



**United Internet AG,  
Montabaur**

**Management Report  
and  
Group Management Report  
for Fiscal 2005**

## Management Report

### Highlights 2005

- **Acquisition of WEB.DE AG portal business:** with a reach of over 50%, United Internet has become the new market leader among Germany's internet portals.
- **Over 5 million customer contracts reached for the first time** following the integration of WEB.DE's portal business. The number of customer contracts reached the level initially planned for 2008 already in December 2005.
- **Strong growth in DSL and DSL telephony:** the number of DSL access customers grew by 710,000 to 1.76 million in 2005. In the field of DSL telephony we already completed over 300 million telephone minutes per month in December 2005 (prior year: 25 million).
- **Successful international expansion:** our international business now accounts for € 144.0 million of total consolidated revenue (prior year: € 118.4 million). The number of customer contracts outside Germany grew by 62% to over 600,000.
- **Strong improvement in key financials:** year-on-year sales growth of 57% to € 801.5 million and 44% rise in pre-tax earnings to € 101.0 million.

## Economic environment

### More upbeat economic climate

The global economy was generally more upbeat in 2005. According to calculations of the International Monetary Fund, there was global economic growth of 4.3% in 2005. A growth figure of 1.5% is expected for the Euro zone. According to preliminary calculations, the German economy grew by 0.9%. Although this is somewhat less than in 2004 (1.6%), the general mood among companies and consumers improved greatly during the past year.

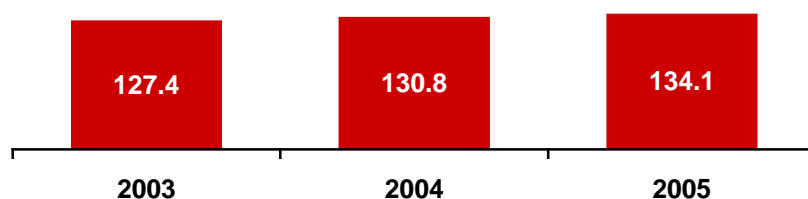
The German economy was driven by exports again in 2005. With growth in foreign sales of 6.2%, Germany once more proved to be the world's leading export nation. Meanwhile, the country's domestic economy continued to flounder with modest growth of just 0.2%. This was mainly due to the continuing slump in consumer spending, which has now lasted since 2001. According to the Federal Statistics Office, this can be attributed to the first decline in real salaries since 1992. In the period under review, there was also no visible improvement in the country's labor market.

### Tough competition among telecommunication services

According to preliminary calculations of the German Association for Information Technology, Telecommunications and New Media (BITKOM), the German market for information technology and telecommunications (ITC) grew by 2.6% in 2005 to €134.1 billion. The overall market thus grew at the same pace as in the previous year. Owing to strong competition among landline and mobile telecommunication providers, however, growth fell somewhat behind initial forecasts. The fact that the ITC market grew more than twice as fast as the overall economy, is further proof of the sector's ongoing dynamic development.

Software vendors and IT service providers posted strong sales, benefiting from higher company spending on IT infrastructure upgrades. According to BITKOM estimates, the software market for systems and application programs grew by 4.5% over the previous year to stand at €16.1 billion in 2005. BITKOM believes that IT outsourcing made a strong contribution toward the segment's positive development.

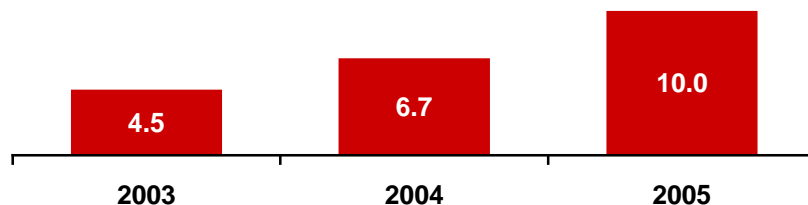
### German ITC market 2003-2005 (in million)



The German DSL market also continues to boom. According to BITKOM calculations, there were some 10 million users of these high-speed internet connections in Germany at year-end 2005 – an increase of 50% on year-end 2004. Every fourth German

household now boasts a DSL connection and a growing number are changing their slow access speeds for newer, faster offers. Users are also exchanging their previous time or volume-based tariffs for flat rates.

German DSL market 2003-2005 (in million)



Other market segments in which we operate are also profiting from the global boom in fast internet connections. The growing spread of broadband access amongst private households enables Internet Service Providers (ISPs), like United Internet, to offer innovative, more data-intensive products and services – such as internet telephony, video-on-demand, web-based office applications or (in future) internet TV. Users can access these services without any noticeable fall in performance. The advent of 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 high-resolution video clips.

We therefore benefit 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 over 5 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 pure 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.

### **Successful international expansion**

We continue to make strong progress in our international expansion. Group companies already operate their own subsidiaries in 15 different nations. In the period under review, non-German sales contributed €144.0 million (prior year: €118.4 million) to total consolidated revenues of €801.5 million.

In our Product segment, we operate in Germany, the UK, France, Austria and the USA. In 2005 we raised the number of non-German customer contracts from 370,000 (as of December 31, 2004) to over 600,000 (as of December 31, 2005). In our Outsourcing segment, we operate ten facilities in eight European nations: Sweden, the UK, Poland, the Netherlands, Germany, Italy, Spain and the Czech Republic. The international presence we have achieved in the Online Marketing segment is a key element of our overall concept, which we will continue to develop in future. In 2005, for example, affilinet entered the UK market and completed its penetration of Europe's three most important nations with the acquisition of CibleClick in France. In addition to the USA, our brands are represented in eleven European countries (Sweden, Denmark, Ireland, the UK, the Netherlands, Belgium, Germany, France, Switzerland, Italy and Spain).

### **WEB.DE strengthens its market standing**

On March 16, 2005 we announced our intention to acquire the portal business of WEB.DE AG for a cash consideration of €200 million as well as 5.8 million United Internet AG shares. The contracts were signed on May 13, 2005. The cash component was financed from liquid funds and bank loans running up to three years. Following approval from the Supervisory Boards of both companies and the annual shareholder meeting of WEB.DE AG, as well as from the respective antitrust authorities, the contracts were closed on October 31, 2005. WEB.DE was consolidated within the United Internet Group in November 2005. With its acquisition of the WEB.DE portal, United Internet became the leading German internet portal. The WEB.DE portal also provides us with a new and exclusive sales channel for our products. Moreover, we aim to leverage the numerous synergy opportunities, for example by adopting successful online formats or utilizing content for various portals.

### **America's Cup generates high awareness**

On April 2, 2005 we announced that United Internet was to make its first venture into the field of sports sponsorship as the main sponsor of the "United Internet Team Germany" for the America's Cup 2007. To this end, we re-allocated part of our marketing budget. The "United Internet Team Germany" is the first German challenger to ever compete in the famous sailing regatta since it was started in 1851. The America's Cup and the qualifying rounds in the form of pre-regattas and the Louis Vuitton Cup promise global media coverage for United Internet and its brands in the coming years. In addition to the TV advertising campaign launched this year, the

sponsorship deal represents a key element of our brand-building strategy. The America's Cup will be the most important and keenly followed global sporting event of 2007 – together with the Tour de France. Competitive sailing fits perfectly to the internet business and sport sponsoring is now an integral part of our marketing strategy. The America's Cup represents an ideal opportunity for the company, especially with regard to our growing international presence. Our mass-market brands 1&1, GMX and WEB.DE will feature prominently on the team's advertising surfaces and thus be highly visible for spectators. Moreover, companies and private users around the world will gain awareness of United Internet and its brands through press and electronic media reports about the America's Cup and its qualifying races. In future, our internet brands will not only appear in special-interest magazines, but also in sports and business publications. Germany's two major public broadcasters, ARD and ZDF, have already secured extensive coverage rights. As a consequence, awareness of our brands will grow strongly and we can reach whole new target groups. In addition to this media coverage for our mass-market brands, we will have the possibility to invite our B-to-B customers to experience this unique event in Valencia.

## Segment development

### Product segment posts 70% increase in sales

The United Internet Group's dominant business is its Product segment with the brands GMX, WEB.DE, 1&1 and Schlund+Partner, which together account for 76% of total sales.

Financial figures of Product segment:

In € million	31.12.2004	31.12.2005	Change from prior year in%
Sales	356.7	606.8	+70.1
EBITDA	98.4	112.7	+14.5
EBT	75.3	92.9	+23.4

Quarterly development:

In € million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q4 2004
Sales	113.7	131.3	161.4	200.4	99.0
EBITDA	26.2	21.8	29.7	35.0	22.7
EBT	22.8	18.2	26.7	25.2	16.3

In fiscal year 2005, sales in this segment grew by 70% to €606.8 million (prior year: €356.7 million). EBITDA improved by 15% to €112.7 million (prior year: €98.4 million),

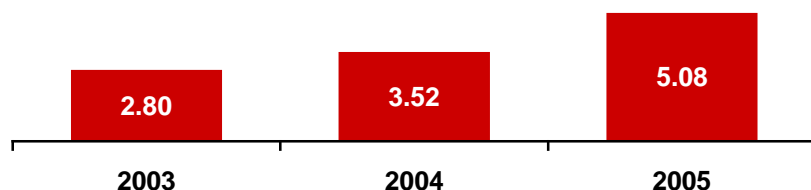
while EBT reached €92.9 million (prior year: €75.3 million, growth of 23%). The number of employees in this segment amounted to 2,313 (prior year: 1,636), corresponding to growth of 41%.

Despite high expenses for our US market entry and increased marketing for our DSL resale business, the EBT margin amounted to over 15%. Our very healthy key financials reflect the dynamic growth of our customer base. As of December 31, 2004 we had over 5.08 million fee-based customer contracts (year-end 2004: 3.5 million).

These are divided among the three product lines of our Product segment:

- Information Management:  
E-mail solutions, messaging, address management, 0700 numbers
- Webhosting:  
Domains, home pages, dedicated servers, e-shops
- Internet Access:  
DSL and narrowband connections

Customer contracts in million



#### **44% growth in customer contracts in the Product segment**

Divided according to product lines, the customer contract figures comprise 0.99 million contracts in the field of Information Management, 2.11 million in Webhosting (of which 0.60 million outside Germany) and 1.98 million in Internet Access (of which 1.76 million DSL). The marketing of our own DSL connections also made good progress: since launching on July 12, 2004 we have already sold 960,000 DSL connections as of year-end 2005.

In addition to our strong organic growth, the acquisition of WEB.DE's portal business also contributed to our net growth in customer contracts of 1.58 million. The Information Management product line benefited in particular from the addition of 530,000 WEB.DE club users.

## Customer contracts by product line

Customer contracts in million	31.12.2004	31.12.2005	Change from prior year in%
Information Management	0.38	0.99	+160.5
Webhosting	1.80	2.11	+17.2
thereof Ausland	0.37	0.60	+62.2
Internet Access	1.34	1.98	+47.8
thereof DSL	1.05	1.76	+67.6
Total	3.52	5.08	+44.3

### Leading supplier of internet advertising

We succeeded in cementing or expanding our position as leading supplier in nearly all our target markets. With 17.8 million active users, the United Internet AG portals (GMX, WEB.DE, 1&1) are used by 50.1% of all Germans online. According to the current "Internet Facts 2005-II" 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.

### Market leader in webhosting

With more than 2.1 million hosting contracts and over 30,000 hosted servers, United Internet is one of the world's largest webhosters. In our foreign markets, we succeeded in enhancing our position as leading supplier of internet services. According to our own calculations, we are the market leader in webhosting in both Germany and the UK and have already reached seventh position in the USA (market entry January 2004) and sixth place 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 6.5 million domains, of which 3.4 million were with the German top-level domain .de.

### No. 2 in DSL with 1.76 million contracts

With 1.76 million DSL customer contracts, United Internet is second only to T-Online in Germany. Based on BITKOM estimates of 10 million DSL connections as at year-end 2005, we control some 17.6% of the total market. In the period under review, the number of customer contracts grew by 710,000. 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 960,000 connections, of which 760,000 were in 2005.

We have also achieved a leading position in the German VoIP market, with over 300 million internet telephony minutes per month. We have thus already reached the level of smaller classic phone companies – just 18 months after roll-out.



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

**GMX** targets private users with its e-mail and DSL products. With some 23 million member accounts and 140 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 and products for fast internet access.

In fiscal year 2005, GMX focused on the following developments:

- April 2005: With the launch of "GMX Partner", every GMX customer can now receive attractive cash prizes for the acquisition of new GMX customers.
- June 2005: Launch of "United Internet Media", the marketing cooperation of GMX, WEB.DE and 1&1. According to AGOF, United Internet Media is Germany's largest online media marketer.
- September 2005: Product roll-out of the provider-independent DSL telephony flat rate – GMX offers all DSL users the possibility to make calls to German landline numbers around the clock for zero cents per minute with its GMX Phone Flat tariff.

## **Germany's No. 2 portal WEB.DE now on board**

**WEB.DE** is Germany's second largest portal with 12.4 million internet users. In addition to its free basic services, WEB.DE also offers fee-based products – including the popular WEB.DE Club.

After closing the acquisition agreements in November 2005, the following significant activities were implemented in the year-end business period:

- November 2005: WEB.DE began marketing 1&1 DSL. Users registering for 1&1 DSL via a link on the WEB.DE page are able to save on both hardware and set-up costs. WEB.DE Club membership is also provided free for one year.
- December 2005: WEB.DE launched a games portal with integrated game search functionality. The portal offers a large number of attractive game downloads for PC and cell phone as well as the possibility to search for specific games.

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

**1&1** targets discerning private users and SOHOs 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. 1&1 products are marketed through our own GMX and WEB.DE portals, as well as via magazine and TV advertising. 1&1 also uses indirect sales channels, such as specialist retailers, its network of customer advisers and over 280,000 part-time sales agents – the 1&1 ProfiSellers.

In fiscal year 2005, 1&1 focused on the following developments:

- January 2005: 1&1 Internet AG launched its own content portal. The content for twelve topic areas is provided by publishing partners, news agencies, specialist providers and our own team of journalists.
- March 2005: The new DSL telephony product generation offers more numbers, more comfort and more functions than previous VoIP solutions and now exceeds the features offered by ISDN phone connections for the first time.
- March 2005: With the launch of 1&1's DSL price campaign, flat rates become the new standard for all user types and DSL speeds. For the first time, DSL telephony is offered with a phone flat rate.
- May 2005: Web test weeks for SMEs – following the USA and UK markets, 1&1 also offered its free test hosting for companies in Germany.
- September 2005: The new 1&1 servers are supplied with pioneering 64-Bit AMD processors and 64-Bit operating system.
- November 2005: Anyone ordering a new DSL connection with the 1&1 Phone FLAT tariff or changing to 1&1 before December 31, 2005, can place calls to German landline numbers free of charge for one year.

### **Schlund + Partner: the SME specialist**

Our premium **Schlund+Partner** brand is aimed mainly at small to mid-size companies (SMEs). Our company's products are marketed directly and via a comprehensive network of over 6,700 partner agencies, who offer Schlund+Partner customers tailored, on-site services.

Major topics in fiscal year 2005 included the following:

- March 2005: Online Offices for companies – the Online Office packages consist of the carefully coordinated components: DSL access, groupware/messaging, webhosting and DSL telephony.
- March 2005: Attractively priced DSL telephony for SMEs. The "Fritz!Box Fon ISDN WLAN" hardware solution enables users to connect existing analogue phones, as well as ISDN devices and ISDN phone systems for the first time.
- December 2005: Rollout of .eu-domains. "Sunrise-Phase 1" ushers in the new .eu internet addresses.

### **Outsourcing segment: activities pooled**

The trend toward outsourcing non-core activities is growing around the world. United Internet is also successful in this market. Our Outsourcing segment works on behalf of other companies who serve end customers. InterNetX is works for other webhosters, twenty4help acts as a service provider for major companies in the field of CRM. In early

2005 we acquired an 80% stake in InterNetX and at the same time merged Schlund Technologies into it. All reselling activities of United Internet are now managed by InterNetX.

Market growth was generally modest in our Outsourcing segment in fiscal year 2005. Despite strong competition, however, we were able to raise sales revenues by some 5% to €88.6 million (prior year: €84.3 million). Outsourcing thus contributed 11% to United Internet's total revenues. Whereas EBITDA remained fairly constant at €12.2 million (€12.4 million), EBT improved by 9% to €5.9 million (€5.4 million). This improvement in earnings was primarily the result of measures introduced at twenty4help to raise profitability, following a weak second quarter in 2005. A total of 2,912 people (prior year: 2,669) were employed in our Outsourcing segment last year.

