1&1 Internet Limited

Report and Financial Statements

31 December 2006

Registered No: 3953678

Directors
A Gauger
M Huhn (appointed 25 April 2007)
N Mauer (resigned 12 January 2007)

Secretary
N Hodson

Auditors
Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

Bankers
Lloyds TSB
39 Threadneedle Street
London
EC2R 8AU

Solicitors
Lawdit Solicitors
1 Brunswick Place
Southampton
Hampshire
SO15 2AN

Registered Office
The Nova Building
Herschel Street
Slough
Berkshire
SL1 1XS

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Principal activity and review of the business

The principal activity of the company during the year was that of website hosting, domain name registration and provision of website development software The directors are satisfied with the financial performance of the company in the year and aim to maintain the management policies which have resulted in the company's substantial growth in recent years They consider that the company has succeeded in enhancing its position in the UK and the company is a major player in the UK web hosting market and holds a significant percentage of the market share

A Further recipe of our success is our depth of production Wherever it makes good business sense the entire value chain is covered within the group, from technological base to self developed software products, effective sales and marketing and active customer support

KPI's

The company's key financial and other performance indicators during the year were as follows

Financial	*2006*	*2005*
Gross margin %	78 03%	76 86%
Operating profit	£7,001K	£4,022K
EBT %	39 69%	29 94%

There was no significant movement in the gross profit margin, however the EBT improved by 10% to 39 69% from 2005, this was due to the economies of scale of our operation While our customer base grew significantly during the year the overheads more or less remained the same

Results and dividends

The profit for the year, after taxation, amounted to £5,116,010 (2005 £2,825,065) The directors do not recommend the payment of a dividend (2005 £nil)

Future developments

The company is well positioned to further strengthen itself in the web hosting market which is still at its infancy, with innovative new products The company's business model offers tremendous benefits the contractual benefits of our subscriptions secures the long term stability of our sales, earnings and cash flows and our own in-house product development and marketing help launch innovations faster than most competitors

Directors and their interests

The directors who held office during the year were as follows

A Gauger
N Mauer

None of the directors who held office during and at the end of the year had any disclosable interest in the shares of the company or other group companies according to the Register of Directors Interests

Directors' report (continued)

Directors and their ınterests (contınued)

The dırectors holdıng office throughout the year are remunerated elsewhere wıthın the Unıted Internet AG Group

Directors' indemnıty insurance

The company has granted an ındemnıty to one or more of ıts dırectors agaınst lıabılıty ın respect of proceedıngs brought by thırd partıes, subject to the condıtıons set out ın the Companıes Act 1985 Such qualıfyıng thırd party ındemnıty provısıon remaıns ın force durıng the year and are ın force as at the date of approvıng the dırectors' report

Directors' statement as to disclosure of information to auditors

The dırectors who were members of the board at the tıme of approvıng the dırectors' report are lısted on page 1 Havıng made enquıres of fellow dırectors and of the company's audıtors, each of these dırectors confirm that

- To the best of each dırector's knowledge and belıef, there ıs no ınformatıon relevant to the preparatıon of theır report of whıch the company's audıtors are not aware, and
- Each dırector has taken all the steps a dırector mıght reasonably be expected to have taken to be aware of relevant audıt ınformatıon and to establısh that the company's audıtors are aware of that ınformatıon

Risk management

The 1&1 Group attaches hıgh prıorıty to ıts holıstıc rısk management system, whıch goes above and beyond the statutory requırements Our monıtorıng system ıdentıfies, classıfies and evaluates rısks usıng standard procedures and definıng clear responsıbılıtıes throughout the Group We not only regard efficıent and forward-lookıng rısk management as an ımportant tool to antıcıpate dangerous developments, but as an ımportant value-addıng responsıbılıty

Fınancial rısk

The company's operatıons expose ıt to a varıety of financıal rısks that ınclude lıquıdıty rısk, ınterest rate rısk and foreıgn exchange rısk Gıven the sıze of the company, the dırectors have not delegated the responsıbılıty of monıtorıng financıal rısk management to a sub-commıttee of the Board The polıcıes set by the board of dırectors are ımplemented by the company's finance department

Interest rate risk

The dırectors do not consıder the company to have any exposure to ınterest rate rısks, though the UK ınterest rate ıs lıkely to ıncrease the dırectors do not consıder the company have any exposure to such rısks sınce the company does not have any outstandıng loans or debt finance

Foreıgn exchange rate risk

Potentıal exposures to foreıgn currency exchange rate movements ın all currencıes ın whıch the company trades are monıtored on a daıly basıs by the finance department and approprıate actıon taken to manage net open foreıgn currency posıtıons The company does not trade ın ınterest rate or currency derıvatıves

