



**United Internet AG,  
Montabaur**

**Management Report  
and  
Group Management Report**

for Fiscal 2006

## **Highlights 2006**

Dynamic customer growth: the number of paid customer contracts grew strongly in all product categories, reaching a total of 6.39 million at year-end 2006 – an increase of 1.36 million over the previous year.

Boom in DSL and DSL telephony: our DSL access customers grew by 530,000 to 2.27 million in 2006. In our DSL telephony business, we completed over 690 million telephone minutes per month in December 2006 (prior year: 300 million).

Number 1 in German portal sector: our internet portals GMX, WEB.DE and 1&1 already reach some 50% of the German online community. With this reach and over 2.8 billion contacts per month, we are well ahead of our closest competitors.

Successful international expansion: the number of customer contracts outside Germany more than doubled to 1.26 million. Our US hosting business is already profitable, just 3 years after launching. With the takeover of Fasthosts, we have also extended our market lead in the UK.

Strong growth in all key financials: year-on-year sales growth of 58% to € 1,268 million and 80% rise in pre-tax earnings to € 182 million.

## **Economic environment**

### **Global economic growth**

2006 was a good year for the global economy, with growth in the USA, Europe and Germany. According to estimates of the International Monetary Fund (IMF), the global economy grew by 5.1% in 2006. The IMF forecasts growth of over 2.5% for the Euro zone. The Federal Statistics Office calculates that the German economy grew by 2.5% in 2006 – the highest rate since 2000.

Despite double-digit growth in exports, the major growth impetus came from domestic demand in the past year. This growth was led by companies, which invested 7.3% more in capital goods than in the previous year and thus reached levels not seen since German reunification. Consumer spending was also up, with growth of 0.6%. According to calculations of the International Labor Organization, the number of unemployed fell by 460,000 to 3.4 million as a consequence of this economic upturn.

### **Growing ITC markets**

According to preliminary calculations of EITO (European Information Technology Observatory), the EU market for information technology and telecommunications (ITC) grew by 3.1% in 2006 to € 644 billion.

This growth was driven above all by the information technology sector. According to EITO, growth in this segment was particularly strong – up 3.8% to € 305 billion. Within this segment, software displayed the most dynamic development with growth of 6.3%. Not far behind was the service sector with 5.3%. The situation was not quite as favorable in the hardware segment. The server market shrank by 0.3%, PC sales by 1.2% in 2006.

The EU telecommunication market grew by 2.5% to reach a volume of € 339 billion in 2006. Mobile phone services increased by 3.8%, while landline services slumped by 4.3%. The fact that EU telecommunications grew at all was thanks to the strong increase in demand for

internet and landline data services. This segment recorded growth of 10.6%.

From the point of view of United Internet, the most important markets are the German DSL market, the German and European advertising market and the global market for hosting services. All of these segments displayed strong growth in 2006.

The Federal Network Agency expects the number of German DSL connections to have grown by some 36 percent to 14.1 million in 2006.

Broadband connections in Germany 2004-2006  
per 100 households in %

2004	2005	2006
18	27	35

The market research agency JupiterResearch also forecasts sustained growth for the European online advertising market. The market is thought to have grown by 28% to €5 billion in 2006. Strong growth of 59% to €1.65 billion is also forecast by the German Digital Economy Association (Bundesverband Digitale Wirtschaft) for the German online advertising market in 2006.

Online advertising revenues in Germany 2004-2006  
in € million

2004	2005	2006
555	1,035	1,650

Sustained growth is also expected for the global hosting market. IDC forecasts annual growth rates of 16% and expects the US market alone to have reached sales of over US\$ 8.8 billion in 2006.

This wide-scale market growth is driven primarily by the global demand for ever faster internet access. The growing spread of broadband connections in private households enables Internet Service Providers (ISPs), such as United Internet, to offer increasingly data-intensive and innovative products and services – such as internet telephony, video-on-demand, web-based office applications or, in future, internet TV – which customers can use without any noticeable fall in performance. Widespread broadband access also opens up new opportunities for internet advertising, a field in which we are represented by our portals GMX, WEB.DE and 1&1, as well as by our Online Marketing segment. In future, for example, advertisers will be able to use more data-intensive advertising formats, such as high-resolution video clips.

Maximum internet speeds 2004-2006  
in kilobit per second

2004	2005	2006
3,000	6,000	16,000

United Internet therefore benefits from this market development on several levels: as the second-largest DSL provider in Germany, as the leading provider of online advertising in Germany, as the leading European marketer of third-party online advertising space and as the leading global supplier and hoster of complex and data-intensive, value-added applications at our data centers.

## **Business development**

### **Excellent consolidated figures**

With 6.39 million customer contracts, United Internet AG is a leading international ISP. The Group is represented in its three business segments by a total of nine brands:

In the **Product** segment, our value-added internet services and fast DSL connections are directed at private users, small/home offices (SoHos) and small to mid-size enterprises (SMEs). These groups are served by the brands GMX, WEB.DE, 1&1 and Schlund+Partner.

Our **Outsourcing** segment is a purely B-to-B business. Via InterNetX we market our value-added services as white label products to other ISPs, while under the twenty4help brand we offer top-class Customer Relationship Management (CRM) services.

We are represented in the **Online Marketing** segment by the brands AdLINK, Sedo and affilinet. In this segment, we offer advertisers a wide variety of marketing and sales solutions: display marketing via AdLINK, domain marketing via Sedo and affiliate marketing via affilinet.

With the sale of twenty4help to Teleperformance in January 2007, the Outsourcing segment, of which twenty4help accounted for around 90%, will no longer be separately disclosed in future. With the start of 2007, Schlund+Partner AG was also combined into 1&1 Internet AG – by means of an internal Group merger. The company's customers and target group will be supported by 1&1 in future.

Following this restructuring, United Internet will focus exclusively on its Product segment (with the brands GMX, WEB.DE, 1&1, Fasthosts and InterNetX) and Online Marketing segment (with AdLINK, affilinet and Sedo) in future.

### **Successful international expansion**

We continue to make strong progress in our international expansion. In 2006, Group companies were active in 13 different nations through their own local offices. In the period under review, non-German sales contributed €211.8 million (prior year: €144.0 million) to total consolidated revenues of €1,267.6 million.

In our Product segment, we operate in Germany, the UK, France, Austria and the USA. In 2006 we more than doubled the number of non-German customer contracts from 600,000 (as of December 31, 2005) to over 1.26 million (as of December 31, 2006). In our Outsourcing segment, we operated 13 facilities in 7 European nations in 2006: Sweden, the UK, Poland, the Netherlands, Germany, Spain and the Czech Republic. The international presence we have achieved in the Online Marketing segment is a key element of our overall concept. In addition to the USA, our brands are represented in 9 European countries (Sweden, Ireland, the UK, the Netherlands, Belgium, Germany, France, Italy and Spain).

## **Fasthosts strengthens market position in UK**

On May 15, 2006 we acquired a 100% interest in the UK webhosting specialists Fasthosts Internet Ltd. The agreed purchase price amounted to £ 61.5 million in cash. The acquisition enabled us to extend our leading position on the UK market. The company brought over 200,000 customer contracts, 300,000 websites and 750,000 domains into the United Internet Group. At the same time, Fasthosts gave us access to a highly efficient reseller network. With over 5,000 active resellers, Fasthosts operates one of the best developed reseller networks in the UK. Founded in 1999, the company has already been posting profits for several years. Fasthosts will continue to operate as an independent brand in the UK – next to 1&1.

## **Firmly established in the USA**

In the USA, we already reached break-even on a monthly basis for the first time in July 2006 – ahead of our original target of late 2006. We also posted a small profit for fiscal 2006 as a whole. After successfully establishing ourselves on the US market, we began the construction of our own data center in the USA in 2006. With a floor space of 5,400 sqm and room for 40,000 servers (in the final stage), it will become the United Internet Group's largest-ever data center.

## **Segment development**

### **Product segment posts 63% increase in sales**

In 2006, the United Internet Group's dominant business remained its Product segment with the brands GMX, WEB.DE, 1&1 and Schlund+Partner, which together account for 78% of total sales.

In fiscal year 2006, sales in this segment grew by 63.2% to €990.2 million (prior year: €606.8 million). EBITDA improved by 75.1% to €197.3 million (prior year: €112.7 million), while EBT reached €147.9 million (prior year: €92.9 million, growth of 59.2%). The number of employees in this segment amounted to 2,802 (prior year: 2,313), corresponding to growth of 21%. Despite high customer acquisition expenses for our DSL business, the EBT margin reached 14.9%.

Financial figures of Product segment:

In € million	31.12.2005	31.12.2006	Change from prior year in %
Sales	606.8	990.2	+63.2
EBITDA	112.7	197.3	+75.1
EBT	92.9	147.9	+59.2

Quarterly development:

In € million	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q4 2005
Sales	217.6	242.1	254.6	275.9	200.4
EBITDA	46.3	56.3	63.6	31.1	35.0
EBT	34.8	43.8	50.8	18.5	25.2

Our very healthy key financials are closely linked with the dynamic growth of our customer base. As of December 31, 2006 we had over 6.39 million fee-based customer contracts (year-end 2005: 5.03 million). These are divided among the three product lines of our Product segment:

**Information Management** with e-mail solutions, messaging, address management, Pocket Web and 0700 numbers

**Webhosting** with domains, home pages, dedicated and virtual servers and e-shops

**Internet Access** with DSL connections (including internet telephony and video-on-demand) and narrowband connections

Customer contracts  
in million

2004	2005	2006
3.52	5.03	6.39

### **27% growth in customer contracts in the Product segment**

Divided according to product lines, the customer contract figures comprise 1.09 million contracts in the field of Information Management, 2.86 million in Webhosting (of which 1.26 million outside Germany) and 2.44 million in Internet Access (of which 2.27 million DSL). The marketing of our own DSL connections also made good progress: since launching on July 12, 2004 we have already sold 1.81 million DSL connections as of year-end 2006 (prior year: 0.96 million).

In addition to our strong organic growth, the acquisition of Fasthosts – with 220,000 – also contributed to our net growth in customer contracts of 1.36 million.

## Customer contracts by product line

Customer contracts in million	31.12.2005	31.12.2006	Growth in %
Information Management*	0.96	1.09	+13.5
Webhosting	2.11	2.86	+35.5
Of which abroad	0.60	1.26	+110.0
Internet Access**	1.96	2.44	+24.5
Of which DSL**	1.74	2.27	+30.5
<b>Total</b>	<b>5.03</b>	<b>6.39</b>	<b>+27.0</b>

\* Information Management: without test contracts

\*\* Internet Access and DSL: without provider-independent VoIP flat rate contracts

## Leading supplier of internet advertising

With over 17.9 million active users, the United Internet AG portals (GMX, WEB.DE, 1&1) are used by 49% of all Germans online. According to the current "Internet Facts 2006-III" of internet research institute AGOF, the marketing cooperation of our portals "United Internet Media" represents the largest supplier of internet advertising in Germany, in terms of both reach and advertising space volume. In total, United Internet's portals rank 2nd (WEB.DE), 5th (GMX) and 9th (1&1) among all portals measured in Germany.

## Global market leader in webhosting

With 2.86 million hosting contracts and around 40,000 hosted servers, United Internet is one of the world's largest webhosters. In our foreign markets, we succeeded in enhancing our position as a leading supplier of hosting products. According to our own calculations, we are the market leader in webhosting in both Germany and the UK and have already reached sixth position in the USA (market entry January 2004) and have entered the top five in France (market entry May 2004). We are also market leader in Germany for the registration of .de domains. At year-end, we administered over 9.5 million domains, of which 3.88 million were with the German top-level domain .de.

## No. 2 in German DSL market

With 2.27 million DSL customer contracts, United Internet is second only to T-Online in Germany. In the period under review, the number of customer contracts grew by 530,000. Our DSL business model changed with the launch of resale activities in the second half of 2004. The acquisition of our own connection customers helps us achieve long-term additional revenues and stronger customer ties. Since launching, we have marketed a total of 1.81 million connections, of which 850,000 were in 2006.

We have also achieved a leading position in the German VoIP market, with over 690 million internet telephony minutes per month. We have thus already reached the level of smaller classic phone companies – just 30 months after roll-out.

With the launch of 3DSL in September 2006, United Internet presented its first "triple-play" product. The all-inclusive package for internet, telephony and TV consists of a high-speed DSL connection, DSL and telephony flat rates, as well as a "movie flat rate" for the video-on-demand portal "maxdome", operated together with the ProSiebenSat.1 Group.

## **GMX among Germany's leading portals**

GMX targets private users with its e-mail and DSL products. With some 7.8 million users and 160 million visitors a month, GMX is one of Germany's leading portals. In addition to its free e-mail accounts, GMX also offers fee-based, added-value services.

### **Highlights 2006:**

**March 2006:** Following the launch of FreeMail in 1997 and FreeSMS in 2000, GMX now offers all users a genuine DSL flat rate for zero euros.

**April 2006:** GMX equips its Shopping World with a new, sophisticated product and price comparison service. Internet users can now browse in over 500 online shops offering over five million products.

**September 2006:** GMX expands editorial content by strengthening its GMX editorial team and launching cooperation with new partners, such as Sport 1, Sport-Informationen-Dienst (SID), Laut.de, IDG and AFP.

**December 2006:** GMX adds a new service to its portal for all film fans. The GMX Entertainment Channel provides a wealth of cinema-related information and services (film trailers, database, theater search).

## **WEB.DE, Germany's No. 2 portal**

WEB.DE is Germany's second largest portal with 11.1 million internet users per month. In addition to its free basic services, WEB.DE also offers fee-based products – including the popular WEB.DE Club.

### **Highlights 2006:**

**February 2006:** WEB.DE launches local searching. Local searches combine the information from yellow pages with the benefits of the internet and lead the user to the desired results in his home town or region by linking various databases.

**August 2006:** WEB.DE expands its editorial content by forging new cooperations with over 40 partners – from news agencies to specialist content providers. 20 online journalists ensure 24/7 coverage and high content quality.

**October 2006:** WEB.DE launches its new homepage in Web 2.0 design. In a parallel survey, users who tested the new homepage during the beta phase gave very positive feedback regarding functionality, design and content.

**December 2006:** As part of the expansion of its entertainment services, WEB.DE launches the new "WEB.DE Music" download service. WEB.DE Music is the first online shop in Germany to supply all songs in 192 kBit/s quality. With over 1.5 million songs on offer right from the start, WEB.DE boasts one of the most comprehensive music services on the market.

## **1&1: Germany's second largest DSL provider**

1&1 is the right address for discerning private users, small offices and small to mid-size companies looking for information management, webhosting and access solutions. 1&1 is

Germany's second-largest DSL supplier and the world's largest hosting company with operations in 5 countries.

### **Highlights 2006:**

**January 2006:** Launch of ADSL2+. This new technology enables downstream speeds of up to 16 Mbit/s and an upstream speed of 1024 kbit/s.

**February 2006:** 1&1 rolls out its new product line "1&1 Virtual Server". Virtual Servers are the optimum solution for those users who do not need a dedicated server, but do not want to do without the free configuration possibilities offered by a root server.

**March 2006:** 1&1 launches two new products at the Cebit 2006 fair: the video-on-demand portal "maxdome" in cooperation with the ProSiebenSat.1 Group and 1&1's "Pocket Web" – a long awaited product which finally makes mobile internet access affordable.

**May 2006:** 1&1 rolls out a new eShop generation. For the first time, the shop system is seamlessly integrated into 1&1's tried and tested webhosting range. Features for operating a successful website, such as the 1&1 Homepage Kit, the 1&1 Advertising Center and the 1&1 Content Modules can now also be used in the online shop.

**June 2006:** 1&1 unveils a new kind of plug-and-play technology which enables almost completely automatic configuration of DSL internet access.

**September 2006:** 1&1 launches its first Triple Play offer: 3DSL. The all-inclusive package for internet, telephony and TV consists of a high-speed DSL connection, DSL and telephony flat rates, as well as a "movie flat rate" for the video-on-demand portal "maxdome", operated together with the ProSiebenSat.1 Group.

### **Schlund+Partner**

Schlund+Partner used to represent the high-end segment of the United Internet Group, serving small to mid-size companies. Products were sold directly and via a network of over 6,700 partner agencies.

On January 1, 2007 Schlund+Partner was integrated into 1&1 Internet AG by means of an internal merger within the Group. All existing product contracts will be continued by 1&1 Internet AG, which will also serve the target group of small to mid-size companies with business products and support.

### **Outsourcing segment no longer separately disclosed in 2007**

On January 19, 2007 United Internet announced that it had reached a general agreement with Teleperformance SA regarding the sale of the United Internet Group subsidiary twenty4help AG to Teleperformance. With the sale of the company, which no longer belonged to the Group's core business, United Internet completed the final step toward becoming a pure Internet Service Provider (ISP). The Group's Outsourcing segment, of which twenty4help accounted for around 90%, will no longer be separately disclosed in future. The remaining Outsourcing brand InterNetX was integrated into the Product segment.

Thanks to measures already introduced in 2005 to raise productivity, the segment made strong progress in fiscal 2006. Despite fierce competition, sales grew by 18.2% to €104.7 million (prior year: €88.6 million). The segment thus accounted for 8% of total United Internet

sales. EBITDA rose by 53.3%, from €12.2 million to €18.7 million, while EBT was up 116.9%, from €5.9 million to €12.8 million. The Outsourcing segment employed 3,125 people (prior year: 2,912).

Financial figures of Outsourcing segment:

In € million	31.12.2005	31.12.2006	Change from prior year in %
Sales	88.6	104.7	+18.2
EBITDA	12.2	18.7	+53.3
EBT	5.9	12.8	+116.9

Quarterly development:

In € million	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q4 2005
Sales	27.6	25.3	24.7	27.1	22.8
EBITDA	4.4	3.8	4.2	6.3	3.1
EBT	2.8	2.4	2.8	4.8	1.8

### **InterNetX – the provider’s provider**

InterNetX markets our hosting products to ISPs and multimedia agencies (resellers), who in turn market them under their own name and for their own account.

#### **Highlights 2006:**

In fiscal 2006, InterNetX focused on gaining further sales partners. The company now serves some 16,300 resellers (prior year: 14,200), for which it hosts over 1.7 million domains and over 600 servers.

In October 2006 InterNetX acquired the entire Domains business segment of network operator BCC Business Communication Company GmbH. The Domains segment comprises several hundred domain resellers, IT companies, web agencies and ISPs with over 100,000 domains.

### **twenty4help offers extensive CRM services**

twenty4help offers major corporations an extensive range of CRM services. Our customers include international blue chip companies, such as HP, Sun Microsystems and Sharp Electronics. twenty4help operates 12 facilities in seven European nations. Over 3,000 employees answer technical enquiries in 22 languages by phone, e-mail or chat.

#### **Highlights 2006:**

In the period under review, twenty4help focused in particular on implementing various measures to raise profitability.

In 2006 twenty4help also acquired an equity interest in SalesPlus Gesellschaft für Absatzförderung mbH, thus adding the field of “complex sales topics” to its service portfolio. SalesPlus specializes in taking on sales tasks and direct telephone sales, as well as providing strategic support for sales departments. The acquisition enables twenty4help to offer large and mid-size companies in all sectors tailored one-stop solutions in the field of sales, CRM, outsourcing and helpdesk services.

### Online Marketing growing fast

In our Online Marketing segment we offer advertisers a variety of marketing and sales solutions: Display Marketing via AdLINK, Affiliate Marketing via affilinet and Domain Marketing via Sedo.

In October 2006 we raised our interest in the affilinet subsidiary CibleClick from 75% to 100% via our subsidiary AdLINK. In November 2006 we also raised our shareholding in Sedo from 52.14% to 75.94% via AdLINK. The share purchase price amounting to around €35 million was financed by AdLINK using external borrowing. Together with the acquisition contracts, AdLINK and Sedo also signed a profit transfer agreement with effect from January 1, 2007.

As a result of this integration of affilinet and Sedo, as well as the strong growth of online advertising, sales rose strongly in this segment by 62.8% – from €106.0 million to €172.6 million. The Online Marketing segment accounted for 14% of the United Internet Group’s total sales. EBITDA grew by 172%, from €8.2 million to €22.3 million, while EBT improved by 219.4%, from €6.2 million to €19.8 million. As of December 31, 2006 the segment employed 400 people (prior year: 299).

Financial figures of Online marketing segment:

In € million	31.12.2005	31.12.2006	Change from prior year in %
Sales	106.0	172.6	+62.8
EBITDA	8.2	22.3	+172.0
EBT	6.2	19.8	+219.4

Quarterly development:

In € million	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q4 2005
Sales	40.4	44.1	37.6	50.5	34.9
EBITDA	5.3	5.6	4.1	7.3	3.6
EBT	4.8	5.0	4.0	6.0	1.9

## **AdLINK: Europe's leading independent online marketer**

AdLINK is one of Europe's largest independent marketers of online advertising space. The company's business model is based on an online advertising network, consisting of high-reach websites generating some 6.8 billion page impressions per month, which it markets to advertisers for branding purposes or direct product sales (Display Marketing). Payment is either on a CPM basis (cost per thousand ad contacts) and/or performance-based pay-per-click basis.

### **Highlights 2006:**

With regard to products, the company presented its new strategy in the core Display Marketing segment: AdLINK SELECT and AdLINK TARGET.

At year-end, monthly page impressions reached 6.8 billion, compared with 5.6 billion one year earlier.

Major-name websites, such as Autoscout24, Universal Music, Lastminute.com and taz were added to the advertising platform.

Numerous well-known advertising partners were also acquired, including Sony, Vodafone, Procter & Gamble, Samsung, IKEA and Intel.

## **Sedo drives international expansion**

Sedo operates the global domain trading platform "sedo.com", which currently trades 6.6 million domains. In its "domain parking" business, Sedo markets some of these domains to advertisers on behalf of the domain owners for marketing activities. Sedo takes a share of the revenues generated from marketing on a pay-per-click basis.

### **Highlights 2006:**

In the past fiscal year, Sedo focused on driving international expansion in the USA and the UK. The company's position in these highly competitive markets was also strengthened by means of cooperations with leading US registries, such as Bulk-Register.com, Dotster and Stargate.com, as well as the UK registry and webhoster Fasthosts. The number of marketable domains was raised to over 2.66 million around the world (prior year: 0.78 million).

In addition to the usual bid and counter-bid process, Sedo also launched an auction system in October 2006 in order to make domain names simultaneously accessible to a wider circle of public bidders.