Financial figures of Outsourcing segment:

In € million	31.12.2004	31.12.2005	Change from prior year in%
Sales	84.3	88.6	+5.1
EBITDA	12.4	12.2	-1.6
EBT	5.4	5.9	+9.3

Quarterly development:

In € million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q4 2004
Sales	23.2	21.4	21.2	22.8	20.9
EBITDA	3.9	2.4	2.8	3.1	4.5
EBT	2.2	0.7	1.2	1.8	2.7

### **InterNetX – the providers' provider**

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

- In fiscal 2005 InterNetX focused on integrating Schlund Technologies and gaining further sales partners. The company currently serves some 14,200 resellers (prior year: 10,000), for which it hosts over 1.1 million domains and some 600 servers.
- In the past year, the company launched a reasonably priced solution (IX-TKÜV) for all those ISPs which need, or wish, to adhere to the German Telecommunications Interception Ordinance (TKÜV) and are unable to create their own solution. Introduced in January 2005, the TKÜV specifies the interception possibilities of internet communication provided for in Germany's

Telecommunications Act. For example, providers with over 1,000 customers must have the technical capability to intercept e-mail traffic in order to be able to implement court orders within 24 hours – or for those with over 10,000 customers, within six hours.

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

Under the **twenty4help** brand, we offer major corporations an extensive range of CRM services. Our customers include international blue chip companies, such as Microsoft, Lexmark and Sun. twenty4help operates ten facilities in eight European nations. Over 2,500 employees answer technical enquiries in 22 languages by phone, e-mail or chat.

- In the period under review, twenty4help focused in particular on implementing various measures to raise profitability. The implementation of further measures will last well into fiscal year 2006.
- In 2005 twenty4help also reached key quality management targets: namely the re-certification of various facilities according to ISO 9001:2000 and COPC-2000®. After a successful auditing process, twenty4help is now one of the sector's few operators which fulfills both the ISO 9001:2000 and COPC-2000® quality standards.

### **Online Marketing growing strongly**

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 April 2005 we sold our stakes in affilinet and Sedo for around €30 million to AdLINK while providing finance for the deal at standard market rates. The sale means that our entire activities in the field of third-party website marketing are now managed by AdLINK. The integration means that affilinet and Sedo have gained access to AdLINK's pan-European sales organization and advertising client base, making their own international expansion even more effective. AdLINK is now also able to offer advertisers and agencies a full range of online marketing services from a single source and thus help them optimize the digital marketing mix of their advertising budget.

As a result of this integration of affilinet and Sedo, as well as the strong growth of online advertising, sales rose strongly by 55% – from €68.6 million to €106.0 million. The Online Marketing segment accounted for 13% of the United Internet Group's total sales. EBITDA more than doubled to €8.2 million (3.9 million) while EBT improved from €-0.2 million to €6.2 million. As of December 31, 2005 the segment employed 299 people (prior year: 238).

Financial figures of Online marketing segment:

In € million	31.12.2004	31.12.2005	Change from prior year in%
Sales	68.6	106.0	54.5
EBITDA	3.9	8.2	102.6
EBT	-0.2	6.2	

Quarterly development:

In € million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q4 2004
Sales	21.0	24.8	25.3	34.9	23.8
EBITDA	1.4	1.7	1.5	3.6	1.6
EBT	1.4	1.7	1.2	1.9	1.1

### **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 5.6 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 2005:**

- AdLINK Internet Media AG acquired affilinet and Sedo in April 2005 and integrated them into the AdLINK Group.
- At year-end, monthly page impressions had reached 5.6 billion, compared with 4.1 billion in the previous year.
- Major-name websites, such as Autoscout24 (Italy), easyCinema (UK) and Telenet (Belgium) were added to the advertising platform.
- A number of major new advertising partners, such as Alitalia, CenterParcs, Accor Hotels and TomTom were also acquired.

### **Sedo manages 3 million parked domains**

**Sedo** operates the global domain trading platform "sedo.com", which currently trades 3 million domains. In its "domain parking" business, Sedo markets some of these domains

to advertisers on behalf of the domain owners (domain marketing). Sedo takes a share of the revenues generated from marketing on a pay-per-click basis.

### **Highlights 2005:**

- Sedo is named as global market leader for internet domain trading: according to a study of the US publication “DNJournal.com”, Sedo is clearly ahead of its rivals with a global market share of 41%.
- Sedo’s expansion to the UK and US markets makes further progress. The number of active and marketable domains in these countries grew by over 50%, from 330,000 to a current figure of 500,000. Sedo thus currently administers some 780,000 marketable domains around the world (prior year: 400,000).
- Successful launch of SedoPro.com. This premium domain parking product is aimed at professional domain parkers seeking to raise their revenues even further. SedoPro gives parking professionals more freedom in designing their website and offers more detailed statistical analysis.

### **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 2005**

- The expansion of the partner network was continued as planned in 2005. The number of monthly page impressions rose from 2.5 billion to over 3 billion, while the number of affiliate websites increased from 190,000 to over 290,000.
- There was also an increase in the number of affiliate program operators, from 600 to over 770. The new partners included Mobile.de, GE Money Bank, ADAC, ElectronicScout24 and BASE.
- In December 2005, affilinet acquired a 71% stake in CibleClick, which will be increased in a second step to 75% in 2006. CibleClick operates France’s leading affiliate network and serves over 200 advertising clients (affiliate program operators) and over 25,000 websites (publishers). Together with its subsidiaries in Germany and England (entry in November 2005), affilinet is now represented in Europe’s three most important markets.

## **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 200 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 2005 we successfully launched a large number of new or modified products. These focused mainly on DSL and DSL telephony, as well as webhosting and order processes for new sales channels.

### **DSL and DSL telephony raise the pace**

In late 2004, a technological development was started which made internet telephony via DSL more interesting for the mass market: the transition from computer to DSL modem (Fritz!Box). At a stroke, this enhanced the user-friendliness of the service dramatically, as it allowed the use of standard phones rather than the more awkward headset and PC method. In 2005 we successfully enhanced these benefits with further features which were previously only possible with expensive ISDN telephones. Developed together with our partner AVM, the hardware is more sophisticated and allows up to four additional numbers, as well as holding and switching between calls and conferences with several callers. We have also added functions such as a digital answering machine on the internet and video calls. As of May 2005, we can now allocate our own 1&1 phone numbers throughout Germany. With the City and Germany flat rates, we also created attractive offers to replace the formerly widespread volume-based or time-based tariffs. The new DSL tariffs and phone features were also introduced for other brands (GMX, Schlund + Partner) during the course of the year. There were also tremendous increases in the speed of our DSL connections in 2005: in June, 1&1 was the first provider to launch 6,000 kBit connections and since year-end 2005 our customers can also order ADSL2+ connections with a speed of 16,000 kBit/s.

### **Webhosting enables live site design**

In the webhosting market, we launched content modules and further features for the design of "live" websites in 2005.

In early 2005 Schlund+Partner's configuration menu was revamped and upgraded with 1&1 features. The new standardized platform enables us to quickly establish new functions in various domestic and foreign markets. The platform also facilitated the roll-out of Webhosting 5.0 in France toward the end of the year. For many webhosting customers, the introduction of automated 1&1 content modules represented a major step into the future. It enables also smaller customers to present topical content on specific topics for the first time. This was previously only possible for major portals. Together with other features, such as a flash generator, a multimedia archive, an SMS manager and spam labeling for e-mails, customers can now make their websites even more interesting. The content modules were launched in Germany in April and in our international markets in June.

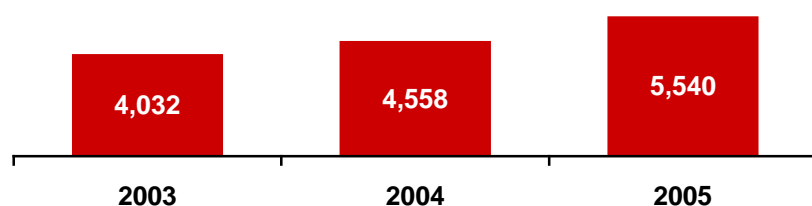
### **Expansion of indirect sales channel**

With the launch of its own DSL connections with DSL telephony, United Internet now targets a much wider group of users than in the past. In 2005, therefore, we decided to expand our range of indirect sales possibilities. We aim to be pick up on user needs and turn them into reality. In terms of development projects, this involved primarily the provision of order administration tools. For GMX we developed the program GMX Partner, an adapted variation of the successful 1&1 ProfiSellers. We have also started to target specialist retailers as a new sales channel.

### **Personnel**

In fiscal year 2005, the United Internet Group employed a total of 5,540 people – an increase of 22% over the previous year. There were 2,313 employees in the Product segment, 2,912 in the Outsourcing segment, 299 in the Online Marketing segment and 16 employed at the Group's headquarters. Our non-German subsidiaries employed 1,831 people (prior year: 1,720). Personnel expenses rose by 14% to € 146.1 million.

Employees:





Employees outside Germany:



### **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. The amount of both remuneration elements is regularly reviewed. 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. Payment is made after the annual financial statements have been adopted by the Supervisory Board.

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 €1k for every cent which exceeds the consolidated earnings per share value of €0.50 for United Internet AG, calculated according to IFRS.

## Results of operations, financial position and net assets

### Strong growth in consolidated sales and earnings figures

Consolidated key figures:

In € million	31.12.2004	31.12.2005	Change from prior year in%
Sales	509.7	801.5	+57.2
EBITDA	109.1	128.9	+18.1
EBT	70.4	101.0	+43.5

Quarterly development:

In € million	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q4 2004
Sales	157.9	177.5	207.9	258.2	143.8
EBITDA	30.4	25.2	32.1	41.2	27.4
EBT	25.5	20.2	27.5	27.8	15.9

United Internet can look back on a very satisfactory fiscal year 2005. All key figures were well up on the same period last year. Sales revenues grew by 57% to €801.5 million (prior year: €509.7 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 greater broadband and internet usage. The Product segment made the largest contribution toward sales growth: sales in this segment grew strongly as many new DSL customers not only subscribed to our DSL tariff, but also to our network connection, internet telephony and additional services such as security packages. This trend underlines the shrewdness of our strategic decision for DSL resale: the sale of connections and access tariffs from a single source creates a stronger link with our customers, helps us to cross-sell additional products and promises stable customer relationships and growing revenues for the future. We have thus taken a major step toward our vision of offering one-stop shopping for all major communication needs.

Consolidated gross margin fell from 45.3% in the previous year to 41.5% for the period under review. The main reason was the strong growth in new customers and the changed product mix. In comparison to previous years, there was a particularly strong increase in new customers during 2005, especially in the field of DSL, whereby the additional revenues from DSL connections offer lower margins. Of greater significance, however, was that the nominal result per customer was up on “pre-resale” periods. 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 new DSL resale contracts, sales and marketing expenses also grew from €101.6 million to €176.5 million. This represents 22% of sales, compared

with 19.9% in the previous year. This increase resulted mainly from customer acquisition costs, which are directly expensed. Administrative expenses grew more slowly than sales, from €44.3 million (8.7%) to €57.2 million (7.1%). EBITDA rose by 18.1% to €128.9 million (prior year: €109.1 million), while EBT improved by as much as 43.5%, from €70.4 million to €101.0 million. This increase is all the more gratifying as it was achieved despite the high level of new customer acquisition for DSL (plus 710,000 vs. 400,000 in the previous year). There were also no scheduled goodwill writedowns in fiscal 2005. In the period under review, our business model successfully proved that growth does not have to be bought at the expense of profitability. This was clearly underlined by the stable growth of our earnings.

## **Cash flow and capital expenditures**

The Group's growing profitability is reflected by its cash flow from operating activities, which grew to €91.0 million (prior year: €76.9 million) – despite high expenses for DSL customer acquisition.

In spite of a strong expansion of business, net cash flow from operating activities grew to €125.5 million (prior year: €93.8 million). The reason was a strong increase in trade payables due to Deutsche Telekom AG and the rise in other liabilities as of the balance sheet date due mainly to accrued sales tax.

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 €232.5 million (prior year: €25.6 million). A major factor was the acquisition of the portal business of WEB.DE AG in 2005. There was also a planned expansion of our infrastructure and server capacities. Investments in tangible and intangible assets without the effect of the WEB.DE acquisition grew to €30.3 million (prior year: €22.7 million) and thus reflect the steady organic growth in this item. In the Online Marketing segment, we invested primarily in the field of affiliate marketing and here especially for the organic growth of our brand in the UK and the acquisition of the French affiliate network CibleClick.

As part of the finance for the acquisition of WEB.DE's portal business, United Internet AG was granted a syndicated loan totaling €125 million due within a period of up to three years. Cash flow from financing activities was dominated mainly by the partial recourse to this loan amounting to €80 million as of the balance sheet, as well as by the dividend payment.

## **Assets and equity**

Due to the WEB.DE acquisition, the United Internet Group disclosed net indebtedness of €47.0 million as of the balance sheet date (prior year: net bank balance of €71.3 million). The Group's equity ratio amounted to 45.9% (prior year: 40.3%). The acquisition also resulted in a significant shift in the Group's asset structure: the consolidated balance sheet total rose from €258.5 million to €643.8 million, of which €253.5 million was goodwill (prior year: €25.6 million). The overwhelming portion of this rise resulted from the purchase of WEB.DE's portal business. As the acquisition was partly an asset deal, intangible assets rose from €7.0 million to €145.5 million. This will be mostly amortized over the coming years and offset from tax, resulting in a

reduction in both earnings and tax payments. The WEB.DE portal acquisition also affected the Group's overall asset structure: the proportion of non-current assets grew from 34.3% to 72.7% in 2005.

## **Dividend**

At the Annual Shareholders' Meeting on May 18, 2005, 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 20 cents per share. The payment of €11.2 million in total was effected on May 19, 2005. A dividend payment is once again planned for the fiscal year 2005: the Management Board and Supervisory Board will propose a dividend of 25 cents per share at the Annual Shareholders' Meeting in June.

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

In the period under review, sales of the parent company amounted to €12.9 million (prior year: €2.5 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. Other operating income rose to €59.4 million (prior year: €5.9 million) and resulted mainly from income from the sale (Sedo and affilinet) and the contribution of a subsidiary to other consolidated companies.

EBT of the parent company amounted to €141.7 million (prior year: €82.3 million). The disclosed EBT figure is influenced strongly by profit transfer agreements with 1&1 Internet AG and twenty4help AG, as well as by the abovementioned other operating income. Bank liabilities of United Internet AG result from a revolving syndicated loan in connection with the acquisition of WEB.DE's portal business, €80 million of which had been drawn as of December 31, 2005 (prior year: €0). The equity ratio amounted to 78.0% as of the balance sheet date (prior year: 90.5%).

## **Investments**

In addition to its core business in the Product, Outsourcing and Online Marketing segments, United Internet also holds investments in two other companies. Both fun communications GmbH and NT plus AG posted positive operating results in 2005. The company's stake in Metropolis AG was sold in 2005.

## **Subsequent events**

The positive conditions and dynamic growth of those target markets of relevance to United Internet remain unchanged in 2006.

In January 2006 we expressed our interest in marketing fast DSL connections (VDSL) capable of providing speeds of up to 50,000 kBit/s. We believe this is important, as the market will develop toward ever greater bandwidths in future with increasingly powerful, multimedia applications. We have therefore held preliminary talks with potential technology partners and are confident that we can offer these fast connections by the end of the year.

The integration of WEB.DE's internet portal business acquired in October 2005 is running according to plan. In the first few weeks of 2006, WEB.DE employees already moved into the office buildings of 1&1, Schlund + Partner and GMX. Further steps, such as technical integration, are more medium-term projects and will be completed successively over the next few years.

At the beginning of the year, we made a further noticeable increase to our US marketing budget as we are currently generating excellent growth rates with acceptable customer acquisition costs in the USA. We aim to exploit this situation further in future. We have therefore consciously decided in favor of even faster customer growth and against achieving break-even at an earlier date. After achieving critical mass in customer contracts, and thus successfully establishing ourselves in the USA, we now plan to set up or acquire our own data center there in 2006. We expect to achieve considerable cost benefits when we no longer need to pay high lease and energy expenses for our rented locations. Investments for our US data center are expected to amount to approx. €5 to 7 million.

In January 2006 our Outsourcing brand twenty4help opened a branch in Liberec, Czech Republic. In future, we will also be able to serve our major clients in Eastern Europe with faster and more economic support services.

January 2006 also saw the foundation of United Internet Media AG, Montabaur. The company will centrally market the Group's own portals 1&1, GMX and WEB.DE and offer advertising partners in Germany and Europe a high-reach advertising and e-commerce network via the online media network AD Europe.

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

## **Risk report**

### **Risk management observes several 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 risk management system aims to:

- improve risk awareness and transparency;
- identify, monitor and control all major risks in an appropriate way;

- show any build-up of risk and provide reliable management information on the company's risk situation.

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

- Risk management is carried out primarily 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 is 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 regularly 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 respective subgroups and associated companies 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 risk inventory and evaluation process is to be carried out once per year. Should the evaluation indicate the necessity for monitoring, appropriate measures to deal with the risk and monitor its development are to be undertaken and included in the quarterly report. Where necessary, the Management Board or General Manager of a subgroup or associated company shall inform the Supervisory Board at the respective Supervisory Board meeting. Risks requiring close monitoring are to be reported to the central risk manager. 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.

