



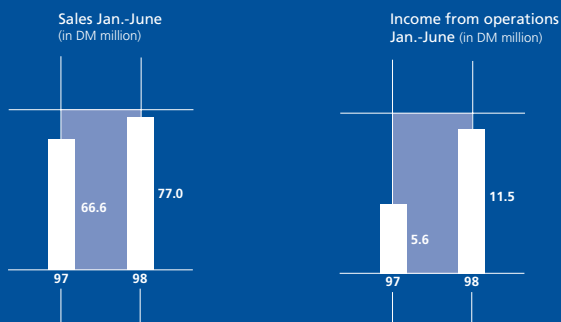
Financial Report  
of the  
1st Six Month 1998



## 1 & 1 GROUP – KEY FIGURES

		1997 Jan.–June	1998 Jan.–June	Change in %
Sales	DM million	66.6	77.0	15.6
– Marketing services		58.4	73.4	25.7
thereof sales of goods		15.3	12.3	– 19.6
– Internet services		8.2	3.6	– 56.1
thereof advertising cost contributions		5.3	0.0	– 100.0
Income from operations	DM million	5.6	11.5	105.4
thereof marketing services		5.7	13.3	133.3
thereof Internet services		– 0.1	– 1.8	– 1.700
Income before income tax expense	DM million	5.6	5.7	1.8
Cash flow	DM million	24.4	3.7	– 84.9
DVFA result per share	DM	0.52	0.92	76.9

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



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## ■ Market development

The markets of the 1&1 Group were characterised in the first half of 1998 by unrestricted growth. Particularly the Internet segment demonstrated high growth rates: whereas 6.5 million Internet subscribers were registered in Germany in the first half year, a Forsa study indicates that 3 million new online connections will be made by the end of the year. The trends in mobile telephones, E-commerce and PC-sales also have a definite upwards tendency.

This development of the market confirms the course previously set by the 1&1 Group: in the marketing programme group, 1&1 is growing through the extension of the target groups, new products and by new marketing channels. The Internet value added applications sector will be extended successively by our investments in this rapidly growing and innovative future market.

## ■ Development of the 1&1 Group

The pleasing development of business in the 1st quarter of 1998 continues in the 2nd quarter. The turnover of the concern in the first half of 1998 increased in comparison with the same period of the previous year by 15.6 percent to 77.0 million DM.

Our most important business sector of Marketing Services was also a significant source of growth in the first half of 1998. The turnover increased significantly from 58.4 to 73.4 million DM. Excepting commodity turnover which, as planned, was further reduced, the turnover increased by 41.8 percent from 43.1 to 61.1 million DM. The result of normal business activities improved overproportionally by 133.3 percent from 5.7 million DM to 13.3 million DM. The results and turnover of our participation in NT plus are not included in these figures.

In our second business segment of Internet Services, which is currently in its initial stages, the turnover increased from 1.5 million DM in the first quarter by 2.1 million DM to a total of 3.6 million DM. In comparison with this, the turnover in the same period of the previous year was around 8.2 million DM. However, this turnover income included advertising cost payments of 5.3 million DM which derived from a contract which has since expired. Taking this into account, the turnover increased by 24.1 percent in comparison with the first half of 1997. The before-tax profits reached -1.8 million DM in comparison with -0.1 million DM in the same period of the previous year and thereby lies within the scope of our planning. As planned, a passive account limitation item of 3.6 million DM (2.2 in the pre-

vious year) was dissolved. The accumulated starting costs in the Internet value added applications sector amount to 5.4 million DM and also lie within the planned figures. The turnover and results of our participation in young Internet companies are not taken into account in these figures.

Throughout the 1&1 Group, the results of normal business activities grew overproportionally in the first half of 1998 by 105.4 percent in relation to the turnover to 11.5 million DM. The before-tax profits were increased in the first half year by 1.8 percent to 5.7 million DM. These results already take account of the one-time cost of the stock flotation to the tune of 5.8 million DM. The DVFA profits per share grew by 76.9 percent to 0.92 DM.

In contrast with comparative data from the first half of 1997, which include the 1&1 Holding GmbH, the six-monthly figures for 1998 are based on the 1&1 Aktiengesellschaft & Co. KGaA. Any effects of the fusion of the 1&1 Holding GmbH on the 1&1 Aktiengesellschaft & Co. KGaA are not taken into account.

