

Annual Report

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Key Financial Data of the 1&1 Group

according to US-GAAP

RESULT		1996	1997	1998	1999
Net sales	KDM	157,357	135,510	172,936	237,407
Income/loss from operations	KDM	3,571	14,089	14,588	-39,079
Net income/loss (since 1998 after minority interest but including the general partner's share in result)	KDM	1,962	8,117	8,057	-30,620
Cash flow	KDM	9,269	22,872	13,012	5,587
Result according to DVFA/SG	KDM	2,123	5,512	4,828	-32,319
BALANCE SHEET					
Non-current assets	KDM	11,450	19,885	80,111	183,590
Current assets	KDM	45,699	43,566	57,797	91,711
Equity	KDM	9,004	10,825	42,650	172,118
Balance sheet total	KDM	57,502	64,443	140,223	290,142
CAPITAL EXPENDITURES					
Investment volume	KDM	6,450	14,119	14,214	17,946
Marketing programs	KDM	3,304	2,856	4,705	8,173
Value-added Internet applications	KDM	490	10,857	6,501	8,819
Miscellaneous	KDM	2,656	406	3,008	954
EMPLOYEES (as of 31 December)					
Full-time employees	Total	439	530	660	1,029
Part-time employees	Total	194	200	296	456
Personnel costs	KDM	31,120	32,548	44,010	70,447
SHARES					
Result per share according to DVFA/SG	DM	0.53	1.38	1.10	-6.72
Issue price	Euro			40.90	
Year-end price	Euro			84.87	148.00

Our Vision

"Our task is to be a reliable link between providers and customers in the fastest-moving and most dynamic of all markets. Our vision is to become the Number One in this sector!"

1&1, today United Internet, is Germany's leading marketing specialist in the Internet and IT market. The crucial factors behind our success are our flexibility and speed in a market that is changing at a breathtaking pace. We develop new products very rapidly and continually bring innovations onto the market.

We fully embrace the spirit of enterprise and are prepared to take risks if we believe they are justified. In doing so, we consider above all the potential for long-term benefits, rather than merely the prospect of short-term gains.

We believe our forward-looking market attitude to be more important than short-term profits.

Most importantly, we strive to work hand in hand with our customers. Their success is our success.

We have created a positive working environment with flat hierarchies and open structures.

We enable our employees to participate in the success of the company.

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Ladies and Gentlemen,



Ralph Dommermuth



Michael Scheeren



Richard Seibt

Before you lies the 1999 Annual Report of 1&1 Aktiengesellschaft & Co. KGaA, the last one to be published under this company name. With the arrival of the new millennium we opened a new chapter in our company's history. Thus, 1&1—which has grown over the past 12 years into Germany's leading Internet and IT marketing service provider—became United Internet AG.

We launched 1&1 in 1988 as an IT marketing company, distributing third-party products such as Teletex, ISDN, Btx or T-Online. But in recent years we have increasingly expanded our market position by selling our own products and Internet applications. At the same time, we have been able to take equity stakes in a number of young and innovative Internet companies. Therefore, it was logical to focus the entire company on the Internet and expand it systematically into an Internet network. This restructuring process began in 1996 and was concluded during the Business Year 1999.

Last year, restructuring was the main focus of our activities. Almost every month we were able to acquire a new company, take a new equity stake or offer a new service. Under the previous structure our companies already played a significant role in the German and European Internet markets. They count about 200 million page impressions a month and serve about 5 million users. About 70 percent of German Internet users are familiar with one or more of our brands. We have proven that we know the factors for success in the Internet business and that we are able to manage equity stakes involving diverse business models.

In addition, we have driven forward the internationalization in customer care and online marketing we announced last year. In the Nordic markets we now have a presence from Copenhagen to Helsinki. We have also opened new branch offices or taken new stakes in local companies in Vienna and Paris.

Business activities within the 1&1 Group that no longer fit our consistent focus on the Internet have been and will continue to be given up step by step. This applies above all to the distribution of third-party products. The resulting drops in revenue are intended as they will be more than offset by the enormous growth of our Internet activities.

1&1's success is closely linked to the dedication and hard work of its employees. Therefore, we wish to express our gratitude to our entire team. Their outstanding commitment create the very basis for 1&1's continued success, both in our traditional business areas and in our Internet activities.

The highly positive development of our Internet activities has strengthened our conviction that our decision to focus the company on the Internet is the right one. Our own products and services cover large parts of the value-added chain on the Internet. At the same time, we have added market presence through innovative, specialized companies and are able to optimize the success and value of each through our own network. This holds a unique opportunity for the future of United Internet AG.

And we will seize it.

With best wishes,
Montabaur, 17 March 2000



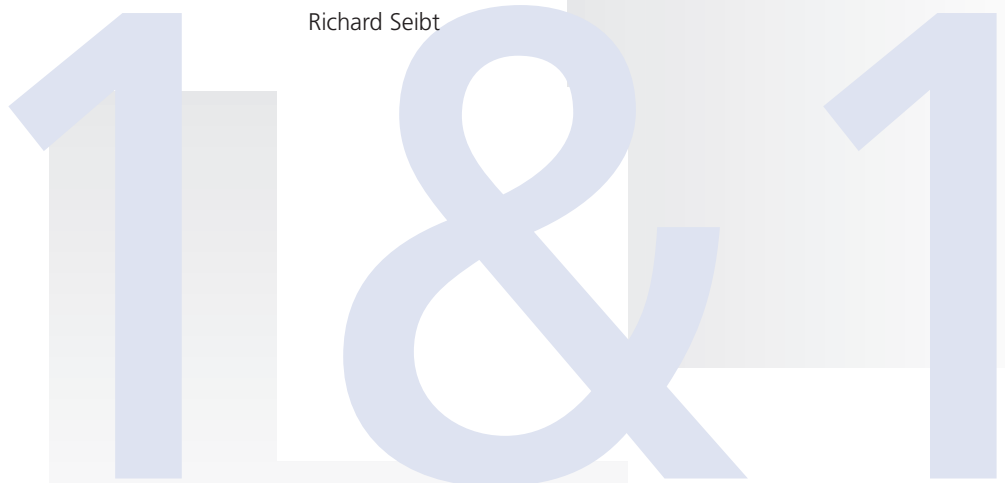
Ralph Dommermuth



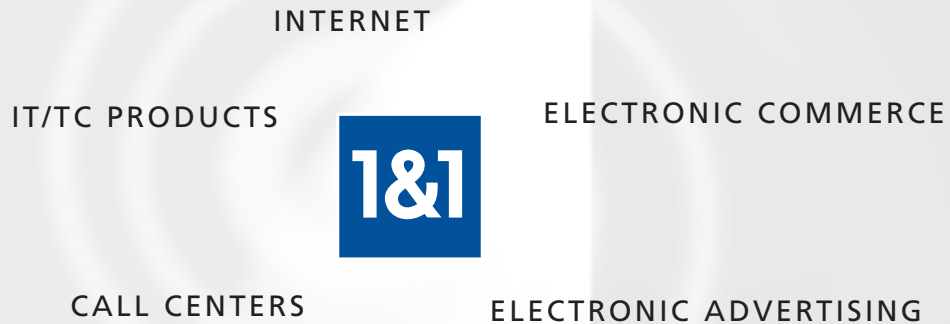
Michael Scheeren



Richard Seibt



The Markets



INTERNET

Demand for Internet services will continue to grow strongly. And most likely growth will exceed the rates forecast by the majority of market studies. The same principle applies to the number of Net users. While in 1998 most market researchers thought it likely that the number of European Internet users would rise to 45 million by 2003, statistics for the fourth quarter 1999 already indicate 53.5 million users. With about 8.5 million users in 1999, Germany is Europe's second-largest market for on-line services. Forecasts predict 18 million German Internet users in 2001.

Rapidly growing numbers of users and the increasing acceptance of home banking via the Internet have spurred forecasts of more than 10 million Internet accounts across Europe. In 1999, more than 4 million German bank accounts were managed online via the Net.

Market researchers also predict very strong growth for higher-value and value-added Internet services. These include website hosting, domain services and unified messaging. The trend towards merging Internet and telephony functions will also open up new markets.

ELECTRONIC COMMERCE

In a recent survey Forrester Research polled 41 US companies selling goods via the Internet. The research organization concluded that these vendors expect average revenue to increase from US\$ 2 million in 1999 to US\$ 155 million in 2001. Forrester forecasts a similar surge for the German market. It is expected that goods and services valued at about DM 27 billion will be sold via the Internet in 2001 (1998: DM 285 million). International Data Corporation (IDC) projects that the worldwide volume of Internet commerce will grow to more than DM 670 billion by 2002.

ELECTRONIC ADVERTISING

The enormous advance of e-commerce and the strength of the capital markets ensure that advertising on the Internet is set to grow exponentially. Already it is an established element in the media mix of many corporations. Worldwide, Internet advertising is expected to grow to DM 33 billion by 2004. One-third of this sum will be spent outside the United States. The market volume in Germany is expected to reach DM 450 million in 2002.

Currently no industry is growing as quickly as telecommunications. In 1999, the world market was worth DM 1.5 billion. It is estimated to rise to just above DM 1.7 billion in 2000. This is a growth rate of 13.3 percent in comparison with the preceding year. Together with information technology, the telecoms industry is the largest business sector worldwide—even ahead of tourism. While the United States dominates worldwide with its strong position in computers and software, Europe holds the largest share in the world's telecommunications market: 32 percent versus the US share of 27 percent. Many standards developed in Europe—such as ISDN for fixed wire networks or GSM for mobile telephony—are now establishing themselves worldwide.

The excellent growth prospects in **1&1's** markets are driven by two specific forces: intensified investments in Internet technology and expansion in the European markets.

CALL CENTERS

Companies in all industries are facing tough challenges. Building good customer relations is increasingly becoming the decisive competitive criterion. In a recent survey, three-quarters of the companies polled confirmed that customer loyalty and new business development via the telephone are set to gain significantly in importance. Simultaneously, cost pressures dictate that business processes be efficient. Call centers offer the means to meet both challenges successfully. In 1999 alone, German call centers created about 35,000 full and part-time jobs. Currently, about 200,000 people work in this industry. The Internet is creating new areas of professional activity. E-mail, online chat and newsgroups offer excellent opportunities for a dialogue with customers. And the trend toward outsourcing continues apace.

IT/TC PRODUCTS

In 1999 telecommunications was again the most significant growth industry in Germany. Revenues from information technology and telecommunications grew by 9.6 percent to DM 214.6 billion. In 2000, growth is expected to reach 9.4 % and DM 234.8 billion, while an increase of 8.2 % to DM 254 billion is forecast for 2001. The double driving force here is mobile communications with a 34 % increase plus

Internet services with a 37 % increase in 1999. The key topic for the years ahead is data transmission via mobile telephones. So far, applications have been hampered severely by slow transmission speeds over the GSM networks. But soon new transmission techniques will allow data rates similar to those on terrestrial networks. Particularly, introducing the new worldwide mobile telephony standard UMTS is set to boost the mobile transmission of data.

Every year the IT market grows in increments of about DM 10 billion, with software and services serving as the IT industry's growth engines. Annual growth rates consistently reach between 10 % and 15 %. In the hardware sector, especially strong advances now come from mobile systems—a trend similar to that in communications technology. Sales of mobile PCs are currently growing by 11 % per year, and mobile systems already have a one-third share of the entire PC market.

Not only does the IT/TC industry grow faster than any other sector, it also creates new jobs. In 1999 the IT sector alone created 37,000 additional jobs, an increase of 9%.

Our Customers

Long-standing partnerships with our customers

are one of the principal factors behind our suc-

cess. This is why we gauge customer satisfac-

tion both on the basis of individual discussions

and by conducting regular, systematic surveys.

The results of our survey in 1998 were

resoundingly positive. For example, 85 percent

of 1&1 Telekommunikation GmbH's

customers said they had recommended

1&1 to friends and relatives. And 88

percent of customers ordering by telephone

said they were satisfied with the advice and

service they received, while 93 percent

expressed satisfaction with the goods delivered.

Our Employees

OUR MANAGEMENT PRINCIPLES

In tandem with the corporate principles we introduced in 1993, our guidelines for leadership and

OUR MANAGERS ARE RESPONSIBLE FOR THEIR STAFF

cooperation are the basis for leading our employees. Our managers lead in a cooperative style,

WE MAINTAIN AN OPEN AND FAIR DIALOGUE

which means they include their staff in defining goals and tasks. The prerequisites for this are that

WE EVALUATE OUR EMPLOYEES BASED ON RESULTS

we coordinate decisions and that we all treat each other openly and fairly. Our goal is to

WE SUPPORT THE DEVELOPMENT OF OUR EMPLOYEES

strengthen our employees' sense of individual responsibility and flexibility. We trust our employees.

WE DELEGATE AND ACCEPT RESPONSIBILITY

Our hierarchical organization is flat, and all managers are open to the concerns and issues of our

WE DEFINE OUR GOALS TOGETHER • WE COORDINATE DECISIONS

employees. Our management instruments are employee evaluation systems and—at the

WE KEEP EACH OTHER INFORMED

department head level—goal agreements.