If pre-determined threshold values of the early-warning indicators are exceeded, the related circumstances and necessary countermeasures are documented. A management circle on the subject of risk management continues to exist. This group is responsible for regularly developing and adapting 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**

#### **Acceptance of the internet**

The success of United Internet depends on demand for high-quality internet applications and technical value-added products. Forecasts about the general acceptance of the internet and its continued expansion into all areas of private, commercial and public sector life cannot be made with certainty. Serious security problems may result in a loss of trust in the internet and thus cause a decline in its use as a medium. There is every indication, however, that the internet will continue to penetrate all areas of social life.

#### **Regulations/politics**

In the field of internet access, the decisions of the Federal Network Agency 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. Political decisions, such as the planned sales tax increase or the current EU Council discussions concerning the introduction of software patents, may also negatively impact our business. United Internet attempts to counter the risk of regulation by cooperating with several partners for the services/infrastructure required for our DSL business. With regard to discussions about the introduction of software patents, we undertake targeted lobbying and actively support the information campaign against "damaging software patents".

### **Operating risks**

#### **Competition and market**

The German DSL market is currently experiencing a strong growth and market share allocation phase. Competition is expected to intensify, especially town network operators, cable network operators and other network operators with their own infrastructure. There is a risk that the achievable level of end-user prices may 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, 1&1 and Schlund+Partner in order to attract new customers and to provide existing customers with top-quality and innovative value-added internet services. 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.

### **Infrastructure/software systems**

The services and internal business processes of United Internet are based on a 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 and external attacks. In particular, there is the risk of an attack from hackers, for example, or PC viruses which might affect the availability and security of data. 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. Despite such extensive data backups, however, the downtime of our data center in Karlsruhe could result in considerable damage to our operating business, as the server and computer capacities cannot be replaced at short notice.

### **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.

### **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 and make attracting new customers more difficult.

## **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 could be made liable for such abuse of its responsibilities.

## **Financial risks**

### **Exchange rate**

As an increasingly international company, United Internet is subject to the risk of exchange rate fluctuations. The most significant revenue flows outside the euro zone are in British pounds and US dollars. The development of our international business and cooperations is influenced by the specific risks of the respective countries. The Group does not currently hedge against such currency risks with the aid of derivative financial instruments.

### **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 15 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 prove more difficult or expensive than planned, this may have a negative impact on the profitability and financial position of United Internet. Despite extensive due diligence audits prior to acquisition, such risks cannot be completely excluded.

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

Of the individual risks mentioned above, we believe that the risks with regard to competition/market, infrastructure/software systems are currently the most relevant. They are therefore closely monitored by our risk management system and by the local managers responsible for these issues. We judge their probability to be low to moderate. We judge the external, legal and financial risks as less relevant for the Group as a whole. On the basis of our analysis of individual risk positions, we can state that United Internet AG is not currently subject to any influences which directly jeopardize its continued existence and that the risk of discontinuation can therefore be regarded as low.

## **Outlook**

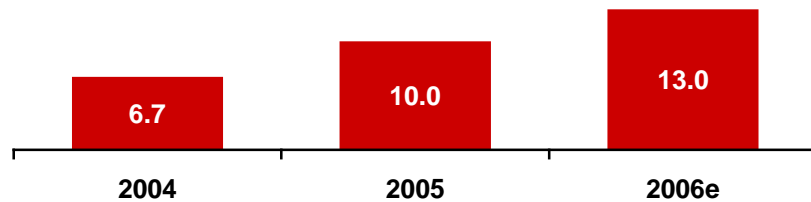
### **Good prospects for 2006**

Economists expect further robust growth of the global economy in 2006. The International Monetary Fund, for example, forecasts growth of 4.3% for the global economy in 2006. In Europe, almost all major German economic research institutes forecast growth of around 2% for the Euro zone. The Federation of German Industries (BDI) is also optimistic about the prospects in Germany and expects economic growth of 1.5% to 1.8% in 2006. According to the BDI, exports will continue to drive any upturn in the German economy. Nevertheless, there are also encouraging signs of a gradual improvement in domestic demand. The trade association BITKOM expects the German ITC sector to make good progress in 2006. According to BITKOM calculations, the German ITC market will grow by 2.4% to €137.3 billion in 2006. Germany's mid-size suppliers of information and communication technology are also upbeat about the current year. In a survey carried out among the association's SME members, 72% of companies questioned said they expected increased sales in 2006. Only 13% expected a fall in sales.

### **Ten-fold increase in bandwidth by 2010**

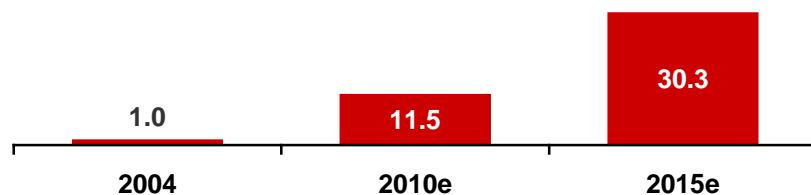
According to the study "Germany Online 3 – The Future of Broadband Internet", information technology and telecommunications will account for around 12% of Germany's gross domestic product by the year 2015 – roughly twice its current proportion. The internet is expected to cement its position as a key electronic medium, alongside TV and radio.

DSL growth in million



In addition to increasing household penetration, the speed of internet connections will also continue to rise. "Germany Online 3" forecasts that the average available bandwidth of broadband internet connections will grow ten-fold by around 2010, from its current level of 1 MBit/s. By the year 2015, users can expect average bandwidth of around 30 MBit/s.

Development of bandwidth (in MBit/s)



The ongoing boom in broadband connections also positively impacts 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 and marketing brands, such as AdLINK, Sedo and affilinet, will be able to use increasingly data-intensive advertising formats.

### **Growth opportunities still attractive**

Our business model continues to benefit from fast growing and highly promising internet markets:

According to the trade association BITKOM, the German broadband market will grow by 30% from 10 million DSL customers at present to over 13 million in 2007. Even stronger market growth is predicted by the research institute IDC for VoIP solutions. The market for "managed webhosting" continues to grow strongly, albeit not quite at the rate internet analysts once forecast. According to Frost & Sullivan, sales in Europe will grow to

US\$ 2.5 billion in 2007, with average growth rates of around 30%.

Following some difficult years, the online advertising market has now also developed into a highly dynamic growth market. In the USA, online advertising expenditure grew by over 30% to €10.6 billion last year. Jupiterresearch forecast growth of 39% to €3.2 billion for the European advertising market in 2005. After growth of 60% to €885 million for the total German online market in 2005, rising sales are also expected in the coming years. BVDW expects that online marketers will break through the €1 billion barrier in 2006 and reach sales of around €1.3 billion.

Thanks to our successful positioning in these growth markets, we expect good growth opportunities once again in 2006 – especially in our Product and Online Marketing segments.

### **Extra boost 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 excellent 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. Following the successful acquisition of WEB.DE's portal business in November 2005, we will be able to benefit from considerable synergy potential in 2006 and beyond, as well as from additional sales and marketing opportunities. Owing to its tremendous reach, coupled with innovative advertising technology and expected market growth, United Internet Media – the marketing cooperation of our portals GMX, WEB.DE and 1&1 – can also look forward to a successful financial year in 2006.

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

The same applies to our Online Marketing business: in view of the segment's strong progress in 2005 and the dynamic development of the online advertising market, we expect further strong growth in sales and earnings in future. The pooling of our resources under the AdLINK label completed in 2005, is expected to add further impetus to growth.

### **Stable earnings expected for Outsourcing division**

Finally, we are also optimistic about the prospects for our Outsourcing segment: following a further recovery of EBT margins in the second half of 2005, we expect growing sales and stable earnings in 2006.

In 2006 we will reach sales of over €1 billion for the first time in the company's history.

Montabaur, February 28, 2006

Ralph Dommermuth  
Chief Executive Officer

Norbert Lang  
Chief Financial Officer



**United Internet AG,  
Montabaur**

**Consolidated Annual Financial Statements**  
according to IFRS

as of  
December 31, 2005

# United Internet AG - Consolidated balance sheet acc. to IFRS, December 31, 2005

			adapted*
<b>Assets</b>	Note	<b>December 31, 2005</b>	<b>December 31, 2004</b>
<b>Current assets</b>			
Cash and cash equivalents		36,177	74,682
Accounts receivable and other assets	6	99,841	59,222
Inventories	8	6,313	10,315
Prepaid expenses		12,526	7,733
Other assets	7	20,927	7,733
		<u>175,784</u>	<u>169,831</u>
<b>Non-current assets</b>			
Equity investments	9	9,492	9,358
Other financial assets		1,440	1,716
Property, plant and equipment	10	51,619	38,764
Intangible assets	11	145,503	6,995
Goodwill	11	253,515	25,630
Deferred tax asset	24	6,436	6,179
		<u>468,005</u>	<u>88,642</u>
<b>Total assets</b>		<u><b>643,789</b></u>	<u><b>258,473</b></u>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable, trade		91,932	61,827
Liabilities due to banks	12	344	280
Advance payments received		5,111	847
Accrued taxes	14	12,527	13,281
Deferred revenue	16	72,421	38,988
Other accrued liabilities	15	1,493	3,359
Other liabilities	13	65,963	27,232
		<u>249,791</u>	<u>145,814</u>
<b>Non-current liabilities</b>			
Convertible bonds		1,245	1,661
Liabilities to banks	12	82,857	3,132
Deferred tax liability	24	11,726	334
Deferred revenue	16	2,680	2,808
Other liabilities		242	642
		<u>98,750</u>	<u>8,577</u>
<b>Total liabilities</b>		<u><b>348,541</b></u>	<u><b>154,391</b></u>
<b>Equity</b>			
Capital stock	17	62,275	58,043
Additional paid-in capital		225,264	123,540
Revaluation reserves		892	585
Accumulated loss		-2,822	-48,690
Treasury stock	5	0	-36,528
Currency translation adjustment		<u>1,111</u>	<u>886</u>
		<u>286,720</u>	<u>97,836</u>
Minority interests	18	8,528	6,246
<b>Total equity</b>		<u><b>295,248</b></u>	<u><b>104,082</b></u>
<b>Total liabilities and equity</b>		<u><b>643,789</b></u>	<u><b>258,473</b></u>

\* See explanation 4 d) and 4 e) in the notes to the consolidated financial statements as at December 31, 2005.

**United Internet AG - Consolidated income statement acc. to IFRS  
from January 1, 2005 to December 31, 2005 in €k**

		adapted*	
		2005	2004
	Note	January - December	January - December
Sales		801,505	509,683
Cost of sales		-469,002	-278,738
<b>Gross profit</b>		<b>332,503</b>	<b>230,945</b>
Selling expenses		-176,455	-101,638
General administrative expenses		-57,177	-44,295
Other operating expenses	23	-16,070	-10,829
Other operating income	23	18,798	10,076
Amortization of goodwill	22	-1,679	-13,142
<b>Operating result</b>		<b>99,920</b>	<b>71,117</b>
Interest and similar expenses		-1,644	-647
Interest and similar income		2,117	1,862
Result from associated companies	9	582	-1,887
<b>Pre-tax result</b>		<b>100,975</b>	<b>70,445</b>
Income taxes	24	-41,685	-36,808
<b>Net income before minority interests</b>		<b>59,290</b>	<b>33,637</b>
Minority interests		-2,214	197
<b>Net income attributable to shareholders of United Internet AG</b>		<b>57,076</b>	<b>33,834</b>
<b>Result per share in €</b>			
- basic	4 t)	1.00	0.59
- diluted	4 t)	0.99	0.58
<b>Weighted average shares (in million units)</b>			
- basic	4 t)	57,16	57,58
- diluted	4 t)	57,59	58,16

\* See explanation 4 d) and 4 e) in the notes to the consolidated financial statements as at December 31, 2005.

**United Internet AG - Consolidated cash flow acc. to IFRS**  
**January 01, 2005 to December 31, 2005 in €k**

			adapted*
		2005	2004
	Note	January - December	January - December
<b>Cash flow from operating activities</b>			
Net income attributable to shareholders of United Internet AG		59,290	33,637
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Depreciation and amortization	21	27,286	24,865
Goodwill amortization	22	1,679	13,142
Compensation expenses from employee stock option plans		1,780	1,768
Undistributed profits / losses of associated companies	9	-582	1,887
Distributed profits of associated companies	9	441	260
Change in deferred taxes		1,015	1,307
Non-cash expenses / income		61	35
<b>Operative cash flow</b>		<b>90,970</b>	<b>76,901</b>
<b>Change in assets and liabilities</b>			
Change in receivables and other assets		-35,686	-7,815
Change in inventories		4,002	-4,239
Change in deferred expenses		3,254	-1,460
Change in accounts payable, trade		23,713	29,286
Change in advance payments received		-611	210
Change in other accrued liabilities		3,366	2,210
Change in accrued taxes		-1,168	-15,108
Change in other liabilities		31,426	5,185
Change in deferred income		19,457	8,660
<b>Change in assets and liabilities, total</b>		<b>34,513</b>	<b>16,929</b>
<b>Cash flow from operating activities</b>		<b>125,483</b>	<b>93,830</b>
<b>Cash flow from investing activities</b>			
Capital expenditure for intangible assets and property, plant and equipment		-30,327	-22,668
Investments in other financial assets		0	-486
Payments of loans granted		97	321
Disposal of assets		244	356
Acquisition costs, net of acquired cash	5, 27	-202,552	-3,116
<b>Cash flow from investment activities</b>		<b>-232,538</b>	<b>25,593</b>
<b>Cash flow from financing activities</b>			
Purchase of treasury stock		-3,430	-36,528
Change in bank liabilities		79,772	-570
Dividend payments		-11,208	-8,621
Minority interests		0	-2,590
Additional payments for the exercise of convertible bonds		3,096	1,761
Payment / repayment of convertible bonds		95	189
<b>Cash flow from financing activities</b>		<b>68,325</b>	<b>-46,359</b>
Net increase / decrease in cash and cash equivalents		-38,730	21,878
Cash and cash equivalents at beginning of fiscal year		74,682	52,856
Change in currency translation adjustments		225	-52
Cash and cash equivalents at end of fiscal year		<b>36,177</b>	<b>74,682</b>

\* See explanation 4 d) and 4 e) in the notes to the consolidated financial statements as at December 31, 2005.



**United Internet AG - Consolidated statement of changes in shareholders' equity acc. to IFRS**  
**from January 1, 2005 to December 31, 2005**

	Capital stock		Additional paid-in capital	Revaluation surplus	Outstanding compensation for employee stock ownership programme	Currency translation	Treasury stock	Accumulated deficit	Total	Minority interests	Total equity
	Share	€k	€k	€k	€k	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2004 (reported)	57,474,387	57	119,569	0	-179	503	0	-73,295	104,072	9,158	113,230
<b>Adaptation IFRS 2 *</b>											
Employee stock ownership programme United Internet			608					-608	0		
Balance as of January 01, 2004 (adapted) *	57,474,387	57	120,177	0	-179	503	0	-73,903	104,072	9,158	113,230
<b>Adaptation IFRS 2 *</b>											
Employee stock ownership programme AdLINK			162						162		162
Employee stock ownership programme United Internet			1,402						1,402		1,402
Exercise of conversion rights	569	569	1,720						2,289		2,289
Employee stock ownership programme AdLINK			204						204		204
Revaluation surplus Afiliat Ltd. / Dublin				585					585		585
Treasury stock							-36,528		-36,528		-36,528
Dividend payment								-8,621	-8,621		-8,621
Adjustment of the intrinsic value shown as part of the capital reserve resulting from options granted in the context of the employee stock ownership programme			-125		179				54		54
Currency translation adjustment 2004						383			383		383
Net income 2004								33,834	33,834	-197	33,637
Increase in shareholdings										-2,715	-2,715
Balance as of December 31, 2004 (adapted) *	58,043,387	58	123,540	585	0	886	-36,528	-48,690	97,836	6,246	104,082
Exercise of conversion rights	432	432	2,664						3,096		3,096
capital increase in return for stock **	3,800,000	4	97,280						101,080		101,080
Employee stock ownership programme AdLINK			355						355		355
Employee stock ownership programme United Internet			1,425						1,425		1,425
Revaluation surplus Afiliat Ltd. / Dublin				307					307		307
Withdrawal of treasury shares							36,528		36,528		36,528
Dividend payment								-11,208	-11,208		-11,208
Currency translation adjustment 2005						225			225		225
Net income 2005								57,076	57,076	2,214	59,290
Increase in shareholdings										68	68
Balance as of December 31, 2005	62,275,201	62	225,264	892	0	1,111	0	-2,822	286,720	8,528	295,248

\* See explanation 4 d) and 4 e) in the notes to the consolidated financial statements as at December 31, 2005.

