

FASTHOSTS INTERNET LIMITED

**Report and Financial Statements
31 December 2013**

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FASTHOSTS INTERNET LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

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FASTHOSTS INTERNET LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

F Einhellinger
R Hoffman
S Yeoman

REGISTERED OFFICE

Discovery House
154 Southgate Street
Gloucester
GL1 2EX

BANKERS

HSBC Bank Plc.
The Cross
Gloucester
GL1 2AP

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

STRATEGIC REPORT**Company Registration 03656438****PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activities of the company during the year remained the provision of web hosting, email hosting, dedicated/virtual servers and domain name registration services.

United Internet AG has conducted their own internal audits on Fasthosts Internet Limited, have found no major issues and continue to offer support to the company.

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

	2013	2012	Change
	£'000	£'000	%
Revenue	37,531	36,696	2.3%
Operating Profit	6,304	8,168	-22.8%

Revenue growth during the year under review has come principally from organic growth and shows a modest increase over the prior year. Significant cost savings were made over the year but operating profit has decreased due to the Directors' decision to impair the investment in Dollamore Limited.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £4,713k (2012: £7,453k). Dividends declared during the year were £3.76 per share totalling £5,000k (2012: £6,000k - £4.51 per share).

FUTURE DEVELOPMENTS

The company is in a strong financial position and is therefore well placed to focus on its core business operations and to further strengthen its position in the web hosting, email hosting, dedicated/virtual servers and domain name registration markets. The company will focus its principle business activities in the UK market and is expected to continue to improve its performance.

FINANCIAL RISK MANAGEMENT

The company's operations expose it to a variety of financial and business risks that include competitive risk, 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. The company's approach to the management of such risk is detailed below.

Competitive risk

The company operates in markets which are characterised by high levels of competition. The company faces competition from other web hosting, dedicated servers and domain name registration companies. There are many factors which contribute to the high levels of competitiveness including customer churn and the emergence of new competitors. The company aims to mitigate these risks by continually monitoring competitors and their offerings and responding appropriately in accordance with current strategy.

Liquidity risk

The company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

Interest rate risk

The directors do not consider the company to have any exposure to interest rate risks, as the company does not have any externally provided loans or debt finance on its balance sheet. The company does operate an overdraft from group at normal banking rates of interest. The company does not trade in interest rate derivatives.

STRATEGIC REPORT

Company Registration 03656438

FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange risk

The company is exposed to foreign exchange risk on purchases, inter-company loans and investments that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily U.S. Dollars and Euros. During the current and prior year, the company did not participate in any derivative or hedging contracts and any currency movements have been taken to the Profit and Loss account.

On Behalf of the Board

A handwritten signature in black ink, appearing to read 'S Yeoman', written in a cursive style.

S Yeoman
Director

Date: 16 May 2014

DIRECTORS REPORT

Company Registration 03656438

The directors present their report and the audited financial statements for the year ended 31 December 2013.

DIRECTORS OF THE COMPANY

The directors of the company who served during the year and subsequently are listed below:

F Einhellinger	Appointed 17 January 2014
R Hoffman	Appointed 1 February 2013
S Yeoman	Appointed 22 January 2013
A Burton	Resigned 30 June 2013
I Stephens	Resigned 13 December 2013
O Mauss	Resigned 11 February 2013

Those directors in office at the financial year end did not hold any beneficial interest in the issued share capital of the company at 31 December 2013.

As the company is a wholly owned subsidiary of a company incorporated outside the United Kingdom, in accordance with Companies Act 2006/170-181, directors' interests in shares of United Internet AG are not required to be disclosed.

Directors holding office during the year who were not remunerated by the company but who are also directors of other United Internet group companies are remunerated by 1&1 Internet AG.

The parent 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 section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

GOING CONCERN

The directors have reviewed the current economic and business environment and have prepared forecasts based on various financial projections. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis on preparing the annual report and accounts.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO 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 group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

RESEARCH AND DEVELOPMENT EXPENDITURE

The company operates an on-going programme of research and development. The total cost of research and development during the year ended 31 December 2013 was £1,609k (2012: £1,510k), and this has been charged to the Profit and Loss account as incurred.

AUDITORS

In accordance with Section 485 of the Companies Act 2006, 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



S Yeoman
Director

Date: 16 May 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 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 judgments and accounting 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 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 Fasthosts Internet Limited

We have audited the financial statements of Fasthosts Internet Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.