Directors' report (continued)

Risk management (continued)

Liquidity risk

The company retains sufficient cash and cash equivalents to ensure it has sufficient funds available for operations The company would have access to longer term funding from the ultimate parent company if required

Company 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

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the Board

M Huhn

Director

Date 10/29/07

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that 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

Independent auditors' report

to the members of 1&1 Internet Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 16 These financial statements have been prepared under 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report 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 International Standards on Auditing (UK and Ireland) 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 judgments 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

Independent auditors' report

to the members of 1&1 Internet Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

Date 31 October 2007

Profit and loss account

for the year ended 31 December 2006

	Note	*2006* £	*2005* £
Turnover	2	18,156,941	13,592,877
Cost of sales		(3,988,849)	(3,144,156)
Gross profit		14,168,092	10,448,721
Administrative expenses		(7,461,551)	(6,773,888)
Other operating income		294,785	347,762
Operating profit	4	7,001,326	4,022,595
Bank interest receivable and similar income	5	205,612	59,372
		7,206,938	4,081,967
Interest payable and similar charges	6	-	(11,451)
Profit on ordinary activities before taxation		7,206,938	4,070,516
Tax charge on profit on ordinary activities	7	(2,090,927)	(1,245,451)
Profit for the financial year after taxation		5,116,011	2,825,065

The activities of the company are all from continuing operations

Statement of total recognised gains and losses

for the year ended 31 December 2006

	Note	2006 £	2005 £
Profit for the financial year		5,116,011	2,825,065
Total recognised gains and losses relating to the year		5,116,011	2,825,065
Prior year adjustment		-	(490,892)
Total gains and losses recognised since last annual report		5,116,011	2,334,173

Balance sheet
at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	8		59,621		84 564
Current assets					
Debtors	9	12 994 395		3 448,961	
Cash at bank		1 510 004		2 824 585	
		14 504,399		6,273,546	
Creditors amounts falling due within one year	10	9,737,418		6 647 519	
Net current assets / (liabilities)			4 766,981		(373 973)
Total assets less current liabilities			4 826 602		(289 409)
Capital and Reserves					
Called up share capital	12		50,000		50 000
Profit and loss account	13		4 776 602		(339 409)
Shareholders' funds	13		4 826 602		(289 409)

Approved by the Board

M Huhn

Director

Date 10/29/07

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

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

The company is a wholly owned subsidiary of 1&1 Internet AG and is included in the group 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 FRS 8 and has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996)

Turnover

Turnover represents the provision of website hosting services, domain name registration and website development software, excluding value added tax

Tangible fixed assets

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

Plant and machinery	-	33% on cost
Fixtures and fittings	-	25% on cost
Motor vehicles	-	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 where transactions or events have occurred at that date that will result in an obligation to pay more, tax, with the following exception

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted 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

Leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Notes to the financial statements

at 31 December 2006

1. Accounting policies (contınued)

Pensıons

The company operates a defined contrıbutıon pensıon scheme Contrıbutıons are charged ın the profit and loss account as they become payable ın accordance wıth the rules of the scheme

2. Turnover

Turnover, whıch ıs stated net of value added tax, represents amounts ınvoıced to customers ın respect of the prıncıpal, contınuıng actıvıty All turnover ıs derıved from the Unıted Kıngdom

An analysıs of turnover by geographıcal market ıs gıven below

	2006	*2005*
	£	*£*
Unıted Kıngdom	18,156,941	13,592,877

3. Staff costs

	2006	*2005*
	£	*£*
Wages and salarıes (admın)	1,039,501	1,106,262
Other pensıon costs	6,506	4,422
	1,046,007	1,110,684

The average monthly number of employees durıng the year was as follows

	2006	*2005*
	No	*No*
Technıcal support	28	33
Bıllıng	14	17
Marketıng	8	8
Admınıstratıon	6	6
	58	64

4. Operating profit

Thıs ıs stated after chargıng	*2006*	*2005*
	£	*£*
Depreciatıon - owned assets	42,036	44,261
Audıtors remuneratıon - audıt servıces	20,000	17,000
Foreıgn exchange dıfferences	125,800	44,198