\* See explanation 5 in the notes to the consolidated financial statements as at December 31, 2005.

# **Notes to the Consolidated Financial Statements as of December 31, 2005**

## **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, Hanover, Karlsruhe, Cologne, Montabaur, Munich, Regensburg, Zweibrücken, Amsterdam, Boston, Cebu City, Chesterbrook, Dublin, Gateshead, Haarlem, Copenhagen, Las Vegas, Levallois Perret, London, Ljusdal, Maastricht, Madrid, Milan, Paris, Saargemünd, Slough, Stockholm, Zellik 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.

## **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 €1,1206k in fiscal year 2005 (prior-year: €1,102k).

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 appointed 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 €1k for every cent which exceeds the consolidated earnings per share value of €0.50 for United Internet AG, calculated according to IFRS. Mr. Kurt Dobitsch received total remuneration of €90k (prior year: €73k). Of this total, €40k (prior year: €40k) was fixed and €50k (prior year: €33k) variable. Mr. Bernhard Dorn received total remuneration of €70k (prior year: €53k). Of this total, €20k (prior year: €20k) was fixed and €50k (prior year: €33k) variable. Mr. Michael Scheeren received total remuneration of €70k (prior year: €53k). Of this total, €20k (prior year: €20k) was fixed and €50k (prior year: €33k) variable. The accrual formed for remuneration of members of the Supervisory Board for fiscal year 2005 amounts to €230k. 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 2005. 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 made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2005, remuneration of €754k (prior-year: €501k) was agreed for the Management Board. Of this total, €400k or 53% was fixed and €354k or 47% bonus payments. Mr. Ralph Dommermuth received total remuneration of €404k (prior year: €218k). Of this total, €200k (prior year: €108k) was fixed and €204k (prior year: €110k) variable. Mr. Norbert Lang received total remuneration of €350k (prior year: €283k). Of this total, €200k (prior year: €153k) was fixed and €150k (prior year: €130k) variable. The accrual for variable remuneration thus amounts to €354k.

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	Jan. 1, 2005		Total as of Jan. 1, 2005	Dec. 31, 2005		Total as of Dec. 31, 2005
<b>Management Board</b>	direct	indirect		direct	indirect	
Mr. Ralph Dommermuth	4,400,000	17,600,000	22,000,000	4,400,000	17,600,000	22,000,000
Mr. Norbert Lang	200,000	----	200,000	21,000	200,000	221,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	4,600,000	17,600,000	22,200,000	4,421,000	17,800,000	22,221,000
 <b>Supervisory Board</b>	 direct	 indirect		 direct	 indirect	
Mr. Kurt Dobitsch	---	---	---	---	---	---
Mr. Bernhard Dorn	---	---	---	---	---	---
Mr. Michael Scheeren	405,530	---	405,530	350,000	---	350,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	405,530	---	405,530	350,000	---	350,000

Mr. Lang was able to exercise 42,000 subscription rights in fiscal year 2005. The respective convertible bonds were issued in August 2001. The remuneration resulting from the fair value of conversion rights to 42,000 stocks at the issuance time of the convertible bonds amounted to € 33k in fiscal year 2005.

The United Internet Group also exerts a significant influence on its associated companies.

#### **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 ABl. EU No. L 243 p. 1), the United Internet Group prepares its consolidated annual financial statements according to IFRS (International Financial Reporting Standards). The Company also observed and applied the supplementary regulations of Section 315a (1) German Commercial Code (HGB). All IFRS standards valid on the balance sheet date and as applied 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.

The balance sheet date is December 31, 2005.

At its meeting on March 16, 2005, the Supervisory Board adopted the consolidated financial statements for 2004. The consolidated financial statements were published in the Federal Gazette (Bundesanzeiger) on September 20, 2005.

The consolidated financial statements for fiscal year 2005 were released by the Company's Management Board on March 6, 2006 and subsequently passed on to the Supervisory Board. The consolidated financial statements were presented to the Supervisory Board for approval on March 23, 2006.

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

The consolidated group comprises United Internet AG and all significant 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 material transactions, balances and interim profits between the companies have been eliminated as part of the consolidation process.

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

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, Zweibrücken (100 %)
  - 1&1 Internet Services (Philippines) Inc., Cebu City, Philippines (100 %)
  - 1&1 WEB.DE Schlund + Partner Support GmbH, Montabaur (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 %)
  - Immobilienverwaltung AB GmbH, Montabaur (100 %)
  - Schlund + Partner AG, Karlsruhe (100 %)
  - WEB.DE GmbH, Montabaur (100 %)

twenty4help:

- 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 AG, Zug / Switzerland (100 %)
  - twenty4help Knowledge Service Sp.zo.o, Zgorzelec / Poland (100 %)
  - twenty4help Knowledge Service S.r.l., Milan / Italy (100 %)

AdLINK:

- AdLINK Internet Media AG, Montabaur (82.30 %)
  - AdLINK Internet Media AB, Stockholm / Sweden (100 %)
  - AdLINK Internet Media S.A., Levaillois Perret / France (100 %)
  - AdLINK Internet Media GmbH Deutschland, Montabaur (100 %)
  - AdLINK Internet Media APS, Copenhagen / Denmark (100 %)
  - AdLINK Internet Media N.V., Zellik / Belgium (100 %)
  - AdLINK Internet Media S.L.U., Madrid / Spain (100 %)
  - AdLINK Internet Media Ltd., London / United Kingdom (100 %)
  - AdLINK Internet Media B.V., Haarlem / Netherlands (100 %)
  - AdLINK Internet Media S.r.l., Milan / Italy (100 %)
  - AdLINK International Internet Sales Ltd., Dublin / Ireland (100 %)
  - AdLINK International Internet Purchasing Ltd., Dublin / Ireland (100 %)
  - AdLINK Italy Ltd., Dublin / Ireland (100 %)
  - AdLINK Benelux Ltd., Dublin / Ireland (100 %)

- affilinet GmbH, Ebersberg (100 %)
  - affilinet Ltd., London / United Kingdom (100 %)
  - CibleClick Performances S.A., Paris / France (71.46 %)
    - CibleClick SAS, Paris / France (100 %)
    - CibleClick Ltd., London / United Kingdom (100 %)
- Sedo GmbH, Cologne (52.14 %)
  - Sedo.com LLC, Boston / USA (100 %)
  - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100 %)

Other:

- MIP Multimedia Internet Park GmbH, Zweibrücken (100 %)
- United Internet Beteiligungen GmbH, Montabaur (100 %)
- United Internet Start-up GmbH, Montabaur (100 %)
- InterNetX GmbH, Regensburg (80 %)
  - Schlund Technologies GmbH, Regensburg (100 %)
  - PSI USA Inc., Las Vegas / USA (87.50 %)

All companies the Company has invested in and over whose financial and business policies it has significant influence (20 % to 50 %) 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 %)
- ImmOnline AG, Paderborn (49.28 %)
- gatrixx AG, Berlin (48.44 %)
- NTplus AG, Osnabrück (40.23 %)
- fun communications GmbH, Karlsruhe (33.33 %)

A full list of the Group's shareholdings and a list of its investments in significant third parties has been filed with the District Court of Montabaur.

## b) Compulsory application of new accounting standards

The accounting and valuation policies applied generally correspond to the methods applied in the previous year. Since the end of 2003, the International Accounting Standards Board (IASB) has made a variety of amendments to existing IFRS standards and published new IFRS and interpretations of the International Financial Reporting Committee (IFRIC), which are compulsory for companies – unless otherwise described below – for all fiscal years beginning on or after January 1, 2005. Insofar as these amendments affect the consolidated financial statements, they are presented below and their impact on accounting and valuation policies is described. Significant changes to accounting principles resulted in particular from:

- Stock-based compensation programs (IFRS 2)
- Goodwill (IFRS 3, IAS 36, IAS 38)
- Minority interests (IAS 27, IFRS 3)

With the adoption of the so-called Improvement Project on December 18, 2003, the IASB also published a series of revised accounting standards. These were the 13 standards IAS 1, IAS 2, IAS 8, IAS 10, IAS 17, IAS 21, IAS 24, IAS 27, IAS 28, IAS 31, IAS 33 and IAS 40. The revised standards are compulsory for fiscal years beginning on or after January 1, 2005. The Company did not make use of its optional right to apply the revised standards at an earlier date. The major resulting changes for the present consolidated financial statements concern the disclosure of minority interests, the statement of management's exercise of discretionary rights and critical accounting estimates.

### c) Voluntary application of new accounting standards

In addition to the above mentioned compulsory IFRS standards for fiscal year 2005, the IASB also published a number of IFRS 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 United Internet. Earlier, voluntary adoption of this standard is expressly permitted or recommended. United Internet, however, does not exercise this option.

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 United Internet. They do, however, require more detailed explanation in the notes to the annual financial statements.

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 4 and IFRIC 5, which have already been endorsed by the EU but not yet voluntarily applied by the Company as of December 31, 2005.

### d) Retrospective adjustments

On February 19, 2004 the IASB published IFRS 2 (Stock-based Remuneration) concerning the accounting of stock option programs and similar remuneration plans based on the value of company stock. This standard mainly regulates the accounting of transactions for which the accounting company uses equity instruments, such as treasury shares, as compensation for services received.

Based on the calculation of personnel expenses for stock-based compensation programs granted after November 7, 2002 and not yet exercisable as of January 1, 2005, the first compulsory application of IFRS 2 resulted in additional expenses of €1,564k for fiscal year 2004. The corresponding expenses for fiscal year 2003 amounted to €608k.

Minority interests are disclosed within the equity section of the consolidated financial statements. Minority interests of the consolidated result are disclosed separately in the consolidated income statement.

The prior-year result was adapted correspondingly.

### e) Revenue Recognition

Revenue is recognized separately for each of the Company’s different segments (see Note 26 “Segment Reporting”).

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

#### **Product Segment**

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

### Internet Service Provision / Internet Access

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

At the conclusion of internet access contracts concerning T-DSL products, the Company receives bonuses and advertising cost subsidies for providing customers for T-DSL connections related to marketing expenses and customer acquisition costs. Whereas the bonuses for customer acquisition depend on the signing of new contracts, the granting of subsidies related to marketing expenses also depends on proven marketing expenditures.

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 and DSL internet access. 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) as well as a marketing cost subsidy to be paid by Deutsche Telekom AG for each new customer.

### 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/club business of WEB.DE 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 services, 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 when services have been rendered. Costs are expensed as incurred.

### **Online Marketing Segment**

In its Online Marketing segment, the Company is represented by the brands AdLINK for online advertising, Sedo for domain marketing and affilinet or CibleClick for affiliate marketing. These brands offer their advertising customers a variety of 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 they carry the full economic risk of loss from receivables.

Sedo operates a trading platform for the secondary domain market. The company generates revenues from sales commission received for the successful marketing of domains, for all services concerning this topic (e.g. domain value assessments and transfers) as well as from advertising revenues from domain parking of non-used domain names and newsletter advertising. For the mediation of domains, revenue is recognized on completion of the transaction or preparation of the value assessment. In the case of advertising, revenues are recognized monthly in arrears on the basis of the number of clicks on advertising links embedded in the parked domains.

affilinet operates an online platform for suppliers of affiliate programs and website owners in German-speaking countries 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.

## **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, 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 always carried at amortized cost. Any transaction costs incurred are capitalized when initially valued and amortized over the maturity period of the respective financial liability using the effective interest method.

## k) Property, Plant and Equipment

Property, plant and equipment are carried at cost less cumulative depreciation and cumulative impairment charges. 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. The depreciation period and depreciation method are reviewed at the end of each fiscal year.

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
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 fully by the Company in the income statement.

## l) Intangible Assets (without Goodwill)

Until the end of the past year, intangible assets were assumed to have a limited useful life, whereby there was a refutable assumption that the useful life of a intangible asset would not exceed 20 years. In agreement with the revised 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. The amortization period and amortization method are reviewed at the end of each fiscal year. 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
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 the transitional regulation of IFRS 3.79, the scheduled amortization of goodwill pertaining to businesses acquired prior to March 31, 2004 was terminated as of December 31, 2004. The residual values for goodwill were classified as new acquisition costs and since January 1, 2005 no longer amortized in scheduled amounts. 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. In the previous year goodwill was still regularly amortized with a useful life of 6 years.

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 valued at cost. 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 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 2005, non-scheduled amortization of the recoverable amount totaled € 1,679k (prior year: € 0k).

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. The receipt of grants is thus linked to the steady increase in the number of jobs. 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 or announced 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 tax law 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 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

Trade liabilities are carried at their discharge or repayment values

## 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) 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, 2005, capital stock was divided up into 62,275,201 registered no-par shares each with a theoretical share in the capital stock of €1. Until October 31, 2005, the Company held 2,000,000 treasury shares, which were used in connection with the acquisition of WEB.DE's portal business on October 31, 2005. Please refer to note 5 for further information. 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 57,155,198 for fiscal year 2005. This number of shares results in earnings per share of €1.00 (prior year: €0.59).

A dilutive effect must be taken into consideration for conversion rights resulting from the employee stock ownership program of United Internet AG which could have been exercised as of December 31, 2005. 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 968,192 potential shares (from the assumed use of conversion rights). Based on an average market price of €24.69, this would result in the issuance of 434,910 shares without consideration. Diluted earnings per share amount to €0.99 (prior year: €0.58) in fiscal year 2005.

Earnings per share of the previous year were adjusted. We refer in this context to our explanations under u) “Stock-based compensation”.

## u) Stock-Based Compensation

The treatment of stock-based compensation models is regulated by IFRS 2 (Share-Based Payment). IFRS 2 is to be applied for the first time, and retrospectively, in reporting periods starting on or after January 1, 2005. For this reason, comparative figures have been adjusted. This includes an adjustment of the opening balance sheet value of the balance sheet loss in the earliest disclosed reporting period for which comparative information has been adjusted. In accordance with IFRS 2.58, the comparison year 2004 and the opening balance sheet value as at January 1, 2004. Adjustment is not compulsory, however, for stock-based compensation issued prior to November 7, 2002.

The accounting standard valid in the previous year (IAS 19 Employee Benefits) did not contain any regulations concerning the valuation of stock-based compensation. Consequently, the Company applied interpretations and recommendations outside the IFRS as of December 31, 2004. The accounting and valuation principles APB 25 (Accounting for Stock-Based Compensation) of US-GAAP were therefore applied. Accordingly, compensation cost for stock-based awards granted to employees is measured as the excess of the market value of the Company's stock on the measurement date over the amount an employee must pay to acquire the stock. Compensation expense is recognized over the options' service

period, which is generally equivalent to the vesting period of the award. The compensation cost for stock-based awards granted to employees amounted to € 268k in fiscal year 2004.

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 an option price model, an additional amount of € 1,564k has to be expensed in fiscal year 2004. The amount was charged to administrative expenses. The increase in capital reserves resulting from this transaction also amounted to € 1,564k. The additional expense for fiscal year 2003 totaled € 608k.

Personnel expenses resulting from stock-based compensation amounted to € 1,780k in fiscal year 2005 (prior year: € 1,832k).

## v) 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.

## w) Business Combinations

IFRS 3 was applied to all business combinations whose contracts were signed on or after March 31, 2004. The most important changes are the abolition of the so-called "pooling of interests" method and the abolition of scheduled amortization of goodwill in favor of the so-called "impairment only" method. The effects for United Internet AG from the initial application of IFRS 3 regulations in connection with changes in IAS 36 and IAS 38 are mainly restricted to the implementation of the "impairment only" method.

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 interests 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.

## x) 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 and deferred tax assets.

## **5. CORPORATE ACQUISITIONS**

In fiscal year 2005 the portal business of WEB.DE AG, Karlsruhe, was acquired with effect from October 31, 2005.

The acquired portal business comprises the portal business itself and the “Club” business. In a legal sense, the acquisition of the portal business was carried out by purchasing the individual assets and liabilities of WEB.DE AG (“asset deal”), whereas the club business was acquired by purchasing three investments of WEB.DE AG (“share deal”).

A contract dated May 13, 2005 was concluded between WEB.DE AG and 1&1 Internet AG concerning the sale of the portal business to 1&1 Internet AG. The object of this asset deal was the sale of individual tangible and intangible assets of WEB.DE AG. In return, 1&1 Internet AG transferred an amount of €50.0 million as well as 1,543,050 shares of 1&1 Internet AG, which were created by means of a capital increase for non-cash contribution.

WEB.DE AG and United Internet AG also concluded an agreement dated May 13, 2005 concerning the contribution, exchange and sale of shares in 1&1 Internet AG, whereby the acquired shares in 1&1 Internet AG were transferred by way of contribution to United Internet AG. In return for this contribution of 1,543,050 shares in 1&1 Internet AG, WEB.DE AG received a total of 5,800,000 shares in United Internet AG. Of this total, 3,800,000 shares were created by means of a non-cash capital increase and 2,000,000 were treasury shares of United Internet AG. The non-cash capital increase of United Internet AG was made from the authorized capital of United Internet AG.

