Annual Financial Statements

2013

Management Report for the Group and Parent Company

Consolidated Annual Financial Statements acc. to IFRS

united internet

Content

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

1 Company and Group profile

1.1 Business model

Group structure

Founded in 1998 and based in Montabaur, Germany, United Internet AG is the Group parent company of the United Internet Group.

As the Group's holding company, United Internet AG focuses mainly on centralized functions such as corporate controlling and accounting, press relations, investor relations, investment management, risk management, internal audit, and HR management.

In its operating business, United Internet AG acts primarily via 1&1 Internet AG and Sedo Holding AG, including their main domestic and foreign subsidiaries. These include 1&1 Telecom GmbH, 1&1 Mail & Media GmbH, United Internet Media GmbH, Arsys Internet S.L., Fasthosts Internet Ltd., InterNetX GmbH, united-domains AG, Sedo GmbH and affilinet GmbH.

In addition to these operative and fully consolidated subsidiaries, United Internet holds further investments via United Internet Ventures AG and 1&1 Telecommunication AG.

These mainly consist of the equity interests held – via United Internet Ventures AG – in the listed online marketing companies Goldbach Group AG, Switzerland (14.96%), and Hi-Media S.A., France (10.50%), as well as the investments in fun communications GmbH (49%), Virtual Minds AG (48.65%), ProfitBricks GmbH (30.02%) and Open-Xchange AG (28.36%). Via 1&1 Telecommunication AG, United Internet also holds an investment in Versatel GmbH (25.10% via Versatel's holding company VictorianFibre Holding & Co. S.C.A.).

In addition, United Internet has investments in a further 52 internet companies around the world via the investment funds EFF No. 1 (66.67%), EFF No. 2 (90%) and EFF No. 3 (80%) which United Internet Ventures operates jointly with the Samwer brothers.

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

- **United Internet AG**
  - **1&1 Internet AG (100%)**
    - 1&1 USA (100%)
    - 1&1 UK (100%)
    - 1&1 FR (100%)
    - 1&1 ES (100%)
    - 1&1 PL (100%)
    - 1&1 Telecom (100%)
    - 1&1 Mail & Media (100%)
    - United Internet Media (100%)
    - Arsys (100%)
    - Fasthosts (100%)
    - InterNetX (95.56%)
    - united-domains (85%)
  - **1&1 Telecommunication AG (100%)**
    - VictorianFibre Holding (25.10%)
      - Versatel (100%)
  - **United Internet Ventures AG (100%)**
    - Goldbach Group (14.96%)
    - Hi-Media (10.50%)
    - Sedo Holding (96.05%)
      - Sedo (100%)
      - Affilinet (100%)
    - fun communications (49%)
    - Virtual Minds (48.65%)
    - ProfitBricks (30.02%)
    - Open-Xchange (28.36%)
    - EFF Nr. 1 (66.67%)
    - EFF Nr. 2 (90%)
    - EFF Nr. 3 (80%)

Business operations

With 13.45 million fee-based customer contracts and 31.51 million ad-financed free accounts around the world, United Internet AG is Europe's leading internet specialist.

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

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

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

Management

In the fiscal year 2013, the **Management Board** of United Internet AG comprised the company's founder and Chief Executive Officer Mr. Ralph Dommermuth, the Chief Financial Officer Mr. Norbert Lang (with the company since 1994), and Mr. Robert Hoffmann (with the company since 2006). Mr. Hoffmann was appointed to the Management Board of United Internet AG on January 1, 2013 as an additional member. In this new position, he supports the CEO with the strategic development of the company and stands in for him whenever necessary.

The **Supervisory Board** elected by the Annual Shareholders' Meeting once again comprised Mr. Kurt Dobitsch (Chairman), Mr. Kai-Uwe Ricke and Mr. Michael Scheeren in fiscal year 2013.

Main markets and competition

Germany is still the most important sales market of the United Internet Group and accounts for almost 90% of total sales. With its DSL products, the company is among the top three suppliers in Germany's broadband market and with its mobile internet products one of the fastest growing companies. United Internet is the market leader in Germany for hosting and cloud applications.

In Europe, United Internet's hosting and cloud applications are now available in all major markets – either locally or via Germany. In addition to the domestic German market, these mainly include the major European economies of the UK, France, Spain and Italy. With the exception of Italy, where United Internet only began operations in May 2012, the company is among the market leaders in the aforementioned countries. All in all, therefore, United Internet is also the leading European supplier of hosting and cloud applications.

Further key sales markets for the company's application business outside Europe are the North American countries Canada, USA and Mexico. In the most important of these markets, the USA, United Internet is one of the five leading companies in this segment.

Viewed globally, United Internet is thus one of the top three companies for hosting and cloud applications – also according to internet analysts such as 451 RESEARCH.

Main locations

As of December 31, 2013, United Internet AG employed a total of 6,894 people at over 30 domestic and foreign facilities.

On the basis of headcount, the United Internet Group's most important locations were Montabaur (headquarters, finance, risk management, internal audit, HR, marketing, sales, logistics, customer service), Karlsruhe (development, product management, data centers, marketing, sales, customer service), Cebu City, Philippines (customer service), Zweibrücken (customer service), Madrid / Logroño (Spanish business, data centers), Bucharest, Romania (development), Chesterbrook / Lenexa, USA (North American business, data center), Munich (portal business) and Slough / Gloucester (UK business, data center).

1.2. Strategy

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

A large number of customer relationships also helps the company to utilize so-called economies of scale: the greater the customer demand for products created by our development teams and operated at our own data centers, the greater our profit will be. These profits can then be invested in new customers, new products and new business fields.

From the current perspective and according to numerous studies, Cloud Applications and Mobile Internet will be the growth markets over the coming years. With its clear positioning in the Access and Applications segments, United Internet is ideally placed to exploit the expected market potential.

In view of the dynamic market development of Cloud Applications and Mobile Internet, the company's growth opportunities are clearly apparent: universally accessible, increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. These internet-based programs for end users and companies will be United Internet's growth drivers in the years ahead – both as stand-alone products in the Applications business field as well as in combination with fixed-line and mobile access products in the Access segment business field.

With its many years of experience as an access and application provider, its expertise in software development and data center operation, marketing, sales and customer support, as well as its strong and well-known brands, and customer relationships with millions of private users, freelancers and small companies in Germany and abroad (currently almost 45 million user accounts world-wide), the company is excellently positioned.

In order to leverage this positioning for further sustainable growth, United Internet will also invest heavily in new customers, new products and business fields in future, as well as in its further internationalization.

In addition to organic growth, United Internet also continually seeks possibilities (especially in its Cloud Application business) for company acquisitions, investments and cooperations, in order to extend its market positions, competencies and product portfolios.

Thanks to the high and plannable level of free cash flow, funding for planned organic growth is also secured and at the same time – if necessary also with the use of existing credit lines – there is financial scope for acquisitions and investments.

The strategic alignment of the business fields is increasingly being reflected in the Group's corporate structure. The Applications business is pooled with 1&1 Internet AG and the Access business with 1&1 Telecom GmbH.

Further information on strategy, opportunities and targets is included in the Risk, Opportunity and Forecast Report in section 4.

1.3 Control systems

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

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

The key performance indicators of the United Internet Group for chief corporate management are presented in "Segment reporting" under point 4 of the Notes to the Consolidated Financial Statements

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

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

In order to control the Group's performance, United Internet AG uses in particular the key figures of the income statement (sales, EBITDA, EBIT, EPS), of the statement of cash flows (free cash flow) and of the statement of financial position (asset items, financial liabilities, equity ratio).

The company also employs non-financial key figures, in particular the number and growth of fee-based customer contracts, as well as ad-financed free accounts.

A comparison of planned and actual key performance indicators (KPIs) is provided in this Management Report in 2.2 "Business Development" in the section "Actual and Forecast Development" as well in 2.3 "Position of the Group".

The number of customer contracts, the gross and net sales figures and the related customer acquisition costs in particular – compared to the company's plans and forecast calculations – serve as an early warning system.

1.4 Research and development

As an internet service provider, the United Internet Group does not engage in research and development (R&D) on a scale comparable with manufacturing companies. Against this backdrop, United Internet does not disclose key figures for R&D.

At the same time, the United Internet brands stand for internet access, solutions and innovative web-based products and applications which are mostly developed in-house. The success of United Internet is rooted in an ability to develop, combine or adapt innovative products and services and launch them on major markets.

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

At United Internet's development centers (especially in Karlsruhe and Bucharest), around 1,900 (prior year: 1,750) developers, product managers and technical administrators use mainly open source code in clearly defined and modeled development environments. Third-party programming services are also used to swiftly and efficiently implement specific projects. This enables the company to quickly change existing basic applications of products and adapt them to changing customer needs. United Internet also procures solutions from partners, which are then modified according to needs and integrated into its systems. With the aid of its self-developed and integrated applications, United Internet has a set of modules which can be easily combined and provided with product-specific or country-specific user interfaces in order to create a wide variety of powerful and integrated applications – a huge benefit when tailoring products to varying target groups or for international rollouts.

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

Focus areas 2013

Access

Access product range rounded out with Mobile Apps: In June, 1&1 provided its customers with the Control Center app, a mobile customer center with which consumption and billing information can be easily viewed on mobile devices.

In addition, 1&1's online storage and photo album app were both updated with the addition of important new features such as the two-way syncing, DLNA and Airplay support.

Numerous new apps were also introduced, such 1&1 Music, 1&1 HomePhone and 1&1 Backup, so that 1&1's online storage can be adapted even better to customer needs.

Mobile number portability with requested date: As part of the number portability service provided for mobile phone contracts, processes were optimized in 2013 so that customers can now port their numbers to the 1&1 contract on a date of their choice. This means that customers can request that the new mobile phone contract starts exactly after the existing contract expires, thus reliably avoiding any double costs from temporarily having two providers.

Business Applications

Pre-registration process for new top-level domains: As of July 2013, 1&1 offers its customers the possibility to make a non-binding registration for the latest so-called nTLDs (new top-level domains). A new registration platform was specially developed giving website operators a comprehensive overview of the relevant address spaces and the possibility to submit pre-registrations.

Further development of 1&1 hosting product range: As of September 2013, 1&1 offers its hosting customers a range of new applications designed for maximum performance and flexibility for the hosting of websites. Users can now choose between different installation methods: offering greater security in "safe mode" and greater flexibility for individual adjustments in "free mode".

A CDN (Content Delivery Network) has been integrated which enables shared hosting customers to deliver their websites to visitors at increased speeds. In this CDN, static website content is cached at various locations around the world in order to shorten the transmission paths to the respective visitor and thus deliver the website faster. All dynamic content continues to be loaded directly from 1&1's servers and all master copies remain at the company's own data centers.

The new 1&1 Mobile Sitebuilder enables customers to easily create a new mobile website or simply convert an existing page into a mobile-optimized version.

1&1 is one of the world's first hosters to develop and produce a dedicated server for its hosting customers based on the latest 8-core Intel® ATOM C2750 processor (codenamed AVOTON). As with 1&1's previous dedicated server models, special emphasis was placed on maximum performance and extremely low power consumption when selecting and configuring components.

Presentation of the OX App Suite: As of October 2013, 1&1's Spanish and French customers can use the new OX App Suite of United Internet's investment Open-Xchange. The update gives customers a new interface with new design, improved user interface and numerous innovative features, such as the Dashboard with individual configuration of widgets (e.g. weather, calendar overview etc.). With its responsive design, the OX App Suite is also fully operational and customer-friendly on all mobile devices and tablets.

WEB Apps / iF Award for Web App Store: The applications for 1&1 MyWebsite were also significantly enhanced in fiscal year 2013. Amongst other things, about 500 Web Apps were integrated. These small applications are based on the web services of third-party suppliers. The Web App portfolio comprises a wide range of sector-specific applications (e.g. table reservation tools for restaurants) as well as general-purpose apps (e.g. integration into social networks).

Despite the impressive variety of Web Apps on offer, 1&1 succeeded in ensuring simple and intuitive use. The corresponding Web App Store, for example, received the prestigious international iF Design Award 2014 for outstanding user interfaces.

Integration of 1&1 Social Media Manager (for Facebook or Twitter) into 1&1 MyWebsite: The newly developed 1&1 Social Media Center allows users of 1&1 MyWebsite Business to create (without prior knowledge) a professional Facebook page via a new interface on their existing website and enter into a dialogue with their customers. The 1&1 MyWebsite home page has become the control center for steering social media activities. The 1&1 Social Media Center consists of two parts: with the 1&1 Social Page Manager, an existing 1&1 MyWebsite home page can be turned into a Facebook page in just a few easy steps and with the 1&1 Social Media Manager a new user interface was developed which enables users to create their own content. In addition to Facebook, the 1&1 Social Media Manager also supports Twitter.

Consumer Applications

Relaunch of GMX: In January 2013, one of the biggest software updates in the history of GMX was rolled out. Almost 16 million active mailboxes in Germany, Austria and Switzerland received a more modern and greatly enhanced user interface with greater cloud storage and a host of additional new features.

Prior to the launch, GMX users had been invited to submit wishes, exclusively beta test selected features and discuss changes with other users and GMX staff in a “think tank”. Over 1,000 users took the opportunity and helped optimize their future GMX mailbox. The newly developed GMX Webmailer was subsequently tested and finalized in the usability lab.

De-Mail solutions: 1&1’s De-Mail offerings were accredited and launched for end users just in time for the CeBIT 2013. Within the framework of Germany’s De-Mail legislation, it enables users to send legally binding e-mails. Extra features for business customers were added in the fall. These enable companies and authorities to operate under a separate De-Mail domain. The launch successfully demonstrated that we are capable of maintaining our agility in product development and operations even under the strict requirements of De-Mail certification.

E-Mail made in Germany: With the initiative “E-Mail made in Germany” (EMIG), United Internet and other major German e-mail providers succeeded in defining a technical standard which represents a significant increase in security for users. The transport encryption written into the EMIG standard ensures that the content of e-mails remains confidential and access by unauthorized persons is made significantly more difficult. This applies to both the data flow between the customer's devices, as well as the data exchange between EMIG providers. The EMIG standard specifies the cryptographic methods to be used and gives recommendations on how encryption methods regarded as weak or broken can be avoided. Special emphasis was placed on using encryption algorithms at key points that operate without consequences (Perfect Forward Secrecy - PFS). This ensures that the encrypted data remain secure, even if parts of the key material are compromised.

EMIG is backward compatible with potentially unencrypted working standards and does not therefore limit the user during communication with non-EMIG partners. The use of EMIG standards does not require any action by the end user. As of 1 April 2014, all e-mail transport routes of the participating partner companies will be fully SSL encrypted. The entire communication security process is conducted transparently in the background. A green "EMIG" symbol in the e-mail dialogues of the web browser will inform customers whether mail can be delivered within the secure EMIG association.

In line with internet conventions, EMIG was conceived as an open service working within a federation. There is no central authority that controls access to all data, as is the case with social networks and many instant messaging solutions for example. Customer data always remain with the respective provider while the EMIG standard governs the protocols and minimum requirements for exchanging e-mails between customers of different providers.

Customer satisfaction / Payment transactions / Security

International roll-out of the 1&1 Principle: In fiscal 2013, the 1&1 Principles known from our Access business were extended to our Hosting and eBusiness operations and rolled out internationally. The existing processes and internal systems were adapted and enhanced. The 1&1 Principles give customers binding guarantees regarding support, flexible contracts and a high degree of operational reliability.

ipayment: With the introduction of the Single Euro Payments Area (SEPA) to standardize cashless payments in the eurozone, and in order to meet security requirements, the data management of bank accounts was modernized in 2013. The IT systems used to process credit card payments, certified according to the highest safety standards of the credit card industry (PCI-DSS), were extended to include SEPA-relevant bank account details in this high-security environment.

Our own internal Payment Service Provider (PSP) "ipayment" was updated during the reporting period in order to include further payment methods and enable its international use. The configuration of payment types and local language was simplified. These modifications facilitate integrations into existing or new eShop solutions.

Security technology to increase availability: In fiscal year 2013, United Internet made further improvements to the stability of its hosting products, despite massive and increasing DDoS (Distributed Denial of Service) and brute force attacks on its infrastructure. This was achieved, for example, with the aid of new concepts such as the integration of a security module into the Apache webserver which analyzes and filters out such requests for dynamic rules, thus protecting the infrastructure.

2 Economic report

2.1 General economic and sector conditions

General economic development

The International Monetary Fund (IMF) repeatedly downgraded its forecasts for the global economy throughout 2013. In the latest update to its "World Economic Outlook" on January 21, 2014, the Fund calculated growth for the **global economy** of 3.0% in 2013 (after 3.1% in the previous year). This is 0.5 percentage points less than the IMF had forecast in January 2013. This was the third consecutive year that global economic growth had slowed since 2010 (+5.2%).

The Fund blamed this weaker-than-expected trend in 2013 above all on persistently high unemployment in Europe, uncertainty about the effects of stricter US monetary policy, and the faltering development of the emerging economies.

Once again, however, global growth in 2013 was driven mainly by the emerging and developing economies, which grew by 4.7% (compared to 4.9% in the previous year). Growth was much weaker in the developed economies of Europe, North America and Japan, which only managed growth of 1.3% (following 1.4% in the previous year).

In United Internet's North American markets – the USA, Canada and Mexico – the pace of economic growth varied somewhat in 2013. Whereas growth in **Canada** remained stable at 1.7%, there was a marked fall in economic output in the **USA** from 2.8% to 1.9% and in **Mexico** from 3.7% to 1.2%.

The IMF calculated that output fell by 0.4% in the **eurozone** during 2013 (prior year: -0.7%).

The development in United Internet's European target markets was quite varied. Whereas the non-euro **UK** economy grew by 1.7% (prior year: 0.3%) and **France** at least managed minimal growth of 0.2% (prior year: 0.0%), Spain and Italy suffered a further year of recession. Although their economies improved slightly compared to the previous year, economic output in **Spain** fell by 1.2% (prior year: -1.6%) and in **Italy** by 1.8% (prior year: -2.5%).

The IMF calculated economic growth of 0.5% in **Germany**, United Internet's most important market, in 2013. Although 0.1 percentage points less than the IMF predicted in its January 2013 forecast, this still falls 0.4 percentage points short of what the German economy achieved in 2012. According to experts, the main reasons were the global economic downturn and its negative impact on Germany's traditionally strong export sector.

Year-on-year GDP development*

	2010	2011	2012	2013
World	5.2%	3.9%	3.1%	3.0%
USA	3.0%	1.8%	2.8%	1.9%
Canada	3.2%	2.6%	1.7%	1.7%
Mexico	5.4%	3.9%	3.7%	1.2%
Eurozone	1.9%	1.4%	-0.7%	-0.4%
Germany	3.6%	3.1%	0.9%	0.5%
France	1.4%	1.7%	0.0%	0.2%
Italy	1.5%	0.4%	-2.5%	-1.8%
Spain	-0.1%	0.4%	-1.6%	-1.2%
UK	2.1%	0.9%	0.3%	1.7%

Source: International Monetary Fund, World Economic Outlook (update), January 2014

Sector development

The German Information and Communication Technology (ICT) market also fell short of expectations made at the beginning of 2013. As a result, the sector association BITKOM already downgraded its original growth forecast for 2013 during the year from 1.4% to 0.1%. At its annual press conference at the CeBIT, the association stated that revenues in 2013 had ultimately even fallen by 0.6% to € 150.8 billion.

Revenues from ICT products and services in Germany
(in € billion)

	2011	2012	2013	Change
Total ICT market	148.1	151.7	150.8	- 0.6%
IT sub-market	71.2	73.1	74.2	+ 1.5%
Telecommunications sub-market	64.2	66.0	65.9	- 0.2%
Consumer electronics sub-market	12.7	12.6	10.7	- 15.1%

Source: BITKOM

Development of United Internet's key markets

The most important ICT markets for United Internet's business model are the German broadband and mobile internet markets for the subscription-financed Access segment, and the global cloud computing and German online advertising markets for the subscription- and ad-financed Applications segment.

German broadband market

Due in part to the strong trend toward mobile internet usage, demand for new fixed-line broadband connections in Germany has slowed since 2008. With expected growth of 0.6 million to 28.6 million in 2013 – following 0.4 million in 2012 and 1.2 million in 2011 – the number of new connections remained well below previous record years. These figures were calculated by the Association of Telecommunications and Value-Added Service Providers (Verband der Anbieter von Telekommunikations- und Mehrwertdiensten – VATM) and Dialog Consult in their joint TC Market Analysis for Germany 2013 published on October 16, 2013.

In its survey "German Entertainment and Media Outlook 2013-2017" of October 2013, PricewaterhouseCoopers expected sales of fixed-line broadband connections to rise by 1.3% to around € 7.6 billion in 2013.

According to calculations of Dialog Consult / VATM, however, the average volume of data used is rising much more strongly than the number of newly activated connections and sales of broadband connections – as an indicator of continued growth in usage – with growth of 15.9% to 15.3 GB (per connection and month).

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

	2013	2012	Change
Broadband connections (in million)	28.6	28.0	+ 2.1%
Broadband revenues (in € billion)	7.6	7.5	+ 1.3%
Data volume per connection and month (in GB)	15.3	13.2	+ 15.9%

Source: PricewaterhouseCoopers; Dialog Consult / VATM

Mobile internet market in Germany

The German mobile internet market displayed dynamic growth in 2013. According to BITKOM figures, sales of mobile data services rose by 5.8% to € 9.1 billion in 2013.

At the same time, the average volume of data used (per connection and month) – as an indicator of the growing use of mobile data services – grew by 15.0% to 261 MB.

A major reason for this growth is the boom in smartphones, sales of which increased by 22.2% to 26.4 million in 2013 according to BITKOM. Revenues generated by smartphone sales rose by 12.0% to € 8.4 billion.

Key market figures: mobile internet access (cellular) in Germany

	2013	2012	Change
Mobile internet revenues (in € billion)	9.1	8.6	+ 5.8%
Smartphone sales (in million units)	26.4	21.6	+ 22.2%
Smartphone revenues (in € billion)	8.4	7.5	+ 12.0%
Data volume per connection and month (in MB)	261	227	+ 15.0%

Source: BITKOM / European Information Technology Observatory (EITO); Dialog Consult / VATM

Cloud computing market

In an update of its study “Forecast Overview: Public Cloud Services, Worldwide” published on August 28, 2013, Gartner forecast global growth for Public Cloud Services of 17.9% in 2013, from $ 111.2 billion to $ 131.1 billion. Gartner also forecasts strong growth for United Internet’s most important regions North America (+24.8% to USD 42.3 billion) and Western Europe (+10.2% to USD 19.4 billion) in 2013.

Cloud Computing is no short-term trend, but represents a fundamental shift in the provision and use of IT services. The aforementioned figures indicate the dynamic potential of this market. IT users get better services for less money with cloud computing. Small and mid-size companies in particular can gain access to IT applications which previously only major corporations could afford.

Key market figures: cloud computing worldwide

	2013	2012	Change
Sales worldwide (in $ billion)	131.1	111.2	+ 17.9%
Sales in North America (in $ billion)	42.3	33.9	+ 24.8%
Sales in Western Europe (in $ billion)	19.4	17.6	+ 10.2%

Source: Gartner

Online advertising in Germany

In its study “German Entertainment and Media Outlook 2013 – 2017” of October 2013, PricewaterhouseCoopers expects (net) revenues of the German online advertising market to rise by 9.6% to around € 5.12 billion in 2013.

Key market figures: online advertising in Germany

(in € billion)	2013	2012	Change
Online advertising revenues	5.12	4.67	+ 9.6%
thereof search word marketing	2.47	2.28	+ 8.3%
thereof display advertising	1.34	1.23	+ 8.9%
thereof affiliate / classifieds	0.92	0.86	+ 7.0%
thereof video advertising	0.22	0.18	+ 22.2%
thereof mobile online advertising	0.18	0.13	+ 38.5%

Source: PricewaterhouseCoopers

Legal conditions / significant events

In 2013, the legal parameters for United Internet's business activities remained largely unchanged from fiscal year 2012 and thus had no significant influence on the development of the United Internet Group.

There were also no significant events in fiscal 2013 which had a material effect on the development of business.

2.2 Business development

Actual and forecast development

United Internet can look back on a very successful fiscal year 2013. The forecasts published at the beginning of the year and during the year were all met or exceeded.

Actual and forecast development of business in 2013

	As of Dec. 31, 2012*	Forecast Mar. 21, 2013	Forecast Aug. 14, 2013	As of Dec. 31, 2013**
Customer contracts	12.04 million	+ ~1 million	+ ~ 1.1 million	+ 1.41 million =13.45 million
Sales	€ 2,397 billion	+ ~10%	+ ~10%	+ 10.8% = € 2,656 billion
EBITDA from established business fields	€ 450.0 million	~ € 500 million	~ € 500 million	+ 14.5% = € 515.1 million
EBITDA-effective start-up losses in new business fields***	€ 124.1 million	~ € 100 million	~ € 100 million	- 13.1% = € 107.9 million
EBITDA	€ 325.9 million	~ € 400 million	~ € 400 million	+ 24.9% = € 407.2 million
EPS	€ 0.71	€ 1.00-1.10	€ 1.00-1.10	+ 50.7% = € 1.07
Free cash flow****	€ 204.7 million	> € 200 million	> € 200 million	+ 3.6% = € 212.0 million

* Without special items: Sedo impairment charges (EPS effect: € -0.24) and Freenet share sales (EBITDA effect: € +17.9 million; EPS effect: € +0.09)

** Growth in customer contracts: organic growth (1.08 million) plus customer contracts from Arsys acquisition (0.33 million)

*** Investment in new business fields (De-Mail, 1&1 MyWebsite, nTLDs)

**** Free cash flow is defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment

The number of fee-based **customer contracts** was raised by 1.08 million, or including the Arsys acquisition by 1.41 million, (forecast March 21, 2013: approx. 1.0 million / forecast August 14, 2013: approx. 1.1 million) to a total of 13.45 million contracts.

Consolidated sales grew by 10.8% (forecast: approx. 10%) to € 2.656 billion.

Despite upgrading the customer forecast during the year, the original earnings forecasts were also reached: **EBITDA from established business fields** rose sharply by 14.5% to € 515.1 million (forecast: approx. € 500 million) compared to the prior-year EBITDA result adjusted for special items.

At the same time, our strong cash generation in established business fields was used to **invest heavily** in the development and expansion of new business fields and thus create growth potential for the future. As the established business fields exceeded expectations, a total of € 107.9 million (forecast: approx. € 100 million) was invested in new business fields with an effect on EBITDA.

All in all, **EBITDA** improved by 24.9% to € 407.2 million (forecast: approx. € 400 million) compared to prior-year EBITDA adjusted for special items.

EPS increased by 50.7% to € 1.07 (forecast: € 1.00-1.10) compared to prior-year EPS adjusted for special items.

Free cash flow (i.e. net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment) was improved once again by 3.6% in fiscal 2013 to € 212.0 million (forecast: > € 200 million)

Segment development

Access segment

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

In line with the dynamic development of customer figures, **segment sales** grew strongly once again by 12.7% from € 1,586.1 million to € 1,788.3 million in fiscal year 2013. The segment's share of total Group sales amounted to 67.3%.

Despite increased investments in customer growth (+820,000 contracts in 2013 compared to +670,000 in the previous year) and the full expensing of smartphone subsidies in the company's fast growing Mobile Internet business, there was strong year-on-year growth in **segment EBITDA** of 27.9% to € 245.4 million (prior year: € 191.8 million), while **segment EBIT** climbed 32.3% to € 217.4 million (prior year: € 164.3 million).

All customer acquisition costs and costs for the conversion of resale DSL connections to complete packages (ULL) continue to be charged directly as expenses.

The number of **employees** in this segment rose by 13.6% to 2,191 (prior year: 1,928).

Key sales and earnings figures in the Access segment
(in € million)

	2013	2012	Change
Sales	1,788.3	1,586.1	+ 12.7%
EBITDA	245.4	191.8	+ 27.9%
EBIT	217.4	164.3	+ 32.3%

Quarterly development
(in € million)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q4 2012	Change
Sales	421.7	441.5	458.7	466.4	417.1	+ 11.8%
EBITDA	54.8	54.0	67.1	69.5	46.3	+ 50.1%
EBIT	47.2	47.3	60.2	62.7	39.1	+ 60.4%

Historical development of key sales and earnings figures*
(in € million)

	2010	2011	2012	2013
Sales	1.230.1	1.368.0	1.586.1	1.788.3
EBITDA	122.6	152.3	191.8	245.4
EBITDA-Marge	10.0%	11.1%	12.1%	13.7%
EBIT	92.0	122.2	164.3	217.4
EBIT-Marge	7.5%	8.9%	10.4%	12.2%

* The sale of the AdLINK Media business in 2009 and the launch of Mobile Internet products in 2010 had a significant impact on the business model, financial position and performance of United Internet. As a result, United Internet's multi-period overview also does not begin until 2010.

The number of fee-based **Access contracts** rose by 820,000 to 5.54 million contracts in fiscal year 2013. Of this figure, the segment added 570,000 new customer contracts in its Mobile Internet business and thus raised the number of customers to 1.98 million. There was also growth in the important complete DSL contract business with the addition of 390,000 customer contracts to reach a total of 3.18 million. As expected, however, the number of customer contracts for those business models being phased out (T-DSL and R-DSL) continued to fall in fiscal 2013 (-140,000 customer relationships). All in all, the total number of DSL contracts grew by 250,000 contracts to 3.56 million. As a result, United Internet easily outperformed the overall German broadband market (fixed-line) (+7.6% compared to 2.1% market growth).

Development of Access contracts in fiscal year 2013
(in million)

	Dec. 31, 2013	Dec. 31, 2012*	Change
Access, total contracts	5.54	4.72	+ 0.82
of which Mobile Internet	1.98	1.41	+ 0.57
of which DSL complete (ULL)	3.18	2.79	+ 0.39
of which T-DSL / R-DSL	0.38	0.52	– 0.14

* Figures adjusted to aid comparison (see 3-Month Report 2013, page 9: customer and contract inventory)

Development of Access contracts in the fourth quarter of 2013
(in million)

	Dec. 31, 2013	Sep. 30, 2013	Change
Access, total contracts	5.54	5.36	+ 0.18
of which Mobile Internet	1.98	1.86	+ 0.12
of which DSL complete (ULL)	3.18	3.09	+ 0.09
of which T-DSL / R-DSL	0.38	0.41	– 0.03

Product highlights 2013

In the period under review, the main focus was on expanding the performance of the 1&1 All-Net-Flat product family, raising the flexibility of all 1&1 Mobile Internet products, and launching “Smart Home” for 1&1 DSL.