WE RESOLVE CONFLICTS TOGETHER

NEW EMPLOYEES

In 1999 the 1&1 Group received a large number of unsolicited applications. This underscores our attractiveness and importance as an employer. To meet demand, we also ran print advertisements. And we increasingly used online media, such as external job exchanges or job postings on our own homepage. For our call center activities, which grew over-proportionately quickly, we had to hire new employees at a rapid pace. To accomplish this, we also cooperated with job centers and continuing education institutions, and we conducted intensive personnel marketing at colleges and universities. For other business areas, such as the marketing and IT departments, the limited number of applicants on the job market made it difficult at times to find qualified new employees.

NUMBER OF EMPLOYEES

In Germany, the number of 1&1 Group employees increased from 956 on 1 January 1999 to 1,485 on 31 December 1999. The number of full-time staff rose from 660 to 1,029, while part-time staff increased from 296 to 456. At the same time, we counted the employees of the foreign branches of the 1&1 ServiceLine—now twenty4help Knowledge Service GmbH—in the Netherlands (69 employees) and Sweden (133 employees) as well as those of

the foreign subsidiaries of AdLINK Internet Media GmbH (47 employees). Again this year twenty4help Knowledge Service GmbH had the biggest share of new hires—about 80 percent—in large part because it opened a new operation in Zweibrücken.

TRAINEES AND APPRENTICES

We recruited 10 university graduates for a one-year trainee program. They are assigned to specific jobs in selected subsidiaries of the 1&1 AG & Co. KGaA for two or three-month periods. The program is practice-oriented: As the trainees contribute work to current projects, their training takes place “on the job”. Additional seminars ensure that our trainees acquire and further their theoretical skills. After successful completion of the program, all trainees were offered permanent positions.

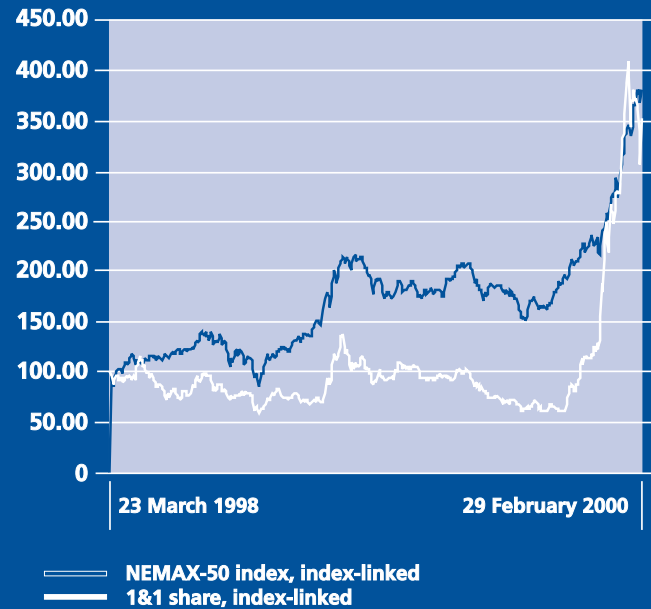
At the end of 1999 we employed 37 apprentices in the areas of business administration, advertising and information technology. After their final exams we offer our apprentices an employment contract. In 1999, twenty4help employed 18 apprentices and hired all who successfully completed their apprenticeships.

The 1 & 1 Share

SHARE PRICE DEVELOPMENT

For almost the entire year, our share price developed parallel to the Nemax-50 index. After a marked increase at the beginning of the year—attributable to intensified Internet activities—the share's further development reflected the market's general tendency. Toward the end of the year, however, the announcement that 1&1 would change direction in the form of United Internet clearly inspired the share price, which subsequently exceeded the Nemax development. The share price rose from Euro 84.87 during the New Year's period 1998/99 to Euro 148 during the New Year's period 1999/2000.

1&1 GROUP



		1996	1997	1998	1999
SHARES					
Result per share according to DVFA/SG	DM	0.53	1.38	1.10	-6.72
Issue price	Euro			40.90	
Year-end price	Euro			84.87	148.00
Cash flow per share	DM	2.32	5.72*	2.94	1.13
Book value per share					
High	Euro			143.16	167.50
Low	Euro			71.58	73.50
Number of shares	million			4.4	4.9
Market capitalization (per 31 December)	million DM			730	1,426
*contains non-recurring special payment of DM 3.75 per share					

INVESTOR RELATIONS

Our investor relations activities are an important instrument for successful communications with the financial community. Our aim is to provide investors with the information they need in the most open and transparent way. The high priority of our investor relations work is reflected in its organizational position within the Group. The investor relations department, which is also responsible for PR activities, reports directly to the Finance Director.

In addition to the analyst conferences for the IPO and our interim results, 1&1 organized a number of analyst and investor meetings during the past year. We regularly inform well over 100 analysts, portfolio managers and investors on the current development of the 1&1 Group.

CALCULATION OF DVFA EARNINGS

Net loss for shareholders of the KGaA	-17,127,846	-17,127,846
+ General partner's share in result	13,491,678	13,491,678
"As if" net loss for the Group	-30,619,524	-30,619,524

ADJUSTMENTS:

- Adjustment for reversal of deferred income from Telekom according to DVFA	-1,699,151	-1,699,151
- Adjustment for goodwill amortization according to DVFA	8,982,864	
Result according to DVFA	-23,335,811	-32,318,675
Result per share according to DVFA (unadjusted)	-4.74	-6.56
Result per share according to DVFA (adjusted)	-4.85	-6.72

FINANCIAL TIMETABLE

Planned dates for 2000

Interim report for the first quarter of 2000	1st week of May 2000
Annual General Meeting for 1999	3 May 2000
Interim report for the first half of 2000	1st week of August 2000
Analyst conference	1st week of August 2000
Interim report for the first three quarters of 2000	1st week of November 2000

Planned dates for 2001

Preliminary report on 2000	mid-February 2001
Annual press conference	end of March 2001
Supervisory Board Meeting	beginning of April 2001
Interim report for the first quarter of 2001	1st week of May 2001
Annual General Meeting for 2000	mid-May 2001

CONTACT

For further information, please contact:

United Internet AG
Investor Relations
Elgendorfer Straße 57
D-56410 Montabaur

Telephone: ++49 26 02/96-10 76

Fax: ++49 26 02/96-10 13

E-mail: investor-relations@united-internet.de

Internet: www.united-internet.de

The Business Year 1999

GROWTH MARKET INTERNET

The markets in which the 1&1 Group is active continue to promise unbridled growth. This is true both for Internet providing—the German DE-NIC office recently assigned the one-millionth “de” domain to a 1&1 client—and for online marketing. Current studies forecast rapid revenue growth for the latter segment over the years ahead. But significant growth rates are also expected for areas such as e-commerce, Internet shopping, integrated communications solutions and outsourcing of technical customer care solutions.

1&1 EVOLVES INTO AN INTERNET GROUP

We made great strides forward in restructuring 1&1 into an Internet group. Revenue contribution from these areas increased exceptionally. In 1999 Group sales reached DM 237.4 million, an increase of 37.3 percent in comparison with the previous year (1998: DM 172.9 million). This growth was primarily driven by our Internet segments and customer care activities. Sales from the Internet segments contributed almost 30 percent to total Group sales in the Business Year 1999. The high level of investment required for broadening our range of 1&1 Internet products and expanding a loyal customer base for our Internet providing business naturally led to a negative operating result during this start-up phase. This result was foreseen and lies fully within our expectations. The same is true for the cost-intensive European expansion in the online marketing and customer care segments. The loss of DM 30.6 million for 1999 is in line with our planning. The DVFA result per share is DM -6.72.

The most dramatic growth was in the Internet providing segment. In 1999 these sales increased six-fold over the previous year to DM 61.0 million. However, investments in the technical infrastructure required for new products and the successful marketing drive to gain new customers for our Internet services do not yet allow a positive operating result. This performance is also affected by the results of companies reported at equity. The operating result was DM -27.8 million in comparison with DM -9.5 million in 1998. This includes an adjustment

of deferred income of DM 3.5 million (preceding year DM 5.3 million) as scheduled.

We also achieved very strong growth rates in the online marketing segment. These sales increased from DM 5.7 million in 1998 to DM 17.9 million in 1999. Due to the investments in our European expansion, the operating result decreased from DM -2.2 million to DM -10.6 million.

In the Internet holdings segment, the operating result was DM -11.9 million. Performance in this area was impacted negatively by the results of companies reported at equity and amortization of goodwill.

A highly positive development was also achieved in the segment of customer care. Here sales climbed from DM 33.3 million in 1998 to DM 60.3 million in 1999, an increase of 81.4 percent. The operating result declined from DM 9.3 million to DM 7.6 million. This was due to investments in connection with our European expansion.

Sales in the IT/TC marketing segment reached DM 96.9 million (DM 124.1 million in 1998). The operating result was DM 3.6 million compared with DM 19.5 million for the previous reporting period. These results reflect above all our decision not to extend a contract for the assignment of new T-Online customers. The decline in this market segment is intended and in line with our strategy to phase out products and services not related to the Internet.

INVESTMENTS IN THE INTERNET—CASH FLOW

The restructuring of 1&1 into an Internet group is also underscored by our extensive investments in 1999, a total of DM 71.5 million. Here we gave priority to making acquisitions in the Internet segments and investing in our Internet products. The 1&1 Group's cash flow according to US-GAAP reached DM 5.6 million in 1999.

EMPLOYEES

The number of employees increased to 1,485 in 1999, compared with 956 the year before. With this growth, the number of full-time employees

rose from 660 to 1,029. The number of part-time employees was 456 as of 31 December 1999, compared with 296 the year before. In line with overall business developments, the greatest growth in the number of employees occurred in the area of customer care.

REPORTS ON THE INDIVIDUAL MARKET SEGMENTS

INTERNET PROVIDING

Our products and services in the area of Internet providing developed very successfully over the entire year. This trend builds on 1&1's ability to innovate and lead technologically. At the end of 1999, more than 300,000 customers were using our Internet services (previous year: about 114,000 customers). One resounding success is "Easy Internet Broking", a service we launched with ConSors at the beginning of August. This combines inexpensive share trading through ConSors Discount-Broker AG and special 1&1 Internet access. We were also very successful with our high-performance Internet access, to which we added a number of features and tariff options, and our 1&1 PureTec product range (top-level domains, website hosting and Internet-shops). Schlund + Partner AG, in which we hold a majority stake, was able to expand its leading market position in the area of commercial websites. Our data center currently hosts more than 300,000 websites.

ONLINE MARKETING

European expansion of our AdLINK Internet advertising network set the tone for all of 1999. In this spirit, AdLINK strengthened its position in France in the first half of the year by acquiring Accessite, the leading French Internet marketer. In Sweden, AdLINK took over Adnet AB. In Norway we acquired NetAd A. S., one of that country's leading Internet advertising marketers, in August. We founded a subsidiary in Vienna, Austria in September. And in Germany we passed the momentous mark of 100 million page impressions at the end of the year. These steps expanded AdLINK's position as Germany's leading independent advertising network. Currently we have our own branch offices in seven European countries, maintain over 318 websites and count 260 million

page impressions. This constellation makes us one of the leading Internet advertising networks in Europe.

INTERNET EQUITY INTERESTS

In the area of Internet equity interests, the 1&1 Group was able to add a number of interesting stakes to its portfolio. These include:

- ONLY Solutions GmbH, one of the European leaders in the technology of digital image analysis (1&1 stake 26.09 percent)
- ICAN Internet Services GmbH, the first full-program entertainment provider, offering a mix of sports, music, movies and news (1&1 stake 40 percent)
- ImmOnline AG, a comprehensive property portal which targets its diverse offerings on residential property, investments, legal and tax advice to property vendors, potential buyers and real estate agents (1&1 stake 30 percent)
- itrade AG, an innovative trading forum where companies and individuals can auction products and publish their buying wishes (1&1 stake 26 percent)
- Metropolis AG, Germany's largest online community with about 600,000 users and services including chat groups, homepages, e-mail and classified ads (1&1 stake 41 percent)

Also GMX, Germany's largest e-mail and messaging service, is developing very successfully (1&1 stake 62.5 percent). More than 3 million members now rely on the convenient services of this provider. In December 1999 alone, these customers generated about 140 million page impressions. This makes GMX by far the most-often visited Internet offer in Germany audited by the IVW. And every day about 12,000 new users choose to open an e-mail account with GMX.

Jobs & Adverts (1&1 stake 27.51 percent) was also able to strengthen its market position further with additional branch offices in Europe and more than 40,000 national and international job listings. This makes Jobs & Adverts Europe's largest commercial job exchange on the Internet. And more and more companies are taking advantage of this offering: 26 of the 30 companies listed on the DAX index are also regular Jobs & Adverts customers.

CUSTOMER CARE

Our customer care activities continued their upward development in 1999. For example, we were able to widen the scope of numerous existing contracts. And we succeeded in gaining important new business, including the technical hotline for the readers of "Computerbild" magazine and user-helpdesk projects for BMW and Continentale insurance. The company's two branch offices in Zweibrücken, Germany, and Maastricht, Holland, developed very satisfactorily.