WEB.DE AG and WEB.DE Beteiligungen GmbH, a subsidiary of 1&1 Internet AG, concluded an agreement dated May 13, 2005 concerning the acquisition of shares. The object of this so-called “share deal” is the purchase of shares in WEB.DE Internet Service GmbH, WEB.DE Support GmbH and WEBTELECOM GmbH from WEB.DE AG. Compensation for the acquisition of shares was a purchase price of €150.0 million.

According to IFRS 3, the point of purchase for business combinations is the moment when the buyer actually gains control over the acquired company. The agreements were signed on May 13, 2005. The United Internet Group actually gained control of the portal business on conclusion of a closing agreement on October 31, 2005.

According to IFRS 3, acquisition costs for business combinations include all costs which can be directly allocated to the business combination. The acquisition costs for the asset deal amounted to €191.0 million. This amount comprises the agreed cash payment of €50.0 million as well as the value of the 5,800,000 shares in United Internet AG amounting to €141.0 million. Of the agreed cash payment, an amount of €36.5 million was paid from current cash flow and the remaining €13.5 million was netted by means of offsetting assumed liabilities. The stock exchange value of the shares created by the non-cash capital increase was based on the volume-weighted average price of United Internet AG shares (the composite share price of all German trading floors and XETRA computer trading system) on October 31, 2005. The treasury shares supplied were valued at an average price per share of €19.98. With the exception of costs for issuance of equity instruments, the acquisition costs amounted to €936k. An amount of €79.5 million resulted as goodwill

The acquisition costs of the share deal amounted to €150.0 million, which were also paid in cash. This led to a goodwill amount of €127.7 million.

The total acquisition costs (excluding ancillary acquisition costs) thus totaled €341.0 million. A total goodwill value of €207.2 was created.



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

	<b>Asset Deal</b>		<b>Share deal</b>	
	<b>€k</b>		<b>€k</b>	
Cash	50,000		150,000	
Issuance of new shares	141,040			
Acquisition costs	<u>191,040</u>		<u>150,000</u>	
Compensation payment	-5,631		114	
Offset as deferred charge	-12,001			
Ancillary acquisition costs	936			
Purchase price (after offsetting)	<u>174,344</u>		<u>150,114</u>	
	<b>Fair values</b>	<b>Book values</b>	<b>Fair values</b>	<b>Book values</b>
	<b>€k</b>	<b>€k</b>	<b>€k</b>	<b>€k</b>
Software	12,112	1,784	12,606	7,823
Trademark WEB.DE	17,098	0		
Order backlog	2,142	0		
Customer base	1,718	0	21,471	
Portal	72,240	0		
Domains	100	0		
PP&E	5,301	5,301	122	122
Loans	2,000	2,000		
Cash and cash equivalents			244	244
Prepaid expense	467		20	20
Other assets			655	654
Deferred tax liabilities			-10,118	0
Deferred charges	-12,001		-34	-34
Liabilities	-214		-2,000	-2,000
Advanced payments	-4,875			
Other liabilities			-273	-273
Accrued taxes			-57	-57
Other accrued liabilities	<u>-1,222</u>		<u>-245</u>	<u>-245</u>
	94,866	9,085	22,391	6,254
Goodwill	79,478		127,723	
Purchase price (after offsetting)	<u>174,344</u>		<u>150,114</u>	

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

	<b>€k</b>
Cash outflow	187,436
Assumed cash and cash equivalents	244
Actual cash outflow	187,192

Due to the ongoing integration in connection with the acquisition of the portal business of WEB.DE AG and the resulting synergy effects, it is practically impossible to meet the disclosure requirements for notes as required by IFRS 3.70.

In a contract dated December 22, 2004 a 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. As a consequence, United Internet AG now holds 80 % of shares in InterNetX GmbH. The initial consolidation of the newly acquired shares and the transitory consolidation of the existing shares resulted in goodwill of €3,646k.

On December 14, 2005 affilinet GmbH acquired 71.46 % of shares in CibleClick Performances S.A., headquartered in Paris, France.

The preliminary acquisition costs of the business combination amounted to a total of €18,127k and comprised the purchase price as well as costs directly allocated to the acquisition amounting to €316k.

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

ASSETS	€k Carried at acquisition	€k Book values
Intangible assets	2,942	6,989
PP&E	85	85
Cash and cash equivalents	110	110
Receivables and other assets	6,475	6,475
Prepaid expenses	42	42
	<u>9,654</u>	<u>13,701</u>
 LIABILITIES		
Trade liabilities	5,868	5,868
Other liabilities	879	879
Accrued taxes	357	357
Deferred tax liabilities	1,029	---
	<u>8,133</u>	<u>7,104</u>
 Fair value of net assets	1,521	6,597
Acquired shareholding of 71.46 %	1,087	
 Goodwill on acquisition	17,040	
	<u>18,127</u>	

In a contract dated December 14, 2005 a shareholding of 71.46 % in CibleClick Performances S.A., Paris / France was acquired. affilinet also committed itself to acquiring a further 3.54 % stake in the 2<sup>nd</sup> quarter of 2006. The purchase price of these first two tranches depends on the audited EBIT result (acc. to French GAAP) for fiscal year 2005 of the CibleClick Group. As the audited financial statements – and thus the final purchase price – will not be known until the 2<sup>nd</sup> quarter of 2006, the preliminary purchase price was determined on the basis of the reporting statements prepared for consolidation purposes. The preliminary purchase price resulting from this procedure amounts to €17,811k (without ancillary acquisition costs) and obliges affilinet to acquire 75 % of shares in CibleClick Performances S.A., whereby the legal acquisition of the remaining 3.54% will take place in the 2<sup>nd</sup> quarter of 2006. The purchase price of these first two tranches does not depend on the audited results of the CibleClick Group for fiscal year 2005, which will also not be available until the 2<sup>nd</sup> quarter of 2006.

The purchase price for the acquired 71.46 % of shares is to be paid by affilinet in 3 installments. The first purchase price installment for 42.88 % amounting to €10,719k was transferred to the existing shareholders on December 14, 2005. The 2<sup>nd</sup> and 3<sup>rd</sup> installments are due in the 2<sup>nd</sup> quarter of 2006.

The purchase agreement grants the existing shareholders of CibleClick Performances S.A., Paris / France additional sales options, which entitle them to sell the remaining 25 % of shares to affilinet by no later than the 2<sup>nd</sup> quarter of 2011. The purchase price for the remaining 25 % depends on the audited EBIT results (acc. to French GAAP) of the years prior to the year in which the option is exercised. As the sales options grant the minority interests the right to sell the remaining 28.54 % of shares in CibleClick to the majority shareholder (so-called put option), the resulting minority interests are disclosed as debt in accordance with IAS 32.18 (b).

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

	€k
Cash outflow	11,035
Assumed cash and cash equivalents	110
Actual cash outflow	10,925

Due to the ongoing integration in connection with the acquisition of CibleClick Performances S.A., it is practically impossible to meet the disclosure requirements for notes as required by IFRS 3.70.

The acquisition of additional shares in subsidiaries already fully consolidated is carried out using the so-called "parent entity extension" method. Using this method, a positive or negative goodwill amount is calculated according to the size of the difference between the purchase price and the proportional assets (acc. to IFRS book values). The resulting positive or negative goodwill values are then carried in the same way as those resulting from business combinations.

Further acquisitions which were made do not formally qualify as business combinations as defined by IFRS 3.

On March 22, 2005 United Internet AG acquired a further 30 % stake in affilinet GmbH for a purchase price of €2,399k. The Company's shareholding in affilinet thus grew from 70 % to 100 %. This resulted in goodwill of €1,678k.

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

### **6. TRADE RECEIVABLES**

	2005 €k	2004 €k
Trade receivables	107,146	66,667
less		
Bad debt allowances	-7,305	-7,445
<b>Trade receivables, net</b>	<b>99,841</b>	<b>59,222</b>

## 7. OTHER ASSETS

	2005 €k	2004 €k
Compensation payments	6,626	0
Other	4,290	2,141
Payments on account	3,336	4,210
Fund deposits	3,084	0
Accounts receivables from the tax office	2,484	1,988
T-DSL and 1&1 DSL premium claim	1,107	9,540
<b>Other assets, net</b>	<b>20,927</b>	<b>17,879</b>

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.

Payments on account consist mainly of down payments for domains.

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

Accounts receivable from the tax office mainly result from credit balances from VAT and overpayment of corporate income tax.

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. Reference is made to note 4 e.

## 8. INVENTORIES

Inventories consist of the following merchandise:

	2005 €k	2004 €k
T-DSL / 1&1 DSL	5,070	8,975
PCs, printers and accessories	413	628
Internet Profi	158	399
Webhosting	643	126
T-ISDN	45	204
Photo web	0	5
Other	34	141
	<b>6,363</b>	<b>10,478</b>
<b>Less</b>		
Valuation adjustments	-50	-163
<b>Inventories, net</b>	<b>6,313</b>	<b>10,315</b>

## 9. EQUITY INVESTMENTS

	2005 €k	2004 €k
Carrying amount at the beginning of the fiscal year	9,358	11,214
Additions from transitional consolidation	---	1,543
Disposals from transitional consolidation	---	-1,252
Adjustments		
– Dividends	-441	-260
– Shares in result	575	-1,887
	<b>9,492</b>	<b>9,358</b>

An alternative analysis of shares in equity-method investments in fiscal year 2005 is shown in the exhibit to the notes to the consolidated financial statements (assets movement schedule).

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	
		2005 €k	2004 €k
AdLINK Switzerland	50.00%	543	409
ImmOnline	49.28%	---	---
gatrixx	48.44%	---	---
NT plus	40.23%	-75	-2,432
fun	33.33%	114	136
		<b>582</b>	<b>-1,887</b>

Until fiscal year 2004, goodwill acquired before March 31, 2004 was amortized in scheduled over a useful life of 6 years. Goodwill relating to NT plus was amortized over a period of ten years. As the goodwill included in the book value of an equity investment is not separately disclosed, it is not subjected to an impairment test pursuant to the requirements for testing impairment of goodwill described in IAS 36. Instead, the entire book value is tested for impairment pursuant to IAS 36, by comparing the achievable value with the book value whenever the application of IAS 39 indicates that the investment may be impaired.

Scheduled amortization of goodwill in fiscal year 2004 amounted to €774k for NT plus and €299k for AdLINK Switzerland.

The shares in Metropolis AG were sold to the other shareholders in fiscal year 2005.

The proportional result of AdLINK Switzerland includes attributable earnings, not available for distribution, of €7k resulting from valuation differences between local annual financial statements and the consolidated financial statements.

## 10. PROPERTY, PLANT AND EQUIPMENT

	2005 €k	2004 €k
<b>Acquisition costs</b>		
– Land and buildings	13,647	13,317
– Furniture and fixtures	124,228	101,649
– Payments on account	5,800	942
Less subsidies	-12,964	-12,964
	<b>130,711</b>	<b>102,944</b>
<b>Less</b>		
Accumulated depreciation	-79,092	-64,180
<b>Property, plant and equipment, net</b>	<b>51,619</b>	<b>38,764</b>

An alternative analysis of property, plant and equipment in the fiscal years 2004 and 2005 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

	2005 €k	2004 €k
<b>Acquisition costs</b>		
– Licenses	31,357	13,159
– Order backlog	2,141	0
– Software	28,390	16,026
– Trademark	17,207	0
– Customer base	25,999	0
– Portal	72,240	0
– Goodwill	255,194	25,630
	<b>432,528</b>	<b>54,815</b>
<b>Less</b>		
Accumulated amortization and impairment	-33,510	-22,190
<b>Intangible assets, net</b>	<b>399,018</b>	<b>32,625</b>

An alternative analysis of intangible assets and goodwill in the fiscal years 2004 and 2005 is shown in the exhibit to the notes of the consolidated financial statements (assets movement schedule).

In accordance with the transitory regulation of IFRS 3.79, scheduled amortization of goodwill acquired before March 31, 2004 was terminated on December 31, 2004. The remaining residual goodwill values were classified as acquisition costs and as of January 1, 2005 no longer amortized in scheduled amounts.

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

	<b>2005</b>		<b>2004</b>	
		<b>€k</b>		<b>€k</b>
	gross	net	gross	net
Product segment	215,250	215,250	46,747	8,050
Outsourcing segment	4,139	4,139	3,767	493
Online Marketing segment	35,805	34,126	41,901	17,087
	<b>255,194</b>	<b>253,515</b>	<b>92,415</b>	<b>25,630</b>

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 2005, there was an amortization need of € 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 approved budgets, extrapolated to 2010 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-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 12 % and 15 %, according to the respective cash-generating unit.

Due to the proximity of the acquisition date of October 31, 2005 for the purchase of the portal business of WEB.DE AG and December 14, 2005 for the acquisition of shares in CibleClick, the purchase price was taken as best estimate for the respective fair value.

The division of the acquired assets and liabilities in connection with these purchases and the calculation of the resulting goodwill values is only preliminary. No impairment test was thus carried out on the preliminary goodwill values. There were no indications of possible impairment.

## 12. LIABILITIES TO BANKS / CREDIT LINES

### a) Liabilities to banks

	2005 €k	2004 €k
Bank loans	83,144	3,366
<b>less</b>		
Current portion of liabilities to banks	-287	-234
<b>Non-current portion of liabilities to banks</b>	<b>82,857</b>	<b>3,132</b>
Current portion of non-current liabilities to banks	287	234
Short-term loans/overdrafts	57	46
<b>Current portion of liabilities to banks</b>	<b>344</b>	<b>280</b>
<b>Total</b>	<b>83,201</b>	<b>3,412</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 2005, repayments amounted to € 222k. 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.

In October 2005 the Company took out a loan of € 80.0 million in connection with the acquisition of the portal business of WEB.DE AG. The loan results from a revolving syndicated loan with a total commitment of € 125.0 million and a maturity up to October 12, 2008. The effective interest rate for the interest periods of one month, two or six months is tied to the EURIBOR rate plus a margin of 0.55% p.a. The interest rate amounts to 2.89 % for the first interest period of six months. No collateral was given for the syndicated loan.

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

A cash pooling agreement (overdraft service) has been in place between United Internet AG, the subsidiaries of which the company directly holds 100 % and WestLB AG, Düsseldorf, since October 1, 2002. This overdraft service was extended to AdLINK Internet Media AG as of March 2005, to InterNetX GmbH as of August 2005 and United Internet Beteiligungen GmbH as of November 2005. Under the agreement, credit and debit balances are netted within the Company each banking day and summarized.

### b) Credit lines

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

	2005 €m	2004 €m
Available credit lines	60.0	60.0
Utilization (guarantees only)	6.4	6.0
Average interest rate (in %)	n.a.	n.a.
Unutilized credit facilities	53.6	54.0



The credit facilities have been granted by the banks for limited periods. € 15.0m expire in April 2006, € 35.0m expire in June 2006 and the remaining € 10.0m expire in August 2006.

A further amount of € 45.0 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

	2005 €	2004 €
<b>Other liabilities</b>		
– Liabilities to the tax office	23,892	9,024
– Salary and social security liabilities	13,379	10,764
– Marketing and selling expenses / sales commissions	8,208	2,882
– Purchase price installments for the acquisition of investments	7,092	440
– Compensation payments	5,008	0
– Legal and consulting fees, auditing fees	2,002	1,237
– Cost subsidies	691	567
– Other	5,691	2,318
	<b>65,963</b>	<b>27,232</b>

Liabilities to the tax office mainly relate to VAT liabilities.

Purchase price installments for the acquisition of investments consists of a preliminary remaining purchase price obligation for the acquisition of 71.46 % of CibleClick Performances S.A., Paris / France.

Compensation payments consist of liabilities owing to ComBOTS AG (formerly: WEB.DE AG) in connection with the purchase of the portal business of WEB.DE AG.

### 14. ACCRUED TAXES

Accrued taxes consist of the following items:

	2005 €	2004 €
Germany	10,853	13,121
USA	772	0
Italy	44	17
Netherlands	54	75
France	430	27
UK	349	19
Switzerland	25	22
	<b>12,527</b>	<b>13,281</b>

## 15. OTHER ACCRUED LIABILITIES

The development of accruals in fiscal year 2005 was as shown below:

	Jan. 1, 2005 €k	Utilization €k	Reversal €k	Addition €k	Dec. 31, 2005 €k
Litigation risks	2,136	433	746	109	1,066
Uncertain liabilities	1,223	897	54	154	427
	<b>3,359</b>	<b>1,330</b>	<b>799</b>	<b>263</b>	<b>1,493</b>

Litigation risks consist of various legal disputes of 1&1 Internet. The reversal of an accrual formed for litigation risks refers mainly to United Internet (€526k), as a settlement was reached in the Company's favor. Accruals for uncertain liabilities refer mainly to AdLINK and result from risks from the liquidation of acquired DoubleClick companies.

