Registered No: 3953678

1&1 Internet Limited

Report and Financial Statements

31 December 2008

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COMPANIES HOUSE

Registered No: 3953678

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 2008.

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.

The forecasted growth opportunities for web hosting in the UK are 11.3% which is primarily driven by the demand for such services.

KPI's

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

Financial	*2008*	*2007*
Turnover £000	27,095	23,115
Gross profit £000	14,003	13,124
Gross margin %	51.68	56.77
Operating profit £000	9,900	9,345
Profit on ordinary activities before tax £000	10,619	9,912
Profit margin before tax %	39.19	42.88

The gross profit margin fell by 5% to 51.68%, and the profit margin before tax fell by 3% to 39.19%. These were mainly due to the weakened sterling making our purchases in euros more expensive While our customer base grew significantly during the year the overheads remained relatively stable.

Results and dividends

The profit for the year, after taxation, amounted to £7,653,839 (2007: £6,888,992). The directors recommend the payment of a dividend of £17,865,594 (2007: £nil).

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.

Post balance sheet events

The directors made a dividend payment of £3,000,000 on 26 May 2009.

Directors' report (continued)

Directors

The directors who held office during the year and to the date of this report were as follows:

M Huhn	
O Mauss	(appointed 1 August 2008)
A Gauger	(resigned 1 August 2008)

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 1985. 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.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquires of fellow directors and of the company's auditors, each of these directors confirm that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

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.

Directors' report (continued)

Risk management (continued)

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 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: 20.10.2009

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.

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 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 18. 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion 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 2008 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: 26 October 2009

Profit and loss account

for the year ended 31 December 2008

	Note	2008 £	2007 £
Turnover	2	27,095,389	23,114,691
Cost of sales		(13,091,930)	(9,990,391)
Gross profit		14,003,459	13,124,300
Administrative expenses		(4,382,244)	(4,043,089)
Other operating income		278,539	263,991
Operating profit	4	9,899,754	9,345,202
Interest receivable and similar income	6	719,198	566,712
Profit on ordinary activities before taxation		10,618,952	9,911,914
Tax charge on profit on ordinary activities	7	(2,965,113)	(3,022,922)
Profit for the financial year		7,653,839	6,888,992

The activities of the company are all from continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2008

There are no recognised gains or losses other than the profit of £7,653,839 attributable to the shareholders for the year ended 31 December 2008 (2007: profit of £6,888,992).

Balance sheet

at 31 December 2008

	Note	2008 £	2008 £	2007 £	2007 £
Fixed assets					
Tangible assets	8		71,333		88,065
Current assets					
Debtors	9		11,503,513		21,301,292
Cash at bank			3,047,387		1,683,235
			14,550,900		22,984,527
Creditors: amounts falling due within one year	10		13,118,394		11,356,998
Net current assets			1,432,506		11,627,529
Total assets less current liabilities			1,503,839		11,715,594
Capital and Reserves					
Called up share capital	13		50,000		50,000
Profit and loss account	14		1,453,839		11,665,594
Shareholders' funds	14		1,503,839		11,715,594

Approved by the Board

M Huhn

Director

Date: 20.10.2009

Notes to the financial statements

at 31 December 2008

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).

For presentation purposes the allocation of certain costs between cost of sales and administrative expenses for 2007 has been adjusted to reflect the company's current year allocation methodology of recharges made by other group companies to the company which are considered to be directly attributable to revenue generating activities. As such cost of sales for 2007 have been increased by £5,146,945 and administrative expenses decreased by the corresponding amount.

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 fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

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.

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 2008

1. Accounting policies (continued)

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.

An analysis of turnover by geographical market is given below:

	2008	*2007*
	£	*£*
United Kingdom	27,095,389	23,114,691

3. Staff costs

	2008	*2007*
	£	*£*
Wages and salaries	756,882	741,507
Social security costs	74,565	66,098
Other pension costs	3,981	2,701
	835,428	810,306

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

	2008	*2007*
	No.	*No.*
Billing	19	18
Marketing	9	9
Administration	4	4
	32	31

4. Operating profit

This is stated after charging/(crediting):		*2008*	*2007*
		£	*£*
Depreciation	- owned assets	41,528	41,632
Auditors remuneration	- audit of the financial statements	22,000	22,000
Operating lease rentals	- land and buildings	89,292	148,752
Net gain on foreign exchange translations		(715,717)	(785,822)

Notes to the financial statements

at 31 December 2008

5. Directors' emoluments

The directors' emoluments have been borne by the ultimate parent company, United Internet AG. The directors' services to the company do 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 2008 and 31 December 2007.

