Company Registration No 3953678

1&1 Internet Limited

Report and Financial Statements

31 December 2012

Directors
M Huhn
A Burton
R Hoffman
S Yeoman

Auditors
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Results and dividends

The profit for the year after taxation amounted to £1,646,000 (2011 – profit of £3,607,000) No dividends were paid during the year (2011 – £4,000,000)

Principal activity and review of the business

The principal activities of the company during the year are that of website hosting, domain name registration, provision of servers and website development software and remain principally unchanged from the prior year The directors consider that the company has succeeded in enhancing its position in the UK, establishing 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 the company's success is its 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 has grown by 18 53% in 2012 and the directors expect strong growth to continue, driven by the demand for the company's product and services Market researchers also predict continuing growth for the web hosting industry particularly in the shared and dedicated hosting sectors The company continues to enhance its investment in TV advertising which has significantly contributed to the growth as well

Key performance indicator

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

	2012	*2011*
	£000	*£000*
Turnover	43,377	36,595
% Revenue growth per annum	18 53%	8 67%
Gross profit	19,885	14,866
Gross margin	45 84%	40 62%
Operating profit	2,142	4,898
Profits on ordinary activities before tax	2,197	4,911
Profit margin before tax	5 04%	13 42%

The gross profit margin increased by 5 22% to 45 84%, and the profit margin before tax fell by 8 38% to 5 04% These were mainly due to the continued and increased investment in TV advertising campaigns during the year, which has contributed the 18 53% revenue growth achieved in 2012

Future developments

The company is well positioned to further strengthen itself in the web hosting market and to expand through innovative new products The company's business model has financial strength and offers competitive advantage by a high level of recurring contractual revenues, high demand for the company's products and services, positive earnings and cash flows and our own in-house product development and marketing which are able to be flexible and adaptable to the market conditions

Directors' report (continued)

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 The company's monitoring system identifies, classifies and evaluates risks using standard procedures and defining clear responsibilities throughout the company Management 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 the UK interest rate is likely to remain at similar levels and 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

Going concern

After reviewing forecasts and making enquiries, including confirmation of intentions and support from the parent undertaking, the directors have a reasonable expectation that the company has adequate financial resources to continue in operation for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

Directors

The directors who served the company during the year, and to the date of this report, were as follows

M Huhn	
R Hoffman	(Appointed 6 December 2012)
S Yeoman	(Appointed 22 January 2013)
A Burton	(Appointed 1 September 2012)
O Mauss	(Resigned 6 December 2012)

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

Policy and practice 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

Directors' report (continued)

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

M Huhn

Director

Date 4 th June 2013

Directors' responsibilities statement

The directors are responsible for preparing the Directors' 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, 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 adequate 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

Independent auditor's 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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 17 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 auditor

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 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 In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 31 December 2012 and of its profit 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 auditor's 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
Date 6 June 2013

Profit and loss account

for the year ended 31 December 2012

	Notes	*2012* *£'000*	*2011* *£'000*
Turnover	2	43,377	36,595
Cost of sales		(23,492)	(21,729)
Gross profit		19,885	14,866
Administrative expenses		(17,992)	(10,198)
Other operating income		249	230
Operating profit	3	2,142	4,898
Interest receivable and similar income	6	55	13
Profit on ordinary activities before taxation		2,197	4,911
Tax	7	(551)	(1,304)
Profits for the financial year	13	1,646	3,607

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 December 2012

There are no recognised gains or losses other than the profits attributable to the shareholders of the company of £1,646,000 in the year ended 31 December 2012 (2011 – profit of £3,607,000)

Balance sheet

at 31 December 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	9	66	7
Current assets			
Debtors	10	9,430	7,046
Cash at bank		7,387	6,386
		16,817	13,432
Creditors amounts falling due within one year	11	(15,106)	(13,296)
Net current assets		1,711	136
Total assets less current liabilities		1,777	143
Capital and reserves			
Called up share capital	12	50	50
Profit and loss account	13	1,727	93
Shareholders' funds	13	1 777	143

M Huhn

Director

Date 4th June 2013

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

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

Group financial statements

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 values 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 taxation 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, or right to pay less or to receive 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 commitments

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

1. Accounting policies (continued)

Pensions

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

Notes to the financial statements

at 31 December 2012

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

	2012	*2011*
	£'000	*£'000*
Auditor's remuneration	28	29
Depreciation of owned fixed assets	17	19
Operating lease rentals – land and buildings	110	180
Net loss on foreign exchange translations	349	3

