

**Report of the Directors and
Financial Statements
for the Year Ended 31 December 2003
for
1&1 Internet Limited**

3953678



1&1 Internet Limited
Company Information
for the Year Ended 31 December 2003

DIRECTORS: A Gauger
N Mauer

SECRETARY: P R Karschowski

REGISTERED OFFICE: Pegasus Court
25-26 Herschel Street
Slough
Berkshire
SL1 1PA

REGISTERED NUMBER: 3953678 (England and Wales)

AUDITORS: Fitzgerald & Law LLP
Registered Auditors and
Chartered Accountants
8 Lincoln's Inn Fields
London
WC2A 3BP

1&1 Internet Limited

Report of the Directors for the Year Ended 31 December 2003

The directors present their report with the financial statements of the company for the year ended 31 December 2003.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was that of website hosting, domain name registration and provision of website development software.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2003.

DIRECTORS

The directors during the year under review were:

A Gauger
N Mauer

The directors holding office at 31 December 2003 did not hold any beneficial interest in the issued share capital of the company at 1 January 2003 or 31 December 2003.

The directors holding office throughout the year are remunerated elsewhere within the United Internet AG Group.

COMPANY'S POLICY ON PAYMENT OF CREDITORS

The company agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Suppliers are typically paid within 30 days after receipt of invoice.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

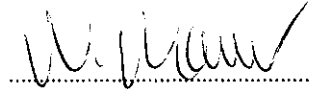
1&1 Internet Limited

**Report of the Directors
for the Year Ended 31 December 2003**

AUDITORS

The auditors, Fitzgerald & Law LLP, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:


.....

N Mauer - Director

Date: 18.02.04

**Report of the Independent Auditors to the Shareholders of
1&1 Internet Limited**

We have audited the financial statements of 1&1 Internet Limited for the year ended 31 December 2003 on pages five to eleven. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page two the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Fitzgerald & Law

Fitzgerald & Law
Registered Auditors and
Chartered Accountants
8 Lincoln's Inn Fields
London
WC2A 3BP

Date: 18 FEBRUARY 2004

1&1 Internet Limited

**Profit and Loss Account
for the Year Ended 31 December 2003**

		2003	2002
	Notes	£	£
TURNOVER		5,809,222	1,963,640
Cost of sales		1,717,479	485,369
GROSS PROFIT		4,091,743	1,478,271
Administrative expenses		5,518,779	2,820,032
		(1,427,036)	(1,341,761)
Other operating income		90,354	-
OPERATING LOSS	3	(1,336,682)	(1,341,761)
Interest receivable and similar income		45,606	4,056
		(1,291,076)	(1,337,705)
Interest payable and similar charges	4	232,526	113,711
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,523,602)	(1,451,416)
Tax on loss on ordinary activities	5	-	-
LOSS FOR THE FINANCIAL YEAR AFTER TAXATION		(1,523,602)	(1,451,416)
Deficit brought forward		(3,783,765)	(2,332,349)
DEFICIT CARRIED FORWARD		<u>£(5,307,367)</u>	<u>£(3,783,765)</u>

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current and previous years.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the losses for the current and previous years.

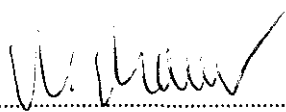
The notes form part of these financial statements

1&1 Internet Limited

**Balance Sheet
31 December 2003**

		2003		2002	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	6		63,969		68,093
CURRENT ASSETS:					
Debtors	7	860,420		334,908	
Cash at bank		4,479,425		971,411	
		5,339,845		1,306,319	
CREDITORS: Amounts falling due within one year	8	3,922,804		5,108,177	
NET CURRENT ASSETS/(LIABILITIES):			1,417,041		(3,801,858)
TOTAL ASSETS LESS CURRENT LIABILITIES:			1,481,010		(3,733,765)
CREDITORS: Amounts falling due after more than one year	9		6,738,377		-
			£(5,257,367)		£(3,733,765)
CAPITAL AND RESERVES:					
Called up share capital	12		50,000		50,000
Profit and loss account			(5,307,367)		(3,783,765)
SHAREHOLDERS' FUNDS:	14		£(5,257,367)		£(3,733,765)

ON BEHALF OF THE BOARD:


.....
N Mauer - Director

Approved by the Board on 18.02.04

The notes form part of these financial statements

1&1 Internet Limited

Notes to the Financial Statements for the Year Ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

The company is a wholly owned subsidiary of 1&1 Internet AG. Its ultimate parent company is United Internet AG. The financial statements have been prepared on the going concern basis, the parent company having indicated its continuing support of the company. 1&1 Internet AG and United Internet AG are both companies incorporated in Germany. The financial statements of United Internet AG are publicly available at www.unitedinternet.com.

