1&1 Internet Limited

Report and Financial Statements

31 December 2010

Directors
M Huhn
O Mauss

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
Aquasulis House
10-14 Bath Road
Slough
Berkshire SL1 3SA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The profit for the year, after taxation, amounted to £6,687,281 (2009 – profit of £6,744,197) The directors recommend the payment of a dividend of £7,400,000 (2009 – £7,000,000)

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, the company is a major player in the UK web hosting market, and holds a significant percentage of the market share

A further reason for 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

Revenue is expected to grow by 10% in 2011, which is primarily driven by the demand for hosting services, Market researchers also predict continuing growth for the web hosting industry particularly in the shared and dedicated hosting sectors

Future developments

The company is well positioned to further strengthen itself in the web hosting market which is still in 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

Key Performance Indicator

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

	2010	*2009*
	£000	*£000*
Turnover	33,674	30,392
Gross profit	15,574	14,839
Gross margin	46 25%	48 83%
Operating profit	9,328	9,223
Profit on ordinary activities before tax	9,347	9,304
Profit margin before tax	27 76%	30 61%

The gross profit margin fell by 3 47% to 45 36%, and the profit margin before tax fell by 2 85% to 30 61% These were mainly due to the weakened sterling resulting in an increase in purchase price

Directors' report

Principal risks and uncertainties

Risk management

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

Financial risk

The company's operations expose it to a variety of financial risks that include liquidity risk, interest rate risk and foreign exchange risk Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board The policies set by the board of directors are implemented by the company's finance department

Interest rate risk

The directors do not consider the company to have any exposure to interest rate risks, although the UK interest rate is likely to increase the directors do not consider the company to have any exposure to such risks since the company does not have any outstanding loans or debt finance

Foreign exchange rate risk

Potential exposures to foreign currency exchange rate movements in all currencies in which the company trades are monitored on a daily basis by the finance department and appropriate action taken to manage net open foreign currency positions The company does not trade in interest rate or currency derivatives

Liquidity risk

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

Directors

The directors who served the company during the year were as follows

M Huhn
O Mauss

Directors' report

Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force during the year and are in force as at the date of approving the directors' report

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

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

On behalf of the Board

Markus Huhn

Director

Date 04.08 2011

Statement of directors' responsibilities

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) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these 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 UK 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditors' report

to the members of 1 & 1 Internet Limited

We have audited the financial statements of 1 & 1 Internet Limited for the year ended 31 December 2010 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 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profits for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of 1&1 Internet Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Jane Barwell
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Reading
Date 10 August 2011

Profit and loss account

for the year ended 31 December 2010

	Note	*2010* £	*2009* £
Turnover	2	33,673,511	30,391,639
Cost of sales		(18,399,289)	(15,553,066)
Gross profit		15,274,222	14,838,573
Administrative expenses		(6,171,835)	(5,802,144)
Other operating income		225,689	186,600
Operating profit	3	9,328,076	9,223,029
Interest receivable and similar income	6	18,898	81,161
Profit on ordinary activities before taxation		9,346,974	9,304,190
Taxation	7	(2,659,693)	(2,559,993)
Profit for the financial year		6,687,281	6,744,197

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2010

There are no recognised gains or losses other than the £6,687,281 of profit attributable to the shareholders for the year ended 31 December 2010 (2009 – profit of £6,744,197)

Balance sheet
at 31 December 2010

	Notes	2010 £	2009 £
Fixed assets			
Tangible assets	9	26,570	59,863
Current assets			
Debtors	10	3,950,984	5,308,776
Cash at bank		12,176,462	8,680,669
		16,127,446	13,989,445
Creditors amounts falling due within one year	11	15,618,699	12,801,272
Net current assets		508,747	1,188,173
Total assets less current liabilities		535,317	1,248,036
Capital and reserves			
Called up share capital	12	50,000	50,000
Profit and loss account	13	485,317	1,198,036
Shareholders' funds	13	535,317	1,248,036

Director
M. HOHN
4 August 2011

Notes to the financial statements

at 31 December 2010

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 undertaking, 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 statement of cash flows 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

Customers are billed in advance and revenue is recognised pro-rata over the period of service provision

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation

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

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Deferred taxation

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

Monetary 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 to the profit and loss account

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Leasing commitments

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

Pensions

The company operates a defined contribution pension scheme Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to customers in respect of the principal, continuing activity All turnover is derived from the United Kingdom

3. Operating profit

This is stated after charging/(crediting)

	2010	*2009*
	£	*£*
Auditors remuneration – audit of the financial statements	25,000	22,000
Depreciation – owned assets	34,836	34,857
Operating lease rentals – land and buildings	180,438	180,438
Net loss / (gain) on foreign exchange translations	29,588	(27,447)

4. Directors' emoluments

The directors' emoluments have been borne by the ultimate parent undertaking, United Internet AG The directors' service to the company does not occupy a significant amount of their time As such, the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2010 and 31 December 2009

5. Staff costs

	2010	*2009*
	£	*£*
Wages and salaries	1,092,908	1,037,409
Social security costs	110,872	97,533
Other pension costs	24,171	16,570
	1,227,951	1,151,512