- **Increased surfing speeds and data volumes for all 1&1 All-Net-Flats:** In January 2013, the 1&1 All-Net-Flat product family was enhanced with greater surfing speeds and increased high-speed data volumes. The 1&1 All-Net-Flat Basic now boasts 500 MB high-speed data volume (instead of 300 MB) and speeds of up to 7.2 Mbit/s; the 1&1 All-Net-Flat Plus has 1,000 MB (instead of 500 MB) high-speed data volume with up to 14.4 Mbit/s; while the 1&1 All-Net-Flat Pro offers 2,000 MB (instead of 1,000 MB) of high-speed data volume.

- **Flexible data packages for all 1&1 Mobile Internet tariffs:** As of February 2013, 1&1 offers its Mobile Internet users optional high-speed data packages. As soon as 75% or 100% of the included high-speed volume has been used, 1&1 All-Net-Flat users (as well as 1&1 Notebook-Flat and Tablet-Flat users) receive a text message providing information and the possibility to book top-up packages.

- **1&1 DSL ushers in “smart home” era:** Starting the coffee machine on your way home, switching lights on and off while on vacation, or checking if you really did unplug the iron. Intelligent power outlets – accessible via the home network with WiFi remote control or smartphone app – make all this possible. As of April 2013, 1&1 DSL has taken its first step toward such “smart homes”. The 1&1 SmartEnergy power outlet can also help save energy. It collects energy usage data and presents the results for each hour, day, month or year. This also allows users to draw up their own personal carbon footprint.

Applications segment

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

In fiscal year 2013, **sales** of the Applications segment rose by 7.0%, from € 810.2 million to € 867.0 million. This was despite the fact that revenue from the marketing of United Internet's portals were down approx. € 6.4 million year on year in the first quarter of 2013. Revenue from this business was up again as of the second quarter and was also able to achieve growth. **Sales abroad** were raised by 11.2% to € 296.9 million (prior year: € 266.9 million). As a result, the segment accounted for around 32.6% of total Group sales.

As in the preceding years, United Internet once again invested heavily in set-up, development and marketing of new business fields in fiscal 2013. The main focus was on De-Mail, 1&1 MyWebsite and the new top-level domains (nTLDs). United Internet invested a total of € 107.9 million (prior year: € 124.1 million) – and thus even more than originally planned (€ 100 million) – in its new business fields in 2013.

Despite these persistently high investments, **EBITDA** increased by 27.7%, from € 132.1 million to € 168.7 million, and **EBIT** by 53.3%, from € 66.6 million (comparable prior-year figure without Sedo impairment charges of € 46.3 million) to € 102.1 million.

Customer acquisition costs in this segment also continue to be charged directly as expenses.

In September 2013, the wholly acquired company Arsys Internet S.L. was integrated into the segment's financial and customer figures. Further details are provided under point 2.2 "Business development" in the section "Group Investments" as well as in the Notes to the Consolidated Financial Statements under point 3 "Business Combinations and Investments".

The number of **employees** in this segment grew by 8.8% to 4,669 (prior year: 4,292) – due in part to the acquisition of Arsys.

Key sales and earnings figures in the Applications segment
(in € million)

	2013	2012	Change
Sales	867.0	810.2	+ 7.0%
EBITDA	168.7	132.1	+ 27.7%
EBIT*	102.1	66.6	+ 53.3%

* 2012 without negative special items (Sedo impairment charges: EBIT effect: € 46.3 million)

Quarterly development
(in € million)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q4 2012	Change
Sales	207.9	211.7	213.4	234.0	212.8	+ 10.0%
EBITDA	38.5	32.3	41.0	56.9	40.0	+ 42.3%
EBIT	23.1	16.4	23.7	38.9	22.6	+ 72.1%

Historical development of key sales and earnings figures*
(in € million)

	2010	2011	2012	2013
Sales	676.5	725.8	810.2	867.0
Start-up losses**	21.7	42.7	124.1	107.9
EBITDA	232.7	183.4	132.1	168.7
EBITDA margin	34.4%	25.3%	16.3%	19.5%
EBIT***	177.3	125.0	66.6	102.1
EBIT margin	26.2%	17.2%	8.2%	11.8%

* The sale of the AdLINK Media business in 2009 and the launch of Mobile Internet products in 2010 had a significant impact on the business model, financial position and performance of United Internet. As a result, United Internet's multi-period overview also does not begin until 2010.
** Start-up losses = EBITDA-effective start-up losses in new business fields
*** 2012 without special items (Sedo impairment charges: EBIT effect: € -46.3 million)

The number of fee-based **Business Applications contracts** rose worldwide by 530,000 to 5.73 million (of which +110,000 1&1 MyWebsite contracts to a total of 510,000) in fiscal year 2013. Of this total, there was an increase in domestic contracts of 90,000 to 2.37 million, while contracts abroad rose by 440,000 to 3.36 million. This strong growth abroad results in part from the takeover of the Spanish competitor Arsys, which contributed around 330,000 contracts to the total number of customer contracts.

The international expansion of the segment's Business Application business was also continued with a roll-out in Mexico in the reporting period.

Development of Business Applications contracts in fiscal year
(in million)

	Dec. 31,	Dec. 31,	Change
Business Applications, total contracts	5.73	5.20	+ 0.53
of which “domestic”	2.37	2.28	+ 0.09
of which “foreign”	3.36	2.92	+ 0.44

* Figures adjusted to aid comparison (see 3-Month Report 2013, page 11: customer and contract inventory)

Development of Business Applications contracts in the fourth quarter of 2013
(in million)

	Dec. 31,	Sep. 30,	Change
Business Applications, total contracts	5.73	5.72	+ 0.01
of which “domestic”	2.37	2.35	+ 0.02
of which “foreign”	3.36	3.37	– 0.01

In the second half of 2013, United Internet shifted its advertising budget for Business Applications away from the international TV marketing of the 1&1 MyWebsite product and toward a widespread ad campaign for the new top-level domains (nTLDs). Details on the nTLDs are provided at the end of this segment report under “Product highlights 2013”. The company’s declared aim was to generate around 5 million non-binding pre-registrations for the **nTLDs** by the end of 2013. With around 5.9 million pre-registrations as of December 31, 2013, United Internet surpassed this target. The generated pre-registrations are to be used to gain fee-based customer contracts on availability of the ending. On November 6, 2013, United Internet signed a registry agreement with the US domain registry Donuts Inc. and began accepting binding pre-orders for the first four domain endings on November 8. As the largest registry for new top-level domains, Donuts Inc. plans to offer more than 150 new domain endings.

The number of **Consumer Accounts** rose slightly by 10,000 to 33.69 million in fiscal year 2013. Fee-based accounts with Premium Mail subscriptions declined by 40,000 to 1.87 million. This was brought about by the expanded scope of services provided by competing, ad-financed, free accounts. Fee-based accounts with Value-Added subscriptions rose by 100,000 to 310,000. Following the accreditation received on March 5, 2013, a total 490,000 De-Mail usage contracts were completed as of December 31, 2013 – of which 210,000 users could be fully identified and activated. In contrast to accounts with Premium Mail subscriptions and Value-Added subscriptions, the aforementioned De-Mail usage contracts are not fee-based contracts as defined by United Internet’s contract policy, as these contracts are not linked to a monthly basic fee but invoiced purely according to usage.

Development of Consumer Applications contracts in fiscal year
(in million)

	Dec. 31,	Dec. 31,	Change
Consumer Applications, total accounts	33.69	33.68	+ 0.01
of which with Premium Mail subscription	1.87	1.91	– 0.04
of which with Value-Added subscription	0.31	0.21	+ 0.10
of which with De-Mail address / identification	0.49 / 0.21	-	+ 0.49 / 0.21

* Figures adjusted to aid comparison (see 3-Month Report 2013, page 11: customer and contract inventory)

Development of Consumer Applications contracts in the fourth quarter of 2013
(in million)

	Dec. 31,	Sep. 30,	Change
Consumer Applications, total accounts	33.69	33.47	+ 0.22
of which with Premium Mail subscription	1.87	1.89	– 0.02
of which with Value-Added subscription	0.31	0.30	+ 0.01
of which with De-Mail address / identification	0.49 / 0.21	0.42 / 0.17	+ 0.07 / 0.04

Product highlights 2013
In the period under review, activities in the field of Consumer Applications focused on the roll-out of new GMX mailboxes and the De-Mail accreditation of WEB.DE and GMX. Business Application activities centered on expanding the features of the 1&1 MyWebsite product, the roll-out of Microsoft Exchange 2013, the start of pre-registration for the new top-level domains, as well as the launch of a new 1&1 shared hosting product line.

- **16 million mailboxes with cloud storage for GMX:** In the first quarter of 2013, 16 million active mailboxes in Germany, Austria and Switzerland received an enhanced user interface with improved ease-of-use. A whole host of new features and two gigabytes of cloud storage were conveniently integrated.

- **WEB.DE and GMX accredited for De-Mail:** WEB.DE and GMX were able to announce the receipt of their De-Mail accreditation at the CeBIT 2013 trade show. This represents one of the most important milestones so far for this project. The De-Mail launch of WEB.DE and GMX has also been accompanied by a TV campaign since March 6.

- **1&1 MyWebsite with new, additional features:** In March 2013, 1&1 integrated a series of new tools into its 1&1 MyWebsite product which help companies and freelancers optimize both the appearance and performance of their websites. The new “Multimedia Show”, for example, enables users to easily design audio-visual material for a more compelling customer experience, while the new “Sheet Catalogue” makes it easy to produce online brochures, and the “Online Survey Tool” offers an easy way of collecting customer feedback.

- **1&1 offers new package for Microsoft Exchange 2013:** In April 2013, 1&1 launched its new professional mail solution "Microsoft Exchange 2013". The product mainly targets small and mid-size companies. The Exchange mailbox with a storage capacity of 25 gigabytes and the latest Outlook version 2013 gives customers the possibility to access the mailbox via any internet-capable user device. Real-time synchronization with the user's desktop PC also enables mobile access via notebooks, smartphones or tablet PCs. In addition, customers benefit from high security standards for protection against spam and viruses.

- **1&1 offers pre-registration for new top-level domains (nTLDs):** As of July 2013, 1&1 offers home users and businesses the possibility to make a non-binding registration for the latest generation of internet addresses. The new, so-called nTLDs offer small to mid-sized businesses in particular, but also clubs and groups, over 700 attractive endings, such as .berlin, .restaurant, .shop, .gmbh, .music or .auto. Whereas address endings were originally linked mostly to specific nations, topics such as places and industries will play a major role for the generation of future addresses. The new top-level domains will greatly expand the previously restricted possibilities for name generation and thus increase the number of options for individualized addresses. Business owners in particular will benefit from the extra customer interest created by their new addresses, enabling them to greatly strengthen their digital brand identification.

- **1&1 launches new shared hosting product line:** In September 2013, 1&1 unveiled a new hosting product line offering maximum performance and flexibility for the hosting of websites. Available for Linux and Windows, the new products provide professional developer tools, a user-friendly WebApp Center, possibilities to control optimum performance and an experienced team of experts offering support for these top web apps. The launch was accompanied by the presentation of the new 1&1 Principles for Hosting and eBusiness, which give binding guarantees for customer support, flexible contracts and operational security for their hosting packages.

Group investments

Significant changes

Investment in Open-Xchange

In early July 2013, United Internet acquired 28.36% of shares – via United Internet Ventures AG – in the e-mail and collaboration specialist Open-Xchange AG. The acquisition costs for the Open-Xchange shares amounted to € 15.0 million. With its “OX App Suite”, Open-Xchange offers an extensive, browser-based software solution for the processing and administration of emails, contacts, and appointments, which can be supplemented in real time to include information from social networks such as Facebook, LinkedIn, XING and Twitter. Open-Xchange also allows images, as well as audio, video and office files to be centrally stored, administered and worked on by teams. A cloud-based office solution is also currently being developed with “OX Documents”. Open-Xchange AG has grown both revenue and user numbers by 50% over the past three years. Open-Xchange's software is currently deployed with more than 80 million users, and is provided to them as software-as-a-service (SaaS) by more than 80 hosting and telecommunications providers worldwide. United Internet subsidiary 1&1 Internet AG has been working successfully with Open-Xchange for several years in the field of e-mail and collaboration solutions.

Acquisition of Arsys

In August 2013, United Internet agreed a deal with the owners of the Spanish company Arsys Internet S.L., the private equity companies The Carlyle Group and Mercapital, as well as further original shareholders, concerning the acquisition of a 100% stake in Arsys by 1&1 Internet AG. In the course of the acquisition, an amount of € 138.1 million was settled in cash. Arsys employs around 300 people and is one of the leading players on Spain’s webhosting and cloud computing market with some 300,000 customer contracts, annual sales of around € 40 million and EBITDA of about € 15 million. The company’s products are served from the company’s own two data centers in Spain. With the acquisition of Arsys, United Internet has greatly strengthened its position in Spain and will be able to develop the Spanish market in the future with coordinated use of the 1&1 and Arsys brands. Arsys was first consolidated (in the Applications segment) in the consolidated financial statements of United Internet AG in September 2013. Further details are provided in the Notes to the Consolidated Financial Statements under point 3 “Business Combinations and Investments”.

Squeeze-out process at Sedo Holding AG

On October 2, 2013, United Internet announced that it had acquired (via United Internet Ventures AG) the 4,461,379 shares in Sedo Holding AG, Cologne, held by Sedo’s founders at a price of € 2.60 per share. United Internet Ventures thus raised its stake in Sedo Holding AG to 96.05% and was able to initiate a squeeze-out process pursuant to Secs. 327a ff. AktG for Sedo Holding AG. The members of United Internet’s executive bodies Mr. Dommermuth, Mr. Lang and Mr. Scheeren had previously sold their shares to United Internet Ventures. The purchase price for these shares also amounts to € 2.60 per share and thus corresponds to the price at which the founders sold their shares to United Internet. With the aid of the squeeze-out, United Internet aims to integrate the business fields operated by Sedo Holding AG – Affiliate Marketing (via affilinet) and Domain Marketing (via Sedo) – more closely into the strategic development of the United Internet Group. In addition to the planned closer integration of Sedo activities with other business fields of the Group, United Internet also aims to make Sedo and affilinet more flexible and effective on the market with the aid of faster decision processes and to save costs relating to its stock market listing and mandatory disclosures. In December 2013, the cash settlement officially set for the remaining Sedo Holding shareholders as examined by an officially appointed settlement auditor amounted to € 2.77 per share. Further details are provided under point 3 "Subsequent events".

In addition to these investments and its (fully consolidated) core operating brands in the Access and Applications segments, United Internet also held investments in a number of other companies as of December 31, 2013.

Investments in listed companies

United Internet has held an investment in **Goldbach Group AG**, Küsnacht-Zurich / Switzerland since 2007. As of December 31, 2013 its share of voting rights was unchanged at 14.96%. In its financial year 2013, the Goldbach Group generated sales CHF 458.6 million or € 374.1 million (prior year: € 368.9 million) and – due mainly to goodwill writedowns to streamline its portfolio and other special items – posted a negative consolidated net income of CHF -2.4 million or € -2.0 million (prior year: € 19.2 million). The company's market capitalization as of December 31, 2013 amounted to around € 111 million (compared to € 89 million in the previous year).

United Internet has held a stake in **Hi-Media S. A.**, Paris / France since the transfer of the Group's Display Marketing business "AdLINK Media" to Hi-Media in mid 2009. As of December 31, 2013, this shareholding amounted to 10.50%. Hi-Media closed its fiscal year 2013 with sales of € 185.3 million (prior year: € 194.7 million) and a positive consolidated result of € 1.9 million (prior year: € 5.9 million). The company's market capitalization amounted to around € 85 million as of December 31, 2013 (compared to € 94 million in the previous year).

Further significant investments

United Internet has held significant stakes in **fun communications GmbH** (49.00%) and **Virtual Minds AG** (48.65%) for several years. Whereas fun posted a slightly negative result in fiscal year 2013, Virtual Minds generated a positive result.

In early November 2010, United Internet acquired a 30.02% shareholding in **ProfitBricks GmbH**, a start-up in the field of cloud hosting (Infrastructure-as-a-Service, IaaS). ProfitBricks is currently still developing its brand and client base and closed its fiscal year 2013 with a strongly negative result.

In December 2012, United Internet exercised its option to purchase 25.1% of shares in the parent company of **Versatel GmbH**, VictorianFibre Holding & Co. S.C.A., a company belonging to funds managed by Kohlberg Kravis Roberts & Co. L.P. ("KKR"). This option was granted to United Internet when selling its Versatel shares to KKR in May 2011. At the time, United Internet's sale paved the way for a delisting of the company. By exercising the option, United Internet secured a significant investment in one of the leading infrastructure suppliers with Germany's second-largest fiber-optic network. Following the completion of restructuring measures, Versatel's business has now stabilized significantly.

Investment fund with the Samwer brothers

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

In fiscal year 2013, 15 new investments were made within the framework of the EFF No. 1 fund. No investments were made within the framework of the EFF No. 2 and EFF No. 3 funds. United Internet's prorated investments in new companies and increased shareholdings amounted to € 7.9 million in fiscal year 2013 (prior year: € 0).

United Internet received prorated proceeds from the sale of shares in four portfolio companies and from dividends of € 3.8 million in 2013 (prior year: € 16.7 million).

As of December 31, 2013 a total of **52 investments** (prior year: 41 investments) in internet companies were held via the 3 funds.

Share and dividend

Share

On the back of very strong company progress and accompanied by an upbeat mood on the stock markets, the United Internet AG share continued its good performance of the previous years and closed 2013 at a new all-time high.

Specifically, the United Internet share achieved growth of 89.6% in fiscal year 2013 to reach a price of € 30.92 as of December 31, 2013 (December 31, 2012: € 16.31). The share's performance clearly exceeded that of the preceding years (+18.2% in 2012; +13.4% in 2011), also in comparison to the strong growth of the indices DAX (+25.5%) and TecDAX (+40.9%).

There was a corresponding increase in the market capitalization of United Internet AG from around € 3.51 billion to € 6.00 billion as of December 31, 2013. In fiscal year 2013, average daily trading via the XETRA electronic computer trading system amounted to 367,000 shares (prior year: 333,000) with an average value of € 8.55 million (prior year: € 4.91 million).

Share development*
(in €)

	2010	2011	2012	2013
Year-end	12.17	13.80	16.31	30.92
Performance	+ 32.0%	+ 13.4%	+ 18.2%	+ 89.6%
Year-high	13.61	14.79	17.55	31.00
Year-low	8.60	10.58	12.49	16.11
Average daily turnover	8,659,606	7,974,042	4,906,732	8,554,509
Average daily turnover (units)	796,493	613,960	332,898	367,102
Number of shares at year-end (units)	240 million	215 million	215 million	194 million
Market value at year-end	2.92 billion	2.97 billion	3.51 billion	6.00 billion
Earnings per share	0.58	0.79	0.56	1.07

* All stock exchange figures are based on Xetra trading

Share data

Share type	Registered common stock
Notional share of capital stock	€ 1.00
German Securities Identification Number (WKN)	508903
International Securities Identification Number (ISIN)	DE0005089031
Ticker symbol Xetra	UTDI
Reuters ticker symbol	UTDI.DE
Bloomberg ticker symbol	UTDI.GR
Segment	Prime Standard
Index	TecDAX
Sector	Software

Shareholder structure*

Shareholder	Shareholding
Ralph Dommermuth GmbH & Co. KG Beteiligungsgesellschaft	41.24%
RD Holding GmbH & Co. KG (Ralph Dommermuth)	1.03%
DWS	4.99%
Allianz	3.02%
United Internet	0.13%
Free float	49.59%

* As of December 31, 2013, figures are based on the last respective notification of voting rights

Dividend

In fiscal year 2013, United Internet AG continued to pursue its shareholder-friendly dividend policy based on continuity. The Annual Shareholders' Meeting of United Internet AG on May 23, 2013 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.30 per share for fiscal year 2012. The total dividend payment of € 58.0 million (prior year: € 58.1 million) was made on May 24, 2013. At 53.6%, the dividend payout ratio based on consolidated earnings after tax (the consolidated result in 2012 was burdened by non-cash goodwill writedowns for subsidiary Sedo Holding AG of € 46.3 million) was above the prior-year figure of 35.8%. Without consideration of the aforementioned special item, the payout ratio was 37.5% and thus at the upper end of the 20-40% of adjusted consolidated net income targeted by the company's dividend policy (unless funds are required for further company development).

For fiscal year 2013, the Management Board will propose to the Supervisory Board a dividend of € 0.40 per share. The Management Board and Supervisory

Board will discuss this dividend proposal at the Supervisory Board meeting on March 26, 2014 (and thus after the editorial deadline for this Management Report). The Annual Shareholders' Meeting on May 22, 2014 will vote on the joint proposal of the Management Board and Supervisory Board.

On the basis of 193.8 million shares with dividend entitlement (as of December 31, 2013), the total dividend payment for fiscal year 2013 would amount to € 77.5 million. This would correspond to 37.6% of consolidated net income after tax for 2013. Based on the year-end 2013 price of the United Internet share, the dividend yield amounts to 1.3%.

Dividend development

	2010	2011	2012	2013***
Dividend per share (in €)	0.20	0.30	0.30	0.40
Dividend payment (in € million)	42.0	58.1	58.0	77.5
Payout ratio	32.4%	35.8%	53.6%	37.4%
Payout ratio without special items*	32.4%	35.8%	37.5%	37.4%
Dividend yield**	1.6%	2.2%	1.8%	1.3%

* Sedo impairments (2012)
** As of: December 31
*** Subject to approval of Supervisory Board and Annual Shareholders' Meeting 2014

Annual Shareholders' Meeting 2013

The Annual Shareholders' Meeting of United Internet AG was held in Frankfurt am Main on May 23, 2013. A total of 58% of capital stock was represented. The shareholders adopted all resolutions on the agenda requiring voting with large majorities.

Capital stock and treasury shares

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board reduced the company’s capital stock in two stages from € 215 million to € 194 million in the first quarter of 2013. To this end, an initial amount of 15 million shares (resolution and ad-hoc announcement of January 7, 2013) and in a second stage 6 million shares (resolution and ad-hoc announcement of February 1, 2013) were cancelled from the company’s stock of treasury shares which had been purchased in the course of share buyback programs. The number of shares issued decreased correspondingly from 215 million shares to 194 million shares. Issued shares continued to represent a notional share of capital stock of € 1.00 each. Following the two **share cancellations**, United Internet temporarily held no more treasury shares.

With a resolution adopted on May 23, 2013, the Annual Shareholders' Meeting authorized United Internet AG to buy back treasury shares representing up to 10% of the company's capital stock. The authorization was issued for the period up to November 23, 2014.

On the basis of this authorization, the Management Board of United Internet AG resolved on May 24, 2013 to launch a **new share buyback program**. In the course of this new share buyback program, up to 1,000,000 company shares (corresponding to approx. 0.52% of capital stock) are to be bought back via the stock exchange.

As of September 30, 2013, United Internet held 483,568 treasury shares and thus 0.25% of capital stock.

In the course of fiscal year 2013, United Internet AG purchased a total of 1,376,314 treasury shares which were mostly used for employee stock ownership plans.

As of December 31, 2013, United Internet held 244,265 treasury shares and thus 0.13% of capital stock.

Investor Relations

In fiscal 2013, the Management Board and Investor Relations department of United Internet AG provided institutional and private investors with regular and comprehensive information. Information was provided to the capital market via the quarterly and annual reports, as well as at press and analyst conferences. The company's management and Investor Relations department explained the company's strategy and financial results in numerous one-on-one discussions at the company's offices in Montabaur, as well as at roadshows and conferences in Germany, France, UK, Switzerland and the USA. Around 20 investment banks are in contact with the Investor Relations department of United Internet AG and publish regular studies and comments on the company's progress and share performance. Apart from such one-on-one meetings, shareholders and potential future investors can also receive the latest news on the company around the clock via the company's website (www.united-internet.de).

2.3 Position of the Group

Group's earnings position

Consolidated **sales** of United Internet AG grew by 10.8% from € 2,396.6 million in the previous year to € 2,655.7 million in fiscal year 2013. Sales of the Access segment rose by 12.7%, from € 1,586.1 million in the previous year to € 1,788.3 million, while sales in the Applications segment grew by 7.0% from € 810.2 million to € 867.0 million. **Foreign sales** increased by 11.2% from € 266.9 million in the previous year to € 296.9 million.

In fiscal year 2013, United Internet once again invested heavily in new customer relationships. The number of fee-based **customer contracts** was increased by 1.08 million – or including the Arsys takeover by 1.41 million – to a total of 13.45 million contracts (prior year: 1.18 million).

Despite increased purchases of pre-services in the Access segment as a result of strong customer growth (+820,000 contracts in the reporting period compared to +670,000 in the previous year), as well as the complete recognition of smartphone subsidies for the fast growing Mobile Internet business with a corresponding effect on earnings, and the resulting overall change in the product mix, **consolidated gross margin** was virtually unchanged from the previous year at 34.4% (prior year: 34.3%). As a result of increased sales and an unchanged gross margin, **gross profit** improved by 11.3% from € 822.0 million in the previous year to € 914.5 million.

Sales and marketing expenses grew more slowly than sales, from € 461.7 million (19.3% of sales) last year to € 468.6 million (17.6% of sales).

Administrative expenses also rose more slowly than sales with an increase from € 112.1 million in the previous year (4.7% of sales) to € 120.5 million (4.5% of sales).

Development of key cost items
(in € million)

	2010	2011	2012	2013
Cost of sales	1,226.2	1,375.7	1,574.7	1,741.2
Cost of sales ratio	64.3%	65.7%	65.7%	65.6%
Gross margin	35.7%	34.3%	34.3%	34.4%
Selling expenses	306.2	356.8	461.7	468.6
Selling expenses ratio	16.1%	17.0%	19.3%	17.6%
Administrative expenses	94.7	102.8	112.1	120.5
Administrative expenses ratio	5.0%	4.9%	4.7%	4.5%

In contrast to fiscal year 2013, the earnings figures for fiscal year 2012 were influenced by various **special items**. In 2012, there was a negative effect on consolidated earnings from non-cash impairment charges of United Internet's subsidiary Sedo Holding AG of € 46.3 million (EBIT and EBT effect) and € 0.24 per share (EPS effect). There was also an opposing positive effect in 2012 from the sale of freenet shares amounting to € 17.9 million (EBITDA, EBIT and EBT effect) or € 0.09 (EPS effect).

As in the preceding years, United Internet invested heavily in the establishment, development and marketing of new business fields in fiscal year 2013, focusing in particular on De-Mail, 1&1 MyWebsite and the new top-level domains (nTLDs). Thanks to the better-than-expected performance of **established business fields** (EBITDA of € 515.1 million compared to a forecast of € 500 million), EBITDA-effective investments of € 107.9 million (forecast: approx. € 100 million) could be made in **new business fields**.

As a result, **EBITDA** rose in total by 24.9%, from € 325.9 million (comparable prior-year figure) to € 407.2 million (forecast: approx. € 400 million), and **EBIT** by 34.3% from € 232.7 million (comparable prior-year figure) to € 312.5 million. Earnings before taxes (**EBT**) improved by 33.8%, from € 221.4 million (comparable prior-year figure) to € 296.3 million, while earnings per share (**EPS**) rose by 50.7%, from € 0.71 (comparable prior-year figure) to € 1.07 (forecast: € 1.00 – € 1.10).

Key sales and earnings figures of the Group
(in € million)

	2013	2012	Change
Sales	2,655.7	2,396.6	+ 10.8%
EBITDA*	407.2	325.9	+ 24.9%
EBIT**	312.5	232.7	+ 34.3%

* 2012 without positive special items (sale of freenet shares: EBITDA effect: € 17.9 million)
** 2012 without positive special items (sale of freenet shares: EBIT effect: € 17.9 million) and without negative special items (Sedo impairment charges: EBIT effect: € -46.3 million)

Quarterly development
(in € million)

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q4 2012	Change
Sales	629.7	653.3	672.1	700.6	630.0	+ 11.2%
EBITDA*	91.3	83.8	105.4	126.7	88.2	+ 43.7%
EBIT*	68.3	61.1	81.2	101.9	63.5	+ 60.5%

* Q4 / 2012 without positive special items (sale of freenet shares: EBITDA and EBIT effect: € 17.9 million)

Historical development of key sales and earnings figures*
(in € million)

	2010	2011	2012	2013
Sales	1,907.1	2,094.1	2,396.6	2,655.7
Start-up losses**	21.7	42.7	124.1	107.9
EBITDA***	357.7	341.8	325.9	407.2
EBITDA margin	18.8%	16.3%	13.6%	15.3%
EBIT***	271.5	253.0	232.7	312.5
EBIT margin	14.2%	12.1%	9.7%	11.8%

* The sale of the AdLINK Media business in 2009 and the launch of Mobile Internet products in 2010 had a significant impact on the business model, financial position and performance of United Internet. As a result, United Internet's multi-period overview does not begin until 2010.

** Start-up losses = EBITDA-effective start-up losses in new business fields

*** Without special items: 2011 without sale of Versatel shares (EBITDA and EBIT effect: € +23.0 million); 2012 without Sedo impairment charges (EBIT effect: € -46.3 million) and without sale of freenet shares (EBITDA and EBIT effect: € +17.9 million)

Group's financial position

Thanks to the positive development of earnings, **operative cash flow** rose from € 214.1 million in the previous year to € 280.4 million in fiscal year 2013.

Net cash inflows from operating activities increased from € 260.5 million to € 268.6 million.

Net cash outflows from investing activities amounted to € 207.8 million in the reporting period. This resulted mainly from disbursements of € 59.9 million for capital expenditures, as well as from payments for the initial acquisition of shares in affiliated companies of € 130.1 million (Arsys takeover), and payments for the acquisition of shares in associated companies of € 22.7 million (especially Open-Xchange investment).

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

Free cash flow (i.e. net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment) amounted to € 212.0 million – compared to € 204.7 million in the previous year. This demonstrates the Group's ability to consistently generate high levels of cash while at the same time achieving strong qualitative growth.

Net cash flow for financing activities in fiscal year 2013 was dominated by an outflow for the dividend payment of € 58.0 million (prior year: € 58.1 million), the purchase of treasury shares amounting to € 27.7 million (prior year: € 0), the purchase of further shares in affiliated companies (Sedo Holding) amounting to € 11.9 million (prior year: € 0.6 million) and the net assumption of loans totaling € 39.8 million (prior year: net redemption of loans totaling € 224.3 million).

Historical development of key cash flow figures
(in € million)

	2010	2011	2012	2013
Operative cash flow	238.1	211.9	214.1	280.4
Cash flow from operating activities	290.4	194.8	260.5	268.6
Cash flow from investing activities	-71.2	2.0	1.9	-207.8
Free cash flow*	219.7	142.3	204.7	212.0
Cash flow from financing activities	-240.5	-228.0	-284.4	-60.4
Cash and cash equivalents on December 31	96.1	64.9	42.8	43.3

* Free cash flow is defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment (for reasons of transparency, free cash flow has been redefined; in previous years, it was defined as net cash inflows from operating activities, plus/minus cash flow from investing activities; the comparative figures reflect the new definition)

Group's asset position

The **balance sheet total** rose from € 1,107.7 million as of December 31, 2012 to € 1,274.7 million on December 31, 2013.