The sale of the internet address vodka.com for \$ 3 million was Sedo's biggest domain deal in its five-year history.

## **Further expansion of affilinet network**

affilinet is active in the field of Affiliate Marketing and operates a network for suppliers of partner programs and website owners wishing to integrate such programs into their web pages. affilinet profits from the contacts and sales initiated via the network on a purely success-oriented basis.

## **Highlights 2006**

The number of monthly page impressions grew from 3.3 billion to over 4.9 billion.

This was mainly due to the scheduled expansion of the partner network to over 400,000 websites (prior year: 290,000).

There was also an increase in the number of affiliate program operators, from 770 to 1,240. The new partners included major brands, such as Mobile.de, Tommy Hilfiger, MusicLoad.de, TheGuardian, Vodafone UK and many more.

## **Research and Development**

### **R&D results quickly translated into marketable products**

United Internet's success is rooted in an ability to quickly launch its innovative products and services on major markets. Our core competency is the rapid translation of R&D results into marketable products and the adaptation and modification of existing products. Due to our steady growth in customer figures, the demands placed on our products with regard to reliability and availability are also constantly rising. We meet these demands with IT solutions which we mainly develop ourselves or purchase from partners, such as Microsoft, and then modify and integrate into our systems.

Our expertise in product development and launching makes us independent of third party developments and supplies in many areas and thus gives us a decisive competitive edge on the market. At our development centers in Karlsruhe and Bucharest, over 250 IT specialists use mainly open source code (Linux). This not only provides considerable cost benefits, but also enables us to quickly adapt existing basic applications to changing customer needs. The modules of this system can be easily combined and provided with product-specific user interfaces in order to create a wide variety of powerful solutions.

In 2006 we successfully launched a large number of new or modified products. These focused mainly on our consumer products with broadband connections and mobile internet, additional webhosting features and enhanced portal applications.

### **Mobile internet and DSL with video-on-demand**

In January 2006 United Internet began the roll-out of a new DSL product generation with transfer speeds of up to 16,000 kBit/s and was thus one of the first providers to offer all bandwidths at attractive prices. The launch of Pocket Web in March 2006 made mobile internet usage affordable for everyone, via an attractive flat rate. A new exclusive device was developed specifically to meet mobile internet needs. The handy Pocket Web features convenient message writing and is equipped with an e-mail push service. This enables users to check e-mails or surf wherever and whenever they like – all for a fixed monthly price.

In cooperation with the ProSieben-Sat1 Group, United Internet launched the video-on-demand portal "maxdome" in the second quarter of 2006. Users can access a wide range of films, comedy and series via their DSL connection and choose themselves what they want to watch and when. "maxdome" can be accessed either via PC or – using a set-top box – via TV. In July 2006 we once again demonstrated our pioneering role in the development of innovative solutions to raise user friendliness.

With the aid of the “1&1 Sofort-Start-Set” (plug-and-play kit), customers without prior experience can now install their DSL modem in four easy steps and start surfing straight away. Internet telephony is automatically set up after entering the start code. With the launch of 3DSL in September 2006, we offer the maximum available connection at a standard price, including internet, telephony and movie flat rates. Movie flat rate users can choose from a pool of 100 films and watch them as often as they like. There are also several packages, e.g. a series package flat rate with blockbusters like Desperate Housewives or Lost, and individual films on a pay-per-view basis. Ease of operation and user friendliness were enhanced by providing an external set-top box – users no longer need to keep their computers switched on to download films, which can also be transmitted wirelessly within the home.

### **More visitors for the websites of our webhosting customers**

In the second quarter of 2006 we were the first webhoster to enable our customers to conveniently book online advertising space with their hosting package and thus raise traffic on their sites. The 1&1 Advertising Center is an easy-to-use function in the customer's control center, which automatically places customer advertising on major online portals. For the first time, small and mid-size companies are now able to advertise on websites which were previously restricted to major ad agencies. In addition to the major portals, such sites include daily newspapers and radio homepages. Thanks to cooperations with AdLINK, Yahoo! and meine-stadt.de, the customer can choose from a large portfolio of varying advertising formats. From search engine marketing to classic banner ads to regional advertising, almost all areas of online advertising are covered. Once again, integration into the central web interface in the 1&1 Control Center underlines the application's emphasis on ease-of-use and user friendliness. In 2006, we also made the new top-level domains .eu, .mobi and .fr accessible for our customers and launched a new eShop generation with extended functionality.

### **Portals strengthened**

In addition to the integration of WEB.DE's portal into the existing infrastructure of 1&1 and GMX, a number of innovative enhancements were launched in 2006. A game portal, for example, was implemented for 1&1, GMX and WEB.DE and the product and price comparison page smartshopping.de was integrated. As part of the expansion of its entertainment range, WEB.DE launched its new download service “WEB.DE Music” in December 2006. WEB.DE Music is the first online shop in Germany to supply all songs in 192 kBit/s quality. With over 1.5 million songs on offer right from the start, WEB.DE boasts one of the most comprehensive music services on the market. The SmartSurfer product, implemented on all portals, provides a tool for users with narrowband access which can automatically find the cheapest internet access rate for them. Users benefit from a TÜV-certified application featuring a high level of user friendliness. In the technical field, a uniform system landscape was established and put into operation for United Internet Media, the marketing company for our portals. Online advertising can not only be booked for all United Internet Media portals, but also automatically supplied, reported and invoiced. Our media targeting tool TGP®, which enables advertising clients to target their messages throughout the entire United Internet Media portfolio, was expanded and refined. With the aid of TGP®, target groups can be reached more precisely and efficiently, without the need for aids such as related topics and without restrictions in respect of advertising formats and targets.

### **Personnel**

As of December 31 2006, the United Internet Group employed a total of 6,347 people – an

increase of 15% over the previous year (5,540). There were 2,802 employees in the Product segment, 3,125 in the Outsourcing segment, 400 in the Online Marketing segment and 20 employed at the Group's headquarters. Our non-German subsidiaries employed 2,364 people (prior year: 1,831). Personnel expenses rose by 31.4% to € 192.0 million.

## **Principles of the remuneration system for the Management Board and Supervisory Board**

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element. There are no remuneration components providing long-term incentives at present. A target income is determined for the fixed component and the bonus, which is regularly reviewed. The last review took place in the fiscal year 2006. The fixed remuneration component is paid monthly as a salary. The size of the variable component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 80% and 120%. No bonus is paid below 80% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus.

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to €20k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to €2k for every cent which exceeds the consolidated earnings per share value of €0.10 for United Internet AG, calculated according to IFRS. There are no convertible bond programs for members of the Supervisory Board.

## **Results of operations, financial position and net assets**

### **Strong growth in consolidated sales and earnings figures**

Financial figures:

In € million	31.12.2005	31.12.2006	Change from prior year in %
Sales	801.5	1.267.6	+58.2
EBITDA	128.9	236.8	+83.7
EBT	101.0	181.5	+79.7

Quarterly development:

In € million	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q4 2005
Sales	285.6	311.5	316.9	353.6	258.2
EBITDA	54.5	63.6	69.4	49.3	41.2
EBT	41.5	50.1	55.3	34.6	27.8

The United Internet Group can look back on a very encouraging fiscal year 2006. There was significant year-on-year growth in all key figures, both for the Group as a whole and for its three segments. Sales revenues grew by 58% to €1,267.6 million (prior year: €801.5 million). This was due mainly to very strong organic growth in the Product and Online Marketing segments, where we benefited from growing customer figures and a booming advertising market. The Product segment made the largest contribution toward sales growth: sales in this segment benefited from the dynamic growth of broadband contracts with stronger customer retention, successful customer acquisition in national and international target markets in webhosting and fast growing advertising and e-commerce revenues in our portal business. In our broadband segment, strong growth in sales resulted from the fact that more and more of our new DSL customers and our existing base subscribed not only to our DSL tariff, but also to network connections, internet telephony and additional services like security packs and video-on-demand. Apart from net growth of 530,000 DSL customers in fiscal 2006, we also raised the number of our own DSL connections from 0.96 million at year-end 2005 to 1.81 million on December 31, 2006. In 2006, we therefore invested in deeper and more valuable customer relationships in our DSL business. The sale of connections and access tariffs from a single source promises to create a much stronger link with our customers, while enabling us to cross-sell additional products such as video-on-demand and internet TV. We have thus taken a major step toward our vision of offering one-stop shopping for all major communication, information and entertainment needs and can expect stable customer relationships and growing revenues for the future.

Consolidated gross margin fell from 41.5% in the previous year to 38.6% for the period under review. The main reason was the strong growth in new customers and the changed product mix: we achieved a net increase in new DSL customers of 530,000 in 2006, whereby DSL offers higher revenues but a lower gross margin in comparison to other products, such as webhosting or portal. Compared with pure data transfer tariffs – whose share of total sales fell in 2006 – additional sales with DSL connections, such as telephone and movie flat rates, also generate higher revenues but a lower margin. More decisive, however, is that the contribution margin per customer has improved in comparison to pure data transfer tariffs. The percentage gross margin remained generally stable in other areas, such as webhosting, e-mail services or portal business.

Due to our strong customer growth and the higher costs associated with stronger customer retention when acquiring new customers, sales and marketing expenses also grew from €176.5 million to €226.5 million. As a result of the strong increase in sales revenues, however, their proportion fell to 17.9% (prior year: 22%). As in previous years, customer acquisition costs are directly expensed. Administrative expenses grew more slowly than sales, from €53.9 million (6.7%) to €73.7 million (5.8%).

EBITDA grew by 84% to €236.8 million (prior year: €128.9 million), while EBT improved by 80%, from €101.0 million to €181.5 million. This increase in earnings was achieved against a backdrop of strong and mostly organic growth, with 530,000 new DSL customers (prior

year: 710,000) and 750,000 new webhosting customers (prior year: 310,000; 2006 incl. 220,000 from Fasthosts acquisition). This growth involved considerably higher marketing expenses in certain areas. With the formation of United Internet Media, we also strengthened and greatly expanded our efforts in the portal segment. In 2006 our business model successfully demonstrated that growth does not need to be at the expense of profitability, and that we can achieve stable growth in earnings while at the same time integrating the occasional acquisition (such as Fasthosts and CibleClick) into our company.

### **Strong cash flow and investments in the future**

Despite high expenses for DSL customer acquisition, the Group continued to improve its profitability in the period under review. Cash flow from operating activities grew from €91.0 million last year to €170.3 million in fiscal 2006. Net cash flow from operating activities grew even faster to €226.0 million (prior year: €125.5 million). The main reason was an increase in trade payables resulting from the expansion of business as well as from the balance sheet date. At the same time, other liabilities fell by €10.4 million.

In line with the strong growth of our Product business, this segment also accounted for the major share of investments. Net cash outflows for financing activities amounted to €171.4 million (prior year: €232.5 million). In addition to the planned expansion of our infrastructure and server capacities, the acquisition of UK webhoster Fasthosts Internet Ltd. totaling €96.9 million played a major role. Investments in tangible and intangible assets grew to €41.4 million (prior year: €30.3 million) and thus reflect the steady organic growth in this item. In the Online Marketing segment, we invested primarily in the acquisition of further shares in Sedo and affilinet, as well as the French affilinet subsidiary CibleClick (total: €38.3 million).

Cash flow from financing activities was dominated by disbursements for the purchase of treasury shares amounting to €79.6 million (prior year: €3.4 million) and proceeds from new loans totaling €35.3 million (prior year: €79.8 million). Dividend payments accounted for a total disbursement of €15.6 million (prior year: €11.2 million).

### **Assets and equity**

In 2006, the Group's overall asset structure was influenced by largely debt-financed acquisitions and the strong earnings of the United Internet Group. The consolidated balance sheet total rose from €657.0 million in the previous year to €819.5 million, of which €373.7 million was goodwill (prior year: €266.8 million). As of the balance sheet date, intangible assets amounted to €147.4 million (prior year: €145.5 million) and resulted mainly from company acquisitions. These will be mostly amortized over the coming years and offset from tax, resulting in a reduction in both earnings and tax payments.

Due to the strong increase in cash flow from operations, net indebtedness of the United Internet Group only increased to €86.0 million (prior year: €47.0 million), despite acquisitions made in 2006, as well as the purchase of treasury shares and the dividend payment. As a result of the increase in total assets and treasury shares to be deducted from equity, the Group's equity ratio fell to 40.9% (prior year: 47.0%).

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

In the period under review, sales of the parent company amounted to €9.4 million (prior year: €12.9 million). These revenues result mainly from services provided to the Group's subsidiaries, as well as from cost allocations, e.g. rent for the Business Park in Montabaur

and for sponsoring activities in connection with the America's Cup. Due to the positive development of our operating subsidiaries 1&1 Internet and twenty4help, income from profit transfer agreements increased from €86.0 million in the previous year to €120.7 million. EBT of the parent company amounted to €123.9 million (prior year: €141.7 million), while net income reached €75.4 million in 2006 (prior year: €106.5 million). Other operating income amounted to €8.3 million in 2006 and resulted mainly from the sale of securities. In the previous year, other operating income totaled €59.4 million and resulted from the sale (Sedo and affilinet) and the contribution (twenty4help) of subsidiaries.

The parent company's balance sheet is mainly influenced by investments in affiliated companies amounting to €286.5 million (prior year: €288.1 million) as well as receivables from affiliated companies totaling €155.1 million (prior year: €179.8 million) resulting from profit transfer agreements and cash pool liabilities. As of December 31, 2006, the parent company also held 8,226,072 treasury shares, for which an accrual for treasury shares was formed amounting to €79.6 million (prior year: €0). Bank liabilities of United Internet AG result from a revolving syndicated loan, €50 million of which had been drawn as of December 31, 2006 (prior year: €80 million). The equity ratio amounted to 84.2% as of the balance sheet date (prior year: 78.0%).

## **Dividend**

At the Annual Shareholders' Meeting on June 13, 2006, it was voted to accept the proposal of the Management Board and Supervisory Board of United Internet AG concerning the payment of a dividend of 6.25 cents per share (adjusted for the share split). The payment of €15.6 million in total was effected on June 14, 2006. An increased dividend payment is planned for the fiscal year 2006: the Management Board and Supervisory Board will propose a dividend of 18 cents per share at the Annual Shareholders' Meeting in May.

## **Investments**

In addition to its core brands, United Internet also holds investments in three other companies. Both fun communications GmbH and NT plus AG posted positive operating results in the period under review. In late December 2006, United Internet agreed in principle with the owners of e-sport GmbH, Hamburg, concerning the purchase of a 12.51% stake in e-sport. It was also agreed that United Internet could acquire a call option to acquire a further 12.52% stake by the end of 2007 and would then hold 25.03% of total share capital.

## **Explanation of disclosures acc. to Secs. 289 (4), 315 (4) German Commercial Code (HGB)**

The Company's capital stock amounts to €250,235,176 divided into 250,235,176 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. As far as the Company is informed, Ralph Dommermuth, Montabaur, owns 88,000,000 shares or 35.17% of total shares in United Internet AG. Mr Ralph Dommermuth is personally entitled to nominate a member of the Supervisory Board. This right is exercised by naming a person for the Supervisory Board to the Company's Management Board. The nomination becomes effective as soon as the nominated person declares his acceptance of the Supervisory Board seat to the Management Board. A requirement for the aforementioned nomination right is that Mr Ralph Dommermuth holds shares himself or via affiliated companies pursuant to Sec. 15 ff. German Stock Corporation Law (AktG) representing at least 25% of the Company's voting capital and can prove as much to the

Management Board on nomination of the Supervisory Board member by providing depository account statements or similar documents. Mr Dommermuth has so far not made use of this nomination right.

The Supervisory Board appoints and dismisses the members of the Management Board, determines their number and can appoint one member of the Management Board as Chairman. Each amendment of the Company's articles requires the adoption of a shareholders' meeting resolution with a majority of at least three quarters of capital represented at the vote. The Supervisory Board is authorized to make amendments to the Company's articles insofar as they only concern formulation.

At the annual shareholders' meeting of June 13, 2006, the Company's Management Board was authorized pursuant to Sec. 71 (1) No. 8 AktG, to acquire treasury shares not exceeding 10% of its capital stock up to December 12, 2007.

The Management Board is entitled to issue new shares under the following circumstances:

- 1) The Management Board is authorized, subject to approval by the Company's Supervisory Board, to increase the Company's capital stock on one or more occasions before June 12, 2011 by a total of € 124,550,402.00 by issuing new no-par shares for cash and/or non-cash contributions (Authorized Capital 2006).
- 2) The capital stock has been conditionally increased by up to a further €92,000,000.00, divided into 92,000,000 no-par shares (Conditional Capital 2005). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on May 18, 2005 authorized the Company or a subordinated Group company to issue by May 17, 2010, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital
- 3) The capital stock has been increased conditionally by up to €3,720,000.00, divided into 3,720,000 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.
- 4) The capital stock has been increased conditionally by up to €5,222,372.00, divided into 5,222,372 no-par registered 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, 2003.
- 5) The capital stock has been increased conditionally by up to €3,000,000.00, divided into 3,000,000 no-par shares (Conditional Capital Employee Stock Ownership Plan 2005). 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 18, 2005.

### **Subsequent events**

The positive conditions and dynamic growth of those target markets of relevance to United Internet remain unchanged in 2007.

On January 19, 2007 United Internet AG issued an ad-hoc announcement that it had reached a general agreement with Teleperformance SA (Euronext: FR 0000051807), Paris,

with regard to the sale of the United Internet Group subsidiary twenty4help AG, Montabaur, to Teleperformance. With the sale of the company, which no longer belonged to the Group's core business, United Internet has completed the final step toward becoming a pure Internet Service Provider (ISP). The Group's Outsourcing segment, of which twenty4help accounted for around 90%, will no longer be separately disclosed in future. The remaining Outsourcing brand InterNetX will be integrated into the Product segment. In future, therefore, United Internet will focus entirely on its Product segment (with the brands GMX, WEB.DE, 1&1, Fasthosts and InterNetX) and Online Marketing segment (with AdLINK, affilinet and Sedo). In the course of the transaction, the value of twenty4help AG was determined to be around € 85 million. The final purchase price is based on the audited and certified consolidated financial statements of twenty4help AG for the fiscal year 2006. Teleperformance will pay the full purchase price in cash. The sale is expected to have a positive effect on earnings in 2007.

There have been no further subsequent events since year-end which have significantly altered the business situation of United Internet.

## **Risk report**

### **Risk management based on seven principles**

United Internet AG attaches high priority to its holistic risk management system, which goes above and beyond the statutory requirements. Our monitoring system identifies, classifies and evaluates risks using standard procedures and defining clear responsibilities throughout the Group. We not only regard efficient and forward-looking risk management as an important tool to anticipate dangerous developments, but as an important and value-adding responsibility.

The aim of risk management is to systematically deal with potential risks as well as to promote a risk-oriented approach throughout the entire organization. This controlled approach to risks is aimed at utilizing existing opportunities to the full, enhancing the company's success and thus raising corporate value. In particular, the company's established risk culture aims to:

- promote risk awareness and transparency;
- identify, monitor and control all major risks in an appropriate way;
- show any build-up of risk and reliably assess the risk situation of subsidiaries and the Group as a whole.

The risk management culture of United Internet AG is characterized by the following seven principles:

- Risk management is mainly decentralized and carried out by sub-groups, associated companies and their operating units as part of their respective management duties;
- Risk management should not be limited to financial risks, but must apply to all risks involved in the company's activities;
- Risk management must be an integral part of business processes;
- The prerequisites for effective risk management are clear and unequivocal allocation of tasks and responsibilities as well as a systematic risk management process;
- The support and active involvement of management;
- The functioning and reliability of the risk management system should be regularly monitored and adapted where necessary;
- The risk management system and its processes are to be suitably documented; the principles and guidelines of risk management are to be held in written form and communicated to the respective positions.

Work processes are to be standardized and thus carried out in a uniform manner. A risk management system has the task of providing those responsible with suitable tools for analyzing and evaluating risks. The risk management manual is to be kept and continually updated by the risk manager. A central risk manager for United Internet AG is to be given the responsibility of determining the methods and guidelines of the risk management system. He should coordinate and manage reporting on significant risks. This includes a quarterly status check of the risk controlling and reporting lists. The Management Boards or General Managers of the subgroups and associated companies integrated into the risk management system are to nominate decentralized, or local, risk managers. These are responsible for identifying and evaluating risks, as well as for formulating and implementing suitable measures for dealing with such risks.

A complete risk inventory is to be carried out once per year, during which risks are assessed according to probability and extent of damage. Should the evaluation indicate the necessity for monitoring, appropriate measures to deal with the risk and monitor its development are to be undertaken, in coordination with management, and their status included in the quarterly report. If specified threshold levels are exceeded, the Management Board or General Manager of a subgroup or associated company has a duty to report to the Supervisory Board. The Management Board then informs the Supervisory Board about such risks at the respective Supervisory Board meeting. Risks of subsidiaries requiring close monitoring are also to be reported quarterly to the central risk manager.

As part of the Company's preventive risk management system, early-warning indicators with pre-determined threshold values have been defined, whose current values are continually monitored. If these threshold values are exceeded, the related circumstances and necessary countermeasures are documented.

In the case of circumstances relevant to ad-hoc reports, the person responsible for such ad-hoc reporting at the respective subgroup, associated company or United Internet itself, is to be informed by the local risk manager. Within the framework of the risk management system, an "immediate information report" serves to provide up-to-date reports on new risks and all events relevant to ad-hoc reporting.

A management circle on the subject of risk management has been installed for the group-wide exchange of risk information. This group is responsible for the continual development and adaptation of the risk management system to changing market situations and risks.

## **Risks for future business development**

We regard the following as the most significant risks and uncertainties which United Internet is exposed to.

### **External risks**

#### **Internet security**

The success of United Internet depends mainly on demand for high-quality internet applications and technical value-added products. The processes involved depend on information and telecommunication technologies (data centers, transmission systems, connection nodes etc.), as well as software applications. These complex processes can be disturbed or interrupted by malfunctions, downtime, e.g. caused by hacker attacks, power cuts, natural catastrophes or other events. Such events may result in a loss of trust in United Internet and its subsidiaries and thus cause a decline in the use of our products.