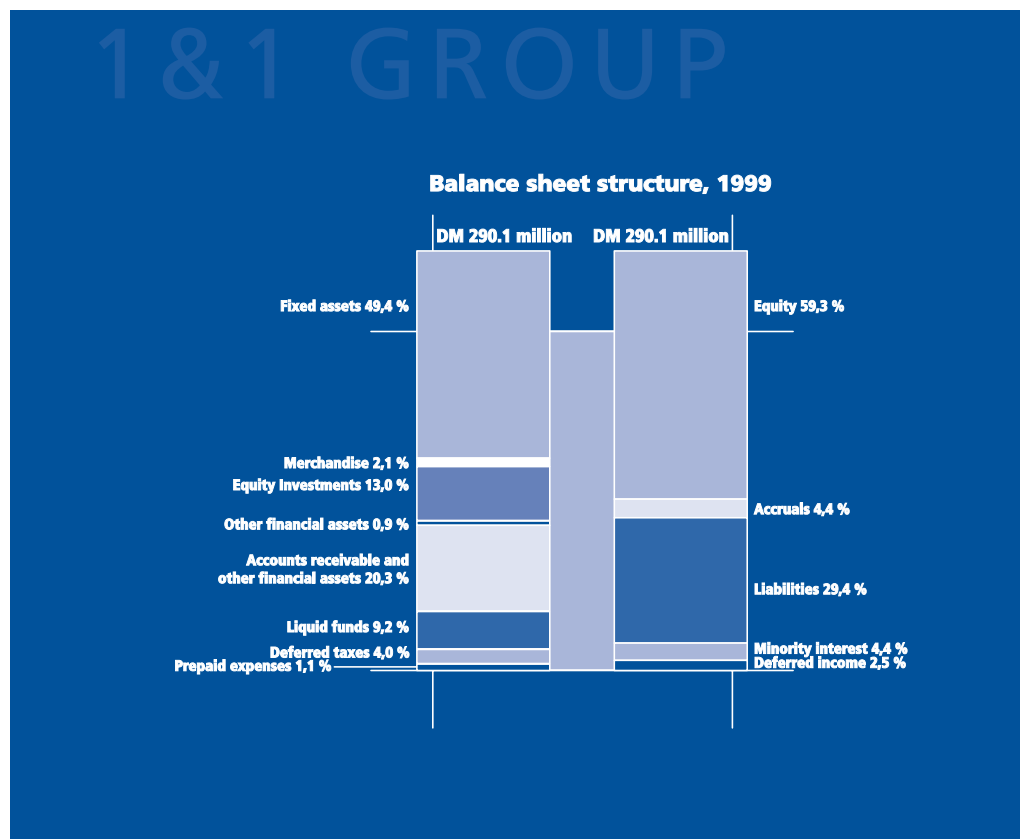
IT/TC MARKETING

In the area of cooperative marketing activities for IT/TC companies, 1999 progressed according to plan. Overall, marketing of third-party products fell off in comparison with the year before—as we had intended. Above all this area was impacted by the expiration of the T-Online marketing contract. In contrast, we achieved growth in marketing ISDN subscriptions. As a result, by the end of September we had already surpassed the total number of new ISDN subscriptions achieved in all of 1998.

OUTLOOK

Our decision to focus the core business of the 1&1 Group in an evolutionary process fully on the Internet and to invest heavily in this area has been proven to be the right one. The development of our Internet providing business has completely fulfilled our expectations. We successfully achieved the number of customers we had forecast for the end of the year. New products merging mobile telephony and the Internet or the telephone and the Internet are set to round out our product range and open up new markets for us.

Our online marketing activities were dominated by expansion at the European level. We took similar steps into other European countries in the area of customer care. In the Internet equity stake segment, we strengthened our market position further by acquiring new stakes in promising Internet companies.





S I N G L E F I N A N C I A L S T A T E M E N T S (H G B)

**SINGLE FINANCIAL STATEMENTS ACCORDING TO
GERMAN COMMERCIAL CODE (HGB) AS OF DECEMBER 31, 1999**
of 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur,
together with Auditors' Opinion

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien
Income Statement for Fiscal Year 1999

	1999 DM	1998 DM
Sales	11,169,750.11	14,300,670.07
Other operating income	1,456,739.54	1,080,459.00
Cost of materials		
Cost of purchased services	-4,608.44	-7,284.18
Personnel expenses		
a.) Wages and salaries	-4,618,313.75	-4,033,905.63
b.) Social security and other benefit costs	-840,230.26	-798,351.04
Amortization and depreciation on intangible assets and property, plant and equipment	-1,381,217.83	-1,327,207.39
Other operating expenses	-7,442,309.86	-10,282,888.19
Income from profit transfer agreements	10,186,205.26	29,454,383.08
Investment income	1,057,590.00	644,311.77
– thereof from affiliated companies: KDM 0 (prior year: KDM 0)		
Other interest and similar income	3,334,147.85	1,745,169.05
– thereof from affiliated companies: KDM 2,259 (prior year: KDM 851)		
Losses absorbed	-16,771,709.07	-10,583,237.03
Interest and similar expenses	-1,169,441.95	-1,095,766.66
– thereof for affiliated companies: KDM 170 (prior year: KDM 352)		
Results from ordinary activities	-5,023,398.40	19,096,352.85
Extraordinary expenses	-3,828,588.32	-6,059,164.83
Result before taxes	-8,851,986.72	13,037,188.02
Taxes on income	508,306.16	-5,161,324.40
Other taxes	-6,487.00	-48,264.27
Net income/loss for the year including the general partner's profit/loss share	-8,350,167.56	7,827,599.35
General partner's share of profit/loss	-3,161,044.46	4,314,907.04
Net income/loss for the year (shareholders)	-5,189,123.10	3,512,692.31
Profit brought forward from prior year	1,756,346.31	0.00
Transfer to the revenue reserves	0.00	1,756,346.00
Accumulated deficit/retained earnings	-3,432,776.79	1,756,346.31

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien
Balance Sheet for the Year Ended December 31, 1999

ASSETS	December 31, 1999 DM	December 31, 1998 DM
Fixed assets		
Intangible assets		
Concessions, industrial and similar rights and assets and licenses in such rights and assets	88,316.00	729,027.00
	88,316.00	729,027.00
Property, plant and equipment		
Land, leasehold rights and buildings, including buildings on third party land	0.00	750,202.00
Other equipment, operational and office equipment	1,486,796.14	2,680,678.00
	1,486,796.14	3,430,880.00
Financial assets		
Shares in affiliated companies	102,478,699.79	35,694,155.30
Loans due from affiliated companies	3,500,000.00	3,500,000.00
Investments	20,726,591.13	19,273,791.13
Limited partners' shares	0.00	20,000,000.00
Loans due from companies in which a participation is held	700,000.00	0.00
Other loans	66,300.00	80,550.00
	127,471,590.92	78,548,496.43
	129,046,703.06	82,708,403.43
Current assets		
Accounts receivable and other assets		
Accounts receivable, trade	36,404.11	21,936.12
Accounts receivable from affiliated companies	32,985,878.98	32,077,914.39
Other assets	2,294,181.97	404,416.36
	35,316,465.06	32,504,266.87
Checks, cash on hand, balances at banks	36,814,358.42	4,419,019.82
	72,130,823.48	36,923,286.69
Prepaid expenses	334,639.12	378,185.10
	201,512,165.66	120,009,875.22

EQUITY AND LIABILITIES	December 31, 1999 DM	December 31, 1998 DM
Equity		
Subscribed capital	15,840,000.00	13,200,000.00
General partner's capital account	6,818,651.58	13,114,907.04
Capital reserve	131,290,996.00	30,663,172.00
Revenue reserves	1,756,346.00	1,756,346.00
Accumulated deficit/retained earnings	-3,432,776.79	1,756,346.31
	152,273,216.79	60,490,771.35
Contributions for capital increase	5,000,000.00	0.00
Accruals		
Pension reserves	261,738.00	261,738.00
Accrued taxes	165,000.00	1,034,000.00
Other reserves and accrued liabilities	1,256,576.00	4,204,542.24
	1,683,314.00	5,500,280.24
Liabilities		
Bonds	528,500.00	442,000.00
– thereof convertible: KDM 529		
Liabilities due to banks	9,716,760.01	39,925,325.08
Trade payables	654,558.27	1,116,403.84
Liabilities due to affiliated companies	23,071,139.43	10,595,510.23
Liabilities due to the general partner	358,247.51	369,079.83
Other liabilities	8,226,429.65	1,570,504.65
– thereof for taxes: KDM 5,635 (prior year: KDM 1,353)		
– thereof for social security: KDM 113 (prior year: KDM 93)		
	42,555,634.87	54,018,823.63
	201,512,165.66	120,009,875.22

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur,
Fixed Assets Movement Schedule for Fiscal Year 1999

	ACQUISITION AND PRODUCTION COST				Dec. 31, 1999 DM
	Jan. 1, 1999 DM	Additions DM	Disposals DM	Transfers DM	
Intangible assets					
Licenses	448,748.02	148,036.31	459,712.50	0.00	137,071.83
Software	1,345,708.02	95,251.65	383,773.94	0.00	1,057,185.73
Low value items	0.00	754.76	754.76	0.00	0.00
	1,794,456.04	244,042.72	844,241.20	0.00	1,194,257.56
Property, plant and equipment					
Land and buildings	778,272.80	0.00	778,272.80	0.00	0.00
Plant equipment	1,891,652.14	274,491.05	542,562.77	0.00	1,623,580.42
Office equipment	1,195,296.69	88,793.13	132,764.97	0.00	1,151,324.85
Improvements	443,490.76	0.00	256,023.57	0.00	187,467.19
Motor vehicles	1,949,485.20	597,256.47	1,777,991.86	0.00	768,749.81
Low value items	0.00	5,107.46	5,107.46	0.00	0.00
	6,258,197.59	965,648.11	3,492,723.43	0.00	3,731,122.27
Financial assets					
Shares in affiliated companies	35,694,155.30	47,525,245.76	740,701.27	20,000,000.00	102,478,699.79
Loans due from affiliated companies	3,500,000.00	0.00	0.00	0.00	3,500,000.00
Investments	19,273,791.13	1,452,800.00	0.00	0.00	20,726,591.13
Loans due from companies in which a participation is held	0.00	700,000.00	0.00	0.00	700,000.00
Limited partners' shares	20,000,000.00	0.00	0.00	-20,000,000.00	0.00
Other loans	80,550.00	66,300.00	80,550.00	0.00	66,300.00
	78,548,496.43	49,744,345.76	821,251.27	0.00	127,471,590.92
	86,601,150.06	50,954,036.59	5,158,215.90	0.00	132,396,970.75

ACCUMULATED DEPRICIATION				NET BOOK VALUES		
Jan. 1, 1999 DM	Additions DM	Disposals DM	Transfers DM	Dec. 31, 1999 DM	Dec. 31, 1998 DM	Dec. 31, 1999 DM
73,080.02	100,582.31	88,721.50	0.00	84,940.83	375,668.00	52,131.00
992,349.02	107,751.65	79,099.94	0.00	1,021,000.73	353,359.00	36,185.00
0.00	754.76	754.76	0.00	0.00	0.00	0.00
1,065,429.04	209,088.72	168,576.20	0.00	1,105,941.56	729,027.00	88,316.00
28,070.80	6,841.00	34,911.80	0.00	0.00	750,202.00	0.00
913,800.14	407,920.91	308,762.77	0.00	1,012,958.28	977,852.00	610,622.14
453,314.69	249,550.13	110,531.97	0.00	592,332.85	741,982.00	558,992.00
312,071.76	33,469.00	202,151.57	0.00	143,389.19	131,419.00	44,078.00
1,120,060.20	469,240.47	1,093,654.86	0.00	495,645.81	829,425.00	273,104.00
0.00	5,107.46	5,107.46	0.00	0.00	0.00	0.00
2,827,317.59	1,172,128.97	1,755,120.43	0.00	2,244,326.13	3,430,880.00	1,486,796.14
0.00	0.00	0.00	0.00	0.00	35,694,155.30	102,478,699.79
0.00	0.00	0.00	0.00	0.00	3,500,000.00	3,500,000.00
0.00	0.00	0.00	0.00	0.00	19,273,791.13	20,726,591.13
0.00	0.00	0.00	0.00	0.00	0.00	700,000.00
0.00	0.00	0.00	0.00	0.00	20,000,000.00	0.00
0.00	0.00	0.00	0.00	0.00	80,550.00	66,300.00
0.00	0.00	0.00	0.00	0.00	78,548,496.43	127,471,590.92
3,892,746.63	1,381,217.69	1,923,696.63	0.00	3,350,267.69	82,708,403.43	129,046,703.06

