Company Registration No. 3953678

1&1 Internet Limited

Report and Financial Statements

31 December 2015

Directors
C Bigata
R Hoffmann
S Yeoman

Auditors
Ernst & Young LLP
The Paragon
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Registered No. 3953678

Strategic Report

The directors present their report and financial statements of 1&1 Internet Limited ("the company") for the year ended 31 December 2015.

Results and dividends

The profit for the year after taxation amounted to £7,708k (2014 – £9,140k). Dividends were declared and paid during the year of £15,100k (2014 – £1,500k).

Principal activity and review of the business

The principal activities of the company during the year were that of website hosting, domain name registration, provision of servers and website development software, all of which remain principally unchanged from the prior year. The directors consider that the company has succeeded in securing its position in the UK and the company remains a major player in the UK web hosting market and holds a significant percentage of the market share.

During 2015 the company launched new cloud technologies which are expected to deliver significant growth during 2016. Wherever it makes good business sense the company will continue to develop products within the group by utilising self-developed software products, effective sales and marketing and active customer support.

Revenue fell by 0.9% in 2015 and the directors expect to maintain market position in 2016. Market researchers also predict continuing growth for the web hosting industry particularly in the shared and cloud hosting sectors.

Key performance indicators

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

	2015	*2014*
	£000	*£000*
Turnover	45,851	46,253
% Revenue (decrease)/growth per annum	(0.9)%	(0.5)%
Gross profit	13,036	13,364
Gross margin	28.43%	28.89%
Operating profit	1,701	1,677
Profits on ordinary activities before tax	1,831	1,850
Profit margin before tax	4.00%	4.00%

The gross profit margin decreased by 0.46% to 28.43%, and the profit margin before tax remained the same at 4.00%. Revenue decreased mainly due to the reduced investment in advertising campaigns during the year.

Future developments

The company is well positioned to further strengthen itself in the web hosting market and to continue to expand through innovative new cloud technologies. 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 highly competitive market conditions.

Strategic 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.

Simon Yeoman.

S Yeoman

Director
Date: 8 August 2016

Directors' Report

Directors

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

C Bigata
R Hoffmann
S Yeoman

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' 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.

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

Simon Yeoman.

S Yeoman

Director
Date: 8 August 2016

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 2015 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position and the related notes 1 to15. 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), including FRS102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland'.

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 strategic report and the directors' report 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland';
- 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 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
Bristol
Date: 11 August 2016

Statement of Income and Retained Earnings

for the year ended 31 December 2015

	Notes	*2015* *£'000*	*2014* *£'000*
Turnover	2	45,851	46,253
Cost of sales		(32,815)	(32,889)
Gross profit		13,036	13,364
Administrative expenses		(11,489)	(11,869)
Other operating income		154	182
Operating profit	3	1,701	1,677
Interest receivable and similar income	6	130	173
Profit on ordinary activities before taxation		1,831	1,850
Tax	7	5,877	7,290
Profit for the financial year		7,708	9,140
Retained earnings as at 1 January		8,083	443
Dividends declared and paid during the year		(15,100)	(1,500)
Retained earnings as at 31 December		691	8,083

All amounts derive from continuing operations. There are no items of other comprehensive income for the current or previous financial years.

Statement of Financial Position

at 31 December 2015 **Registered No. 3953678**

	Notes	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	9	146	28
Current assets			
Debtors	10	16,463	32,676
Cash at bank		12,944	2,799
		29,407	35,475
Creditors: amounts falling due within one year	11	(28,862)	(27,420)
Net current assets		545	8,055
Total assets less current liabilities		691	8,083
Capital and reserves			
Called up share capital	12	50	50
Profit and loss account		641	8,033
Shareholders' funds		691	8,083

These financial statements were approved by the Board of Directors on 8 August 2016.

Signed on behalf of the Board of Directors

S Yeoman

Director

Notes to the financial statements

at 31 December 2015

1. Accounting policies

Basis of preparation and Statement of Compliance

The financial statements have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) with certain exemptions of the reduced framework applied as detailed below. The company transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2014. The transition to FRS 102 has required no restatement of prior year amounts in order to correct errors or adjust values, so no reconciliation statements have been prepared. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

Exemptions

The company is exempt under section 1 of FRS 102 from the requirement to prepare a cash flow statement on the basis that it is a wholly owned subsidiary of a parent company (1&1 Internet SE) whose financial statements include the company's cash flows in its own published consolidated financial statements.

The company is a qualifying entity and has also taken advantage of the financial instrument disclosures exemption, the exemption from disclosing transactions entered into with 100% owned group companies and the exemption from disclosing key management compensation (other than directors' emoluments) under section 1.12 of FRS 102.

Key estimates and judgements

The preparation of the financial statements in conformity with generally accepted accounting principles requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results in the future could differ from those estimates.

Depreciation and residual values

The Directors have reviewed the asset lives and associated residual values of all fixed asset classes and have concluded that asset lives and residual values are appropriate

Group financial statements

The company is a wholly owned subsidiary of 1&1 Internet SE and is included in the group financial statements of United Internet AG, the ultimate parent undertaking, which are publicly available.

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.

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, as the right to consideration is earned.

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.