4. Directors' remuneration

The directors' remuneration is borne by subsidiaries of the ultimate parent undertaking, United Internet AG as follows

Directors O Mauss , M Huhn and R Hoffman are remunerated by 1&1 Internet AG

Directors S Yeoman and A Burton are remunerated by Fasthosts Internet Limited

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 2012 and 31 December 2011

5. Staff costs

	2012	*2011*
	£'000	*£'000*
Wages and salaries	867	772
Social security costs	95	86
Other pension costs	22	19
	984	877

Included in wages and salaries is a total expense for share-based payments of £12k (2011 £Nil) All transactions are accounted for as equity settled transactions

Notes to the financial statements

at 31 December 2012

5. Staff costs (continued)

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

	2012	*2011*
	No	*No*
Billing	5	10
Marketing	14	9
Administration	3	4
	22	23

6. Interest receivable and similar income

	2012	*2011*
	£'000	*£ 000*
Group interest receivable	30	5
Bank deposit interest	25	8
	55	13

7. Tax

(a) Tax on profits on ordinary activities

The tax charge is made up as follows

	2012	*2011*
	£ 000	*£'000*
Current tax		
UK corporation tax on the profits for the year	538	1,304
Under/(over) provision in prior years	10	(1)
Total current tax (note 7(b))	548	1,303
Deferred tax (note 7(c))	3	1
Tax on profits on ordinary activities	551	1,304

Notes to the financial statements

at 31 December 2012

7. Tax (contınued)

(b) Factors affectıng current tax charge for the year

The tax assessed for the year dıffers from the standard rate of corporatıon tax ın the UK of 24 5% (2011 – 26 5%) The dıfferences are explaıned below

	2012	*2011*
	£'000	*£'000*
Profit on ordınary actıvıtıes before tax	2,197	4,911
Profits on ordınary actıvıtıes multıplıed by standard rate of corporatıon tax ın the UK of 24 5% (2011 – 26 5%)	538	1,301
Effects of		
Expenses not deductıble for tax purposes	1	1
Capıtal allowances ın excess of depreciatıon	1	2
Other tımıng dıfferences	1	-
Under/(over) provısıon	7	(1)
Total current tax (note 7(a))	548	1,303

(c) Deferred tax

The deferred tax ıncluded ın the balance sheet ıs as follows

	2012	*2011*
	£'000	*£ 000*
Included ın debtors (note 10)	13	16
Movement ın the year		
At the begınnıng of the year	16	17
Profit and loss account movement arısıng durıng the year (note 7(a))	(3)	(1)
At the end of the year	13	16
Deferred tax ıs analysed as follows		
Decelerated capıtal allowances	12	16
Other tımıng dıfferences	1	-
	13	16

Notes to the financial statements

at 31 December 2012

7. Tax (continued)

(c) Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date

The Finance Act 2012, which includes a reduction in the UK corporate tax rate to 24% from April 2012 and 23% from April 2013 has now been enacted and so UK deferred tax assets and liabilities have been calculated accordingly at 23%

The UK government intends to reduce the UK corporate income tax rate further, to 21% by 1 April 2014 and 20% by 1 April 2015, which will be enacted in subsequent Finance Bills Consequently, the Company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements The further reduction in tax rate will affect both the future current and deferred tax charge of the Company However, for indicative purposes only, the company has shown the effect of the proposed reduction in the corporate income tax rate for each year on the gross deferred tax balance as follows

31 December 2012 (substantively enacted tax rate = 20%)	£10,767
31 December 2013 (substantively enacted tax rate = 20%)	£10,767
31 December 2014 (substantively enacted tax rate = 20%)	£10,767

8. Dividends

	2012	*2011*
	£'000	*£'000*
Dividends declared and paid	-	4,000
	-	4,000

Notes to the financial statements

at 31 December 2012

9. Tangible fixed assets

	Plant and machinery £'000	*Fixtures and fittings £'000*	*Total £ 000*
Cost			
At 1 January 2012	236	131	367
Additions	3	73	76
At 31 December 2012	239	204	443
At 1 January 2012	232	128	360
Charge for the year	4	13	17
At 31 December 2012	236	141	377
Net book value			
At 31 December 2012	3	63	66
At 1 January 2012	4	3	7

10. Debtors

	2012 £'000	*2011 £'000*
Trade debtors	5,245	4,672
Amounts owed by group undertakings	3,962	2,112
Other debtors	120	90
Deferred tax asset (note 7(c))	13	16
Prepayments and accrued income	90	156
	9,430	7,046