Statement of Share Ownership as of December 31, 1999

	Currency	Company equity as of December 31, 1999 DM	Profit/loss of fiscal year 1999 DM	Shares in %
Direct ownership				
1&1 Telekommunikation GmbH, Montabaur ¹⁾	DM	27,640,728.51	0.00	91.20
twenty4help Knowledge Service GmbH Deutschland, Montabaur ¹⁾	DM	504,185.25	0.00	100.00
1&1 Marketing GmbH, Montabaur ¹⁾	DM	1,000,000.00	0.00	100.00
AdLINK Internet Media GmbH Europe, Montabaur ¹⁾	DM	39,307,462.78	0.00	99.05
A1 Marketing, Kommunikation und neue Medien GmbH, Montabaur ¹⁾	DM	60,915.22	0.00	100.00
MIP Multimedia Internet Park GmbH, Zweibrücken	DM	-315,266.61	501,763.75	100.00
twenty4help Knowledge Service GmbH Europe, Montabaur	DM	960,026.76	-35,694.85	98.10
1&1 Geschäftsführungs GmbH, Montabaur	DM	24,482,704.81	-566,190.94	100.00
WebAuto GmbH, Montabaur	DM	-382,480.49	-578,063.49	100.00
NTplus AG, Osnabrück ⁴⁾	DM	16,859,510.91	2,810,136.00	39.25
FUN Kommunikationssysteme GmbH, Karlsruhe	DM	908,574.47	58,615.67	33.33
United Internet GmbH, Montabaur	DM	49,825.33	-174.67	100.00
Indirect ownership²⁾				
twenty4help Knowledge Service B.V., Maastricht/Holland	DM	499,869.31	532,103.55	98.10
twenty4help Knowledge Service GmbH, Zweibrücken	DM	773,979.54	725,083.79	100.00
twenty4help Knowledge Service AB, Ljusdal/Schweden	SEK	9,244,139.00	1,297,686.00	98.10
AdLINK Internet Media S.A., Paris/Frankreich (vormals Accesite S.A.)	EUR	149,540.00	39,823.00	99.05
Axial S.A., Paris/Frankreich	EUR	38,112.00	³⁾	99.05
AdLINK Internet Media AB, Stockholm/Schweden (vormals Adnet AB)	SEK	-5,397,568.00	-6,089,803.00	99.05
AdLINK Internet Media AS, Oslo/Norwegen (vormals NetAd Advisors & Online Brokers AS)	NOK	-2,268,631.00	-2,323,631.00	99.05
AdLINK Internet Media GmbH Deutschland, Montabaur	DM	24,947.00	-53.00	99.05
AdLINK Internet Media Services GmbH, Wien/Österreich	EUR	45,262.00	-54,738.00	99.05
Schlund + Partner AG, Karlsruhe	DM	-2,862,191.11	-2,663,447.97	91.20
1&1 puretec GmbH i.Gr., Karlsruhe	DM	-2,432,026.59	-2,506,812.09	91.20
akamedia Akademie für interaktive Medien und Kommunikation GmbH, Dortmund ⁴⁾	DM	1,000,000.00	- ³⁾	25.10
GMX Gesellschaft für Datenkommunikationsdienste mbH, München ⁴⁾	DM	17,886,995.79	-6,279,680.28	62.50
Jobs & Adverts AG, Oberursel ⁴⁾	DM	24,898,714.19	734,737.87	27.51
Buchungsmaschine AG, Hamburg ⁴⁾	DM	960,870.00	-142,397.00	25.01
ICAN Internet Services GmbH, Wien/Österreich ⁴⁾	DM	-1,606,409.96	-2,312,734.78	40.00
ImmOnline AG, Paderborn ⁴⁾	DM	2,855,973.85	-820,308.94	30.00
iTrade AG, München ⁴⁾	DM	1,920,592.00	-5,444,511.00	26.00
Metropolis AG, Reutlingen ⁴⁾	DM	373,301.32	-1,121,984.97	41.00
ONLY Solutions Gesellschaft für Softwareentwicklung mbH, Kassel ⁴⁾	DM	3,245,749.22	76,666.11	26.09

¹⁾ after profit transfer to/loss absorption by 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien

²⁾ indirect quota of shares

³⁾ information not available

⁴⁾ information provided as of preparation date of the financial statements

GENERAL PROVISIONS

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur, is a large corporation within the meaning of Sec. 267 (3) of the German Commercial Code (HGB).

The financial statements for fiscal year 1999 were prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act as amended.

The income statement was prepared according to the cost summary method.

We would like to point out that consolidated financial statements were prepared according to US Generally Accepted Accounting Principles (US GAAP) as stipulated by the listing requirements for the Neuer Markt and Sec. 292a HGB.

INFORMATION ON THE COMPANY

1&1 Aktiengesellschaft & Co. KGaA was founded on January 29, 1998 when the shareholders of 1&1 Holding GmbH contributed their shares to 1&1 AG & Co. KG aA in a non-cash contribution.

In the merger agreement dated February 18, 1998, the shareholders, the general partner—1&1 AG & Co. Beteiligungsgesellschaft, Montabaur—and the shareholders' meeting of 1&1 Holding GmbH decided to merge the two companies. As a result, 1&1 Holding GmbH, the transferor entity, transferred its assets in their entirety to 1&1 AG & Co. KGaA, the absorbing entity. 1&1 AG & Co. KGaA is thus both economic and legal successor to 1&1 Holding GmbH.

MANAGEMENT AND REPRESENTATION OF THE COMPANY

The general partner, 1&1 Aktiengesellschaft & Co. Beteiligungsgesellschaft, Montabaur, is authorized to manage and represent the Company. 1&1 Aktiengesellschaft & Co. Beteiligungsgesellschaft is, in return, represented by the management board of its general partner, 1&1 Verwaltungs Aktiengesellschaft, Montabaur.

1&1 AG & Co. Beteiligungsgesellschaft made a capital contribution of DM 8.8 million during the formation of 1&1 AG & Co KG aA.

For more information on equity and profit distribution we refer to our explanations to equity.

ACCOUNTING AND VALUATION METHODS

Additions of assets have been capitalized at cost.

Intangible assets acquired for a consideration were capitalized at acquisition cost and were subject to scheduled amortization.

Property, plant and equipment were valued group-wide at cost, less scheduled depreciation over their normal useful lives. Additions from 1995 onwards were, as a rule, depreciated using the declining balance method. The Company made use of the simplification rule pursuant to R 44 (2) of the German Income Tax Regulations (EStR) which provides for full or half-yearly depreciation on additions made until June 30 and thereafter. Additions before 1995 were depreciated according to the straight-line method.

Software and corresponding licenses are being amortized over a period of 2 to 5 years. As a rule, buildings are written off over 50 years, operational equipment over 4 to 5 years. Leasehold improvements are written off over the term of the lease. The normal useful life of office furniture and equipment is 8 to 10 years, that of the motor vehicles 4 to 5 years.

Low-value items were fully expensed in the year of acquisition; for the sake of simplification it has been assumed that they were disposed of at the same time. Shares in affiliated companies and investments were recorded at the lower of acquisition cost or the realizable value as of the balance sheet date.

In financial assets, shares in affiliated companies and investments were recorded at the lower of acquisition cost or the realizable value as of the balance sheet date.

Accounts receivable and other assets are shown at nominal value. General credit risks have been accounted for by making a lump-sum bad debt allowance.

Appropriate and adequate accruals have been established for contingent liabilities and recognizable risks. Pension accruals are stated according to actuarial reports.

Liabilities are stated at the amount repayable.

FIXED ASSETS

Reference is made to the fixed assets movement schedule for the classification and development of fixed assets.

Intangible Assets and Property, Plant and Equipment

Reductions in intangible assets and property, plant and equipment are mainly due to the sale of software licenses and hardware to 1&1 Telekommunikation which will, in future, render financial accounting services to the other companies in the group.

Financial Assets

The additions during the fiscal year mainly relate to a cash capital increase (KDM 38,595) at AdLINK Internet Media GmbH Europe (formerly 1&1 Online Dialog GmbH) and the acquisition of additional shares in Schlund + Partner AG, Karlsruhe.

In addition, in a non-cash capital increase 3D Beteiligungen GmbH & Co. KG, Baldham, contributed its shares in 1&1 Geschäftsführungs GmbH worth KDM 5,000 (into which 1&1 Beteiligungen GmbH & Co. KG was merged in the course of the year) in return for 240,000 shares (approved capital).

CURRENT ASSETS

Accounts Receivable and Other Assets

No individual bad debt allowances had to be made for accounts receivable, trade. Also, no lump-sum bad debt allowance was established to cover the general credit risk owing to the overall small amount of accounts receivable.

Besides the receivables from profit and loss absorption agreements, accounts receivable from affiliated companies include the balances of other allocations, which essentially relate to allocations within the tax group for VAT purposes.

The other assets primarily comprise accounts receivable from the tax authorities due to corporate income tax credits, from investment income and the tax loss carryback. It also contains the reimbursement fund for the reinsurance of the pension commitment.

All accounts receivable and other assets have a residual term of less than one year.

PREPAID EXPENSES

Pursuant to Sec. 250 (3) HGB, prepaid expenses include a discount of KDM 315 which is being released with effect on expenses over the term of the underlying loan.

EQUITY

The legal form of the Company is that of a partnership limited by shares. As the general partner has made a capital contribution, the Company's fixed capital is composed of the share capital held by the shareholders and the general partner's capital account.

Share Capital and Shares

Following the capital increase out of approved capital decided by the general partner on February 17, 1999, which the supervisory board approved on February 19, 1999, the fully paid-in share capital amounts to EUR 8,098,863.40. It is divided into 3,168,000 bearer shares each having an arithmetic share in the share capital of EUR 2,56 (rounded up). Each share entitles the bearer to one vote in the Company's shareholders' meeting. There are no restrictions on voting rights.

• *Approved Capital*

The general partner is authorized for the period of 5 years, starting on February 16, 1998, to increase the share capital, subject to the approval of the supervisory board, by DM 3,435,881.44 in nominal terms through one or more issues of ordinary bearer shares and/or non-voting preference shares in return for cash or non-cash contributions. The shareholders shall be granted subscription rights. However, subject to approval by the supervisory board, the general partner is authorized to exclude the right to subscribe in the following cases:

- Capital increases of up to a total of EUR 809,886.00, if the new shares are issued in return for cash contributions and the issue amount of the new shares is not substantially—and in no case less than 5 %—lower than the quoted market price of shares with the same terms at the time of finalizing the issue amount. If the Company has acquired its own shares by virtue of authorization under Sec. 71 (1) No. 8 of the Stock Corporation Act (AktG), and without granting a subscription right to shareholders, sold them in any way other than through the stock market, the above mentioned authorization to preclude the shareholders' subscription rights is reduced by the pro rata amount of the share capital attributable to the own shares sold in this way;
- Capital increases of up to a total of EUR 1,006,221.74, if the new shares are issued in return for contributions in kind;
- To equalize fractional amounts created by a capital increase.

Subject to the approval of the supervisory board, the general partner is authorized to define the further details of the capital increase and the terms of the share issue.

On December 3, 1999 the general partner decided to increase the Company's share capital by EUR 613,550.26, from EUR 8,098,863.40 to EUR 8,712,413.66 in return for contributions in kind.

The increase was made by issuing 240,000 new bearer shares (referred to below as „new shares“) at an issue amount of EUR 2.56 each (arithmetic share in share capital) plus a premium of EUR 8.09 each, i. e. at an issue amount of EUR 10.65 per new share and a total issue amount of EUR 2,556,000.00. The amount of the premium is due to the fact that, in the participation agreement of December 3, 1999, the Company undertook in respect of 3 D Beteiligungen GmbH & Co. KG, Vaterstetten, to carry forward the latter's book values for the shares in 1&1 Geschäftsführungs GmbH which were to be contributed. The shareholders' right to subscribe was precluded.

3 D Beteiligungen GmbH & Co. KG was permitted to subscribe to the new shares. The new contribution is to be non-cash, to be rendered by contributing the two shares in 1&1 Geschäftsführungs GmbH, Montabaur, of a nominal amount of EUR 5,000 each, i.e. having a total nominal amount of EUR 10,000, to 1&1 AG & Co. KGaA.

The supervisory board of the Company gave its approval to this resolution on December 8, 1999.

The non-cash capital increase was entered in the commercial register on January 3, 2000. As of the balance sheet date, the capital contribution (KDM 5,000) was stated outside equity as „contributions made for capital increase“.

• *Conditional Capital*

Since the shareholders' meeting on June 7, 1999 there have been three lots of conditional capital:

- The share capital is conditionally increased by up to EUR 511,291.88, divided into 200,000 bearer shares. A portion of the conditional capital of EUR 306,775.12 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, a portion of EUR 204,515.76 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issue of both types of bond was decided by the shareholders' meeting on February 18, 1998. It is only implemented to the extent that these conversion rights are exercised.
- The Company's share capital was increased conditionally by up to EUR 2,351,952.66 by issuing up to 920,000 new bearer shares carrying an entitlement to dividend from the beginning of the fiscal year following the issue. The conditional capital increase is solely for the purpose of converting the general partner's capital contribution to share capital as provided for in Art. 7 of the Articles of Incorporation, or for the general partner's compensation in the event of withdrawal in accordance with Art. 8 (3). The conditional capital increase takes place to the extent to which the general partner makes use of its right of conversion. The general partner is authorized, subject to approval by the supervisory board, to define further details of the conditional capital increase and its implementation.

- The Company's share capital is conditionally increased by a further EUR 500,000, divided into 195,583 bearer shares. The conditional capital increase is implemented to the extent that the bearers of the options—issued in accordance with the resolution on item 13 of the agenda passed by the ordinary shareholders' meeting of the Company on June 7, 1999—exercise these rights. The new shares will participate in profit distribution from the beginning of the fiscal year in which the shares are issued.