6. Bank interest receivable and similar income

	2008	*2007*
	£	*£*
Group interest receivable	680,868	525,352
Bank deposit interest	38,330	41,360
	719,198	566,712

7. Tax on profit on ordinary activities

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

	2008	*2007*
	£	*£*
Current tax		
UK corporation tax	3,031,917	3,038,404
Tax overprovided in previous years	(66,767)	(16,733)
Total current tax (note 7(b))	2,965,150	3,021,671
Deferred tax (note 7(c))	(37)	1,251
Tax charge on profit on ordinary activities	2,965,113	3,022,922

Notes to the financial statements

at 31 December 2008

7. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period of 2008 is different to the effective rate of corporation tax in the UK of 28.5% (2007: 30%). The differences are reconciled below:

	2008	*2007*
	£	*£*
Profit on ordinary activities before tax	10,618,952	9,911,914
Profit on ordinary activities multiplied by the effective rate of corporation tax in the UK of 28.5% (2007: 30%)	3,026,401	2,973,575
Effects of:		
Expenses not deductible for tax purposes	3,724	66,080
Capital allowances in excess of depreciation	1,813	(700)
Other timing differences	(21)	(551)
Tax overprovided in previous years	(66,767)	(16,733)
Total current tax (note 7(a))	2,965,150	3,021,671

c) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2008	*2007*
	£	*£*
Included in debtors (note 9)	15,981	15,944
Movement in the year:		
At the beginning of the year	15,944	17,195
Profit and loss account movement arising during the year (note 7(a))	37	(1,251)
At the end of the year	15,981	15,944
Deferred tax is analysed as follows:		
Decelerated capital allowances	16,515	15,785
Other timing differences	(534)	159
	15,981	15,944

As a result of changes in the UK 2008 budget, the main UK corporation tax rate was reduced to 28% with effect from 1 April 2008, along with changes to the capital allowance regime. These changes are included in these financial statements.

Notes to the financial statements

at 31 December 2008

8. Tangible fixed assets

	Plant and machinery	*Fixtures and fittings*	*Total*
	£	*£*	*£*
Cost:			
At 1 January 2008	207,842	109,334	317,176
Additions	5,391	19,405	24,796
At 31 December 2008	213,233	128,739	341,972
Depreciation:			
At 1 January 2008	164,939	64,172	229,111
Charge for the year	23,934	17,594	41,528
At 31 December 2008	188,873	81,766	270,639
Net book value:			
At 31 December 2008	24,360	46,973	71,333
At 1 January 2008	42,903	45,162	88,065

9. Debtors: amounts falling due within one year

	2008	*2007*
	£	*£*
Trade debtors	3,439,825	3,285,937
Amounts owed by group undertakings	7,896,833	17,876,921
Other debtors	79,822	75,598
Deferred tax asset (note 7(c))	15,981	15,944
Prepayments and accrued income	71,052	46,892
	11,503,513	21,301,292

Notes to the financial statements
at 31 December 2008

10. Creditors: amounts falling due within one year

	2008	2007
	£	£
Trade creditors	196,439	52,359
Amounts owed to group undertakings	2,232,661	1,349,294
Corporation tax	1,189,002	1,373,617
Social security and other taxes	881,709	868,439
Accruals and deferred income	8,618,583	7,713,289
	13,118,394	11,356,998

11. Dividends: declared and paid during the year

	2008	2007
	£	£
Final dividend for 2007	11,665,594	-
Interim dividends for 2008	6,200,000	-
	17,865,594	-

12. Obligations under leasing agreements

Annual commitments under non-cancellable operating leases:

	Land and buildings	
	2008	2007
	£	£
On leases which expire:		
- within one year	-	-
- 2-5 years	181,095	177,005
	181,095	177,005

13. Called up share capital

	2008	2007
	£	£
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

Notes to the financial statements

at 31 December 2008

14. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 31 December 2006	50,000	4,776,602	4,826,602
Profit for the year	-	6,888,992	6,888,992
At 31 December 2007	50,000	11,665,594	11,715,594
Profit for the year	-	7,653,839	7,653,839
Dividend – Final for the year ended 31 December 2007	-	(11,665,594)	(11,665,594)
Dividend – Interim for the year ended 31 December 2008	-	(6,200,000)	(6,200,000)
At 31 December 2008	50,000	1,453,839	1,503,839

15. 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.

16. 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. The assets of the scheme are held separately from those of the company.

The outstanding contributions at the year end were £nil (2007: £nil).

17. Post balance sheet events

The directors made a dividend payment of £3,000,000 on 26 May 2009.

18. Ultimate parent company

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.