## **Regulation**

In the field of internet access, the decisions of the Federal Network Agency and Federal Cartel Office in Germany influence the pricing of internet access tariffs in our Product segment. Price increases by line operators, from whom United Internet purchases data transfer volumes for its own customers, could have a negative effect on the profitability of these tariffs. There is also the possibility that, under certain circumstances, a lack of regulation may worsen market conditions for United Internet. United Internet attempts to counter the risk of regulation by cooperating with several partners for the services required for our DSL business. Decisions of the Federal Network Agency also influence our business processes in the field of internet telephony (VoIP). External requirements of existing processes and new regulatory conditions could incur high costs, which might negatively impact our profitability.

## **Operating risks**

### **Competition**

The German DSL market is currently experiencing a strong growth and market share allocation phase. 2007 will continue to be marked by takeovers and company mergers. In addition to our major competitors, local town network operators, cable network operators and other network operators with their own infrastructure are active on the market. There is a risk that the achievable level of end-user prices may continue to fall or that the cost of canvassing new customers may rise further. Increasing competition and/or falling prices could negatively impact our targeted market share of new customers, our growth opportunities and/or our net assets, financial situation and results of operations. United Internet attempts to counter these risks by, for example, developing innovative and high-value additional products, using exclusive sales channels and generating greater customer loyalty.

### **Product development**

A significant success factor of United Internet is the development of new products and services for its core brands GMX, WEB.DE and 1&1 in order to provide its new and existing customers with top-quality and innovative value-added internet services and thus raise the total number of customer contracts. The fast technological change in markets for internet applications means that new developments might be too late on the market or not have the desired success. United Internet attempts to minimize such risks by closely observing market trends and making long-term investments in extensive and efficient product development.

### **Technology and software systems**

The services and internal business processes of United Internet are based on a complex technical infrastructure and a number of success-critical software systems, such as SAP servers, customer relationship databases and statistics systems. This infrastructure is subject to various malfunction risks, e.g. from overloading or technical defects. There is also the risk of targeted attacks from inside and outside the Company, e.g. from hackers or PC viruses, which might affect the availability and security of data. The integration of purchased business systems into the existing system landscape also bears the risks of interruptions and malfunctions due to the inherent complexity of such systems. Non-availability or deterioration of our services could have a sustained negative impact on the image and thus the operating business of United Internet. A wide variety of state-of-the-art safety precautions have therefore been taken to protect United Internet's infrastructure. By dividing responsibilities, we have made sure that activities or business transactions involving risks are not carried by single employees. Access restrictions also ensure that employees may only operate within their particular area. United Internet attempts to protect itself from external attacks with the

aid of firewalls, the latest virus scanners and access controls. As a precautionary measure, all data are regularly backed up and hosted in separate data centers.

### **Dependence on suppliers**

United Internet's internet access products are based to a large extent on third party services – mainly those of Deutsche Telekom AG at present. As such, United Internet is dependent to a large extent on the performance and resources of its technical service providers. United Internet works constantly with its suppliers on improving processes and attempts to source alternatives for the case of possible bottlenecks. As of early 2006, for example, we also source services from a second partner for our DSL business. Moreover, United Internet purchases product-specific, sophisticated hardware, such as DSL modems and set-top boxes, from selected external suppliers. Due to the high quality standards, the number of suppliers is limited to just a few. Should there be very high and unforeseen demand for these United Internet product packages, delivery bottlenecks cannot be ruled out. This might have negative consequences for business activities. United Internet counters such risks by extending its portfolio of suppliers, while focusing on maintaining quality.

### **Customer satisfaction**

The satisfaction of our customers enjoys a high priority at United Internet. It is a key factor for stable customer growth and thus for our future business success. Due to constant customer growth, there may be a deterioration in service, e.g. long delivery times for hardware or interface problems with our suppliers. With the aid of questionnaires, United Internet attempts to discover the main areas of customer satisfaction and introduces suitable measures to minimize negative effects, such as raising headcount in the field of customer care.

### **Legal risks**

#### **Property rights**

United Internet attempts to protect its property rights by means of copyrights, trademarks and patents. As these property rights are not always supported by the respective national authorities, an infringement of rights and self-developed technologies cannot be excluded. In the same way, United Internet may also face damage claims for infringing the rights or patents of third parties, e.g. should claims be made regarding intellectual property of technology used by us without knowledge of its protection.

#### **Litigation**

In the fiercely competitive internet markets, the acquisition of new customers by means of promotional activities is decisive. In this connection, it is often the case that competitors seek litigation as a result of disputed – especially comparative – advertising statements. Should United Internet lose such a case, this may negatively impact the efficiency of future advertising, make attracting new customers more difficult and/or reduce profitability.

#### **Data protection**

United Internet hosts the data of several million customers on its servers. Data protection therefore enjoys a particularly high priority and is guaranteed by the observance of all current legislation and the use of the latest technology. Should third parties succeed, however, in breaking through the various security measures and stealing personal data, United Internet might be made liable for such abuse of its responsibilities.

## **Other risks**

### **Personnel**

The performance of our employees is the key determinant for the success of United Internet. Due to the intense competition for skilled and motivated employees or managers, there is no guarantee that the company will be able to recruit, integrate and keep a sufficient number of skilled employees in future. The loss of key employees could also have a negative influence on United Internet. The company counters such personnel risks by offering various employee stock ownership plans and undertaking an active personnel development program.

### **International expansion**

United Internet is currently active in 13 countries and plans further international expansion. It cannot be guaranteed that United Internet will be as successful in its international markets in the long term. Should we not attract sufficient customers, or should this prove too expensive or other such problems occur, United Internet may be forced to withdraw from such countries. The related expenses and management resources could result in a deterioration of our operating business. In order to minimize such risks, we operate within extremely short time frames in our international expansion planning. We set exact milestones and targets and only when these have been achieved, do we decide on further steps.

### **Acquisitions**

Our long-term growth strategy also involves the option of quickly achieving critical mass in certain markets by means of acquisition or utilizing favorable market opportunities. Should the acquired companies not fulfill the expectations we placed in them, or should the integration processes to leverage synergies prove more difficult or expensive than planned, this may have a negative impact on the profitability and financial position of United Internet. We counter this risk by means of extensive due diligence audits prior to acquisitions, but cannot completely exclude such risks.

## **Qualitative and quantitative information concerning the overall risk**

Following the successful integration of WEB.DE and takeover of the UK webhoster Fasthosts, with the resulting market consolidation in the UK, the overall risk situation has stabilized further. Despite the continuing intensity of competition on the German internet access market, the resulting risk was limited by implementing suitable measures. Due to the ongoing strict alignment of United Internet as an Internet Service Provider, the major risks for the Company's future net assets, financial situation and results of operations focus on the areas of supplier dependency, technology and software systems, and competition. The risk management culture we have introduced enables us to proactively counter such risks and limit them to a minimum. We judge the probability of such adverse developments as very low to limited. There were no risks which directly jeopardized the continued existence of United Internet in the fiscal year 2006, neither from individual risks nor from the overall risk situation.

## **Annual inspection of the risk management system**

In the course of their audit of the Company's annual financial statements, the auditors assess both the functionality and compliance of the risk management system installed by United Internet. The auditors confirmed that our risk management system complied with legal requirements in 2006.

## Outlook

### Good prospects for 2007

Economists expect slightly weaker growth for the global economy in 2007. The International Monetary Fund, for example, forecasts growth of 4.9% for the global economy – compared with 5.1% in 2006. Growth of around 2% is predicted for the Euro zone this year. Research institutes are also upbeat about the German economy. According to the HWWI Institute, the German economy will continue to grow this year and the next. Researchers have lifted their growth forecasts from 1.1% to 1.7% for 2007. The Kiel Institute for the World Economy expects growth of 2.1% and the German government has also raised its forecast from 1.4% to 1.7%.

The trade association BITKOM expects the European ITC market to continue its positive development in 2007. The association forecasts EU-wide growth of 2.9% to €663 billion. According to the association's latest mood indicator, almost three quarters of all small and mid-size high-tech companies in Germany also expect rising sales in 2007. Some 73% of all companies questioned said they expected growth, while just 26% expect sales to remain stable.

### Boom in broadband connections continues

According to the study "Germany Online 4", the trend toward broadband connections is set to continue. The number of broadband connections will increase to 21 million by 2010 and to over 27 million connections by 2015 – so that almost 70% of all German households will have a broadband connection by this time.

Broadband connections in Germany 2006-2015  
in million

2006	2010	2015
14.7	21.0	27.0

Above all, this rapid growth means increasing bandwidths and thus an improved performance of the broadband network. Without this development, attractive applications like internet telephony, internet TV or video-on-demand would simply not be possible. The customer equates increased speed with greater convenience and new application possibilities. This market driver will continue to play a key role while bandwidths continue to grow.

Whereas 76% of broadband users boasted internet connections of 1 MBit/s in 2005, this proportion will fall to 34% by 2010. However, by 2010 over 40% of connections are expected to be between 6 and well over 50 MBit/s. The trend is thus clear: the strong decline in lower-speed internet connections will go hand-in-hand with an increase in ultra-high bandwidth connections.

The ongoing boom in broadband connections will therefore also positively impact many other markets in which we operate. With growing household penetration of broadband internet, we can offer new and innovative products and services – such as internet telephony, video-on-demand as the first step toward internet TV and web-based office applications – which users can access without any drop in performance. At the same time, our online portals GMX, WEB.DE und 1&1 and marketing brands AdLINK, Sedo and affilinet will be able to use increasingly data-intensive advertising formats.

## **High growth rates also for webhosting and online advertising**

Market researchers also predict continuing growth for the webhosting industry. Tier 1 Research expects growth of 10% in 2007, while Gartner and IDC predict as much as 15 and 16% per year up to 2010, respectively.

The online advertising market has now also developed into a highly dynamic growth market. JupiterResearch forecast growth of 18% to €5.9 billion for the European advertising market in 2007. Despite a leap in sales of 59% to €1.65 billion, there is still no end in sight for growth on the German online advertising market. The tremendous untapped potential becomes apparent if one compares online advertising's share of the total advertising pie with online usage as a proportion of total media usage: the forecast for 2006 of 7.8% of the advertising market (without posters) is only about half the online share of daily media consumption of 14.6%.

Thanks to our successful positioning in these growth markets, we expect good growth opportunities once again in 2007 for our business segments.

## **Sustained growth expected for Product segment**

In our Product segment, we are confident that our international expansion strategy will continue to make good progress and that we can maintain our dynamic growth. Thanks to further product innovations and our attractive price-performance ratio, we also see good opportunities for DSL connections and DSL telephony. In total, we expect dynamic growth in the number of customer contracts in all product lines with rising revenues and earnings. All lights are also set to green for the marketing of our portals GMX, WEB.DE and 1&1 in 2007. The online advertising market is experiencing dynamic growth and we are making strong progress in the development of content, thanks to cooperations, our own developments – such as music downloads on WEB.DE – and investments such as Bigpoint/e-sport.

## **Strong growth in sales and earnings expected for Online Marketing segment**

The same applies to our Online Marketing business, in which – contrary to the Product segment – we market exclusively third-party websites and domains. In view of the segment's strong progress in 2006 and the ongoing positive development of the online advertising market, we expect further significant growth in sales and earnings in future.

Montabaur, March 5, 2007

Ralph Dommermuth, CEO

Norbert Lang, CFO



**United Internet AG,  
Montabaur**

**Consolidated Annual Financial Statements**  
according to IFRS

as of  
December 31, 2006

**United Internet AG- Consolidated balance sheet  
acc. to IFRS as of December 31, 2006 in €**

<b>ASSETS</b>	Notes	<b>31. December 2006</b>	<b>31. December 2005</b> *
<b>Current assets</b>			
Cash and cash equivalents		32,723	36,177
Accounts receivable and other assets	6	120,920	99,841
Inventories	8	16,797	6,313
Prepaid expenses		19,522	12,526
Other assets	7	17,705	20,927
		<u>207,667</u>	<u>175,784</u>
<b>Non-current assets</b>			
Equity investments	9	11,006	9,492
Other financial assets		3,695	1,440
Property, plant and equipment	10	66,296	51,619
Intangible assets	11	147,370	145,503
Goodwill	11	373,687	266,757
Deferred tax asset	25	9,811	6,436
		<u>611,865</u>	<u>481,247</u>
<b>Total assets</b>		<u><b>819,532</b></u>	<u><b>657,031</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable, trade		163,330	91,932
Liabilities due to banks	12	16,140	344
Advance payments received		5,440	5,111
Accrued taxes	14	25,743	12,527
Deferred revenue	16	92,520	72,421
Other accrued liabilities	15	1,699	1,493
Other liabilities	13	50,510	65,963
		<u>355,382</u>	<u>249,791</u>
<b>Non-current liabilities</b>			
Convertible bonds	17	876	1,245
Liabilities to banks	12	102,579	82,857
Deferred tax liability	25	21,769	11,726
Deferred revenue	16	1,756	2,680
Other liabilities		2,155	242
		<u>129,135</u>	<u>98,750</u>
<b>Total liabilities</b>		<u><b>484,517</b></u>	<u><b>348,541</b></u>
<b>Equity</b>			
Capital stock	17	250,235	62,275
Additional paid-in capital		156,447	238,506
Accumulated loss		-6,014	-2,822
Treasury stock	17	-79,561	0
Revaluation reserves		1,373	892
Currency translation adjustment		930	1,111
		<u>323,410</u>	<u>299,962</u>
Minority interests	18	11,605	8,528
<b>Total equity</b>		<u><b>335,015</b></u>	<u><b>308,490</b></u>
<b>Total liabilities and equity</b>		<u><b>819,532</b></u>	<u><b>657,031</b></u>

\* Adapted - See explanation 4d) in the notes to the consolidated financial statements as at December 31, 2006

**United Internet AG - Consolidated income statement acc. to IFRS  
from January 1, 2006 to December 31, 2006 in €k**

		<b>2006</b>	<b>2005 *</b>
	Note	<b>January - December</b>	<b>January - December</b>
Sales		1,267,561	801,505
Cost of sales	19, 20, 21	-778,008	-469,002
<b>Gross profit</b>		<b>489,553</b>	<b>332,503</b>
Selling expenses	19, 20, 21	-226,523	-176,455
General administrative expenses	19, 20, 21	-73,729	-53,889
Other operating expenses	23	-12,557	-16,070
Other operating income	23	26,679	18,805
Amortization of intangible assets resulting from company acquisitions	21	-21,846	-3,288
Amortisation of goodwill	22	0	-1,679
<b>Operating result</b>		<b>181,577</b>	<b>99,927</b>
Interest and similar expenses	24	-5,389	-1,644
Interest and similar income	24	2,989	2,117
Result from associated companies	9	2,368	575
<b>Pre-tax result</b>		<b>181,545</b>	<b>100,975</b>
Income taxes	25	-61,316	-41,685
<b>Net income before minority interests</b>		<b>120,229</b>	<b>59,290</b>
Minority interests		-6,954	-2,214
<b>Net income attributable to shareholders of United Internet AG</b>		<b>113,275</b>	<b>57,076</b>
<b>Result per share (in €) *</b>			
- basic	4 u)	0.46	0.25
- diluted	4 u)	0.46	0.25
<b>Weighted average shares (in million units) *</b>			
- basic	4 u)	245.98	228.62
- diluted	4 u)	247.75	230.36

\* Adapted - See explanation 4d) in the notes to the consolidated financial statements as at December 31, 2006

**United Internet AG - Consolidated cash flow acc. to IFRS**  
**from January 1, 2006 to December 31, 2006 in €k**

		2006	2005
	Notes	January - December	January - December
<b>Cash flow from operating activities</b>			
Net income		120,229	59,290
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
<b>Depreciation and amortisation</b>			
Depreciation and amortization	21	33,373	23,998
Amortization of intangible assets resulting from company acquisitions	21	21,846	3,288
Goodwill amortisation	22	0	1,679
Compensation expenses from employee stock option plans	17	1,614	1,780
Results of associated companies consolidated using the equity method	9	-2,368	-575
Distributed profits of associated companies	9	859	441
Income from partial deconsolidation		-5,539	0
Change in deferred taxes		-847	1,015
Non-cash expenses/income		1,163	54
		<u>170,330</u>	<u>90,970</u>
<b>Operative cash flow</b>			
<b>Change in assets and liabilities</b>			
Change in receivables and other assets		-10,816	-35,686
Change in inventories		-10,144	4,002
Change in deferred expenses		-3,438	-3,254
Change in accounts payable, trade		68,308	23,713
Change in advance payments received		328	-611
Change in other accrued liabilities		171	-3,366
Change in accrued taxes		12,924	-1,168
Change in other liabilities		-10,410	31,426
Change in deferred income		8,700	19,457
		<u>55,623</u>	<u>34,513</u>
<b>Cash flow from operating activities</b>			
		<u>225,953</u>	<u>125,483</u>
<b>Cash flow from investing activities</b>			
Capital expenditure for intangible assets and property, plant and equipment		-41,426	-30,327
Investments in other financial assets		-1,787	0
Payments of loans granted		98	97
Disposal of assets		1,024	244
Purchase of shares in associated companies	9	-5	0
Purchase of further shares in affiliated companies	5	-38,312	0
Proceeds from partial deconsolidation		7,890	0
Acquisition costs, net of acquired cash	5, 28	-98,867	-202,552
		<u>-171,385</u>	<u>-232,538</u>
<b>Cash flow from financing activities</b>			
Purchase of treasury stock	17	-79,561	-3,430
Change in bank liabilities		35,312	79,772
Dividend payments		-15,569	-11,208
Minority interests		-180	0
Additional payments for the exercise of convertible bonds		2,177	3,096
Payment/Repayment of convertible bonds		-22	95
		<u>-57,843</u>	<u>68,325</u>
<b>Cash flow from financing activities</b>			
Net increase/decrease in cash and cash equivalents		<u>-3,275</u>	<u>-38,730</u>
Cash and cash equivalents at beginning of fiscal year		<u>36,177</u>	<u>74,682</u>
Change in currency translation adjustments		<u>-179</u>	<u>225</u>
Cash and cash equivalents at end of fiscal year		<u>32,723</u>	<u>36,177</u>

**United Internet AG - Consolidated statement of changes in shareholders' equity acc. to IFRS  
from January 1, 2006 to December 31, 2006**

	Capital stock		Additional paid-in capital	Accumulated loss	Treasury stock	Revaluation	Currency translation	Total	Minority interests	Total equity	Total net income attributable to shareholders of United Internet AG	Minority interests
	Share	€k	€k	€k	€k	€k	€k	€k	€k	€k	€k	€k
Balance as of December 31, 2004	58,043,387	58,043	123,540	-48,690	-36,528	585	886	97,836	6,246	104,082		
Exercise of conversion rights	431,814	432	2,664					3,096		3,096		
Capital increase in return for stock *	3,800,000	3,800	110,522					114,322		114,322		
Employee stock ownership programme AdLINK			355					355		355		
Employee stock ownership programme United Internet			1,425					1,425		1,425		
Revaluation surplus Afiliass Ltd. / Dublin						307		307		307	307	
Withdrawal of treasury shares					36,528			36,528		36,528		
Dividend payment				-11,208				-11,208		-11,208		
Currency translation adjustment							225	225		225	225	
Net income 2005				57,076				57,076	2,214	59,290	57,076	2,214
Increase in shareholdings									68	68		
Balance as of December 31, 2005	62,275,201	62,275	238,506	-2,822	0	892	1,111	299,962	8,528	308,490	57,608	2,214
Exercise of conversion rights	1,134,372	1,134	1,391					2,525		2,525		
Capital increase in return for stock	186,825,603	186,826	-85,928	-100,898				0		0		
Employee stock ownership programme AdLINK			303					303		303		
Employee stock ownership programme United Internet			1,311					1,311		1,311		
Revaluation surplus Afiliass Ltd. / Dublin						481		481		481	481	
Miscellaneous			864					864		864		
Treasury stock					-79,561			-79,561		-79,561		
Dividend payment				-15,569				-15,569		-15,569		
Currency translation adjustment							-181	-181		-181	-181	
Net income 2006				113,275				113,275	6,954	120,229	113,275	6,954
Dividend payments									180	180		
Increase in shareholdings									-4,057	-4,057		
Balance as of December 31, 2006	250,235,176	250,235	156,447	-6,014	-79,561	1,373	930	323,410	11,605	335,015	113,575	6,954

\* Adapted - See explanation 4 d) in the notes to the consolidated financial statements as at December 31, 2006

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2006**

### **1. NATURE OF BUSINESS**

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

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

In the last few years, United Internet AG has 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 56410 Montabaur, Elgendorfer Strasse 57, Germany, and has branches or subsidiaries in Dortmund, Ebersberg, Görlitz, Hannover, Karlsruhe, Cologne, Montabaur, Munich, Regensburg, Zweibrücken, Boston, Cebu City, Chesterbrook, Dublin, Durban, Gateshead, Gloucester, Haarlem, Copenhagen, Küsnacht, Las Vegas, Levallois-Perret, Liberec, London, Ljusdal, Maastricht, Madrid, Milan, Paris, Saargemünd, Slough, Stockholm, Zellik, Zgorzelec and Zug. 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 effect from January 1, 1998. Until its general meeting of shareholders on February 22, 2000, it traded under the name of 1&1 Aktiengesellschaft & Co. KGaA. At this general meeting it was decided to change the Company's name to United Internet Aktiengesellschaft & Co. KGaA and then to transform the Company into a stock corporation named United Internet AG. United Internet AG is registered at the district court of Montabaur under HR B 5762.

### **3. TRANSACTIONS WITH RELATED PARTIES**

IAS 24 defines related parties as those persons and companies that control or can exert a significant influence over the other party. Accordingly, United Internet AG is subject to significant influence from Mr. Ralph Dommermuth, the major shareholder, as well as from the members of the Management Board and Supervisory Board.

United Internet's premises in Montabaur are leased from Mr. Ralph Dommermuth, the 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 €1,355k in fiscal year 2006 (prior-year: €1,206k).

There is a sponsoring contract between United Internet AG and Deutsche Challenge 2007 AG & Co. Management KG, Munich, which support given by United Internet AG as the main sponsor of the "United Internet Team Germany" in the America's Cup 2007. The sole proprietor of Deutsche Challenge 2007 AG & Co. Management KG is Mr. Ralph Dommermuth. The sponsoring contract expires no later than October 31, 2007.