GENERAL PARTNER

In accordance with Art. 6 of the Articles of Incorporation the Company must set up the following accounts for the general partner:

- A fixed capital account to which its capital contribution of EUR 4,499,368.56 is posted. This account does not bear interest and, subject to an increase of the capital contribution following an amendment of the Articles of Incorporation, remains invariable.
- A clearing account to which the withdrawable profit shares, additional cash deposits, interest on credit or debit balances and the other payment transactions between the Company and the general partner are posted. The clearing account shall bear interest of 5 % on debit and credit balances according to a sliding-scale. Notwithstanding any tax regulations, the interest shall be considered as expenses or income of the Company. Credit balances in the clearing account may be withdrawn by the general partner at any time, giving 2 weeks' notice. Withdrawals leading to a debit balance in the clearing account or increasing an existing debit balance are inadmissible.
- A reserve account, to which the non-withdrawable portion of profit and other contributions made by the general partner expressively transferred to the reserve are posted. If the Company's share capital is increased out of Company funds, the general partner may demand that the amount that is required to retain the ratio of the general partner's fixed capital contribution to the total of share capital plus fixed capital contribution is transferred from the reserve account to the fixed capital account.

- A loss carryforward account to which the portion of loss arithmetically attributable to the general partner are booked. This account does not bear interest. The general partner's profit shares must be posted to the loss carryforward account where they are needed to equalize a loss carryforward. Profit shares in excess of this are to be credited to the general partner's reserve account or clearing account in accordance with the corresponding profit appropriation resolution.

According to Art. 7 of the Articles of Incorporation of 1&1 AG & Co. KGaA, 1&1 AG & Co. may demand that its capital contribution be converted to share capital.

Should the general partner demand the conversion of (all or part of) its capital contribution to share capital of the same amount in a written declaration to the supervisory board, such a demand must be complied with immediately by issuing bearer shares with a total par value equal to the amount of the converted capital contribution. This does not apply if and insofar as the general partner's capital contribution is reduced by losses and its loss carryforward account has therefore not been equalized.

The new shares will be issued either from any conditional capital earmarked for this purpose, from approved capital, or from a capital increase decided by the shareholders' meeting.

Any resolution of the shareholders' meeting for a capital increase that may be required must be adopted in the next shareholders' meeting following the request for conversion.

The capital increase and the subscription to the new shares by the general partner, reduces the capital contribution, and the general partner is then entitled to payment of its capital contribution to be converted and its reserves (in the event of partial conversion, an appropriate part of these reserves). The capital increase takes place in return for the contribution of this entitlement. The general partner no longer participates in profit and loss with its converted capital contribution and the new shares carry entitlement to dividends with effect from the beginning of the fiscal year following the request for conversion.

NET LOSS FOR THE YEAR

The division of the profit or loss of the Company between 1&1 AG & Co. and the shareholders is based on the results from ordinary activities as shown in the Company's income statement (Sec. 275 (2) No. 14, Sec. 275 (3) No. 13 HGB), whereby

- the share in result relating to the general partner's capital share is stated neither as expenses nor as income,
- the extraordinary result is taken into account (Sec. 275 (2) No. 17 or Sec. 275 (3) No. 16 HGB),
- taxes are deducted (Sec. 275 (2) No. 16/19 or Sec. 275 (3) No. 17/18 HGB) with the exception of corporate income tax, any surcharges and net worth tax and other non-deductible non-income taxes with any surcharges.

If foreign corporate income tax owed by a foreign company due to the receipt of dividends from investments in this company is refunded by the foreign or German fiscal administration, the Company is entitled to the amount of the refund as income from its investment in the foreign company. In the event of a refund of corporate income tax paid by the associated company, in addition to the dividends from an investment, the Company is also entitled to the amount of this refund.

The profit or loss determined according to the principles described above is divided between the general partner and the shareholders in the ratio of the capital contribution to the share capital, pursuant to Art. 6 (1) of the Articles of Incorporation. Any changes in the capital share as a result of losses, or in and the general partner's capital and revenue reserves are not considered in this calculation.

The shareholders' meeting may transfer amounts from the shareholders' portion of the net income for the year to other revenue reserves, up to a maximum of half the amount remaining once the general partner's profit share and the amounts to be transferred to the legal reserve have been deducted.

The shareholders' meeting decides on the appropriation of the remaining retained earnings.

The fraction of the shareholders' portion of the net income for the year plus corporate income tax which is transferred to the revenue reserves following the approval of the financial statements cannot be withdrawn by the general partner (in respect of its own profit share); the non-withdrawable amount is to be transferred to the general partner's reserve account. A similar procedure is to be followed if the retained earnings are partially transferred to the revenue reserves with the prior consent of the general partner.

The changes in the Company's total equity are shown in the following table:

	KDM
Share capital	
– Balance on December 31, 1998	13,200
– Capital increase on February 17, 1999	<u>2,640</u>
– Balance on December 31, 1999	<u>15,840</u>
General partner's capital account	
– Balance on December 31, 1998	13,115
– Withdrawals in fiscal year 1999	-3,135
– Profit/loss share for fiscal year 1999	<u>-3,161</u>
– Balance on December 31, 1999	<u>6,819</u>
Additional paid-in capital	
– Balance on December 31, 1998	30,663
– Capital increase on February 17, 1999	<u>100,628</u>
– Balance on December 31, 1999	<u>131,291</u>
Revenue reserves	
– Balance on December 31, 1998	0
– Provision from retained earnings 1998	<u>1,756</u>
– Balance on December 31, 1999	<u>1,756</u>
Retained earnings	
– Balance on December 31, 1998	3,512
– Transfer to revenue reserves	-1,756
– Net loss for the year (shareholders) 1999	<u>-5,189</u>
– Balance on December 31, 1999	<u>-3,433</u>
Total equity	<u>152,273</u>

The general partner withdrew KDM 3,135 from its clearing account containing the withdrawable profit share.

KDM 100,628 of the increase in additional paid-in capital is due to the capital increase decided on February 17, 1999 and includes the premium of EUR 97.44 per share.

The retained earnings of the prior year of KDM 1,756 were transferred to the other revenue reserves in accordance with Art. 24 (III) of the Articles of Incorporation.

In accordance with the provisions in the Articles of Incorporation, the profit and loss distribution for the fiscal year 1999 is as follows:

	1999 DM	1998 DM
Results from the ordinary activities of		
1&1 AG & Co. KG aA	<u>-5,023,398.40</u>	19,096,352.85
Adjustment items:		
– Extraordinary result	-3,828,588.32	-6,059,164.83
– Trade tax	<u>0.00</u>	<u>-2,249,920.42</u>
	<u>-8,851,986.72</u>	<u>10,787,267.60</u>
Share of 1&1 AG & Co.	<u>-3,161,044.46</u>	<u>4,314,907.04</u>

ACCRUALS

The pension accruals relate to a single pension commitment. The fair market value of the accrual was computed pursuant to Sec. 6a Income Tax Law (EStG) in accordance with actuarial principles and using an interest rate of 6 %. There is a reinsurance policy; its reimbursement fund is contained in other assets.

Other accruals contain appropriate accruals which have been set up for all recognizable liabilities whose amount or nature are uncertain. They include provisions for legal and consulting fees (KDM 630), for outstanding invoices (KDM 243) and for other personnel expenses.

LIABILITIES

The classification and the residual terms of the liabilities are shown in the following breakdown.

	Thereof with a residual term of				December 31, 1998 Total KDM
	December 31, 1999 Total KDM	December 31, 1999 up to one year KDM	December 31, 1999 between one and five years KDM	December 31, 1999 more than five years KDM	
Bonds	529	0	529	0	442
– thereof convertible KDM 529					
Liabilities due to banks	9,717	64	4,494	5,159	39,925
Trade payables	654	654	0	0	1,116
Liabilities due to affiliated companies	23,071	23,071	0	0	10,596
Liabilities due to shareholders	358	358	0	0	369
Other liabilities	8,226	8,226	0	0	1,571
– thereof for taxes KDM 5,635 (prior year: KDM 1,353)					
– thereof for social security KDM 113 (prior year: KDM 93)					
	42,555	32,373	5,023	5,159	54,019

Bonds include convertible bonds issued as part of a stock option plan for members of the management board and other executives of the Group. Their maturity was determined according to their earliest possible date of conversion.

Two convertible bonds can be issued for the implementation of the stock option plan (tranche (a) up to a total nominal value of KDM 600 and tranche (b) up to a total nominal value of KDM 400).

- **Tranche (a)**

The general partner was authorized, subject to the approval of the supervisory board, to issue on one or more occasions until February 15, 2003 interest-bearing convertible bonds with a maximum total value of KDM 600 and a maximum term of seven years to executive employees of the 1&1 Group and to members of the representative bodies of subsidiaries of the 1&1 Group.

- **Tranche (b)**

The supervisory board was authorized to issue on one or more occasions until February 15, 2003 interest-bearing convertible bonds with a maximum total nominal value of KDM 400 and a maximum term of seven years to members of the management board of the general partner's general partner, subject to the consent of the latter's supervisory board.

The shareholders' statutory subscription right was precluded in each case.

Two installments from tranche (a) of KDM 202 and KDM 251 were issued in the fiscal year. KDM 11 of this amount was repaid due to the withdrawal of three subscribers; the amount to be shown in the balance sheet therefore totals KDM 442.

In fiscal year 1999 (January 7, 1999) tranche (b) partially convertible bonds in the amount of KDM 200 were issued to Mr. Richard Seibt.

Further partially convertible bonds in the amount of KDM 108 were issued in the year under review. KDM 221 was repaid as employees left the company and new employee stock ownership plans were introduced. Thus, as of the balance sheet date KDM 329 of tranche (a) and KDM 200 of tranche (b) were reported under bonds.

The convertible bonds which bear 4 % interest p. a. may be converted as a whole or in parts to shares in 1&1 AG & Co. KGaA. Each DM 5 par value of the convertible bonds is entitled to be converted to an ordinary bearer share with a par value of DM 5. If the conversion right is exercised a cash payment of DM 75 is to be made for the purchase of one share. Bonds may not be converted until three years have elapsed and providing that certain conditions linked to the share price performance are fulfilled.

Liabilities of KDM 5,159 with more than five years remaining to maturity relate exclusively to liabilities due to banks. Liabilities secured by land charges total up to KDM 1,000.

Besides the liabilities from loss absorption from profit and loss transfer agreements, liabilities from affiliated companies consist of the balances of other allocations, which mainly include allocations within the organic unity for VAT.

Liabilities due to shareholders consist of liabilities due to the general partner as reimbursement of its management and representation expenses and the liability compensation of KDM 5 due to the general partner's general partner, 1&1 Verwaltungs AG.

The other liabilities refer largely to liabilities due to the tax office. KDM 5,577 thereof relates to liabilities for VAT.

EXPLANATIONS TO THE INCOME STATEMENT

Sales

The sales for the fiscal year were generated exclusively in Germany and predominantly comprise charges to subsidiaries for services and rent.

Other Operating Income

The other operating income was derived mainly from the sale of financial assets to enable the management to hold interests in subsidiaries (KDM 1,202), from the sale of property, plant and equipment (KDM 123) and from insurance indemnification (KDM 59). It includes components not relating to the period in the amount of KDM 123.

Other Operating Expenses

The other operating expenses essentially comprise rent and leasing expenses, legal and consulting fees and trade fair and advertising expenses.

Extraordinary Expenses

The extraordinary expenses of KDM 3,829 relate to the unusual and one-off expenses incurred in connection with the capital increase, such as bank commission, consulting fees and publication costs.

Taxes on Income

Taxes on income consist of trade and corporate income tax backpayments for prior years and the corporate income tax income on the shareholders' interest from the tax loss carryback.

OTHER DISCLOSURES

Average Number of Employees

An average of 71 permanent salaried staff were employed in the past fiscal year (prior year: 59). In addition, an average of 36 part-time staff are employed at 1&1 AG & Co. KGaA (prior year: 29).

Executive Bodies of 1&1 AG & Co. KGaA

The general partner, 1&1 Aktiengesellschaft & Co. Beteiligungsgesellschaft, Montabaur, is entitled to manage and represent the Company. The general partner is, in turn, represented by its general partner, 1&1 Verwaltungs Aktiengesellschaft. The following persons were members of the management board of 1&1 Verwaltungs Aktiengesellschaft in fiscal year 1998:

Ralph Dommermuth, businessman, Montabaur

Michael Scheeren, bank officer, Dreikirchen

Richard Seibt, certified business administrator, Königswinter

In the past fiscal year the management board of 1&1 Verwaltungs AG received remuneration of KDM 1,010. Pension accruals of KDM 262 were set up for pension expectancies of members of the general partner's management board.

The supervisory board has three members which were elected by the first ordinary shareholders' meeting on June 7, 1999 for a term of 4 years. The members of the supervisory board were:

Carl-Friedrich Meißner,
former member of the management
board of Deutsche Telekom AG, Bonn *Chairman*

Kurt Dobitsch,
independent entrepreneur, Baldham

Hans-Peter Bachmann,
member of the management
of Bank Vontobel AG, Zurich

Bernhard Dorn,
independent consultant,
Leonberg *Substitute member*

The members of the supervisory board also belong to the supervisory boards of the following companies:

Carl-Friedrich Meißner

- Berliner Kraft- und Licht (Bewag)-
Aktiengesellschaft, Berlin
- 1&1 Verwaltungs Aktiengesellschaft,
Montabaur (Chairman)

Kurt Dobitsch

- Schlund + Partner AG, Karlsruhe
- Nemetschek AG, Munich
- Jobs & Adverts AG, Oberursel
- 1&1 Verwaltungs Aktiengesellschaft, Montabaur

Hans Peter Bachmann

- 1&1 Verwaltungs Aktiengesellschaft, Montabaur

Bernhard Dorn

- Colonia Nordstern Versicherungs Management
AG, Cologne
- DIS Deutsche Industrie Service AG, Düsseldorf
- IDG GmbH, Frankfurt
- Mauser Waldeck GmbH, Waldeck
- ce CONSUMER ELECTRONIC AG, Munich
- Heyde AG, Bad Nauheim (Chairman)
- SYSTEMATICS AG, Hamburg
- TDS Informationstechnologie AG, Neckarsulm
- TLC GmbH, Wiesbaden

The amount of the remuneration of the members of the supervisory board has been decided in the first ordinary shareholders' meeting in fiscal year 1999. In the past fiscal year it totalled KDM 88.

