Financial Report
of the
1st 9 Months 1998

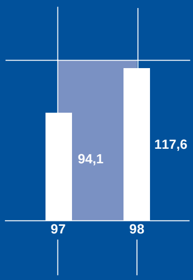
1&1

1 & 1 GROUP – KEY FIGURES

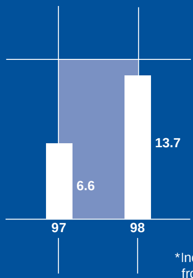
		1997 Jan – Sept	1998 Jan – Sept	Change in %
Sales	DM million	94.1	117.6	25.0
– Marketing services		82.9	111.6	34.6
thereof sales of goods		22.0	19.2	– 12.7
– Internet services		11.2	6.0	– 46.4
thereof advertising cost contributions		6.8	0.0	– 100.0
Income from operations without results from minority participations	DM million	6.6	13.7	107.6
thereof marketing services		7.7	16.9	119.5
thereof Internet services		– 1.1	– 3.2	190.9
Results from financial assets		0	– 0.6	
Income before income tax expense	DM million	6.6	7.2	9.1
Cash flow	DM million	23.8	7.0	– 70.6
DVFA result per share*	DM million	0.61	0.93	52.5

* The tax assessment is based on a relation between dividend payments and retained income of 50 percent.

Sales Jan – Sept
(in DM million)



Income from operations
Jan – Sept (in DM million)



*Income from operations without results from minority participations

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Market development

The markets of the 1&1 Group were characterised by an overall positive development in the first nine months of 1998. In addition to a significant growth in online accounts, PC sales and the mobile telephone sector, the Internet marketing sector predominates.

This confirms the course already announced in the interim report for the first half of 1998 which is to increase the investments in our Internet Services segment and to further develop our market position with our own innovative products and services. The good progress of the overall market for IT and telecommunications also reflects our company's growth.

Development of the 1&1 Group

The 1&1 Group made encouraging progress again in the third quarter of 1998. Group turnover in the first nine months of 1998 was up by 25.0 percent at DM 117.6 million compared with the corresponding period last year.

Growth was led by our Marketing Programmes segment again in the first nine months of 1998. Turnover rose significantly from DM 82.9 to DM 111.6 million. Income from operations improved extraordinarily by 119.5 percent to DM 16.9 million.

In our second business area, Internet Services, which is currently in its initial stage, turnover grew from DM 3.6 million in the first half of 1998 to a total of DM 6.0 million. In comparison to this, turnover for the corresponding period last year amounted to DM 11.2 million. However, this figure includes advertising cost contributions of DM 6.8 million deriving from a contract which has expired since. After adjustment for these contributions, we raised our turnover by 36.4 percent. The result from operations in the Internet Services segment amounted to DM -3.2 million in the first 9 months of 1998, compared to DM -1.1 million in the previous year. This is within the scope of our expectations. As planned, we dissolved a deferred income position of DM 5.3 million (previous year: DM 3.3 million). So far, start-up costs in the Internet Services segment are at DM 8.5 million and are also in accordance with the planned figures.

For the 1&1 Group as a whole, income from operations without results from minority participations climbed extraordinarily by 107.6 percent to DM 13.7 million in the first nine months of 1998. After deduction of the one-time costs of DM 5.9 million in connection with our initial public offer and under consideration of the results from minority participations, profit before tax grew in the first nine months by 9.1 percent to DM 7.2 million. Earnings per share according to DVFA rose by 52.5 percent to DM 0.93.

In contrast to the figures for the corresponding period last year, which include 1&1 Holding GmbH, the nine-monthly figures for 1998 are based on 1&1 Aktiengesellschaft & Co. KGaA. Possible effects of the merger of 1&1 Holding GmbH with 1&1 Aktiengesellschaft & Co. KGaA have not yet been taken into account.

Investments

A total of DM 15.2 million was invested in the first nine months of 1998. The major focus of investment was our establishment centre in the Multimedia-Internet-Park Zweibrücken. The greater part of this is compensated by a non-repayable subsidy from the State of Rheinland-Pfalz.

Employees

Headcount grew in the first nine months of 1998 to 856, compared with 666 as of end of September 1997. At the end of June 1998, the number of staff employed within 1&1 Group was 819. In the nine-monthly comparison, the number of full-time staff grew from 463 to 608. The number of part-time employees amounted to 248 as of end of September, compared to 203 in the previous year.