Non-current assets increased from € 821.3 million as of December 31, 2012 to € 974.7 million on December 31, 2013. Within this item, additions to property, plant and equipment and intangible assets of € 59.9 million (mainly for furniture and fixtures, as well as software) were opposed by depreciation and amortization of € 94.4 million. Due to the acquisition of Arsys, goodwill increased from € 356.2 million as of December 31, 2012 to € 452.8 million on December 31, 2013. Shares in associated companies rose from € 90.9 million to € 109.0 million, due in particular to the investment in Open-Xchange.

Current assets increased from € 286.5 million as of December 31, 2012 to € 300.0 million on December 31, 2013. Cash and cash equivalents disclosed under current assets rose slightly from € 42.8 million to € 43.3 million in the reporting period. Despite the expansion of business, trade accounts receivable decreased from € 148.8 million to € 135.5 million due to closing-date effects. Mainly as a result of ongoing Mobile Internet campaigns with new smartphones, inventories were increased from € 25.7 million to € 44.4 million.

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

In fiscal year 2013, **bank liabilities** rose from € 300.3 million to € 340.0 million. **Net bank liabilities** (the balance of bank liabilities and cash and cash equivalents) increased over the same period from € 257.5 million to € 296.7 million. This rise was due in particular to share purchases (Arsys and Open-Xchange).

As of December 31, 2013 – and thus after the two share cancellations in the first quarter of 2013 – United Internet held 244,265 **treasury shares** (December 31, 2012: 20,662,202 treasury shares).

The Group's **equity ratio** rose from 17.9% as of December 31, 2012 to 24.2% as of December 31, 2013.

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

Historical development of key balance sheet items
(in € million)

In € million	2010	2011	2012	2013
Total assets	1,271.3	1,187.0	1,107.7	1,274.7
Cash and cash equivalents	96.1	64.9	42.8	43.3
Shares in associated companies	84.1	33.6*	90.9	109.0
Property, plant and equipment	108.7	110.9	109.2	116.2
Intangible assets	221.4	187.4	151.8	165.1
Goodwill	402.9	401.3	356.2	452.8
Liabilities due to banks	369.4	524.6**	300.3**	340.0
Capital stock	240.0	215.0	215.0	194.0
Treasury stock	241.0	270.8	263.6	5.2
Equity*	382.4	154.8***	198.1	307.9
Equity ratio	30.1%	13.0%	17.9%	24.2%

* Sale of Versatel shares (2011); repurchase of Versatel shares via Versatel's holding company (2012)
** Increase due to share buybacks (2011); repayment of loans (2012)
*** Decrease due to share buybacks (2011)

Management Board's overall assessment of the current business situation

The macroeconomic conditions in the target countries of the United Internet Group varied strongly during the reporting period. Whereas forecasts for the North American target countries Canada, Mexico and the USA were downgraded due to their worse-than-expected development during the year, the eurozone and Germany appear to be on course for recovery – despite the ongoing risks.

The German ICT market performed worse than originally expected in fiscal year 2013. Against this backdrop, the sector association BITKOM already downgraded its growth forecast during the year from 1.4% to 0.1% and ultimately had to confirm a decline in revenue of 0.6%.

Despite weaker overall demand in all target countries, and a generally poorer-than-expected sector trend, United Internet enjoyed further dynamic growth in fiscal year 2013 with the addition of 1.41 million customer contracts (of which 1.08 million organic) to 13.45 million, revenue growth of 10.8% to € 2.656 billion and an increase in EBITDA of 24.9% to € 407.2 million. At the same time, the company once again invested heavily in the establishment and development of new business fields (EBITDA-effective start-up losses of € 107.9 million) in order to tap sustainable future growth potential. With the milestones in customer contracts, sales and earnings reached in fiscal year 2013, United Internet was able to meet the forecasts it had upgraded during the year and even surpass them in some cases.

This development against the current macroeconomic and sector-specific trend highlights the benefits of United Internet's business model based predominantly on electronic subscriptions with fixed monthly payments and contractually fixed terms. This ensures stable and predictable revenues and cash flows, offers protection against cyclical influences and provides the financial scope to grasp opportunities in new business fields and new markets – organically or via acquisitions. Even in recession-hit Spain, for example, United Internet achieved further organic growth in customer contracts in fiscal year 2013 as well as additional growth from the acquisition of its Spanish competitor Arsys.

The financial position of United Internet AG also proved very stable in fiscal year 2013. As in the previous year, a high level of free cash flow in excess of € 200 million was generated.

The change in the Group's asset position was due in particular to the acquisition of Spanish competitor Arsys.

All in all, the Management Board believes that the United Internet Group is well placed for its further corporate development and is optimistic about its future prospects.

2.4 Position of the company

Earnings of United Internet AG

In the period under review, **sales** of United Internet AG amounted to € 5.0 million (prior year: € 3.2 million) and mostly comprised services and rent charged to the Group's subsidiaries.

Other operating income amounted to € 5.7 million and resulted mainly from a hedging transaction. Other operating income in the previous year totaled € 15.9 million and resulted mainly from income in connection with a hedging transaction (€ 4.1 million) and from the sale of shares in freenet AG (€ 11.3 million).

The rise in **personnel expenses** from € 5.2 million in the previous year to € 24.2 million in fiscal year 2013 results from the increase in the intrinsic value of SARs due to the strong performance of the United Internet share.

Income from profit transfer agreements with 1&1 Internet AG and 1&1 Telecommunication AG amounted to € 272.2 million in the reporting period (prior year: € 159.8 million). In the previous year, the corresponding income was burdened by the change in transfer pricing for certain subsidiaries of the sub-group 1&1 (extraordinary expenses of € 121.6 million).

Expenses for loss assumptions of € 24.0 million (prior year: € 2.3 million) mainly comprise the compensation expense of United Internet Ventures AG.

The parent company's **result from ordinary activities** amounted to € 208.8 million, following € 153.7 million in the previous year.

Income taxes of € 94.6 million refer to current taxes for corporate income tax and the solidarity surcharge, as well as trade tax. Due to the results of the tax audit for 2006 to 2008 completed in the previous year, as well as the consequential effects and assessments for future years, there were also out-of-period tax expenses of € 3.7 million.

The parent company's **net income** reached € 110.4 million – following € 71.5 million in the previous year.

Assets and financial position of United Internet AG

The parent company's balance sheet is mainly influenced by **shares in affiliated companies** amounting to € 1,097.6 million (prior year: € 1,105.6 million).

Disposals of investments resulted from the transfer of shares in the parent company of Versatel GmbH, VictorianFibre Holding & Co. S.C.A. (€ 59.6 million) to 1&1 Telecommunication AG and a resulting reclassification to the item shares in affiliated companies. There was an opposing effect on shares in affiliated companies from the sale of shares in Sedo Holding AG to United Internet

Ventures AG amounting to € 67.6 million.

Bank liabilities of United Internet AG rose from € 287.0 million to € 343.0 million in fiscal year 2013, due in particular to the acquisition of Arsys. These bank liabilities mainly comprise a revolving syndicated loan, of which € 320 million had been drawn as of the balance sheet date (prior year: € 215.0 million).

The **equity ratio** increased from 65.6% in the previous year to 66.1% as of December 31, 2013.

Cash flow of the parent company's financial statements is dominated by cash flows from the profit transfer agreement with the operating company 1&1 Internet AG and the assumption of financial liabilities. Further details are provided in the notes to the consolidated financial statements.

Management Board's overall assessment of the current business situation of United Internet AG

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

2.5 Significant non-financial performance indicators

United Internet AG believes that its entrepreneurial activities are not solely restricted to the pursuit and implementation of economic objectives, but also involve a commitment and responsibility towards society and the environment.

United Internet assumes this responsibility in a variety of ways. The most important aspects are summarized in the following sections.

Sustainable business policy

The United Internet Group is committed to pursuing a sustainable business policy. This sustainability is illustrated in particular by its high level of investment in customer relationships and new business fields and thus in future growth.

In its fiscal year 2013, United Internet once again invested heavily in customer growth and added 1.08 million customer contracts, or even 1.41 million including the Arsys takeover, (prior year: 1.18 million) to reach a total of 13.45 million contracts.

In addition to these fee-based contracts, United Internet also operates 31.51 million free accounts (prior year: 31.56 million) at its data centers that are refinanced via advertising revenue. In view of the market saturation for e-mail already reached in Germany, further growth of these free accounts is only possible to a limited extent.

United Internet therefore manages a total of 44.96 million customer accounts (prior year: 43.60 million) globally.

Development of customer relationships
(in million)

	2010	2011	2012	2013
Growth of “fee-based contracts”	+0.61	+0.91	+1.18	+ 1.41**
Growth of “free accounts”	+1.70	+2.80*	+1.00	– 0.05
Growth of “total accounts”	+2.31	+3.71*	+ 2.18	+ 1.36**

* Incl. 1.5 million free accounts from the takeover of mail.com
** Incl. 0.33 million fee-based contracts from the takeover of Arsys

With the launch of the DSL quality drive in 2009 and the introduction of the 1&1 Principle in 2012 and its international rollout in 2013, United Internet has invested heavily in customer retention and customer satisfaction, as well as service quality. With the 1&1 Principle, the United Internet brand 1&1 gives customers five clear product-related performance promises. These include, for example, a one-month test phase or – in the case of DSL and mobile products – overnight delivery of hardware and on-site, next-day replacement of faulty equipment, as well as – for cloud products – a monthly product upgrade or downgrade and geo-redundancy for maximum data security.

In addition to its investments in customer relationships, United Internet also uses the Group's strong earnings power and high cash generation to set up and develop new business fields and drive its internationalization.

In the reporting period, our new business fields – with which we also aim to tap new target groups – focused on De-Mail, 1&1 MyWebsite and the new top-level domains (nTLDs). In the field of internationalization, the main activities were the establishment of our business in Mexico, the international rollout of 1&1 MyWebsite and increasing international awareness of the 1&1 brand.

In fiscal year 2013, United Internet invested around € 107.9 million (prior year: € 124.1 million) in new business fields and thus in sustainable growth.

Investment in new business fields
(in € million)

	2010	2011	2012	2013
Start-up losses*	21.7	42.7	124.1	107.9

* EBITDA-effective start-up losses

Employees

The rapidly developing internet market represents a considerable challenge for employees and thus for the HR policy of United Internet. The company meets this challenge primarily by actively nurturing its junior staff, promoting the targeted development of managers and offering a variety of tailored development activities for all employees.

As a result of the expansion of business, the number of employees increased once again in fiscal year 2013. As of December 31, 2013, United Internet employed a total of 6,894 people – an increase of 10.2% over the previous year (6,254 employees).

There were 2,191 employees in the Access segment, 4,669 in the Applications segment and 34 employed at the Group's headquarters.

Headcount at the non-German subsidiaries increased by 22.1%, from 1,350 people in the previous year to 1,649.

Headcount development (by segment and domestic/foreign)

	2010	2011	2012	2013	Change over 2012
Employees, total	5,018	5,593	6,254	6,894	+ 10.2%
thereof domestic	4,019	4,375	4,904	5,245	+ 7.0%
thereof foreign	999	1,218	1,350	1,649	+ 22.1%
Access segment	1,780	1,794	1,928	2,191	+ 13.6%
Applications segment	3,211	3,771	4,292	4,669	+ 8.8%
Headquarters	27	28	34	34	+/- 0%

Personnel expenses rose by 11.3%, from € 275.1 million in the previous year to € 306.1 million.

Development of personnel expenses
(in € million)

	2010	2011	2012	2013	Change over 2012
Personnel expenses	202.9	230.1	275.1	306.1	+ 11.3%
Personnel expense ratio	10.6%	11.0%	11.5%	11.5%	

Sales per employee, based on annual average headcount, amounted to € 404 thousand in fiscal year 2013 and was thus virtually unchanged from the previous year (2012: € 405 thousand).

Targeted staff support and ongoing development

In order to give all employees at all locations, in all divisions, and in all functions the same opportunities and possibilities, a transparent and group-wide framework as well as standard programs and support measures have been defined in the field of staff development. Employees can progress within their department by taking on successively more responsibility and tasks. Transfers between different functions are also possible. Once employees have reached the highest competency level (“senior”) for their respective function, two alternative career models are offered: the “management track” and the “expert track”. Whereas employees choosing the “management track” gradually assume more and more staff responsibility, “experts” have specialist knowledge and are top performers, “know-how owners”, and advisors in their specific field, but are not given responsibility for staff. Both the management and expert tracks are “permeable”, i.e. horizontal movement is also possible and an expert can become a manager and vice versa. In addition to support within a level and the next vertical step, there are thus also horizontal career possibilities within the Group, which enable staff to grow into a new role – in their own division or even across divisions. All paths are accompanied by specific programs as well as individual personnel development measures.

United Internet also offers all employees an extensive range of training opportunities. In addition to seminars and courses on general – mostly soft skill – topics, staff are also encouraged to enhance their hard skills with professional training and vocational certificates specific to their particular functions. Further development programs are offered for staff with exceptional abilities and potential in all areas of the company. Such employees are then accompanied through a structured program of individual development and training plans in order to prepare them for their future personal challenges, and those of the company (MyWay+ for staff and 1&1 MOVE for management and experts). With the aid of junior management programs, such as the 1&1 Graduate or Master+ plans, United Internet develops young talents fresh from university from an early stage. The main target is to be able to recruit and train future managers and specialists from within the company.

Thanks in part to the measures described above, the United Internet Group was able to recruit over 70% of managers from within its own ranks in fiscal year 2013.

United Internet AG has once again been named as a top employer in 2014. Based on an independent study of the Top Employers Institute, United Internet was awarded the "TOP Employers Germany" certification – as in the preceding years. Certification is only awarded to organizations which offer staff attractive working conditions. Assessment is based on career opportunities, employer benefits, working conditions, training and development opportunities, and the corporate culture.

Training held in high regard

The United Internet Group also attaches great importance to the field of education and training. United Internet trains young people to meet its future needs and offers them a successful start to their professional lives. The company currently offers apprenticeships in commercial and technical professions, including IT specialist (application development/systems integration), IT systems clerk, dialogue marketing clerk, marketing communication clerk, commercial clerk and media designer. Over a three-year training period, all participants experience a wide variety of different company departments and take part in numerous events and workshops. The apprentice workshops at the facilities in Karlsruhe and Montabaur have proved especially successful. Technical apprentices in particular spend part of their training period in the workshops in order to learn the basics for their later careers.

149 young people were serving their apprenticeships with Group companies at year-end 2013. After successfully passing their examinations, United Internet endeavors to offer jobs to as many apprentices as possible and to make an attractive offer to every graduate. In fiscal year 2013, 26 of 29 apprentices were given full-time jobs.

In cooperation with Baden-Wuerttemberg Cooperative State University (Duale Hochschule Baden-Württemberg - DHBW), United Internet also offers degree courses in Applied Computer Sciences, Information Management, Business Administration / Accounting and Business Administration / Services Marketing at the universities of Karlsruhe and Mannheim.

Moreover, United Internet is a sponsor of the “Germany Scholarship” program, in which companies and the state play an equal role in promoting future graduates and helping them complete successful and challenging degree courses. The Germany Scholarship program supports students whose achievements promise future excellence in their studies and careers. Since the program was launched in 2011, United Internet has sponsored students at the two elite universities LMU and TU Munich.

Diversity

Without the individual strengths of its employees, United Internet would not be what it is today – an internationally successful, innovative company on track for growth. United Internet attaches great importance to the constructive use of diversity management and the handling of social differences between its employees.

United Internet’s corporate culture is based on mutual respect and a positive attitude toward individual differences with regard to culture, nationality, gender, age and religion – in other words, everything that makes the company’s employees unique and distinctive. A work force composed of diverse personalities offers ideal conditions for creativity and productivity. The resulting potential for new ideas and innovation strengthens United Internet’s competitive position and enhances its opportunities in future markets. In accordance with this principle, the company strives to find the field of activity and function for each employee which allows them to fully exploit their individual potential and talents. In addition to productivity, diversity also helps raise the general level of satisfaction among employees. These are key reasons for many applicants to select their future employer. As United Internet’s customers also have a wide variety of needs and wishes, they appreciate a business partner who can live up to their own diversity.

However, the promotion of diversity is not simply a one-size-fits-all solution. Employees and applicants are recruited, employed and promoted on the basis of objective criteria, such as skills, aptitude and expertise. In corporate divisions in which women are structurally under-represented, United Internet seeks to raise their representation provided they have the same qualifications, skills and suitability. However, the company always decides on a case-by-case basis.

Employees by gender

	Dec. 31, 2013
Women	36%
Men	64%

Employee age profile

	Dec. 31, 2013
under 30	30%
30 – 39	46%
40 – 49	20%
over 50	4%

The average age of the United Internet Group's employees at the end of fiscal year 2013 was around 34.9.

Employees of United Internet AG work in an international environment at over 30 sites around the world.

Employees by country

	Dec. 31, 2013
Employees, total	6,894
Germany	5,245
France	23
UK	210
Philippines	468
Romania	289
Spain	329
USA	306
Other	24

Green IT

In the wake of the global climate debate and rising energy costs, the term "Green IT" is being used increasingly in the computer industry. The term basically comprises all measures that contribute toward reducing a company's CO_2 emissions and energy consumption.

The ICT sector makes a significant contribution to global added value and is thus a strong economic factor. At the same time, it also emits a significant amount of CO_2 and consumes a lot of electricity. For internet service providers like United Internet, this applies in particular to the data centers where millions of cloud applications are managed for private and commercial users.

United Internet has been using electricity from renewable energy sources at its data centers in Germany since December 2007. The servers at our German data centers in Karlsruhe and Baden Airpark, for example, are powered 100% by electricity from three Norwegian hydroelectric power plants supplied by Stadtwerke Karlsruhe. Servers at our data centers in the USA were also converted to climate-neutral electricity in 2008 (with a mixture of 90% hydroelectric and 10% wind power).

The main elements of our energy-saving efforts at data centers in Germany are:

- An intelligent cooling system. The warm cooling water is first led through open-air coolers on the roof of the data center that do not require energy-hungry compressors and use the “natural” outdoor temperature for cooling.
- The server hardware. The bulk of our computers are built-to-order for United Internet. We leave out unnecessary components and specify, for example, energy-saving processors and power supplies with low heat loss. This means that less heat is radiated and data rooms do not have to be cooled as intensively.
- The software used. The webhosting operating system used by United Internet is our own development, based on Linux. The modification enables us to manage the data of several thousand customers on a single computer and at the same time and thus utilize our resources as sensibly as possible.
- The virtualization. The server hardware used in data centers is often only utilized at an average rate of 15% to 25%. With the aid of virtualization, efficiency can be increased significantly – thus saving energy.

Social responsibility

“United Internet for UNICEF” was set up in September 2006 as an independent foundation under German civil law. The foundation primarily supports projects of UNICEF, the United Nation’s Children’s Fund. We carefully select projects from the wide range of UNICEF topics and present them on the high-reach portals of the United Internet Group (1&1, GMX und WEB.DE) in order to attract as many donors as possible – for the particular project or as long-term UNICEF sponsors.

The single or repeat donations gained via United Internet’s portals are doubled by United Internet for the specific projects and are passed on 100% to UNICEF – thanks to the voluntary work of all foundation staff.

There were several reasons for us to set up our own foundation devoted principally to supporting UNICEF:

UNICEF makes a sustainable improvement to the lives of children. True to the principle of “Helping People Help Themselves”, UNICEF develops national programs around the world focusing on education, health, AIDS and child protection. UNICEF involves the local population in its development work and supports them in such a way that they can look after themselves and their children.

UNICEF provides long-term aid, but also offers fast and reliable help in emergency situations. In the wake of earthquakes, floods or wars, UNICEF provides children with clean drinking water and drugs, sets up provisional schools and offers psycho-social care. UNICEF can draw on its many years of experience and global presence.

UNICEF imposes strict controls on the use of donations. Both the UNICEF representatives in the program countries and the local partners are regularly inspected to ensure that funds are being used exactly as planned.

In 2013, we transferred a new record of almost € 7 million to UNICEF following our appeal for donations to help the victims of the “Haiyan” typhoon in the Philippines.

Since its creation, the foundation has collected € 26.1 million in donations and enlisted around 9,100 active UNICEF sponsors via the 1&1, GMX and WEB.DE portals.

3 Subsequent events

There were no significant events subsequent to the end of the reporting period on December 31, 2013 which had a material effect on the financial position and performance or the accounting and reporting of United Internet AG.

Information on the economic position of the United Internet Group at the time of preparing this Management Report are provided under point 4.3 in the "Forecast report".

United Internet subsidiary Sedo Holding AG held an extraordinary general meeting in Frankfurt/Main on February 3, 2014. The shareholders approved the agenda item "Resolution on the transfer of shares held by the remaining shareholders (minority shareholders) of Sedo Holding AG to United Internet Ventures AG, with registered office in Montabaur (majority shareholder), in exchange for appropriate cash consideration pursuant to Secs. 327a ff. AktG (squeeze-out)". The Commercial Register of the District Court of Cologne entered this resolution in the Commercial Register on March 21, 2014. On entry of this transfer resolution, all shares of the minority shareholders of Sedo Holding AG have been transferred by law to United Internet Ventures AG. The listing of shares of Sedo Holding AG will soon be terminated. Further information on the squeeze-out process of Sedo Holding AG is provided under point 2.2 "Business development" in the "Group investments" section.

On February 19, 2014, United Internet announced that it had acquired – via United Internet Ventures AG – a stake of around 25% in the e-shop specialist ePages in the course of a capital increase.

Based in Hamburg, Germany, ePages GmbH is Europe's market leader in online shop software for small and mid-size companies with 80,000 customers. The cloud solution of ePages enables merchants with no prior experience to create professional online shops. The solutions are suitable for a variety of company sizes and are currently marketed via 100 partner companies (e.g. hosting providers, telecommunication and logistics companies and business directories). This enables partners to tap new e-business revenue streams without having to develop their own shop systems. In addition to the equity stake, ePages and United Internet's subsidiary 1&1 have agreed a long-term cooperation contract for the use of ePages solutions. In the course of this cooperation, there will be a joint technology platform in future for the 1&1 e-shops. The investment in ePages will complement United Internet's own product portfolio of cloud applications for small to mid-size companies.

4 Risk, opportunity and forecast report

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

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

4.1 Risk report

Risk management

The concept, organization and task of United Internet AG's risk management system are defined by the Management Board and Supervisory Board and documented in a risk manual which is valid for all members of the Group. These requirements are regularly adapted to changing legal conditions and continually developed. The Internal Audit department regularly examines the functioning and efficiency of the risk management system. As part of his statutory auditing obligations for the annual financial statements and consolidated financial statements, the external auditor also examines whether the risk early recognition system is generally suitable for the early identification of risks and developments which might endanger the company. The system complies with statutory requirements regarding risk early recognition systems, as well as with the German Corporate Governance Code. Its design is based on the specifications of the international ISO standard ISO/IEC 31000. In accordance with the regulations of the German Stock Corporation Act, the Supervisory Board also examines the efficacy of the risk management system.

Methods and objectives of risk management

The risk management system comprises those measures which enable United Internet AG to identify, classify in terms of money and scenario, steer and monitor from an early stage all possible risks for the attainment of its corporate objectives with the aid of assessments and early warning systems. The aim of the group-wide risk management system is to provide maximum transparency for management regarding the actual risk situation, its changes and the available options for action so that a conscious decision can be taken to accept or avoid such risks. There is always an established indirect connection to Group-wide risk management via the regular reporting channels throughout the Group and a direct connection for all major divisions. This ensures the completeness of registered risks in the risk management system.

The current risk status is communicated to the Management Board and Supervisory Board four times per year. Sudden important risk occurrences or significant changes in the risk situation trigger an ad-hoc reporting obligation. The respective risk is then communicated immediately to the CFO of United Internet AG, who in turn reports it to the Supervisory Board where necessary. In this way, significant risks can be addressed as quickly as possible. In order to support the centralized risk management system, additional local risk managers have been installed with monthly reporting in the field of “Technology & Development” (of particular importance for the Group’s business success). In order to facilitate the group-wide exchange and comparison of risk information, these local risk managers meet with the Group’s central risk management team and – for cross-company issues – with the company-wide, cross-functional managers at regular Risk Manager Meetings. The risk management system established by United Internet AG currently only documents recognized risks. Risks are assessed with their net impact, i.e. effects from measures already implemented are only considered in the continuously updated risk assessment.

Risks for United Internet

Of the total risks identified for the Group, the following sections describe the main risk categories and individual risks from the company’s point of view. Assessments which the company’s Management Board makes regarding the likelihood of occurrence and the potential impact of the risks described below are provided at the end of this Risk Report.

Strategy

United Internet seeks increasingly international growth in European and non-European markets. As a result, the company faces a growing number of new challenges associated with different cultural backgrounds, different legal requirements, and the ethical and social expectations of customers and international staff with regard to the parent company. For both internal processes, such as the implementation of cross-company and international projects, and customer communications, business success also depends on the precise knowledge and consideration of country-specific characteristics of the parties involved. The company takes this into account by enhancing the cross-cultural skills and awareness of its employees and managers.

Market

Competition

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

In the course of diversifying its business model (e.g. launching De-Mail or Mobile Internet), United Internet occasionally enters new, additional markets with major competitors. Such entrepreneurial decisions for new products and business fields generally involve new risks which may result, for example, from the pricing of products or from fraudulent use. United Internet attempts to minimize these risks with the aid of detailed planning based on past experience and external market studies, and by using various partners/suppliers and continually expanding its anti-fraud measures.

Product development

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

Legal & political

Regulation

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

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

Data protection

United Internet stores the data of its customers on the servers of its own and rented data centers. The handling of these data is subject to extensive legal regulations. The company is aware of this great responsibility and attaches great importance and care to data protection. At the same time, however, the possibility can never be excluded that data protection regulations are contravened due to human error or technical weaknesses. By using state-of-the-art technologies, continually monitoring all data-protection and other legal regulations, and involving data protection aspects and requirements as early as possible in product development, the company continually invests in improving the standard of its data security.

Personnel

If United Internet does not effectively manage the manpower resources of its national and international facilities, the company may not be able to run its business efficiently and successfully. It is therefore essential that human resources are effectively controlled so that the company can meet its short- and long-term needs for staff and the requisite expertise.

The company specifically counters this risk with a number of measures. These include succession planning and manpower planning, outsourcing and temporary use of external resources.

Highly skilled employees form the basis for the economic success of United Internet. The competition for skilled and specialist technical and management personnel is intense, however. If we are not capable of attracting, developing and retaining managers and staff with specialist professional and technological knowledge, United Internet will not be able to effectively pursue its business and achieve its growth targets.

Despite these risks, the company regards itself as an attractive employer and is well placed to hire highly skilled specialists and managers with the potential to drive its business success in the future. The company also counters this risk by developing specific skills of its staff and managers. Development activities, mentoring and coaching programs are offered, as well as special programs for high potentials, which are geared to the ongoing development of talent and especially leadership skills.

Further details on our human resources are provided under point 2.5 of this Management Report “Significant financial and non-financial performance indicators” under “Employees”.

Fraud

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

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

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

Provision of services

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

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

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

The threat potential of the internet represents the largest threat group for United Internet with regard to its effects, which are all monitored by numerous technical and organizational measures. Of particular relevance in this respect are the operation and continuous improvement of a security management system and the steady enhancement of system resilience.

Use of hardware and software

United Internet's products and related business processes are based on a complex technical infrastructure and a number of success-critical software systems (servers, customer relationship databases and statistics systems etc.). Constantly adapting this infrastructure to changing customer needs leads to greater complexity and regular changes. In addition to major events like the migration of databases, this may lead to various disruptions or defects. Should this affect our business systems or their databases, for example, daily account debiting may be delayed or no longer possible. Should this affect our performance systems, for example, United Internet may not be able to provide its customers with the promised service, on a temporary or longer-term basis. The company meets these risks by making targeted adjustments to the architecture, introducing quality assurance measures, and establishing spatially separated (geo-redundant) core functionalities.

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

Complexity in development

The growing demands placed on the development of the overall portfolio by the ever-increasing complexity and interoperability of the products offered necessitate a higher degree of coordination for the internal work processes of United Internet. The particular challenge is to ensure quality standards especially in view of fast-changing market events which require the maintenance of a usually high-performance and robust development component.

A further aspect in this context is the preservation and expansion of core skills within the company for the development of the product portfolio. In the case of time-critical projects, for example, the use of highly specialized service providers may lead to additional expenses and negative consequences – such as the delay of planned campaigns, or similar security vulnerabilities etc. – if these were temporarily unavailable.

The company minimizes these risks by continuously developing and enhancing its internal processes, pooling and retaining its experts and key personnel, and continuously improving the organizational structures of the development components. When selecting and controlling strategic outsourcing partners, care is taken to ensure that their reliability and expertise is proven in accordance with international criteria and no partnerships are formed for critical business areas which could not be maintained without delay by skilled staff within the company.

Additional disclosures on risks, financial instruments and financial risk management

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

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

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

Liquidity

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

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

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

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

Financial covenants

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

Financial market

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

- **Interest**

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

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

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

- **Currency**

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

- **Stock exchange prices (valuation risk)**

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

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

In order to maintain and adapt its capital structure, the company can adjust dividend payments or pay capital back to its shareholders, purchase treasury shares and where necessary place them again or issue new shares. As of December 31, 2013 and December 31, 2012, no changes were made to the company's targets, methods and processes.

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

Management Board's overall assessment of the Group's risk position

The assessment of the overall level of risk is based on a consolidated view of all significant risk fields and individual risks, also taking account of their interdependencies.

From the current perspective, the main challenges focus on the areas of potential threats via the internet, the use of hardware and software, political and legal risks, as well as risks from the market and fraud.

The further expansion of its risk management system enables United Internet to limit such risks to a minimum, where sensible, by implementing specific measures.

There were no risks which directly jeopardized the continued existence of the United Internet Group in the fiscal year 2013 nor at the time of preparing this Management Report, neither from individual risk positions nor from the overall risk situation.