Contingent Liabilities

The Company bears joint and several liability for liabilities due to banks by companies in the 1&1 Group totaling KDM 46,695.

Other Financial Obligations

There are other financial obligations resulting from rent and leasing agreements. These obligations are summarized below:

	1999 DM
Liabilities from leasing and long-term rent obligations	10,612
– thereof with a residual term of up to one year:	2,760
– thereof with a residual term of more than five years	0

Liabilities from leasing and long-term rent agreements mainly relate to rent agreements for the buildings in Montabaur.

Montabaur, March 17, 2000

The management board of 1&1 Verwaltungs Aktiengesellschaft

Ralph Dommermuth

Michael Scheeren

Richard Seibt

Management Report of 1&1 Aktiengesellschaft & Co. KGaA for Fiscal Year 1999

The continuous process of transformation over the past few years was targeted towards aligning the activities of 1&1 Aktiengesellschaft & Co. KGaA to the Internet. At the beginning of the year 2000 the company was symbolically renamed from 1&1 AG & Co. KGaA to United Internet AG & Co. KGaA, being converted to United Internet AG in a second step. As a management holding with investments in 17 innovative and specialized Internet companies the new company name is programmatic for the leading Internet network in Germany.

Sales and income performance

In fiscal year 1999 the Company generated a net loss for the year of DM 8,350,167.56, including the general partner's loss share. The change in earnings over the prior year is due an increase in expenses from loss absorption and a fall in income from profit transfer agreements, and is thus directly linked to the realignment of the Group to innovative, Internet-related products and services where start-up losses are inevitable.

Investments and financing

Property, plant and equipment was reduced by scheduled depreciation. As part of the realignment the fixed assets attributable to the operative companies were transferred to these companies at net book values.

Additions to financial assets reflect the acquisition of 7 new participations, the loans granted to finance subsidiaries and associated companies, and subscribed capital increases.

Outlook

We presented United Internet to the public in January 2000 with a press and analyst conference and a large-scale advertising campaign, receiving a very positive market resonance.

United Internet's success will in the future be more closely linked to the fair value of its participations and therefore of the network as a whole.

3 to 5 companies from the network are set to go public in the course of the year 2000. 5 to 10 new investments in young, dynamically growing Internet companies are planned.

Montabaur, March 17, 2000

The management board of 1&1 Verwaltungs
Aktiengesellschaft

Ralph Dommermuth

Michael Scheeren

Richard Seibt

**1&1 AKTIENGESELLSCHAFT & CO. KOMMANDIT-
GESELLSCHAFT AUF AKTIEN, MONTABAUER**

Based upon our audit, we have rendered the following unqualified opinion on the financial statements of 1&1 Aktiengesellschaft & Co. KG aA, Montabaur, for the year ended December 31, 1999 and on the management report for fiscal year 1999:

"We have audited the financial statements of 1&1 Aktiengesellschaft & Co. KGaA for the fiscal year from January 1 to December 31, 1999 together with the accounting records and the management report. The Company's legal representatives are responsible for the accounting records and preparing the financial statements and the management report according to German commercial law and the supplementary regulations in the Articles of Incorporation. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting and the management report.

We conducted our audit of the financial statements pursuant to Sec. 317 HGB and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the assets, liabilities, financial position and results of operations of the Company as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. During the course of the audit, the effectiveness of the system of internal controls is assessed

and the disclosures made in the accounting, financial statements and management report are verified, mainly on the basis of spot checks. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the financial statements, in compliance with generally accepted accounting principles, present a true and fair view of the assets, liabilities, financial position and results of the Company. In all material respects, the management report accurately presents the situation of the Company and the risks arising from future developments."

Eschborn/Frankfurt am Main

March 17, 2000

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Fluck
Wirtschaftsprüfer

Herzing
Wirtschaftsprüfer



C O N S O L I D A T E D F I N A N C I A L S T A T E M E N T S

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1999
ACCORDING TO US-GAAP together with Auditors' Opinion

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur
 Consolidated Income Statement for the Year ended December 31, 1999

	1999		1998	
	DM	%	DM	%
Net Sales (Note 26)	237,407,238	100.0	172,935,668	100.0
Cost of sales	-227,248,455	-95.7	-153,261,353	-88.6
Gross margin	10,158,783	4.3	19,674,315	11.4
Selling, administrative and general expenses	-40,748,341	-17.2	-15,734,957	-9.1
Other operating income/ expenses (Note 22)	8,076,673	3.4	14,206,886	8.2
Amortization of goodwill	-5,669,833	-2.4	-484,311	-0.3
Operating result	-28,182,718	-11.9	17,661,933	10.2
Interest expenses	-2,832,447	-1.2	-1,976,291	-1.1
Interest income	2,904,092	1.2	1,580,553	0.9
Result from companies stated at-equity	-10,968,065	-4.6	-2,678,092	-1.5
Results from ordinary activities	-39,079,138	-16.5	14,588,103	8.5
Expenses in connection with the capital increase and IPO	0	0.0	-2,734,596	-1.6
Income before taxes on income	-39,079,138	-16.5	11,853,507	6.9
Income tax expenses (Note 23)	8,248,790	3.5	-4,371,864	-2.5
Net loss/income before minority interest but incl. general partner's share in result	-30,830,348	-13.0	7,481,643	4.4
Minority interests	210,824		575,035	
Net loss/income after minority interests, including the general partner's share in result	-30,619,524		8,056,678	
General partner's share in result	13,491,678		-4,243,988	
Net loss / income (shareholders)	-17,127,846		3,812,690	
<i>For information purposes:</i>				
Earnings per share (DM/share)	-5.41		1.44	
Earnings per share (DM/share) including dilution by convertible bond	-5.23		1.40	

B A L A N C E S H E E T

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur
Consolidated Balance Sheet for the Year ended December 31, 1999

	1999 DM	1998 DM
ASSETS		
Current assets		
Cash on hand, balances at banks	26,765,844	7,293,154
Accounts receivable and other assets (Note 13)	58,961,694	42,819,251
Inventories (Note 12)	5,983,732	7,684,792
Deferred expenses (Note 19)	3,321,082	1,661,869
Deferred taxes (Note 23)	11,519,688	653,189
	106,552,040	60,112,255
Non-current assets		
Equity investments (Note 10)	37,830,982	24,014,672
Other financial assets (Note 11)	2,564,324	16,225,022
Property, plant and equipment (Note 9)	28,875,378	20,379,069
Intangible assets (Note 8)	114,318,947	19,492,239
	183,589,631	80,111,002
Total assets	290,141,671	140,223,257
LIABILITIES AND EQUITY		
Liabilities		
Current liabilities		
Accounts payable, trade	29.466.746	13.565.351
Liabilities due to banks (Note 15)	2.615.142	31.469.795
Advance payments received (Note 18)	10.156.930	7.072.966
Liabilities due to shareholders Note 14)	358.248	369.080
Other liabilities (Note 17)	23.906.088	7.648.330
Accrued taxes	980.415	987.439
Other accrued liabilities	11.468.133	9.411.023
Deferred income (Note 21)	7.316.894	5.329.702
	86.268.596	75.853.686
Non-current liabilities		
Convertible bond (Note 19)	528.500	442.000
Liabilities due to banks (Note 15)	18.207.138	18.232.554
Pension reserves (Note 20)	256.377	153.557
	18.992.015	18.828.111
Total liabilities	105.260.611	94.681.797
Minority interests	12.763.548	2.891.419
Equity		
Share capital (Note 6)	15.840.000	13.200.000
General partner's capital account	-3.511.982	13.043.988
Contributions for capital increase (Note 6)	1.200.000	0
Capital Surplus (Note 7)	182.355.507	12.704.917
Accumulated losses /retained earnings	-9.860.100	3.701.136
Outstanding, unrealized compensation for employee stock ownership programme (Note 19)	-13.883.911	0
Currency translation adjustment	-22.002	0
Total equity	172.117.512	42.650.041
Equity and liabilities	290.141.671	140.223.257

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur
Consolidated Cash Flow Statement for Fiscal Year 1999

	1999 DM	1998 DM
Cash Flow from operating activities		
Net loss/income after minority interests, including the general partner's share in result	-30,619,524	8,056,678
Adjustments to reconcile net loss/income to net cash provided by operating activities		
Depreciation and amortization	17,657,457	6,448,657
Personnel expenses from employee stock option plan	8,856,089	0
(Undistributed profits)/non-equalized losses of associated companies	7,908,433	2,033,780
Dividends paid by associated companies	545,055	332,062
Increase/(decrease) in currency translation adjustments	-22,002	0
Changes in assets/liabilities		
(Increase)/decrease in accounts receivable	-13,005,679	-5,102,617
(Increase)/decrease in own shares	0	1,000,000
(Increase)/decrease in inventories	1,840,146	-4,420,576
(Increase)/decrease in deferred expenses	550,410	-618,543
(Increase)/decrease in deferred taxes	-10,530,652	-381,416
Increase/(decrease) in accounts payable	13,180,926	7,532,551
Increase/(decrease) in liabilities due to shareholders	-10,832	0
Increase/(decrease) in advance payments received	3,083,964	2,149,330
Increase/(decrease) in other accrued liabilities	385,599	2,989,731
Increase/(decrease) in accrued taxes	-324,721	-1,925,222
Increase/(decrease) in other payables	4,905,059	1,566,114
Increase/(decrease) in deferred income	1,084,643	-6,670,278
Increase in pension reserves	102,820	22,150
Total adjustments	36,206,715	4,955,723
Net cash provided by operating activities	5,587,191	13,012,401
Cash flow from investment activities		
Capital expenditure for intangible assets and property, plant and equipment	-24,059,375	-22,777,781
Investments in other financial assets	-5,499,324	-16,115,000
(Increase)/decrease in other loans	12,160,022	-95,522
Disposals of assets	2,584,734	285,406
Net assets assumed in initial consolidation	18,317,292	146,553
Acquisition costs in excess of net assets from initial consolidation	-52,751,840	-16,393,602
Sale of shares in associated companies	207,887	0
Acquisition of additional shares in associated companies	-22,477,687	-25,846,475
Net cash used in investment activities	-71,518,291	-80,796,421
Cash flow from financing activities		
Capital increase	103,264,168	32,000,000
Payment of contribution for capital increase	1,200,000	0
Expenses of capital increase/IPO	-1,804,151	-3,324,569
Subsidies received	1,031,309	5,884,384
Minority interests	9,872,129	3,310,000
Issue of convertible bond	86,500	442,000
Non-cash contributions	3,797,440	0
Liabilities due to shareholders	0	369,080
(Repayments of) /raising of funds through banks	-28,908,394	35,550,725
Payment to general partner	-3,135,211	0
Dividends paid	0	-3,920,000
(Increase)/decrease in loans	0	1,987,081
Net cash provided by/used in financing activities	85,403,790	72,298,701
Net increase/(net decrease) in cash	19,472,690	4,514,681
Cash on hand and balances at banks		
Cash, beginning of year	7,293,154	2,778,473
Cash at year-end	26,765,844	7,293,154
<i>Supplementary cash flow information:</i>		
Cash paid during the year for		
Interest	2,832,447	1,976,291
Taxes	681,223	6,703,316

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur
Statement of Changes in Consolidated Equity

	1999 DM	1998 DM
Subscribed capital		
Beginning balance	13,200,000	2,529,600
Additions	2,640,000	10,670,400
Closing balance	15,840,000	13,200,000
General partner's capital contribution		
Beginning balance	13,043,988	8,800,000
Disposals	-16,555,970	4,243,988
Closing balance	-3,511,982	13,043,988
Contributions for capital increase		
Beginning balance	0	0
Additions	1,200,000	0
Closing balance	1,200,000	0
Additional paid-in capital		
Beginning balance	12,704,917	9,333,572
Additions	171,454,741	30,000,000
Disposals	-1,804,151	-26,628,655
Closing balance	182,355,507	12,704,917
Retained earnings		
Beginning balance	3,701,136	-111,554
Net loss/income	-17,127,846	3,812,690
Addition from initial consolidations	3,566,610	0
Closing balance	-9,860,100	3,701,136
Outstanding, unrealized compensation from employee stock ownership programme		
Beginning balance	0	0
Additions	-22,740,000	0
Release	8,856,089	0
Closing balance	-13,883,911	0
Currency translation adjustment		
Beginning balance	0	0
Additions	-22.002	0
Closing balance	-22.002	0
TOTAL EQUITY	172.117.512	42.650.041

1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien, Montabaur
 Explanations to the Consolidated Financial Statements for the Year Ended December 31, 1999

(1) NATURE OF BUSINESS

According to the Articles of Incorporation, the business activity of 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien (hereinafter referred to as "1&1 AG & Co. KGaA" or the "Company") comprises the rendering of marketing, sales or other services, especially in the fields of telecommunications, information technology, including the Internet, and data processing or related areas. The Company's purpose also includes the acquisition, holding and administration of investments in other companies, especially those operative in the aforementioned business segments. The Company is entitled to bring companies in which it holds a participation under its uniform management and to restrict itself to managing or administering its participations.