## 16. DEFERRED REVENUE

At 1&1 Internet, customers pay for certain contracts in advance for a maximum of 12 months.

The prepaid charges are allocated and recognized as revenues over the underlying contractual period. In fiscal year 2005, 1&1 Internet received prepayments of €66,197k (prior year: €37,639k).

twenty4help received subsidies for the creation of jobs at its premises in Görlitz and Gateshead. Pro rata subsidies related to personnel expenses incurred in 2005, are deferred and shown as deferred income. In fiscal year 2005, twenty4help received subsidies of €3,248k (prior year: €3,264k).

## 17. CAPITAL STOCK

Through partial use of conditional capital, the capital stock of the Company was increased in December 2005 from €58,043,387 by €431,814 by issuing 431,814 new, no-par registered shares for cash contribution and through partial use of authorized capital by €3,800,000 by issuing 3,800,000 new, no-par registered shares for non-cash contribution to €62,275,201. The cash contribution represented the conversion of convertible bonds in fiscal year 2005 issued under the Company's employee stock ownership plan. The non-cash contribution resulted from the acquisition of the portal business of WEB.DE AG. Please refer to the section "Corporate Acquisitions" for further details.

The Company's capital stock is divided up into 62,275,201 no-par registered shares with a theoretical share in the capital stock of €1.

The Management Board and Supervisory Board propose a dividend payment of €0.25 per share for fiscal year 2005 (prior year: €0.20).

### Authorized Capital

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by May 18, 2010 by a maximum of €25,200,000.00 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

There are the following lots of conditional capital:

- The capital stock has been conditionally increased by up to € 1,887,500, divided into 1,887,500 no-par registered shares. A portion of the conditional capital of € 1,087,500 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, and € 800,000 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issuance of both types of bond was decided by the shareholders' meeting on February 18, 1998.
- The capital stock has been increased conditionally by up to € 1,123,750, divided into 1,123,750 no-par shares. The conditional capital increase serves to grant conversion options to bearers of convertible bonds for the issue of which an authorization resolution was passed by the shareholders' meeting on May 16, 2001. The shares will participate in profits from the beginning of the fiscal year in which they are created by exercise of the conversion option.
- The capital stock has been increased conditionally by up to € 1,395,436, divided into 1,395,436 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, 2003. 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 € 750,000.00, divided into 750,000 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 € 23,000,000.00, divided into 23,000,000 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 November 17, 2006 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 two different plans allowing executives and managers to participate in profits. Whereas one of these plans is covered by the conditional capital at the parent company, the second 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 €2,500k was created for this purpose. On the basis of this resolution, up to €750k may be issued to Management Board members of the Company.

The 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 one registered share.

The authorized subscribers are entitled, after specified periods, to convert the convertible bonds in full or part to shares in the Company. In the event that this conversion option is exercised, an additional payment in cash is to be made to acquire each share; this is the amount by which the conversion price exceeds the nominal amount of the convertible bond.

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

Using an option pricing model in accordance with IFRS 2, the personnel expense for convertible bonds issued after November 7, 2002 amounted to €292k (prior year: €379k). 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 €1,500k 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 1 registered share.

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 the nominal amount of the convertible bond.

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 €1,133k (prior year: €1,023k). 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 €26k (prior year: €87k). 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 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 €155k (prior year: €0k). 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	
		Average strike price (€)		Average strike price (€)
	Convertible bond		Convertible bond	
Outstanding as of December 31, 2003	1,919,910	7.96	238,300	2.64
Issued	80,000	15.26	170,000	1.71
Exercised	-360,000	2.88	-45,000	1.84
Exercised	-22,500	5.97	-10,580	1.28
Exercised	-80,000	8.53	---	---
Exercised	-106,500	4.09	---	---
Expired	-1,860	17.41	-10,850	4.96
Expired	-21,750	2.88	-10,000	1.28
Expired	-15,250	5.97	---	---
Expired	-4,000	4.09	---	---
Outstanding as of December 31, 2004	1,388,050	10.10	331,870	2.28
Issued	150,000	21.02	400,000	3.24
Issued	---	---	459,000	3.60
Exercised	-249,000	2.88	-11,000	1.84
Exercised	-32,250	5.97	-35,365	1.28
Exercised	-40,000	8.53	---	---
Exercised	-104,564	17.41	---	---
Exercised	-6,000	4.09	---	---
Expired	-12,750	2.88	-68,000	4.96
Expired	-2,500	5.97	-6,000	1.84
Expired	-7,990	17.41	-11,500	1.28
Expired	-40,000	15.26	-100,000	3.60
Expired	-73,500	4.09	---	---
Outstanding as of December 31, 2005	969,496	13.39	959,005	2.28
Exercisable as of December 31, 2005	158,793		45,900	

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

The weighted average 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 €3.27 per share. 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 weighted average 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 €6.70 per share. 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 weighted average 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 share. 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 weighted average 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 €5.14 per share. 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 weighted average 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 share. 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 weighted average 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 share. 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 weighted average 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 €6.21 per share. 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 %

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.

The weighted average 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 €174k (prior year: €279k). The compensation expense for this employee stock ownership plan is mainly included in general administrative expenses.

In measuring volatility, historic volatility was also considered.

## **18. MINORITY INTERESTS**

In fiscal year 2005 a part of the shares in InterNetX GmbH and CibleClick Performances S.A. were acquired. Minority interests are thus disclosed for InterNetX GmbH in accordance with the shareholding of the other shareholders. In accordance with IAS 32.18 (b), the shares held by minority shareholders of CibleClick Performances S.A. are disclosed as debt capital due to the existing put options.

In fiscal year 2004 a part of the shares in Sedo GmbH and affilinet GmbH were acquired and the Group's shareholding in AdLINK Internet Media AG was increased. In the case of affilinet, minority interests amounted to €1,175k and for Sedo to €646k. There was a contrary effect on minority interests of AdLINK amounting to €4,536k due to the acquisition of shares held by other shareholders.

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

### **19. COST OF MATERIALS**

In fiscal year 2005, costs of materials totaled €360,350k (prior year: €171,165k). 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 2005, they amounted to €87,916k (prior year: €43,651k).

### **20. PERSONNEL EXPENSES**

Personnel expenses in fiscal year 2005 totaled €146,102k (prior year: €127,967k). Of this total, €79,804k (prior year: €75,807k) are contained in cost of sales, €44,483k (prior year: €36,072k) in selling expenses and €21,816k (prior year: €16,088k) in administrative expenses. At year-end, the United Internet Group employed a total of 5,540 people (prior year: 4,558). The number of employees in Germany amounted to 3,709 (prior year: 2,838), the number of employees outside Germany totaled 1,831 (prior year: 1,720). The average number of employees in fiscal year 2005 amounted to 3,091 (prior year: 2,705) in Germany and 1,694 (prior year: 1,607) outside Germany.

### **21. DEPRECIATION AND AMORTIZATION**

Depreciation and amortization of intangible assets (without goodwill) and property, plant and equipment in fiscal year 2005 totaled €27,286k (prior year: €24,865k). Of this total, €16,694k (prior year: €18,950k)



are contained in cost of sales, €1,470k (prior year: €864k) in selling expenses and €9,123k (prior year: €5,051k) in administrative expenses.

## **22. GOODWILL AMORTIZATION**

Following impairment tests, goodwill pertaining to AdLINK subsidiaries (Italy, Denmark and Sweden) was amortized by €1,679k due to the negative development of business.

Goodwill amortization of majority shareholdings amounted to €13,142 in fiscal year 2004, while goodwill amortization of equity investments amounted to €1.073k in fiscal year 2004.

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

In fiscal year 2005, other operating income mainly contains subsidies for current personnel expenses in connection with the Multimedia Internet Park in Zweibrücken amounting to €550k (prior year: €650k), as well as for current personnel expenses at twenty4help amounting to €1,360k (prior year: €1,098k).

Losses due to account receivables of 1&1 Internet AG amounted to €11,681k (prior year: €7,896k), while income from dunning and return debit charges totaled €4,756k (prior year: €4,595k). Currency gains (net) in fiscal year 2005 amounted to €297k, while currency losses (net) in the previous year amounted to €1,087k. Expenses relating to other accounting periods amounted to €118k (prior year: €504k), while income relating to other accounting periods amounted to €1,294 (prior year: €516k).

In connection with the acquisition of the portal business of WEB.DE AG, there is income from credit notes from ComBOTS AG for the month October 2005 (€6,037k) as well as cost charges from ComBOTS AG (€2,686k).

## **24. INCOME TAXES**

The income tax expense is comprised as follows:

	<b>2005</b>	<b>2004</b>
	<b>€k</b>	<b>€k</b>
Current income taxes		
– Germany	-40,067	-35,499
– Abroad	-1,618	-807
Total (current period)	-41,685	-36,306
Deferred taxes		
– Due to tax loss carryforwards	494	-1,441
– Tax effect on temporary differences	-494	939
Total deferred taxes	0	-502
<b>Total tax expense</b>	<b>-41,685</b>	<b>-36,808</b>

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

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax on

income. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate during the period under review was 16.5 % (prior year: 16.8 %).

German corporate income tax is levied at 25 % for the tax assessment year 2004 and for the tax assessment year 2005 – 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
- Denmark: until 2002 5 years; from 2003 indefinite
- Spain: 15 years
- United Kingdom: indefinite
- France: indefinite
- Netherlands: 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, 2005 of AdLINK Internet Media AG and AdLINK Internet Media GmbH Deutschland.

Deferred taxes were calculated using a composite tax rate (corporate income tax, solidarity surcharge and trade tax on income). This amounts to 38.7 % for 2004 and 38.5 % for 2005.

Deferred taxes are composed as follows:

	<b>2005</b>	<b>2004</b>
	<b>€k</b>	<b>€k</b>
Deferred tax assets due to		
– tax loss carryforwards	3,356	2,840
– differing carrying amounts and consolidation adjustments	3,080	3,339
Total deferred tax assets	<u>6,436</u>	<u>6,179</u>
Deferred tax liabilities due to		
– differing carrying amounts and consolidation adjustments	-11,726	-334
Total deferred tax liabilities	<u>-11,726</u>	<u>-334</u>
<b>Deferred tax debts/claims</b>	<b><u>-5,290</u></b>	<b><u>5,845</u></b>

Due to the sustained improvement in the economic position of the sub-group AdLINK, deferred taxes on existing loss carryforwards were capitalized in fiscal year 2005 (AdLINK Internet Media AG €2,529, prior year: €0k; AdLINK Internet Media GmbH €0k, prior year: €1,104k; English subsidiaries of AdLINK €262k, prior year: €290k; AdLINK Internet Media S.L.U., Madrid / Spain €385k, prior year: €0k; AdLINK Internet Media N.V., Zellik / Belgium €180k, prior year: €0k). The deferred taxes on existing loss carryforwards formed in the previous year for the English subsidiary of 1&1 Internet were utilized in fiscal year 2005 due to the subsidiary's positive results. The Group capitalized deferred taxes for all companies

which already generated positive, taxable earnings in fiscal year 2005 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 totaling € 18,089k (prior year: € 19,095k) 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 € 857k (prior year: € 1,542k), from differing carrying amounts of accruals in the amount of € 1,139k (prior year: € 744k) and from differing carrying amounts of deferred income in the amount of € 1,084k (prior year: € 1,053k).

Deferred tax liabilities refer to consolidation adjustments in fiscal year 2004. In 2005 deferred tax liabilities of € 10,117k were formed for the identified and capitalized intangible assets (€ 26,254k) concerning the share deal (acquisition of club business as part of the WEB.DE portal business transaction), which could not be capitalized for tax purposes. The amount of € 10,117k was carried by a corresponding increase in goodwill from the share deal, without affecting income. Following the reversal of € 371k with an effect on income in connection with the amortization of goodwill in fiscal year 2005, this significant position amounted to € 9,747k as at the balance sheet date. The sub-group AdLINK also formed deferred tax liabilities of € 1,029k in connection with company acquisitions. The remaining deferred tax liabilities of € 953k refer to consolidation adjustments.

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

	<b>2005</b>	adapted <b>2004</b>
	<b>%</b>	<b>%</b>
Anticipated tax expense from result before taxes	-38.5	-38.7
– Goodwill amortization non-deductible for tax purposes	-0.6	-7.2
– Differences in foreign tax rates	0.2	0.5
– Employee stock ownership plan	-0.7	-1.0
– Tax losses of the fiscal year, not capitalized	-3.1	-6.0
– First-time capitalization of tax losses not used in prior years	1.9	2.0
– Utilization of non-capitalized tax loss carryforwards	0.4	0.3
– Non-taxable at-equity results	0.2	-1.0
– Balance of tax-free income and non-deductible expenses	-1.1	-1.2
<b>Tax expense based on income statement</b>	<b>-41.3</b>	<b>-52.3</b>

## **25. 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 € 11,179k in fiscal year 2005. As of December 31, 2005, future lease obligations were as follows:

	<b>2005</b> <b>€k</b>
Liabilities from long-term lease obligations	47,090
of which with a remaining term of up to one year	11,657
of which with a remaining term of one to five years	27,943
of which with a remaining term of over five years	7,490

The most important leases for the Company's facilities in Montabaur have terms until mid-2009 or early 2015. In fiscal year 2005, these leases incur expenses of € 1,575k. The leases for the Company's facilities in Karlsruhe have terms until early 2013. In fiscal year 2005, these leases incur expenses of € 1,664k. Some of the leases for various facilities of twenty4help have terms until the end of 2017. In fiscal year 2005, these leases incur expenses of € 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 was granted subsidies totaling € 8,293k for the expansion of the Görlitz site by Sächsische AufbauBank GmbH in Dresden. As of December 31, 2005, the Company had received subsidies from this of € 7,650k for 650 newly created jobs and a cumulative amount of € 4,059k was taken to income in the years 2000 to 2005. 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.

twenty4help also receives subsidies for its facility in Gateshead / UK. In return, the company has promised the Development Agency for the North East of England to create up to 300 new, additional, long-term jobs. Due to the transfer of some services to a low-labor-cost country, as initiated by the customer, the number of jobs in Gateshead fell temporarily below the 300 mark. At year-end, the number of employees rose again to 308. Although headcount fell temporarily below the 300 mark, it is very unlikely that subsidies received will have to be repaid. This was confirmed by discussions with the Development Agency for the North East of England on this subject.

Other financial commitments for the fiscal years 2006 and 2007 total € 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.

## **26. 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 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	543	39	582
EBT	92,922	5,914	6,177	-4,038	100,975
Total assets	491,166	48,253	83,050	21,320	643,789
- thereof domestic	478,648	30,604	26,493	21,320	557,065
- thereof non-domestic	12,518	17,649	56,557	0	86,724
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

In total, 82.0 % (prior year: 76.8 %) of revenues were generated in Germany and 18.0 % (prior year: 23.2 %) abroad.

The segments of United Internet AG in fiscal year 2004 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	357,212	90,827	68,975	2,489	519,503
- thereof internal revenues	466	6,575	367	2,412	9,820
External revenues	356,746	84,252	68,608	77	509,683
- thereof domestic	337,644	37,361	16,204	77	391,286
- thereof non-domestic	19,102	46,891	52,404	0	118,397
EBITDA	98,400	12,409	3,949	-5,634	109,124
Result from at-equity companies	0	0	409	-2,296	-1,887
EBT	75,272	5,373	-192	-10,008	70,445
Total assets	112,017	37,565	45,482	63,409	258,473
- thereof domestic	101,292	20,281	20,465	63,409	205,447
- thereof non-domestic	10,725	17,284	25,017	0	53,026
Total liabilities	89,953	20,952	23,550	19,936	154,391
Investments in intangible assets and property, plant and equipment	16,351	5,656	631	30	22,668
- thereof domestic	14,516	1,938	507	30	16,991
- thereof non-domestic	1,835	3,718	124	0	5,677
Amortization/depreciation	23,771	6,440	4,654	3,142	38,007
Number of employees	1,636	2,669	238	15	4,558
- thereof domestic	1,518	1,196	109	15	2,838
- thereof non-domestic	118	1,473	129	0	1,720

## 27. CASH FLOW STATEMENT

In fiscal year 2005, cash flow from operating activities includes interest payments of €903k (prior year: €546k) and interest income of €1,731k (prior year: €1,842k). Income tax payments in fiscal year 2005 amounted to €45,960k (prior year: €51,783k). Amounts received from dividends of associated companies totaled €441k (prior year: €260k).

A total of €15,934k in cash was used for the acquisition of shares in CibleClick S.A. and for the acquisition of additional shares in InternetX GmbH and affilinet GmbH in fiscal year 2005. Cash and cash equivalents received as part of the initial consolidation of CibleClick S.A. and InternetX GmbH totaled €574k.