At the ordinary shareholders' meeting on May 18, 2005, Mr. Kurt Dobitsch (chairman), Mr. Bernhard Dorn and Mr. Michael Scheeren were elected once again 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 1&1 Internet AG, Montabaur, Nemetschek AG (chairman), Munich, Bechtle AG, Gaildorf, Hybris AG, Zürich, PSB AG, Ober-Mörlen and docuware AG, Munich.

Mr. Bernhard Dorn is also a member of the supervisory boards of 1&1 Internet AG, Montabaur, AXA Service AG, Cologne, TDS AG, Neckarsulm, INVERTO AG, Cologne and ATOSS Software AG, Munich.

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

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to €20k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to €2k for every cent which exceeds the consolidated earnings per share value of €0.10 for United Internet AG, calculated according to IFRS. Mr. Kurt Dobitsch received total remuneration of €112k (prior year: €90k). Of this total, €40k (prior year: €40k) was fixed and €72k (prior year: €50k) variable. Mr. Bernhard Dorn received total remuneration of €92k (prior year: €70k). Of this total, €20k (prior year: €20k) was fixed and €72k (prior year: €50k) variable. Mr. Michael Scheeren received total remuneration of €92k (prior year: €70k). Of this total, €20k (prior year: €20k) was fixed and €72k (prior year: €50k) variable. The accrual formed for remuneration of members of the Supervisory Board for fiscal year 2006 amounts to €216k. There are no convertible bond programs for members of the Supervisory Board.

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2006. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 80% to 120%. No bonus is paid below 80% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2006, remuneration of €755k (prior-year: €757k) was agreed for the Management Board. Of this total, €400k or 53% was fixed and €355k or 47% bonus payments. Mr. Ralph Dommermuth received total remuneration of

€395k (prior year: €407k). Of this total, €200k (prior year: €200k) was fixed and €195k (prior year: €207k) variable. Mr. Norbert Lang received total remuneration of €360k (prior year: €350k). Of this total, €200k (prior year: €200k) was fixed and €160k (prior year: €150k) variable. There are currently no convertible bonds issued to members of the Management Board.

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

Shareholdings of the	1. January 2006		1. January 2006	31. December 2006		31. December 2006
	direct	indirect	total	direct	indirect	total
<b>Management Board</b>						
Ralph Dommermuth	17,600,000	70,400,000	88,000,000	17,600,000	70,400,000	88,000,000
Norbert Lang	84,000	800,000	884,000	---	576,128	576,128
	<u>17,684,000</u>	<u>71,200,000</u>	<u>88,884,000</u>	<u>17,600,000</u>	<u>70,976,128</u>	<u>88,576,128</u>
<b>Supervisory Board</b>						
Kurt Dobitsch	---	---	---	---	---	---
Bernhard Dorn	---	---	---	---	---	---
Michael Scheeren	1,400,000	---	1,400,000	800,000	---	800,000
	<u>1,400,000</u>	<u>---</u>	<u>1,400,000</u>	<u>800,000</u>	<u>---</u>	<u>800,000</u>

The United Internet Group can also exert significant influence on its associated companies. There were no significant transactions in fiscal year 2006 and in the previous year.

#### **4. SIGNIFICANT ACCOUNTING, VALUATION AND CONSOLIDATION POLICIES**

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

The reporting currency is euro (€). Amounts stated in the notes to the financial statements are in euro (€), thousand euro (€k) or million euro (€m). The consolidated financial statements are always drawn up on the basis of historical costs, unless the application of other regulations is mandatory.

The balance sheet date is December 31, 2006.

At its meeting on March 23, 2006, the Supervisory Board adopted the consolidated financial statements for 2005. The consolidated financial statements were published in the Federal Gazette (Bundesanzeiger) on October 27, 2006.

The consolidated financial statements for fiscal year 2006 were prepared by the Company's Management Board on March 9, 2007 and subsequently submitted to the Supervisory Board. The consolidated financial statements will be presented to the Supervisory Board for adoption on March 29, 2007.

## a) Consolidation Policies

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. A company is deemed to be controlled, if the Company can determine its financial and business policies in order to gain an economic benefit. All transactions, balances and interim profits between the companies have been eliminated as part of the consolidation process.

The results of subsidiaries acquired or sold during the year were included in the consolidated income statement as of their date of purchase or effective disposal.

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

### 1&1 Internet:

- 1&1 Internet AG, Montabaur (100%)
- 1&1 Internet Inc., Chesterbrook / USA (100%)
  - 1&1 Internet Ltd., Slough / United Kingdom (100%)
  - 1&1 Internet S.A.R.L., Saargemünd / France (100%)
  - 1&1 Internet Service GmbH, Montabaur (100%)
  - 1&1 Internet Service GmbH, Zweibrücken (100%)
  - 1&1 Internet Services (Philippines) Inc., Cebu City, Philippines (100%)
  - 1&1 UK Holdings Ltd., Slough / United Kingdom (100%)
    - Fasthosts Internet Ltd., Gloucester / United Kingdom (100%)
  - A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100%)
  - A1 Media LLC, Chesterbrook / USA (100%)
  - Alturo GmbH, Zweibrücken (100%)
  - GMX GmbH, Munich (100%)
  - GMX Internet Services GmbH, Munich (100%)
  - Schlund + Partner AG, Karlsruhe (100%)
    - Immobilienverwaltung AB GmbH, Montabaur (100%)
  - United Internet Media AG, Munich (100%)
  - WEB.DE GmbH, Montabaur (100%)

### United Internet Beteiligungen:

- United Internet Beteiligungen GmbH, Montabaur (100%)
- twenty4help Knowledge Service AG, Montabaur, (100%)
  - twenty4help Knowledge Service GmbH, Dortmund (100%)
  - twenty4help Knowledge Service GmbH, Görlitz (100%)
  - twenty4help Knowledge Service GmbH, Zweibrücken (100%)
  - twenty4help Knowledge Service AB, Ljusdal / Sweden (100%)
  - twenty4help Knowledge Service B.V., Maastricht / Netherlands (100%)
  - twenty4help Knowledge Service Espana S.L., Madrid / Spain (100%)
  - twenty4help Knowledge Service Ltd., Gateshead / United Kingdom (100%)
  - twenty4help Knowledge Service Sp.zo.o, Zgorzelec / Poland (100%)
  - twenty4help Knowledge Service S.r.l., Milan / Italy (100%)
  - twenty4help Knowledge Service s.r.o, Liberec / Czech Republic (100%)
  - twenty4help Knowledge Service SA (Pty.) Ltd., Durban / South Africa (74.90%)
  - SalesPlus Gesellschaft für Absatzförderung mbH, Erlangen (51%)

- United Internet Beteiligungen International GmbH, Montabaur (100%)
- InterNetX GmbH, Regensburg (80%)
  - Schlund Technologies GmbH, Regensburg (100%)
  - PSI USA Inc., Las Vegas / USA (87.50%)

AdLINK:

- AdLINK Internet Media AG, Montabaur (80.07%)
  - AdLINK Internet Media AB, Stockholm / Sweden (100%)
  - AdLINK Internet Media S.A., Levallois-Perret / France (100%)
  - AdLINK Internet Media APS, Copenhagen / Denmark (100%)
  - AdLINK Internet Media N.V., Zellik / Belgium (100%)
  - AdLINK Internet Media S.L., Madrid / Spain (100%)
  - AdLINK Internet Media Ltd., London / United Kingdom (100%)
  - AdLINK Internet Media B.V., Haarlem / Netherlands (100%)
  - AdLINK Internet Media Srl., Milan / Italy (100%)
  - AdLINK Internet Media GmbH Deutschland, Montabaur (100%)
    - net:dialogs GmbH, Montabaur (100%)
    - Sedo GmbH, Cologne (75.94%)
      - Sedo.com LLC, Cambridge (Boston) / USA (100%)
      - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100%)
  - affilinet GmbH, Ebersberg (100%)
    - affilinet Ltd., London / United Kingdom (100%)
    - CibleClick Performances S.A., Paris / France (100%)
      - CibleClick SAS, Paris / France (100%)
      - CibleClick Ltd., London / United Kingdom (100%)

Other:

- MIP Multimedia Internet Park GmbH, Zweibrücken (100%)

All companies the Company has invested in and over whose financial and business policies it has significant influence (20% to 50% of voting shares) are included as associated companies and recorded using the at-equity method of accounting. They comprise the following companies:

- AdLINK Internet Media AG, Zürich / Switzerland (50%)
- gatrixx AG, Berlin (48.44%)
- NTplus AG, Osnabrück (40.23%)
- fun communications GmbH, Karlsruhe (33.33%)
- AdLINK Internet Media GmbH, Vienna / Austria (30%)

b) Compulsory application of new accounting standards

In the period under review the Group applied the following new and revised IFRS standards and interpretations. There were no effects on the consolidated financial statements from the application of these new or revised IFRS standards and interpretations.

IAS 19 amendment – Employee Benefits

- § IAS 21 amendment – The Effects of Changes in Foreign Exchange Rates
- § IAS 39 amendment – Financial Instruments: Recognition and Measurement
- § IFRIC 4 – Determining whether an Arrangement contains a Lease
- § IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

- § IFRIC 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

c) Voluntary application of new accounting standards

In addition to the compulsory IFRS standards for fiscal year 2006, the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) also published further IFRSs and IFRICs which have already been endorsed by the EU, but which are not compulsory until a later date. The following only includes those standards and interpretations which might be of relevance for the Company. The option of earlier, voluntary adoption of these new and not yet compulsory standards/interpretations was not exercised.

On August 18, 2005 the IASB published IFRS 7 “Financial Instruments: Disclosures”. This replaces IAS 30 and adopts all regulations included in IAS 32 concerning disclosures in the notes to the annual financial statements. In this connection, amendments and additions were also made to IAS 1 with regard to capital disclosures. The standard results in a fundamental restructuring of disclosure obligations for financial instruments. In particular, details are required regarding management objectives, methods, risks, securities and processes. The disclosure obligations of IFRS 7 and revised detail requirements concerning capital of IAS 1 need not be applied until reporting periods beginning on or after January 1, 2007; earlier application is recommended. The new regulations of IFRS 7 do not result in any changes in valuation for the Company.

No significant impact on the Group’s net assets, financial situation and results of operations is expected in future from the application of the newly published IFRIC 7, IFRIC 8 and IFRIC 9, which have already been endorsed by the EU but not yet voluntarily applied by the Company as of December 31, 2006.

d) Retrospective adjustments

On the basis of a capital increase for non-cash contribution resolved by the general meeting of shareholders of June 13, 2006, capital stock was increased by €186,825,603.00, from €62,275,201.00 to €249,100,804.00. The capital increase was effected by means of the issue of 186,825,603 new, registered, no-par shares to the Company’s shareholders. The new shares were issued in a ratio of 1:3, so that there were three new shares for every existing share. Disclosures concerning share prices, the number of shares and earnings per share (EPS) were retroactively adjusted accordingly for the previous year.

As of December 31, 2006 the Company amended the disclosure of certain expense positions compared with the previous year. In order to improve comparability, the consolidated income statement of the fiscal year ending December 31, 2005 was changed correspondingly.

In fiscal year 2005 the portal business of WEB.DE AG was acquired with effect from October 31, 2005. In the course of the acquisition, intangible assets were also identified which led to prorated amortization allowances in fiscal year 2005. Due to further acquisitions in fiscal year 2006, the amortization of capitalized intangible assets (€21,846k) resulting from company acquisitions are no longer insignificant. The reclassified amortization of the previous year amounted to €3,288k. This amount was disclosed under administrative expenses in the previous year.

The assessment of goodwill in connection with the acquired portal business of WEB.DE AG was made on a preliminary basis. The shares in United Internet AG provided from the stock of treasury shares were valued at an average price per share of €19.98. From the valuation of the volume-weighted average share price of the United Internet AG share on October 31, 2005 as a composite amounting to €26.60, there was an increase in goodwill of €13,242k.

This resulted in an increase in capital reserves of € 13,242k. A retroactive amendment was made to the corresponding balance sheet positions.

#### e) Revenue Recognition

Revenue is recognized separately for each of the Group's different segments (see Note 27 "Segment Reporting").

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

#### **Product segment**

The product business mainly comprises internet service providing, the provision of web hosting solutions and the portal business with advertising revenues and fee-based value-added services.

#### Internet Service Providing

The Company recognizes its revenue from the provision of internet access on a monthly basis according to the provision of services, which generally correspond to the receipt of customers' monthly payments (basic fee plus usage charges). Payment is collected by direct debit.

In addition to the provision of customers for T-DSL connections, the Company also offers complete DSL solutions under the 1&1 brand, consisting of a DSL connection, DSL internet access, DSL telephony and video-on-demand. This product range was launched on July 12, 2004. Revenues from 1&1's DSL products consist of monthly amounts (usage charges and basic fees).

#### Web hosting Solutions

In the field of web hosting for demanding private customers and small to medium-sized companies, customers generally pay in advance for services provided by the Company for a contractually specified term. Revenue is recognized proportionately over the period in which the service is used.

#### Portal/club business

Revenues from the portal business of WEB.DE and GMX consist mainly of advertising income and revenues for so-called "paid services". These include income from sponsored links of the search engine, SMS and freephone charges, brokerage commission for DSL connections, e-commerce and other digital services. In the field of online advertising, space is offered on the WEB.DE website as well as other websites. Realized revenues depend on the placing and number of screenings or according to click rates. Digital services consist mainly of fee-based e-mail products, such as the WEB.DE Club, for which revenues are generated from continuous monthly subscription fees. Revenues are realized according to services rendered. Advance customer payments are carried as deferred income.

#### **Outsourcing segment**

The Company's outsourcing business includes the sale of technical value-added products as standard white-label products to other Internet Service Providers (ISPs) through InterNetX GmbH and Schlund Technologies GmbH. 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 according to services rendered. Related costs are expensed as incurred.

### **Online Marketing segment**

In its Online Marketing segment, the Company is represented by the brands AdLINK for Display Marketing, Sedo for Domain Marketing and affilinet or CibleClick for Affiliate Marketing. These brands offer their advertising customers a variety of online marketing and sales solutions.

AdLINK generates its revenues by selling advertising space on internet pages (banners, microsites and pop-ups). 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 mainly 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 the item "Cost of sales". The Company largely discloses the respective revenues gross as the Company bears the significant risks and opportunities.

Sedo operates a trading platform for the secondary domain market. In addition, the company offers domain owners the possibility of marketing unused domains for advertising purposes (domain parking). The Company receives performance-based advertising revenues from the marketing of unused domains in domain parking. The Company receives the respective revenues gross on a monthly basis and pays the domain owners their share in accordance with the respective contractual terms. Revenues are disclosed gross as the Company bears the economic risk of the transaction. The Company also generates revenues from sales commissions for the successful sale of a domain via its platform as well as from services in connection with this topic (e.g. domain valuations and transfers). Revenues are realized on completion of the transaction or preparation of the valuation document.

affilinet operates an online platform for suppliers of affiliate programs and website owners at its [www.affili.net](http://www.affili.net) site. Under the affiliate marketing programs, website operators help suppliers market their goods and services via the internet on a commission basis. The company's revenues result from the mediation of advertising contacts or sales generated via the website owner's pages. The website owners incorporate the supplier's advertising on their web pages and receive part of the revenues generated by the supplier for the mediation of advertising contacts or sales. Revenues are disclosed gross as the Company bears the economic risk of the transaction.

### **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.

#### **f) Cash and Cash Equivalents**

This item comprises bank balances, other investments, checks and cash in hand, which are highly liquid and have maturities of less than three months – calculated from the date of acquisition.

#### **g) Trade Accounts Receivable**

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

Allowances are formed on the basis of experience figures by classifying receivables according to age and on the basis of further information concerning the impairment of customer-specific receivables.

#### h) Inventories

Inventories are measured at the lower of production or acquisition cost and net realizable value. Net realizable value is the estimated sales revenue minus estimated required selling expenses. Adequate valuation allowances for excess inventories are made to provide for inventory risks.

#### i) Investments in Associated Companies

Investments in associated companies are valued according to the equity method. The equity held in the associated company is always valued at its acquisition cost on the date of addition. In the following periods, the value of the investment is adapted according to changes in the proportion of equity held.

#### j) Financial Assets and Financial Liabilities

In accordance with IAS 39, financial assets are classified as follows:

- financial assets held for trading
- held-to-maturity investments
- loans and receivables originated by the Company and
- available-for-sale financial assets

Financial assets held for trading are defined as being those which were acquired for the main reason of achieving profits from short-term price fluctuations. Held-to-maturity investments are those with fixed or definable payments and periods of maturity, which the Company can and wishes to hold until maturity, with the exception of loans and receivables originated by the Company itself. All other financial assets, with the exception of loans and receivables originated by the Company, are classified as available-for-sale financial assets. Apart from the loans and receivables originated by the Company itself, the Company only holds financial assets of the category "available-for-sale financial assets".

Financial assets are initially valued at the acquisition cost corresponding to the fair value of the consideration given; transaction costs are included. Available-for-sale financial assets are subsequently valued at fair value without deduction of any transaction costs and under disclosure of their listed market price as of the balance sheet date. Profit or loss resulting from the valuation of available-for-sale financial assets to their fair value are carried directly under equity capital net, i.e. less deferred taxes, (revaluation reserve) until the financial asset is sold, redeemed or otherwise disposed of, or until an impairment of the financial asset is determined so that the cumulative profit or loss previously carried under equity capital is included in the period's result.

Financial liabilities are initially carried at the fair value of the service received less any transaction costs incurred by borrowing. Following initial recognition, interest-bearing loans are carried at amortized cost using the effective interest method. Profits and losses are recognized in the income statement when debts are extinguished or in the course of amortization.

Borrowing costs are expensed in the period when they are incurred.

In the case of all financial assets and liabilities, market values after consideration of recognized adjustments are almost identical to the carrying values.

## k) Property, Plant and Equipment

Property, plant and equipment are carried at cost less cumulative depreciation. 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. Residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and amended where necessary.

Property, plant and equipment are depreciated over their expected useful lives using the straight-line method. Servers used for web hosting, which are part of operational and office equipment, are depreciated over a period of up to 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.

The following useful lives have been used to calculate depreciation:

	Useful life in years
Leasehold improvements	Up to 10 (depending on lease period)
Buildings	10 or 33
Vehicles	5 to 6
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13

Leasing contracts are all operating leases, whereby the Company acts exclusively as lessee. Leasing objects are carried in the balance sheet of the lessor, as the beneficial owner. The respective leasing charges are therefore expensed over the leasing period.

## l) Intangible Assets (without Goodwill)

In accordance with IAS 38, certain intangible assets are classified as having an unlimited useful life if, after analyzing all relevant factors, there is no foreseeable limit to the period in which the asset is expected to generate net cash flows for the Group. In agreement with the aforementioned reasons, trademarks valued as part of the purchase price allocation are classified as assets with an unlimited useful life.

Assets with a limited useful life, such as purchased software, licenses and other rights are stated at acquisition cost less scheduled straight-line amortization over their normal useful life. Residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and amended where necessary. Assets with an unlimited useful life are not amortized in scheduled amounts but subjected an annual impairment test.

The useful life periods are shown in the table below:

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

#### m) Goodwill

With the publication of IFRS 3 "Business Combinations" and the completely revised standards IAS 36 and IAS 38, scheduled amortization was replaced by the so-called "impairment only" method as of March 31, 2004. In accordance with IAS 36.90, goodwill is subjected to an impairment test at least once a year as of January 1, 2005. This does not depend on any indication of impairment.

Goodwill arising from business combinations is initially valued at cost, based on the surplus acquisition cost above the Group's proportion of the fair value of acquired identifiable assets, liabilities and contingent liabilities. Following initial valuation, goodwill is subjected to an annual impairment test. Should the impairment test indicate the need for non-scheduled amortization, the acquisition cost of the goodwill is reduced by the amount of this non-scheduled amortization.

#### n) Impairment of Assets

Property, plant and equipment and intangible assets (including) goodwill are reviewed for impairment if circumstances or changes in circumstances indicate that the book value of an asset may not be realizable. As soon as an asset's book value exceeds the sum that it can realize, an impairment of value is recognized with an effect on net income. The recoverable amount is the higher of fair value less the cost of disposal and the value in use. Fair value less the cost of disposal is the amount that can be realized from the sale of an asset, or a cash-generating unit, in a transaction between knowledgeable, willing parties on market terms. The asset's value in use is the cash value of future cash flow to be expected from the asset or cash-generating unit. The recoverable amount is determined individually for each asset or, if that is not possible, for the cash-generating unit to which the asset belongs.

If the value in use of the cash-generating unit is less than the book value of the underlying net asset plus goodwill, an impairment of value is recognized with an effect on net income.

In fiscal year 2006, there was no non-scheduled amortization of the recoverable amount (prior year: € 1,679k).

Revaluation of impaired assets is compulsory if the reason for impairment no longer exists. This does not apply, however, to the impairment of goodwill, which must never be revalued.

#### o) Subsidies

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the conditions attaching to them and that the Company actually receives the grants. IAS 20 differentiates between cost subsidies and investment subsidies. Cost subsidies are regarded as performance-based grants and recognized as income in the period in which the corresponding costs are incurred. Investment subsidies are either carried in the balance sheet as deferred revenue reversed over their useful life or they reduce the carrying value of the asset.

#### Subsidies related to personnel expenses

Government subsidies for current personnel expenses are recorded as other operating income. The basis for the disclosure of grants concerning the Company's facilities in Görlitz is the number of jobs which were created there. These are tied for a period of nine years. Grants related to personnel expenses are given for newly created jobs over a period of 24 months and in two lump-sum amounts. The Company receives the first payment in the first twelve months after the job has been occupied and the second payment in the following year. These grants are recognized as other operating income using the straight-line method

over a period of nine years. The period of recognition corresponds to the period for which the conditions apply.

Cost subsidies are also granted by the State of Rhineland- Palatinate related to the Multimedia Internet Park in Zweibrücken.

Additionally, twenty4help receives grants for its facility in Gateshead (UK). In return, the company has signed an agreement with the Development Agency of North East of England committing itself to create up to 300 new, additional and permanent jobs. These grants are recognized as other operating income using the straight-line method over a period of seven years. The period of recognition corresponds to the period for which the conditions apply.

#### Subsidies related to assets

The subsidies granted by public authorities related to capital expenditure are treated as reductions in acquisition costs. The Company received investment subsidies mainly for the Multimedia Internet Park in Zweibrücken from the state of Rhineland-Palatinate, for capital expenditures related to the new data center in Karlsruhe from the city of Karlsruhe and for outsourcing-related business at its Dortmund facilities from the state of North-Rhine Westphalia.