Probability of occurrence / possible impact of company risks

	Probability of occurrence	Possible impact
Risks in the field of strategy		
Internationalization	High	High
Risks in the field of market		
Competition	High	High
Product development	Low	High
Risks in the field of law & politics		
Regulation	High	Very high
Data protection	Very low	High
Risks in the field of personnel		
Personnel	Very low	Low
Risks in the field of fraud		
Fraud	High	Low
Risks in the field of service provision		
Threat potential of the internet	Low	Extremely high
Use of software and hardware	High	High
Complexity in development	Low	High
Risks in the field of financial instruments and financial risk management		
Liquidity	Very low	Very low
Financial covenants	Very low	Very low
Financial market	Low	High
Capital management	Very low	Very low
Taxes	Very low	Very low

Assessment categories of company risks in ascending order

Probability of occurrence	Possible impact
Very low	Very low
Low	Low
High	High
Very high	Very high
	Extremely high

4.2 Opportunity report

Opportunity management

Opportunity management is based on strategic planning and the resulting measures for the development of products and their positioning for various target groups, markets and countries during the product life cycle. The Group Management Board, as well as the operative management level of the respective business segments in the form of Divisional Managers and Managing Directors, have the direct responsibility for the early and continual identification, assessment, and steering of opportunities. The management team of United Internet AG makes extensive use of detailed evaluations, models and scenarios on current and future trends regarding sectors, technologies, products, markets/market potential and competitors in the Group's fields of activity. The potential opportunities identified during these strategic analyses are then examined with regard to the critical success factors and existing external conditions and possibilities of United Internet AG in planning discussions between the Management Board, Supervisory Board and operational managers before being implemented in the form of specific measures, targets and milestones. The progress and success of these measures is continually monitored by operational management and the Managing Directors and Management Board members of the respective companies.

Opportunities for United Internet

United Internet's stable and largely non-cyclical business model ensures predictable revenues and cash flows, thus providing the financial flexibility to grasp opportunities in new business fields and markets – organically or via acquisitions.

Broad strategic positioning in growth markets

In view of its broad positioning in current growth markets, the company's purely strategic growth opportunities are clearly apparent: universally accessible, permanently available and increasingly powerful broadband connections are enabling new and more sophisticated cloud applications. From the current perspective, these internet-based programs for home users, freelancers and small companies are likely to be United Internet's growth drivers over the coming years – both as stand-alone products in the Applications segment as well as in combination with fixed-line and mobile access products in our Access segment.

Participation in market growth

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

Expansion of market positions

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

Entry into new business fields

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

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

This applies in a similar way to the new top-level domains (nTLDs). United Internet also invested heavily in future growth in this field during fiscal year 2013. Part of the advertising budget earmarked for the international TV advertising of 1&1 MyWebsite was reallocated for an extensive advertising campaign for the new top-level domains (nTLDs). The pre-registrations generated during the campaign can only be successively converted into fee-based customer contracts when the selected ending is available – thus representing an investment in future growth.

Internationalization

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

Thanks to the high degree of exportability which these products offer, United Internet is already active in its Applications segment in numerous European countries (Germany, Austria, Switzerland, the UK, France, Spain, Italy and Poland), as well as in North America (USA, Canada and Mexico). Further countries and product roll-outs will gradually follow.

4.3 Forecast report

Expectations for the economy

In its updated global economic outlook published in January 2014, the International Monetary Fund (IMF) announced its forecasts for the development of the global economies in 2014 and 2015.

It forecasts that the global economy will grow much faster in the coming years. Despite the positive prospects, however, the IMF does not ignore the risk of new crises. These include low inflation, especially in the euro zone. The Fund also sees an increased probability of deflation, especially as the central banks have little scope for further interest rate cuts. Moreover, it warns central banks against reducing their stimulus packages too hastily.

Specifically, the IMF predicts that the **global economy** will grow by 3.7% in 2014 and 3.9% in 2015 – after growth of 3.0% in 2013.

The IMF believes this growth will be driven by much improved data in the industrialized countries. The developed economies of Europe, North America and Japan are expected to grow by over 2.2% in 2014 and 2.3% in 2015 – compared to 1.3% in 2013. For the emerging and developing countries, the IMF anticipates growth of 5.1% for 2014 and 5.4% in 2015 – compared to 4.7% in 2013.

The IMF is also upbeat about the prospects for United Internet's target markets in North America (the USA, Canada and Mexico). The **US** economy is expected to grow by 2.8% in 2014 and 3.0% in 2015 – following growth of 1.9% in 2013. Growth in **Canada** is likely to reach 2.2% in 2014 and 2.4% in 2015 – after an increase of 1.7% in 2013. And following growth of 1.2% in 2013, the economy in **Mexico** is expected to grow by 3.0% in 2014 and by 3.5% in 2015.

Following a recession of -0.4% in 2013, the IMF forecasts growth of 1.0% and 1.4% for the **eurozone** in 2014 and 2015. Although the IMF sees initial signs of recovery in the eurozone, it does not believe that the crisis has been overcome. According to the IMF report "Jobs and Growth in Europe", the biggest burden is high unemployment in certain countries, but also in the eurozone as a whole. Eurostat calculates that the eurozone's unemployment rate in December 2013 was unchanged at 12.0%. The IMF is convinced that the labor market crisis cannot be ended without strong economic growth. At present, however, this appears a forlorn hope in many eurozone nations. The IMF believes that the situation can only be improved with the aid of sweeping reforms.

Despite the ongoing labor market problems, the IMF is more upbeat about United Internet's European markets. Following growth of 1.7% in 2013, the **UK** economy is set for growth of 2.4% in 2014 and 2.2% in 2015, while **France** is likely to grow by 0.9% in 2014 and 1.5% in 2015, compared to 0.2% in 2013. Mild relief is also forecast for the recession-hit economies of Spain and Italy. The IMF expects growth of 0.6% in 2014 and 0.8% in 2015 for **Spain** (2013: -1.2%), while the **Italian** economy can look forward to growth of 0.6% in 2014 and 1.1% in 2015 (2013: -1.8%).

For United Internet's most important market, **Germany**, the IMF forecasts economic growth of 1.6% in 2014 and 1.4% in 2015, following on from 0.5% in 2013.

Market forecast: GDP development of major economies*

	2013	2014e	2015e
World	3.0%	3.7%	3,9%
USA	1.9%	2.8%	3.0%
Canada	1.7%	2.2%	2.4%
Mexico	1.2%	3.0%	3.5%
Eurozone	-0.4%	1.0%	1.4%
Germany	0.5%	1.6%	1.4%
France	0.2%	0.9%	1.5%
Italy	-1.8%	0.6%	1.1%
Spain	-1.2%	0.6%	0.8%
UK	1.7%	2.4%	2.2%

* Source: International Monetary Fund, World Economic Outlook (Update), January 2014

Market / sector expectations

Further international and national growth is forecast for the IT and telecommunications industry (ICT) in 2014. According to the German industry association BITKOM, the global ICT market will grow by 4.5% to € 2.96 trillion in 2014. BITKOM expects the ICT market in the EU to grow by 1.3% in 2014.

The total market for IT, telecommunications and digital entertainment electronics in Germany is expected to grow by 1.7% in 2014 to € 153.4 billion.

Within the overall market, the IT sector is set to enjoy the strongest growth of 2.8% to € 76.3 billion. The weakest growth is likely to be in the hardware market, which will virtually stagnate with an increase of just 0.2% to around € 21 billion. The main reason is once again the significant decline in sales revenues of business desktop PCs and notebooks, due to falling demand and fierce price competition. Revenues from IT services – such as consulting and outsourcing – are set to grow by 3.2% to € 36.5 billion. The strongest growth is expected in the field of software, which is likely to grow by 5.3% to € 19 billion.

According to the BITKOM forecast, the telecommunications market will experience much slower growth of 0.5% to € 66.2 billion. As in the previous year, however, infrastructure systems can expect stable revenue growth of 3% to € 6.3 billion. There are strongly diverging trends for end-user devices and telecommunications services: bolstered by further strong demand for smartphones, sales of mobile phones are set to grow by 8.0% to around € 10 billion, while revenues from data and voice services are likely to fall by 1.3% to around € 50 billion.

Following a sharp decline in the previous year, BITKOM expects a recovery in sales of consumer electronics products with revenue growth of 1.9% to € 10.9 billion.

Market forecast: development of ICT market segments in Germany
(in € billion)

	2014e	2013	Change
Total ICT market	153.4	150.8	+ 1.7%
IT sub-market	76.3	74.2	+ 2.8%
Telecommunications sub-market	66.2	65.9	+ 0.5%
Consumer electronics sub-market	10.9	10.7	+ 1.9%

Source: BITKOM

Germany's high-tech companies are also upbeat about their prospects in the coming months. 78% of IT and telecommunications companies surveyed expect rising sales in the first half of 2014. A further 11% expect sales to be unchanged from last year and only 11% of companies expect poorer sales figures. These were the findings of the latest economic survey of the German ICT industry conducted by high-tech industry association BITKOM in February 2014. The companies are also positive about 2014 as a whole: 82% of ICT companies expect rising sales and only 11% expect a decline in business.

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

Growth in German broadband market primarily qualitative

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

According to the survey “German Entertainment and Media Outlook 2013-2017” of October 2013, PricewaterhouseCoopers expects sales of fixed-line broadband connections to increase by just 0.9% to € 7.65 billion in 2014.

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

	2014e	2013	Change
Sales (in € billion)	7.65	7.58	+ 0.9%

Source: PricewaterhouseCoopers

Mobile internet market in Germany

All experts continue to predict dynamic growth for the mobile internet market, however. Following market growth of 5.8% to € 9.1 billion in 2013, BITKOM also expects mobile data services to grow by 5.5% to € 9.6 billion in 2014.

This growth will be driven above all by favorable – and thus for the consumer attractive – prices, as well as by the boom in smartphones and tablet PCs and the respective applications (or apps). BITKOM forecasts further growth of 12.1% to 29.6 million sold smartphones in 2014 (following 26.4 million in 2013).

Market forecast: mobile internet access (cellular) in Germany

	2014e	2013	Change
Sales (in € billion)	9.6	9.1	+ 5.5%

Source: BITKOM / European Information Technology Observatory (EITO)

Cloud computing market

In an update of its study "Forecast Overview: Public Cloud Services, Worldwide" of August 28 2013, Gartner forecasts global growth for Public Cloud Services of 17.5%, from USD 131.1 billion to USD 154.1 billion in 2014.

Gartner also forecasts growth in 2014 for United Internet's key markets in North America (+21.7% to USD 51.5 billion) and Western Europe (+12.4% to USD 21.8 billion).

Market forecast: cloud computing

(in $ billion)	2014e	2013	Change
Sales worldwide	154.1	131.1	+ 17.5%
Sales in North America	51.5	42.3	+ 21.7%
Sales in Western Europe	21.8	19.4	+ 12.4%

Source: Gartner, BITKOM / Experton Group

Online advertising market in Germany

Advertisers continued to display a strong willingness to invest in online advertising activities in 2013.

Experts also forecast further growth in 2014. In its study "German Entertainment and Media Outlook 2013 – 2017" of October 2013, PricewaterhouseCoopers expects an increase of 8.4% to € 5.55 billion.

Market forecast: online advertising in Germany

(in € billion)	2014e	2013	Change
Online advertising revenues	5.55	5.12	+ 8.4%

Source: PricewaterhouseCoopers

Expectations for the company

Focus areas in fiscal year 2014

United Internet AG will maintain its policy of sustainable growth in future and continue to invest in new customers, new products and business fields, as well as in its continued internationalization.

In view of its product strategy based on transparency and flexibility, with innovative products offering excellent value for money, United Internet believes it is well positioned in its Access segment. In the fiscal year 2014, contract and revenue growth in this segment is expected to result from the marketing of complete DSL packages, new DSL connections and Mobile Internet products. In the field of DSL connections, we will focus in 2014 on the expansion of V-DSL coverage and the use of the new transmission technology “vectoring” (with speeds up to 100 Mbit/s). For our Mobile Internet products, there will be new tariffs in the course of 2014 based of the inputs of pre-service provider E-Plus.

With its strong and specialized brands, a steadily growing portfolio of cloud applications, and existing relations with millions of small businesses, freelancers and private users, United Internet is also well positioned in its Applications segment to utilize the opportunities offered by cloud computing. In 2014, the company will focus on further expansion in its current target markets with Business Applications products. Key areas are the marketing of new top-level domains (nTLDs) and De-Mail business. In the case of Consumer Applications, the main focus is on secure e-mail communication. Key areas include the marketing of De-Mail accounts and the joint initiative with Deutsche Telekom (“E-Mail made in Germany”) launched in August 2013, for which a TV campaign is planned in 2014.

In addition to organic growth, United Internet continuously examines the possibility of company acquisitions and investments (especially in its Cloud Application business). Thanks to its strong cash flow and existing credit lines, United Internet has the necessary funding in place to finance its future growth – whether organic or via acquisitions.

Forecast for fiscal year 2014

Specifically, United Internet expects that the number of fee-based customer contracts will grow by over 0.8 million from a level of 13.45 million contracts on December 31, 2013.

Consolidated sales in fiscal year 2014 are likely to grow by approx. 10% to over € 2.9 billion (prior year: € 2.656 billion).

Taking into account start-up losses in new business fields and advertising expenses for the “E-Mail made in Germany” initiative, EBITDA is expected to grow to approx. € 520 million (prior year: € 407.2 million).

Earnings per share are likely to be between € 1.40 – € 1.50 (prior year: € 1.07).

Free cash flow (defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment) is expected to exceed € 200 million once again in fiscal year 2014.

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

United Internet AG plans to maintain its shareholder-friendly dividend policy based on continuity in the coming years. Dividend payouts will continue to represent 20-40% of net income in the future (unless funds are required for further company development).

Management Board’s overall statement on the anticipated development

Despite the fact that the macroeconomic and sector trends remain uncertain, United Internet AG is upbeat about its prospects for the future. Thanks to a business model based predominantly on electronic subscriptions, United Internet believes it is stable enough to withstand cyclical influences.

And with the investments made over the past few years in customer relationships, new business fields and internationalization, the company has laid a broad foundation for its planned future growth.

United Internet will continue to pursue its sustainable business policy in the coming years.

Marketing and sales activities will focus mainly on Mobile Internet products in fiscal year 2014. In this business, the market shares in Germany are currently being allocated. United Internet aims to participate in the current market growth and achieve above-average growth. United Internet also plans to leverage the strong positioning of its DSL products and capture further market share.

In contrast to the German access market where market shares are being allocated (especially in the Mobile Internet business), our international business with cloud applications promises strong potential, also for the future medium- and long-term growth of the company – thanks to the rising global demand from private users, freelancers, and small to mid-sized companies.

Following a successful start to the year (at the time of preparing this Management Report), the company’s Management Board believes that the company is well on the way to reaching its forecasts for the full year 2014 presented in the table below.

Full-year 2014 forecast for United Internet AG

	Forecast Dec. 31, 2014	Status as of Dec. 31, 2013
Fee-based customer contracts (in million)	> 0.8	13.45
Sales (in € billion)	+ ~10% to > 2.9	2.656
EBITDA (in € million)	~520	407.2
EPS (in €)	1.40 – 1.50	1.07
Free cash flow* (in € million)	> 200	212.0

* Free cash flow is defined as net cash inflows from operating activities, less capital expenditures, plus payments from disposals of intangible assets and property, plant and equipment

Forward-looking statements

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

5 Accounting-related internal control and risk management system

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

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

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

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

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

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

United Internet AG regards risk management as the total of all measures designed to detect and assess risks, reduce them to an acceptable level, and monitor recognized risks. A risk management system requires organized action to deal suitably with uncertainty and threats and urges employees to utilize the regulations and instruments required to ensure compliance with the risk management principles. In addition to operative risk management, it also includes the systematic early recognition, management and monitoring of risks. The accounting-related risk management system focuses on the risk of false statements in accounting and external reporting.

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

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

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

6 Disclosures required by takeover law

The following disclosures according to Secs. 289 (4) and 315 (4) German Commercial Code (HGB) represent conditions as of the balance sheet date. As required by Sec. 176 (1) Sentence 1 AktG, the disclosures are explained in the sections below.

Composition of capital

The subscribed capital of United Internet AG as of December 31, 2013 amounts to € 194,000,000 divided into 194,000,000 no-par value, registered shares. Each share entitles the owner to one vote. There are no other share categories. In the case of a capital increase, the commencement of dividend entitlement for new shares may be determined separately from the moment of contribution.

Limitations affecting voting rights or the transfer of shares

There are legal limitations affecting voting rights of certain shares pursuant to Sec. 71b AktG and Sec. 71d S. 4 in conjunction with Sec. 71b AktG. At the end of the reporting period, United Internet holds 244,265 shares representing 0.13% of capital stock.

There are also legal limitations affecting voting rights regarding a conflict of interests pursuant to Sec. 136 (1) AktG for shares held by the Management Board and Supervisory Board .

Among the members of the Management Board, Mr. Ralph Dommermuth held 82,000,000 shares (42.27% of capital stock) as of December 31, 2013. Mr. Norbert Lang held 625,000 shares (0.32% of capital stock) and Mr. Robert Hoffmann held 29,405 shares (0.02% of capital stock).

Among the members of the Supervisory Board, Mr. Michael Scheeren held 500,000 shares (0.26% of capital stock) at the end of the reporting period.

There are no limitations affecting the transfer of shares.

Direct and indirect participations in capital with over 10% of voting rights

The company's CEO, Mr. Ralph Dommermuth, owns 82,000,000 shares or 42.27% of the 194,000,000 shares in United Internet AG as of December 31, 2013. The Management Board is not aware of further participations in capital exceeding 10% of voting rights.

Special rights

Mr. Ralph Dommermuth is personally entitled to nominate a member of the Supervisory Board. This right is exercised by naming a person for the

Supervisory Board to the company's Management Board. The nomination becomes effective as soon as the nominated person declares his acceptance of the Supervisory Board seat to the Management Board. A requirement for the aforementioned nomination right is that Mr. Ralph Dommermuth holds shares himself or via companies affiliated with him pursuant to Sec. 15 ff. German Stock Corporation Law (AktG) representing at least 25% of the company's voting capital and can prove as much to the Management Board on nomination of the Supervisory Board member by providing depository account statements or similar documents. Mr. Dommermuth has so far not made use of this nomination right. The Management Board is not aware of any further shares with special rights.

Appointment and dismissal of Management Board members, amendments to company articles

The appointment and dismissal of Management Board members is determined by Secs. 84, 85 AktG in conjunction with section 1 of the rules of procedure for the Supervisory Board. According to Sec. 6 (1) of the company's articles, the Management Board consists of at least one person. The Supervisory Board appoints and dismisses the members of the Management Board, determines their number and can appoint one member of the Management Board as Chairman. Each amendment of the company's articles requires the adoption of a shareholders' meeting resolution with a majority of at least three quarters of capital represented at the vote. Pursuant to Sec. 22 of the company's articles in conjunction with Sec. 179 (1) Sentence 2 AktG (Changes in capital stock and number of shares), the Supervisory Board is authorized to make amendments to the company's articles insofar as they only concern formulation.

Powers of the Management Board to issue shares

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

The Management Board is authorized, subject to approval by the company's Supervisory Board, to increase the company's capital stock on one or more occasions before May 26, 2016 by a total of € 112,500,000.00 by issuing new no-par shares for cash and/or non-cash contributions (Authorized Capital 2011). The Management Board is also authorized, in certain cases stated in Sec. 5.4 of the company's articles, to exclude the statutory right of shareholders to subscribe to new shares. This applies in particular in the case of fractional amounts and when granting subscription rights for new shares to bearers of warrants, convertible bonds or warrant bonds. The Management Board is also authorized, subject to the approval of the Supervisory Board, to restrict subscription rights in the case that the issue price of the new shares is not substantially lower than the quoted market price and the issued shares do not exceed in total 10% of capital stock.

The Management Board is authorized, subject to the approval of the Supervisory Board, to exclude subscription rights in the case of a capital increase in return for non-cash contributions, especially in connection with the acquisition of companies, investments or assets.

Capital stock has been conditionally increased by up to a further € 80,000,000.00, divided into 80,000,000 no-par shares (Conditional Capital 2010). The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on June 2, 2010 authorized the company or a subordinated Group company to issue in the period ending June 1, 2015, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.

Powers of the Management Board to buy back shares

The authorization of the Annual Shareholders' Meeting granted on May 31, 2012 and originally limited until November 30, 2013 to acquire, sell or cancel treasury shares was cancelled by the Annual Shareholders' Meeting of May 23, 2013 on expiration of May 23, 2013 with a future effect.

In accordance with Sec. 71 (1) No. 8 AktG, the Annual Shareholders' Meeting of May 23, 2013 at the same time authorized the Management Board to acquire, sell or cancel treasury shares of up to ten percent of its capital stock in the period directly following the expired authorization and ending on November 22, 2014.

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

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

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

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

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

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

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

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

7 Description of corporate governance

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

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

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

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

Management and corporate structure

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

The **Supervisory Board** is elected by the Annual Shareholders' Meeting and consisted of three members in fiscal year 2013. The members of the Supervisory Board are generally elected for a period of five years. Members of the Supervisory Board should not generally be older than 70. In accordance with German law, the company's articles and its rules of procedure, the Supervisory Board is in regular contact with the Management Board and monitors and advises it with regard to the management of business, and the company's risk and opportunity management system. The Supervisory Board meets at regular intervals to discuss with the Management Board all matters of relevance to the company regarding strategy and its implementation, as well as planning, the development of business, the risk position, risk management and compliance. Together with the Management Board, it discusses the quarterly and half-year reports before publication and approves annual budgets as well as the annual financial statements of the parent company and the group. In doing so, it also takes the reports of the company's external auditors into account. Its responsibilities also include appointing members of the Management Board as well as determining and regularly monitoring their remuneration. The Supervisory Board conducts regular tests to assess its own efficiency. The members of the Supervisory Board complete the training and further education measures required for their tasks on their own, but receive appropriate support in this context from the company.

The **Management Board** is the body charged with managing the group's operations and consisted of three persons in fiscal year 2013. The Management Board conducts operations in accordance with its legal and statutory obligations as well as the rules of procedure approved by the Supervisory Board. It is responsible for preparing the quarterly and annual financial statements as well as for appointing key managers within the company. Resolutions are always adopted with a simple majority. Should the vote result in a tie, the Chairman of the Management Board has a casting vote. Decisions of fundamental importance require the approval of the Supervisory Board. The Management Board regularly informs the Chairman of the Supervisory Board. There is also an age limit of 70 for members of the Management Board.

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

Composition of the Management Board and Supervisory Board

In the fiscal year 2013, the **Management Board** of United Internet AG comprised the company's founder Ralph Dommermuth (CEO), Norbert Lang (CFO; with the company since 1994), and Robert Hoffmann (with the company since 2006). Mr. Robert Hoffmann was appointed to the Management Board of United Internet AG on January 1, 2013 as an additional member. In this new position, he supports the CEO with the strategic development of the company and stands in for him whenever necessary.

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

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

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

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

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

Compliance

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

This includes open and fair communication with our employees, customers, business partners, shareholders and the public. As an internet service provider with several million customers and a large number of business partners, United Internet’s legally and ethically compliant behavior is vital for retaining the trust of our customers and business associates.

To ensure conduct in line with our corporate culture, the Management Board has introduced a binding framework for the ethical principles and values of the company and defined both values and management guidelines. This “culture of cooperation” provides guidance for employees in their everyday work and creates a secure framework for making the correct decisions. The framework applies equally to the Management Board, directors, managers and all employees.

In the interest of all employees and the company, compliance violations are investigated, resolved and punished by taking the appropriate measures. To this end, the company’s Management Board has established the corresponding procedures to ensure compliance with legal and internal regulations, including our values, and to anchor them firmly in the organization.

In accordance with the importance attached to compliance, the company set up a dedicated Compliance Organization in the reporting period. In terms of content, it is headed by the Corporate Compliance Manager and is part of the corporate Legal Department. The Compliance Organization is responsible for the creation of suitable structures and processes to support the implementation of compliance throughout the company and to efficiently introduce measures. Moreover, the Compliance Organization ensures that there are dedicated contact persons in the company's various units.

Financial disclosures / transparency

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

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

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

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

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

Accounting and auditing

The Group's accounts are drawn up according to the principles of the International Financial Reporting Standards (IFRS). However, the annual financial statements of the parent company – relevant for all dividend and tax matters – are drawn up according to the rules of the German Commercial Code (HGB). The annual financial statements for the parent company and the group are audited by independent auditors. The respective auditing company is selected by the Annual Shareholders' Meeting. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was elected to audit the annual financial statements for the fiscal year 2013. The Supervisory Board issues the auditing mandate, determines auditing focal points, approves the auditing fee and examines the independence of the auditors.

Remuneration of Management Board and Supervisory Board

The principles of remuneration for the Management Board and Supervisory Board are presented in section 8 of this Management Report. The disclosure of total remuneration for members of the Management Board and Supervisory Board and its breakdown into fixed and variable compensation components is to be found in section 42 of the notes to the consolidated financial statements.

Stock option plans

The principles of the stock-based compensation plan of United Internet AG are described in the Remuneration Report in section 8 of this Management Report. Further details are provided in section 36 of the notes to the consolidated financial statements.

Directors' Dealings

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

In fiscal year 2013, the Management Board and Supervisory Board of United Internet AG conducted the following securities transactions (in chronological order):

On May 29, 2013, Mr. Norbert Lang exercised 1,000,000 subscription rights and received in return 388,888 shares of United Internet AG. The total volume amounted to € 8,680k. In addition, 288,120 shares were sold at a price of € 22.07, resulting in a total volume of € 6,359k.

On May 29, 2013, Mr. Robert Hoffmann exercised 125,000 subscription rights and received in return 55,790 shares of United Internet AG. The total volume amounted to € 1,245k. In addition, 55,790 shares were sold at a price of € 21.97, resulting in a total volume of € 1,226k.

On June 18, 2013, Mr. Ralph Dommermuth sold 2,000,000 shares and on June 21, 2013, 1,000,000 shares via RD Holding GmbH & Co. KG at a price of € 22.00 each. The total volume amounted to € 66,000k.

On October 7, 2013, Mr. Michael Scheeren sold 100,000 shares at a price of € 27.73 per share. The total volume amounted to € 2,773k.

On October 10, 2013, Mr. Ralph Dommermuth sold 3,000,000 shares via RD Holding GmbH & Co. KG at a price of € 28.00 each. The total volume amounted to € 84,000k.

On November 20, 2013, Mr. Robert Hoffmann exercised 250,000 subscription rights and received in return 69,405 shares of United Internet AG. The total volume amounted to € 1,951k. In addition, on November 21, 2013, 100,000 shares were sold at a price of € 28.48. The total volume amounted to € 2,848k.

No further Directors' Dealings were reported to the company.

Further details on shares held by members of the Management Board and Supervisory Board are also disclosed in section 42 of the notes to the consolidated financial statements.

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

The corporate governance of United Internet is based on the German Corporate Governance Code, which the Government Commission set up by the Federal Justice Minister in September 2001 published for the first time on February 26, 2002. The eleventh and currently valid version of the German Corporate Governance Code was completed on May 13, 2013 and published by the Ministry of Justice in the Federal Gazette (http://www.bundesanzeiger.de) on June 10, 2013.

The Code contains three types of standard:

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

German corporations are obliged to observe the legal regulations.

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

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

On March 5, 2014, the Management Board and Supervisory Board of United Internet AG submitted their current annual declaration of conformity in accordance with Sec. 161 AktG and immediately published it on the company's website (www.united-internet.de), as well as in the Federal Gazette.

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

Since its last Declaration of Conformity issued on March 5, 2013 and until June 9, 2013, United Internet AG complied with the recommendations of the German Corporate Governance Code (the "Code") in the version dated May 15, 2012 ("Code 2012") with the stated exceptions.

United Internet AG complied with the recommendations of the Code in the currently valid version dated May 13, 2013 (“Code 2013”) since it came into force on June 10, 2013, and plans to continue to comply with these recommendations with the following exceptions:

Deductibles in the case of D&O insurance policies for Supervisory Board members (section 3.8)

The D&O insurance policy for Supervisory Board members does not include any deductible. United Internet does not generally believe that the motivation and responsibility with which the members of United Internet's Supervisory Board conduct their duties will be improved by such a deductible.

Vertical comparison when setting Management Board compensation (section 4.2.2)

The Code 2013 restated its recommendation of a vertical comparison for compensation. When determining compensation, the Supervisory Board previously took comparisons with the Group’s most senior executives into account. The Code 2013 does not state to what extent the new recommendation calls on the Supervisory Board to make decisions and considerations in those cases where there are no changes to Management Board compensation agreements. As a matter of precaution, the company therefore declares its deviation from this recommendation.

Capping Management Board compensation (section 4.2.3 (2) sentence 6)

In contrast to the recommendations first made in the Code 2013, the agreements regarding Management Board compensation do not include any payment caps. As the company cannot make unilateral amendments to compensation agreements, it has deviated from this Code recommendation since June 10, 2013.

Although compensation agreements (service contracts and agreements on Stock Appreciation Rights) include caps for variable components, these are not expressed as a total but as a percentage of a fixed amount. The Code 2013 and its explanations do not clearly state whether such caps, expressed as a percentage of a fixed amount, are still in line with the Code’s recommendation. As a matter of precaution, the company therefore declares its deviation from this recommendation.

Committees (section 5.3)

The Supervisory Board has not formed any committees. The Supervisory Board of United Internet AG currently consists of three members and handles in full all tasks of a supervisory board, including the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system and internal audit system, the audit of the Annual Financial Statements, and here in particular the independence of the auditor, the services rendered additionally by the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement, and issues of compliance. Under these circumstances, the Supervisory Board cannot recognize how the formation of committees would improve the efficiency of its work.

Targets for the composition of the Supervisory Board (section 5.4.1)

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

Consideration of the Deputy Chair when setting compensation for Supervisory Board members (section 5.4.6 (1) sentence 2)

When setting compensation for Supervisory Board members, the position of the Deputy Chair of the Supervisory Board is not considered. The Deputy Chair of the Supervisory Board does not currently undertake any additional duties which would represent a greater burden compared to those of a regular Supervisory Board member.

Performance-based compensation of Supervisory Board members to be aligned with sustainable corporate development (section 5.4.6 (2) sentence 2)

The performance-related compensation of Supervisory Board members is possibly not fully oriented toward sustainable growth of the enterprise. As recommended by the Code, members of the Supervisory Board of United Internet AG receive both fixed and performance-based compensation. The performance-based compensation is connected with exceeding a threshold in terms of consolidated earnings per share in the fiscal year – fully in line with the Code until June 15, 2012. For the 2013 and following fiscal years, part of the variable compensation is measured in terms of the change in consolidated earnings per share in the given fiscal year compared with the status three years previously.

United Internet AG regards a performance-based compensation component as appropriate if it is oriented to the actual reported earnings per share in the respective fiscal year, as is the case here. United Internet AG also believes that this system is oriented toward sustainable growth of the enterprise, as compensation is only paid if a result threshold is exceeded. Moreover, at least part of variable compensation for Supervisory Board members is oriented toward sustainable growth in the sense that it is calculated on a multi-year basis. As a consequence, the executive bodies identify no direct need to change the compensation scheme which was implemented in compliance with the Code – in the version valid until June 15, 2012. They will continue to observe and analyze developments in compensation schemes for supervisory board members, and propose a new compensation scheme if required.