A total of €187,436k in cash was used for the acquisition of the portal business of WEB.DE AG. Cash and cash equivalents received totaled €244k.

## **28. 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.

United Internet AG has concluded interest rate hedging agreements with two banks. An interest rate cap and interest rate floor was agreed for an advance period up to September 11, 2006. United Internet AG thus only benefits from falling interest rates up to the agreed interest rate floor, but remains protected against the risk of rising interest rates through the acquired cap. As the premiums to be received from the sale of a floor by United Internet AG are equal to the premiums to be paid for the purchase of a cap, there was no (net) premium payment. As of the balance sheet date, the fair values were insignificant. The nominal amounts of the two interest rate hedging agreements are €5,000k each. An interest cap of 5.50 % per annum and an interest floor of 2.63 % per annum were agreed. There are no further interest rate hedging agreements for loans received.

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 (€). Due to their low significance, there was therefore 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.

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

During the course of fiscal year 2005, the following companies were founded or acquired by the Company or its subsidiaries:

- 1&1 WEB.DE Schlund + Partner Support GmbH, Montabaur
- 1&1 Internet Services (Philippines), Cebu City / Philippines
- A1 Media LLC, Chesterbrook / USA
- affilinet Ltd., London / UK
- CibleClick Ltd., London / UK
- CibleClick Performances S.A., Paris / France
- CibleClick SAS, Paris / France
- DomCollect Worldwide Intellectual Property AG, Zug / Switzerland
- InterNetX GmbH, Regensburg
- PSI USA Inc., Las Vegas / USA
- United Internet Beteiligungen GmbH, Montabaur
- WEB.DE GmbH, Montabaur

In fiscal year 2005, the equity investment in Metropolis AG, Reutlingen, was sold.

During the course of fiscal year 2005, the non-operating company Composite Digital Media Ltd., London / UK, was liquidated.

Liquidation proceedings were also initiated for the non-operating companies AdLINK International Internet Sales Ltd., Dublin / Ireland, AdLINK Benelux Ltd., Dublin / Ireland, AdLINK Italy Ltd., Dublin / Ireland, AdLINK International Purchasing Ltd., Dublin / Ireland and CibleClick Ltd., London / UK.

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

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

- 1&1 Internet AG, Montabaur
- 1&1 Internet Service GmbH, Zweibrücken
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- Alturo GmbH, Zweibrücken
- GMX Internet Services 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

### **31. SUBSEQUENT EVENTS**

On January 20, 2006, twenty4help Knowledge s.r.o was founded in Liberec (Czech Republic). The facility is expected to start operations in mid 2006 and will enable the Company to provide reasonably priced services for European clients and to serve the Eastern European markets.

On January 20, 2006, United Internet Media AG, Montabaur, was founded. The company will market the Group's own portals: 1&1, GMX and WEB.DE.

In an agreement dated March 2, 2006, the existing profit transfer agreement between United Internet AG and 1&1 Internet AG was newly formulated. It was approved by the shareholders' meeting of 1&1 Internet AG on March 3, 2006. A profit transfer agreement was also signed on March 2, 2006 between United Internet AG and United Internet Beteiligungen GmbH. Both agreements still require the approval of the annual shareholders' meeting of United Internet AG, planned for June 13, 2006.

On March 2, 2006 profit transfer agreements were signed between 1&1 Internet AG and the following companies:

- GMX GmbH, Munich
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- United Internet Media AG, Montabaur
- 1&1 WEB.DE Schlund + Partner Support GmbH

The shareholders' meetings approved the contracts on the same day.

In an agreement dated March 2, 2006, a profit transfer agreement was signed between AdLINK Internet Media AG and affilinet GmbH. It still requires the approval of the annual shareholders' meeting of AdLINK Internet Media, planned for June 12, 2006.

A profit transfer agreement was also signed on March 2, 2006 between InterNetX GmbH and Schlund Technologies GmbH. The shareholders' meetings approved the contract on the same day.

### **32. AUDITORS' FEES**

In fiscal year 2005, auditing fees totaling € 1,325k were expensed in the consolidated financial statements. These include auditing fees (€ 812k), tax consultancy services (€ 417k) and other services (€ 96k).



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

### **33. 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 6, 2006

The Management Board

Ralph  
Dommermuth

Norbert  
Lang

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

	Acquisition and production costs						Dec. 31, 2005	Accumulated depreciation						Net book value		
	Jan. 1, 2005	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation		Jan. 1, 2005	Additions	Additions IAS 36	Disposals	Reclassification	Currency translation	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2005
<b>Intangible assets</b>																
Licenses	13,159	13,786	4,423	23	0	12	31,357	9,042	4,905	0	4	0	1	13,944	4,117	17,413
Order backlog	0	2,141	0	0	0	0	2,141	0	213	0	0	0	0	213	0	1,928
Software	15,980	11,144	1,029	15	250	2	28,390	13,123	2,334	0	68	0	0	15,389	2,857	13,001
Brand	0	17,207	0	0	0	0	17,207	0	0	0	0	0	0	0	0	17,207
Customer base	46	25,953	0	0	0	0	25,999	25	755	0	0	0	0	780	21	25,219
Portal	0	72,240	0	0	0	0	72,240	0	1,505	0	0	0	0	1,505	0	70,735
Goodwill *	25,630	227,886	1,678	0	0	0	255,194	0	0	1,679	0	0	0	1,679	25,630	253,515
<b>Total (I)</b>	<b>54,815</b>	<b>370,357</b>	<b>7,130</b>	<b>38</b>	<b>250</b>	<b>14</b>	<b>432,528</b>	<b>22,190</b>	<b>9,712</b>	<b>1,679</b>	<b>72</b>	<b>0</b>	<b>1</b>	<b>33,510</b>	<b>32,625</b>	<b>399,018</b>
<b>Property, plant and equipment</b>																
Land and buildings	6,546	0	330	0	0	0	6,876	3,075	271	0	0	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	0	2,858	0	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	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>0</b>	<b>2,858</b>	<b>0</b>	<b>196</b>	<b>79,092</b>	<b>38,764</b>	<b>51,619</b>
<b>Financial assets</b>																
Shares in associated companies	39,209	0	0	441	0	0	38,768	29,851	0	0	575	0	0	29,276	9,358	9,492
Other financial assets	19,415	53	322	651	0	0	19,139	17,699	0	0	0	0	0	17,699	1,716	1,440
<b>Total (III)</b>	<b>58,624</b>	<b>53</b>	<b>322</b>	<b>1,092</b>	<b>0</b>	<b>0</b>	<b>57,907</b>	<b>47,550</b>	<b>0</b>	<b>0</b>	<b>575</b>	<b>0</b>	<b>0</b>	<b>46,975</b>	<b>11,074</b>	<b>10,932</b>
<b>Total</b>	<b>216,383</b>	<b>376,045</b>	<b>32,327</b>	<b>4,266</b>	<b>0</b>	<b>657</b>	<b>621,146</b>	<b>133,920</b>	<b>27,286</b>	<b>1,679</b>	<b>3,505</b>	<b>0</b>	<b>197</b>	<b>159,577</b>	<b>82,463</b>	<b>461,569</b>

\* In accordance with the transitional regulation of IFRS 3.79, the scheduled amortization of goodwill pertaining to businesses acquired prior to March 31, 2004 was terminated as of December 31, 2004. The residual values for goodwill were classified as new acquisition costs and since January 1, 2005 no longer amortized in scheduled amounts.

**United Internet AG - Development of consolidated fixed assets acc. to IFRS in fiscal year 2004 (€k)**

	Acquisition and production costs						Dec. 31, 2004	Accumulated depreciation						Net book value		
	Jan. 1, 2004	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation		Jan. 1, 2004	Additions	Additions IAS 36	Disposals	Reclassification	Currency translation	Dec. 31, 2004	Jan. 1, 2004	Dec. 31, 2004
<b>Immaterielle Vermögenswerte</b>																
Licenses	14,795	129	2,859	4,629	0	5	13,159	11,465	2,186	0	4,609	0	0	9,042	3,330	4,117
Software	14,463	0	2,412	848	0	-1	16,026	11,792	2,132	0	781	0	5	13,148	2,671	2,878
Goodwill	88,193	0	4,703	0	-481	0	92,415	54,184	13,142	0	0	-542	1	66,785	34,009	25,630
<b>Total (I)</b>	<b>117,451</b>	<b>129</b>	<b>9,974</b>	<b>5,477</b>	<b>-481</b>	<b>4</b>	<b>121,600</b>	<b>77,441</b>	<b>17,460</b>	<b>0</b>	<b>5,390</b>	<b>-542</b>	<b>6</b>	<b>88,975</b>	<b>40,010</b>	<b>32,625</b>
<b>Property, plant and equipment</b>																
Land and buildings	6,494	1	51	0	0	0	6,546	2,820	255	0	0	0	0	3,075	3,674	3,471
Operational equipment	85,018	122	16,264	6,104	406	-250	95,456	46,731	20,292	0	5,835	0	-83	61,105	38,287	34,351
Payments in advance	233	0	1,082	0	-406	33	942	0	0	0	0	0	0	0	233	942
<b>Total (II)</b>	<b>91,745</b>	<b>123</b>	<b>17,397</b>	<b>6,104</b>	<b>0</b>	<b>-217</b>	<b>102,944</b>	<b>49,551</b>	<b>20,547</b>	<b>0</b>	<b>5,835</b>	<b>0</b>	<b>-83</b>	<b>64,180</b>	<b>42,194</b>	<b>38,764</b>
<b>Financial assets</b>																
Shares in associated companies	38,619	0	292	200	498	0	39,209	27,405	1,904	0	0	542	0	29,851	11,214	9,358
Other financial assets	18,659	0	1,094	321	-17	0	19,415	17,663	36	0	0	0	0	17,699	996	1,716
<b>Total (III)</b>	<b>57,278</b>	<b>0</b>	<b>1,386</b>	<b>521</b>	<b>481</b>	<b>0</b>	<b>58,624</b>	<b>45,068</b>	<b>1,940</b>	<b>0</b>	<b>0</b>	<b>542</b>	<b>0</b>	<b>47,550</b>	<b>12,210</b>	<b>11,074</b>
<b>Total</b>	<b>266,474</b>	<b>252</b>	<b>28,757</b>	<b>12,102</b>	<b>0</b>	<b>-213</b>	<b>283,168</b>	<b>172,060</b>	<b>39,947</b>	<b>0</b>	<b>11,225</b>	<b>0</b>	<b>-77</b>	<b>200,705</b>	<b>94,414</b>	<b>82,463</b>

## **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 management report for the Company and the Group for the fiscal year from January 1, 2005 to December 31, 2005. The preparation and content of the consolidated financial statements 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 management board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report 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 group management report 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 group management report 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 group management report. 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 6, 2006

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Bösner	Martin
Wirtschaftsprüfer	Wirtschaftsprüferin



**United Internet AG,  
Montabaur**

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

as of  
December 31, 2005

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

as of December 31, 2005 and December 31, 2004 in €k

<u>Assets</u>	December 31, 2005	December 31, 2004	<u>Equity and liabilities</u>	December 31, 2005	December 31, 2004
<u>Fixed assets</u>			<u>Equity</u>		
Intangible assets			Capital stock	62,275	58,043
Concessions, industrial and similar rights and assets as well as licenses in such rights and assets	1	11	Capital reserves	141,201	41,257
	1	11	Revenue reserves		
			Revenue reserves	0	36,529
			Other revenue reserves	898	898
			Retained earnings	187,333	55,506
				391,707	192,233
Property, plant and equipment			<u>Accruals</u>		
Other equipment, operational and office equipment	206	148	Accrued taxes	1,123	8,899
	206	148	Other accrued liabilities	5,192	2,181
				6,315	11,080
Financial assets			<u>Liabilities</u>		
Shares in affiliated companies	288,070	108,975	Bonds	970	1,329
Loans to affiliated companies	14,710	0	Liabilities due to banks	80,000	0
Investments	8,432	8,918	Accounts payable, trade	261	368
	311,212	117,893	Liabilities due to affiliated companies	4,980	1,439
			Other liabilities	17,851	6,003
	311,419	118,052		104,062	9,139
<u>Current assets</u>					
Accounts receivable and other assets					
Accounts receivable, trade	1	1			
Receivables due from affiliated companies	179,756	16,624			
Receivables due from companies in which an investment is held	3	3			
Other assets	505	68			
	180,265	16,696			
Securities					
Treasury stock	0	36,529			
	0	36,529			
Cash in hand and bank balances	10,400	41,150			
	190,665	94,375			
Prepaid expenses	0	25			
	502,084	212,452		502,084	212,452

## United Internet AG - Consolidated income statement acc. to HGB

from January 1, 2005 to December 31, 2005 in T€

	2005	2004
	January - December	January - December
Sales	12,893	2,489
Other operating income	59,413	5,939
Cost of materials		
Cost of purchased services	-12,330	1,972
Personnel expenses		
a. Wages and salaries	-1,598	-1,337
b. Social security contributions	-133	-122
Amortization and depreciation of intangible assets and property, plant and equipment	-55	-87
Other operating expenses	-2,784	-3,446
Income from profit transfer agreements	85,995	85,290
Income from investments	160	260
Other interest and similar income	2,061	1,519
Expenses from loss transfer agreements	-176	0
Amortization of financial assets	0	-5,810
Interest and similar expenses	-1,793	-432
Result before taxes	<u>141,653</u>	<u>82,291</u>
Taxes on income	-35,121	-32,457
Other taxes	-25	-2
Net profit for the year	<u>106,507</u>	<u>49,832</u>
Transfer to reserves for treasury stock	36,529	-36,529
Accumulated profits	44,297	42,203
Balance sheet profit	<u>187,333</u>	<u>55,506</u>

## **UNITED INTERNET AG, MONTABOUR**

Notes to the Financial Statements for Fiscal Year 2005

### **GENERAL PROVISIONS**

The annual financial statements for fiscal year 2005 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.

Software and corresponding licenses are amortized over a period of 2 to 5 years. Operational equipment is usually depreciated over 4 to 5 years. Leasehold improvements are written off over a period of ten years. The normal useful life of office furniture and equipment is 8 to 13 years, that of 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 (list of shareholdings), has been filed with the District Court of Montabaur under HR B 5762.

In fiscal year 2005 United Internet AG reported total additions to shares in affiliated companies of €195,362k. Of this total, an amount of €141,038k results from the acquisition of the portal business of WEB.DE by 1&1 Internet AG. The purchase price was paid by 1&1 Internet AG in cash and through the issue of new shares. The new shares of 1&1 Internet AG were subsequently transferred to United Internet AG by Combots AG (formerly WEB.DE AG). As compensation for the transfer of the new 1&1 shares, Combots AG received 5,800,000 registered no-par shares of United Internet AG. Of this total, 3,800,000 shares were created from approved capital and 2,000,000 shares were taken from United Internet AG's stock of treasury shares. The agreements were signed on May 13, 2005 and the transaction was closed on October 31, 2005.

With a contribution contract dated November 9, 2005, the shares in twenty4help Knowledge Service AG were added to the capital of United Internet Beteiligungen GmbH as a non-cash contribution amounting to €45,000k.

Further additions to shares in affiliated companies amounting to €6,900k concern InterNetX GmbH. In a purchase agreement dated December 22, 2004, a shareholding of 10.20% in InterNetX GmbH was initially purchased at a price of €440k. Following the completion of a capital increase at the beginning of fiscal year 2005, further shares in InterNetX GmbH were acquired effective January 1, 2005 for a purchase price of €2,500k so that United Internet AG's shareholding in InterNetX GmbH now amounts to 80%. As a consequence of this transaction, InterNetX GmbH became a subsidiary of

United Internet AG and is no longer listed under “Investments”. The reclassification amounting to €486k results from the disclosure of the shares acquired in the previous year in InterNetX GmbH as “Shares in affiliated companies”.

By exercising an option agreed in the contract dated May 5, 2004, United Internet AG acquired a further 30% of shares in affilinet GmbH on March 22, 2005, and raised its stake from 70% to 100%.

Disposals of shares in affiliated companies amount to €16,753k and result mainly from the non-cash contribution of twenty4help Knowledge Service AG in United Internet Beteiligungen GmbH and the sale of shares in Sedo GmbH and affilinet GmbH to AdLINK Internet Media AG.

The additions to “Loans to affiliated companies” amounting to €14,710k result from the 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.

## **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 (€140,967k), AdLINK Internet Media AG (€18,282k) and twenty4help Knowledge Service AG (€15,241k) 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, 2004 the Company held 1,831,000 treasury shares. The average purchase price per share was €19.96. The treasury shares were valued in the previous year at the lower market price on the balance sheet date of €19.95 per share. An accrual for treasury stock was formed in fiscal year 2005 for treasury shares acquired pursuant to Sec. 71 (1) No. 8 AktG, in combination with Sec. 272 (4) HGB. Up to January 13, 2005 the Company acquired a further 169,000 treasury shares. As of the balance sheet date, the Company thus held 2,000,000 treasury shares. In connection with the Company’s use of treasury stock in the period under review, the item “reserves for treasury stock” was reversed during fiscal year 2005. We refer to the explanations provided under “Financial Assets”.