#### p) Income Taxes

Income taxes represent the sum of actual and deferred income taxes.

The actual income tax expense is based on the annual result liable for tax. Taxable net income differs from the actual annual result, as it excludes non-taxable or non-deductible items. The calculation of the Group's actual income tax expense is based on the tax rates valid as of the balance sheet date.

Deferred taxes are the expected income tax expenses or refunds resulting from differences between the carrying amounts of assets and liabilities in the annual financial statements according to IFRS and the tax values used to calculate the taxable result. Furthermore, deferred taxes are formed for tax loss carryforwards not yet utilized.

Deferred taxes are formed to the extent to which it appears probable that a taxable result will be available for which the deductible, temporary difference / tax loss carryforward can be used.

The carrying amount of deferred taxes is reviewed on each balance sheet date and reduced, where necessary, by that amount by which it is no longer probable that a sufficient taxable result will be available for which the asset can be used.

Deferred taxes are accounted for using the balance sheet liability method for all accounting and valuation differences between the tax base of an asset or liability and its carrying amount in the consolidated balance sheet according to IFRS. Deferred tax assets and liabilities are valued on the basis of current tax rates for the respective national subsidiary, which apply for the period in which the temporary differences are expected to be balanced.

#### q) Foreign Currency Translation

Monetary items in foreign currencies are always valued at the balance sheet date. Translation differences are recognized as expenses or income in the period in which they occur.

The translation of annual financial statements of individual Group companies prepared in foreign currencies is based on the functional currency method. 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. Differences in foreign currency translation which result between the valuation of equity at the historical rate and of assets and other liabilities at the rate on the balance sheet date are stated under equity as a currency adjustment.

#### r) Trade Liabilities

Liabilities are initially carried at fair value. Following initial recognition, liabilities are carried at amortized cost using the effective interest method.

#### s) Accrued Liabilities

In accordance with IAS 37, accrued liabilities are formed if there is a current obligation toward a third party from a past event, which is expected to lead to a future outflow of funds and whose amount can be reliably estimated. Accrued liabilities which do not already lead to an outflow of funds in the following year are carried at their discounted repayment value as of the balance sheet date. Amounts are discounted at market interest rates.

#### t) Treasury Shares

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

#### u) Earnings per Share

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

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable conversion rights of convertible bonds issued had been exercised. Net income is also adjusted for interest expenses after taxes, payable on potentially exchanged convertible bonds.

As of December 31, 2006, capital stock was divided up into 250,235,176 registered no-par shares each with a theoretical share in the capital stock of € 1. Until December 31, 2006, the Company held 8,226,072 treasury shares. These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating was 245,976,157 for fiscal year 2006. This number of shares results in earnings per share of €0.46 (prior year: €0.25 adjusted for the share split).

A dilutive effect must be taken into consideration for conversion rights resulting from the employee stock ownership program of United Internet AG which were contained in cash as of December 31, 2006. All conversion rights existing on December 31, 2005 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the conversion rights were in money and irrespective of whether the conversion rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the total of potential shares. On the basis of the

average fair value, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the convertible bond plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued without consideration.

The calculation of diluted earnings per share was based on 2,702,292 (prior year: 3,872,768) potential shares (from the assumed use of conversion rights). Based on an average market price of €11.13 (prior year: €6.17), this would result in the issuance of 1,778,202 (prior year: 1,739,640) shares without consideration. Diluted earnings per share amount to €0.46 (prior year: €0.25 adjusted for the share split) in fiscal year 2006.

#### v) Stock-Based Compensation

The treatment of stock-based compensation models is regulated by IFRS 2 (Share-Based Payment). The respective balancing entry for personnel expenses is made in capital reserves.

The respective valuation process determines the value component on the grant date, also for the subsequent valuation until the end of the maturity period. In turn, a reassessment of the expected exercise volume is to be made on every valuation date with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available.

Due to the calculation of compensation cost for stock-based awards granted to employees according to the regulations of IFRS 2 for share-based payment after November 7, 2002, on the basis of option price models, an amount of €1,614k (prior year: €1,780k) was expensed in fiscal year 2006. The amount was mainly charged to administrative expenses. The increase in capital reserves resulting from this transaction also amounted to €1,614k (prior year: €1,780k).

#### w) Subsequent Events

Subsequent events are all beneficial or detrimental events which occur between the balance sheet date and the day on which the annual financial statements are released for publication. Events which provide further substantial evidence of matters already apparent on the balance sheet date are included in the consolidated financial statements. Events concerning occurrences after the balance sheet date are presented in the notes to the annual financial statements and in the management report, if they are of material significance.

#### x) Business Combinations

IFRS 3 was applied to all business combinations whose contracts were signed on or after March 31, 2004.

In the course of its first-time valuation process, the United Internet Group values all identifiable assets, liabilities and contingent liabilities fully and at their fair value on the date of acquisition. Minority shareholdings are thus carried at their proportion of the fair value of the assets and liabilities.

Moreover, every intangible asset is now examined to determine whether it has a limited or unlimited useful life.

The purchase of additional shares in companies already fully consolidated is made in accordance with the so-called "parent-entity-extension" method. According to this method,

positive or negative goodwill is calculated as the difference between purchase price and prorated assets (acc. to IFRS carrying values). The positive or negative goodwill values are subsequently carried in the same way as those arising from business combinations.

#### y) Management's Exercise of Discretionary Rights and Critical Accounting Estimates

The preparation of consolidated financial statements in accordance with IFRS requires the Management Board to make estimates and assumptions in certain cases that affect the assets, debts and financial liabilities reported on the balance sheet date as well as the income and expenditures of a reporting period. Actual results and developments may differ from these estimates and assumptions.

Significant future estimates and assumptions were made with regard to the impairment tests of goodwill, as the discounted cash flow method requires the determination of future cash flows and a suitable interest rate. Further estimates were made for the formation of accruals, the useful lives of non-current assets and the assessment of impairment regarding trade receivables, inventories, deferred tax assets and the valuation of stock-based compensation models.

### 5. CORPORATE ACQUISITIONS

On May 15, 2006 1&1 UK Holdings Ltd., Slough / UK, acquired 100% of shares in Fasthosts Internet Ltd., Gloucester / UK.

The preliminary acquisition costs for the business combination amounted to €96,866k and comprise directly allocated costs of €1,214k in addition to the purchase price.

The preliminary fair values of identifiable assets and liabilities as of the acquisition date were as follows:

Cash payment	95,652	
<b>Purchase price</b>	<b><u>95,652</u></b>	
Ancillary acquisition costs	1,214	
<b>Preliminary acquisition costs</b>	<b><u>96,866</u></b>	
	Fair values	Book values
	€k	€k
Software	1,139	0
Trademark	5,076	0
Customer base	21,099	0
Other intangible assets	54	54
PP&E	4,050	4,050
Financial assets	37	37
Loans	5,546	5,546
Inventories	339	339
Cash and cash equivalents	5,726	5,726
Other assets	849	849
Customer receivables	166	166
Prepaid expenses	3,556	686
Deferred tax liabilities	-7,515	-142
Deferred charges	-10,475	-4,867
Trade payables	-3,063	-3,063
Other liabilities	-1,098	-1,098
Accrued taxes	-1,557	-1,557
	23,929	6,726
Goodwill	72,937	
<b>Preliminary acquisition costs</b>	<b><u>96,866</u></b>	

Goodwill of € 72,937k includes the fair value of expected synergies from the company acquisition.

The cash outflows resulting from the company acquisition were as follows:

	€k
Cash outflow	96,866
Assumed cash and cash equivalents	5,726
Actual cash outflow	91,140

On the assumption that the acquisition had taken place at the beginning of fiscal year 2006, consolidated revenues would have been €10,362k higher and net income for the period €1,074k higher.

In fiscal year 2006 twenty4help Knowledge Service AG, Montabaur, acquired 51% of shares in SalesPlus Gesellschaft für Absatzförderung mbH, Erlangen, with effect from December 13, 2006.

The preliminary acquisition costs for the business combination amounted to €203k and comprise directly allocated costs of €3k in addition to the purchase price. Initial recognition of the business combination was made on a preliminary basis. On the basis of the carrying amounts as of the purchase date, there was goodwill of €135k. Non-current assets of €60k, current assets of €529k and liabilities of €457k were assumed.

In fiscal 2005 affilinet GmbH acquired 71.46% of shares in CibleClick Performances S.A., headquartered in Paris, France. The contract dated December 14, 2005 obliged affilinet to acquire 75% of shares in CibleClick Performance S.A., whereby the legal purchase of the remaining 3.54% stake was planned for the 2<sup>nd</sup> quarter of 2006. The purchase price of these first two tranches was dependent on the audited EBIT result for fiscal year 2005 of the CibleClick Group.

With payment on April 3, 2006, the additional 3.54% shareholding was acquired and the 2<sup>nd</sup> purchase installment settled for 71.46% stake acquired in December 2005. The remaining 25% of shares were acquired on October 20, 2006.

Total acquisition costs for the fiscal years 2005 and 2006 amounted to €22,243k (€615k thereof were directly allocated ancillary purchase costs), of which an amount of €11,209k was paid in fiscal year 2006. Goodwill amounts to €20,746k, so that in fiscal year 2006 additional goodwill of €3,706k (prior year: €17,040k) was created.

In fiscal year 2005 AdLINK Internet Media AG acquired the shares held by United Internet AG in Sedo GmbH. In addition, AdLINK Internet Media AG bought further shares from a Management Board member of Sedo GmbH. On November 20, 2006, AdLINK Internet Media GmbH Deutschland purchased a further 23.80% of shares in Sedo GmbH. At the same time, AdLINK Internet Media AG transferred the shares it already held as a non-cash contribution to AdLINK Internet Media GmbH Deutschland, so that as of December 31, 2006, 75.94% of shares in Sedo GmbH were held.

The acquisition costs of the additional shares amounted to €34,606k and comprised costs directly allocated to the acquisition amounting to €100k. Goodwill from this acquisition amounted to €30,949k.

In the course of the increase in shares held in Sedo GmbH, a profit transfer agreement was concluded between AdLINK Internet Media GmbH Deutschland and Sedo GmbH, effective from January 1, 2007. On the basis of this profit transfer agreement, Sedo GmbH will transfer its complete result to AdLINK Internet Media GmbH Deutschland. As compensation for the

minority shareholders, the contract allows for a dividend payment of €250k per fiscal year. The contract cannot be terminated before December 31, 2011.

As part of the purchase of additional shares, the minority shareholders were granted a conditional put option, which can be exercised in the period from January 1, 2009 to December 31, 2015, whereby the option can only be exercised jointly in 2009 and 2010 by all minority shareholders. The option is conditional in as far as AdLINK has the right to oppose the exercise of the put option. The purchase prices depend mainly on the company's profit development.

In fiscal year 2005 the portal business of WEB.DE AG, Karlsruhe, was acquired with effect from October 31, 2005. The total acquisition costs (excluding ancillary purchase costs) amounted to €354,280k. With the exception of issue costs for equity instruments, ancillary purchase costs amounted to €936k. The resulting goodwill totaled €220,443k.

In a contract dated December 22, 2004 an initial shareholding of 10.20% in InterNetX GmbH was acquired for a purchase amount of €440k. After completing a capital increase at book values of €4,400k at the beginning of fiscal year 2005, further shares in InterNetX GmbH were acquired as of January 1, 2005 for a purchase price of €2,500k so that United Internet AG held 80% of shares in InterNetX GmbH. The original shareholders are interested in successively selling further shares in InterNetX GmbH to United Internet Beteiligungen GmbH up to 2015. In fiscal year 2007 are further 5.09% and in fiscal year 2008 a further 7.50% of shares are to be sold. The selling price depends on the company's profit development. The initial consolidation of the newly acquired shares, the transitory consolidation of the existing shares and the forward purchase agreement resulted in goodwill of €4,539k.

### ***Explanations to the Balance Sheet***

#### **6. TRADE RECEIVABLES**

	<b>2006</b>	<b>2005</b>
	€k	€k
Trade receivables	129,143	107,146
<b>Less</b>		
Bad debt allowances	-8,223	-7,305
<b>Trade receivables, net</b>	<b><u>120,920</u></b>	<b><u>99,841</u></b>

## 7. OTHER ASSETS

	2006	2005
	€k	€k
Accounts receivables from the tax office	7,175	2,484
Other	4,877	4,290
Payments on account	3,377	3,336
T-DSL and 1&1 DSL premium claim	2,276	1,107
Compensation payments	0	6,626
Fund deposits	0	3,084
<b>Other assets, net</b>	<b><u>17,705</u></b>	<b><u>20,927</u></b>

Accounts receivable from the tax office mainly result from credit balances from VAT.

Payments on account consist mainly of down payments for domains.

The premium claims from the T-DSL and 1&1 resale businesses 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, or marketing cost subsidies per new customer for the Company during the past fiscal year.

Compensation payments consist of receivables from ComBOTS AG (formerly: WEB.DE AG) in connection with the acquisition of the portal business of WEB.DE AG, which were settled in fiscal year 2006.

The marketable fund deposits result from the assumption of assets in connection with the purchase of shares in CibleClick in fiscal year 2005.

## 8. INVENTORIES

Inventories consist of the following merchandise:

	2006	2005
	€k	€k
Merchandise		
DSL	5,680	5,070
Pocketweb	7,886	0
Video on Demand	2,418	0
Webhosting	1,245	643
PC's, printers and accessories	467	413
Other	52	237
Domain stock for sale		
Domain stock	2,000	0
	<u>19,748</u>	<u>6,363</u>
<b>Less</b>		
Valuation adjustments	-2,951	-50
<b>Inventories, net</b>	<b><u>16,797</u></b>	<b><u>6,313</u></b>

## 9. EQUITY INVESTMENTS

	2006 €k	2005 €k
Carrying amount at the beginning of the fiscal year	9,492	9,358
Additions	5	---
Disposals	---	---
Adjustments		
– Dividends	-859	-441
– Shares in result	2,368	575
	<u>11,006</u>	<u>9,492</u>

Additions result from the contract dated July 19, 2006 concerning the newly formed AdLINK Internet Media GmbH, Vienna / Austria, in which AdLINK Internet Media AG holds a share of 30%.

The following table provides an overview of shareholdings and earnings with regard to equity investments as of the balance sheet date:

	Stake United Internet	At-equity results	
		2006 €k	2005 €k
AdLINK Switzerland	50.00%	1,209	536
gatrixx	48.44%	---	---
NT plus	40.23%	922	-75
fun	33.33%	196	114
AdLINK Austria	30.00%	41	---
		<u>2,368</u>	<u>575</u>

The following table presents summarized financial information concerning equity investments on the basis of 100% values of these companies:

	2006 €k	2005 €k	2006 €k	2005 €k
	Online Marketing		Headquarters / Investments	
Current assets	8,068	4,561	50,857	48,612
Non-current assets	812	796	2,829	2,491
Current liabilities	5,511	2,720	44,631	44,029
Non-current liabilities	10	0	863	937
Equity	<u>3,359</u>	<u>2,637</u>	<u>8,192</u>	<u>6,137</u>
Sales revenues	20,860	10,986	446,589	469,534
Net profit	2,485	1,594	3,285	974

## 10. PROPERTY, PLANT AND EQUIPMENT

	2006	2005
	€k	€k
<b>Acquisition costs</b>		
– Land and buildings	13,757	13,647
– Furniture and fixtures	155,975	124,228
– Payments on account	8,256	5,800
Less subsidies	-12,964	-12,964
	<u>165,024</u>	<u>130,711</u>
<b>Less</b>		
Accumulated depreciation	-98,728	-79,092
<b>Property, plant and equipment, net</b>	<u>66,296</u>	<u>51,619</u>

An alternative analysis of property, plant and equipment in the fiscal years 2005 and 2006 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

The disclosed subsidies relate to the construction work completed in fiscal year 1999 in the Multimedia Internet Park in Zweibrücken (€6,771k). Furthermore, in fiscal year 2002 subsidies of €6,193k were 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.

## 11. INTANGIBLE ASSETS AND GOODWILL

	2006	2005
	€k	€k
<b>Acquisition costs</b>		
– Licenses	33,781	31,357
– Order backlog	2,141	2,141
– Software	31,585	28,390
– Trademark	22,282	17,207
– Customer base	47,098	25,999
– Portal	72,240	72,240
– Goodwil	375,366	268,436
	<u>584,493</u>	<u>445,770</u>
<b>Less</b>		
Accumulated amortization and impairment	-63,436	-33,510
<b>Intangible assets, net</b>	<u>521,057</u>	<u>412,260</u>

An alternative analysis of intangible assets and goodwill in the fiscal years 2005 and 2006 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

Intangible assets with an unlimited useful life (trademarks) are fully allocated to the Product segment.

Goodwill is presented for each of United Internet's segments:

	2006		2005	
	€k		€k	
	gross	net	gross	net
Product segment	301,429	301,429	228,492	228,492
Outsourcing segment	5,167	5,167	4,139	4,139
Online Marketing segment	68,770	67,091	35,805	34,126
	<u>375,366</u>	<u>373,687</u>	<u>268,436</u>	<u>266,757</u>

As the goodwill in question are intangible assets with an unlimited useful life, an impairment test is carried out at least once per year on the level of the cash-generating units. The recoverable amount of the cash-generating units is calculated on the basis of a value-in-use calculation using cash flow forecasts. The value-in-use calculation is based on existing budgets for the respective cash-generating unit. The figures used in these budgets are based on numerous assumptions, meaning that the value-in-use calculation depends on judgments. The value-in-use calculation was based on a discounted cash flow calculation.

With reference to its internal budgeting process, the Company has chosen the last quarter of its fiscal year for the implementation of its statutory annual impairment test. On the basis of the annual impairment test carried out in the 4<sup>th</sup> quarter of 2006, there was no amortization need (prior year: € 1,679k).

The recoverable amount of the cash-generating units was calculated on the basis of a value-in-use calculation using cash flow forecasts. The value-in-use calculation was based on sales expectations of the budgets, extrapolated to 2011 for the Online Marketing segment and to 2015 for the Product segment, on the basis of external market studies. The planned gross profit margins are based on the market assumptions of the respective management. Cash flows after this five- and nine-year period were extrapolated on the basis of an annual growth rate of 1%. The discounted interest rate used for the cash flow forecasts was between 7% and 10%, according to the respective cash-generating unit.

The Company believes that no possible and sensible amendment of any of the underlying assumptions for determining the value in use of the cash-generating units could result in the carrying values of the cash-generating units significantly exceeding their recoverable values. The 1%-point change in the discount rate does not have any effect on the impairment test.

## 12. LIABILITIES TO BANKS / CREDIT LINES

### a) Liabilities to banks

	2006	2005
	€k	€k
Bank loans	102,861	83,144
<b>Less</b>		
Current portion of liabilities to banks	-282	-287
<b>Non-current portion of liabilities to banks</b>	<b><u>102,579</u></b>	<b><u>82,857</u></b>
Current portion of non-current liabilities to banks	282	287
Short-term loans/overdrafts	15,858	57
<b>Current portion of liabilities to banks</b>	<b><u>16,140</u></b>	<b><u>344</u></b>
<b>Total</b>	<b><u>118,719</u></b>	<b><u>83,201</u></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, which are fixed until July 30, 2007 and July 30, 2008. The company started to repay the loans in October 2002. In fiscal year 2006, repayments amounted to € 282k. The loans accrue interest at a fixed rate of 6.39% and 3.45% per annum, respectively. A special repayment of € 460k was made in fiscal year 2000. The loans are secured by encumbering the land and buildings in Zweibrücken.

The further non-current bank liabilities of € 100.0 million result from a revolving syndicated loan, which was granted in the previous year by 10 banks with a maturity until October 12, 2008. The total credit granted amounts to € 125.0 million. As of the balance sheet date, the interest rates amounted to 3.99% and 4.05% (prior year: 2.89%). No collateral was given for the syndicated loan.

Current bank liabilities of € 15.0 million result from a credit line of AdLINK Internet Media AG. The interest rate as of the balance sheet date was 4.33%. The credit lines of AdLINK Internet Media AG amount to € 70.0 million. The maturity date for € 40.0 million is May 2007, for € 15.0 million in November 2009 and a further € 15.0 million are available at further notice.

The fair values of these loans amount mainly to their carrying values.

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

## b) Credit lines

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

	<b>2006</b>	<b>2005</b>
	€m	€m
Available credit lines	65.0	60.0
Utilization (guarantees only)	22.3	6.4
Average interest rate (in%)	n.a.	n.a.
Unutilized credit facilities	42.7	53.6

The credit facilities have been granted by the banks for limited periods. €25.0m expire in April 2007, €15.0m expire in June 2007 and the remaining €25.0m expire in September 2007.

A further amount of €25.0 million is also available until October 12, 2008 from the unutilized proportion of the revolving loan.

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 only been utilized through guarantees as of the balance sheet date. For this reason, no average interest rate has been given.

## 13. OTHER LIABILITIES

	<b>2006</b>	<b>2005</b>
	€k	€k
<b>Other liabilities</b>		
– Liabilities to the tax office	19,507	23,892
– Salary and social security liabilities	11,680	13,379
– Marketing and selling expenses / sales commissions	8,281	8,208
– Legal and consulting fees, auditing fees	1,880	2,002
– Purchase price installments for the acquisition of investments	627	7,092
– Other	8,535	5,691
– Compensation payments	0	5,008
– Cost subsidies	0	691
	<b><u>50,510</u></b>	<b><u>65,963</u></b>

Liabilities to the tax office mainly relate to VAT liabilities.

Purchase price installments for the acquisition of investments consist of a forward purchase agreement in connection with the purchase of further shares in InterNetX GmbH.

Purchase price installments for the acquisition of investments in fiscal year 2005 consist of a preliminary remaining purchase price obligation for the acquisition of 71.46% of CibleClick Performances S.A., Paris / France, which was settled in fiscal year 2006.

Compensation payments in the previous year consist of liabilities owing to CombOTS AG (formerly: WEB.DE AG) in connection with the purchase of the portal business of WEB.DE AG, which were settled in fiscal year 2006..

