

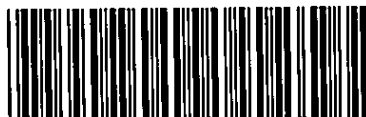
3953678

1&1 Internet Limited

Report and Financial Statements

31 December 2009

WEDNESDAY



AVH6RNTZ

A73

29/09/2010

243

COMPANIES HOUSE

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 2009

Results and dividends

The profit for the year, after taxation, amounted to £6,744,197 (2008 – profit £7,653,839) The directors recommend the payment of a dividend of £7,000,000 (2008 – £17,865,594)

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 11.5% in 2010, 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

KPIs

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

<i>Financial</i>	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Turnover	30,392	27,095
Gross Profit	14,839	14,003
Gross margin	48.83%	51.68%
Operating Profit	9,223	9,900
Profit on ordinary activities before tax	9,304	10,619
Profit margin before tax	30.61%	39.19%

The gross profit margin fell by 2.85% to 48.83%, and the profit margin before tax fell by 8.58% to 30.61% 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

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

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 held office during the year and to the date of this report 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.

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, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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.

On behalf of the Board



M Huhn

Director

Date 28.05.2010

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 2009 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 4, 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 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 financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 27 December 2009 and of its result 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 (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor

Reading

29 Sept. 2010

Profit and loss account

for the year ended 31 December 2009

	Note	2009 £	2008 £
Turnover	2	30,391,639	27,095,389
Cost of sales		(15,553,066)	(13,091,930)
Gross profit		14,838,573	14,003,459
Administrative expenses		(5,802,144)	(4,382,244)
Other operating income		186,600	278,539
Operating profit	3	9,223,029	9,899,754
Interest receivable and similar income	6	81,161	719,198
Profit on ordinary activities before taxation		9,304,190	10,618,952
Tax on profit on ordinary activities	7	(2,559,993)	(2,965,113)
Profit for the financial year		6,744,197	7,653,839

The results for the year are wholly attributable to the continuing operations of the company

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses other than the profit of £6,744,197 attributable to the shareholders for the year ended 31 December 2009 (2008 – profit of £7,653,839)

Balance sheet

at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	9	59,863	71,333
Current assets			
Debtors	10	5,308,776	11,503,513
Cash at bank		8,680,669	3,047,387
		13,989,445	14,550,900
Creditors amounts falling due within one year	11	12,801,272	13,118,394
Net current assets		1,188,173	1,432,506
Total assets less current liabilities		1,248,036	1,503,839
Capital and reserves			
Called up share capital	12	50,000	50,000
Profit and loss account	13	1,198,036	1,453,839
Shareholders' funds	13	1,248,036	1,503,839

Director



M Huhn

28.05.2010

Date

Balance sheet

at 31 December 2009

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 are 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

Balance sheet

at 31 December 2009

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)

	2009 £	2008 £
Depreciation – owned assets	34,857	41,528
Auditors remuneration – audit of the financial statements	22,000	22,000
Operating lease rentals – land and buildings	180,438	89,292
Net gain on foreign exchange translations	(27,447)	(715,717)
	<u> </u>	<u> </u>

4. Directors' emoluments

The directors' emoluments have been borne by the ultimate parent undertaking, 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 2009 and 31 December 2008

5. Staff costs

	2009 £	2008 £
Wages and salaries	1,037,409	756,882
Social security costs	97,533	74,565
Other pension costs	16,570	3,981
	<u>1,151,512</u>	<u>835,428</u>

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

	2009 No	2008 No
Billing	21	19
Marketing	12	9
Administration	4	4
	<u>37</u>	<u>32</u>

Balance sheet

at 31 December 2009

6. Interest receivable and similar income

	2009 £	2008 £
Group interest receivable	59,450	680,868
Bank deposit interest	21,711	38,330
	<u>81,161</u>	<u>719,198</u>