## **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 € 62,275,201.00 divided into 62,275,201 registered no-par shares having a theoretical share in the capital stock of € 1.00 each.

On the basis of the conditional increase of the Company's capital stock by up to €2,000,000.00, as agreed at the general meeting of shareholders on February 18, 1998, a total of 6,000 registered, no-par shares with a theoretical share in the capital stock of €6,000.00 were issued in exchange for convertible bonds in fiscal year 2005, 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 €2,500,000.00, as agreed at the general meeting of shareholders on May 16, 2001, a total of 321,250 registered, no-par shares with a theoretical share in the capital stock of €321,250.00 were issued in exchange for convertible bonds in fiscal year 2005, 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 €1,500,000.00, as agreed at the general meeting of shareholders on May 16, 2003, a total of 104,564 registered, no-par shares with a theoretical share in the capital stock of €104,564.00 were issued in exchange for convertible bonds in fiscal year 2005, as part of the Company's employee stock ownership plan. In the period under review, capital stock was raised by €3,800,000.00 in return for non-cash contribution from the approved capital of up to €29,000,000.00 passed by the general meeting of shareholders on May 18, 2005.

## **Approved Capital**

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by May 18, 2010 by a maximum of €25,200,000.00 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 €1,887,500.00, divided into 1,887,500 no-par registered shares. A portion of the conditional capital of €1,087,500.00 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, a portion of €800,000.00 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issue of both types of bond was decided by the shareholders' meeting on February 18, 1998. It will only be implemented to the extent that these conversion rights are exercised. As of the balance sheet date no more convertible bonds can be converted from this conditional capital. There will be no further issues.

The capital stock has been conditionally increased by up to a further €1,123,750.00, divided into 1,123,750 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 414,500 convertible bonds can still be converted.

The capital stock has been conditionally increased by up to a further €1,395,436.00, divided into 1,395,436 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 554,996 convertible bonds can still be converted.

The capital stock has been conditionally increased by up to a further €750,000.00, divided into 750,000 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 €23,000,000.00, divided into 23,000,000 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. As of the balance sheet date no bonds have been issued.

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire treasury shares until November 17, 2006 up to a limit of ten percent of capital stock. The purchase price may be no lower than ten percent of the share's market price, nor higher than ten percent above its market price. Treasury shares are intended mainly for current and future employee stock ownership plans or for use as acquisition currency. As of the balance sheet date no 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, 2004	58,043,387.00
- Capital increase for cash contribution	431,814.00
Employee stock ownership plan	
- Capital increase for non-cash contribution	3,800,000.00
- Balance as of December 31, 2005	<b>62,275,201.00</b>

#### **Capital reserves**

- Balance as of December 31, 2004	41,257,055.22
- Capital increase for cash contribution	2,664,037.74
Employee stock ownership plan	
- Capital increase for non-cash contribution	97,280,000.00
- Balance as of December 31, 2005	<b>141,201,092.96</b>

#### **Revenue reserves**

- Balance as of December 31, 2004	898,005.45
- Balance as of December 31, 2005	<b>898,005.45</b>

#### **Reserves for treasury stock**

- Balance as of December 31, 2004	36,528,450.00
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- Withdrawal acc. to Sec. 272 (4) HGB	-36,528,450.00
- Balance as of December 31, 2005	<b>0</b>

#### **Balance sheet profit**

- Balance as of December 31, 2004	55,505,603.75
- Dividend payment	-11,208,677.40
- Net profit for the year	106,507,482.37
- Withdrawal from reserves for treasury stock	36,528,450.00
- Balance as of December 31, 2005	<b>187,332,858.72</b>

**Total shareholders' equity** **391,707,158.13**

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 €187,332,858.72; the balance sheet profit contains a profit carry forward from the previous year (after dividend payment) amounting to €44,296,926.35 and the withdrawal from reserves for treasury stock amounting to €36,528,450.00. The Management Board (in agreement with the Supervisory Board) proposes to appropriate the balance sheet profit as follows:

- payment of a dividend of €0.25 per share for a total of 62,275,201 no-par shares, amounting to €15,568,800.25 and

insofar as the Company holds treasury shares on the day of the Annual Shareholder's Meeting, the partial amount of €0.25 per share pertaining to these treasury shares is to be carried forward and

- transfer of an amount of €100,000,000.00 to revenue reserves and
- the remaining amount of €71,764,058.47 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 preparation of the annual financial statements, United Internet AG held no treasury shares. For the calculation of the dividend payment, capital stock divided into 62,275,201 no-par shares was thus not reduced by treasury shares. Should treasury shares be acquired, the number of shares used in the dividend calculation will be reduced accordingly.

#### **ACCRUALS**

Accrued taxes include accrued sales tax for previous years amounting to €723k, corporation tax and solidarity surcharge amounting to €108k for fiscal year 2005, as well as trade tax for fiscal 2005 amounting to €292k.

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 outstanding invoices (€3,102k). They also include provisions for legal, auditing and consulting fees (€748k), bonuses and commissions (€368k) and personnel expenses.

## LIABILITIES

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

	Dec. 12, 2005	Dec. 12, 2005			Dec. 12, 2004
	Total	less than 1 year	Maturity between 1 and 5 years	more than 5 years	Total
Bonds	970	434	536		1,329
thereof convertible €970k (prior year: €1,329k)					
Bank liabilities	80,000		80,000		0
Trade payables	261	261			368
Liabilities due to affiliated companies	4,980	4,980			1,439
Other liabilities	17,851	17,851			6,003
thereof for social security €16k (prior year: €15k)					
	<b>104,062</b>	<b>23,526</b>	<b>80,536</b>	<b>0</b>	<b>9,139</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 on February 18, 1998 authorized the following issues of convertible bonds to executives:

### Tranche (a)

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

### Tranche (b)

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

The convertible bonds, which bear 4.0% interest p.a., may be exchanged as a whole or in parts for shares in United Internet AG. Each DM 5 par value (€2.56) of the convertible bonds can be exchanged for 10 registered shares.

If the conversion option is exercised, a cash payment of €3.83 has to be made for the purchase of one share. Bonds may be converted no sooner than three years after



issuance, providing that certain conditions linked to the development of the share price are fulfilled.

In the past fiscal year, no convertible bonds were granted out of tranches (a) and (b). €19k was repaid due to the expiry of convertible bonds. Conversion rights totaling €1k were exercised. Hence as of the balance sheet date, there are no longer any convertible bonds of tranche (a) shown under bonds.

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

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. Each €1 par value of the convertible bonds can be exchanged for a registered share.

If the conversion option is exercised, an additional payment has to be made for the purchase of one share. In the case of those convertible bonds issued on August 20, 2001, this additional payment amounts to €1.88, for those issued on May 24, 2002, the additional payment amounts to €4.97 and for those issued on March 25, 2003, the additional payment amounts to €7.53. Bonds may be converted no sooner than one year after issuance.

In the period under review, no partially convertible bonds were issued. €15k was repaid when employees left the Company. Conversion rights totaling €321k were exercised. Hence as of the balance sheet date, partially convertible bonds amounting to €415k are shown under bonds. This is equivalent to a total of 414,500 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 €1,500k 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. Each €1 par value of the convertible bonds can be exchanged for a registered share.

If the conversion option is exercised, an additional payment has to be made for the purchase of one share. In the case of those convertible bonds issued on September 1, 2003, this additional payment amounts to €16.41, for the convertible bonds issued on August 15, 2004 the additional payment amounts to €14.26 and for the convertible bonds issued on May 27, 2005 the additional payment amounts to €20.02. Bonds may be converted no sooner than two years after issuance.

In the period under review, partially convertible bonds amounting to €150k were issued. €48k was repaid when employees left the Company. Conversion rights totaling €105k were exercised. Hence as of the balance sheet date, partially convertible bonds amounting to €555k are shown under bonds. This is equivalent to a total of 554,996 registered shares.

As of the balance sheet date a total of €970k was shown under bonds. This corresponds to 969,496 registered shares.

Bank liabilities result from a revolving syndicated loan due on October 12, 2008, in connection with the acquisition of the portal business of WEB.DE AG (today: Combots AG). The effective interest rate for the interest periods of one month, two or six months is tied to the EURIBOR rate plus a margin of 0.55% p.a.

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 Sedo (€13,043k) and affilinet (€11,528k) to AdLINK Internet Media AG as well as from the non-cash contribution of twenty4help shares to United Internet Beteiligungen GmbH amounting to €33,719k. Income not relating to the period amounted to €839k.

### **OTHER OPERATING EXPENSES**

In addition to expenses for investor relations, marketing and press PR (€610k), other operating expenses contain rent expenses and legal, consulting and audit fees. The item also contains expenses of €15k that do not relate to the period.

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

This item comprises the profits and losses transferred by 1&1 Internet AG (€82,601k) and twenty4help Knowledge Service AG (€3,395k).

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

This item comprises the losses transferred by A1 Marketing, Kommunikation und neue Medien GmbH.

### **INCOME FROM INVESTMENTS**

Income from investments relates to dividend payments of fun communications GmbH, Karlsruhe, and concern the fiscal year 2004.

### **INCOME TAXES**

Income taxes mainly concern tax payments and accrued taxes for the fiscal year 2005.

As a result of its inter-company relationship regarding trade tax with AdLINK Internet Media AG in the years 2000 and 2001, United Internet AG was allocated the respective losses and able to offset them in its trade tax declaration. The trade tax losses of AdLINK Internet Media AG allocated to United Internet AG amounted to €12,673k for fiscal year 2000 and €2,870k for fiscal year 2001. In this connection, a compensation payment of €2,100k was made on the basis of an agreement dated December 29, 2005.

## **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 (chairman)
- United Internet Media AG, Montabaur (chairman)

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 2005. 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 made after the annual financial statements

have been adopted by the Supervisory Board. In fiscal year 2005, remuneration of €754k (prior-year: €501k) was agreed for the Management Board. Of this total, €400k or 53% was fixed and €354k or 47% bonus payments. Mr. Ralph Dommermuth received total remuneration of €404k (prior year: €218k). Of this total, €200k (prior year: €108k) was fixed and €204k (prior year: €110k) variable. Mr. Norbert Lang received total remuneration of €350k (prior year: €283k). Of this total, €200k (prior year: €153k) was fixed and €150k (prior year: €130k) variable. The accrual for variable remuneration thus amounts to €354k.

As of December 31, 2005, the Supervisory Board of United Internet AG consisted of the following members:

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

Bernhard Dorn,  
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 (chairman)
- 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 chairman)
- ATOSS Software AG, Munich (deputy chairman)
- INVERTO AG, Cologne

Michael Scheeren

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

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 €1k for every cent which exceeds the consolidated earnings per

share value of €0.50 for United Internet AG, calculated according to IFRS. Mr. Kurt Dobitsch received total remuneration of €90k (prior year: €73k). Of this total, €40k (prior year: €40k) was fixed and €50k (prior year: €33k) variable. Mr. Bernhard Dorn received total remuneration of €70k (prior year: €53k). Of this total, €20k (prior year: €20k) was fixed and €50k (prior year: €33k) variable. Mr. Michael Scheeren received total remuneration of €70k (prior year: €53k). Of this total, €20k (prior year: €20k) was fixed and €50k (prior year: €33k) variable. The accrual formed for remuneration of members of the Supervisory Board for fiscal year 2005 amounts to €230k. There are no convertible bond programs for members of the Supervisory Board.

### **Share Ownership (units) and Subscription Rights as of December 31, 2005**

	Shares (units)	Subscription rights (units)
<b>Management Board</b>		
Ralph Dommermuth	22,000,000	---
Norbert Lang	221,000	---
<b>Supervisory Board</b>		
Kurt Dobitsch	---	---
Bernhard Dorn	---	---
Michael Scheeren	350,000	---

Mr. Lang was able to exercise 42,000 subscription rights in fiscal year 2005. The respective convertible bonds were issued in August 2001. The remuneration resulting from the fair value of conversion rights to 42,000 stocks at the issuance time of the convertible bonds amounted to €33k in fiscal year 2005.

### **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 exclusively for guaranties amounting to €6,409k. 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 €64,474k as of the balance sheet date.

Auditing fees expensed in fiscal year 2005 pursuant to Sec. 285 No. 17 HGB amounted to €102k, certificate fees totaled €6k, tax consultancy services €136k and other services €55k.

## 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.

	2005 €k
Liabilities from long-term financial obligations	13,329
of which due within one year	6,676
of which due between one and five years	6,653
of which due in more than five years	0

In an agreement dated December 22, 2004, United Internet AG acquired a stake in InterNetX GmbH amounting to 10.20% of its equity. In a joint resolution with the existing shareholders, it was also decided to raise the capital of InterNetX GmbH and in this connection to acquire further shares in InterNetX GmbH. Since completion of these transactions in early 2005, United Internet AG has owned 80% of shares in InterNetX GmbH. The existing shareholders are interested in successively selling further shares in InterNetX GmbH to United Internet AG in the period up to 2015. The purchase prices depend on the development of the company's earnings.

## Disclosures as to Derivative Financial Instruments

In order to limit the risk of interest rate changes, United Internet AG has concluded interest rate hedging agreements with two banks. An interest rate cap and interest rate floor was agreed for an advance period up to September 11, 2006. United Internet AG thus only benefits from falling interest rates up to the agreed interest rate floor, but remains protected against the risk of rising interest rates through the acquired cap. As the premiums to be received from the sale of a floor by United Internet AG are equal to the premiums to be paid for the purchase of a cap, there was no (net) premium payment. The premiums for the purchased options (€20k and €23k) are disclosed under "Other assets", the premiums for the selling position under "Other accrued liabilities". As of the balance sheet date, the fair values were insignificant. The nominal amounts of the two interest rate hedging agreements are €5,000k each. An interest cap of 5.50% per annum and an interest floor of 2.63% per annum were agreed.

## 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, February 28, 2006

The Management Board

Ralph Dommermuth

Norbert Lang

United Internet AG - Development of fixed assets in fiscal year 2005 in €k

	Acquisition and production costs					Accumulated depreciation and amortization				Net book value	
	Jan. 1, 2005	Additions	Disposals	Reclassifications	Dec. 31, 2005	Jan. 1, 2005	Additions	Disposals	Dec. 31, 2005	Jan. 1, 2005	Dec. 31, 2005
<b>Intangible assets</b>											
Licenses	136	0	0	0	136	125	10	0	135	11	1
Software	613	0	0	0	613	613	0	0	613	0	0
<b>Total (I)</b>	<b>749</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>749</b>	<b>738</b>	<b>10</b>	<b>0</b>	<b>748</b>	<b>11</b>	<b>1</b>
<b>Property, plant and equipment</b>											
Operational equipment	895	5	0	0	900	862	11	0	873	33	27
Office furniture and equipment	589	0	10	0	579	541	15	10	546	48	33
Improvements	106	0	0	0	106	98	2	0	100	8	6
Vehicles	245	98	0	0	343	186	17	0	203	59	140
Low-value items	0	0	0	0	0	0	0	0	0	0	0
<b>Total (II)</b>	<b>1,835</b>	<b>103</b>	<b>10</b>	<b>0</b>	<b>1,928</b>	<b>1,688</b>	<b>45</b>	<b>10</b>	<b>1,722</b>	<b>148</b>	<b>206</b>
<b>Financial assets</b>											
Shares in affiliated companies	108,975	195,362	16,753	486	288,070	0	0	0	0	108,975	288,070
Loans to affiliated companies	0	14,710	0	0	14,710	0	0	0	0	0	14,710
Investments	34,897	0	0	-486	34,411	25,980	0	0	25,980	8,918	8,432
Loans to companies in which an investment is held	16,064	0	0	0	16,064	16,064	0	0	16,064	0	0
Other loans	1,634	0	0	0	1,634	1,634	0	0	1,634	0	0
<b>Total (III)</b>	<b>161,571</b>	<b>210,072</b>	<b>16,753</b>	<b>0</b>	<b>354,889</b>	<b>43,677</b>	<b>0</b>	<b>0</b>	<b>43,677</b>	<b>117,893</b>	<b>311,212</b>
<b>Total</b>	<b>164,155</b>	<b>210,175</b>	<b>16,763</b>	<b>0</b>	<b>357,566</b>	<b>46,104</b>	<b>55</b>	<b>10</b>	<b>46,147</b>	<b>118,052</b>	<b>311,419</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, 2005 to December 31, 2005. 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, February 28, 2006

Ernst & Young AG  
Wirtschaftsprüfungsgesellschaft

Bösler  
Wirtschaftsprüfer

Martin  
Wirtschaftsprüferin