations in the by-laws. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting system, and on the management report.

We conducted our audit of the financial statements pursuant to Sec. 317 of the German Commercial Code (HGB) and in compliance with the generally accepted standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal accounting controls was assessed, and the disclosures made in the books and records, financial statements and management report were verified, mainly on a test basis. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and

the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the financial statements present a true and fair view of the Company's net worth, financial position and results of operations in accordance with generally accepted accounting principles. In all material respects, the combined management report and group management report accurately presents the situation of the Company and the risks to its future development.

Ernst & Young  
Revisions- und Treuhandgesellschaft mbH  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Fluck	Cihlar
Wirtschaftsprüfer	Wirtschaftsprüfer

Eschborn/Frankfurt am Main,  
February 21, 2003

## Corporate Governance

In 2001 the German government established a commission in order to develop a German Corporate Governance Code. This Code was completed in early 2002 and published by the government's electronic Federal Gazette. It summarizes the key legal regulations governing the management and supervision of listed German companies and contains national and international standards of conduct for responsible management and supervision. The Code aims to make Germany's Corporate Governance system more transparent and comprehensible as well as to promote the trust of national and international investors, customers, employees and the general public in the management and supervision of listed German stock corporations.

United Internet welcomes the German Corporate Governance Code and expressly supports its objectives.

In future, United Internet will report annually on whether it has adhered to the Commission's recommendations and on which elements were not applied.

The Corporate Governance principles of United Internet AG, anchored in the company's articles and rules of procedure, differ from those of the German Corporate Governance Code in the following aspects:

### **Proxies**

The German Corporate Governance Code recommends that the company facilitate the personal exercising of shareholders' voting rights. The company should also assist shareholders in the use of proxies. The Management Board should arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions.

United Internet AG already provided the above-mentioned support for its shareholders in the past. Subject to approval by the Annual Shareholders' Meeting 2003, this passage of the Code is also to be anchored in the articles of United Internet.

### **Deductibles in the case of D&O insurance policies**

Should a company take out a so-called D&O insurance policy (directors and officers' liability insurance) for its Management Board and Supervisory Board, the German Corporate Governance Code recommends that a suitable deductible be agreed.

United Internet AG is not of the general opinion that the motivation and responsibility with which the members of its Management and Supervisory Boards exercise their duties can be improved by such a deductible. United Internet AG does not therefore have any arrangement for deductibles and does not plan to change its current D&O policies, which do not provide for any deductibles for members of executive bodies.

### **Audit Committee**

The German Corporate Governance Code recommends that the Supervisory Board set up an Audit Committee which, in particular, should handle issues of accounting and risk management, 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.

The Supervisory Board of United Internet AG currently consists of three members. The Supervisory Board's rules of procedure state that such an Audit Committee be formed if there are more than three members.

### **Compensation of Supervisory Board members**

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 in committees.

In the case of United Internet only the Chair position in the Supervisory Board is considered—as long as the Supervisory Board consists of no more than three members.

### **Share transactions requiring notification**

The German Securities Trading Act states that members of the Management Board and Supervisory Board should inform their company immediately about the purchase or sale of shares or derivatives in the company and that the company should publish these notifications.

In order not to overload the general public with information about insignificant transactions, the Securities Trading Act only requires such notification for dealings exceeding 25,000 euros within 30 days. The German Corporate Governance Code does not include such a minimum amount.

United Internet AG regards the regulation of the German Securities Trading Act and its “petty dealings limit” as a balanced ruling which has proved effective so far. The company has therefore decided not to adopt the recommendation of the Code in this particular point.

## Report of the Supervisory Board

The Supervisory Board of United Internet AG fulfilled its statutory duties and obligations during fiscal 2002. At its six meetings during the past year, the Supervisory Board discussed the Company's business and strategic development as well as current events and fundamental questions.

The Management Board presented the Supervisory Board with a comprehensive written report every quarter about the state of business, the development of sales and the position of the Company. The Supervisory Board was also informed about intended business transactions, fundamental questions of business planning, the Company's profitability and the return on shareholders' equity. The reports were made available to all members of the Supervisory Board. On the basis of these reports on United Internet AG, the Supervisory Board was able to monitor all important business transactions and to provide advice where necessary. The chairman of the Supervisory Board was also kept regularly informed by the Management Board on all business activities and gave advice on questions of business policy. The Supervisory Board did not form any committees.

