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**Report of the Directors and  
Financial Statements  
for the Year Ended 31 December 2004  
for  
1&1 Internet Limited**



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**1&1 Internet Limited**  
**Company Information**  
**for the Year Ended 31 December 2004**

**DIRECTORS:**

A Gauger  
N Mauer

**SECRETARY:**

P R Karschowski

**REGISTERED OFFICE:**

The Nova Building  
Herschel Street  
Slough  
Berkshire  
SL1 1XS

**REGISTERED NUMBER:**

3953678 (England and Wales)

**AUDITORS:**

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

## **1&1 Internet Limited**

### **Report of the Directors for the Year Ended 31 December 2004**

The directors present their report with the financial statements of the company for the year ended 31 December 2004.

#### **PRINCIPAL ACTIVITY**

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

#### **REVIEW OF BUSINESS**

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

#### **DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2004.

#### **DIRECTORS**

The directors during the year under review were:

A Gauger  
N Mauer

The directors holding office at 31 December 2004 did not hold any beneficial interest in the issued share capital of the company at 1 January 2004 or 31 December 2004.

The company is a wholly owned subsidiary of a company incorporated outside the United Kingdom and, as permitted by statutory instrument, no disclosure is made of any interest of the directors in the shares or share options of any company in the group.

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

#### **COMPANY'S POLICY ON PAYMENT OF CREDITORS**

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

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

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

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

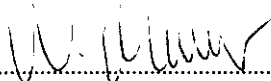
**1&1 Internet Limited**

**Report of the Directors  
for the Year Ended 31 December 2004**

**AUDITORS**

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

**ON BEHALF OF THE BOARD:**

  
.....  
N Mauer - Director

Date: 24.02.2005 .....

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

We have audited the financial statements of 1&1 Internet Limited for the year ended 31 December 2004 on pages six to fourteen. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

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

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

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

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

**Basis of audit opinion**

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

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

**Going concern**

In forming our opinion, we have considered the adequacy of the disclosures made within the financial statements concerning the basis of preparation of the accounts. In view of the significance of this matter, we consider it should be drawn to your attention. Our report is not qualified in this respect.

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Fitzgerald and Law LLP*

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

Date: ..... *24 February 2005*

**1&1 Internet Limited**

**Profit and Loss Account  
for the Year Ended 31 December 2004**

	Notes	2004 £	2003 as restated £
<b>TURNOVER</b>		9,335,212	5,809,222
Cost of sales		2,134,484	1,353,741
<b>GROSS PROFIT</b>		7,200,728	4,455,481
Administrative expenses		6,193,798	5,518,779
		1,006,930	(1,063,298)
Other operating income		184,798	90,354
<b>OPERATING PROFIT/(LOSS)</b>	3	1,191,728	(972,944)
Interest receivable and similar income		74,936	45,606
		1,266,664	(927,338)
Interest payable and similar charges	4	127,067	232,526
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,139,597	(1,159,864)
Tax on profit/(loss) on ordinary activities	5	(1,003,296)	-
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAXATION</b>		2,142,893	(1,159,864)
<b>RETAINED PROFIT/(DEFICIT) FOR THE YEAR</b>		2,142,893	(1,159,864)

**CONTINUING OPERATIONS**

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

The notes form part of these financial statements

1&1 Internet Limited

Statement of Total Recognised Gains and Losses  
for the Year Ended 31 December 2004

	2004	2003 as restated
	£	£
<b>PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>	2,142,893	(1,159,864)
Loss on translation of parent company loan		
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>	2,142,893	(1,159,864)
Prior year adjustment	Note 6	
	490,892	127,154
<b>TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT</b>	2,633,785	(1,032,710)

The notes form part of these financial statements

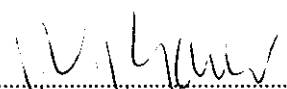


**1&1 Internet Limited**

**Balance Sheet  
31 December 2004**

		2004		2003 as restated	
	Notes	£	£	£	£
<b>FIXED ASSETS</b>					
Tangible assets	7		73,211		63,969
<b>CURRENT ASSETS</b>					
Debtors	8	2,947,264		1,351,312	
Cash at bank		1,508,848		4,479,425	
		4,456,112		5,830,737	
<b>CREDITORS</b>					
Amounts falling due within one year	9	7,152,905		3,922,804	
<b>NET CURRENT (LIABILITIES)/ASSETS</b>			(2,696,793)		1,907,933
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			(2,623,582)		1,971,902
<b>CREDITORS</b>					
Amounts falling due after more than one year	10		-		6,738,377
			(2,623,582)		(4,766,475)
<b>CAPITAL AND RESERVES</b>					
Called up share capital	12		50,000		50,000
Profit and loss account	13		(2,673,582)		(4,816,475)
<b>SHAREHOLDERS' FUNDS</b>	15		(2,623,582)		(4,766,475)

**ON BEHALF OF THE BOARD:**

  
.....  
N Mauer - Director

Approved by the Board on 24.02.2005 .....

The notes form part of these financial statements

## **1&1 Internet Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2004**

#### **1. ACCOUNTING POLICIES**

##### **Basis of preparing the financial statements**

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

##### **Accounting convention**

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

##### **Turnover**

Turnover represents 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 over its estimated useful life.

Plant and machinery	- 33% on cost
Fixtures and fittings	- 25% on cost

##### **Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date on a non-discounted basis. Deferred taxation assets are recognised only to the extent that it is more likely than not, that there will be suitable taxable profits from which future reversals of the underlying timing differences can be deducted.