The Company is authorized to acquire or hold investments in all types of companies in Germany and other countries and to effect all transactions that are conducive to its purpose. The Company is also authorized to conduct its business through subsidiaries, associated companies and joint ventures. It may outsource or transfer all or part of its operations to affiliated companies.

1&1 AG & Co. KG aA manages and backs 22 subsidiaries focussing on the following five segments: IT and telecommunications marketing programs, customer care, Internet providing, electronic advertising and Internet investments. The Company primarily engages in the marketing and sale of electronic subscriptions and related multimedia products, such as interactive online applications, home banking, modems, ISDN connections and terminals, multimedia PCs and upgrade components for end users. The Company also coordinates and pools the activities of various advertising agencies in both traditional and electronic media and makes it possible for information providers to communicate with their customers through online services and the Internet. In addition, Internet providing services are offered to business and private end customers. Many of the products and services are offered in cooperation with other leading providers.

In fiscal year 1997 the Company launched its value-added Internet applications activities by offering special value-added Internet applications to interested firms. Additionally, the Company operates as an Internet service provider (Internet access provider, web hosting, online services).

In 1997 a new line of business was established with the foundation of a Multimedia-Internet-Park in Zweibrücken. The Park is intended to offer both new multimedia businesses start-ups and established companies active support in building and developing their business with the aid of promotional, marketing and service concepts (Internet investments segment). For this purpose a new subsidiary was established which acquired part of the land and buildings of a former U.S. airbase in Zweibrücken for a purchase price of KDM 6,000 (KDM 527 of which was for land) and carried out extensive conversion and renovation work.

The Company has its seat in Montabaur, Germany, with branches and subsidiaries in Munich, Dortmund, Zweibrücken, Maastricht, Vienna, Stockholm, Ljssudal, Oslo and Paris. Most of the Company's office buildings are rented.

(2) INVESTMENTS IN NEW MULTIMEDIA AND INTERNET BUSINESSES

To expand the Internet investments segment the Company is pursuing the strategy of aiming to provide a full range of online services. To reach this goal minority investments were made in start-up companies operating in these areas during the fiscal year and will be made in the future. Following this strategy, a total of 7 participations were acquired in 1998; in fiscal year 1999 another 9 minority interests were acquired, while 3 investments were sold (please see Note 10 for their recognition in the financial statements).

The state of Rheinland-Pfalz subsidizes a major part of the capital expenditure related to the buildings of the Multimedia-Internet-Park in Zweibrücken. Construction work was completed at the beginning of fiscal year 1998 as further parts of buildings were put into operation. The total budgeted costs are KDM 17,800, of which KDM 15,160 has been approved as investment allowances. In 1999 subsidies totalling KDM 1,031 (prior year: KDM 5,884) were received. As of December 31, 1999 the Company was entitled to additional funds of KDM 740, which are recognized under other accounts receivable. In addition, a significant part of the operating expenses are subsidized.

As of the balance sheet date of fiscal year 1999 agreements for rental and other services had been concluded with 37 multimedia and Internet companies.

(3) THE REPORTING COMPANY

The parent company of the Group, 1&1 AG & Co. KGaA, was incorporated on January 29, 1998. As a holding company, it assumed the functions of 1&1 Holding GmbH, which was merged into it with effect from January 1, 1998.

(4) TRANSACTIONS WITH RELATED PARTIES

The general partner, 1&1 Aktiengesellschaft & Co. Beteiligungsgesellschaft, or the management board of the latter's general partner, 1&1 Verwaltungs Aktiengesellschaft, manages and represents the Company. 1&1 Aktiengesellschaft & Co. Beteiligungsgesellschaft also holds an interest in the Company having made a liable capital contribution of DM 8.8 million and is owned solely by Mr. Ralph Dommermuth. The latter is also a member of the management board of 1&1 Verwaltungs AG and received a salary and bonus totalling KDM 340 in the fiscal year.

In connection with the Multimedia-Internet-Park in Zweibrücken the Company acquired in fiscal year 1997, based on an expert opinion, land for a purchase price of KDM 6,000 from a company in which the majority shareholder holds a 90 % stake.

Until June 30, 1999 the Company leased most of its premises from a company controlled by the municipality of Montabaur, Stadtentwicklung Montabaur GmbH. The rent agreements expired/will expire on June 30, 1999 and June 30, 2002. Stadtentwicklung Montabaur GmbH itself acquired inheritable building rights for the land from, among others, Mr. Dommermuth, who owns 67 % of the land. The term of the inheritable building right agreements is the same as those of the rent agreements. Once the inheritable building rights have expired 1&1 has the option of renting the land at market prices from the real estate company until the above mentioned dates. A follow-up agreement to the rent agreement that expired on June 30, 1999 was concluded with the real estate company in which Mr. Ralph Dommermuth holds a stake. The resulting rent expenses amount to KDM 660 per year. The follow-up agreement runs until June 30, 2009.

The Company has concluded an agreement for advisory services with the supervisory board member Mr. Kurt Dobitsch, concerning the identification and acquisition of potential investments in companies, for which remuneration of KDM 52 was paid last fiscal year.

Mr. Dobitsch was also the sole owner of 3D Beteiligungen GmbH & Co. KG, Baldham, which held 20 % of 1&1 Beteiligungen GmbH & Co. KG, Montabaur. The latter was merged into 1&1 Geschäftsführungs GmbH as of August 30, 1999. In a contribution agreement of December 3, 1999 between Mr. Dobitsch and 1&1 AG & Co. KGaA, the former contributed his shares in 1&1 Geschäftsführungs GmbH in return for 240,000 shares. This contribution to capital was valued in the consolidated financial statements at its market value at the time of contribution, thereby giving rise to goodwill of KDM 44,287.

(5) SIGNIFICANT ACCOUNTING, VALUATION AND CONSOLIDATION POLICIES

Some of the accounting policies applied by the Company comply with the German generally accepted accounting principles but not with the corresponding principles in the United States. The assets, liabilities, equity, income and expenses recorded in these financial statements were adjusted to meet the requirements of US accounting regulations. All amounts are in German marks (DM).

a) Principles of Consolidation

The consolidated companies include 1&1 AG & Co. KGaA and its subsidiaries and investments (hereinafter referred to as the "Company"). All significant intragroup transactions were eliminated during consolidation.

All investments over whose financial and business policies the Company cannot exercise full control are included as associated companies in the consolidated financial statements according to the equity method (Note 10).

The Group includes the following subsidiaries in which 1&1 AG & Co. KGaA holds a direct or indirect majority interest (as indicated by the figures in brackets):

- 1&1 Marketing GmbH, Montabaur (100 %)
- 1&1 Telekommunikation GmbH, Montabaur (91,2 %)
- Schlund + Partner AG, Karlsruhe (91,2 % indirect via 1&1 Telekommunikation)
- 1&1 puretec GmbH, Karlsruhe (wholly-owned subsidiary of Schlund + Partner AG)
- MIP Multimedia Service GmbH, Zweibrücken (100 %)
- A1 Marketing Kommunikation und neue Medien GmbH, Montabaur (100 %)
- 1&1 Geschäftsführungs GmbH, Montabaur (100 %)
- GMX Gesellschaft für Datenkommunikation mbH, München (62,5 % indirect via 1&1 Geschäftsführungs GmbH)
- twenty4help Knowledge Service GmbH Europe, Montabaur (98,10 %)

- twenty4help Knowledge Service GmbH Deutschland, Montabaur (100 %)
- twenty4help Knowledge Service GmbH, Zweibrücken (100 %)
- twenty4help Knowledge Service B. V., Maastricht/Netherlands (98,10 % indirect via twenty4help Knowledge Service GmbH Europe)
- twenty4help Knowledge Service AB, Ljusdal/Sweden (98,10 %)
- United Internet GmbH, Montabaur (100 %)
- WebAuto GmbH, Montabaur (100 %)
- AdLINK Internet Media GmbH Europe, Montabaur (99,05 %)
- AdLINK Internet Media AB, Stockholm/Sweden (99,05 %)
- AdLINK Internet Media S. A., Paris/France (99,05 %)
- Axial Trading et Participation S. A., Paris/France (99,05 %)
- AdLINK Internet Media AS, Oslo/Norway (99,05 %)
- AdLINK Internet Media Services GmbH, Vienna/Austria (99,05 %)
- AdLINK Internet Media GmbH Deutschland, Montabaur (99,05%)

b) Accounts Receivable, Trade

Trade accounts receivable are stated at nominal value net of allowances for doubtful accounts.

Individual bad debt allowances are computed on an item-by-item basis; appropriate lump-sum bad debt allowances were set up to cover the general credit risk.

c) Recognition of Income/ Expenses

Income and related expenses are recognized independent of the underlying cash flows.

d) Revenue Recognition

With regard to revenue recognition a distinction must be made between the Company's different segments (Note 26, "Segment Reporting").

■ Internet Providing

The services offered in the Internet Providing Segment essentially consist of Internet access, value-added Internet services and Internet presence (web hosting). The offerings are targeted both at business customers (business-to-business) and private end users. Product specifications are based on target-group related criteria such as duration and frequency of use, demands on design, functionality and technical features, etc.

The subsidiary Schlund + Partner AG, Karlsruhe, administers Internet presences and web hosting for business customers (provision of storage space and domain registration), provides technical support and develops services, it operates a powerful computer center in Karlsruhe for this purpose. In the low-price segment which is attractive to private end users and smaller businesses, web hosting is carried out by the company 1&1 puretec GmbH, Karlsruhe, which was founded in October 1998.

The Company recognizes its revenue from the provision of Internet access according to the service period and with regard to the recoverability of amounts owed by customers which are usually collected by direct debit at the end of the month. Customers usually pay for web hosting services in advance for a contractually stipulated period. Revenue is recognized over these periods. Receipts relating to the following fiscal year are deferred on the balance sheet date.

■ IT/TC Marketing

In the IT/TC marketing segment 1&1 AG & Co. KGsaA mainly markets third parties products. This includes the marketing of electronic subscriptions and related multimedia products and services, interactive online applications, home banking, modems, ISDN connections and terminals, multimedia PCs and upgrade accessories for end users.

Revenue is recognized at the time of delivery or when services are rendered.

■ Customer Care

This segment mainly comprises call center services: the operation of hotlines or user helpdesks for information technology and telecommunications providers. Services are invoiced on the basis of criteria agreed with customers, taking success-related factors (speed, quality, etc.) into account. Revenue is recognized once customers have accepted the content of the Company's invoices.

■ Online Marketing

The Company generates its revenues by selling advertising space (banners, microsites, pop-ups). When selling advertising space and placing ads, sales are billed depending on the targets achieved. Sales are realized when the Company and its customer agree on success (measured in terms of either thousands of contacts or of cost per click/interest/order). The corresponding billing is done on a monthly basis. The amount agreed with and billed to the customer is stated as the amount of the sale. The amounts credited to the website operators of AdLINK are stated in cost of sales.

■ Internet Investments

This segment covers the acquisition and administration of investments in new Internet businesses. In addition, these companies are provided with certain services (rent of office space, management services). Revenue is recognized in accordance with the contractually stipulated arrangements.

e) Inventories

Inventories are stated at the lower of average cost or market. Adequate valuation allowances for excess and obsolete stocks were made to provide for inventory risks.

f) Property, Plant and Equipment

Property, plant and equipment are valued at acquisition cost. Maintenance expenses that neither enhance the value of the assets nor prolong their useful life are expensed as incurred. Gains or losses from the disposal of fixed assets are recognized in other operating income or expenses.

Property, plant and equipment are depreciated over the expected useful life of the asset using the declining balance method. The depreciation rate is no more than 30 % of acquisition cost and is limited to three times the straight-line depreciation rate. If straight-line depreciation exceeds depreciation according to the declining balance method, a switch is made to the straight-line method. Low-value items (acquisition costs of up to DM 800) are fully expensed in the year of acquisition.

The following estimated useful lives have been used to calculate depreciation:

	Useful life in years
Buildings	10 to 50
Vehicles	5
Other equipment, operational and office equipment	3 to 10
Office fixtures and fittings	5 to 10

Buildings are usually written off over 10 years.

Servers used for web space providing, which are part of operational and office equipment, are depreciated over 3 years. The depreciation of all other servers used by the Company is calculated on a 5 year basis as they are used to a lesser extent.

g) Intangible Assets and Goodwill

The item intangible assets consists of software and related rights/licenses as well as goodwill from the acquisitions.

Software and licenses are amortized over their expected useful life of 2 to 5 years according to the straight-line method. The goodwill of companies operating in the areas of multimedia and the development of Internet content is amortized over 6 years and that of sales and distribution companies over 10 years. Extraordinary depreciation for lasting value impairments is performed if necessary.

h) Pension Reserves

The pension reserves were set up in accordance with an actuarial report for a pension commitment made to a member of the management board. A reinsurance policy has been taken out to cover this individual pension commitment.