Dırectors' emoluments	-	-

Notes to the financial statements

at 31 December 2006

5. Bank interest receivable and similar income

	2006	2005
	£	£
Bank deposit interest	205,612	59,372

6. Interest payable and similar charges

	2006	2005
	£	£
Intercompany loan interest	-	11,451

7. Tax on profit on ordinary activities

(a) The tax charge on the profit on ordinary activities was as follows

	2006	2005
	£	£
Current tax (note 7 (b))		
UK corporation tax	2,176,271	241,841
Tax overprovided in previous years	(88,627)	-
Deferred tax (note 7(c))	3,283	1,003,610
Tax charge on profit on ordinary activities	2,090,927	1,245,451

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period of 2006 is lower than the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are reconciled below

	2006	2005
	£	£
Profit on ordinary activities before tax	7,206,937	4,070,516
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	2,162,081	1,221,155
Expenses not deductible for tax purposes	17,474	18,929
Capital allowances in excess of depreciation	1,154	(289)
Other timing differences	(4,438)	-
Trading losses brought forward	-	(997,954)
Total current tax (note 7(a))	2,176,271	241,841

Notes to the financial statements

at 31 December 2006

7. Tax on profit on ordinary activities (continued)

c) Deferred tax

The deferred tax included in the balance sheet is as follows

	2006	*2005*
	£	*£*
Included in debtors (note 9)	17,195	20,478
Movement in the year		
At 31 December 2005	20,478	1,024,088
Profit and loss account movement arising during the year	(3,283)	(1,003,610)
At 31 December 2006	17,195	20,478
Deferred tax is analysed as follows		
Decelerated capital allowances	16,485	15,331
Other timing differences	710	5,147
	17,195	20,478

Under the 2007 Finance Bill, the rate of UK corporation tax is expected to reduce from 30% to 28% with effect from 1 April 2008 The effect on the financial statements of these proposed changes is not yet quantifiable

Notes to the financial statements

at 31 December 2006

8. Tangible fixed assets

	Plant and machinery £	*Fixtures and fittings* £	*Total* £
Cost			
At 31 December 2005	164,849	73,481	238,330
Additions	16,246	846	17,092
At 31 December 2006	181,095	74,327	255,422
Depreciation			
At 31 December 2005	110,398	43,368	153,766
Charge for the year	28,700	13,336	42,036
At 31 December 2006	139,098	56,704	195,802
Net book value			
At 31 December 2006	41,997	17,623	59,621
At 31 December 2005	54,451	30,113	84,564

9. Debtors: amounts falling due within one year

	2006 £	*2005* £
Trade debtors	2,564,490	1,382,723
Amounts owed by group undertakings	9,328,754	1,884,246
Other debtors	26,673	44,033
Deferred tax asset (note 7(a))	17,195	20,478
Prepayments and accrued income	1,057,283	117,481
	12,994,395	3,448,961

10. Creditors: amounts falling due within one year

	2006 £	*2005* £
Trade creditors	203,073	94,400
Amounts owed to group undertakings	564,458	708,608
Corporation tax	2,176,271	240,152
Social security and other taxes	669,603	715,325
Accruals and deferred income	6,124,013	4,889,034
	9,737,418	6,647,519

Notes to the financial statements

at 31 December 2006

11. Obligations under leasing agreements

Annual commitments under non-cancellable operating leases

	Land and buildings	
	2006	*2005*
	£	*£*
On leases which expire		
- within one year	119,625	287,100
	119,625	287,100

12. Called up share capital

	2006	*2005*
	£	*£*
Authorised		
100,000 ordinary shares of £1 each	100,000	100,000
Allotted, issued and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 31 December 2004	50,000	(2,673,582)	(2,623,582)
Prior period adjustment	-	(490,892)	(490,892)
Profit for the period	-	2,825,065	2,825,065
At 31 December 2005	50,000	(339,409)	(289,409)
Profit for the period	-	5,116,011	5,116,011
At 31 December 2006	50,000	4,776,602	4,826,602

Notes to the financial statements

at 31 December 2006

14. 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 £200,000 deposit given by the company relates to the amounts held by the Bank in the company's Corporate 30 day notice account

15. Pension commitments

The company operates a group personal pension scheme Contributions payable for the year are charged in the profit and loss account (see note 3), the participating employees have the flexibility to choose the funds in which these contributions are invested and the pension scheme is independently managed by Scottish Widows on behalf of the employees

16. Ultimate parent company

The ultimate parent undertaking is United Internet AG, a company incorporated in Germany The immediate parent undertaking for which group financial statements are prepared is 1&1 Internet AG Which is a subsidiary undertaking of United Internet AG, the ultimate parent 1&1 Internet AG is incorporated in Germany A copy of the financial statements of the parent can be obtained from Elgendorfer Strabe 57, 56410 Montabaur, Germany