Publication of reports (section 7.1.2 sentence 4)

Due to organizational, internal reasons, United Internet only published its interim report for the first quarter of 2013 on May 21, 2013. For the same reasons – and as already announced in the Financial Calendar 2014 – United Internet will publish its interim report for the first quarter of 2014 on May 20, 2014 and its report for the first nine months of 2014 on November 18, 2014.

8 Remuneration report

Principles of the Management Board remuneration system

The Supervisory Board is responsible for determining the remuneration of Management Board members. The remuneration received by the members of the Management Board of United Internet AG is performance-oriented and consists of fixed and variable elements.

The fixed remuneration component is paid monthly as a salary. The size of the variable remuneration component depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on key sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation is capped at 120% of the agreed target. There is no provision for subsequent amendment of the performance targets. No minimum payment of the variable remuneration component is guaranteed. In the case of two Management Board members, there is a component providing long-term incentives in the form of a compensation program based on virtual shares (SARs). The exercise hurdle of this program is 120% of the share price. Payment of value growth is capped at 100% of the calculated share price when the virtual options were granted.

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

Further details on Management Board remuneration are provided in section 42 of the notes to the consolidated financial statements.

Principles of the Supervisory Board remuneration system

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

In the case of United Internet, the fixed remuneration for an ordinary member of the Supervisory Board amounts to € 10,000 per full fiscal year. The Chairman of the Supervisory Board receives twice the amount attributable to an ordinary member. The variable, performance-oriented element for each member of the Supervisory Board, including the Chairman, amounts to € 1,000 for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 for United Internet AG, calculated according to IFRS. As of fiscal year 2013, there will be a variable long-term compensation component for each member of the Supervisory Board, including the Chairman. This will consist of an additional payment per full fiscal year of € 500 per starting percentage point by which the EPS of United Internet AG in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously. This long-term, variable compensation component is limited to a maximum of € 10,000 per member. There are no stock option plans for members of the Supervisory Board.

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

Further information on Supervisory Board compensation is provided in section 42 of the notes to the consolidated financial statements.

Stock-based compensation

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

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

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

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

Detailed information on stock-based compensation is provided in section 36 of the notes to the consolidated financial statements.

9 Dependent company report

In compliance with Sec. 312 (1) AktG, the Management Board declares that the company received adequate compensation (quid pro quo) for all legal transactions and measures listed in the report on relations with affiliated companies, in accordance with the circumstances known at the time when such transactions or measures were carried out, or the measure involved was executed or omitted, and that the company was not disadvantaged by such measures being executed or omitted.

Montabaur, March 21, 2014

The Management Board

Ralph Dommermuth　　Robert Hoffmann　　Norbert Lang

Consolidated Annual Financial Statements

acc. to IFRS

as at
December 31, 2013

United Internet AG - Consolidated balance sheet acc. to IFRS as of December 31, 2013 in €k

ASSETS	Notes	December 31, 2013	December 31, 2012
Current assets			
Cash and cash equivalents	18	43,311	42,828
Trade accounts receivable	19	135,524	148,766
Inventories	20	44,388	25,678
Prepaid expenses	21	53,264	45,177
Other financial assets	22	18,751	19,531
Other non-financial assets	22	4,734	4,473
		299,972	286,453
Non-current assets			
Shares in associated companies	23	108,985	90,881
Other financial assets	24	57,634	70,133
Property, plant and equipment	25	116,175	109,187
Intangible assets	26	165,078	151,827
Goodwill	27	452,812	356,248
Accrued expenses	21	7,256	0
Deferred tax assets	15	66,758	42,979
		974,698	821,255
Total assets		**1,274,670**	**1,107,708**
Liabilities			
Current liabilities			
Trade accounts payable	30	260,222	268,668
Liabilities due to banks	31	23,038	87,113
Advance payments received		11,719	10,943
Accrued taxes	32	22,245	49,312
Deferred revenue	33	183,697	166,030
Other accrued liabilities	34	4,672	2,145
Other financial liabilities	35	53,348	51,464
Other non-financial liabilities	35	44,868	29,944
		603,809	665,619
Non-current liabilities			
Liabilities due to banks	31	317,004	213,163
Deferred tax liabilities	15, 37	25,427	7,569
Other financial liabilities	35	20,577	23,214
		363,008	243,946
Total liabilities		**966,817**	**909,565**
Equity			
Capital stock	38	194,000	215,000
Additional paid-in capital	39	27,702	25,468
Accumulated profit	39	104,819	227,012
Treasury stock	38	-5,178	-263,570
Revaluation reserves	39	9,074	9,621
Cash flow hedge reserve	39	-5,376	-7,942
Currency translation adjustment	39	-19,698	-17,301
Equity attributable to shareholders of the parent company		**305,343**	**188,288**
Non-controlling interests		2,510	9,855
Total equity		**307,853**	**198,143**
Total liabilities and equity		**1,274,670**	**1,107,708**

United Internet AG - Statement of comprehensive income acc. to IFRS
from January 1, 2013 to December 31, 2013 in €k

	Notes	2013 January - December	2012 January - December
Sales	4	2,655,705	2,396,639
Cost of sales	5 , 9 , 11	-1,741,219	-1,574,662
Gross profit		**914,486**	**821,977**
Selling expenses	6 , 9 , 11	-468,607	-461,659
General administrative expenses	7, 9 , 11	-120,525	-112,066
Other operating expenses	8	-37,983	-41,752
Other operating income	8	39,895	58,467
Amortization of intangible assets resulting from company acquisitions	9	-14,493	-14,397
Amortization of goodwill	10	-300	-46,268
Operating result		**312,473**	**204,302**
Interest and similar expenses	12	-18,904	-24,317
Interest and similar income	13	7,678	14,546
Result from associated companies	14	-4,913	-1,576
Pre-tax result		**296,334**	**192,955**
Income taxes	15	-89,348	-84,669
Net income before non-controlling interests		**206,986**	**108,286**
Attributable to			
non-controlling interests		537	481
shareholders of United Internet AG		206,449	107,805
Result per share of shareholders of United Internet AG (in €)			
- basic	16	1.07	0.56
- diluted	16	1.06	0.55
Weighted average shares (in million units)			
- basic	16	193.69	193.91
- diluted	16	195.12	195.36
Statement of comprehensive income			
Net income		206,986	108,286
Results directly included in equity			
Currency translation adjustment			
Market value changes of held-for-sale financial instruments after taxes		-2,404	1,968
Change in cash flow hedge reserve after taxes			
Change in associated companies after taxes		-547	-8,655
not affecting net income		2,566	-3,562
Other income		-385	-10,249
Total net income		**206,601**	**98,037**
Attributable to			
non-controlling interests		530	463
shareholders of United Internet AG		206,071	97,574

United Internet AG - Consolidated Statement of Changes in Shareholders' Equity acc. to IFRS
from January 1, 2013 to December 31, 2013

	Capital stock		Additional paid-in capital	Accumulated profit	Treasury shares		Revaluation reserves	Cash flow hedge reserve	Currency translation difference	Equity attributable to shareholders of Uinited Internet AG	Non-controlling interests	Total equity
Notes	38		39	39	40		39	39	39			
	Share	€k	€k	€k	Share	€k	€k	€k	€k	€k	€k	€k
Balance as of January 1, 2012	215,000,000	215,000	21,199	185,065	21,225,158	-270,751	18,276	-4,380	-19,287	145,122	9,631	154,753
Net income				107,805						107,805	481	108,286
Other net income							-8,655	-3,562	1,986	-10,231	-18	-10,249
Total net income				107,805			-8,655	-3,562	1,986	97,574	463	98,037
Issue of treasury shares				-7,181	-562,956	7,181				0		0
Employee stock ownership program Sedo Holding			2							2	1	3
Employee stock ownership program United Internet			4,267							4,267		4,267
Dividend payments				-58,132						-58,132		-58,132
Profit distributions										0	-177	-177
Change in amount of holdings				-545						-545	-63	-608
Balance as of December 31, 2012	215,000,000	215,000	25,468	227,012	20,662,202	-263,570	9,621	-7,942	-17,301	188,288	9,855	198,143
Balance as of January 1, 2013	215,000,000	215,000	25,468	227,012	20,662,202	-263,570	9,621	-7,942	-17,301	188,288	9,855	198,143
Net income				206,449						206,449	537	206,986
Other net income							-547	2,566	-2,397	-378	-7	-385
Total net income				206,449			-547	2,566	-2,397	206,071	530	206,601
Purchase of treasury shares					1,376,314	-27,703				-27,703		-27,703
Issue of treasury shares				-16,840	-794,251	16,840				0		0
Cancellation of treasury shares	-21,000,000	-21,000		-248,255	-21,000,000	269,255				0		0
Employee stock ownership program Sedo Holding			-8							-8		-8
Employee stock ownership program United Internet			2,242							2,242		2,242
Dividend payments				-58,038						-58,038		-58,038
Profit distributions										0	-164	-164
Change in amount of holdings				-5,509						-5,509	-7,711	-13,220
Balance as of December 31, 2013	194,000,000	194,000	27,702	104,819	244,265	-5,178	9,074	-5,376	-19,698	305,343	2,510	307,853

United Internet AG - Consolidated Cash Flow Statement acc. to IFRS
from January 1, 2013 to December 31, 2013 in €k

	Notes	2013 January - December	2012 January - December
Cash flow from operating activities			
Net income		206,986	108,286
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of intangible assets and property, plant and equipment	9	79,943	78,799
Amortization of intangible assets resulting from company acquisitions	9	14,493	14,397
Goodwill impairment		300	46,268
Compensation expenses from employee stock option plans	36	2,434	4,269
Results of at-equity companies	15, 24	4,913	1,576
Distributed profit of associated companies	24	310	0
Income from deconsolidation of other financial assets	8, 25	0	-18,892
Income from deconsolidation of associated companies	8, 24	0	-4,875
Change in deferred taxes	15	-21,424	-10,858
Other items	46	-7,515	-4,883
Operative cash flow		**280,440**	**214,087**
Change in assets and liabilities			
Change in receivables and other assets		30,726	-45,831
Change in inventories		-18,710	-8,958
Change in deferred expenses		-15,343	-2,083
Change in trade accounts payable		-12,910	39,693
Change in advance payments received		775	1,652
Change in other accrued liabilities		2,527	270
Change in accrued taxes		-27,067	27,397
Change in other liabilities		19,914	7,203
Change in deferred income		8,259	27,098
Change in assets and liabilities, total		**-11,829**	**46,441**
Cash flow from operating activities		**268,611**	**260,528**
Cash flow from investing activities			
Capital expenditure for intangible assets and property, plant and equipment		-59,927	-63,601
Payments from disposals of intangible assets and property, plant and equipment		3,268	7,759
Purchase of shares in affiliated companies less cash received	3	-130,148	-154
Reduction from disposal of deconsolidated companies		-193	0
Purchase of shares in associated companies / joint ventures	23	-22,724	-60,153
Income from deconsolidation of associated companies	23	0	11,400
Refunding from shares in associated companies	23	2,811	5,202
Investments in other financial assets	24	0	-409
Payments for loans granted	42	-2,950	-9,964
Payments from loans granted		818	0
Payments from deconsolidation of financial assets	24	0	49,321
Refunding from other financial assets		1,235	2,628
Payments from the repayment of vendor loans	23	0	59,821
Cash flow from investment activities		**-207,810**	**1,850**
Cash flow from financing activities			
Purchase of treasury stock	38	-27,703	0
Taking out of loans	31	111,766	15,722
Repayment of loans	31	-72,000	-240,039
Dividend payments	17	-58,038	-58,132
Dividend payments to non-controlling interests		-1,306	-1,316
Purchase of further shares in affiliated companies		-11,893	-606
Cash flow from financing activities		**-59,174**	**-284,371**
Net decrease / increase in cash and cash equivalents		1,627	-21,993
Cash and cash equivalents at beginning of fiscal year		42,828	64,867
Currency translation adjustments of cash and cash equivalents		-1,144	-46
Cash and cash equivalents at end of fiscal year		**43,311**	**42,828**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013

1. Information on the Company

Nature of the 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 developed into an operating management holding company for investments in various internet target segments and in the field of internet service provision and mobile telecommunication.

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

The reporting company

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

2. *Accounting and valuation principles*

2.1 Basis of preparation

The Consolidated Financial Statements of United Internet AG were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant supplementary regulations of Section 315a (1) German Commercial Code (HGB). The Consolidated Financial Statements of United Internet AG as at December 31, 2013 do not comply fully, however, with the IFRS as issued by the International Accounting Standards Board (IASB). In May 2011, the IASB issued three new IFRS (IFRS 10, IFRS 11, IFRS 12) and a revised standard (IAS 28) for the accounting of equity interests in subsidiaries, joint arrangements and associated companies (see also disclosures on issued standards, interpretations and amendments not yet adopted). According to a decision of the IASB, companies must initially apply these standards in fiscal years beginning on or after January 1, 2013. Within the European Union, however, these regulations are not mandatory until fiscal years beginning on or after January 1, 2014. In the following, the term IFRS will be used throughout.

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

The balance sheet date is December 31, 2013.

The Supervisory Board approved the Consolidated Financial Statements for 2012 at its meeting on March 20, 2013. The Consolidated Financial Statements were published in the German Federal Gazette ("Bundesanzeiger") on April 17, 2013.

The Consolidated Financial Statements for 2013 were prepared by the Company's Management Board on March 21, 2014 and subsequently submitted to the Supervisory Board. The Consolidated Financial Statements will be presented to the Supervisory Board for approval on March 26, 2014. Theoretically, there may still be changes until the Consolidated Financial Statements are approved and released for publication by the Supervisory Board. However, the Management Board expects that the Consolidated Financial Statements will be approved in the present version. They are to be published on March 27, 2014.

2.2 Consolidation principles

The consolidated group comprises United Internet AG and all domestic and foreign subsidiaries (majority shareholdings) controlled by it. A company is deemed to be controlled, if the company can determine its financial and business policies in order to gain an economic benefit. The annual financial statements of subsidiaries are pre-pared as to the same balance sheet date and using the same standardized accounting and valuation methods as those applied by the parent company.

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

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

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

As of December 31, 2013, the Group includes the following subsidiaries in which United Internet AG holds a direct or indirect majority interest (as indicated by the shareholdings in brackets). Unless otherwise stated, the shareholding corresponds to the proportion of voting rights:

<u>1&1 Internet</u>:

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

- 1&1 Mail & Media Holding GmbH, Montabaur (100.0%)
  - United Internet Media Software GmbH, Montabaur (100%)
  - United Internet Media GmbH, Montabaur (100.0%)
    - United Internet Dialog GmbH, Montabaur (100.0%)
  - UIM United Internet Media Austria GmbH, Vienna / Austria (100.0%)
  - 1&1 Mail & Media GmbH, Montabaur (100.0%)
    - 1&1 Mail & Media Beteiligungen GmbH, Montabaur (100.0%)
    - 1&1 De-Mail GmbH, Montabaur (100.0%)
- 1&1 Mail & Media Inc., Chesterbrook / USA (100.0%)
- 1&1 Telecom Holding GmbH, Montabaur (100.0%)
  - 1&1 Telecom GmbH, Montabaur (100.0%)
    - 1&1 Breitband GmbH, Montabaur (100.0%)
- 1&1 UK Holdings Ltd., Slough / UK (100.0%)
  - Fasthosts Internet Ltd., Gloucester / UK (100.0%)
    - Dollamore Ltd, Gloucester / UK (100.0%)
    - Fasthosts Internet Inc., Chesterbrook / USA (100.0%)
- A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100.0%)
- Immobilienverwaltung AB GmbH, Montabaur (100.0%)
- Immobilienverwaltung NMH GmbH, Montabaur (100.0%)
- InterNetX GmbH, Regensburg (95.56%)
  - InterNetX LAC S.A., Buenos Aires / Argentina (100.0%)
  - Schlund Technologies GmbH, Regensburg (100.0%)
  - PSI-USA, Inc.. Las Vegas / USA (100.0%)
  - Domain Robot Enterprises Inc., Vancouver / Canada (100.0%)
  - Domain Robot Servicos de Hospedagem na Internet Ltda., São Paulo / Brazil (100.0%)
  - mySARL GmbH, Regensburg (100.0%)
  - myLLC GmbH, Regensburg (100.0%)
  - myLLP GmbH, Regensburg (100.0%)
  - myLTD GmbH, Regensburg (100.0%)
  - mySRL GmbH, Regensburg (100.0%)
  - InterNetX Corp., Miami / USA (100%)
- united-domains AG, Starnberg (85.0%)
  - united-domains Reselling GmbH, Starnberg (100.0%)
  - United Domains, Inc., Cambridge / USA (100.0%)
- 1&1 Datacenter SAS, Strasbourg / France (100.0%)
- Arsys Internet S.L., Logroño / Spain (100.0%)
  - E.U.R.L. Arsys Internet, Perpignan / France (100.0%)
  - Tesys Internet S.L., Logroño / Spain (100.0%)
  - Nicline Internet S.L.U., Logroño / Spain (100.0%)

United Internet Beteiligungen:

- United Internet Ventures AG, Montabaur (100.0%)

Sedo Holding:

- Sedo Holding AG, Cologne (96.05%)
  - Response Republic Beteiligungsgesellschaft Deutschland GmbH, Montabaur (100.0%)
    - Sedo GmbH, Cologne (100.0%)
      - Sedo.com LLC, Cambridge (Boston) / USA (100.0%)
      - DomCollect Worldwide Intellectual Property AG, Zug / Switzerland (100.0%)
  - affilinet GmbH, Munich (100.0%)
    - affilinet Austria GmbH, Salzburg, Austria (100.0%)
    - affilinet España S.L.U., Madrid / Spain (100.0%)
    - affilinet France SAS, Saint-Denis / France (100.0%)
    - affilinet Ltd., London / UK (100.0%)
    - affilinet Nederland B.V., Amsterdam / Netherlands (100.0%)
    - affilinet Switzerland GmbH, Zurich, Switzerland (100.0%)
    - Cleafs B.V., Groningen / Netherlands (100.0%)

Pursuant to Sec. 479A of the UK Companies Act 2006, affilinet Ltd., London, UK, entered under No. 05409037, makes use of the provision to be exempted from an audit of its annual financial statements under commercial law.

Other:

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

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

Associated companies

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

- European Founders Fund Verwaltungs GmbH, Munich (66.67%)
- European Founders Fund Management GmbH, Munich (66.67%)
- European Founders Fund GmbH & Co. Beteiligungs KG Nr. 1, Munich (66.67%)
- TLDDOT GmbH, Berlin (53.50%)
- Intellectual Property Management company Inc., Dover / USA (49.00%)
- fun communications GmbH, Karlsruhe (49.00%)
- DomainsBot Srl, Rome / Italy (49.00%)
- Virtual Minds AG, Freiburg (48.65%)
- European Founders Fund Investment GmbH, Munich (33.33%)
- ProfitBricks GmbH, Berlin (30.02%)
- Open-Xchange AG, Nuremberg (28.36%, voting rights 24.9%)
- VictorianFibre Holding & Co. S.C.A., Luxembourg / Luxembourg (25.10%, voting rights 24.9%)
- Travel-Trex GmbH, Cologne (25.00%)
- getAbstract AG, Lucerne / Switzerland (22.00%)

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

Other investments

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

- Goldbach Group AG, Küsnacht-Zurich / Switzerland (14.96%)
- MMC Investments Holding company Ltd., Port Louis / Mauritius (11.36%)
- Hi-Media S.A., Paris / France (10.50%)
- Afilias Ltd, Dublin / Ireland (9.82%)
- Silverpop Systems Inc., Atlanta / USA (5.91%)
- Become Inc., Sunnyvale / USA (5.06%)

Changes in the reporting unit

In its fiscal year 2013, the United Internet Group acquired 100.0% of shares in the fully consolidated Arsys Internet S.L. Logroño (Spain), as well as 28.36% of shares in Open-Xchange AG, Nuremberg.

The following companies were founded by the Company or its subsidiaries in fiscal year 2013:

- United Internet Media Software GmbH, Montabaur (100.0%)
- 1&1 Telecom Service Holding Montabaur GmbH, Montabaur (100.0%)
- affilinet Austria GmbH, Salzburg, Austria (100.0%)
- affilinet Switzerland GmbH, Zurich, Switzerland (100.0%)

The following companies were renamed or changed in fiscal year 2013:

- United Internet Corporate Services GmbH, Montabaur (formerly 1&1 Corporate Services GmbH, Montabaur)
- 1&1 Telecom Service Montabaur GmbH, Montabaur (formerly 1&1 Internet Applications GmbH, Montabaur)
- 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken (formerly 1&1 Internet Service GmbH Zweibrücken, Zweibrücken)
- 1&1 Telecommunication AG, Montabaur (formerly 1&1 Access Holding GmbH, Montabaur)
- United Internet Ventures AG, Montabaur (formerly United Internet Beteiligungen GmbH, Montabaur)
- United Internet Media GmbH, Montabaur (formerly United Internet AG, Montabaur)

Sedo London Ltd., London, UK, was dissolved as of March 19, 2013. The company had been in liquidation since mid 2012.

Intellectual Property Management Company Inc., domiciled in Dover, Delaware, USA ("IPMC"), was deconsolidated as of January 1, 2013 and has since been disclosed in the consolidated financial statements as an associated company again. Sedo GmbH holds 49% of shares in IPMC. An option to purchase a further 32% of shares, which could have been exercised in the years 2010 to 2012, led to its full consolidation during this period.

In fiscal year 2013, the associated company PunktBayern GmbH & Co. KG, Munich (25.00%) was liquidated and dissolved.

2.3 Changes in accounting methods

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

For reasons of clarity, the following adjustment was made:

In the statement of comprehensive income and the statement of cash flows, the item entitled "Writedowns on intangible assets resulting from company acquisitions" in the previous year was restated as "Writedowns on assets resulting from company acquisitions".

Effects of new or amended IFRS standards

The following standards and interpretations amended or published by the IASB were mandatory in fiscal year 2013:

- **Amendments to IAS 1** – Presentation of Financial Statements
- **IFRS 13** – Fair Value Measurement
- **Amendments to IAS 19** – Post-Employment Benefits
- **Amendments to IFRS 7**– Disclosures - Offsetting Financial Assets and Financial Liabilities
- **Annual Improvement Project – Improvements to IFRS 2011**

The new or amended standards have been fully taken into account in the Consolidated Financial Statements. Apart from a changed heading for the *Reconciliation to total comprehensive income* caused by IAS 1, only IFRS 13 had an impact on the Consolidated Financial Statements.

In May 2011, the IASB published IFRS 13 "Fair Value Measurement". With IFRS 13, the IASB has created a uniform, comprehensive standard for fair value measurement. IFRS 13 provides guidance on how to measure at fair value when other IFRSs require fair value measurement (or disclosure). A new definition of fair value applies which characterizes it as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the reporting date. The adoption of IFRS 13 results in additional disclosures in the financial statements of United Internet AG. The European Union endorsed the provisions in December 2012. IFRS 13 is effective for financial years beginning on or after January 1, 2013.

The Company also applied the amendments to IAS 36 prematurely in fiscal year 2013. In its Official Journal of December 20, 2013, the European Union incorporated the amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* into EU law. The amendments to IAS 36 are only mandatory for fiscal years beginning after December 31, 2013. Premature adoption is permitted, however.

With the amendments to IAS 36, the IASB restricted mandatory disclosures on the recoverable amount for cash-generating units which account for a significant proportion of goodwill or intangible assets with unrestricted useful lives. At the same time, however, it expands the scope of the disclosures required in the notes in the event of an impairment or an impairment reversal.

Accounting standards already published but not yet mandatory

Apart from the IFRSs mentioned above whose application is mandatory, the IASB has also published further IFRSs and IFRICs which have already partly received EU endorsement but which will not become mandatory until a later date. United Internet AG is not exercising this option. These standards will be implemented in the Consolidated Financial Statements when their adoption becomes mandatory.

		Mandatory for fiscal years beginning on or after	Endorsed by EU Commission
Standard			
IFRS 9	Financial Instruments (standard and further amendments)	Pending	No
IFRS 10	Consolidated Financial Statements	Jan. 1, 2014	Yes
IFRS 11	Joint Arrangements	Jan. 1, 2014	Yes
IFRS 12	Disclosure of Interests in Other Entities	Jan. 1, 2014	Yes
IFRS 14	Regulatory Deferral Accounts	Jan. 1, 2016	No
IFRS 10/11/12	Amendments to the Transitional Provisions on Consolidation Standards	Jan. 1, 2014	Yes
IFRS 10/12, IAS 27	Investment Entities (amendments)	Jan. 1, 2014	Yes
IAS 19	Defined Benefit Plans: Employee Contributions (amendments)	01.07.2014	No
IAS 27	Separate Financial Statements (revised 2011)	Jan. 1, 2014	Yes
IAS 28	Investments in Associates and Joint Ventures (revised 2011)	Jan. 1, 2014	Yes
IAS 32	Adjustments to Offsetting Financial Assets and Financial Liabilities	Jan. 1, 2014	Yes
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	Jan. 1, 2014	Yes
Various	Annual Improvement Project 2010-2012 and 2011-2013	July 1, 2014	No
Interpretations			
IFRIC 21	Interpretation of Accounting for Levies	Jan. 1, 2014	No

Effects on the Consolidated Financial Statements are expected above all from the new standard on consolidated financial statements IFRS 10, which was published in May 2010 as part of a “package” of five new and revised standards. IFRS 10 changes the definition of “control” so that the same criteria are applied to all companies to determine a controlling relationship. This definition is supported by wide-ranging application guidelines illustrating the various ways that a reporting company (investor) can control another company (investment). The risk-opportunity approach previously specified by SIC-12 is no longer relevant for the purpose of assessing the existence of control under IFRS 10. The amendments mean that shares in the special-purpose vehicles European Founders Fund No. 2 and No. 3, which are fully consolidated until December 31, 2013, are regarded as associates as of January 1, 2014 and accounted for in the Consolidated Financial Statements using the equity method. This will not have any impact on net income or shareholders’ equity. However, the application of the equity method means that assets which were previously disclosed separately (as of December 31, 2013 mainly other non-current assets and shares in associated companies) and liabilities (as of December 31, 2013 mainly liabilities due to minority interests) will be disclosed in future in a summarized form under the item “Shares in associated companies”; the profit contributions from these funds will be disclosed in future in a line in “Result from associated companies”. IFRS 10 is to be applied retrospectively, i.e. in the case described as if the equity method had always been applied.

2.4 Significant accounting judgments, estimates and assumptions

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

Accounting judgments

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

Special-purpose entities

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

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

European Founders Fund No. 2 and No. 3 were thus included in the Consolidated Financial Statements as a subsidiary while European Founders Fund No. 1 is treated as an associated company, due to the significant influence which United

Internet AG can exert. As of January 1, 2014, these companies are included in the Consolidated Financial Statements using the equity method in application of IFRS 10.

Estimates and assumptions

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

Impairment of non-financial assets

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

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

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

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

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

The Company classifies certain assets as available-for-sale and recognizes changes in their fair value directly in equity. If the fair value falls, management makes assumptions about the loss in value in order to determine whether it constitutes an impairment which must be expensed in the income statement. A significant or persistent decrease in the fair value of an equity instrument below its acquisition cost may constitute an objective indication of impairment. The carrying value of available-for-sale financial investments amounted to € 41,183k as of December 31, 2013 (prior year: € 42,927k).

Calculating the profit contribution of associated companies

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

Estimations of the profit contribution of associated companies are subject in part to profit forecasts. On presentation of more robust financial information, these are adjusted in the following year in the case of significant deviations. The carrying value of investments in associated companies and joint ventures amounted to € 108,985k as of December 31, 2013 (prior year: € 90,881k). The result from associated companies in fiscal year 2013 amounted to € -4,913k (prior year: € -1,576k).

Impairment test for investments in associated companies and joint ventures

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

The recoverable amounts of non-listed companies is based both on available past experience for the respective company and expectations of its future development. As these expectations are based on numerous assumptions, the calculation of recoverable amounts depends on discretionary factors. As of December 31, 2013, the fair value of investments in associated companies and joint ventures amounted to € 108,985k (prior year: € 90,881k).

Share-based payments

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

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

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

Taxes

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

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

Deferred tax assets

Deferred tax assets are recognized for all unused tax loss carryforwards, to the ex-tent for which it is probable that future taxable profit will be available. In order to assess the amount of deferred tax assets, management must make significant judgments based on the likely timing and level of future taxable income as well as future tax planning strategies. As of December 31, 2013, the carrying value of deferred tax assets for tax losses considered amounted to € 6,281k (prior year: € 9,251k). Further details are provided in Note 15.

Trade accounts receivable

Trade accounts receivable are carried in the balance sheet less impairment charges made. Allowances for doubtful claims are made on the basis of a systematic review as well as valuations conducted as part of credit monitoring. Assumptions concerning the payment behavior and creditworthiness of customers are subject to significant uncertainties. The carrying value of trade receivables amounted to € 135,524k as of December 31, 2013 (prior year: € 148,766k).

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value comprises the estimated sales proceeds less the necessary expected costs up to the time of sale. Valuation is based in part on time-related write-downs for inventories which increase over time. Both the size and distribution over time of such write-downs represents a best-possible estimation of net realizable value and is thus subject to uncertainties. The carrying values of inventories as of the balance sheet date amounted to € 44,388k (prior year: € 25,678k). Please refer to Note 20 for further information.

Tangible and intangible assets

Property, plant and equipment and intangible assets are valued at cost on initial recognition. Property, plant and equipment and intangible assets with limited useful lives are then depreciated over their expected economic useful lives using the straight-line method. Expected useful lives are based on historical experience and thus subject to significant uncertainties, especially with regard to unforeseen technological developments. The carrying value of tangible and intangible assets amounted to € 228,325k as of December 31, 2013 (prior year: € 214,718k).

Accounting for business combinations

Business combinations are accounted for using the purchase method. Goodwill arising from a business combination is initially measured at cost, being the excess of the acquisition cost of the operation over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Costs accrued in the course of the business combination are recognized under other operating expense.

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

The carrying values of goodwill as of the balance sheet date amounted to € 452,812k (prior year: € 356,248k). The carrying values of intangible assets resulting from business combinations (excluding goodwill) amounted to € 97,239k as of the balance sheet date (prior year: € 63,775k), while tangible assets totaled € 1,955k (prior year: € 0k).

Provisions

Provisions are formed if the Group has a legal or actual obligation resulting from a past event which will probably give rise to the outflow of resources with an economic benefit to fulfill the obligation, provided that the level of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. The carrying value of provisions amounted to € 4,672k as of December 31, 2013 (prior year: € 2,145k).