11. Creditors amounts falling due within one year

	2012 £'000	*2011 £'000*
Trade creditors	62	390
Amounts owed to group undertakings	1,098	315
Corporation tax	11	67
Social security costs and other taxes	1,589	1,449
Accruals and deferred income	12,346	11,075
	15,106	13,296

12. Issued share capital

		2012		*2011*
Allotted, called up and fully paid	*No '000*	*£'000*	*No '000*	*£'000*
Ordinary shares of £1 each	50	50	50	50

Notes to the financial statements

at 31 December 2012

13. Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£'000	*£'000*	*£'000*
At 1 January 2011	50	486	536
Profit for the year	–	3,607	3,607
Dividend	–	(4,000)	(4,000)
At 1 January 2012	50	93	143
Profits for the year	-	1,646	1,646
Share based payments	-	(12)	(12)
At 31 December 2012	50	1,727	1,777

14. Pensions

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 yearend were £nil (2011 – £nil)

15. Other financial commitments

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2012	*2011*
	£'000	*£'000*
Operating leases which expire		
Within one year	-	90
In two to five years	284	–
	284	90

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

Notes to the financial statements

at 31 December 2012

17. Share based payment

The current employee stock ownership plan of the United Internet Group allows executives and managers to participate in the Company's long-term success on the basis of virtual stock options The plan is treated as equity-settled shared-based payment transactions

United Internet AG Virtual stock options

The employee stock ownership plans 2006 and 2009 employ virtual stock options (so-called Stock Appreciation Rights - SARs) SARs refer to the commitment of United Internet AG (or a subsidiary) to pay the beneficiary a cash amount equivalent to the difference between the share price on the date of granting the option (strike price) and the share price on exercising the option The exercise hurdle is 120% of the share price, which is calculated as the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange over the ten days preceding issuance of the option Payment of value growth to the entitled person is limited to 100% of the calculated share price

An SAR corresponds to a virtual subscription right for one share of United Internet AG However, it is not a share right and thus not a (genuine) option to acquire shares of United Internet AG United Internet AG retains the right, however, to fulfil its commitment (or the commitment of a subsidiary) to pay the SAR in cash by also transferring one United Internet AG share per SAR from its stock of treasury shares to the beneficiary, at its own discretion

In the case of stock-based remuneration plans which grant the parent Company the contractual choice of settling in cash or issuing equity instruments, the parent Company must determine whether there is a current cash settlement commitment and disclose the stock-based remuneration transaction correspondingly There is a current cash settlement commitment if the possibility to settle by means of equity instruments has no economic substance (e g because the parent Company is legally forbidden to issue shares), or cash settlement was common business practice or the declared parent Company guideline in the past, or the parent Company generally settles in cash if the beneficiary so desires

This transaction is carried in the balance sheet according to the regulations for stock-based remuneration plans with settlement via equity instruments

Up to 25% of the option right may be converted at the earliest 24 months after the date of issue of the option, up to 50% (i e including the previously exercised options) at the earliest 36 months after the date of issue of the option A total of up 75% may be exercised at the earliest 48 months after the date of issue of the option, the full amount may be exercised at the earliest 60 months after the date of issue of the option

United Internet AG granted the following numbers of options to employees of the Company

2009 14,000

2010 Nil

2011 Nil

2012 Nil

The expense recognised for share based payments in respect of employee services received during the year totalled £12k (2011 £Nil) All options are equity settled transactions

Notes to the financial statements

at 31 December 2012

17. Share based payment (continued)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year

	2012		2011	
	No	WAEP £	No.	WAEP £
Outstanding as at 1 January 2012	8,250	4 61	14,000	4 75
Granted during the year	-		-	-
Forfeited during the year	1,500	4 49	2,750	4 88
Exercised	2,750	4 45	3,000	4 79
Expired during the year	-	-	-	-
Outstanding at 31 December 2012	4,000	4 49	8,250	4 61
Exercisable at 31 December 2012	Nil			

For share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 15 months (2011 27 months)

Using an option pricing model on the basis of a binominal model in accordance with FRS 20, the fair value of options issued was calculated as follows

	Valuation parameters
Issue date	31 03 2009
Fair value	£15,339
Average market value per option	£1 16
Dividend yield	3 8%
Volatility of the share	57%
Expected term (years)	5
Risk-free interest rate	2 2%

Assumptions used in evaluating options

The anticipated maturities of conversion rights from convertible bonds and virtual stock options are based on historical data and do not necessarily correspond to the actual exercise behaviour of the beneficiaries Expected volatility is based on the assumption that historical volatility is an indicator of future trends Actual volatility can thus differ from the assumptions made