The topics discussed at the various meetings included:

- Meeting on January 30, 2002: In a telephone vote it was decided to exercise a put option on the following day to sell 36 % of share capital in AdLINK Internet Media AG. Negotiations with Adecco concerning United Internet AG's investment in jobpilot were also discussed. On February 1, 2002 the Supervisory Board approved by circulation the sale of this investment.
- Meeting on March 19, 2002: This Supervisory Board meeting was mainly concerned with the presentation and discussion of the annual financial statements and the consolidated financial statements for fiscal 2001 of United Internet AG, as well as the joint management report for fiscal 2001 and the audit reports and explanations of the chief auditor. In the presence of the appointed chief auditor, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the audited annual financial statements for 2001 of United Internet AG and audited consolidated financial accounts for 2001 were approved. The agenda for the annual shareholders' meeting in May was discussed with the Management Board and adopted.
- Meeting on April 23, 2002: The main topic of this meeting was to discuss and prepare the presentation of the United Internet Group's strategic realignment as a premium Internet Service Provider for the annual shareholders' meeting on May 16, 2002 in Frankfurt am Main. The current status and future development of the United Internet Group's risk management system was also discussed.
- Meeting on July 31, 2002: The meeting dealt with the current status of restructuring and the future prospects for the current fiscal year. The recommendations of the government commission for a German Corporate Governance Code and its implications for United Internet were also discussed.
- Meeting on November 5, 2002: Following the Management Board's report on the development of business, discussions about the German Corporate Governance Code were continued. In order to meet the growing transparency and control requirements as well as possible, the members of the Supervisory Board of United Internet AG will in future also sit on the supervisory boards of 1&1 Internet AG and twenty4help Knowledge Service AG.

- Meeting on December 17, 2002: The central topic of this meeting was a report on current business developments and the discussion and adoption of budgets for fiscal 2003. The declaration of conformity with the German Corporate Governance Code, as required by Sec. 161 AktG, was adopted and posted on the home page of United Internet AG.

In accordance with the requirements of the German Business Monitoring and Transparency Act (KonTraG) the Company has developed its existing risk management system. As part of its annual audit, Ernst & Young also audited the risk management system and analyzed key aspects. The annual financial statements of United Internet AG, the consolidated statements according to US-GAAP and the joint management report for United Internet AG and the Group were audited by the auditing company elected by the Annual Shareholders' Meeting, Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Eschborn, and were given an unqualified certificate. The Supervisory Board satisfied itself as to the independence of the auditors.

The annual financial statements of United Internet AG, the joint management report for United Internet AG and the Group, the consolidated financial statements of United Internet AG and the proposal concerning allocation of retained earnings were inspected by the Supervisory Board. The chief auditor attended the relevant meeting of the Supervisory Board March 18, 2003 and reported on his findings. The chief auditor answered the Supervisory Board's questions and gave further explanations where necessary. The Supervisory Board came to the conclusion that the annual financial statements, the joint management report, the consolidated financial statements and the auditor's report gave no cause for objections. With a resolution on March 18, 2003, the Supervisory Board approved the annual financial statements of United Internet AG for fiscal 2002,

as prepared by the Management Board on February 20, 2003 and as audited by Ernst & Young. The annual financial statements are therefore adopted pursuant to Sec. 172 AktG. With a resolution on March 18, 2003, the Supervisory Board also approved the consolidated annual financial statements for fiscal 2002, as prepared by the Management Board on March 6, 2003 and as audited by Ernst & Young. The Supervisory Board supports the proposal of the Management Board concerning the allocation of retained earnings.

The Supervisory Board would like to thank the Management Board and all employees for their considerable dedication and successful work.

Montabaur, March 18, 2003

The Supervisory Board

Kurt Dobitsch  
(Chairman of the Supervisory Board)

**Access** Connection to the internet. Normally requires membership with an internet access provider.

**Account** User's personal authorization for internet/server access. Also used for access to a personal mailbox, e. g. GMX.