Accounting convention

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment	- 33% on cost
Fixtures and fittings	- 25% on cost

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Related party disclosures

The company is a wholly owned subsidiary of 1&1 Internet AG and is included in the consolidated financial statements of United Internet AG, the ultimate parent company, which are publicly available. The company has taken advantage of the exemption from disclosing related party transactions with entities that are part of the United Internet AG group under the terms of FRS8.

Cash flow statements

The company is a wholly-owned subsidiary of a company within a group headed by United Internet AG, a company registered in Germany and is included in the consolidated financial statements of United Internet AG, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS1 (revised 1996).

2. STAFF COSTS

	2003	2002
	£	£
Wages and salaries	<u>650,957</u>	<u>440,671</u>

The average monthly number of employees during the year was as follows:

2003	2002
<u>35</u>	<u>20</u>

1&1 Internet Limited

**Notes to the Financial Statements
for the Year Ended 31 December 2003**

3. OPERATING LOSS

The operating loss is stated after charging:

	2003	2002
	£	£
Depreciation - owned assets	33,258	25,762
Loss on disposal of fixed assets	2,408	4,788
Auditors' remuneration	7,500	6,300
	<u> </u>	<u> </u>
Directors' emoluments	-	-
	<u> </u>	<u> </u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2003	2002
	£	£
Bank interest	155	14
Inter-company loan interest	232,371	113,697
	<u> </u>	<u> </u>
	<u>232,526</u>	<u>113,711</u>

5. TAXATION

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the year ended 31 December 2003 nor for the year ended 31 December 2002.

6. TANGIBLE FIXED ASSETS

	Computer equipment	Fixtures and fittings	Totals
	£	£	£
COST:			
At 1 January 2003	75,127	23,218	98,345
Additions	20,216	11,421	31,637
Disposals	(2,503)	-	(2,503)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	92,840	34,639	127,479
	<u> </u>	<u> </u>	<u> </u>
DEPRECIATION:			
At 1 January 2003	23,277	6,975	30,252
Charge for year	26,176	7,082	33,258
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2003	49,453	14,057	63,510
	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUE:			
At 31 December 2003	43,387	20,582	63,969
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2002	51,850	16,243	68,093
	<u> </u>	<u> </u>	<u> </u>

1&1 Internet Limited

**Notes to the Financial Statements
for the Year Ended 31 December 2003**

**7. DEBTORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR**

	2003 £	2002 £
Trade debtors	727,143	269,214
Other debtors	32,460	25,567
Prepayments and accrued income	100,817	40,127
	<u>860,420</u>	<u>334,908</u>

**8. CREDITORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR**

	2003 £	2002 £
Bank loans and overdrafts (see note 10)	-	8,716
Trade creditors	144,892	30,018
Amounts due to group undertakings	763,798	3,471,752
Other creditors	-	31,498
V.A.T.	257,994	121,231
Social security & other taxes	36,137	9,530
Accruals & deferred income	2,719,983	1,435,432
	<u>3,922,804</u>	<u>5,108,177</u>

**9. CREDITORS: AMOUNTS FALLING
DUE AFTER MORE THAN ONE YEAR**

	2003 £	2002 £
Amounts due to group companies	<u>6,738,377</u>	<u>-</u>

10. LOANS AND OVERDRAFTS

An analysis of the maturity of loans and overdrafts is given below:

	2003 £	2002 £
Amounts falling due within one year or on demand:		
Bank loans	<u>-</u>	<u>8,716</u>

1&1 Internet Limited

**Notes to the Financial Statements
for the Year Ended 31 December 2003**

11. OBLIGATIONS UNDER LEASING AGREEMENTS

The following payments are committed to be paid within one year:

	Land and buildings operating leases	
	2003 £	2002 £
Expiring: Between one and five years	<u>54,600</u>	<u>54,600</u>

12. CALLED UP SHARE CAPITAL

Authorised:				
Number:	Class:	Nominal value:	2003 £	2002 £
100,000	Ordinary	£1	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	2003 £	2002 £
50,000	Ordinary	£1	<u>50,000</u>	<u>50,000</u>

13. CONTINGENT LIABILITIES

A deposit agreement security was registered on 22 April 2003 by 1 & 1 Internet Limited in favour of Lloyds TSB Bank plc. The agreement is a guarantee given by way of a first fixed charge with full title guarantee secured over the amounts due, owing or incurred by the Company to the Bank. The "deposit" given by the Company relates to the amounts held by the Bank in the Company's Corporate 30 day notice account.

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Loss for the financial year	<u>(1,523,602)</u>	<u>(1,451,416)</u>
Net reduction of shareholders' funds	<u>(1,523,602)</u>	<u>(1,451,416)</u>
Opening shareholders' funds	<u>(3,733,765)</u>	<u>(2,282,349)</u>
Closing shareholders' funds	<u><u>(5,257,367)</u></u>	<u><u>(3,733,765)</u></u>
Equity interests	<u><u>(5,257,367)</u></u>	<u><u>(3,733,765)</u></u>