Cash flow development

In the first nine months, cash flow according to US-GAAP amounted to DM 7.0 million. This includes the one-time costs of the initial public offer in March. The comparative figures for the previous year contain a one-time special payment of DM 15 million. Considering the adjusted operative business, a cash flow of DM 8.8 million results for the first nine months of 1997 compared with DM 12.7 million for the first nine months of 1998. The participation in NT plus Riedlbauer GmbH and the financial provision of 1&1 Beteiligungen GmbH & Co. KG are reflected in the financial assets with an item of DM 37.4 million.

Marketing Services segment

In the previous quarter we took the first step towards our expansion into Europe. Our Call Centre specialising in the IT and telecommunications industry opened a branch in Maastricht, The Netherlands, at the end of September. There, hotline services are performed for a major software manufacturer. In addition, the implementation of a consumer hotline in French, Flemish and Dutch from the Maastricht location is intended by means of an extension of contract entered with Compaq in September. At the same time, the co-operation in the German-speaking area was extended.

The product WebSite-Promotion, which was launched at the end of the second quarter, is also starting up successfully. With this marketing tool offering specially synchronised services 1&1 draws the Internet users to its customers' web sites and thus assists the participating companies to use the online medium as a marketing and sales channel.

Our marketing of T-Online did not develop as planned in the third quarter. On the one hand, Deutsche Telekom increasingly puts its own efforts into the marketing of T-Online, which lead to competition in the sales channels. On the other hand, the new terms of the marketing contract valid as of 1 July 1998 are taking effect. The decrease in new customers and the lower premium revenues lead to the fact that we have not accomplished the planned figures in this field.

■ Value Added Internet Applications segment

Our new Internet offer 1&1 Internet.*profi*, which offers the attractive flat fee of DM 1 per day as well as a range of additional professional features, was launched with great success. At the same time, we were able to gain new co-operation partners for our Internet access Internet.*plus*, including also the specialised mail order house Westfalia and Nassauische Sparkasse. Presently, about 10,000 new customers decide in favour of our Internet offers every month.

Our Internet advertising network 1&1 AdLINK also made encouraging progress. By entering new marketing contracts, for example with SAT.1 or wallstreet-online, 1&1 AdLINK was able to increase the number of page impressions significantly and could thus further strengthen its position as one of the leading Internet advertising networks.

■ Participations in young, innovative Internet companies

In this nine-monthly report the effects of the participations subscribed in the third quarter have been taken into account for the first time. The DM 0.6 million include goodwill depreciation and prorated transfers of profits and losses. The effects of this segment on the result as of the end of the year are not accounted for in our result forecasts.

In the third quarter we have continued our participation strategy in the Internet Services segment. At the beginning of August we subscribed to a 50 % participation in the e-mail and messaging service GMX. For 1&1, this offers a host of possibilities to integrate messaging services into products of our Internet Services and to use synergies with other participations. GMX is reputed to be the leading German e-mail service on the Internet (www.gmx.net) and shows a rapid growth of members. More than 350,000 members already use the manifold e-mail services which are mainly free of charge. By the middle of next year, GMX intends to surpass the record of one million members.

Furthermore, we have participated in two further innovative companies in the Internet area. city.guide.1 GmbH, with 1&1 holding 49 percent, plans regional Internet services in congested urban areas and cities of more than 300,000 inhabitants.

AgroLogic AG, where we have a participation of 32 percent, intends to prepare the agricultural industry for the next millennium with state-of-the-art information and communication technology.

1&1 was very pleased to subscribe a 66 percent participation in Schlund + Partner AG on 28 October 1998. The company with more than 10,000 customers is considered as a leading German provider of company presentations on the Internet. Originally, the participation in Schlund + Partner was planned in August retroactively as of 1 January 1998.

1&1 Beteiligungen GmbH & Co. KG intends to enter further participations in young, innovative companies in the Internet environment also in the fourth quarter.

■ Outlook

Our major objective is the extension of the Internet Services segment. Special attention is given to the development and marketing of our own innovative products and services in the Internet segment. These include, among others, new products such as domain services, web hosting and bundles of Internet access with required hardware (PC), which we will launch in the fourth quarter. Furthermore, special importance is given to further participations in young, innovative Internet companies with regard to the further development of our Internet Services segment.