**ADSL** = Asymmetrical Digital Subscriber Line. High-speed data transfer technology (upstream up to 1,5 Mbit/s; downstream up to 8 Mbit/s) using conventional copper coaxial cable up to about three kilometers from the connection point.

**ASP** = Application Service Provider. Supplier offering applications and standardized services via the internet for a specified usage fee.

**ATM** – Asynchronous Transfer Mode. International standard technology for broadband information transfer in high-speed networks. The technology enables flexible transfer speeds of up to 622 Mbit/s.

**B2B** = Business-to-Business. Processing of transactions between a company and its business partners via electronic media, such as the internet.

**B2C** = Business-to-Consumer. Processing of transactions between a company and end users via electronic media, such as the internet (e-commerce or online shopping).

**Backbone** Indispensable part of a national or global network configuration for connecting local sub-networks, generally at very high speeds (Mbit/s and Gbit/s).

**Banner** Advertising area on an internet page.

**Broadband service** Service offering users fast digital transfer (Mbit/s) and/or broadband analog transfer (MHz).

**Browser** Computer program to visualize websites. Browsers are used to navigate the internet.

**Call center** Company, or company department, offering operator-based voice services. A large number of phone operators deal with incoming (e.g. technical support hotline) or also outgoing (e.g. direct marketing) calls.

**Chat** Online "conversation" with other users in real-time via the internet. Users can read the comments of other chat participants on their screens and write their own comments via the computer keyboard.

**Churn rate** Percentage of customers terminating contracts and/or changing internet service provider within a specified period.

**CIC** = Customer Interaction Center. Call centers have developed from a pure service function to a central customer interface for companies. These units are now referred to as customer interaction centers.

**Community** Community of internet users interested in similar topics, e. g. [www.metropolis.de](http://www.metropolis.de).

**Content** The content of a website, e. g. text, graphics or multimedia.

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

**Customer care** Generic term for all services with which a company cares for its customers.

**CRM** = Customer Relationship Management. System for intensive nurturing of customer relationships. CRM aims to recognize and satisfy customer needs, to generate new purchases by existing customers and to optimize customer loyalty.

**DENIC** = Registration and administration of German top-level domain .de.

**Dial up/Log in** Procedure for registering with a computer within a system – generally requires user-ID and password.

**Domain** Specific area of hierarchical internet name system administered by domain name server. Divided into domain themes (such as .gov for government) and nations (such as .de for Germany) as well as domain levels. For example "GMX.de" consists of the top-level domain ".de" and the second-level domain "GMX".

**Download** Transfer or copy of data and programs from the internet or other computer network to the user's own computer.

**DSL** = Digital Subscriber Line. Highly sophisticated technology for high-speed transfer via copper cable networks. Also referred to as "technology for the last mile", as it can transfer data from existing networks to the user's house.

**EBIT** = Earnings before interest and taxes.

**EBITDA** = Earnings before interest, taxes, depreciation and amortization.

**EBT** = Earnings before taxes.

**E-commerce** = electronic commerce. Generic term for business transactions using electronic media, such as the internet.

**Equity ratio** Shareholder's equity as a proportion of the balance sheet total. The higher the equity ratio, the lower the proportion of debt.

**E-mail** = Fast and cheap method of sending and receiving mail between computer users via mailboxes and data networks.

**E-shop** (also online shop). Vendor's internet area, where users can order and pay for goods online.

**Flatrate** Lump-sum monthly fee (mostly for internet access), irrespective of usage time.

**Free float** Proportion of share capital which is owned by many different shareholders and can be traded freely in the capital market.

**Home page** The page which appears when the internet address of a website is entered.

**Hosting** Provision of server storage space for customers offered by an internet service provider.

**Human interface** Term used for personal support in using the internet or application software.

**Hyperlink** Link to another website in text or graphic form. Clicking the hyperlink with the mouse automatically loads the respective website. Links allow continued navigation through the internet without having to enter new web addresses.

**Internet/intranet** The internet is a world-wide network of computers without central network management using a common protocol. Intranets, on

the other hand, are managed IP networks which can only be accessed by certain user groups.