## 14. ACCRUED TAXES

Accrued taxes consist of the following items:

	2006 T€	2005 T€
Germany	20,573	10,853
UK	3,865	349
Netherlands	546	54
France	491	430
USA	123	772
Sweden	95	0
Italy	50	44
Switzerland	0	25
	<u>25,743</u>	<u>12,527</u>

## 15. OTHER ACCRUED LIABILITIES

	1. January 2006 €k	Utilization €k	Reversal €k	Addition €k	31. December 2006 €k
Litigation risks	1,066	36	25	584	1,589
Others	427	154	163	0	110
	<u>1,493</u>	<u>190</u>	<u>188</u>	<u>584</u>	<u>1,699</u>

Litigation risks consist of various legal disputes of 1&1 Internet. Other accruals refer mainly to AdLINK and were formed in the previous year for risks from the liquidation of acquired DoubleClick companies. Due to the completed liquidation of these companies, the accrual has since been reversed.

## 16. DEFERRED REVENUE

At 1&1 Internet, customers pay for certain contracts in advance for a maximum of 24 months.

The prepaid charges are allocated and recognized as revenues over the underlying contractual period. In fiscal year 2006, 1&1 Internet received prepayments of € 85,720k (prior year: € 66,197k).

twenty4help received subsidies for the creation of jobs at its premises in Görlitz and Gateshead. Pro rata subsidies related to personnel expenses in successive periods are deferred and shown as deferred income. In fiscal year 2006, twenty4help received subsidies of € 2,857k (prior year: € 3,248k).

## **17. CAPITAL STOCK**

On the basis of a capital increase for non-cash contribution resolved by the general meeting of shareholders of June 13, 2006, capital stock was increased by € 186,825,603.00, from € 62,275,201.00 to € 249,100,804.00. The increase in capital stock resulted from the conversion of a part of capital reserves disclosed in the balance sheet as of December 31, 2005, amounting to € 85,927,597.55, from revenue reserves disclosed in the balance sheet as of December 31, 2005 amounting to € 898,005.45 and the amount of € 100,000,000.00 disclosed in the resolution concerning the appropriation of profit as an addition to other revenue reserves. The capital increase was effected by means of the issue of 186,825,603 new, registered, no-par shares to the Company's shareholders. The new shares were issued in a ratio of 1:3, so that there were three new shares for every existing share.

Through partial use of conditional capital, the capital stock of the Company was increased in December 2006 from € 249,100,804 by € 1,134,372 by issuing 1,134,372 new, no-par registered shares for cash contribution to € 250,235,176. The cash contribution represented the conversion of convertible bonds in fiscal year 2006 issued under the Company's employee stock ownership plan.

The Company's capital stock is divided up into 250,235,176 no-par registered shares with a theoretical share in the capital stock of € 1.

In fiscal year 2006 United Internet AG acquired 8,226,072 treasury shares, or 3.29% of current capital stock. Treasury shares reduce equity capital and bear no dividend rights.

The Management Board and Supervisory Board propose a dividend payment of 18 cents per share for fiscal year 2006 (prior year: 6.25 cents, adjusted for the share split).

### **Authorized Capital**

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by June 12, 2011 by a maximum of € 124,550,402 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the Company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of Company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG under exclusion of subscription rights are to be accounted for in this limitation

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

## Conditional Capital

There are the following lots of conditional capital:

- The capital stock has been conditionally increased by up to a further € 3,720,000.00, divided into 3,720,000 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 shares will participate in profits from the beginning of the fiscal year in which they are created by exercising the conversion rights.
- The capital stock has been conditionally increased by up to a further € 5,222,372.00, divided into 5,222,372 no-par registered shares. The conditional capital increase is earmarked for conversion options to be granted to bearers of convertible bonds, which the shareholders' meeting on May 16, 2003 authorized the Management Board to issue. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercising the conversion rights.
- The capital stock has been conditionally increased by up to a further € 3,000,000.00, divided into 3,000,000 no-par registered shares. The conditional capital increase is earmarked for conversion options to be granted to bearers of convertible bonds, which the shareholders' meeting on May 18, 2005 authorized the Supervisory Board to issue. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercise of the conversion option.
- The capital stock has been conditionally increased by up to a further € 92,000,000.00, divided into 92,000,000 no-par registered shares. The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on May 18, 2005 authorized the Company or a subordinated Group company to issue, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.
- In accordance with Sec. 71 (1) No. 8 AktG, the Company is authorized until December 12, 2007 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 10% lower or higher than the stock market price. As of the balance sheet date, the Company held no treasury shares. Treasury shares are to be used primarily for current and future employee stock ownership plans or as an acquisition currency.

## 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 is 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.

## United Internet AG Convertible Bonds

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 €10,000k was created for this purpose. On the basis of this resolution, up to €3,000k may be issued to Management Board members of the Company.

The convertible bonds, which bear interest of 4.5% or 4.0% per annum, may be exchanged as a whole or in part for shares in United Internet AG. Each €1 nominal amount of the convertible bonds can be exchanged for four registered shares (following the 1:3 share split). 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 one quarter of the nominal amount of the convertible bond (following the share split).

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.

Using an option pricing model in accordance with IFRS 2, the personnel expense for convertible bonds issued after November 7, 2002 amounted to €157k (prior year: €292k). The compensation expense for this employee stock ownership plan is included in administrative expenses.

In accordance with the resolution passed by the shareholders' meeting on May 16, 2003, convertible bonds may be issued to employees of the Company and of subsidiaries of the Company and to executive body members of subsidiaries of the Company. Conditional capital of €6,000k was created for this purpose.

The convertible bonds, which bear interest of 3.5% per annum, may be exchanged as a whole or in part for shares in United Internet AG. Each €1 nominal amount of the convertible bonds can be exchanged for 4 registered shares (following the share split).

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 no-par share; this is the amount by which the conversion price exceeds one quarter of the nominal amount of the convertible bond (following the share split).

Up to 25% may be converted at the earliest 24 months after the date of issue of the convertible bonds; up to 50% (i. e. including the previously exercised conversion options) at the earliest 36 months after the date of issue of the convertible bonds. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the convertible bonds; the full amount may be exercised at the earliest 60 months after the date of issue of the convertible bonds.

Using an option pricing model in accordance with IFRS 2, the personnel expense for convertible bonds issued amounted to €742k (prior year: €1,133k). The compensation expense for this employee stock ownership plan is included in administrative expenses.

## **AdLINK Internet Media AG**

### **Convertible Bonds**

In accordance with the resolution passed by the extraordinary shareholders' meeting on April 4, 2000, 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.

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.

Using an option pricing model in accordance with IFRS 2, the personnel expense for convertible bonds issued after November 7, 2002 amounted to €23k (prior year: €26k). The compensation expense for this employee stock ownership plan is included in administrative expenses.

In accordance with the resolution passed by the annual shareholders' meeting on May 17, 2004, convertible bonds may be issued to employees of the company and of subsidiaries of the company, as well as to members of the company's Management Board and executive body members of subsidiaries of the company.

Every nominal amount of € 1 of a partially convertible bond 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, an additional cash payment has to be made in the amount by which the conversion price exceeds one tenth of the par value of the convertible bond. The conversion price corresponds to 120% of the market price, calculated as the average of the closing price of the company share in floor trading of the Frankfurt stock exchange on the last five trading days before the convertible bonds are issued.

Up to 25% may be converted at the earliest 24 months after the date of issue of the convertible bonds; up to 50% (i.e. including the previously exercised conversion options) at the earliest 36 months after the date of issue of the convertible bonds. A total of up 75% may be exercised at the earliest 48 months after the date of issue of the convertible bonds; the full amount may be exercised at the earliest 60 months after the date of issue of the convertible bonds.

Using an option pricing model in accordance with IFRS 2, the personnel expense for convertible bonds issued amounted to €204k (prior year: €155k). The compensation expense for this employee stock ownership plan is included in administrative expenses.

The changes in the convertible bonds granted and outstanding are shown in the following table:

	United Internet AG		AdLINK Internet Media AG	
	Convertible bond	Average strike price (€)	Convertible bond	Average strike price (€)
Outstanding as of December 31, 2004	5,552,200	2.53	331,870	2.28
Issued	600,000	5.26	400,000	3.24
Issued	---	---	459,000	3.60
Exercised	-996,000	0.72	-11,000	1.84
Exercised	-129,000	1.49	-35,365	1.28
Exercised	-160,000	2.13	---	---
Exercised	-418,256	4.35	---	---
Exercised	-24,000	1.02	---	---
Expired	-51,000	0.72	-68,000	4.96
Expired	-10,000	1.49	-6,000	1.84
Expired	-31,960	4.35	-11,500	1.28
Expired	-160,000	3.82	-100,000	3.60
Expired	-294,000	1.02	---	---
Outstanding as of December 31, 2005	3,877,984	3.35	959,005	3.04
Exercised	-424,000	0.72	-28,955	1.28
Exercised	-111,000	1.49	-34,000	1.71
Exercised	-240,000	2.13	---	---
Exercised	-319,372	4.35	---	---
Exercised	-40,000	3.82	---	---
Expired	-3,000	1.49	-1,050	1.28
Expired	-38,320	4.35	-117,000	3.60
Outstanding as of December 31, 2006	2,702,292	3.81	778,000	3.08
Exercisable as of December 31, 2006	587,452		34,000	
Weighted average remaining term (in months)		11		24

Using an option pricing model (Black-Scholes stock option pricing model) in accordance with IFRS 2, the fair value of the options linked to the conversion rights granted in fiscal years 2003 to 2005 was calculated as follows:

The fair value of the convertible bonds of United Internet AG issued on March 25, 2003 amounted to € 1,141k; this resulted in an average market price of € 0.82 per convertible bond. The following assumptions were made:

- Dividend yield: 0.5%
- Volatility of United Internet share: 61%
- Expected term: 4 years
- Risk-free interest rate: 3.66%

The fair value of the convertible bonds of United Internet AG issued on August 31, 2003 amounted to € 3,211k; this resulted in an average market price of € 1.68 per convertible bond. The following assumptions were made:

- Dividend yield: 0.5%
- Volatility of United Internet share: 52%
- Expected term: 5 years
- Risk-free interest rate: 3.85%

The fair value of the convertible bonds of AdLINK Internet Media AG issued on January 2, 2004 amounted to € 209k; this resulted in an average market price of € 1.23 per convertible bond. The following assumptions were made:

- Dividend yield: 0.0%
- Volatility of AdLINK share: 88%
- Expected term: 4 years
- Risk-free interest rate: 3.85%

The fair value of the convertible bonds of United Internet AG issued on August 15, 2004 amounted to € 411k; this resulted in an average market price of € 1.29 per convertible bond. The following assumptions were made:

- Dividend yield: 1.0%
- Volatility of United Internet share: 45%
- Expected term: 5 years
- Risk-free interest rate: 3.85%

The fair value of the convertible bonds of AdLINK Internet Media AG issued on April 20, 2005 amounted to € 364k; this resulted in an average market price of € 0.91 per convertible bond. The following assumptions were made:

- Dividend yield: 0.0%
- Volatility of AdLINK share: 68%
- Expected term: 5 years
- Risk-free interest rate: 3.50%

The fair value of the convertible bonds of AdLINK Internet Media AG issued on May 23, 2005 amounted to € 614k; this resulted in an average market price of € 1.71 per convertible bond. The following assumptions were made:

- Dividend yield: 0.0%
- Volatility of AdLINK share: 68%
- Expected term: 5 years
- Risk-free interest rate: 3.50%

The fair value of the convertible bonds of United Internet AG issued on May 27, 2005 amounted to € 932k; this resulted in an average market price of € 1.55 per convertible bond. The following assumptions were made:

- Dividend yield: 1.0%
- Volatility of United Internet share: 39%
- Expected term: 5 years
- Risk-free interest rate: 2.86%

## **United Internet AG**

### Option agreement

In 2004, an option agreement was concluded between Mr. Stéphane Cordier and United Internet AG. Under the provisions of this agreement, Mr. Cordier has the right to acquire 400,000 shares of AdLINK Internet Media AG from the United Internet AG, divided into four options of 100,000 shares. The strike price amounts to € 1.50 per share, whereby 25% of shares cannot be acquired before July 1, 2004, 50% not before March 30, 2005, 75% not before March 30, 2006 and 100% not before March 30, 2007. The options may only be

exercised in full. Partial exercise is not possible. No options had been exercised as of the balance sheet date.

The fair value of the options issued on May 24, 2004 amounted to € 543k; this resulted in an average market price of € 1.36 per share. The following assumptions were made:

▪ Dividend yield:	0.0%
▪ Volatility of AdLINK share:	79%
▪ Expected term:	3 years
▪ Risk-free interest rate:	3.85%

Using an option pricing model in accordance with IFRS 2, the personnel expense for the options issued amounted to € 76k (prior year: € 174k). The compensation expense is mainly included in general administrative expenses.

## **United Internet AG**

### Virtual stock options

The employee stock ownership plan 2006 employs virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

An SAR corresponds to a virtual subscription right for one share of United Internet AG. However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG. United Internet AG retains the right, however, to fulfill its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring one United Internet AG share per SAR from its stock of treasury shares to the beneficiary, at its own discretion.

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

this transaction was carried in the balance sheet according to the regulations for stock-based remuneration plans with settlement via equity instruments.

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option; up to 50% (i.e. including the previously exercised options) at the earliest 36 months after the date of issue of the option. A total of up to 75% may be exercised at the earliest 48 months after the date of issue of the option; the full amount may be exercised at the earliest 60 months after the date of issue of the option.

Using an option pricing model on the basis of a binomial model in accordance with IFRS 2, the fair value of options issued in fiscal year 2006 was calculated as follows:

The fair value of 400,000 options issued on May 30, 2006 amounted to €1,000k, resulting in an average market price of €2.50 per option. The following assumptions were made:

- Dividend yield: 1.0%
- Volatility of AdLINK share: 36%
- Expected term: 5 years
- Risk-free interest rate: 3.65%

Using an option pricing model in accordance with IFRS 2, the personnel expense for the options issued amounted to €191k (prior year: €0k).

The fair value of 800,000 options issued on August 14, 2006 amounted to €1,790k, resulting in an average market price of €2.44 per option. The following assumptions were made:

- Dividend yield: 1.0%
- Volatility of AdLINK share: 39%
- Expected term: 5 years
- Risk-free interest rate: 3.84%

Using an option pricing model in accordance with IFRS 2, the personnel expense for the options issued amounted to €221k (prior year: €0k).

In measuring volatility, historic volatility was also considered.

## **18. MINORITY INTERESTS**

In fiscal year 2006, additional shares were acquired in Sedo GmbH. The shares acquired from other shareholders amounted to €3,656k.

### ***Explanations to the Income Statement***

## **19. COST OF MATERIALS**

In fiscal year 2006, costs of materials totaled €641,534k (prior year: €360,350k). 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.

Costs for advertising are included in "Selling expenses". They are expensed as incurred. In fiscal year 2006, they amounted to €108,982k (prior year: €87,916k).

## **20. PERSONNEL EXPENSES**

Personnel expenses in fiscal year 2006 totaled €192,014k (prior year: €146,102k). Of this total, €101,691k (prior year: €79,804k) are contained in cost of sales, €60,636k (prior year: €44,483k) in selling expenses and €29,687k (prior year: €21,816k) in administrative expenses. At year-end, the United Internet Group employed a total of 6,347 people (prior year: 5,540). The number of employees in Germany amounted to 3,983 (prior year: 3,709), the number of employees outside Germany totaled 2,364 (prior year: 1,831). The average

number of employees in fiscal year 2006 amounted to 3,414 (prior year: 2,995) in Germany and 2,278 (prior year: 1,718) outside Germany.

## **21. DEPRECIATION AND AMORTIZATION**

Depreciation and amortization of intangible assets and property, plant and equipment in fiscal year 2006 totaled €33,373k (prior year: €23,998k). Of this total, €22,333k (prior year: €16,694k) are contained in cost of sales, €2,017k (prior year: €1,470k) in selling expenses and €9,023k (prior year: €5,835k) in administrative expenses.

Amortization of capitalized goodwill resulting from business combinations amounted to €21,846k (prior year: €3,288k). Of this total, €19,367k (prior year: €3,288k) resulted from the acquisition of the portal business of WEB.DE AG (today: ComBOTS AG) in fiscal year 2005. Of the companies acquired in fiscal year 2006, €1,801k resulted from the purchase of Fasthosts and €678k from the purchase of CibleClick.

Of this total, an amount of €9,030k (prior year: €1,505k) resulted from amortization of the portal, €6,581k (prior year: €755k) from amortization of the customer base, €3,840k (prior year: €591k) from amortization of software, €1,480k (prior year: €224k) from amortization of licenses and €915k (prior year: €213k) from amortization of the order backlog. Amortization of intangible assets resulting from company acquisitions is disclosed separately in the income statement. There is no allocation to individual divisions.

Total depreciation and amortization in fiscal year 2006 amounted to €55,219k (prior year: €27,286k).

## **22. GOODWILL AMORTIZATION**

Following impairment tests, goodwill pertaining to AdLINK subsidiaries (Italy, Denmark and Sweden) was amortized by €1,679k in fiscal year 2005 due to the negative development of business. No amortization of goodwill was required in fiscal year 2006.

## **23. OTHER OPERATING INCOME / EXPENSES**

In fiscal year 2006, other operating income mainly contains subsidies for current personnel expenses in connection with the Multimedia Internet Park in Zweibrücken amounting to €520k (prior year: €550k), as well as for current personnel expenses at twenty4help amounting to €1,097k (prior year: €1,360k).

Other operating income of €5,538k resulted from the partial deconsolidation of shares in a subsidiary.

Losses due to account receivables of 1&1 Internet AG amounted to €10,237k (prior year: €11,681k), while income from dunning and return debit charges totaled €10,380k (prior year: €4,756k). Currency losses (net) in fiscal year 2006 amounted to €30k, while currency gains (net) in the previous year amounted to €297k. Expenses relating to other accounting periods amounted to €26k (prior year: €118k), while income relating to other accounting periods amounted to €4,277k (prior year: €1,294k).

## **24. FINANCIAL INCOME / FINANCIAL EXPENSES**

Financial income consists of interest income from bank balances of €1,838k (prior year: €2,117k) and income from other investments amounting to €1,151k (prior year: €0k).

Financial expenses contain costs from loans and overdraft facilities totaling €4,307k (prior year: €1,644k) and costs from the dividend guarantee for minority shareholders of €1,082k (prior year: €0k) in connection with the profit transfer agreement between AdLINK GmbH and Sedo GmbH.

## 25. INCOME TAXES

The income tax expense is comprised as follows:

	2006 €k	2005 T€
Current income taxes		
– Germany	-54,071	-40,067
– Abroad	-8,620	-1,618
Total (current period)	<u>-62,691</u>	<u>-41,685</u>
Deferred taxes		
– Due to tax loss carryforwards	5,086	494
– Tax effect on temporary differer	-3,711	-494
Total deferred taxes	<u>1,375</u>	<u>0</u>
<b>Total tax expense</b>	<u>-61,316</u>	<u>-41,685</u>

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 16.9% (prior year: 16.5%).

German corporate income tax is levied at 25% for the tax assessment year 2005 and for the tax assessment year 2006 – 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 IAS 12, deferred tax assets are recognized for the future benefits associated with tax loss carryforwards. The time limit for the net loss carryforwards in different countries is as follows:

- Belgium: indefinite
- Spain: 15 years
- United Kingdom: indefinite
- France: indefinite
- Sweden: indefinite
- Italy: 5 years
- USA: 20 years
- Germany: indefinite, but minimum taxation

In Germany, the loss carryforwards can be claimed for an indefinite period. As in the previous year, these relate to loss carryforwards as of December 31, 2006 of AdLINK Internet Media AG and AdLINK Internet Media GmbH Deutschland.

Deferred taxes on temporary differences were calculated using a composite tax rate (corporate income tax, solidarity surcharge and trade tax on income). This amounts to 38.5% for 2005 and 38.8% for 2006.

Deferred taxes are composed as follows:

	<b>2006</b>	<b>2005</b>
	€k	€k
Deferred tax assets due to		
– tax loss carryforwards	8,448	3,356
– differing carrying amounts and consolidation adjustments	1,363	3,080
Total deferred tax assets	<u>9,811</u>	<u>6,436</u>
Deferred tax liabilities due to		
– differing carrying amounts and consolidation adjustments	-21,769	-11,726
Total deferred tax liabilities	<u>-21,769</u>	<u>-11,726</u>
<b>Deferred tax debts/claims</b>	<u><b>-11,958</b></u>	<u><b>-5,290</b></u>

Deferred tax assets for loss carryforwards of €7,059k refer to AdLINK Internet Media AG. Due to the economic position of the sub-group AdLINK, additional deferred taxes on existing loss carryforwards amounting to €4,530k (prior year: €2,529k) were capitalized in fiscal year 2006. Further deferred taxes concern AdLINK Belgium (€207k), AdLINK Spain (€447k) and AdLINK Great Britain (€229k). The remaining deferred taxes amounting to €506k concern the sub-group 1&1. The Group capitalized deferred taxes for all companies which already generated positive, taxable earnings in fiscal year 2006 and for whom a positive EBT is already forecast in the Group's budget planning. For reasons of caution, only those tax loss carryforwards were capitalized, which are likely to be utilized within three years.

Deferred taxes on loss carryforwards and temporary differences totaling €11,952k (prior year: €18,089k) were not capitalized, as the recovery of loss carryforwards as of the balance sheet date was not sufficiently probable.

Deferred tax assets due to differing carrying amounts and consolidation adjustments result from consolidation adjustments in the amount of €61k (prior year: €857k), from differing carrying amounts of liabilities in the amount of €583k (prior year: 1,139k) and from differing carrying amounts of deferred income in the amount of €719k (prior year: 1,084k).

Deferred tax liabilities of €18,779k (prior year: €10,773k) result mainly from the different treatment of capitalized intangible assets from business combinations in the consolidated accounts and the tax balance sheet. The increase over the previous year results mainly from the acquisition of Fasthosts in fiscal year 2006.

Deferred tax liabilities of €1,942k (prior year: €953k) refer to consolidation adjustments. Other deferred tax liabilities amounting to €1,048k (prior year: €0k) result from other matters.