2.5 Summary of significant accounting and valuation methods

Revenue recognition

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

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

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

"Access" segment

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

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

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

“Applications” segment

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

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

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

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

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

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

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

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

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

United Internet operates an internet platform for Affiliate Marketing via the company affilinet GmbH. An affiliate program (partner program) is an internet-based sales solution whereby a merchant (the advertiser) pays a performance-oriented commission to his sales partner (the affiliate). The advertiser places the respective advertising message on the platform, which the affiliate can then use on his website to promote the advertiser's offer.

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

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

Disclosure of disposal gains and losses from the sale of investments

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

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

Foreign currency translation

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

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

The exchange rates of major currencies developed as follows:

(in relation to 1 euro)	Closing rate		Average rate	
	31.12.2013	31.12.2012	2013	2012
US dollar	1.379	1.319	1.328	1.286
UK pound	0.834	0.817	0.849	0.811

Property, plant and equipment

Property, plant and equipment is carried at cost less cumulative scheduled depreciation.

Land and buildings are carried at cost less scheduled depreciation for buildings and impairment.

Items of property, plant and equipment are eliminated either on their disposal or when no further economic use is expected from the continued use or sale of the asset. Gains and losses from the disposal of an asset are assessed as the difference between net sales proceeds and the asset’s carrying value. They are recognized in the income statement in the period in which the asset is eliminated.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted where necessary.

Property, plant and equipment assets are depreciated over their expected economic useful life using the straight-line method. In the case of operational and office equipment, servers used for web hosting are depreciated over a useful life of 3 years. Other servers used by the Company are depreciated over 5 years, due to their comparatively lower usage.

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

	Useful life in years
Leasehold improvements	Up to 10 (depending on lease period)
Buildings	10 or 50
Vehicles	5 to 6
Other operational and office equipment	3 to 10
Office furniture and fixtures	5 to 13

Borrowing costs

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

Business combinations and goodwill

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

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

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

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

Intangible assets

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

A difference is made between intangible assets with limited and those with unlimited useful lives.

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

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

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

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

Investments in associated companies

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

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

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

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets such intangible assets from company acquisitions, at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in Note 41.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible for the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 — valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of non-financial assets

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

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

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

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

Goodwill

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

Intangible assets with unlimited useful lives

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

Associated companies

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

Financial investments and other financial assets

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

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

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

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

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

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

Financial assets held at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial instruments

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

Fair value

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

Amortized cost

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

Loans and receivables are carried at amortized cost. This is calculated using the effective interest method less allowances for impairment and under consideration of discounts and premiums on purchase and includes all fees which are an integral part of the effective interest rate.

Impairment of financial assets

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

Financial assets carried at amortized cost

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

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

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

Available-for-sale financial investments

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

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

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

Inventories

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

Valuation is based in part on time-related write-downs for inventories. Both the size and distribution over time of such write-downs represents a best-possible estimation of net realizable value and are thus subject to uncertainties. On indication of decreased net realizable value, inventories are corrected by recognizing suitable impairment charges.

Treasury shares

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

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

Provisions

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

Share-based payment

Group employees receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the Company's discretion. There are also share-based compensation arrangements with third parties, whereby the Company has the option to settle via equity instruments or cash.

Equity-settled transactions

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

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

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

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

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

Earnings per share

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

Diluted earnings per share are calculated similarly to basic earnings per share with the exception that the average number of shares outstanding increases by the portion which would result if the exercisable subscription rights resulting from employee stock participation programs had been exercised. The same applies to shared-based compensation agreements with third parties.

Pensions and other post-employment benefits

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

Leases

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

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

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

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

The Company acts exclusively as lessee.

Financial income

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

Government grants

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

Taxes

Current income tax assets and liabilities

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

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

Deferred taxes

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

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

- where the deferred tax liability from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the profit or loss according to IFRS nor taxable profit or loss, and

- in respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted as of the balance sheet date. Future changes in tax rates are to be considered on the balance sheet date, providing material effectiveness conditions are met as part of the legislative process.

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

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

Sales tax

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable, and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included under “Other non-financial assets” or “Other non-financial liabilities” in the consolidated statement of financial position.

Derivative financial instruments and hedging relationships

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

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

The fair value of interest derivatives is calculated on the basis of present value models using market information (interest rate curves) as well as – where material – the individual credit risk of the Company.

Hedging relationships

When entering into a hedging relationship to hedge against the risk of cash flow fluctuations, certain derivatives are allocated to underlying transactions which can be attributed to a risk connected with a recognized asset or liability or the risk connected with the intended transaction (cash flow hedge). The hedging instruments in a hedge are also carried at market values. However, changes in value relating to the effective portion are recognized in the cash flow hedge reserve, a separate item under equity ("Hedging reserve"). Any ineffectiveness is recognized in profit or loss. Effectiveness is measured as at the end of the reporting period using the hypothetical derivative method.

The amounts recognized in equity are reclassified to the statement of comprehensive income in the period in which the hedge influences the period result, e.g. when hedged financial income or expenses are recognized or when an expected sale is made.

3. Business combinations and investments

3.1. Business combinations in fiscal year 2013

On August 22, 2013, United Internet acquired 100% of shares in Arsys Internet S.L., Logroño (Spain), a company involved in webhosting and cloud computing.

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

Part of the purchase price of € 95,990k was settled in cash. In addition, the existing debt was replaced during the course of the acquisition. To this end, Arsys

Internet S.L. was granted liquid funds of € 42,080k in the form of loans. The ancillary acquisition costs expensed amounted to € 1,453k as of December 31, 2013.

The preliminary price allocation from this transaction results in goodwill of € 100,617k – which mainly reflects the synergy effects.

Assets	€k
Cash and cash equivalents	7,922
Trade accounts receivable	1,970
Other financial assets	5,009
Intangible assets	49,633
Property, plant and equipment	10,455
Deferred tax assets	3,044
	78,033
Liabilities	
Trade accounts payable	4,485
Deferred revenue	11,610
Other current liabilities	5,104
Other non-current liabilities	1,687
Deferred tax liabilities	17,694
	40,580
Total identifiable net assets at fair value	**37,453**
Goodwill from company acquisition	100,617
Transferred compensation	**138,070**

The intangible assets resulting from the preliminary price allocation consist of the following items:

	Fair value (in €k)	Useful life (in years)
Customer base	32,877	9
Brands	7,553	n/a
Software	1,991	2
Technology	7,212	5
	49,633	

The contribution of Arsys Internet S.L. to earnings – from the initial consolidation date to the end of the reporting period – amounted to € 522k, while revenue generated reached € 13,124k. If Arsys Internet S.L. had already been consolidated on January 1, 2013, the Group's sales revenue would have increased by € 26,794k in the reporting period of 2013 and consolidated net income by € 3,568k.

3.2. Investments of fiscal year 2013

On July 18, 2013, United Internet acquired 28.36% of shares in Open-Xchange AG, Nuremberg, Germany, an e-mail and collaboration specialist. The acquisition costs amounted to € 14,956k. The shares are disclosed as "Shares in associated companies".

3.3. Company transactions in the previous year

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

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

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

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

Explanations of items in the statement of comprehensive income

4. Sales revenue / segment reporting

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

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

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

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

Segment reporting of United Internet AG in fiscal year 2013 was as follows:

2013	Access segment	Applications segment	Head Office / Investments	Reconciliation	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	1,804,453	876,563	8,404	---	---
- thereof internal revenues	16,171	9,604	7,940	---	---
External revenues	1,788,282	866,959	464	---	2,655,705
- thereof domestic	1,788,282	570,021	464	---	2,358,767
- thereof non-domestic	0	296,938	0	---	296,938
EBITDA	245,407	168,690	-6,888	0	407,209
EBIT	217,385	102,138	-7,050	0	312,473
Financial result			-11,292	66	-11,226
Result from at-equity companies			-5,066	153	-4,913
EBT			-23,408	319,742	296,334
Tax expense				-89,348	-89,348
Net income					206,986
Segment assets (non-current)	66,081	473,357	79,993	---	619,431
- thereof domestic	0	294,275	45,324	---	339,599
- thereof shares in associated companies	0	208	39,684	---	39,892
- thereof other financial assets	0	7,364	5,640	---	13,004
- thereof goodwill	0	286,703	0	---	286,703
- thereof non-domestic	66,081	179,082	34,669	---	279,832
- thereof shares in associated companies	66,081	1,356	1,656	---	69,093
- thereof other financial assets	0	11,617	33,013	---	44,630
- thereof goodwill	0	166,109	0	---	166,109
Investments in intangible assets, property, plant and equipment	5,180	54,257	490	---	59,927
Amortization/depreciation	28,022	66,552	162	---	94,736
- thereof intangible assets, property, plant and equipment	28,022	51,759	162	---	79,943
- thereof intangible assets capitalized during company acquisitions	0	14,493	0	---	14,493
- thereof goodwill	0	300	0	---	300
Number of employees	2,191	4,669	34	---	6,894
- thereof domestic	1,988	3,223	34	---	5,245
- thereof non-domestic	203	1,446	0	---	1,649

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

In the periods under review, there was no significant concentration of individual customers in the customer profile. The United Internet Group does not generate more than 10% of total external sales revenues with one customer. Foreign sales accounted for 11.2% (prior year: 11.1%) of total Group revenues.

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

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

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

2012	Segment Access	Segment Applications	Head Office / Investments	Reconciliation	United Internet Group
	€k	€k	€k	€k	€k
Total revenues	1,587,112	819,824	4,154	---	---
- thereof internal revenues	1,015	9,629	3,807	---	---
External revenues	1,586,097	810,195	347	---	2,396,639
- thereof domestic	1,586,097	543,303	347	---	2,129,747
- thereof non-domestic	0	266,892	0	---	266,892
EBITDA	191,766	132,163	19,837	0	343,766
EBIT	164,253	20,351	19,698	0	204,302
Financial result			-7,807	-1,964	-9,771
Result from at-equity companies			-1,629	53	-1,576
EBT			10,262	182,693	192,955
Tax expense				-84,669	-84,669
Net income					108,286
Segment assets (non-current)	0	385,531	131,731	---	517,262
- thereof domestic	0	305,692	27,547	---	333,239
- thereof shares in associated companies	0	253	19,599	---	19,852
- thereof other financial assets	0	16,387	7,947	---	24,334
- thereof goodwill	0	289,053	0	---	289,053
- thereof non-domestic	0	79,839	104,184	---	184,023
- thereof shares in associated companies	0	1,052	69,977	---	71,029
- thereof other financial assets	0	11,592	34,207	---	45,799
- thereof goodwill	0	67,195	0	---	67,195
Investments in intangible assets, property, plant and equipment	4,829	58,566	206	---	63,601
Amortization/depreciation	27,513	111,812	139	---	139,464
- thereof intangible assets, property, plant and equipment	27,513	51,147	139	---	78,799
- thereof intangible assets capitalized during company acquisitions	0	14,397	0	---	14,397
- thereof goodwill	0	46,268	0	---	46,268
Number of employees	1,928	4,292	34	---	6,254
- thereof domestic	1,845	3,025	34	---	4,904
- thereof non-domestic	83	1,267	0	---	1,350

5. Cost of sales

	2013	2012
	€k	€k
Cost of services	1,253,576	1,204,730
Cost of goods	280,401	167,074
Personnel expenditure	102,875	90,543
Depreciation	47,081	46,272
Others	57,286	66,043
Total	1,741,219	1,574,662

The cost of sales remained stable in relation to sales revenue at 65.6% compared with the previous year (65.7%). This resulted in an equally stable gross margin of 34.4% (prior year: 34.3%).

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

6. Selling expenses

There was a year-on-year increase in selling expenses from € 461,659k (19.3% of sales) to € 468,607k (17.6% of sales).

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

7. General and administrative expenses

As in the previous year, general and administrative expenses rose more slowly than sales from € 112,066k (4.7% of sales) to € 120,525k (4.5% of sales).

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

8. *Other operating income / expenses*

8.1 Other operating expenses

	2013	**2012**
	€k	**€k**
Losses due to accounts receivable	27,010	31,420
Expenses from foreign currency translation	5,474	5,992
Transaction costs for business combinations	1,453	77
Donations	456	175
Losses from the disposal of property, plant and equipment	322	4
Other taxes	203	190
Others	3,065	3,894
Total	**37,983**	**41,752**

Expenses from foreign currency translation mainly comprise losses from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as losses from valuation at the balance sheet date. Currency gains from these items are reported under other operating income. A net consideration of this item results in a net loss of € 381k (prior year: € 200k).

Losses due to accounts receivable include expenses for valuation allowances on trade accounts receivable and expenses arising from the derecognition of such receivables.

Please refer to Note 3.1 for information on transaction costs for business combinations.

8.2 Other operating income

	2013	**2012**
	€k	€k
Income from dunning and return debit charges	25,680	21,215
Income from foreign currency translation	5,093	5,792
Sale of shares in portfolio companies of EFF 2 and 3	562	5,447
Sale of shares in freenet AG	0	17,928
Income from other taxes		
Tax Audit 2006-08	0	1,006
Others	8,560	7,079
Total	**39,895**	**58,467**

Income from foreign currency translation mainly comprise gains from exchange rate changes between the date of origination and time of payment of foreign currency receivables and payables as well as gains from valuation at the balance sheet date. Currency losses from these items are reported under other operating expenses.

Other operating income in fiscal year 2012 included € 17,928k in income from the sale of all 3,814,371 shares in freenet AG in October 2012. The sales proceeds amounted to € 48,061k.

9. Depreciation and amortization

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

	2013 €k	**2012** €k
Cost of sales	47,081	46,272
Selling expenses	25,205	25,178
General and administrative expenses	7,657	7,349
Total	79,943	78,799

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

Intangible assets	**2013** €k	**2012** €k
Portal	7,525	9,031
Customer base / order backlog	5,540	4,961
Software	556	405
Technology	481	0
	14,102	14,397
Tangible assets		
Property, plant and equipment	391	0
Total	14,493	14,397

At year-end 2013, there were indications that the intangible assets capitalized during the purchase price allocation on acquisition of Cleafs B.V. in 2012 had been impaired. In the course of an impairment test, the customer base was subsequently written down by € 302k.

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

	2013	**2012**
	€k	€k
WEB.DE portal business	7,741	9,282
united-domains	2,828	2,828
Arsys	2,209	0
Fasthosts	1,178	1,823
Cleafs	420	75
RevenueDirect	117	121
Dollamore	0	268
Total	14,493	14,397

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

10. Goodwill amortization

In the course of a scheduled impairment test of goodwill as of the balance sheet date, the goodwill of affilinet Netherlands belonging to the cash-generating unit “Affiliate Marketing” in the sub-group Sedo was found to be impaired by € 300k. Business in the Netherlands fell well short of the company’s expectations in 2013.

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

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

The entire goodwill write-downs of the previous year amounted to € 46,268k.

11. Personnel expenses

Personnel expenses are divided among the various divisions as follows:

	2013	2012
	€k	€k
Cost of sales	102,875	90,543
Selling expenses	147,564	136,352
General and administrative expenses	55,687	48,192
Total	306,126	275,087

The number of employees increased from 6,254 in the previous year to 6,894 at year-end 2013, representing growth of 10.2%:

	2013	2012
Germany	5,245	4,904
Outside Germany	1,649	1,350
Total	6,894	6,254

The average number of employees in fiscal year 2013 amounted to 6,648 (prior year: 6,028), of which 5,134 (prior year: 4,707) were employed in Germany and 1,514 (prior year: 1,321) abroad.

With regard to company pension plans, the Group only has defined contribution plans. The Company pays contributions to the state pension fund as a result of statutory obligations. There are no other benefit obligations for the Company after payment of the contributions. The current contribution payments are disclosed as an expense in the respective year. In fiscal year 2013, they amounted to € 17,524k (prior year: € 16,097k) and mostly concerned contributions paid to the state pension fund in Germany.

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

12. Financial expenses

	2013 €k	2012 €k
Interest expense from interest swaps	9,087	8,617
Loans and overdraft facilities	5,603	8,610
Interest expense from tax audit	3,285	6,159
Interest effect of put option united-domains AG	836	931
Financial expense from finance leases	93	0
Total financial expenses	18,904	24,317

The interest cost from a tax audit resulted from interest accruing on tax liabilities. Please refer to Note 15.

With regard to the interest effects from the put option of united-domains AG, reference is made to the explanations in Note 35.3.

Please refer to Note 45 for an explanation of the financial expense from finance leases.

13. Financial income

	2013 €k	2012 €k
Income from interest hedging transactions	5,488	3,424
Interest income from credit balances with banks	695	1,152
Interest income from tax audit	797	1,706
Income from loans to associated companies / joint ventures	438	228
Income from dividends	260	5,438
Income from purchase price installments from the sale of shares in associated companies / joint ventures	0	2,598
Total financial income	7,678	14,546

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

With regard to income from the tax audit, please refer to Note 15.

With regard to income from loans to associated companies / joint ventures, please refer to Note 42.

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

Income from purchase price installments in the previous year mainly resulted from discounting in connection with the interest-free vendor loan granted on the sale of Versatel shares. Discounting up to the exercise of the call option and resulting repayment of the vendor loan amounted to € 2,301k. Please refer to Note 3.3.

14. Result from associated companies

	2013 €k	**2012** €k
Result from associated companies	-4,913	-1,576
	-4,913	-1,576

15. Income taxes

The income tax expense is comprised as follows:

	2013 €k	**2012** €k
Current income taxes		
- Germany	105,019	89,761
- Abroad	5,753	5,642
Total (current period)	110,772	95,403
Deferred taxes		
- Due to tax loss carryforwards	2,971	5,189
- Tax effect on temporary differences	-24,395	-15,923
Total deferred taxes	-21,424	-10,734
Total tax expense	89,348	84,669

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

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax on income. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate in fiscal year 2013 amounted to approx. 14.2% (prior year: 14.2%).

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

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

- Due to the results of the completed tax audit for the assessment periods 2006 to 2008 and their subsequent impact and assessments for the following years, there are tax expenses not relating to the period of € 3,671k (prior year: € 13,354k). There was also interest income of € 797k (prior year: € 1,706k) in this connection, as well as interest expenses of € 3,285k (prior year: € 6,159k). These are disclosed in the financial result.

In the previous year, there was also income not relating to the period for sales tax of € 1,006k which resulted from the tax audit for the assessment periods 2006 to 2008.

The tax income recognized directly in other comprehensive income in fiscal year 2013 amounted to € 853k at the end of the reporting period (prior year: € 976k).

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

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

	2013	**2012**
	€k	€k
USA	4,768	7,723
France	1,251	1,528
Poland	262	0
	6,281	**9,251**

In fiscal year 2013, deferred tax assets for tax loss carryforwards of US and French subsidiaries were used in the amount of € 3,232k.

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

	2013 €k	2012 €k
Germany	7,575	7,676
UK	6,440	5,587
France	2,794	2,210
Poland	0	2,702
	16,809	**18,175**

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:

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

In Germany, the loss carryforwards can be used for an indefinite period. As in the previous year, a partial amount of € 3,600k relates to corporate tax loss carryforwards prior to fiscal unity of Response Republic Beteiligungsgesellschaft Deutschland GmbH which cannot be utilized due to an existing profit transfer agreement.

No deferred tax assets were formed for the remaining tax loss carryforwards in Germany and abroad – resulting mainly from the annual financial statements of sub-group Sedo Holding AG – as there is not expected to be corresponding tax relief in the near future.

In fiscal year 2013, tax loss carryforwards were used for the first time in Poland in the amount of € 1,327k. Deferred tax assets were formed for the remaining tax loss carryforwards.

Deferred taxes resulted from the following items:

	2013		2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Trade accounts receivable	934	0	584	1,262
Inventories	82	0	76	0
Other financial assets - current	777	0	904	89
Other financial assets – non-current	48	172	12	181
Other assets	61,175	738	38,297	0
Property, plant and equipment	2,957	4,615	2,427	6,457
Intangible assets	8,386	41,150	7,549	23,263
Other accruals	919	1,470	951	531
Other liabilities	4,224	227	5,063	546
Prepaid expenses	3,147	140	2,274	0
Gross value	82,649	47,774	58,137	32,329
Tax loss carryforwards	6,281	0	9,251	0
Tax credit Spain	1,127	0	0	0
Adjustments for consolidation	0	214	117	0
Other items	0	0	308	74
Offsetting	-23,299	-23,299	-24,834	-24,834
Consolidated statement of financial position	**66,758**	**25,427**	**42,979**	**7,569**

The net balance of deferred tax assets increased from € 35,410k in the previous year to € 41,331k. As a result, the total change in the net balance of deferred taxes amounted to € 5,921k (prior year: € 11,710k). This change was mainly due to the following factors:

- Increase in deferred tax assets for customer acquisition costs in the tax balance sheet of € 23,286k

- Addition of deferred tax liabilities without effect on profit or loss from acquisition of Arsys Internet S.L. with a net total of € 14,650k

In addition, there was an effect from the use of deferred tax assets for tax loss carryforwards amounting to € 3,232k.

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

Deferred tax income	21,424
Addition in connection with business combinations	-14,650
Deferred tax expense recognized directly in equity	-853
Change in the net balance of deferred taxes	**5,921**

Deferred tax liabilities of € 41,150k (prior year: € 23,263k) result mainly from the different treatment of capitalized intangible assets from business combinations in the consolidated accounts and the tax balance sheet. The net asset balance of deferred taxes recognized directly in equity was reduced by € 853k to € 1,928k in fiscal year 2013.

As in the previous year, no deferred tax liabilities were recognized as of December 31, 2013 for differences in the balance sheet treatment of the investment in 1&1 Mail & Media GmbH in the IFRS and tax balance sheets, as it is probable that this difference will not reverse in the foreseeable future.

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

		2013 %	2012 %
Anticipated tax rate		30.02	30.06
-	Actual and deferred taxes for previous years	1.60	10,97
-	Amortization of goodwill non-deductible for tax purposes	0.00	7,17
-	Amortization of intangible assets non-deductible for tax purposes	1.85	3,01
-	Tax-reduced profit from disposals and income from investments	-0.07	-3,73
-	Differences in foreign tax rates	-0.28	-0,59
-	Employee stock ownership plan	-3.71	-1,18
-	Tax losses of the fiscal year for which no deferred taxes have been capitalized	0.14	0,46
-	First-time capitalization of tax losses not recognized in previous years	-0.27	0,00
-	Allowances for deferred taxes	0.00	0,19
-	Consolidation effects	0.00	-2,26
-	Non-taxable at-equity results	0.57	0,24
-	Balance of other tax-free income and non-deductible expenses	0.40	-0,70
Effective tax rate		30.25	43.64

The reconciliation amount from employee stock ownership plans results mainly from the differing treatment of these plans in the IFRS annual financial statements. Whereas under IFRS these compensation benefits are measured at present value on the grant date and expensed over the service period, tax balance sheet measurement is based on their intrinsic value which is subject to fluctuation depending on the development of the United Internet share price over the period.

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

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

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

With regard to tax breaks on disposal gains in the previous year, we refer to Note 8.2.

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

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

16. Earnings per share

As of December 31, 2013, capital stock was divided up into 194,000,000 registered no-par shares (prior year: 215,000,000) each with a theoretical share in the capital stock of € 1. On December 31, 2013, United Internet held 244,265 treasury shares (prior year: 20,662,202). These treasury shares do not entitle the Company to any rights or proportional dividends and are thus deducted from equity. The weighted average number of shares outstanding used for calculating undiluted earnings per share was 193,688,043 for fiscal year 2013 (prior year: 193,906,687).

A dilutive effect must be taken into consideration for option rights resulting from the employee stock ownership program of United Internet AG which were contained in cash as of December 31, 2013. All option rights existing on December 31, 2013 were considered in the calculation of diluted earnings per share, using the treasury stock method, insofar as the option rights were in money and irrespective of whether the option rights were actually exercisable on the balance sheet date. The calculation of the dilutive effect from conversion is made by first determining the total of potential shares. On the basis of the average fair value, the number of shares is then calculated which could be acquired from the total amount of payments (par value of the rights plus additional payment). If the difference between the two values is zero, the total payment is exactly equivalent to the fair value of the potential shares and no dilutive effect need be considered. If the difference is positive, it is assumed that these shares will be issued without consideration.

The calculation of diluted earnings per share was based on 4,059,000 (prior year: 4,448,375) potential shares (from the assumed use of rights). Based on an average market price of € 23.28 (prior year: € 14.79), this would result in the issuance of 1,430,437 (prior year: 1,451,240) shares without consideration.

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

	2013 €k	2012 €k
Profit attributable to the shareholders of United Internet AG	**206,449**	**107,805**
Earnings per share (in €)		
- undiluted	1.07	0.56
- diluted	1.06	0.55
Weighted average number of outstanding shares (in million units)		
- undiluted	193.69	193.91
- diluted	195.12	195.36

17. Dividend per share

The Annual Shareholders' Meeting of United Internet AG on May 23, 2013 voted to accept the proposal of the Management Board and Supervisory Board to pay a dividend of € 0.30 per share. The total dividend payment of € 58.0 million was made on May 24, 2013.

According to section 21 of the by-laws of United Internet AG, the Annual Shareholders' Meeting decides on the appropriation of retained earnings. The Management Board and Supervisory Board will discuss their dividend proposal for fiscal year 2013 at the Supervisory Board meeting on March 26, 2014.

Pursuant to Sec. 71b AktG, the Company does not accrue any rights from treasury shares and thus has no pro-rated dividend rights. As at the date of signing the annual financial statements, United Internet Group holds 244,265 treasury shares (prior year: none).

Explanations to the balance sheet

18. Cash and cash equivalents

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

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

19. Trade accounts receivable

	2013	2012
	€k	€k
Trade accounts receivable	152,467	167,873
less		
Bad debt allowances	-16,943	-19,107
Trade accounts receivable, net	135,524	148,766

As of December 31, 2013 bad debt allowances for trade accounts receivable amounted to € 16,943k (prior year: € 19,107k). The development of bad debt allowances can be seen below:

	2013	2012
	€k	€k
As of January 1	19,107	17,055
Utilization	-13,439	-12,757
Additions charged to the income statement	15,309	17,942
Reversals	-3,842	-3,023
Exchange rate differences	-192	-110
As of December 31	16,943	19,107

Additions charged to the income statement of each period under review do not comprise receivables arising during the year and eliminated before the balance sheet date.

As of the balance sheet date there is no recognizable indication that payment obligations for receivables not adjusted cannot be met.

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

Overdue receivables are tested for possible impairment. Individual allowances are mainly formed by classifying receivables according to their age profile. We refer to Note 43.

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

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

	2013	2012
	€k	€k
Trade accounts receivable, net		
< 30 days		
30-60 days	123,950	141,460
60-90 days	5,563	3,158
90-120 days	3,335	1,993
>120 days	1,529	1,295
Trade accounts receivable, net	1,147	860
	135,524	148,766

20. Inventories

Inventories consisted of the following items:

	2013	2012
	€k	€k
Merchandise		
Mobile telephony / mobile internet	37,299	17,377
DSL hardware	7,672	5,189
SIM cards	303	1,140
Other	375	1,352
Domain stock held for sale		
Domain stock	1,671	2,122
	47,320	**27,180**
less		
Allowances	-2,932	-1,502
Inventories, net	**44,388**	**25,678**

The impairment of inventories expensed in the period under review amounted to € 1,430k (prior year: € 110k). This charge is disclosed in “Cost of sales”. Allowances include € 2,088k for mobile telephony/Mobile Internet (prior year: € 681k), € 464k for domains (prior year: € 469k), € 25k for DSL hardware (prior year: € 2k) and € 355k for other inventories (prior year: € 350k).

21. Current prepaid expenses

Prepaid expenses of € 53,264k (prior year: € 45,177k) consist mainly of prepayments for domain fees and pre-service fees which were deferred and charged to the income statement on the basis of the underlying contractual period of customers.

22. Other current assets

22.1 Other current financial assets

	2013 €k	2012 €k
Purchase price receivable for Maxdome	10,181	0
Payments on account	2,154	2,862
Creditors with debit balances	655	11,492
Other	5,761	5,177
Other financial assets, net	**18,751**	**19,531**

The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. These were reclassified in fiscal year 2013 from other non-current to other current financial assets. We refer to Note 24.

22.2 Other current non-financial assets

	2013 €k	2012 €k
Receivables from tax office	4,734	4,473
Other non-financial assets, net	**4,734**	**4,473**

23. Shares in associated companies

	2013	**2012**
	€k	€k
Carrying amount at the beginning of the fiscal year	90,881	33,559
Additions	23,113	68,863
Adjustments		
- Dividends	-310	0
- Impairments	-75	-3,924
- Shares in result	-4,838	2,348
- Other	3,024	2,166
Disposals	-2,810	-12,131
	108,985	**90,881**

The addition to shares in associated companies results mainly from the investment in Open-Xchange AG, Nuremberg. A preliminary price allocation was employed. Please refer to Note 3.2.

Impairment charges of € -75k mainly refer to shares in associated companies held by EFF No. 4. Impairment charges of € -3,924k in prior year mainly refer to shares in associated companies held by EFF No. 2.

Other adjustments totaling € 3,024k (prior year: 2,166k) resulted from profit contributions to associated companies with an investment value of € 0k. The negative profit contributions of associated companies with an investment value of € 0k were only considered if the associated companies were provided with long-term loans or if there were credit / liability commitments.

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

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

	2013 €k	**2012** €k
Current assets	152,930	151,880
Non-current assets	933,450	584,927
Current liabilities	172,594	495,408
Non-current liabilities	533,988	159,427
Shareholders' equity	379,798	81,972
Sales revenue	594,728	643,181
Net profits	-12,851	12,808

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

24. Other non-current financial assets

The development of these shares was as follows:

	Jan. 1, 2013	Additions	Amortization of revaluation reserve not recognized in income: Recycling	Additions	Impairment	Reclassification	Disposals	Dec. 31, 2013
	€k	€k	€k	€k	€k	€k	€k	€k
Goldbach shares	13,770			345			-585	13,530
Hi-media shares	9,754			-900				8,854
Afilias shares	8,720							8,720
freenet shares	0							0
Portfolio companies of EFF No. 3	10,683						-604	10,079
Purchase price receivable	9,816	365				-10,181		0
Others	17,390	2,950				-3,025	-864	16,451
	70,133	**3,315**	**0**	**-555**	**0**	**-13,206**	**-2,053**	**57,634**

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

The reclassification column refers to negative profit components for associated companies with an investment value of € 0k to whom loans are allocated in excess of the investment value.

The disposal of shares in freenet resulted from the sale of all shares in the previous year. Please see Note 8.2.