Notes to the financial statements

at 31 December 2015

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. Gains and losses arising on retranslation of monetary assets and liabilities are included in the income statement.

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 to 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, but matched to the period the service is active and paid for. All turnover is derived from the United Kingdom.

3. Operating profit

This is stated after charging/(crediting):

	2015	*2014*
	£'000	*£'000*
Auditor's remuneration:		
Audit Fees	49	32
Tax Advice	19	4
Depreciation of owned fixed assets	26	19
Operating lease rentals – land and buildings	40	60
Net (profit)/loss on foreign exchange translations	(589)	1,394

Notes to the financial statements

at 31 December 2015

4. Directors' remuneration

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

Directors C Bigata and R Hoffman are remunerated by 1&1 Internet SE;

Director S Yeoman is 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 2015 and 31 December 2014.

5. Staff costs

	2015	*2014*
	£'000	*£'000*
Wages and salaries	1,223	958
Social security costs	117	103
Other pension costs	23	24
	1,363	1,085

Included in wages and salaries is a total expense for share-based payments of £nil (2014: £9k). All transactions are accounted for as equity settled transactions.

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

	2015	*2014*
	No.	*No.*
Billing & customer service	23	5
Marketing	9	14
Administration	1	2
	33	21

6. Interest receivable and similar income

	2015	*2014*
	£'000	*£'000*
Group interest receivable	120	167
Bank deposit interest	10	6
	130	173

Notes to the financial statements

at 31 December 2015

7. Tax

(a) Tax on profits on ordinary activities

The tax charge is made up as follows:

	2015 £'000	2014 £'000
Current tax:		
UK corporation tax on the profits for the year	384	402
Prior year tax refund	(6,254)	(7,690)
Total current tax (note 7(b))	(5,870)	(7,288)
Deferred tax: (note 7(c))	(7)	(2)
Tax for the year	(5,877)	(7,290)

(b) Factors affecting total tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20.25% (2014 – 21.5%). The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before tax	1,831	1,850
Profits on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 – 21.5%)	371	397
Effects of:		
Expenses not deductible for tax purposes	5	4
Capital allowances in excess of depreciation	-	(2)
Other timing differences	(1)	1
Tax rate changes	2	-
Prior year tax refund	(6,254)	(7,690)
Total tax (note 7(a))	(5,877)	(7,290)

Notes to the financial statements

at 31 December 2015

7. Tax (continued)

(c) Deferred tax

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

	2015 *£'000*	*2014* *£'000*
Included in debtors (note 10)	19	12
Movement in the year:		
At the beginning of the year	12	10
Profit and loss account movement arising during the year	(1)	2
Adjustment in respect of prior years	8	-
At the end of the year	19	12
Deferred tax is analysed as follows:		
Decelerated capital allowances	5	9
Other timing differences	14	3
	19	12

(d) 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 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020 were substantively enacted on 26 October 2015. Further reductions in the UK corporation tax rate to 17% from 1 April 2020 have been announced, but have not been substantively enacted.

8. Dividends

	2015 *£'000*	*2014* *£'000*
Dividends declared and paid	15,100	1,500

Notes to the financial statements

at 31 December 2015

9. Tangible fixed assets

	Leasehold improvements *£'000*	*Plant and machinery* *£'000*	*Fixtures and fittings* *£'000*	*Total* *£'000*
Cost:				
At 1 January 2015	-	239	204	443
Additions	28	88	40	156
Disposals	-	(221)	(192)	(413)
At 31 December 2015	28	106	52	186
Accumulated depreciation:				
At 1 January 2015	-	238	177	415
Charge for the year	3	6	17	26
Disposals	-	(221)	(180)	(401)
At 31 December 2015	3	23	14	40
Net book value:				
At 31 December 2015	25	83	38	146
At 1 January 2015	-	1	27	28

10. Debtors

	2015 *£'000*	*2014* *£'000*
Trade debtors	3,984	2,489
Amounts owed by group undertakings	12,398	22,088
Other debtors	-	11
Deferred tax asset (note 7(c))	19	12
Prepayments and accrued income	62	158
Corporation tax	-	7,918
	16,463	32,676

11. Creditors: amounts falling due within one year

	2015 *£'000*	*2014* *£'000*
Trade creditors	136	865
Amounts owed to group undertakings	13,626	12,368
Corporation tax	198	-
Social security costs and other taxes	1,128	1,334
Accruals and deferred income	13,774	12,853
	28,862	27,420

Notes to the financial statements

at 31 December 2015

12. Issued share capital

Allotted, called up and fully paid	*No. '000*	*2015* *£'000*	*No. '000*	*2014* *£'000*
Ordinary shares of £1 each	50	50	50	50

13. Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged to the income statement. The outstanding contributions at the year end were £nil (2014 – £nil).

14. Operating lease commitments

At 31 December 2015 the company was committed to making the following payments in respect of operating leases:

	Land and buildings *2015* *£'000*
Due within one year	70
Due between two and five years	245
Due beyond five years	-

15. 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 SE, which is a subsidiary undertaking of United Internet AG, the ultimate parent, which is the largest group into which the company is consolidated.

1&1 Internet SE is incorporated in Germany. A copy of the financial statements of the parent can be obtained from Elgendorfer Strabe 57, 56410 Montabaur, Germany.