**Internet roaming** Service provided by an ISP. Customers can access the internet outside their own network as guests of other ISPs. Purely national ISPs can provide international access to the internet via such roaming services.

**ISP** = Internet Service Provider. ISPs provide access to the internet for third parties as well as offering internet-based services (such as hosting or e-shops).

**IP** = Internet Protocol. Platform-neutral transport protocol for world-wide communication between networks.

**ISDN** = Integrated Services Digital Network. Digital telecommunication network. ISDN integrates telecommunication services such as phone, fax or data transfer within a network. Digitalization enhances quality and speed compared with conventional analog transfer.

**Mailbox** Electronic letterbox, in which incoming e-mails are stored ready to be collected by the mailbox owner.

**Modem** Hardware enabling data transfer from computer to computer via an analog data transfer cable (generally telephone network).

**.NET products** In cooperation with Microsoft, 1&1 offers new and innovative communication solutions based on .NET hosting technology, which enable private and business users to connect their computers via the internet. By storing data centrally on internet servers at United Internet's high-performance data centers, users can work together more

efficiently. Web-based .NET applications, such as MS Outlook Hosting, MS Sharepoint Hosting or MS Frontpage Hosting, provided by the data center servers can be accessed by any PC and from any location.

**Online service** An internet system enabling access to databases, data archives, conferences, chat groups and other information formats, such as e-commerce.

**Outsourcing** Transfer of company departments or functions to external service providers. twenty4help, for example, provides complete IT support for its customers—from tele-marketing and product support to technical helpdesks for users.

**Page impressions** Measurement unit used in Germany for the number of times users view an internet page (and thus its advertising). Provides a basis for calculating use of various website pages. There are no international, standard definitions; "page view" figures given by international websites are therefore not exactly equivalent to the "page impression" figures of German websites.

**Peering** Data exchange between two or more data networks (computer networks) in the internet. Peering agreements help secure global communication via the internet.

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

**Server** Computer which other computers can access to receive data.

**T-DSL** = ADSL service offered by Deutsche Telekom. Provides the physical platform for fast DSL connections offered by GMX, 1&1 and Schlund+Partner.

**Technical hotline** (Vendor Services) Central service point for user queries via phone, e-mail, fax or internet. United Internet's Outsourcing segment offers major clients such services, including telesales, telemarketing, product support, technical support and complete CRM solutions.

**Technical value-added services**

All services above the level of basic service provision are regarded as value-added services. Technical value-added services (in contrast to content value-added services) are solutions offering the user additional functionality. All applications are centrally developed, administered and operated at our data centers. 1&1, for example, combines pure internet access (basic service) with domains, home pages, virus protection and online backup functions as technical value-added products.

**Unified messaging** Migration of phone answering machine, mobile phone box and e-mail box to a common telecommunication box. Customers have the possibility of checking and processing all types of messages (voice, fax and e-mail) via any form of access (fixed-line phone, mobile phone or online).

**Unique visitor** Term for different internet users visiting a website during a specific period.

**URL** = Uniform Resource Locator. Standardized internet address of a website.

**User helpdesk** (corporate services) Internal service line for closed user groups within a company. United Internet offers this service in its Outsourcing segment under the twenty4help brand. Employees of large corporations, for example, can receive technical support at their desk.

**US-GAAP** = United States Generally Accepted Accounting Principles. US accounting standard. The annual and quarterly reports of the United Internet Group are prepared in accordance with US-GAAP.

**Visit** Term to describe coherent usage of a specific internet offer. This includes the successful calling up of a current website page by an internet browser, if made from outside the site.

**Website** Internet page or pages containing specific content of the site's owner. Can be accessed via the internet by means of its URL.



■ **Financial Calendar 2003**

3-Month Report	May 14, 2003
Annual Shareholder's Meeting	May 16, 2003
6-Month Report	August 14, 2003
Analyst's conference on the 6-Month Report	August 14, 2003
9-Month Report	November 13, 2003

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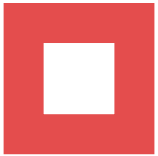
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