The outstanding purchase price receivable results from the sale of shares in maxdome GmbH & Co. KG. As part of the cooperation with ProSiebenSat.1 Media AG, 1&1 Internet AG owned until December 31, 2010 an interest in the joint venture maxdome GmbH & Co. KG, which operates the video-on-demand portal maxdome. In a contract signed on December 20, 2010 the joint venture maxdome GmbH & Co. KG was sold with effect from December 31, 2010. An amount of € 6,000k of the total price of € 16,515k was paid in cash in fiscal year 2010. The remaining purchase price of € 10,515k has been deferred until December 30, 2014 and as a result was reclassified to *Other current financial assets* as of December 31, 2013. Please refer to Note 22.1. Including the effect from discounting this receivable of € 365k, the purchase price receivable amounts to € 10,181k as of the balance sheet date (prior year: € 9,816k).

The addition to other financial assets mainly comprises the increase in the loan to ProfitBricks GmbH; at the end of the reporting period, the receivable plus interest amounted to € 11,818k (prior year: € 8,722k). Please refer to Note 42.

25. Property, plant and equipment

	2013 €k	2012 €k
Acquisition costs		
– Land and buildings	13,992	8,229
– Furniture and fixtures	371,223	336,719
– Payments on account	5,056	7,068
	390,271	**352,016**
Less		
Accumulated depreciation	- 274,096	- 242,829
Property, plant and equipment, net	**116,175**	**109,187**

An alternative presentation of the development of property, plant and equipment in the fiscal years 2013 and 2012 is shown in the exhibit to the notes of the Consolidated Financial Statements (assets movement schedule).

The carrying value of furniture and fixtures held as part of finance leases amounted to € 2,809k as of December 31, 2013 (prior year: € 0k). The underlying assets of these agreements were added in the course of acquiring Arsys Internet S.L.. The Group holds no other finance leases. The leasing objects serve as collateral for the respective finance lease commitments

26. Intangible assets (without goodwill)

	2013 €k	2012 €k
Acquisition costs		
- Customer base	222,682	190,243
- Software / Technology	104,531	83,741
- Portal	0	72,303
- Trademarks	53,810	47,191
- Licenses	29,985	30,021
- Order backlog	0	2,398
	411,008	**425,897**
Less		
Accumulated amortization and impairment	-245,930	-274,070
Intangible assets, net	**165,078**	**151,827**

An alternative presentation of the development of intangible assets in the fiscal years 2013 and 2012 is shown in the exhibit to the notes of the Consolidated Financial Statements (assets movement schedule).

The recognition of customer relations includes an amount of € 130,158k which mainly results from the purchase of freenet AG broadband customers in fiscal years 2009 and 2010. These externally acquired customer relations will be amortized in scheduled amounts over a period of 6 years. Amortization amounted to € 21,694k in fiscal year 2013 (prior year: € 21,694k), and the carrying amount was € 41,576k (prior year: € 63,270k).

In fiscal year 2013, customer relations amounting to € 32,877k were also recognized from the acquisition of the Arsys Group. Please refer to Note 3.1.

Intangible assets with unlimited useful lives (trademarks), are allocated to the Applications segment. The carrying values amounted to € 52,928k (prior year: € 46,296k). Intangible assets with unlimited useful lives were subjected to an impairment test on the level of the cash-generating units as of the balance sheet date. There was therefore no impairment in the reporting period (prior year: € 0k).

The following table provides an overview of trademarks:

	2013	2012
	€k	€k
Mail.com	19,858	20,686
WEB,DE	17,173	17,173
Arsys	7,553	0
Fasthosts / Dollamore	4,146	4,239
united-domains	4,198	4,198
	52,928	46,296

27. Goodwill

	2013		2012	
	€k		€k	
	gross	net	gross	net
Applications segment	**517,134**	**452,812**	**420,270**	**356,248**

An alternative presentation of the development of goodwill in the fiscal years 2013 and 2012 is shown in the exhibit to the notes of the Consolidated Financial Statements (assets movement schedule).

28. Non-current prepaid expenses

Non-current prepaid expenses result from prepayments made in connection with long-term purchase agreements and amounted to € 7,256k (prior year: € 0k) as of December 31, 2013.

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

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

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

The impairment charge was disclosed separately in the income statement and the consolidated assets movement schedule.

Goodwill as of December 31 in the Applications segment:

	2013	**2012**
	€k	€k
1&1 Mail & Media	228,501	228,501
Arsys	100,617	0
UK (Fasthosts / Dollamore)	65,219	0
Fasthosts	0	57,830
Dollamore	0	8,781
united-domains	25,621	27,970
InterNetX	5,032	5,032
Mail.com	273	285
Minority interests	24,649	24,649
Affiliate Marketing	2,900	3,200
	452,812	356,248

Due to a business model transfer and subsequent leveraging of synergy potential, the cash-generating unit Dollamore was merged with the cash-generating unit Fasthosts to form the cash-generating unit UK in fiscal year 2013. New acquired customers will be transferred in future from Dollamore to Fasthosts. Dollamore only actively processes its business with existing customers.

Please refer to Note 10 for goodwill impairment in the previous year.

Total goodwill write-downs in fiscal year 2012 amounted to € 46,268k. This impairment charge was disclosed separately in the statement of comprehensive income and consolidated assets movement schedule.

Scheduled impairment test on December 31, 2013

The recoverable amounts of the cash-generating units are calculated on the basis of a value-in-use calculation using cash flow forecasts. The cash flow forecasts are based on the Company's budgets for fiscal 2014. These budgets were prepared by management on the basis of external market studies and internal assumptions, extrapolated for a period of five years. Following this period – and as in the previous year – management assumes an annual increase in cash flow of 1.0% to 2.0%, corresponding to long-term average growth of the sector in which the respective cash-generating unit operates. The discounted pre-tax interest rates used in the period under review range from 8% to 13% (prior year: 11% to 13%).

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

	Parameter	**Proportion of total goodwill**		**2014**	**2015**	**2016**	**2017**	**> 2018**
	Previous year		***2013***	***2014***	***2015***	***2016***	***> 2017***	
1&1 Mail & Media	Sales growth	51%		1%	2%	2%	2%	1.5%
	Previous year		*3%*	*14%*	*13%*	*12%*		
	Discount rates			10%	10%	10%	10%	8.8%
	Previous year		*11%*	*11%*	*11%*	*11%*	*9.2%*	
Arsys	Sales growth	22%		2%	6%	11%	11%	2.5%
	Previous year		*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	
	Discount rates			14%	14%	14%	14%	11.5%
	Previous year		*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	
CGU UK (Fasthosts/ Dollamore)*	Sales growth	14%		3%	2%	1%	1%	2.0%
	Previous year		*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	
	Discount rates			9%	9%	9%	9%	7.5%
	Previous year		*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	
united-domains	Sales growth	6%		16%	15%	15%	15%	1.0%
	Previous year		*4%*	*15%*	*14%*	*14%*	*1.0%*	
	Discount rates			10%	10%	10%	10%	9.3%
	Previous year		*11%*	*11%*	*11%*	*11%*	*10.3%*	
InterNetX	Sales growth	1%		9%	15%	15%	15%	2.0%
	Previous year		*12%*	*15%*	*14%*	*14%*	*2.0%*	
	Discount rates			10%	10%	10%	10%	8.0%
	Previous year		*11%*	*11%*	*11%*	*11%*	*8.8%*	
Sedo Holding CGU	Sales growth	6%		-5%-10%				1.0%
	Previous year		*5-46.7%*				*1.0%*	
	Discount rates			12%-13%				11.1%
	Previous year		*12-13%*				*10.6%*	

* Merger of cash-generating units Dollamore and Fasthosts (planned sales growth as of 2018: 2%)

Trademarks recognized in the Applications segment amount to € 52,928k (prior year: € 46,296k; see Note 26). In the course of business combinations, the trademarks were valued at their fair values using appropriate valuation methods (generally the so-called “royalty relief” method; in the cash-generating unit Mail.com using the residual value method) and tested again for impairment on the balance sheet date. The market-relevant cash flows were multiplied with the trademark-relevant royalty rates. These amounted from 1,5% to 2.0% (prior year: 2.0%). The forecast of trademark-relevant cash flows was based on the same assumptions regarding market development and discount rates as used for the calculation of value-in-use of the cash-generating units. The test resulted in no impairment (prior year: € 0k).

Basic assumptions for the calculation of value-in-use

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

- Sales revenue

  The management of the respective cash-generating unit expects a varied development of sales within its planning horizon. For cash-generating units, a change of between -5% and 20% is expected for the fiscal years 2014 to 2017 (prior year: between -21% and 48%).

- Growth rates

  Growth rates are based on published sector-specific market forecasts. In the case that such forecasts are not available, internal assumptions are made.

- Gross margin

  The planned gross margins are based on market assumptions made by the management of the respective cash-generating unit. Management make assumptions of the developments of gross margins based on market analyses.

- Discount rates

  Discount rates reflect management assumptions regarding the specific risks attributable to the respective cash-generating units. The choice of suitable discount rates is mainly based on a virtually risk-free interest rate calculated using empirical data for peer companies, which is increased by a specific risk premium.

Sensitivity of assumptions

The sensitivity of the assumptions made with respect to the impairment of goodwill or trademarks depends on the respective cash-generating units.

The following statements on sensitivity analyses are based on varying risk weightings according to sub-groups.

Sub-group 1&1

The 1&1 sub-group comprises the following cash-generating units or groups of cash-generating units:

- 1&1 Mail & Media
- UK (Fasthosts / Dollamore)
- united-domains
- InterNetX
- Mail.com
- Arsys

The Company's management believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of a cash-generating unit could cause the carrying value to significantly exceed the recoverable amount.

The effects of changes to the basic assumptions is explained below:

- Discount rates

  A change in the virtually risk-free interest rate or specific risk premium also changes the underlying discount rates of the impairment test. A change in the discount rates used of 2 percentage points (prior year: 1 percentage point) would have no effect on the impairment test. Management rates the current risk from interest variations as low.

- Growth rates

  Management recognizes that growth in the Applications segment, and thus the growth of those cash-generating units operating in this segment, depends heavily on the development of internet usage and thus its acceptance as a medium used in private and business life. The entry of new competitors and the projected market consolidation are not expected to have any negative effect on forecasts used in the budgets. A possible change on the basis of reasonable judgment, however, may lead to growth rates which differ from those used in the budgets of the respective cash-generating unit. A decline in growth rates, within the possible parameters of reasonable judgment, would not result in a reduction of value-in-use to below carrying value.

Sub-group Sedo

At the end of the reporting period, the Sedo sub-group comprised the following cash-generating units or groups of cash-generating units:

- Affiliate Marketing
- Domain Marketing
- Non-controlling interests

Affiliate Marketing
Management of the sub-group Sedo believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of the cash-generating unit “affilinet Germany“ could cause the carrying value to significantly exceed its recoverable value.

Domain Marketing
In a non-scheduled impairment test on June 30, 2012, the recoverable value of the cash-generating unit “Domain Marketing” was found to have fallen below its carrying value. As a consequence, an impairment charge in the full amount of the carrying value was expensed.

Non-controlling interests
Goodwill from the purchase of non-controlling interests is monitored on the level of United Internet AG. The management of United Internet AG believes that, on the basis of reasonable judgment, no generally possible change in one of the basic assumptions used to determine the value-in-use of the cash-generating unit “non-controlling interests” could cause the carrying value to significantly exceed its recoverable value.

30. Trade accounts payable

Trade accounts payable amounting to € 260,222k (prior year: € 268,668k) have terms of less than one year.

31. Liabilities due to banks

a) Liabilities due to banks

	2013 €k	2012 €k
Bank loans	340,042	300,276
Less		
Current portion of liabilities due to banks	-23,038	-87,113
Non-current portion of liabilities due to banks	**317,004**	**213,163**
Short-term loans/overdrafts	23,038	87,113
Current portion of liabilities due to banks	**23,038**	**87,113**
Total	**340,042**	**300,276**

Bank liabilities as of December 31, 2013 result from a revolving syndicated loan and current account liabilities.

A syndicated loan from June 7, 2011 which existed as of December 31, 2012 comprised a Tranche A of € 120 million (bullet loan) and a Tranche B of € 360 million (revolving syndicated loan). This was converted to a revolving syndicated loan on August 19, 2013. The credit line was raised from € 480 million to € 600 million. As of December 31, 2013, € 320 million have been utilized.

There are variable interest rates for usage. The effective interest rates for the interest periods of one, three or six months are tied to the EURIBOR rate plus a margin p.a.. This margin depends on key performance indicators of the United Internet Group. As of the balance sheet date, the interest rates including margin lie between 0.92% and 0.98% (prior year: 1.01% and 1.09%). No collateral was provided for these syndicated loans.

Further liabilities due to banks in the previous year resulted from a promissory note loan of € 72.0 million. The promissory note loan was issued on July 23, 2008 at an amount of € 150.0 million. The promissory note was a bullet loan and divided into a Tranche A of € 78.0 million with a term ending July 23, 2011 and a Tranche B of € 72.0 million with a term ending July 23, 2013. The loans had variable interest rates. The effective interest rate for the interest period of three months was tied to the EURIBOR rate plus a margin p.a.. As of December 31

2012, the loan interest rate including margin amounted to 1.32%. Both tranches were redeemed on scheduled at the end of their term.

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

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

b) Credit lines

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

	2013 € million	**2012** € million
Credit line	110.0	75.0
Credit line utilization	23.0	15.0
Available credit line	87.0	60.0
Utilization of guarantees	15.8	12.3
Average interest rate (in%)	0.83-0.90	0.83
Unutilized credit facilities	71.2	47.7

Credit facilities have been granted by the banks for limited periods. € 20.0 million expire in November 2018, € 90 million are available until further notice.

A further amount of € 280.0 million is also available until August 19, 2018 from the unutilized portion of the revolving syndicated loan.

With regard to credit lines granted to the companies of the United Internet Group by one bank, United Internet AG is liable as co-debtor as in the previous year. The stated average interest rate as of the reporting date is based on the utilization of the credit line.

32. Accrued taxes

Accrued taxes consist of the following items:

	2013	**2012**
	€k	€k
Germany	20,001	45,441
UK	2,052	2,000
USA	192	4
France	0	1,855
Spain	0	12
Total	**22,245**	**49,312**

33. Deferred revenue

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

34. Other accrued liabilities

The development of accruals in fiscal year 2013 was as follows:

	Litigation risks	Others	Total
	€k	€k	€k
January 1, 2013	1,072	1,073	2,145
Utilization	392	653	1,045
Reversal	0	62	62
Addition	1,232	2,402	3,634
December 31, 2013	**1,912**	**2,760**	**4,672**

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

Other accruals refer mainly to provisions for warranties and impending losses.

35. Other liabilities

35.1 Other current financial liabilities

	2013 €k	2012 €k
Other current financial liabilities		
- Salary liabilities	19,936	17,544
- Marketing and selling expenses / commissions	18,640	14,618
- Liability from interest hedging	3,400	10,903
- Service / maintenance / restoration obligations	2,409	2,035
- Legal and consulting fees, auditing fees	1,814	1,903
- Finance lease commitments	1,390	0
- Purchase price liabilities	1,176	0
- Marketing campaigns	880	917
- Public relations	335	354
- Others	3,368	3,190
Total	**53,348**	**51,464**

The liability from interest hedging concerns negative market values as of the balance sheet date. Please refer to Note 43 for a description of these interest hedges.

35.2 Other current non-financial liabilities

	2013	2012
Other current non-financial liabilities	€k	€k
- Liabilities to the tax office	43,876	17,256
- Liabilities from tax audit	911	12,607
- Others	81	81
Total	**44,868**	**29,944**

Liabilities to the tax office mainly refer to sales tax liabilities. Please refer to Note 15 with regard to the liability from tax audits.

35.3 Other non-current financial liabilities

	2013 €k	2012 €k
Other non-current financial liabilities		
- Purchase price liability udAG	10,674	11,356
- Liability from interest hedging	4,282	7,784
- Non-controlling interests EFF 2 and 3	4,239	4,074
- Finance lease commitments	1,086	0
- Others	296	0
Total	**20,577**	**23,214**

In a contract dated December 12, 2008, United Internet Ventures AG (formerly United Internet Beteiligungen GmbH) acquired the shares in united-domains AG. Following the approval of the anti-trust authorities on January 30, 2009, the acquisition was completed on February 27, 2009. united-domains AG continues to be run by its founders who acquired a total shareholding of 15% in united-domains AG after the acquisition. Payment for these shares was deferred. In the course of this share acquisition, the founders were also granted a put option for their shares, which cannot be exercised until 2014. The purchase price will be determined mainly by the company's profit development. The put option is carried as a contingent consideration, i.e. adjustments to the fair value of the commitment from this put option are carried without effect on profit and loss as a purchase price adjustment and thus influence the amount of goodwill. The effect from the accrued interest expense is recognized as an interest expense in the financial result. As of December 31, 2013 the effect from goodwill adjustment amounted to € -2,349k (prior year: € -698k), while the effect from accrued interest amounted to € 836k (prior year: € 931k).

Please refer to Note 45 regarding finance lease commitments.

36. Share-based payment

36.1 Employee stock ownership plans

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

United Internet AG

Virtual stock options

The employee stock ownership plans 2006 to 2010 and 2010 to 2015 employ virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option. The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option. Payment of value growth to the entitled person is limited to 100% of the calculated share price.

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

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

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

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

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

Valuation parameters

Issue date	14.03.2007		12.11.2007		29.01.2008		30.05.2008	
Fair value	1,200	€k	1,394	€k	596	€k	1,309	€k
Average market value per option	3.00	€	3.49	€	2.98	€	3.27	€
Dividend yield	1.4	%	1.6	%	1.5	%	1.4	%
Volatility of the share	44	%	46	%	46	%	46	%
Expected term (years)	5		5		5		5	
Risk-free interest rate	3.8	%	3.9	%	3.6	%	4.3	%
Issue date	**20.11.2008**		**31.03.2009**		**17.08.2009**		**29.03.2010**	
Fair value	1,424	€k	3,414	€k	2,173	€k	47	€k
Average market value per option	0.95	€	1.38	€	2.17	€	2.37	€
Dividend yield	0.0	%	3.8	%	2.5	%	1.8	%
Volatility of the share	55	%	57	%	58	%	57	%
Expected term (years)	5		5		5		5	
Risk-free interest rate	2.6	%	2.2	%	2.5	%	2.2	%
Issue date	**21.06.2010**		**12.07.2010**		**20.10.2010**		**14.01.2011**	
Fair value	813	€k	758	€k	107	€k	224	€k
Average market value per option	2.03	€	1.90	€	2.67	€	2.80	€
Dividend yield	2.0	%	2.2	%	1.6	%	1.6	%
Volatility of the share	57	%	56	%	55	%	47	%
Expected term (years)	5		5		5		5	
Risk-free interest rate	1.6	%	1.5	%	1.6	%	1.9	%
Issue date	**30.03.2011**		**01.06.2011**		**28.03.2012**		**12.04.2012**	
Fair value	1,403	€k	1,203	€k	27	€k	399	€k
Average market value per option	2.81	€	3.01	€	2.72	€	2.66	€
Dividend yield	2.7	%	2.3	%	2.2	%	2.2	%
Volatility of the share	43	%	37	%	34	%	34	%
Expected term (years)	5		5		5		5	
Risk-free interest rate	2.6	%	2.3	%	0.8	%	0.8	%
Issue date	**02.07.2012**		**01.10.2012**		**18.12.2012**		**02.01.2013**	
Fair value	158	€k	992	€k	788	€k	2,060	€k
Average market value per option	2.64	€	3.31	€	2.63	€	2.06	€
Dividend yield	2.2	%	1.9	%	1.8	%	1.8	%
Volatility of the share	32	%	27	%	24	%	23	%
Expected term (years)	5		5		5		5	
Risk-free interest rate	0.6	%	0.4	%	0.5	%	0.5	%

Issue date	26.03.2013		04.06.2013	
Fair value	898	€k	995	€k
Average market value per option	2.25	€	3.32	€
Dividend yield	1.6	%	1.3	%
Volatility of the share	22	%	27	%
Expected term (years)	5		5	
Risk-free interest rate	0.4	%	0.6	%

The total expense from the stock ownership plan amounts to € 25,491k (prior year: € 22,481k). The cumulative expense as of December 31, 2013 totaled € 20,596k (prior year: € 18,155k). Expenses of € 4,895k (prior year: € 4,326k) therefore relate to future years. Using an option pricing model in accordance with IFRS 2 and assuming an even exercise pattern of 25% after the first 24 months, the personnel expense for options issued amounted to € 2,441k in the reporting period (prior year: € 2,674k).

Moreover, in fiscal year 2012 an individual commitment for the transfer of 100,000 shares of United Internet AG was granted. The total value o the commitment amounted to € 1,593 thousand on the grant date. Although the shares are not linked to vesting conditions, they will not be transferred until the blocking period ends on December 31, 2015.

Sedo Holding AG
Virtual stock options

The employee stock ownership plan 2007 to 2011 employs virtual stock options (so-called Stock Appreciation Rights - SARs). SARs refer to the commitment of Sedo Holding AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the issue price on the date of granting the option and the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The issue price is the median closing price of the Company's share in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option, plus a surcharge of 20%. Payment of value growth to the entitled person is limited to 100% of the strike price.

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

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

Using an option pricing model in accordance with IFRS 2, the income from derecognition of expired SARs amounted to € 8k and the personnel expense for the option issued in the previous year € 3k.

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

Valuation parameters

Issue date	**03.09.2007**		**22.03.2010**	
Fair value	863	€k	26	€k
Average market value per option	3.75	€	0.65	€
Dividend yield	0.0	%	0.0	%
Volatility of the share	52.0	%	41.0	%
Expected term (years)	5		5	
Risk-free interest rate	4.0	%	1.7	%

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

	United Internet AG		Sedo Holding AG	
		Average strike price		Average strike price
Outstanding as of December 31, 2011	6,997,250	9.77	90,000	10.49
Issued	10,000	13.65	---	---
Issued	150,000	13.96	---	---
Issued	60,000	13.30	---	---
Issued	300,000	16.24	---	---
Issued	300,000	16.06	---	---
Expired / forfeited	-21,250	6.07	-10,000	15.51
Expired / forfeited	-15,950	5.52	---	---
Exercised	-150,000	12.82	---	---
Exercised	-346,625	6.07	---	---
Exercised	-550,050	5.52	---	---
Exercised	-250,000	8.96	---	---
Exercised	-5,000	11.33	---	---
Exercised	-100,000	9.73	---	---
Exercised	-100,000	8.96	---	---
Exercised	-10,000	11.73	---	---
Outstanding as of December 31, 2012	6,268,375	10.84	80,000	9.86
Issued	1,000,000	16.06	---	---
Issued	400,000	18.13	---	---
Issued	300,000	21.95	---	---
Expired / forfeited	-400,000	13.74	-40,000	4.21
Expired / forfeited	-400,000	15.77	-40,000	15.51
Expired / forfeited	-54,625	6.07	---	---
Expired / forfeited	-100,000	8.96	---	---
Expired / forfeited	-10,000	13.65	---	---
Expired / forfeited	-200,000	13.89	---	---
Expired / forfeited	-29,000	5.52	---	---
Expired / forfeited	-200,000	9.73	---	---
Expired / forfeited	-30,000	11.73	---	---
Expired / forfeited	-10,000	11.33	---	---
Expired / forfeited	-150,000	13.96	---	---
Exercised	-850,000	12.85	---	---
Exercised	-288,000	6.07	---	---
Exercised	-537,750	5.52	---	---
Exercised	-5,000	11.33	---	---
Exercised	-20,000	12.12	---	---
Exercised	-125,000	12.03	---	---
Exercised	-300,000	8.96	---	---
Exercised	-100,000	9.73	---	---
Exercised	-100,000	13.43	---	---
Outstanding as of December 31, 2013	4,059,000	13.88	0	0.00
Exercisable as of December 31, 2013	24,750	5.61	0	
Exercisable as of December 31, 2012	600,000	12.85	0	

Weighted average remaining term as of December 31, 2013 (in months)	35	0
Weighted average remaining term as of December 31, 2012 (in months)	24	23

36.2 Share-based payment to third parties

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

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

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

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

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

In accordance with IFRS 2.10, calculations are not based on the fair value of the services received but on the fair value of the promised equity instruments. As of the date of granting (July 31, 2009), the fair values per share and tranche and the main valuation parameters were as follows:

	Valuation parameters	
Tranche	3 (2013)	4 (2014)
Share price on issuance	8.95 €	8.95 €
Exercise price on issuance	0.00 €	0.00 €
Average market value per option	7.81 €	7.57 €
Dividend yield	3.2 %	3.2 %
Volatility of the share	58 %	58 %
Expected term (years)	4.4	5.4
Risk-free interest rate	2.4 %	2.6 %

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

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

As in the previous year, no expense was recognized for tranches 3 and 4 as of the balance sheet date, as the agreed sales targets were not achieved.

37. Deferred tax liabilities

Please refer to Note 15 for details on deferred tax liabilities.

38. Capital stock

As of the balance sheet date, the fully paid-in capital stock amounted to € 194,000,000 (prior year: € 215,000,000) divided into 194,000,000 (prior year: 215,000,000) registered no-par shares having a theoretical share in the capital stock of € 1 each.

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

At the same time, the Management Board also resolved to launch a new share buyback program, which began once the cancellation and capital reduction became effective. In the course of this new share buyback program, up to 5,000,000 Company shares could be bought back via the stock exchange. The buyback followed an authorization of the Annual Shareholders' Meeting of May 31, 2012 to buy back shares representing up to 10% of the Company's capital stock. The authorization was issued for the period up to November 30, 2013.

As part of this share buyback program, 337,798 treasury shares were purchased. Together with 5,662,202 treasury shares from earlier share buyback programs, United Internet thus held a total of 6,000,000 treasury shares.

Based on the authorization granted by the Annual Shareholders' Meeting of United Internet AG on May 31, 2012 regarding the acquisition and use of treasury shares, and with the approval of the Supervisory Board, the Management Board resolved on February 1, 2013 to cancel these 6,000,000 treasury shares and to reduce the capital stock of United Internet AG by € 6,000,000 million, from € 200,000,000 to € 194,000,000. The number of shares issued decreased correspondingly from 200,000,000 shares to 194,000,000 shares. Issued shares continued to represent a notional share of capital stock of 1 euro each. Following the cancellation of shares, further shares were bought back in the subsequent course of the year.

The share buyback program adopted on January 7, 2013 on the basis of an authorization of the Annual Shareholders' Meeting of May 31, 2012 was revoked by the Annual Shareholders' Meeting of May 23, 2013 on expiry of May 23, 2013 with effect in future. At the same time, with a resolution adopted on May 23, 2013, the Annual Shareholders' Meeting authorized United Internet AG to buy back treasury shares representing up to 10% of the Company's capital stock. The authorization was issued for the period up to November 23, 2014.

On the basis of this authorization, the Management Board of United Internet AG resolved on May 24, 2013 to launch a new share buyback program. In the course of this new share buyback program, up to 1,000,000 Company shares (corresponding to approx. 0.52% of capital stock) are to be bought back via the stock exchange.

Following buybacks and issues based on existing employee stock ownership plans of 794,251 shares (prior year: 562,956), the Company held 244,265 (prior year: 20,662,202) treasury shares or 0.13% (prior year: 9.61%) of capital stock as of December 31, 2013.

Treasury shares reduce equity and have no dividend entitlement.

Authorized capital

The Company's Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock by a maximum of € 112,500,000.00 in the period ending May 25, 2016 by issuing on one or more occasions new no-par common shares in return for cash and/or non-cash contributions.

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

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

Pursuant to Sec. 71 (1) No. 8 AktG, the Company is entitled to acquire treasury shares until November 23, 2014 up to a limit of ten percent of capital stock. The purchase price may not be lower than ten percent below the share's market price, nor higher than ten percent above its market price. Treasury shares can be used for all purposes stated in the authorization of the Annual Shareholders' Meeting of May 23, 2013.

Conditional capital

There are the following lots of conditional capital:

- The capital stock has been conditionally increased by up to € 80,000,000.00, divided into 80,000,000 no-par registered shares. The conditional capital increase is earmarked for shares to be granted to bearers or holders of warrant or convertible bonds, which the shareholders' meeting on June 2, 2010 authorized the Company or a subordinated Group company to issue, providing the issue is in return for cash and the warrant or convertible bonds are not serviced from the stock of treasury shares or approved capital.

39. Reserves

As of December 31, 2013, capital reserves amounted to € 27,902k (prior year: € 23,875k). The increase of € 2,434k results from the addition in connection with employee stock ownership plans.

The accumulated result includes the past results of consolidated companies insofar as no dividends were paid.

At the end of the reporting period, the revaluation reserve consisted of the following items:

	2013	**2012**
	€k	€k
- Afilias shares	8,175	8,175
- Goldbach shares	1,964	1,625
- EFF No. 3	521	521
- HiMedia shares	-1,586	-700
Total	9,074	9,621

Profit and loss from subsequent valuation to fair value are recognized net in equity – i.e. less deferred taxes – and after non-controlling interests.

Changes in the fair value of interest swaps concluded as part of cash flow hedges, as well as the opposing deferred taxes on these fair value changes, are recognized in the cash flow hedging reserve. It should be noted that only the effective part of the value change is considered in equity. The ineffective part of the change is recognized in the financial result. Due to the level of effectiveness, no ineffective part was recognized in profit or loss for hedges formed in fiscal year 2013 or the previous year.

Translation differences from the annual financial statements of foreign subsidiaries without an effect on profit or loss are recognized in the currency translation adjustment.

An overview of the composition and changes in the reserves described above for the fiscal years 2013 and 2012 is provided in the statement of changes in shareholders' equity.

40. Non-controlling interests

The change in non-controlling interests results from the purchase of a further 4,461,379 shares in Sedo Holding AG, Cologne, from the Sedo founders at a price of € 2.60 per share on October 2, 2013. United Internet thus raised its stake in Sedo Holding AG to 96.05% and was able to initiate a squeeze-out process pursuant to Secs. 327a ff. AktG. The members of United Internet’s executive bodies Mr. Dommermuth, Mr. Lang and Mr. Scheeren had previously sold their shares to United Internet. The purchase price for these shares also amounts to € 2.60 per share. In December 2013, the cash settlement officially set for the remaining Sedo Holding shareholders as examined by an officially appointed settlement auditor amounted to € 2.77 per share. The shareholders approved the squeeze-out an extraordinary general meeting of Sedo Holding AG on February 3, 2014.