##### **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.

##### **Pensions**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

##### **Related party disclosures**

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

##### **Cash flow statements**

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

**1&1 Internet Limited**

**Notes to the Financial Statements - continued  
for the Year Ended 31 December 2004**

**2. STAFF COSTS**

	2004	2003 as restated
	£	£
Wages and salaries	998,177	650,957
Other pension costs	267	-
	<u>998,444</u>	<u>650,957</u>

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

2004	2003 as restated
<u>55</u>	<u>35</u>

**3. OPERATING PROFIT/(LOSS)**

The operating profit (2003 - operating loss) is stated after charging:

	2004	2003 as restated
	£	£
Depreciation - owned assets	45,995	33,258
Loss on disposal of fixed assets	-	2,408
Auditors remuneration	8,000	7,500
Foreign exchange differences	282,081	9,752
	<u>282,081</u>	<u>9,752</u>
Directors' emoluments	-	-
	<u>-</u>	<u>-</u>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	2004	2003 as restated
	£	£
Bank interest	-	155
Inter-company loan interest	127,067	232,371
	<u>127,067</u>	<u>232,526</u>

**1&1 Internet Limited**

**Notes to the Financial Statements - continued  
for the Year Ended 31 December 2004**

**5. TAXATION**

**Analysis of the tax credit**

The tax credit on the profit on ordinary activities for the year was as follows:

	2004	2003 as restated
	£	£
Current tax:		
UK corporation tax	20,792	-
Deferred tax	(1,024,088)	-
Tax on profit/(loss) on ordinary activities	<u>(1,003,296)</u>	<u>-</u>

UK corporation tax has been charged at 30%

Current deferred tax asset relates to:

	£
Accelerated capital allowances	(1,271)
General bad debt provision	(5,147)
Losses	445,915
	<u>439,497</u>

(Over)/under provision in prior years relates to:

	£
Deferred tax asset over/(under) provision:	
Accelerated capital allowances	(14,348)
Losses	(1,449,237)
	<u>(1,463,585)</u>

Total provision at 31 December 2004

(1,024,088)

**6. PRIOR YEAR ADJUSTMENT**

The prior year adjustment is in respect of a miscalculation of charges billed from a Group company in relation to direct costs arising between 2002 and 2004. As a result of this adjustment Cost of sales were previously materially overstated in the sum of £363,738 for the year ended 31 December 2003 and £127,154 for the year ended 31 December 2002.

1&1 Internet Limited

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2004

7. TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Totals £
<b>COST</b>			
At 1 January 2004	92,840	34,639	127,479
Additions	23,594	31,643	55,237
At 31 December 2004	116,434	66,282	182,716
<b>DEPRECIATION</b>			
At 1 January 2004	49,453	14,057	63,510
Charge for year	33,076	12,919	45,995
At 31 December 2004	82,529	26,976	109,505
<b>NET BOOK VALUE</b>			
At 31 December 2004	33,905	39,306	73,211
At 31 December 2003	43,387	20,582	63,969

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 as restated £
Trade debtors	470,415	727,143
Amounts owed by group undertakings	829,179	-
Other debtors	49,098	32,460
Deferred tax asset	1,024,088	-
Prepayments and accrued income	574,484	591,709
	2,947,264	1,351,312
Deferred tax asset relates to:	£	
Accelerated capital allowances	15,619	
General bad debt provision	5,147	
Losses	1,003,322	
	1,024,088	

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 as restated £
Trade creditors	47,052	144,892
Amounts owed to group undertakings	2,830,014	763,798
Tax	20,792	-
Social security and other taxes	441,718	294,131
Accruals & deferred income	3,813,329	2,719,983
	7,152,905	3,922,804

1&1 Internet Limited

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2004

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004	2003 as restated
	£	£
Amounts owed to group undertakings	-	6,738,377

11. OBLIGATIONS UNDER LEASING AGREEMENTS

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

	Land and buildings operating leases	2004	2003 as restated
		£	£
Expiring: Between one and five years		287,100	54,600

12. CALLED UP SHARE CAPITAL

Authorised: Number:	Class:	Nominal value:	2004	2003 as restated
			£	£
100,000	Ordinary	£1	100,000	100,000

Allotted, issued and fully paid: Number:	Class:	Nominal value:	2004	2003 as restated
			£	£
50,000	Ordinary	£1	50,000	50,000

13. RESERVES

	Profit and loss account £
At 1 January 2004	(5,307,367)
Prior year adjustment	490,892
	(4,816,475)
Retained profit for the year	2,142,893
At 31 December 2004	(2,673,582)

# 1&1 Internet Limited

## Notes to the Financial Statements - continued for the Year Ended 31 December 2004

### 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 "deposit" given by the Company relates to the amounts held by the Bank in the Company's Corporate 30 day notice account.

### 15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004	2003 as restated
	£	£
Profit/(Loss) for the financial year	2,142,893	(1,159,864)
<b>Net addition/(reduction) to shareholders' funds</b>	2,142,893	(1,159,864)
Opening shareholders' funds (originally £(5,257,367) before prior year adjustment of £490,892)	(4,766,475)	(3,606,611)
<b>Closing shareholders' funds</b>	<u>(2,623,582)</u>	<u>(4,766,475)</u>
Equity interests	<u>(2,623,582)</u>	<u>(4,766,475)</u>