Jane Barwell (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP (Statutory Auditor)

Bristol

Date: 20 May 2014

FASTHOSTS INTERNET LIMITED**PROFIT AND LOSS ACCOUNT**
Year ended 31 December 2013

	Note	2013 £'000	2012 £'000
TURNOVER	2	37,531	36,696
Cost of sales		<u>(11,554)</u>	<u>(9,465)</u>
Gross profit		25,977	27,231
Administrative expenses		<u>(19,673)</u>	<u>(19,063)</u>
OPERATING PROFIT	3	6,304	8,168
Income from investments		-	1,000
Interest receivable	5	98	7
Interest payable	5	(27)	(44)
Other income	6	<u>1,030</u>	<u>247</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,405	9,378
Tax on profit on ordinary activities	7	<u>(2,692)</u>	<u>(1,925)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>4,713</u>	<u>7,453</u>

All activities derive from continuing operations.

There are no recognised gains or losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

FASTHOSTS INTERNET LIMITED**BALANCE SHEET****31 December 2013****Company Registration 03656438**

	Note	2013 £'000	2012 £'000
FIXED ASSETS			
Intangible assets	9	5	8
Tangible assets	10	4,534	4,838
Investments	11	4,684	7,456
		<u>9,223</u>	<u>12,302</u>
CURRENT ASSETS			
Debtors due within one year	12	15,502	7,569
Cash at bank and in hand		<u>1,578</u>	<u>3,801</u>
		<u>17,080</u>	<u>11,370</u>
CREDITORS: amounts falling due within one year	13	(20,013)	(17,042)
NET CURRENT LIABILITIES		<u>(2,933)</u>	<u>(5,672)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,290</u>	<u>6,630</u>
NET ASSETS		<u>6,290</u>	<u>6,630</u>
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Share premium account	15	890	890
Profit and loss account	15	5,400	5,740
EQUITY SHAREHOLDERS' FUNDS	16	<u>6,290</u>	<u>6,630</u>

These financial statements were approved by the Board of Directors on 16 May 2014

Signed on behalf of the Board of Directors



S Yeoman

Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES

Basis of preparation

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

Consolidated financial statements

The financial statements contain information about Fasthosts Internet Limited as an individual company and do not contain group financial statements. The company is exempt under section 400 of the Companies Act 2006 from preparing group financial statements on the basis that it is a wholly owned subsidiary of a parent group registered in Germany, for which group financial statements are prepared.

Going Concern

The directors have reviewed the current economic and business environment and have prepared forecasts based on various financial projections. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis on preparing the annual report and accounts.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Foreign currencies

Transactions in currencies other than the functional currency of the company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

Deferred income

Amounts billed in the year relating to services to be provided beyond the balance sheet date are carried forward as deferred income and released to the profit and loss account as the right to consideration is earned.

Intangible assets

Acquired trade names and registrations are recorded at cost. Amortisation is calculated to write off the cost of the assets in equal annual instalments over their useful economic life of 10 years.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of fixed assets is calculated to write off their cost less any residual value over their estimated useful lives, as follows:

Short-term leasehold improvements	Over the period of the lease
Fixtures and fittings	20% per annum
Computer equipment	33.3% per annum

Investments

Investments are shown at cost less provision for impairment.

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise based on current taxes and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (continued)

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period. Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Research and Development

Expenditure in the year is immediately charged against profit as incurred.

Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement in accordance with FRS 1 (Revised 1996); on the grounds that it is a wholly owned subsidiary undertaking. A cash flow statement is included in the consolidated financial statements of United Internet AG for the year ended 31 December 2013.

Pensions

The company operates a defined contribution pension scheme for certain salaried employees. The costs of contributions are accounted for as payments fall due.

Share-based payments

Some employees receive share-based payments as remuneration for their work in the form of equity instruments and the granting of value growth rights, which may be settled in cash or via equity instruments at the parent Company's discretion.

Equity settled transactions

The cost of granting equity instruments is measured using the fair value of such equity instruments on the date of granting. Fair value is measured using a suitable option price model. With the aid of the respective valuation process, the value component is determined at the time of granting, also for subsequent valuation until the end of the term. On every valuation date, however, the expected exercise volume is to be reassessed with a corresponding adjustment of the additional amount under consideration of additions already made. Any necessary adjustment bookings are to be made in the period in which new information about the exercise volume becomes available.