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

	<b>2006</b>	<b>2005</b>
	%	%
Anticipated tax expense from result before taxes	-38.8	-38.5
– Goodwill amortization non-deductible for tax purposes	0.0	-0.6
– Tax-reduced partial deconsolidation	1.4	0.0
– Differences in foreign tax rates	0.9	0.2
– Employee stock ownership plan	-0.1	-0.7
– Tax losses of the fiscal year, not capitalized	-1.1	-3.1
– First-time capitalization of tax losses not used in prior years	3.2	1.9
– Utilization of non-capitalized tax loss carryforwards	0.1	0.4
– Non-taxable at-equity results	0.5	0.2
– Balance of tax-free income and non-deductible expenses	0.1	-1.1
<b>Tax expense based on income statement</b>	<u>-33.8</u>	<u>-41.3</u>

## **26. OTHER FINANCIAL OBLIGATIONS AND CONTINGENCIES**

### a) Leases and Rent

Expenses resulting from lease obligations for buildings and business premises, as well as for movable items (vehicles, telephone systems, copiers, etc.) totaled € 12,726k in fiscal year 2006 (prior year: € 11,179k). As of December 31, 2006, future lease obligations were as follows:

	<b>2006</b>
	<b>€k</b>
Liabilities from long-term lease obligations	56,878
of which with a remaining term of up to one year	13,760
of which with a remaining term of one to five years	33,563
of which with a remaining term of over five years	9,555

The most important leases for the Company's facilities in Montabaur have terms until mid-2009 or early 2015. In fiscal year 2006, these leases incurred expenses of € 1,661k (prior year: € 1,575k). The leases for the Company's facilities in Karlsruhe have terms until early 2013. In fiscal year 2006, these leases incurred expenses of € 2,921k (prior year: € 1,664k). Some of the leases for various facilities of twenty4help have terms until the end of 2017. In fiscal year 2006, these leases incurred expenses of € 4,701k (prior year: € 5,301k).

## 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.

On May 24, 2004, the Company concluded an option agreement with Mr. Stéphane Cordier, member of the management board of AdLINK Media AG. Under the provisions of this agreement, Mr. Cordier has the right to acquire AdLINK shares from the Company in four blocks of 100,000 at a price of € 1.50 per share in the period up to 2007. The fair value per option at the time of issuance amounted to € 1.36.

twenty4help AG received subsidies for the expansion of the Görlitz site from Sächsische AufbauBank GmbH in Dresden. As of December 31, 2006, the Company had received subsidies from this of €7,650k for 650 newly created jobs and a cumulative amount of €5,107k was taken to income in the years 2000 to 2006. These subsidies may be repayable in part in the future, if the necessary number of jobs is not maintained until March 27, 2009. 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.

Other financial commitments for the fiscal years 2007 and 2008 total €10,355k (prior year: €11,000k).

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.

## **27. SEGMENT REPORTING**

Segment reporting includes the primary and secondary reporting formats in accordance with IAS 14. The Company has chosen the organizational structure aligned to products/customers as its primary reporting format. It relates to the Product segment, Outsourcing segment, Online Marketing segment and Head Office/Investments segment. We refer in this regard to the explanations of note 4 e).

The secondary reporting format differentiates between domestic and foreign business.

Transactions between segments are charged at market prices.

The segments of United Internet AG in fiscal year 2006 are as shown in the table below:

	Product segment	Outsourcing segment	Online Marketing segment	Head Office / Investments	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	991,622	117,544	177,472	9,384	1,296,022
- thereof internal revenues	1,411	12,817	4,906	9,327	28,461
External revenues	990,211	104,727	172,566	57	1,267,561
- thereof domestic	914,450	47,390	93,866	57	1,055,763
- thereof non-domestic	75,761	57,337	78,701	0	211,799
EBITDA	197,330	18,730	22,291	-1,555	236,796
Result from at-equity companies	0	0	1,250	1,118	2,368
EBT	147,859	12,775	19,782	1,129	181,545
Assets	624,588	50,808	127,574	16,562	819,532
- thereof domestic	487,891	31,896	60,066	16,562	596,415
- thereof non-domestic	136,697	18,912	67,508	0	223,117
Share of at-equity companies	0	0	3,012	7,994	11,006
Total liabilities	314,497	24,227	64,835	80,958	484,517
Investments in intangible assets and property, plant and equipment	36,891	2,553	1,775	207	41,426
- thereof domestic	27,281	1,842	1,624	207	30,954
- thereof non-domestic	9,610	711	151	0	10,472
Amortization/depreciation	48,012	5,562	1,550	95	55,219
Number of employees	2,802	3,125	400	20	6,347
- thereof domestic	2,329	1,438	196	20	3,983
- thereof non-domestic	473	1,687	204	0	2,364

In total, 83.3% (prior year: 82.0%) of revenues were generated in Germany and 16.7% (prior year: 18.0%) abroad.

The segments of United Internet AG in fiscal year 2005 are as shown in the table below:

	Product segment	Outsourcing segment	Online Marketing segment	Head Office / Investments	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	608,119	95,962	109,460	12,893	826,434
- thereof internal revenues	1,321	7,342	3,431	12,835	24,929
External revenues	606,798	88,620	106,029	58	801,505
- thereof domestic	569,963	43,631	43,853	58	657,505
- thereof non-domestic	36,835	44,989	62,176	0	144,000
EBITDA	112,734	12,217	8,213	-4,279	128,885
Result from at-equity companies	0	0	536	39	575
EBT	92,922	5,914	6,177	-4,038	100,975
Assets	504,408	48,253	83,050	21,320	657,031
- thereof domestic	491,890	30,604	26,493	21,320	570,307
- thereof non-domestic	12,518	17,649	56,557	0	86,724
Share of at-equity companies	0	0	2,207	7,285	9,492
Total liabilities	174,475	21,683	48,174	104,209	348,541
Investments in intangible assets and property, plant and equipment	23,898	5,171	1,155	103	30,327
- thereof domestic	21,353	2,922	888	103	25,266
- thereof non-domestic	2,545	2,249	267	0	5,061
Amortization/depreciation	20,822	5,736	2,352	55	28,965
Number of employees	2,313	2,912	299	16	5,540
- thereof domestic	2,187	1,349	157	16	3,709
- thereof non-domestic	126	1,563	142	0	1,831

## **28. CASH FLOW STATEMENT**

In fiscal year 2006, cash flow from operating activities includes interest payments of €3,386k (prior year: €903k) and interest income of €1,594k (prior year: €1,731k). Income tax payments in fiscal year 2006 amounted to €45,224k (prior year: €45,960k). Amounts received from dividends of associated companies totaled €859k (prior year: €441k).

Total cash expenditure for the purchase of the remaining shares in CibleClick and additional shares in Sedo totaled €45,815k in fiscal year 2006.

A total of €96,866k in cash was used as part of the takeover of Fasthosts. Cash and cash equivalents received amounted to €5,726k. A total of €203k in cash was used as part of the takeover of SalesPlus. Cash and cash equivalents received amounted to €1k.

## **29. RISK MANAGEMENT**

There are no credit risks beyond the ordinary business risks of the Company. The United Internet Group employs the corresponding control mechanisms and procedures to try to ensure that services are only provided to those customers who have proved creditworthy in the past, and that the risk of providing to new customers is kept to an appropriate level. The Company's management of debtors is also designed to detect any risks at an early stage to enable appropriate action to be taken.

The United Internet Group currently possesses sufficient cash and cash equivalents, or loan commitments, to meet its payment obligations. On the assumption that the Company does not deviate drastically from its business plans, there is therefore no liquidity risk at present. The company invoices mainly in euro (€). There is no hedging against foreign currency fluctuations. Exchange rate risks from operating business are not judged to be material. Nevertheless, the Company continues to monitor the development of foreign exchange rates.

## **30. CHANGES IN THE REPORTING COMPANY**

During the course of fiscal year 2006, the following companies were founded or acquired by the Company or its subsidiaries:

- 1&1 UK Holdings Ltd., Slough / UK
- AdLINK Internet Media GmbH, Vienna / Austria
- Fasthosts Internet Ltd., Gloucester / UK
- United Internet Media AG, Munich
- twenty4help Knowledge Service s.r.o, Liberec / Czech Republic
- twenty4help Knowledge Service SA (Pty.) Ltd., Durban / South Africa
- SalesPlus Gesellschaft für Absatzförderung mbH, Erlangen
- net:dialogs GmbH, Montabaur

During the course of fiscal year 2006, the non-operating companies twenty4help Knowledge Service AG, Zug / Switzerland, AdLINK Internet International Internet Sales Ltd., Dublin / Ireland, AdLINK Benelux Limited, Dublin / Ireland, AdLINK Italy Limited, Dublin / Ireland and AdLINK International Purchasing Limited, Dublin / Ireland were liquidated.

Operations were also discontinued and liquidation proceedings initiated for AdLINK Internet Media APS, Copenhagen / Denmark in February 2006. Liquidation proceedings already initiated in fiscal year 2005 were continued for the non-operating company CibleClick Ltd, London / UK.

United Internet Start-up GmbH, Montabaur was renamed as United Internet Beteiligungen International GmbH and 1&1 WEB.DE Schlund + Partner Support GmbH, Montabaur was renamed as 1&1 Internet Service GmbH.

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

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

- 1&1 Internet AG, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Internet Service GmbH, Zweibrücken
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- Alturo GmbH, Zweibrücken
- GMX Internet Services GmbH, Munich
- GMX GmbH, Munich
- Schlund + Partner AG, Karlsruhe
- twenty4help Knowledge Service AG, Montabaur
- twenty4help Knowledge Service GmbH, Dortmund
- twenty4help Knowledge Service GmbH, Görlitz
- twenty4help Knowledge Service GmbH, Zweibrücken
- United Internet Beteiligungen GmbH, Montabaur
- United Internet Media AG, Montabaur
- WEB.DE GmbH, Montabaur

### **32. SUBSEQUENT EVENTS**

In a contract dated January 19, 2007, United Internet AG, Montabaur, reached an agreement with Teleperformance SA, Paris, concerning the sale to Teleperformance of the United Internet Group member twenty4help Knowledge Service AG, Montabaur. In the course of the transaction, the value of twenty4help AG was determined to be around € 85 million. The final purchase price is based on the audited and certified consolidated financial statements of twenty4help AG for the fiscal year 2006. Teleperformance will pay the full purchase price in cash. The business combination was approved by the respective antitrust authorities on February 22, 2007. The contract closing is expected for the first quarter of 2007. The Outsourcing segment, of which twenty4help accounted for around 90%, will no longer be separately disclosed in future.

In a contract dated December 22, 2006, United Internet Beteiligungen GmbH acquired an equity interest of 12.51% in e-sport GmbH (now: BIGPOINT GmbH), Hamburg. It was also agreed that a further 12.52% of shares would be available for purchase until the end of 2007 via a call option. The share purchase was effected as part of a capital increase and was also dependent on the approval of the respective antitrust authorities. On February 5, 2007, the antitrust authorities approved the share purchase.

### **33. AUDITORS' FEES**

In fiscal year 2006, auditing fees totaling € 1,177k (prior year: € 1,325k) were expensed in the consolidated financial statements. These include auditing fees of € 683k (prior year: € 812k), tax consultancy services of € 387k (prior year: € 417k), other certification and valuation services of € 6k (prior year: € 0k) and other services of € 100k (prior year: € 96k).

In addition, auditing fees for tax consultancy services amounting to €104k (prior year: €120k) and for other services amounting to €123k (prior year: €156k) were carried in the consolidated financial statements without effect on income and capitalized as transaction costs in connection with company acquisitions.

### **34. 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 made available to shareholders via the internet portal of United Internet AG ([www.united-internet.de](http://www.united-internet.de)) and AdLINK Internet Media AG ([www.adlink.net](http://www.adlink.net)).

Montabaur, March 9, 2007

The Management Board

Ralph  
Dommermuth

Norbert  
Lang

United Internet AG - Development of consolidated fixed assets acc. to IFRS in fiscal year 2006 and 2005 (€)

	ACQUISITION AND PRODUCTION COSTS						Dec. 31, 2006	ACCUMULATED DEPRECIATION				Dec. 31, 2006	NET BOOK VALUE	
	Jan. 1, 2006	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation		Jan. 1, 2006	Additions	Disposals	Currency translation		Jan. 1, 2006	Dec. 31, 2006
<b>Intangible assets</b>														
Licenses	31,357	0	2,712	280	-69	61	33,781	13,944	8,518	236	-273	21,953	17,413	11,828
Order backlog	2,141	0	0	0	0	0	2,141	213	915	0	0	1,128	1,928	1,013
Software	28,390	1,204	2,281	365	69	6	31,585	15,389	5,761	376	6	20,780	13,001	10,805
Brand	17,207	5,075	0	0	0	0	22,282	0	0	0	0	0	17,207	22,282
Customer base	25,999	21,099	0	0	0	0	47,098	780	6,581	0	0	7,361	25,219	39,737
Portal	72,240	0	0	0	0	0	72,240	1,505	9,030	0	0	10,535	70,735	61,705
Goodwill	268,436	73,071	35,549	1,690	0	0	375,366	1,679	0	0	0	1,679	266,757	373,687
<b>Total (I)</b>	<b>445,770</b>	<b>100,449</b>	<b>40,542</b>	<b>2,335</b>	<b>0</b>	<b>67</b>	<b>584,493</b>	<b>33,510</b>	<b>30,805</b>	<b>612</b>	<b>-267</b>	<b>63,436</b>	<b>412,260</b>	<b>521,057</b>
<b>Property, plant and equipment</b>														
Land and buildings	6,876	0	110	0	0	0	6,986	3,346	263	0	0	3,609	3,530	3,377
Operational equipment	118,035	4,046	30,852	5,626	2,895	-420	149,782	75,746	24,151	4,632	-146	95,119	42,289	54,663
Payments in advance	5,800	67	5,471	0	-2,895	-187	8,256	0	0	0	0	0	5,800	8,256
<b>Total (II)</b>	<b>130,711</b>	<b>4,113</b>	<b>36,433</b>	<b>5,626</b>	<b>0</b>	<b>-607</b>	<b>165,024</b>	<b>79,092</b>	<b>24,414</b>	<b>4,632</b>	<b>-146</b>	<b>98,728</b>	<b>51,619</b>	<b>66,296</b>
<b>Total</b>	<b>576,481</b>	<b>104,562</b>	<b>76,975</b>	<b>7,961</b>	<b>0</b>	<b>-540</b>	<b>749,517</b>	<b>112,602</b>	<b>55,219</b>	<b>5,244</b>	<b>-413</b>	<b>162,164</b>	<b>463,879</b>	<b>587,353</b>

	ACQUISITION AND PRODUCTION COSTS						Dec. 31, 2005	ACCUMULATED DEPRECIATION				Dec. 31, 2005	NET BOOK VALUE	
	Jan. 1, 2005	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation		Jan. 1, 2005	Additions	Disposals	Currency translation		Jan. 1, 2005	Dec. 31, 2005
<b>Intangible assets</b>														
Licenses	13,159	13,786	4,423	23		12	31,357	9,042	4,905	4	1	13,944	4,117	17,413
Order backlog	0	2,141	0	0	0	0	2,141	0	213	0	0	213	0	1,928
Software	15,980	11,144	1,029	15	250	2	28,390	13,123	2,334	68	0	15,389	2,857	13,001
Brand	0	17,207	0	0	0	0	17,207	0	0	0	0	0	0	17,207
Customer base	46	25,953	0	0	0	0	25,999	25	755	0	0	780	21	25,219
Portal	0	72,240	0	0	0	0	72,240	0	1,505	0	0	1,505	0	70,735
Goodwill *	25,630	241,128	1,678	0	0	0	268,436	0	1,679	0	0	1,679	25,630	266,757
<b>Total (I)</b>	<b>54,815</b>	<b>383,599</b>	<b>7,130</b>	<b>38</b>	<b>250</b>	<b>14</b>	<b>445,770</b>	<b>22,190</b>	<b>11,391</b>	<b>72</b>	<b>1</b>	<b>33,510</b>	<b>32,625</b>	<b>412,260</b>
<b>Property, plant and equipment</b>														
Land and buildings	6,546	0	330	0	0	0	6,876	3,075	271	0	0	3,346	3,471	3,530
Operational equipment	95,456	5,635	18,492	3,136	947	641	118,035	61,105	17,303	2,858	196	75,746	34,351	42,289
Payments in advance	942	0	6,053	0	-1,197	2	5,800	0	0	0	0	0	942	5,800
<b>Total (II)</b>	<b>102,944</b>	<b>5,635</b>	<b>24,875</b>	<b>3,136</b>	<b>-250</b>	<b>643</b>	<b>130,711</b>	<b>64,180</b>	<b>17,574</b>	<b>2,858</b>	<b>196</b>	<b>79,092</b>	<b>38,764</b>	<b>51,619</b>
<b>Total</b>	<b>157,759</b>	<b>389,234</b>	<b>32,005</b>	<b>3,174</b>	<b>0</b>	<b>657</b>	<b>576,481</b>	<b>86,370</b>	<b>28,965</b>	<b>2,930</b>	<b>197</b>	<b>112,602</b>	<b>71,389</b>	<b>463,879</b>

\* Adapted - See explanation 4 d) in the notes to the consolidated financial statements as at December 31, 2006

## **Auditor's Report**

We have audited the consolidated financial statements prepared by United Internet AG, Montabaur – comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements – as well as the for the fiscal year from January 1, 2006 to December 31, 2006. The preparation and content of the consolidated financial statements and management report for the Company and the Group according to IFRS, as applied in the EU, and the supplementary commercial law regulations of Section 315a (1) German Commercial Code (HGB) are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the management report for the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and the generally accepted standards for the audit of financial statements in Germany promulgated by the "Institut der Wirtschaftsprüfer" (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with principles of proper accounting and in the management report for the Company and the Group are detected with reasonable assurance. 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 effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report for the Company and the Group are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the management report for the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements comply with IFRS, as applied in the EU, and the supplementary commercial law regulations of Section 315a (1) HGB and give a true and fair view of the Group's net assets, financial position, results of operations and cash flows for the fiscal year. On the whole, the management report for the Company and the Group provides a suitable understanding of the Group's position and suitably presents the opportunities and risks to future development.

Eschborn/Frankfurt am Main, March 12, 2007

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Bösser Grote  
Wirtschaftsprüfer      Wirtschaftsprüfer



**United Internet AG,  
Montabaur**

**Parent Company`s Financial Statements**  
according to HGB  
(German Commercial Code)

as of  
December 31, 2006

**United Internet AG - Balance sheet acc. to HGB**

as of December 31, 2006 in €k

<u>ASSETS</u>	31. December 2006	31. December 2005	<u>EQUITY AND LIABILITIES</u>	31. December 2006	31. December 2005
<u>FIXED ASSETS</u>			<u>EQUITY</u>		
Intangible assets			Capital stock	250,235	62,275
Concessions, industrial and similar rights and assets as well as licenses such rights and assets	1 1	1 1	Capital reserves	56,665	141,201
			Revenue reserves		
			Reserves for treasury stock	79,561	0
			Other revenue reserves	0	898
			Retained earnings	67,643	187,333
Property, plant and equipment				454,104	391,707
Other equipment, operational and office equipment	317 317	206 206	<u>ACCRUALS</u>		
			Accrued taxes	15,805	1,123
Financial assets			Other accrued liabilities	2,027	5,192
Share in affiliated companies	286,536	288,070		17,832	6,315
Loans to affiliated companies	0	14,710	<u>LIABILITIES</u>		
Investments	7,906	8,432	Bonds	676	970
	294,442	311,212	Liabilities due to banks	50,000	80,000
	294,760	311,419	Accounts payable, trade	748	261
			Liabilities due to affiliated companies	4,484	4,980
			Other liabilities	11,519	17,851
				67,427	104,062
<u>CURRENT ASSETS</u>					
Accounts receivable and other assets					
Accounts receivable, trade	0	1			
Receivables due from affiliated companies	155,052	179,756			
Receivables due from companies in which an investment is held	3	3			
Other assets	2,141	505			
	157,196	180,265			
Securities					
Treasury stock	79,561 79,561	0 0			
Cash in hand and bank balances	7,846	10,400			
	244,603	190,665			
	539,363	502,084		539,363	502,084

**United Internet AG - consolidated income statement acc. to HGB**

from January 1, 2006 to December 31, 2006 in €k

	<b>2006</b>	<b>2005</b>
	<b>Januar - Dezember</b>	<b>Januar - Dezember</b>
Sales	9,384	12,893
Other operating income	8,316	59,413
Cost of materials		
Cost of purchased services	-8,699	-12,330
Personnal expenses		
a. Wages and salaries	-1,636	-1,598
b. Social security contributions	-158	-133
Amortisation and depreciation of intangible assets and property, plant and equipment	-96	-55
Other operating expenses	-5,373	-2,784
Income from profit transfer agreements	120,714	85,995
Income from investments	830	160
Other interest and similar income	3,358	2,061
Expenses from loss transfer agreements	0	-176
Interest and similar expenses	-2,762	-1,793
Result before taxes	123,878	141,653
Taxes on income	-48,434	-35,121
Other taxes	-4	-25
Net profit for the year	75,440	106,507
Accumulated profits	71,764	44,297
Transfer to reserves for treasury stock	-79,561	36,529
Balance sheet profit	67,643	187,333

## **UNITED INTERNET AG, MONTABOUR**

Notes to the Financial Statements for Fiscal Year 2006

### **GENERAL PROVISIONS**

The annual financial statements for fiscal year 2006 were prepared in accordance with Sections 242 ff. and Sections 264 ff. German Commercial Code (HGB), as well as with the respective provisions of the German Stock Corporation Law (AktG) and Company articles.

United Internet AG, Montabaur, classifies as a large corporation pursuant to Sec. 267 (3) HGB.

The annual financial statements are based on the provisions of the German Commercial Code and Stock Corporation Act, as amended.

The income statement is prepared according to the cost summary method.

We make reference to the fact that consolidated financial statements have been prepared according to International Financial Reporting Standards (IFRS) to comply with the listing requirements for the Prime Standard segment of the Frankfurt Stock Exchange and have been disclosed in accordance with Sec. 325 HGB. We refer to Sec. 315 a 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 as "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 commercial 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 power of attorney; 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 (€), thousand euro (€k) or million euro (€m).

## **ACCOUNTING AND VALUATION METHODS**

The following (mostly) unchanged accounting and valuation methods were used in the preparation of the annual financial statements.

Additions of assets are capitalized at acquisition or production costs.

Intangible assets acquired for consideration are capitalized at acquisition cost and, insofar as their value diminishes, amortized in scheduled amounts according to their expected useful life.