## ■ Investments

In the first half of 1998, we invested a total of 8.8 million DM. The focus of this was our establishment centre in the Multimedia-Internet Park at Zweibrücken. However, the greater part of this is compensated by the lost subsidy from the State of Rheinland-Pfalz.

## ■ Employees

A strong growth was registered in our personnel. At the end of June, 819 employees were occupied by the 1&1 Group in comparison with 591 employees at the end of June 1997. At the end of the 1st quarter of 1998, 1&1 counted 776 employees. The number of full-time employees grew in the comparison of the two half years from 415 to 576 employees. In the 1st quarter of 1998, 525 full-time employees were occupied in the 1&1 Group. In the comparison of the two half years, the number of part-time employees grew from 176 to 243.

## ■ Cash flow development

In the first half of 1998, the cash flow according to the US GAAP amounted to 3.7 million DM. This includes the one-time IPO costs of the stock flotation in March. The cash flow of the compared half year of 1997 contains a one-time special payment of 15 million DM. In the evaluation of the consolidated operative business, a cash flow of 9.4 million DM results for the first

half of 1997 compared with 9.5 million DM in the first half of 1998. The cash flow of the investments contains 29.3 million DM for the participation in NT plus entered by 1&1 and for the financial provision of 1&1 Beteiligungen GmbH & Co. KG.

### ■ Marketing Services segment

The Marketing Services segment sustained the excellent development of business in the first half of 1998. This applied both to the direct sales segment of electronic subscriptions and our business sector affinity programmes and to our call centre specialising in the IT and telecommunications industry. It was possible to further improve the turnover and profit situation by the extension of the existing business and new blocks in our customer care concept such as telesales and customer satisfaction services. In direct sales, particularly the segment of mobile telephones could be extended with high growth rates.

Our new product WebSite-Promotion was launched with great success. With this novel marketing tool and specially accommodated services, 1&1 guides the Internet user directly to the website of his customer and thereby helps the participating companies to use the online medium as a marketing and sales channel.

With the participation in the telecommunications distributor NT plus (41 %) in June 1998, 1&1 has supplemented its previous sales routes of direct sales and partner sales with the specialist retailer sector. 1&1 and NT plus will market a total of around 500,000 electronic subscriptions this year. Of these, approximately 100,000 will fall to the mobile telephone sector, approx. 100,000 to cable network connections (ISDN) and around 300,000 to the Internet sector.

### ■ Internet Services sector

Apart from our existing co-operation partner Bank 24, we were able to gain a series of new partners for our Internet access point Internet.*plus*, which now counts 50,000 customers. Our Internet advertising network AdLINK has also further strengthened its position. With a series of new marketing contracts in the sector of search machines, business and general interest, 1&1 AdLINK was able to sharply increase the number of page impressions.

### ■ Participation in young, innovative Internet companies

In the first half year, we began to implement our participation strategy step by step. In March, the

Played Network OGS GmbH was founded to operate a German language online game service in the Internet. Apart from 1&1, the Neue Medien Gesellschaft Ulm and the WEKA-group have participated.

With our participation (37 percent) in the Internet job market Jobs & Adverts, we have opened up one of the most attractive segments of the Internet. With around 6,600 vacant situations and 5,000 job applications, Jobs & Adverts is the leading private German job market in the Internet and is one of the few services in the Internet which operated profitably. By the end of the year, Jobs & Adverts intends to achieve a leading position in Europe.

Our participation in the FUN Kommunikations-systeme GmbH (33.33 percent), which is engaged in the development of special software solutions for online systems such as access software or electronic payment, has already existed for several years.

The 1&1 Beteiligungen GmbH & Co. KG is currently engaged in a series of further promising discussions regarding possible participations. The objective is to enter further participation in young, innovative companies in the Internet sector in the second half of 1998.

### ■ Outlook

One of our major objectives is a further strengthening of the Internet Services segment. After the successful placement of our Internet service Internet.*plus* on the market, we intend to develop further Internet services.

In the extension of our Internet business sector, particular significance is accorded to the very promising activities of the 1&1 Beteiligungen GmbH & Co. KG. We particularly stress the successful co-operation and optimum utilisation of synergy effects in marketing and sales between the 1&1 companies and the associated companies.

We assume a continued very good development of business and a course of the 2nd half year within our planning. In the Marketing Services sector, we will extend our sales outlets and activate new channels. In the Internet Services segment, we will invest in new products as well as continuing our participation strategy. The high start-up costs incurred by this are taken into account in our annual plan and we will easily be able to attain our results.