41. *Additional details on financial instruments*

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2013:

	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2013	Valuation acc. to IAS 39			Measurement acc. to IAS 17	Fair value on Dec. 31, 2013
			Amortized cost	Fair value not through profit or loss	Fair value through profit or loss		
Financial assets							
Cash and cash equivalents	lar	43,311	43,311				43,311
Trade accounts receivable	lar	135,524	135,524				135,524
Other current financial assets	lar						0
Purchase price receivable	lar	10,181	10,181				10,181
Others	lar	8,570	8,570				8,570
Other non-current financial assets	lar/afs						
Investments	afs	41,183	18,799	22,384			41,183
Others	lar	16,451	16,451				21,806
Financial liabilities							
Trade accounts payable	flac	-260,221	-260,221				-260,221
Liabilities due to banks	flac	-340,042	-340,042				-340,042
Other financial liabilities	flac/hd/n/a						
Interest swaps - hedge accounting	hd	-7,915		-7,682	-233		-7,915
Finance leases	n/a	-2,476				-2,476	-2,476
Other	flac	-63,534	-63,534				-63,534
Of which aggregated acc. to valuation categories:							
Loans and receivables (lar)	lar	214,037	214,037	0	0	0	219,392
Available-for-sale (afs)	afs	41,183	18,799	22,384	0	0	41,183
Financial liabilities measured at amortized cost (flac)	flac	-663,797	-663,797	0	0	0	-663,797
Hedging derivatives (hd) (negative market value)	hd	-7,915	0	-7,682	-233	0	-7,915
Finance leases	n/a	-2,476	0	0	0	-2,476	-2,476

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2013:

Net result acc. to valuation categories 2013 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			Net result
			Fair value	Currency translation	Value adjusted	
Loans and receivables (lar)	lar	1,133	--	-267	-27,010	-26,144
Available for sale (afs)	afs					
- of which not affecting net income		--	-555	--	--	-555
- of which affecting net income		260	--	--	--	260
Financial liabilities measured at amortized cost (flac)	flac	-6,439	--	-114	--	-6,553
Held for trading (hft) - affecting net income	hft	-5,447	5,488	--	--	41
Hedging derivatives (hd)	hd					
- not affecting net income		--	3,674	--	--	-3,674
- affecting net income		-3,640	--	--	--	-3,640
Total		-14,133	8,607	-381	-27,010	-32,917

Cash and cash equivalents, trade accounts receivable, and other current financial assets mostly have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value.

As in the previous year, the fair value of other non-current financial assets differs from the carrying amount as prorated loss assumptions from at-equity accounting were allocated to existing loans.

For the other non-current financial assets carried at amortized cost, it is assumed that their carrying amount corresponds to fair value.

Trade accounts payable generally have short remaining terms. Their carrying values on the balance sheet date are thus similar to fair value. The same applies to current liabilities due to banks.

Non-current liabilities due to banks comprise a revolving syndicated loan which could be redeemed at any time. Moreover, both the basic interest rate and margin are variable. This margin depends on pre-defined key performance indicators of the United Internet Group. Due to these factors, it is assumed that the carrying amount of non-current liabilities corresponds approximately to their fair value.

For the other non-current liabilities carried at amortized cost, it is assumed that their carrying amount corresponds to fair value.

Financial liabilities carried at fair value through profit or loss refer to interest hedging transactions.

The following table shows the carrying values for each category of financial assets and liabilities for fiscal year 2012:

in €k	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2012	Valuation acc. to IAS 39 Amortized cost	Fair value not through profit or loss	Valuation category acc. to IAS 39	Carrying value on Dec. 31, 2012
Financial assets						
Cash and cash equivalents	lar	42,828	42,828			42,828
Trade accounts receivable	lar	148,766	148,766			148,766
Other current financial assets	lar	19,531	19,531			19,531
Other non-current financial assets	lar/afs					
Purchase price receivable	lar	9,816	9,816			9,816
Investments	afs	42,927	19,403	23,524		42,927
Others	lar	17,390	17,390			19,720
Financial liabilities						
Trade accounts payable	flac	-268,668	-268,668			-268,668
Liabilities due to banks	flac	-300,276	-300,276			-300,276
Other financial liabilities	flac/hft					
Interest swaps - not hedge accounting	hft	-7,100	0	0	-7,100	-7,100
Interest swaps - hedge accounting	hd	-11,587	0	-11,356	-231	-11,587
Others	flac	-55,991	-55,991			-55,991
Of which aggregated acc. to valuation categories:						
Loans and receivables (lar)	lar	238,331	238,331	0	0	240,661
Available-for-sale (afs)	afs	42,927	19,403	23,524	0	42,927
Financial liabilities measured at amortized cost (flac)	flac	-624,935	-624,935	0	0	-624,935
Held-for-trading (hft)	hft	-7,100	0	0	-7,100	-7,100
Hedging derivatives (hd) (negative market value)	hd	-11,587	0	-11,356	-231	-11,587

Due to valuation uncertainties, investments classified as available for sale amounting to € 19,403k were reclassified from “Fair value not affecting income” to the category “Amortized cost” in the reporting period.

The following net results were stated for the individual categories of financial instruments acc. to IAS 39 in fiscal year 2012:

Net result acc. to valuation categories 2012 (in €k)	Valuation category acc. to IAS 39	From interest and dividends	Net profits and losses from subsequent valuation			
			Fair value	Currency translation	Value adjusted	Net result
Loans and receivables (lar)	lar	1,380	--	-140	-31,420	-30,180
Available for sale (afs)	afs					
- of which not affecting net income		--	-583	--	--	-583
- of which affecting net income		5,438	--	--	--	5,438
Financial liabilities measured at amortized cost (flac)	flac	-9,541	--	-60	--	-9,601
Held for trading (hft) - affecting net income	hft	-5,946	3,424	--	--	-2,522
Hedging derivatives (hd)	hd					
- not affecting net income		--	-5,014	--	--	-5,014
- affecting net income		-2,671	--	--	--	-2,671
Total		-11,340	-2,173	-200	-31,420	-45,133

The fair value of financial assets and liabilities is stated at the amount at which the instrument concerned might be exchanged in a current transaction (excluding a forced sale or liquidation) between willing business partners.

The methods and assumptions used to determine fair values are shown below:

- Cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2013, and as in the previous year, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.

- The fair value of unquoted instruments, loans from banks and other financial liabilities, as well as other non-current financial liabilities, is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 31 December 2013, and as in the previous year, the carrying amounts of such liabilities not materially different from their calculated fair values.

- Fair values of available-for-sale financial assets are derived from quoted market prices in active markets, if available.

- The fair value of unquoted available-for-sale financial assets is estimated using appropriate valuation techniques.

- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models using present value calculations. These models use mainly interest rate curves as the valuation parameters.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets and liabilities measured at fair value

	As of Dec. 31, 2013	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	22,384	22,384		
Financial liabilities at fair value through profit or loss				
Interest rate swap	7,915		7,915	

In the reporting period ending 31 December 2013, there were no transfers between levels.

	As of Dec. 31, 2012	Level 1	Level 2	Level 3
	€k	€k	€k	€k
Available-for-sale financial assets				
Listed shares	23,524	23,524		
Financial liabilities at fair value through profit or loss				
Interest rate swap	7,100		7,100	
Financial liabilities at fair value not through profit or loss				
Interest rate swap	11,587		11,587	

The valuation of shares in unlisted companies is mainly based on present value models, using planning calculations and market-observable interest rates. The resulting fair values are compared with information from market transactions of comparable shares.

Derivative financial instruments

The United Internet Group holds the following derivative financial instruments:

In fiscal year 2011, United Internet AG concluded four interest swap agreements. The total nominal volume amounts to € 180,000k with a term until June 7, 2016. The interest hedging transactions were concluded to hedge against the interest rate risk, meet the requirements of IAS 39 on *Hedge Accounting* and, if effective, were recognized in equity at fair value. The negative fair value as of the balance sheet date amounted to € 7,916k (incl. accrued interest of € 233k; prior year: € 11,587k incl. accrued interest of € 231k) and is disclosed under other financial liabilities.

In fiscal year 2008, United Internet AG concluded two interest swap agreements. The nominal volume of each amounted to € 100,000k with a term until October 9, 2013. Interest hedging transactions were concluded to hedge against the interest rate risk, but did not meet the requirements of IAS 39 on *Hedge Accounting* and were recognized at fair value through profit and loss. The negative fair value as of the end of the 2012 reporting period amounted to € 7,100k and was disclosed under other financial liabilities.

42. Transactions with related parties

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

As of January 1, 2013, Mr. Robert Hoffmann was appointed to the Management Board of United Internet AG as an additional member. Otherwise, there were no changes to the circle of related parties as compared with the consolidated financial statements as at December 31, 2012.

United Internet's premises in Montabaur are leased from Mr. Ralph Dommermuth, the Chief Executive Officer and a major shareholder of the Company. The corresponding lease agreements have different terms between the end of 2014 and February 2023. The resulting rent expenses are customary and amounted to € 5,781k in fiscal year 2012 (prior year: € 2,902k).

At the ordinary shareholders' meeting on June 2, 2010, Mr. Kurt Dobitsch (chairman), Mr. Michael Scheeren and Mr. Kai-Uwe Ricke were re-elected as members of the Company's Supervisory Board. The Supervisory Board was elected for the period ending with the Annual Shareholders' Meeting which adopts the resolution to release the Supervisory Board members from their responsibility for fiscal year 2014.

In fiscal year 2013, the members of the Supervisory Board also held seats on supervisory boards or similar committees of the following companies:

Kurt Dobitsch

- 1&1 Internet AG, Montabaur
- United Internet Ventures AG, Montabaur (Chairman, since March 20, 2013)
- 1&1 Telecommunication AG, Montabaur (since March 20, 2013)
- Nemetschek AG, Munich (Chairman)
- Bechtle AG, Gaildorf
- docuware GmbH, Munich
- Graphisoft S.E, Budapest / Hungary
- Singhammer IT Consulting AG, Munich

Kai-Uwe Ricke

- 1&1 Internet AG, Montabaur
- United Internet Ventures AG, Montabaur (since March 20, 2013)
- 1&1 Telecommunication AG, Montabaur (Deputy Chairman, since March 20, 2013)
- SUSI Partner AG, Zurich / Switzerland
- euNetworks Group Ltd., Singapore / Singapore
- Delta Partners, Dubai / Emirate of Dubai

Michael Scheeren

- 1&1 Internet AG, Montabaur (Chairman)
- United Internet Ventures AG, Montabaur (Deputy Chairman, since March 20, 2013)
- 1&1 Telecommunication AG, Montabaur (Chairman, since March 20, 2013)
- Sedo Holding AG, Montabaur (Chairman)
- United Internet Media AG, Montabaur (Deputy Chairman, until March 31, 2013)
- Goldbach Group AG, Küsnacht-Zurich / Switzerland

The members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company's success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 10k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to € 1k for every cent which exceeds the consolidated earnings per share (EPS) value of € 0.60 for United Internet AG, calculated according to IFRS.

In addition, each member of the Supervisory Board shall receive for fiscal year 2013 and the following fiscal years remuneration of € 500 per starting percentage point by which EPS in the past fiscal year exceeds the EPS of the fiscal year completed 3 years previously, limited to a maximum of € 10k per fiscal year.

The members of the Supervisory Board of United Internet AG also hold seats on the supervisory board of 1&1 Internet AG, United Internet Ventures AG and 1&1 Telecommunication AG. As of fiscal year 2010, they receive separate compensation from 1&1 Internet AG consisting of a fixed and a variable element. The fixed remuneration for ordinary members of the supervisory board amounts to € 20k per full fiscal year. The chairman of the supervisory board receives € 30k per full fiscal year. The performance-oriented compensation for each member of the supervisory board, including the chairman, is based on the earnings figures of 1&1 Internet AG. It amounts to at least € 30k and a maximum of € 70k per full fiscal year.

The following table provides details on the compensation received by members of the Supervisory Board of United Internet AG and 1&1 Internet AG:

	United Internet AG			1&1 Internet AG			Total		
2013	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
Kurt Dobitsch	20	57	77	20	62	82	40	112	152
Kai-Uwe Ricke	10	57	67	20	62	82	30	112	142
Michael Scheeren	10	57	67	30	62	92	40	112	152
	40	171	211	70	186	256	110	336	446

	United Internet AG			1&1 Internet AG			Total		
2012	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k	Fixed €k	Variable €k	Total €k
Kurt Dobitsch	20	0	20	20	47	67	40	47	87
Kai-Uwe Ricke	10	0	10	20	47	67	30	47	77
Michael Scheeren	10	0	10	30	47	77	40	47	87
	40	0	40	70	141	211	110	141	251

In addition, Mr. Michael Scheeren receives remuneration as chairman of the Supervisory Board of Sedo Holding AG. In accordance with a resolution adopted by the Annual Shareholders‘ Meeting of May 26, 2008, the members of the Supervisory Board receive compensation consisting of a fixed element and a variable element which depends on the Company‘s success. The fixed remuneration for an ordinary member of the Supervisory Board amounts to € 15k per full fiscal year. The chairman of the Supervisory Board receives the double amount. The variable element for each member of the Supervisory Board, including the chairman, amounts to € 250 for every € 0.01 of earnings per share of Sedo holding AG, as disclosed in the Company's Consolidated Financial Statements according to IFRS, which exceeds a minimum amount of € 0.30 per share.

As the chairman of the Supervisory Board of Sedo Holding AG, Mr. Michael Scheeren received remuneration of € 30k for fiscal year 2013 (prior year: € 30k).

There are no subscription rights or share-based payments for members of the Supervisory Board.

The Supervisory Board is responsible for determining the remuneration of the Management Board. The members of the Management Board are compensated according to performance. This compensation consists of a fixed and a variable element (bonus). A target remuneration figure is agreed for the fixed component and the bonus, which is regularly reviewed. The last review was made in fiscal year 2011. The fixed remuneration component is paid monthly as a salary. The size of the bonus depends on reaching certain, fixed financial targets agreed at the beginning of the fiscal year. These targets are based mainly on sales and earnings figures. The target attainment corridor is generally between 90% to 120%. No bonus is paid below 90% of the agreed target and the bonus calculation ends at 120% of the agreed target. No subsequent amendment of the performance targets is allowed. There is no minimum guaranteed bonus. Payment is generally made after the annual financial statements have been adopted by the Supervisory Board. In fiscal year 2013, total remuneration of € 1,522k (prior year: € 872k for two Management Board members) was agreed for the Management Board. Of this total, € 900k or 59% was fixed and € 622k or 41% variable.

There are no retirement benefits from the Company to members of the Management Board.

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

2013	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	237	537
Robert Hoffmann	300	198	498
Norbert Lang	300	187	487
	900	622	1,522

2012	Fixed €k	Variable €k	Total €k
Ralph Dommermuth	300	152	452
Norbert Lang	300	120	420
	600	272	872

In fiscal year 2013, 1,000,000 SARs were granted to Mr. Robert Hoffmann with a strike price of € 16.06. When these virtual stock options were granted, their fair values amounted to € 2,060k.

In previous years, virtual stock options (Stock Appreciation Rights; components with a long-term incentive; conditions see 36.1) were granted to Mr. Norbert Lang and Mr. Robert Hoffmann. In fiscal year 2013, Mr. Norbert Lang exercised 1,000,000 rights and Mr. Robert Hoffmann 375,000 rights.

In the reporting period 2013, Mr. Ralph Dommermuth sold 6.0 million shares of United Internet AG. This corresponds to 3.09% of the current capital stock of € 194 million.

The number of shares in United Internet AG held by members of the Management Board and the Supervisory Board is given in the following table:

Shareholding	January 1, 2013		January 1, 2013	December 31, 2013		December 31, 2013
Management Board	Direct	Indirect	Total	Direct	Indirect	Total
Ralph Dommermuth	---	88,000,000	88,000,000	---	82,000,000	82,000,000
Robert Hoffmann	60,000	---	60,000	29,405	---	29,405
Norbert Lang	121,804	402,428	524,232	222,572	402,428	625,000
	181,804	88,402,428	88,584,232	251,977	82,402,428	82,654,405
Supervisory Board	Direct	Indirect	Total	Direct	Indirect	Total
Kurt Dobitsch	---	---	---	---	---	---
Kai-Uwe Ricke	---	---	---	---	---	---
Michael Scheeren	600,000	---	600,000	500,000	---	500,000
	600,000	---	600,000	500,000	---	500,000

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

Conditions of transactions with related parties

Sales to and purchases from related parties are conducted at standard market conditions. The open balances at year-end are unsecured, non-interest-bearing and settled in cash. There are no guarantees for receivables from or liabilities due to related parties. No allowances were recognized for receivables from related parties in fiscal year 2013 or the previous year. An impairment test is conducted annually. This includes an assessment of the financial position of the related party and the development of the market in which they operate.

There are a total of 3 loan agreements with the associated company ProfitBricks GmbH with a total volume of € 12.7 million. The total volume can be drawn in individual tranches. The interest on the loans is not due until March 31, 2016 and March 31, 2020. The contract provides for special repayment possibilities. At the end of the reporting period, the receivable including interest amounted to € 11,818k (prior year: € 8,722k).

There is a loan agreement with der TLDDOT GmbH, Berlin, with a volume of € 510k as of December 31, 2013. The loan can be drawn in three tranches, which are each linked to certain conditions. The loan bears interest of 1.75% p.a.. Interest is due at the end of each year. The loan expires on December 31, 2023. The loan agreement includes a repayment plan and special repayment possibilities. As of the balance sheet date, the receivable amounted to € 90k.

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

Purchases/services from related parties		Sales/services to related parties		Liabilities due to related parties		Receivables from related parties	
2013	2012	2013	2012	2013	2012	2013	2012
€k	€k	€k	€k	€k	€k	€k	€k
3,887	885	10	124	1,223	601	11,908	8,883

In fiscal year 2013, United Internet purchased 452,414 shares in Sedo Holding AG via United Internet Ventures AG from the members of executive bodies Ralph Dommermuth, Norbert Lang and Michael Scheeren. The purchase price for these shares was € 2.60 per share. Please refer to Note 40. The sale resulted in liabilities of United Internet Ventures AG due to Ralph Dommermuth of € 872k, to Norbert Lang of € 115k and to Michael Scheeren of € 189k as of December 31, 2013. The total amount of € 1,176k is shown in the liabilities due to related parties.

Receivables from other related parties mainly result from loans to ProfitBricks GmbH. Interest income of € 396k accrued in this connection (prior year: € 228k).

Interest income		**Interest expense**	
2013	2012	2013	2012
€k	€k	€k	€k
438	228	3	13

43. Objectives and methods of financial risk management

Principles of risk management

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

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

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

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

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

Liquidity risk

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

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

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

The following table shows all contractually fixed payments for redemption, repayments and interest for financial liabilities carried in the balance sheet as of December 31, 2013 and 2012:

	Dec. 31, 2013	2014	2015	2016	2017	> 2018	Total
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	340,042	24,217	4,627	185,352	3,890	142,924	361,010
Trade accounts payable	260,221	260,221	0	0	0	0	260,221
Other financial liabilities	73,925	68,706	4,284	955	0	0	73,945

	Dec. 31, 2012	2013	2014	2015	2016	> 2017	Total
	€k	€k	€k	€k	€k	€k	€k
Liabilities to banks	300,276	88,344	2,587	3,046	216,885	0	310,862
Trade accounts payable	268,668	268,668	0	0	0	0	268,668
Other financial liabilities	74,678	51,813	14,642	3,152	1,283	4,074	74,964

Please refer to Note 31 for details on interest and redemption payments for liabilities to banks. In the case of the revolving syndicated loan, it is assumed that the portion hedged via interest swaps will be repaid at the end of the term for the derivative financial instruments in 2016 and that the non-hedged portion will be used until the end of the revolving syndicated loan's term in 2018. The obligations to minority shareholders of the Company's investment funds EFF No. 2 and EFF No. 3 disclosed under "Other liabilities" are only due on the sale of the underlying portfolio companies.

The Company has no significant concentration of liquidity risks.

Market risk

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

Interest risk

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

In fiscal years 2008 and 2011, the Company concluded a total of six interest swaps with a total nominal amount of € 380,000k in order to reduce its interest risk. In fiscal year 2013, two interest swaps arranged in 2008 with a nominal amount of € 200,000k expired, so that the nominal amount at the end of the reporting period amounted to € 180,000k. As of December 31, 2013, therefore, around 52.9% of liabilities due to banks amounting to € 340,042 are covered (prior year: all liabilities). The agreements have terms until June 7, 2016.

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

A change in the market interest level has an effect on interest swaps concluded in fiscal year 2011 stated at fair value with no effect on income. A parallel shift in the interest structure curve of + / - 100 basis points might have resulted in a comparable increase in pre-tax earnings of € 4,057k (prior year: € 5,898k) or a decrease of € 4,140k (prior year: € 6,115k).

The interest risk is negligible for other interest-bearing liabilities

<u>Currency risk</u>

A currency risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate due to changes in the exchange rates. The Group is mainly exposed to currency risks as a result of its operations (if revenue and/or expenses are in a currency other than the Group's functional currency) and its net investments in foreign subsidiaries. The currency risk of United Internet results from investments, financing activities and operations. Currency risks which do not affect cash flows (i.e. risks from translating the assets and liabilities of foreign operations into the Group's reporting currency) are not hedged against. In the period under review, there were no foreign exchange risks with a significant impact on the cash flows.

With regard to operating activities, individual Group companies perform their business mainly in their respective functional currencies. As in the previous year, the Company therefore regards the currency risk from operations as low. Certain Group companies are exposed to foreign exchange risks in connection with planned payments outside their functional currency.

Foreign exchange risks arise from financial instruments which are denominated in a different currency to the functional currency and are of a monetary nature; exchange rate differences from the translation of annual financial statements into the Group's reporting currency are not considered. The relevant risk variables include all non-functional currencies in which the Company holds financial instruments.

The Company has assessed its foreign currency risks. On the basis of this analysis, there are no indications for significant currency risks which require reporting.

Stock exchange risk (valuation risk)

The Company classifies certain (quoted) assets as available-for-sale and records changes in their fair value in equity without an effect on profit or loss. If there is a significant or persistent decrease in the fair value of an equity instrument below its acquisition cost, the Company recognizes an impairment of the financial instrument in its income statement. The fair value of these listed assets amounted to € 22,384k as of the balance sheet date (prior year: € 23,524k).

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

The Company has no significant concentration of market risks.

Credit and contingency risk

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

With regard to trade accounts receivable, the maximum risk in the gross amount stated in the balance sheet is before allowances but after netting. Trade accounts receivable which are not impaired as of the balance sheet date, are classified according to periods in which they become overdue (see Note 19).

Internal rating system

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

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

The Company has no significant concentration of credit risks.

Risks from financial covenants

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

Capital management

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

In order to maintain and adapt its capital structure, the Company can adjust dividend payments or pay capital back to its shareholders, can purchase treasury shares and place them again if required, or issue new shares. As of December 31, 2013 and December 31, 2012, no changes were made to the Company's targets, methods and processes.

44. Specific contingencies and commitments

Litigation

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

An accrual for litigation was formed for any commitments arising from these disputes (see Note 34).

Guarantees

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

45. Other financial commitments, guarantees and contingent liabilities

Operating lease commitments

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

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

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

	2013	**2012**
	€k	€k
Up to 1 year	22,518	20,095
1 to 5 years	48,946	50,614
Over 5 years	15,543	22,237
Total	87,007	92,946

In the period under review, these operating leases incurred expenses of € 20,131k (prior year: € 17,637k).

Finance lease commitments

The Group has finance leases for operating and office equipment at the level of the subsidiary Arsys Internet S.L. acquired in the reporting period. The agreements include purchase options. The Group has no other finance leases and there are therefore no prior-year figures. Future minimum leasing payments from finance leases can be reconciled to their present value as follows:

	2013	
	Minimum leasing payments €k	Present value of the minimum leasing payments €k
Up to 1 year	1,440	1,390
2 to 5 years	1,135	1,086
Over 5 years	0	0
Total	2,575	2,476
Less interest share	- 99	---
Present value of minimum leasing payments	2,476	2,476

Guarantees and other obligations

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

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

46. Statement of cash flows

In fiscal year 2013, cash flow from operating activities includes interest payments of € 18,358k (prior year: € 16,096k) and interest income of € 2,138k (prior year: € 520k). Income tax payments in fiscal year 2013 amounted to € 156,276k (prior year: € 68,748k) while income tax proceeds totaled € 23,818k (prior year: € 4,569k).

A total of € 22,724k (prior year: € 60,153k) was paid in cash for the purchase of shares in associated companies and € 130,148k (prior year: € 154k) for the purchase of affiliated companies in 2013.

Other non-cash expenses and income mainly comprise income recognized through profit or loss from the discounting of deferred loan repayments, as well as income recognized through profit or loss for market value changes in interest swaps.

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

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

- 1&1 De-Mail GmbH, Montabaur
- 1&1 Internet AG, Montabaur
- 1&1 Internet Service GmbH, Montabaur
- 1&1 Internet Service Holding GmbH, Montabaur
- 1&1 Mail & Media Holding GmbH, Montabaur
- 1&1 Mail & Media GmbH, Montabaur
- 1&1 Telecom GmbH, Montabaur
- 1&1 Telecommunication AG, Montabaur
- 1&1 Telecom Service Montabaur GmbH, Montabaur
- 1&1 Telecom Service Zweibrücken GmbH, Zweibrücken
- 1&1 Telecom Service Holding Montabaur GmbH, Montabaur
- A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur
- United Internet Corporate Services GmbH, Montabaur
- United Internet Dialog GmbH, Montabaur
- United Internet Media Software GmbH, Montabaur
- United Internet Media GmbH, Montabaur
- United Internet Ventures AG, Montabaur

48. Subsequent events

On January 28, 2014, United Internet acquired 25.1% of shares in ePages GmbH, a provider of online shop software. The purchase price amounted to € 2.8 million.

49. Auditing fees

In fiscal year 2013, auditing fees totaling € 2,566k (prior year: € 2,798k) were expensed in the Consolidated Financial Statements. These include auditing fees of € 1,157k (prior year: € 1,064k), tax consultancy services of € 1,162k (prior year: € 1,474k), and other services of € 247k (prior year: 260k).

50. Corporate Governance Code

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

Montabaur, March 21, 2014

The Executive Board

Ralph Dommermuth	Robert Hoffmann	Norbert Lang

United Internet AG - Development of fixed assets acc. to IFRS for the fiscal year 2013 and 2012 (€k)

2013	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2013	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2013	Jan. 1, 2013	Additions	Impairment	Disposals	Currency translation	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
Intangible assets															
Licenses	30,021	0	39	0	0	-75	29,985	28,230	288	0	35	-68	28,415	1,791	1,570
Order backlog	2,398	0	0	2,388	0	-10	0	2,398	0	0	2,388	-10	0	0	0
Software	83,741	9,203	11,901	268	0	-46	104,531	59,712	12,050	0	220	-36	71,506	24,029	33,025
Trademark	47,191	7,553	0	0	0	-934	53,810	895	0	0	0	-13	882	46,296	52,928
Customer base	190,243	32,877	0	0	0	-438	222,682	118,088	27,044	302	0	-307	145,127	72,155	77,555
Portal	72,303	0	0	72,303	0	0	0	64,747	7,556	0	72,303	0	0	7,556	0
Goodwill	420,270	100,617	0	2,354	0	-1,399	517,134	64,022	0	300	0	0	64,322	356,248	452,812
Total (I)	**846,167**	**150,250**	**11,940**	**77,313**	**0**	**-2,902**	**928,142**	**338,092**	**46,938**	**602**	**74,946**	**-434**	**310,252**	**508,075**	**617,890**
Property, plant and equipment															
Land and buildings	8,229	0	5,763	0	0	0	13,992	5,410	271	0	0	0	5,681	2,819	8,311
Operational equipment	336,719	10,455	39,718	16,827	4,462	-3,304	371,223	237,419	46,925	0	13,617	-2,312	268,415	99,300	102,808
Payments in advance	7,068	0	2,506	45	-4,462	-11	5,056	0	0	0	0	0	0	7,068	5,056
Total (II)	**352,016**	**10,455**	**47,987**	**16,872**	**0**	**-3,315**	**390,271**	**242,829**	**47,196**	**0**	**13,617**	**-2,312**	**274,096**	**109,187**	**116,175**
Total	**1,198,183**	**160,705**	**59,927**	**94,185**	**0**	**-6,217**	**1,318,413**	**580,921**	**94,134**	**602**	**88,563**	**-2,746**	**584,348**	**617,262**	**734,065**

2012	Acquisition and production costs							Accumulated depreciation						Net book value	
	Jan. 1, 2012	Additions from initial consolidation	Additions	Disposals	Reclassifications	Currency translation	Dec. 31, 2012	Jan. 1, 2012	Additions	Impairment	Disposals	Currency translation	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012
Intangible assets															
Licenses	29,833	0	291	53	0	-50	30,021	27,915	367	0	34	-18	28,230	1,918	1,791
Order backlog	2,403	0	0	0	0	-5	2,398	2,403	0	0	0	-5	2,398	0	0
Software	73,196	0	11,121	608	0	32	83,741	49,205	11,107	0	608	8	59,712	23,991	24,029
Trademark	47,495	0	0	0	0	-304	47,191	876	0	0	0	19	895	46,619	46,296
Customer base	189,334	432	0	0	0	477	190,243	91,040	26,756	0	0	292	118,088	98,294	72,155
Portal	72,240	63	0	0	0	0	72,303	55,685	9,062	0	0	0	64,747	16,555	7,556
Goodwill	419,049	300	0	698	0	1,619	420,270	17,754	0	46,268	0	0	64,022	401,295	356,248
Total (I)	**833,550**	**795**	**11,412**	**1,359**	**0**	**1,769**	**846,167**	**244,878**	**47,292**	**46,268**	**642**	**296**	**338,092**	**588,672**	**508,075**
Property, plant and equipment															
Land and buildings	8,229		0	0	0	0	8,229	5,318	92	0	0	0	5,410	2,911	2,819
Operational equipment	292,730	4	47,706	13,663	10,710	-768	336,719	198,001	45,812	0	5,925	-469	237,419	94,729	99,300
Payments in advance	13,282		4,483		-10,710	13	7,068	0	0	0	0	0	0	13,282	7,068
Total (II)	**314,241**	**4**	**52,189**	**13,663**	**0**	**-755**	**352,016**	**203,319**	**45,904**	**0**	**5,925**	**-469**	**242,829**	**110,922**	**109,187**
Total	**1,147,791**	**799**	**63,601**	**15,022**	**0**	**1,014**	**1,198,183**	**448,197**	**93,196**	**46,268**	**6,567**	**-173**	**580,921**	**699,594**	**617,262**

Audit opinion of the Independent Auditior

We have audited the consolidated financial statements prepared by United Internet AG, Montabaur – comprising the balance sheet, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements – together with the management report for the group and the company for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the management report for the group and the company in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report for the group and the company based on our audit.

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

Our audit has not led to any reservations.

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

Eschborn/Frankfurt am Main, March 25, 2014

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Grote	Kemmerich
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Responsibility Statement

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

Montabaur, March 21, 2014

Board of Management

Ralph Dommermuth	Robert Hoffmann	Norbert Lang