Property, plant and equipment are valued at acquisition or production cost less scheduled depreciation over their normal useful lives. Property, plant and equipment are depreciated over their expected useful lives at the highest rates permitted under tax laws. Wherever permitted by tax law, the declining balance method is applied for movable assets. The straight-line method is then applied as soon as it leads to higher annual depreciation rates. Other fixed assets are depreciated using the straight-line method. Low-value items (acquisition costs of no more than € 410) are fully expensed in the year of acquisition; it is assumed that they are disposed of immediately. Depreciation of additions to property, plant and equipment are always made pro rata temporis.

Operational equipment is usually depreciated over 4 to 5 years. Leasehold improvements are generally written off over a period of 10 years or the shorter lease period. The normal useful life of office furniture and equipment is 8 to 13 years, that of the vehicles 5 to 6 years.

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. All risk-bearing items, which are significant in terms of amount, are covered by reasonable lump-sum bad debt allowances.

Tax accruals and other accruals consider all contingent liabilities and recognizable risks. They are carried at an amount deemed necessary according to sound commercial judgment.

Liabilities are stated at the amount repayable.

## **FIXED ASSETS**

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

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

Investments in this area mainly concern vehicles.

### **Financial Assets**

Information on the equity situation and results of operations of the affiliated companies and associated companies, stating the share held, is included in the list of shareholdings. The list of shareholdings of United Internet AG as of December 31, 2006, has been filed with the electronic Commercial Register.

The additions to shares in affiliated companies amounted to €7,962k. These result from the addition of carrying amounts for shares in InterNetX GmbH (€7,386k), fun communications GmbH (€525k) and United Internet Beteiligungen International GmbH (€51k) to United Internet Beteiligungen GmbH, a wholly owned subsidiary of United Internet AG.

Disposals of shares in affiliated companies amounted to €9,496k. Of this total, €7,437k result from the contribution of InterNetX GmbH and United Internet Beteiligungen International GmbH to United Internet Beteiligungen GmbH and €2,059k from the sale of 2.03% shares in AdLINK Internet Media AG.

Disposals of investments totaling €525k also resulted from the contribution of shares in fun communications GmbH at carrying values to United Internet Beteiligungen GmbH.

The disposals of "Loans to affiliated companies" amounting to €14,710k result from the return of a provision of finance at standard market conditions to AdLINK Internet Media AG, in particular in connection with the sale of shares in Sedo GmbH and affilinet GmbH in the previous year.

## **CURRENT ASSETS**

### **Receivables and Other Assets**

No specific bad debt allowances nor lump-sum bad debt allowance to cover the general credit risk had to be made for trade receivables.

Receivables from affiliated companies mainly comprise receivables due from 1&1 Internet AG (€96,278k), AdLINK Internet Media AG (€47,434k) and twenty4help Knowledge Service AG (€11,340k) 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.

Receivables from companies in which an investment is held result from services to associated companies.

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

### **Treasury Stock**

As of December 31, 2006 the Company held 8,226,072 treasury shares. The average purchase price per share was €9.67. An accrual for treasury stock was formed in fiscal year 2006 for treasury shares acquired pursuant to Sec. 71 (1) No. 8 AktG, in combination with Sec. 272 (4) HGB. Up to March 5, 2007 the Company acquired a further 4,382,738 treasury shares. As of the date of signing the annual financial statements, therefore, the Company held 12,608,810 treasury shares, or 5.04% of current capital stock. Treasury shares are intended, in particular, for use in current and future employee stock ownership plans or as an acquisition currency.

### **EQUITY**

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

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

As at the balance sheet date, the fully paid-in capital stock amounts to €250,235,176.00 divided into 250,235,176 registered no-par shares having a theoretical share in the capital stock of €1.00 each.

On the basis of a capital increase for non-cash contribution resolved by the general meeting of shareholders of June 13, 2006, capital stock was increased by €186,825,603.00, from €62,275,201.00 to €249,100,804.00. The increase in capital stock resulted from the conversion of a part of capital reserves disclosed in the balance sheet as of December 31, 2005, amounting to €85,927,597.55, from revenue reserves disclosed in the balance sheet as of December 31, 2005 amounting to €898,005.45 and the amount of €100,000,000.00 disclosed in the resolution concerning the appropriation of profit as an addition to other revenue reserves. The capital increase was effected by means of the issue of 186,825,603 new, registered, no-par shares to the Company's shareholders. The new shares were issued in a ratio of 1:3, so that there were three new shares for every existing share.

On the basis of the conditional increase of the Company's capital stock by up to €4,495,000.00, as agreed at the general meeting of shareholders on May 16, 2001, a total of 775,000 registered, no-par shares with a theoretical share in the capital stock of €775,000.00 were issued in exchange for convertible bonds in fiscal year 2006, as part of the Company's employee stock ownership plan.

On the basis of the conditional increase of the Company's capital stock by up to €5,581,744.00, as agreed at the general meeting of shareholders on May 16, 2003, a total of 359,372 registered, no-par shares with a theoretical share in the capital stock of €359,372.00 were issued in exchange for convertible bonds in fiscal year 2006, as part of the Company's employee stock ownership plan.

## **Approved Capital**

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by June 12, 2011 by a maximum of € 124,550,402.00 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

In the case of a capital increase in return for cash contributions, the shareholders shall be granted subscription rights. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right to subscribe in the case of fractional amounts and also to exclude the right to subscribe to the extent that this should be necessary in order to grant subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds issued by the Company or subordinated Group companies in the amount to which they are entitled on conversion of their conversion or warrant rights or fulfillment of their conversion obligation. The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case that the issue amount of the new shares is not substantially lower than the quoted market price of Company shares with the same terms at the time of finalizing the issue amount and the shares issued in accordance with Sec. 186 (3) Sentence 4 AktG do not exceed in total 10% of capital stock. Shares sold or issued due to other authorizations in direct or corresponding application of Sec. 186 (3) Sentence 4 AktG under exclusion of subscription rights are to be accounted for in this limitation

Furthermore, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the right of shareholders to subscribe in the case of capital increases in return for non-cash contributions, especially in connection with the acquisition of companies, shareholdings or assets.

## **Conditional Capital**

The following conditional capital exists:

The capital stock has been conditionally increased by up to a further € 3,720,000.00, divided into 3,720,000 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. As of the balance sheet date 880,000 convertible bonds can still be converted.

The capital stock has been conditionally increased by up to a further € 5,222,372.00, divided into 5,222,372 no-par registered shares. The conditional capital increase is earmarked for conversion options to be granted to bearers of convertible bonds, which the shareholders' meeting on May 16, 2003 authorized the Management Board to issue. The conditional capital increase will only be executed to the extent that the bearers exercise their conversion rights and the Company does not fulfill the conversion rights by transfer of treasury shares. As of the balance sheet date 1,822,292 convertible bonds can be converted.

The capital stock has been conditionally increased by up to a further € 3,000,000.00, divided into 3,000,000 no-par registered shares. The conditional capital increase is earmarked for conversion options to be granted to bearers of convertible bonds, which the shareholders' meeting on May 18, 2005 authorized the Supervisory Board to issue. The conditional capital

increase will only be executed to the extent that the bearers exercise their conversion rights and the Company does not fulfill the conversion rights by transfer of treasury shares. As of the balance sheet date no convertible bonds have been issued.

The capital stock has been conditionally increased by up to a further €92,000,000.00, divided into 92,000,000 no-par registered shares. The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on May 18, 2005 authorized the Company or a subordinated Group company to issue, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital. The conditional capital increase will only be executed to the extent that the bearers exercise their warrant or conversion rights from the aforementioned bonds or to the extent that conversion obligations from such bonds are fulfilled and the Company does not service warrant or conversion rights from its stock of treasury shares or from approved capital. No bonds were issued during the period under review.

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire treasury shares until December 12, 2007 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. As of the balance sheet date 8,226,072 treasury shares were held.

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

Total shareholders' equity developed as follows (€):

**Capital stock**

- Balance as of December 31, 2005	62,275,201.00
- Capital increase for cash contribution Employee stock ownership plan	1,134,372.00
- Capital increase for non-cash contribution	186,825,603.00
- Balance as of December 31, 2006	<u><b>250,235,176.00</b></u>

**Capital reserves**

- Balance as of December 31, 2005	141,201,092.96
- Capital increase for cash contribution Employee stock ownership plan	1,391,042.13
- Capital increase for non-cash contribution	-85,927,597.55
- Balance as of December 31, 2006	<u><b>56,664,537.54</b></u>

**Other revenue reserves**

- Balance as of December 31, 2005	898,005.45
- Capital increase for non-cash contribution	-898,005.45
- Balance as of December 31, 2006	<u><b>0.00</b></u>

**Reserves for treasury stock**

- Balance as of December 31, 2005	0.00
- Reserve acc. to Sec. 272 (4) HGB	79,561,169.89
- Balance as of December 31, 2006	<u><b>79,561,169.89</b></u>

**Balance sheet profit**

- Balance as of December 31, 2005	187,332,858.72
- Dividend payment	-15,568,800.25
- Capital increase for non-cash contribution	-100,000,000.00
- Net profit for the year	75,440,360.17
- Withdrawal from reserves for treasury stock	-79,561,169.89
- Balance as of December 31, 2006	<u><b>67,643,248.75</b></u>

**Total shareholders' equity** **454,104,132.18**

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 €67,643,248.75. The balance sheet profit contains a profit carry forward from the previous year (after dividend payment and capital increase for non-cash contribution) amounting to €71,764,058.47 and the transfer to reserves for treasury stock amounting to €79,561,169.89.

The Management Board (in agreement with the Supervisory Board) proposes to appropriate the balance sheet profit as follows:

- payment of a dividend of €0.18 per share for a total of 250,235,176 no-par shares, amounting to €45,042,331.68 and
- insofar as the Company holds treasury shares on the day of the Annual Shareholder's Meeting, the partial amount of €0.18 per share pertaining to these treasury shares is to be carried forward and
- the remaining amount of €22,600,917.07 is to be carried forward.

According to Sec. 71 b AktG, treasury stock does not entitle the Company to any rights and thus any proportionate dividend payment. As of the date of signing the annual financial statements, United Internet AG held 12,608,810 treasury shares. For the calculation of the dividend payment, capital stock divided into 250,235,176 no-par shares was thus not reduced by treasury shares. Should further treasury shares be acquired, the number of shares used in the dividend calculation will be reduced accordingly.

## ACCRUALS

Accrued taxes mainly include corporation tax, the solidarity surcharge and trade tax for fiscal 2006.

Other accrued liabilities contain appropriate accrued liabilities which have been set up for all foreseeable liabilities whose amount and nature are uncertain. They were formed mainly for legal, auditing and consulting fees (€583k) and interest expenses (€426k). They also include provisions for outstanding invoices (€345k) and personnel expenses.

## LIABILITIES

The classification and maturities of the liabilities are shown in the following table (€k):

	12.31.2006		12.31.2006		12.31.2005
	Total	less than 1 year	Maturity between 1 and 5 years	more than 5 years	Total
Bonds					
thereof convertible €676k (prior year: €970k)	676	429	247		970
Bank liabilities	50,000		50,000		80,000
Trade payables	748	748			261
Liabilities due to affiliated companies	4,484	4,484			4,980
Other liabilities	11,519	11,519			17,851
thereof for social security €0k (prior year: €16k)					
	<b>67,427</b>	<b>17,180</b>	<b>50,247</b>	<b>0</b>	<b>104,062</b>

The bonds concern 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 of May 16, 2001 resolved that convertible bonds may 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 € 10,000k was created for this purpose.

The convertible bonds, which bear 4.5% interest p.a. or 4.0% interest p.a., may be exchanged as a whole or in parts for shares in United Internet AG. Following the capital increase for non-cash contribution, each €1 par value of the convertible bonds can be exchanged for four registered shares.

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 €0.47, for those issued on May 24, 2002, the additional payment amounts to €1.24 and for those issued on March 25, 2003, the additional payment amounts to €1.88. Bonds may be converted no sooner than one year after issuance.

In the period under review, no partially convertible bonds were issued. €1k was repaid when employees left the Company. Conversion rights totaling €194k were exercised. Hence as of the balance sheet date, partially convertible bonds amounting to €220k are shown under bonds. This is equivalent to a total of 880,000 registered shares.

Furthermore, the general meeting of May 16, 2003 resolved that convertible bonds may be granted to employees of the Company and its subsidiaries, as well as to executives of Company subsidiaries. Conditional capital of €6,000k was created for this purpose.

The convertible bonds, which bear 3.5% interest p.a., may be exchanged as a whole or in parts for shares in United Internet AG. Following the capital increase for non-cash contribution, each €1 par value of the convertible bonds can be exchanged for four registered shares.

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 September 1, 2003, this additional payment amounts to €4.10, for the convertible bonds issued on August 15, 2004 the additional payment amounts to €3.57 and for the convertible bonds issued on May 27, 2005 the additional payment amounts to €5.01. Bonds may be converted no sooner than two years after issuance.

In the period under review, no partially convertible bonds were issued. €9k was repaid when employees left the Company. Conversion rights totaling €90k were exercised. Hence as of the balance sheet date, partially convertible bonds amounting to €456k are shown under bonds. This is equivalent to a total of 1,822,292 registered shares.

As of the balance sheet date a total of €676k was shown under bonds. This corresponds to 2,702,292 registered shares.

Bank liabilities result from a revolving syndicated loan, which was granted in the previous year by 10 banks with a maturity until October 12, 2008.

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

Other liabilities consist mainly of sales tax liabilities.

## **NOTES TO THE INCOME STATEMENT**

### **SALES**

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

### **OTHER OPERATING INCOME**

Other operating income results mainly from the sale of shares in AdLINK shares (€5,830k). Income not relating to the period amounted to €1,268k.

### **OTHER OPERATING EXPENSES**

In addition to expenses for investor relations, marketing and press PR (€2,193k), other operating expenses contain rent expenses and legal, consulting and audit fees.

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

This item comprises the profits and losses transferred by 1&1 Internet AG (€116,087k), twenty4help Knowledge Service AG (€4,446k) and United Internet Beteiligungen GmbH (€181k).

### **INCOME FROM INVESTMENTS**

Income from investments relates to dividend payments of fun communications GmbH, Karlsruhe, amounting to €110k, and of InterNetX GmbH, Regensburg, amounting to €720k and concerns the fiscal year 2005.

### **INCOME TAXES**

Income taxes mainly concern tax payments and accrued taxes for the fiscal year 2006.

### **OTHER DISCLOSURES**

#### **Average Number of Employees**

An average of 15 (prior year: 13) permanent salaried staff (including apprentices, but without Management Board members and part-time staff) were employed in the past fiscal year.

#### **Executive Bodies of United Internet AG**

The Management Board consists of the following members:

Ralph Dommermuth, (CEO), qualified banker, Montabaur  
Norbert Lang, qualified banker, Waldbrunn

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

Ralph Dommermuth

- twenty4help Knowledge Service AG, Montabaur
- Deutsche Challenge 2007 AG, Munich (chair)
- United Internet Media AG, Montabaur (chair)

Norbert Lang

- AdLINK Internet Media AG, Montabaur
- twenty4help Knowledge Service AG, Montabaur
- Deutsche Challenge 2007 AG, Munich
- United Internet Media AG, Montabaur

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2006. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on the sales and earnings figures. The target attainment corridor is generally between 80% to 120%. No bonus is paid below 80% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2006, preliminary remuneration of €755k (prior-year: €757k) was agreed for the Management Board. Of this total, €400k or 53% was fixed and €355k or 47% bonus payments. Mr. Ralph Dommermuth received total remuneration of €395k (prior year: €407k). Of this total, €200k (prior year: €200k) was fixed and €195k (prior year: €207k) variable. Mr. Norbert Lang received total remuneration of €360k (prior year: €350k). Of this total, €200k (prior year: €200k) was fixed and €160k (prior year: €150k) variable.

As of December 31, 2006, the Supervisory Board of United Internet AG consisted of the following members:

Kurt Dobitsch, chair,  
self-employed entrepreneur, Markt Schwaben

Bernhard Dorn, deputy chair  
self-employed business consultant, Leonberg

Michael Scheeren,  
qualified banker, Wallmerod

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

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- Nemetschek AG, Munich (chair)
- Bechtle AG, Gaildorf
- docuware AG, Munich
- PSB AG, Ober-Mörlen
- Hybris AG, Zürich

#### Bernhard Dorn

- 1&1 Internet AG, Montabaur
- AXA Service AG, Cologne
- TDS AG, Neckarsulm (deputy chair)
- ATOSS Software AG, Munich (deputy chair)
- INVERTO AG, Cologne

#### Michael Scheeren

- 1&1 Internet AG, Montabaur (chair)
- AdLINK Internet Media AG, Montabaur (chair)
- NT plus AG, Osnabrück (chair)
- United Internet Media AG, Montabaur (deputy chair)

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to €20k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to €2k for every cent which exceeds the consolidated earnings per share value of €0.10 for United Internet AG, calculated according to IFRS. Mr. Kurt Dobitsch received total remuneration of €112k (prior year: €90k). Of this total, €40k (prior year: €40k) was fixed and €72k (prior year: €50k) variable. Mr. Bernhard Dorn received total remuneration of €92k (prior year: €70k). Of this total, €20k (prior year: €20k) was fixed and €72k (prior year: €50k) variable. Mr. Michael Scheeren received total remuneration of €92k (prior year: €70k). Of this total, €20k (prior year: €20k) was fixed and €72k (prior year: €50k) variable. The accrual formed for variable remuneration of members of the Supervisory Board for fiscal year 2006 amounts to €216k. There are no convertible bond programs for members of the Supervisory Board.

#### Share Ownership and Subscription Rights as of December 31, 2006

	Shares (units)	Subscription rights (units)
Management Board		
Ralph Dommermuth	88,000,000	---
Norbert Lang	576,128	---
Supervisory Board		
Kurt Dobitsch	---	---
Bernhard Dorn	---	---
Michael Scheeren	800,000	---

#### Contingent Liabilities

The Company is jointly and severally liable for a credit line granted by banks to companies of the United Internet Group. As of the balance sheet date, the credit line was used for guaranties amounting to €22,340k and €50,000 active call money of 1&1 Internet AG. With regard to other bank liabilities, we refer to the explanations under "Liabilities".

## Miscellaneous

From the comparison of the last stock exchange price before the balance sheet date and the carrying value of AdLINK shares as disclosed under financial assets, there is a valuation reserve pursuant to Sec. 284 (2) No. 4 HGB of € 262,049k as of the balance sheet date.

Auditing fees expensed in fiscal year 2006 pursuant to Sec. 285 No. 17 HGB amounted to € 129k for the auditing of the annual financial statements, € 136k for tax consultancy services and € 48k for other services.

## Other Financial Commitments

The Company has obligations from lease agreements, mostly for its offices and business premises in Montabaur, as well as obligations resulting from a sponsorship contract.

	2006 €k
Liabilities from long-term financial obligations	7,223
of which due within one year	5,681
of which due between one and five years	1,542
of which due in more than five years	0

## 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 is available to shareholders via the internet portal of United Internet AG ([www.united-internet.de](http://www.united-internet.de)).

Montabaur, March 5, 2007

The Management Board

Ralph  
Dommermuth

Norbert  
Lang

**United Internet AG**

Development of fixed assets from January 1, 2006 to December 31, 2006

	Acquisition and production costs (€)				Accumulated depreciation (€)				Net book value (€)	
	Jan. 1, 2006	Additions	Disposals	Dec. 31, 2006	Jan. 1, 2006	Additions	Disposals	Dec. 31, 2006	Jan. 1, 2006	Dec. 31, 2006
<b>Intangible assets</b>										
Licenses	136			136	135			135	1	1
Software	613	1	1	613	613	1	1	613	0	0
<b>Total (I)</b>	<b>749</b>	<b>1</b>	<b>1</b>	<b>749</b>	<b>748</b>	<b>1</b>	<b>1</b>	<b>748</b>	<b>1</b>	<b>1</b>
<b>Property, plant and equipment</b>										
Operational equipment	900	13	1	912	873	10	1	882	27	30
Office furniture and equipment	579			579	546	14		560	33	19
Improvements	106			106	100	1		101	6	5
Vehicles	343	190	60	473	203	67	60	210	140	263
Low-value items	0	3	3	0	0	3	3	0	0	0
<b>Total (II)</b>	<b>1,928</b>	<b>206</b>	<b>64</b>	<b>2,070</b>	<b>1,722</b>	<b>95</b>	<b>64</b>	<b>1,753</b>	<b>206</b>	<b>317</b>
<b>Financial assets</b>										
Shares in affiliated companies	288,070	7,962	9,496	286,536	0			0	288,070	286,536
Loans to affiliated companies	14,710		14,710	0	0			0	14,710	0
Investments	34,411		525	33,886	25,980			25,980	8,432	7,906
Loans to companies in which an investment is held	16,064			16,064	16,064			16,064	0	0
Other loans	1,634			1,634	1,634			1,634	0	0
<b>Total (III)</b>	<b>354,889</b>	<b>7,962</b>	<b>24,731</b>	<b>338,120</b>	<b>43,677</b>	<b>0</b>	<b>0</b>	<b>43,678</b>	<b>311,212</b>	<b>294,442</b>
<b>Total</b>	<b>357,566</b>	<b>8,169</b>	<b>24,796</b>	<b>340,939</b>	<b>46,147</b>	<b>96</b>	<b>65</b>	<b>46,179</b>	<b>311,419</b>	<b>294,760</b>

## **Auditor's Report**

We have audited the annual financial statements of United Internet AG, Montabaur – comprising the balance sheet, income statement and notes to the financial statements – as well as the bookkeeping system and management report for the Company and the Group for the fiscal year from January 1, 2006 to December 31, 2006. The bookkeeping system and preparation of the annual financial statements, as well as the management report for the Company and the Group, according to German commercial law regulations are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report for the Company and the Group, based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB and the generally accepted standards for the audit of financial statements in Germany promulgated by the "Institut der Wirtschaftsprüfer" (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report for the Company and the Group are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping, annual financial statements and management report for the Company and the Group are examined primarily 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 annual financial statements and the management report for the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements comply with legal regulations and give a true and fair view of the Company's net assets, financial position, results of operations and cash flows for the fiscal year in accordance with principles of proper accounting. On the whole, the management report for the Company and the Group provides a suitable understanding of the Company's position and suitably presents the opportunities and risks to future development.

Eschborn/Frankfurt am Main, March 6, 2007

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

Bösser	Grote
Wirtschaftsprüfer	Wirtschaftsprüfer