7. Tax**(a) Tax on profit on ordinary activities**

The tax charge is made up as follows

	2009 £	2008 £
<i>Current tax</i>		
UK corporation tax	2,561,481	3,031,917
Tax overprovided in previous years	(9,394)	(66,767)
Total current tax (note 7(b))	<u>2,552,087</u>	<u>2,965,150</u>
Deferred tax (note 7(c))	<u>7,906</u>	<u>(37)</u>
Tax on profit on ordinary activities	<u>2,559,993</u>	<u>2,965,113</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is different to the effective rate of corporation tax in the UK of 28% (2008 – 28.50%). The differences are reconciled below

	2009 £	2008 £
Profit on ordinary activities before tax	<u>9,304,190</u>	<u>10,618,952</u>
Profit on ordinary activities multiplied by the effective rate of corporation tax in the UK of 28% (2008 – 28.50%)	2,605,173	3,026,401
<i>Effects of</i>		
Expenses not deductible for tax purposes	621	3,724
Capital allowances in excess of depreciation	(2,993)	1,813
Other timing differences	551	(21)
Tax overprovided in previous years	(9,394)	(66,767)
Under provision	(41,871)	-
Total current tax (note 7(a))	<u>2,552,087</u>	<u>2,965,150</u>

Balance sheet

at 31 December 2009

7. Tax (continued)

(c) Deferred tax

The deferred tax included in the balance sheet is as follows

	2009 £	2008 £
Included in debtors (note 10)	8,075	15,981
Movement in the year		
At the beginning of the year	15,981	15,944
Profit and loss account movement arising during the year (note 7(a))	(7,906)	37
At the end of the year	8,075	15,981
Deferred tax is analysed as follows		
Decelerated capital allowances	8,058	16,515
Other timing differences	17	(534)
	8,075	15,981

8. Dividends

	2009 £	2008 £
Final dividend	-	11,665,594
Interim dividend	7,000,000	6,200,000
	7,000,000	17,865,594

Balance sheet

at 31 December 2009

9. Tangible fixed assets

	<i>Plant and machinery</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	£	£	£
Cost			
At 1 January 2009	213,233	128,739	341,972
Additions	21,245	2,142	23,387
At 31 December 2009	234,478	130,881	365,359
Depreciation			
At 1 January 2009	188,873	81,766	270,639
Charge for the year	17,194	17,663	34,857
At 31 December 2009	206,067	99,429	305,496
Net book value			
At 31 December 2009	28,411	31,452	59,863
At 1 January 2009	24,360	46,973	71,333

10. Debtors

	<i>2009</i>	<i>2008</i>
	£	£
Trade debtors	3,362,477	3,439,825
Amounts owed by group undertakings	1,770,128	7,896,833
Other debtors	89,297	79,822
Deferred tax asset (note 7(c))	8,075	15,981
Prepayments and accrued income	78,799	71,052
	5,308,776	11,503,513

11. Creditors: amounts falling due within one year

	<i>2009</i>	<i>2008</i>
	£	£
Trade creditors	156,561	196,439
Amounts owed to group undertakings	1,424,524	2,232,661
Corporation tax	1,196,242	1,189,002
Social security and other taxes	829,753	881,709
Accruals and deferred income	9,194,192	8,618,583
	12,801,272	13,118,394

Balance sheet

at 31 December 2009

12. Issued share capital

<i>Allotted, called up and fully paid</i>	<i>No</i>	<i>2009 £</i>	<i>No</i>	<i>2008 £</i>
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

13. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total Share- holders' funds £</i>
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
Profit for the year		6,744,197	6,744,197
Dividend – Final for the year ended 31 December 2008		(7,000,000)	(7,000,000)
At 31 December 2009	50,000	1,198,036	1,248,036

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 (2008 –£nil).

15. Obligations under leasing agreements

Annual commitments under non-cancellable operating leases

	<i>Land and buildings</i>	
	<i>2009 £</i>	<i>2008 £</i>
On leases which expire		
– within one year	105,256	–
– 2-5 years	–	181,095
	105,256	181,095

Balance sheet

at 31 December 2009

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.