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

	2010	*2009*
	No	*No*
Billing	20	21
Marketing	11	12
Administration	4	4
	35	37

Notes to the financial statements

at 31 December 2010

6. Interest receivable and similar income

	2010	*2009*
	£	*£*
Group interest receivable	9,814	59,450
Bank deposit interest	9,579	21,711
	19,393	81,161

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2010	*2009*
	£	*£*
Current tax		
UK corporation tax	2,622,175	2,561,481
Tax under /(over) provided in previous years	46,596	(9,394)
Total current tax (note 7(b))	2,668,771	2,552,087
Deferred tax (note 7(c))	(9,078)	7,906
Tax on profit on ordinary activities	2,659,693	2,559,993

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010	*2009*
	£	*£*
Profit on ordinary activities before tax	9,346,974	9,304,190
Profit on ordinary activities multiplied by the effective rate of corporation tax in the UK of 28% (2009 – 28%)	2,617,153	2,605,173
Effects of		
Expenses not deductible for tax purposes	1,218	621
Capital allowances in excess of depreciation	3,656	(2,993)
Other timing differences	148	551
Tax overprovided in previous years	-	(9,394)
Under / (over) provision	46,596	(41,871)
Total current tax (note 7(a))	2,668,771	2,552,087

Notes to the financial statements

at 31 December 2010

7. Tax (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows

	2010 £	2009 £
Included in debtors (note 10)	17,153	8,075
Movement in the year		
At the beginning of the year	8,075	15,981
Profit and loss account movement arising during the year (note 7(a))	9,078	(7,906)
At the end of the year	17,153	8,075
Deferred tax is analysed as follows		
Decelerated capital allowances	16,953	8,058
Other timing differences	200	17
	17,153	8,075

The Finance Bill 2010 which included a reduction in the UK corporation tax rate to 27% was substantially enacted on 21 July 2010 Therefore deferred tax assets and liabilities as at 31 December 2010 should be calculated at this rate

In his Budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have an effect on the company's future tax position The Budget proposed a decrease in the rate of UK corporation tax from 27% to 26% on 1 April 2011 and by a further 1% each year until April 2014 This reduction will affect both the future and current tax charge of the Company The effect of the reduction in the tax rate to 23% on recognised /unrecognised deferred tax asset for the Company is immaterial

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantially enacted

8. Dividends

	2010 £	2009 £
Final dividend	-	–
Interim dividend	7,400,000	7,000,000
	7,400,000	7,000,000

Notes to the financial statements

at 31 December 2010

9. Tangible fixed assets

	Plant and machinery £	*Fixtures and fittings* £	*Total* £
Cost			
At 1 January 2010	234,478	130,881	365,359
Additions	1,344	200	1,543
At 31 December 2010	235,822	131,081	366,902
Depreciation			
At 1 January 2010	206,067	99,429	305,496
Charge for the year	17,558	17,278	34,836
At 31 December 2010	223,625	116,707	340,332
Net book value			
At 31 December 2010	12,197	14,374	26,570
At 1 January 2010	28,411	31,452	59,863

10. Debtors

	2010 £	*2009* £
Trade debtors	3,355,127	3,362,477
Amounts owed by group undertakings	426,303	1,770,128
Other debtors	90,969	89,297
Deferred tax asset (note 7(c))	17,153	8,075
Prepayments and accrued income	61,432	78,799
	3,950,984	5,308,776

11. Creditors: amounts falling due within one year

	2010 £	*2009* £
Trade creditors	127,902	156,561
Amounts owed to group undertakings	3,058,085	1,424,524
Corporation tax	1,096,321	1,196,242
Social security and other taxes	1,109,684	829,753
Accruals and deferred income	10,226,707	9,194,192
	15,618,699	12,801,272

Notes to the financial statements

at 31 December 2010

12. Issued share capital

Allotted, called up and fully paid	*No*	*2010* *£*	*No*	*2009* *£*
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

13. Reconciliation of shareholders' funds and movement on reserves

	Share capital *£*	*Profit and loss account* *£*	*Total Share-holders' funds* *£*
At 1 January 2009	50,000	1,453,839	1,503,839
Profit for the year	–	6,744,197	6,744,197
Dividend	–	(7,000,000)	(7,000,000)
At 1 January 2009	50,000	1,198,036	1,248,036
Profit for the year	–	6,687,281	6,687,281
Dividend	–	(7,400,000)	(7,400,000)
At 31 December 2010	50,000	485,317	535,317

14. Pension commitments

The company operates a group personal pension scheme Contributions payable for the year are charged in the profit and loss account (note 5) 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 The assets of the scheme are held separately from those of the company

The outstanding contributions at the year end were £Nil (2009 –£nil)

15. Other financial commitments

Annual commitments under non-cancellable operating leases

	Land and buildings *2010* *£*	*2009* *£*
Operating leases which expire		
Within one year	180,480	105,256
In two to five years	90,240	–
	270,720	105,256

Notes to the financial statements

at 31 December 2010

16. Ultimate parent undertaking and controlling party

The ultimate parent undertaking and controlling party 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