<b>Consolidated profit and loss account according to US GAAP as of 30st June 1997 and 1998</b>		1997 Jan. – June	1998 Jan. – June	Change in %
Net sales	DM	66,585,066	77,030,434	15.7
Cost of Sales	DM	– 61,258,615	– 67,832,803	10.7
<b>Gross Margin</b>	<b>DM</b>	<b>5,326,451</b>	<b>9,197,631</b>	<b>72.7</b>
Selling General and administrative expenses	DM	– 2,436,821	– 2,078,274	– 14.7
Other operating income/expense	DM	3,045,144	4,718,726	55.0
<b>Operating income</b>	<b>DM</b>	<b>5,934,774</b>	<b>11,838,083</b>	<b>99.5</b>
Interest expense	DM	– 463,495	– 700,380	51.1
Interest income	DM	107,406	376,607	250.6
<b>Income from operations</b>	<b>DM</b>	<b>5,578,685</b>	<b>11,514,310</b>	<b>106.4</b>
Extraordinary expenses	DM	0	– 5,793,000	
<b>Income from continuing operations before income tax expense</b>	<b>DM</b>	<b>5,578,685</b>	<b>5,721,310</b>	<b>2.6</b>
Income tax expense	DM	– 2,343,048	– 2,669,427	13.9
<b>Net income</b>	<b>DM</b>	<b>3,235,637</b>	<b>3,051,883</b>	<b>-5.7</b>

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

<b>Consolidated Cash flow statements according to US GAAP as of 30st June 1997 and 1998</b>	<b>1997</b>	<b>1998</b>	<b>Change</b>
<b>Cash flows from operating activities</b>			
Net income	3,235,637	3,051,883	(-183,751)
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Depreciation and amortization	1,903,683	2,736,736	883,053
Distributed earnings of affiliate		332,016	332,016
<b>Changes in assets/liabilities</b>			
(Increase)/decrease in own shares	0	1,000,000	1,000,000
(Increase)/decrease in accounts receivable	12,597,242	12,263,028	(-334,214)
(Increase)/decrease in other receivables	357,801	(-1,292,711)	(-1,650,512)
(Increase)/decrease in inventory	1,966,465	(-3,305,578)	(-5,272,043)
(Increase)/decrease in prepaid expenses	166,156	802,491	636,335
Increase/(decrease) in accounts payable	(-9,216,346)	(-1,114,482)	8,101,864
Increase/(decrease) in advanced payments	(-4,362,631)	(-4,923,636)	(-561,005)
Increase in other accrued liabilities	(-905,706)	1,016,650	1,922,356
Increase/(decrease) in accrued taxes	2,204,062	458,173	(-1,745,889)
Increase/(decrease) in other accounts payable	3,611,059	(-3,733,340)	(-1,122,281)
Increase/(decrease) in deferred liabilities	12,796,247	(-3,619,430)	(-16,415,677)
Total adjustment:	21,118,031	(-619,916)	(-20,498,115)
<b>Net cash provided by (used in) operating activities</b>	<b>24,353,669</b>	<b>(3,671,799)</b>	<b>(-20,681,866)</b>
<b>Cash flow from investments</b>			
Capital expenditure	(-2,159,545)	(-8,809,186)	(-6,649,641)
Disposals of fixed assets	306,058	245,293	(-60,765)
(Increase)/decrease der Finanzanlagen	0	(-29,788,178)	(-29,788,178)
<b>Net cash provided by (used in) investing activities</b>	<b>(-1,853,487)</b>	<b>(-8,352,071)</b>	<b>(-36,498,584)</b>
<b>Cash flow from financing activities</b>			
Loans to shareholders	(-1,032,883)	0	1,032,883
Capital contribution	1,090,306	31,929,487	30,839,181
(Increase)/decrease in loans	(-465,484)	7,081	472,565
Dividends paid		(3,920,000)	(3,920,000)
(Repayment)/Borrowings (to) from banks	(-19,448,743)	15,070,785	34,518,528
<b>Net cash provided by (used in) financing activities</b>	<b>(-19,856,804)</b>	<b>43,087,353</b>	<b>62,944,157</b>
Net increase (net decrease) of cash and bank balances	2,643,373	8,407,080	5,763,707
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 2nd quarter	6,540,531	11,185,553	4,645,022