For the remaining three months of the year we assume a further season-related stimulation of business. At the same time, our new Internet products will cause considerable start-up costs. Despite our increased engagement in the Internet Services segment and the deterioration in performance with regard to the gaining of new customers for T-Online we expect to achieve the planned profit for the year.

Consolidated profit and loss account according to US GAAP as of 30st September 1997 and 1998		1997 Jan – Sept	1998 Jan – Sept	Change in %
Net sales	DM	94,114,207	117,550,678	24.9
Cost of Sales	DM	– 84,492,878	– 102,287,565	21.1
Gross Margin	**DM**	**9,621,329**	**15,263,113**	**58.6**
Selling General and administrative expenses	DM	– 6,943,396	– 8,721,867	25.6
Other operating income/expense	DM	4,454,165	7,631,283	71.3
Results from financial assets	DM	0	– 634,006	
Operating income	**DM**	**7,132,098**	**13,538,523**	**89.8**
Interest expense	DM	– 744,320	– 1,234,260	65.8
Interest income	DM	251,092	725,240	188.8
Income from operations	**DM**	**6,638,870**	**13,029,503**	**96.3**
Extraordinary expenses	DM	0	– 5,793,479	
Income from continuing operations before income tax expense	**DM**	**6,638,870**	**7,236,024**	**9.0**
Income tax expense	DM	– 2,788,250	– 3,671,969	31.7
Net income	**DM**	**3,850,620**	**3,564,055**	**– 7.4**

* The tax assessment is based on a relation between dividend payments and retained income of 50 percent.

Consolidated Cash flow statements according to US GAAP as of 30st September 1997 and 1998	1997	1998	Change
Cash flows from operating activities			
Net income	3,850,620	3,564,055	(-286,565)
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	3,268,730	4,311,607	1,042,877
Distributed earnings of affiliate		332,016	332,016
Changes in assets/liabilities			
(Increase)/decrease in own shares	0	1,000,000	1,000,000
(Increase)/decrease in accounts receivable	16,617,172	2,070,206	(–14,546,966)
(Increase)/decrease in other receivables	117,125	1,228,920	1,111,795
(Increase)/decrease in inventory	2,570,317	(–2,868,322)	(–5,438,639)
(Increase)/decrease in prepaid expenses	58,977	(–319,764)	(–378,741)
Increase/(decrease) in accounts payable	(–8,772,390)	4,752,661	13,525,051
Increase/(decrease) in advanced payments	(–4,362,631)	(– 4,774,931)	(–412,300)
Increase in other accrued liabilities	499,827	1,405,380	905,533
Increase/(decrease) in accrued taxes	28,214	(–2,816,197)	(–2,854,411
Increase/(decrease) in other accounts payable	(–1,796,089)	1,052,348	2,848,437
Increase/(decrease) in defered liabilities	11,696,247	(–1,982,090)	(–13,678,337)
Total adjustment:	19,926,499	3,391,834)	(–16,534,665)
Net cash provided by (used in) operating activities	**23,777,119**	**6,955,889**	**(–16,821,230)**
Cash flow from investments			
Capital expenditure	(–3,205,022)	(–15,270,614)	(–12,065,592)
Disposals of fixed assets	306,058	335,936	29,878
(Increase)/decrease of financial assets	0	(–37,404,151)	(–37,404,151)
Net cash provided by (used in) investing activities	**(–2,898,964)**	**(–52,338,829)**	**(–49,439,865)**
Cash flow from financing activities			
Loans to shareholders	(–1,032,883)	0	1,032,883
Capital contribution	1,940,305	32,029,487	30,089,182
(Increase)/decrease in loans	(–2,285,188)	(–1,509,083)	776,105
Dividends paid	(-2,100,000)	(-3,920,000)	(-1,820,000)
Subsidies received	0	3,820,170	3,820,170
(Repayment)/Borrowings (to) from banks	(–20,922,943)	12,518,953	33,441,896
Net cash provided by (used in) financing activities	**(–24,400,709)**	**42,939,527**	**67,340,236**
Net increase (net decrease) of cash and bank balances	(–3,522,554)	(–2,443,413)	1,079,141
Cash and bank balances at beginning of 1st quarter	3,897,158	2,778,473	(–1,118,685)
Cash and bank balances at end of 3rd quarter	374,604	335,060	(–39,544)

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