The measurement of cost from the granting of equity instruments and the corresponding increase in equity occurs over the period in which the vesting or performance conditions have to be satisfied (the so-called vesting period). This period ends after the vesting date, i.e. the date on which the employee concerned has gained irrevocable entitlement. The cumulative expense recognised on each balance sheet date for equity-settled transactions until the vesting date reflects the extent to which the vesting period has expired and the number of equity instruments which, according to the Group's best-possible estimate, will actually be vested after the vesting period. The income or expense recognised in the income statement represents the development of cumulative expense recognised at the beginning and end of the reporting period. No expense is recognised for payment rights which are not vested.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2013**2. TURNOVER AND SEGMENTAL ANALYSIS**

Turnover, which is stated net of value added tax, represents amounts invoiced to customers in respect of the principal continuing activity but matched to the time period the service is active and paid for.

An analysis of turnover by geographical market is given below:

	2013	2012
	£'000	£'000
United Kingdom	35,380	34,449
Rest of Europe	957	1,085
USA	181	167
Rest of World	1,013	995
	<u>37,531</u>	<u>36,696</u>

3. OPERATING PROFIT

	2013	2012
	£'000	£'000
Operating profit is stated after charging:		
Amortisation of intangible assets	3	3
Depreciation of tangible, owned assets	3,426	3,996
Impairment of investments (note 11)	2,772	-
Write-off of intercompany receivables	-	238
Rentals under operating leases:		
Land and buildings	225	225
Other	108	120
Research and development expenditure	1,609	1,510
Auditors' remuneration:		
Audit fees	37	41
Tax advice	5	9
Defined contribution pension cost	181	213
Share based payments (note 19)		
	<u> </u>	<u> </u>

4. STAFF COSTS

	2013	2012
	£'000	£'000
Staff costs during the year (including directors)		
Wages and salaries	7,300	7,221
Social security costs	816	802
Pension contributions	181	213
	<u>8,297</u>	<u>8,236</u>

Included in wages and salaries is a total expense for share-based payments of £53k (2012: £34k). All transactions are accounted for as equity settled transactions.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2013**4. STAFF COSTS (CONTINUED)**

	2013	2012
	£'000	£'000
Average number of persons employed		
Technical	99	110
Administration	78	66
Pension contributions	<u>177</u>	<u>176</u>
Directors' remuneration		
	2013	2012
	£'000	£'000
Fees	340	346
Other emoluments	325	111
Contributions to a defined contribution pension scheme	<u>25</u>	<u>34</u>
	<u>690</u>	<u>491</u>

The amount paid to the highest paid director is £312k (2012: £202k). Pension contributions for the highest paid director are £6k (2012: £28k). The highest paid director did not exercise any share options during the year (2012: £18k). Dr O Mauss, F Einhellinger and R Hoffmann are remunerated by 1&1 Internet AG.

	2013	2012
	No.	No.
Number of directors who are members of defined contribution pension scheme	<u>3</u>	<u>2</u>
Number of directors who exercised share options during the year	<u>1</u>	<u>1</u>

5. INTEREST PAYABLE AND RECEIVABLE

	2013	2012
	£'000	£'000
Interest receivable		
On bank deposits	<u>98</u>	<u>7</u>
Interest payable		
Group loan account interest	<u>27</u>	<u>44</u>

6. OTHER INCOME

	2013	2012
	£'000	£'000
Services provided to group companies	1,005	247
Other income	<u>25</u>	<u>-</u>
	<u>1,030</u>	<u>247</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2013**7. TAX ON PROFIT ON ORDINARY ACTIVITIES***(i) Analysis of tax charge on ordinary activities*

	2013	2012
	£'000	£'000
Current taxation		
UK corporation tax charge at 23.25% (2012: 24.5%) on the profit for the year	2,617	2,297
Prior year adjustment	130	(29)
Other timing differences	-	(8)
	<u>2,747</u>	<u>2,260</u>
Deferred taxation		
Timing differences, origination and reversal	(55)	(349)
Adjustment in respect of prior years	-	14
	<u>2,692</u>	<u>1,925</u>

(ii) Factors affecting tax charge for the current year

The tax charge for the current year is higher (2012: lower) than that resulting from applying the standard rate of corporation tax of 23.25% (2012: 24.5%) to the profit before tax. The differences are explained below:

	2013	2012
	£'000	£'000
Profit on ordinary activities before tax	<u>7,405</u>	<u>9,378</u>
Tax charge at 23.25% (2012: 24.5%) thereon:	1,722	2,297
Expenses not deductible for tax purposes	680	(242)
Group relief	-	(195)
Depreciation in excess of capital allowances	227	437
Adjustments in respect of previous periods	130	(29)
Non-taxable income	-	-
Depreciation on revenue items capitalised	-	-
Other timing differences	(12)	(8)
Current tax charge for the year	<u>2,747</u>	<u>2,260</u>

(iii) Deferred tax

The movement on the deferred tax asset is as follows:

	2013	2012
	£'000	£'000
Opening balance	1,066	730
Adjustments in respect of previous periods	(1)	(19)
Current year charge	56	355
Closing balance	<u>1,121</u>	<u>1,066</u>

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 December 2013****7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)***(iii) Deferred tax (continued)*

Deferred tax assets recognised in the financial statements are as follows:

	2013 £'000	2012 £'000
Depreciation in excess of capital allowances	1,116	1,061
Other timing differences	<u>5</u>	<u>5</u>
Deferred tax asset balance	<u>1,121</u>	<u>1,066</u>

(iv) Factors that may affect future tax charges

Announcements were made during the year by the Chancellor of the Exchequer of proposed changes to corporation tax rates which will have an effect on the future tax charge of the company. Reductions in the main rate of corporation tax from 23% to 21% from 1 April 2014, and 20% from 1 April 2015 were substantively enacted during the year. Consequently, deferred tax has been calculated at the year end using a tax rate of 20%.

8. DIVIDENDS

	2013 £'000	2012 £'000
Dividends declared and paid	<u>5,000</u>	<u>6,000</u>

In the year all dividends were declared and fully paid up.

9. INTANGIBLE FIXED ASSETS

	Acquired trade names And registrations £'000
Cost	
At 1 January and 31 December 2013	<u>54</u>
Accumulated amortisation	
At 1 January 2013	46
Charge for the year	3
Disposals	<u>-</u>
At 31 December 2013	<u>49</u>
Net book value	
At 31 December 2013	<u>5</u>
At 1 January 2013	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2013**10. TANGIBLE FIXED ASSETS**

	Short-term leasehold improvements £'000	Computer equipment £'000	Fixtures & fittings £'000	Total £'000
Cost				
At 1 January 2013	275	17,388	278	17,941
Additions	-	3,211	-	3,211
Disposals	(12)	(1,330)	(73)	(1,415)
At 31 December 2013	263	19,269	205	19,737
Accumulated depreciation				
At 1 January 2013	215	12,631	257	13,103
Charge for the year	29	3,387	10	3,426
Disposals	(12)	(1,241)	(73)	(1,326)
At 31 December 2013	232	14,777	194	15,203
Net book value				
At 31 December 2013	31	4,492	11	4,534
At 1 January 2013	60	4,757	21	4,838

11. INVESTMENTS

	Subsidiary undertakings £'000
Cost	
At 1 January and 31 December 2013	11,301
Amounts written off	
At 1 January 2013	3,845
Impairment charge	2,772
At 31 December 2013	6,617
Net book value	
At 31 December 2013	4,684
At 1 January 2013	7,456

During the year, the Directors considered it necessary to review the carrying value of one of its subsidiaries, Dollamore Limited. An impairment review was performed, and the recoverable amount was derived from discounted cash flow projections using a post-tax discount rate of 7.82%. Cash flows have been projected over ten years based on management's most recent business forecast. No further cash flows (including any terminal cash flow) have been taken into account.

Based on the review performed, the estimated future cashflows discounted to present values are less than the current carrying value; therefore an impairment of £2,772k has been charged in the current year.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 December 2013****11. INVESTMENTS (CONTINUED)**

Details of the direct investments in subsidiaries in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Country of incorporation	Proportion of voting rights and shares held	Nature of business
Dollamore Limited	Ordinary shares	UK	100%	Hosting services
Fasthosts Internet Inc.	Shares of common stock	US	100%	Dormant

12. DEBTORS

	2013 £'000	2012 £'000
Debtors due within one year		
Trade debtors	180	353
Intercompany loan	7,890	-
Prepayments and accrued income	4,688	5,658
Amounts owed by group undertakings	1,621	491
Deferred tax asset	1,121	1,066
Other debtors	2	1
	<u>15,502</u>	<u>7,569</u>

13. CREDITORS

	2013 £'000	2012 £'000
Creditors falling due within one year		
Trade creditors	1,075	1,206
Amounts owed to group undertakings	1,345	1,410
Other creditors including tax and social security	1,052	767
Accruals and deferred income	12,714	12,402
Intercompany loan	2,200	-
Corporation tax payable	1,627	1,257
	<u>20,013</u>	<u>17,042</u>

14. CALLED UP SHARE CAPITAL

	2013 £'000	2012 £'000
Called up, allotted and fully paid		
1,330,880 ordinary shares of 0.01p each	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2013**15. RESERVES**

	Share premium account £'000	Profit and loss account £'000
As at 1 January 2013	890	5,740
Profit for the year	-	4,713
Dividends declared and paid	-	(5,000)
Share based payments	-	(53)
As at 31 December 2013	<u>890</u>	<u>5,400</u>

16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2013 £'000	2012 £'000
Profit for the financial year	4,713	7,453
Dividends (note 7)	(5,000)	(6,000)
Share based payments (note 19)	(53)	(34)
Net (decrease)/increase to shareholders' funds	<u>(340)</u>	<u>1,419</u>
Opening shareholders' funds	6,630	5,211
Closing shareholders' funds	<u>6,290</u>	<u>6,630</u>

17. FINANCIAL COMMITMENTS**Operating lease commitments**

At 31 December 2013 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 2013 £'000	2012 £'000
Leases which expire:		
Within one year	-	202
Within two to five years	-	-
After more than five years	<u>225</u>	<u>23</u>

18. PENSIONS

The company operates a defined contribution pension plan and contributes to personal pension plans in respect of certain of its employees. Contributions are charged to the profit and loss account as they become payable. The unpaid contributions outstanding at the year end, included in 'Other creditors including tax and social security' are £Nil (2012 £Nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

19. 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 to 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 22,000

2010 20,000

2011 Nil

2012 Nil

2013 Nil

The expense recognised for share based payments in respect of employee services received during the year totalled £53k (2012: £34k).

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 December 2013****19. 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:

	2013		2012	
	No.	WAEP £	No.	WAEP £
Outstanding as at 1 January	21,500	7.78	37,000	7.23
Granted during the year	-	-	-	-
Forfeited during the year	11,500	9.04	4,500	4.45
Exercised	7,750	7.92	11,000	6.58
Expired during the year	-	-	-	-
Outstanding at 31 December	2,250	4.59	21,500	7.78
Exercisable at 31 December 2013	Nil			

For share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 15 months (2012: 22 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	29.03.2010
Fair value	£25,520	£39,800
Average market value per option	£1.16	£1.99
Dividend yield	3.8%	1.8%
Volatility of the share	57%	57%
Expected term (years)	5	5
Risk-free interest rate	2.2%	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.

20. FIXED AND FLOATING CHARGES

A fixed and floating charge exists over the undertaking and its property and assets, in respect of any monies due or which may become due to the company's merchant services account provider, HSBC plc. The company's ultimate parent, United Internet AG, has provided a Deed of Corporate Guarantee to HSBC plc in respect of the company's liabilities.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31 December 2013****21. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption under FRS 8 "Related Party Disclosures" from disclosing transactions with any other members of the group where 100% of the voting rights of the company are controlled within the group and the ultimate parent company publishes consolidated financial statements that are publicly available. During the year the company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 December 2013 are as follows:

	Purchases from £'000	Sales to £'000	Amounts owed to/(from) related parties £'000
Sedo GmbH	-	22	-
FAST	6	-	-
Cloud Industry Forum	2	-	-
	<u>8</u>	<u>22</u>	<u>-</u>

Mr Burton, who was a director of Fasthosts Internet Limited during the year, is also a director of Federation Against Software Theft Limited (FAST) and Cloud Industry Forum (CIF) both of which the Company is a subscribed member. Mr Burton does not have any equity beneficial interest in FAST or CIF. Mr Burton resigned as director 10 July 2013.

22. CONTROLLING PARTY

The ultimate parent undertaking and controlling party of the largest group of undertakings, for which group financial statements are prepared, is United Internet AG, a company incorporated in Germany. Copies of the financial statements of United Internet AG can be obtained from United Internet AG, Elgendorfer Strasse 57, D-56410 Montabaur, Germany.

The parent undertaking of the smallest group for which group financial statements are prepared, and of which Fasthosts Internet Limited is a member, is 1&1 Internet AG. Copies of the financial statements of 1&1 Internet AG are available from United Internet AG, Elgendorfer Strasse 57, D-56410 Montabaur, Germany.