Pension benefits are paid monthly after retirement. Provisions to the pension reserves are determined in accordance with the Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions". The pension commitment is not funded.

i) Other Accrued Liabilities

All estimated expenses incurred until the balance sheet date which have not yet been billed or paid including vacation, overtime and anniversary accruals are recorded under other accrued liabilities.

j) Recognition of Revenues and Expenses

Revenue and related expenses are recognized independent of the underlying cash flows.

k) Subsidies

The investment allowances granted by the state of Rheinland-Pfalz for the Multimedia-Internet-Park are treated as reductions of acquisition costs where they relate to construction costs. The subsidies related to current expenses are taken to other operating income.

Prepayments for investments and expenses in fiscal year 2000 are reported as other liabilities.

l) Cash and Cash Equivalents

This item comprises balance at banks, checks and cash on hand.

m) Foreign Currency Translation

The functional currency of each of the Company's subsidiaries is the local currency of the country in which each subsidiary has its seat. Accordingly, assets and liabilities which are recognized in the balance sheets of the foreign subsidiaries in a foreign currency (with the exception of equity) are translated into German marks at the respective closing rate. The translation of the income and expenses is done at the mean exchange rate of the respective fiscal year. The difference which results between the valuation of equity at the historical rate and at the closing rate is stated with no effect on income as a currency translation adjustment in equity.

n) Income Taxes

Income taxes were calculated using the asset and liability method. Deferred tax assets and liabilities were recorded for future tax effects from differences between assets/liabilities stated in the consolidated financial statements according to US GAAP and the corresponding amounts in tax books as well as for net losses in tax terms and tax loss carryforwards. Deferred tax assets and liabilities are valued on the basis of the current tax rates valid for the period in which the temporary differences will probably be equalized. The effect on deferred tax assets and liabilities resulting from changes in the tax rate is recognized with effect on income in the year of the legal amendment.

o) Cash Flow Statement

As regards to the cash flow statement, the Company views all cash investments with a residual term at the balance sheet date of no more than three months as cash and cash equivalents.

p) Underlying Value of Long-lived Assets

The Company applies the regulations of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of". These provisions require that the underlying value of long-lived assets (including intangible assets) be checked regularly, in particular if a situation arises which could impair the future underlying value. This underlying value check is always done on the basis of the comparison between the book values of the respective assets with the net present value expected in future of the cash flow generated with the asset. If this underlying value check reveals a shortfall in the book values, the book value is adjusted to the net realizable value ("fair value"). Certain assets intended for sale are valued either at continued acquisition cost or at the lower net realizable value less selling expenses.

q) Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported disclosures on balance sheet items, contingent liabilities, income and expenses. Actual results could differ from these estimates and assumptions.

r) Recent Accounting Statements

In June 1997, the Financial Accounting Standards Board ("FASB") issued additional guidelines: SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information". SFAS No. 130 is a guideline for reporting and presenting total income. SFAS No. 131 requires the reconciliation of the entire segment reporting to the corresponding amounts in the consolidated financial statements.

SFAS No. 131 sets guidelines for disclosures on products and services, geographical areas and key customers in the notes to the financial statements. Both SFAS No. 130 and No. 131 are in effect for the fiscal year ending December 31, 1999. The Company intends to disclose "comprehensive income", showing the net income and the difference in equity resulting from the currency translation under equity. The financial statements from prior years are adjusted to meet the requirements in SFAS No. 130. The Company has not yet stated which additional disclosures, if any need to be made, are connected with the introduction of SFAS No. 131.

SFAS No. 132 sets forth new provisions for disclosures on pension commitments in the notes to the financial statements. The provision is to be applied for the first time to the fiscal year ending on December 31, 1999.

In June 1998 the Financial Accounting Standards Board passed SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement sets forth guidelines for accounting and for recording derivatives and hedging activities. It requires that every derivative instrument be carried to the balance sheet at market value, either as an asset or as a liability. This standard also requires that changes in the standard market valuation of the derivatives which affect the current results of the enterprise be recorded unless special hedging accounting is done.

Special provisions for hedging transactions allow income or losses from derivatives to be offset against the results of hedging transactions in the income statement. At the same time, appropriate documentation, a description and an analysis of the effectiveness of the business activity protected by derivative instruments is required. SFAS No. 133 comes into force for all fiscal years beginning after June 15, 1999 and does not apply retroactively. The Company does not expect this new guideline to have any substantial effect on the consolidated balance sheet or the consolidated income statement.

(6) SHARE CAPITAL AND THE GENERAL PARTNER'S CAPITAL CONTRIBUTION

Share Capital and Shares

Following the capital increase out of approved capital decided by the general partner on February 17, 1999, which the supervisory board approved on February 19, 1999, the fully paid-in share capital amounts to EUR 8,098,863.40. It is divided into 3,168,000 bearer shares each having an arithmetic share in the share capital of EUR 2,56 (rounded up). Each share entitles the bearer to one vote in the Company's shareholders' meeting. There are no restrictions on voting rights.

■ *Approved Capital*

The general partner is authorized for the period of 5 years, starting on February 16, 1998, to increase the share capital, subject to the approval of the supervisory board, by DM 3,435,881.44 in nominal terms through one or more issues of ordinary bearer shares and/or non-voting preference shares in return for cash or non-cash contributions. The shareholders shall be granted subscription rights. However, subject to approval by the supervisory board, the general partner is authorized to exclude the right to subscribe in the following cases:

- Capital increases of up to a total of EUR 809,886.00, if the new shares are issued in return for cash contributions and the issue amount of the new shares is not substantially—and in no case less than 5 %—lower than the quoted market price of shares with the same terms at the time of finalizing the issue amount. If the Company has acquired its own shares by virtue of authorization under Sec. 71 (1) No. 8 of the Stock Corporation Act (AktG), and without granting a subscription right to shareholders, sold them in any way other than through the stock market, the above mentioned authorization to preclude the shareholders' subscription rights is reduced by the pro rata amount of the share capital attributable to the own shares sold in this way;

- Capital increases of up to a total of EUR 1,006,221.74, if the new shares are issued in return for contributions in kind;
- To equalize fractional amounts created by a capital increase.

Subject to the approval of the supervisory board, the general partner is authorized to define the further details of the capital increase and the terms of the share issue.

On December 3, 1999 the general partner decided to increase the Company's share capital by EUR 613,550.26, from EUR 8,098,863.40 to EUR 8,712,413.66 in return for contributions in kind.

The increase was made by issuing 240,000 new bearer shares (referred to below as "new shares") at an issue amount of EUR 2.56 each (arithmetic share in share capital) plus a premium of EUR 8.09 each, i.e. at an issue amount of EUR 10.65 per new share and a total issue amount of EUR 2,556,000.00. The amount of the premium is due to the fact that, in the participation agreement of December 3, 1999, the Company undertook in respect of 3 D Beteiligungen GmbH & Co. KG, Vaterstetten, to carry forward the latter's book values for the shares in 1&1 Geschäftsführungs GmbH which were to be contributed. The shareholders' right to subscribe was precluded.

3 D Beteiligungen GmbH & Co. KG was permitted to subscribe to the new shares. The new contribution is to be non-cash, to be rendered by contributing the two shares in 1&1 Geschäftsführungs GmbH, Montabaur, of a nominal amount of EUR 5,000 each, i. e. having a total nominal amount of EUR 10,000, to 1&1 AG & Co. KG aA.

The supervisory board of the Company gave its approval to this resolution on December 8, 1999.

The non-cash capital increase was entered in the commercial register on January 3, 2000. As of the balance sheet date, the capital contribution (KDM 5,000) was stated outside equity as "contributions made for capital increase".

For purposes of the consolidated financial statements in accordance with US GAAP the contribution was valued at fair market value of which the amount of KDM 48,091 was contributed to Capital surplus and that part which would make up the increase in capital stock (KDM 1,200) is stated as "contributions for capital increase" (Note 7).

■ *Conditional Capital*

Since the shareholders' meeting on June 7, 1999 there have been three lots of conditional capital:

1. The share capital is conditionally increased by up to EUR 511,291.88, divided into 200,000 bearer shares. A portion of the conditional capital of EUR 306,775.12 is earmarked for conversion options to be granted to the bearers of tranche (a) convertible bonds, a portion of EUR 204,515.76 for the granting of conversion rights to the bearers of tranche (b) convertible bonds; the issue of both types of bond was decided by the shareholders' meeting on February 18, 1998. It is only implemented to the extent that these conversion rights are exercised.
2. The Company's share capital was increased conditionally by up to EUR 2,351,952.66 by issuing up to 920,000 new bearer shares carrying an entitlement to dividend from the beginning of the fiscal year following the issue. The conditional capital increase is solely for the purpose of converting the general partner's capital contribution to share capital as provided for in Art. 7 of the Articles of Incorporation, or for the general partner's compensation in the event of withdrawal in accordance with Art. 8 (3).

The conditional capital increase takes place to the extent to which the general partner makes use of its right of conversion. The general partner is authorized, subject to approval by the supervisory board, to define further details of the conditional capital increase and its implementation.

3. The Company's share capital is conditionally increased by a further EUR 500,000, divided into 195,583 bearer shares. The conditional capital increase is implemented to the extent that the bearers of the options—issued in accordance with the resolution on item 13 of the agenda passed by the ordinary shareholders' meeting of the Company on June 7, 1999—exercise these rights. The new shares will participate in profit distribution from the beginning of the fiscal year in which the shares are issued.

General Partner

In accordance with Art. 6 of the Articles of Incorporation the Company must set up the following accounts for the general partner:

- A fixed capital account to which its capital contribution of EUR 4,499,368.56 is posted. This account does not bear interest and, subject to an increase of the capital contribution following an amendment of the Articles of Incorporation, remains invariable.
- A clearing account to which the withdrawable profit shares, additional cash deposits, interest on credit or debit balances and the other payment transactions between the Company and the general partner are posted. The clearing account shall bear interest of 5 % on debit and credit balances according to a sliding-scale. Notwithstanding any tax regulations, the interest shall be considered as expenses or income of the Company. Credit balances in the clearing account may be withdrawn by the general partner at any time, giving 2 weeks' notice. Withdrawals leading to a debit balance in the clearing account or increasing an existing debit balance are inadmissible.
- A reserve account, to which the non-withdrawable portion of profit and other contributions made by the general partner expressly transferred to the reserve are posted. If the Company's share capital is increased out of Company funds, the general partner may demand that the amount that is required to retain the ratio of the general partner's fixed capital contribution to the total of share capital plus fixed capital contribution is transferred from the reserve account to the fixed capital account.
- A loss carryforward account to which the portion of loss arithmetically attributable to the general partner are booked. This account does not bear interest. The general partner's profit shares must be posted to the loss carryforward account where they are needed to equalize a loss carryforward. Profit shares in excess of this are to be credited to the general partner's reserve account or clearing account in accordance with the corresponding profit appropriation resolution.

According to Art. 7 of the Articles of Incorporation of 1&1 AG & Co. KGaA, 1&1 AG & Co. may demand that its capital contribution be converted to share capital.

Should the general partner demand the conversion of (all or part of) its capital contribution to share capital of the same amount in a written declaration to the supervisory board, such a demand must be complied with immediately by issuing bearer shares with a total par value equal to the amount of the converted capital contribution. This does not apply if and insofar as the general partner's capital contribution is reduced by losses and its loss carryforward account has therefore not been equalized.

The new shares will be issued either from any conditional capital earmarked for this purpose, from approved capital, or from a capital increase decided by the shareholders' meeting. Any resolution of the shareholders' meeting for a capital increase that may be required must be adopted in the next shareholders' meeting following the request for conversion.

The capital increase and the subscription to the new shares by the general partner, reduces the capital contribution, and the general partner is then entitled to payment of its capital contribution to be converted and its reserves (in the event of partial conversion, an appropriate part of these reserves). The capital increase takes place in return for the contribution of this entitlement. The general partner no longer participates in profit and loss with its converted capital contribution and the new shares carry entitlement to dividends with effect from the beginning of the fiscal year following the request for conversion.

Net Loss for the Year

The division of the profit or loss of the Company between 1&1 AG & Co. and the shareholders is based on the results from ordinary activities as shown in the Company's income statement (Sec. 275 (2) No. 14, Sec. 275 (3) No. 13 HGB), whereby

- the share in result relating to the general partner's capital share is stated neither as expenses nor as income,
- the extraordinary result is taken into account (Sec. 275 (2) No. 17 or Sec. 275 (3) No. 16 HGB),
- taxes are deducted (Sec. 275 (2) No. 16/19 or Sec. 275 (3) No. 17/18 HGB) with the exception of corporate income tax, any surcharges and net worth tax and other non-deductible non-income taxes with any surcharges.

If foreign corporate income tax owed by a foreign company due to the receipt of dividends from investments in this company is refunded by the foreign or German fiscal administration, the Company is entitled to the amount of the refund as income from its investment in the foreign company. In the event of a refund of corporate income tax paid by the associated company, in addition to the dividends from an investment, the Company is also entitled to the amount of this refund.

The profit or loss determined according to the principles described above is divided between the general partner and the shareholders in the ratio of the capital contribution to the share capital, pursuant to Art. 6 (1) of the Articles of Incorporation. Any changes in the capital share as a result of losses, or in and the general partner's capital and revenue reserves are not considered in this calculation.

The shareholders' meeting may transfer amounts from the shareholders' portion of the net income for the year to other revenue reserves, up to a maximum of half the amount remaining once the general partner's profit share and the amounts to be transferred to the legal reserve have been deducted.

The shareholders' meeting decides on the appropriation of the remaining retained earnings.

The fraction of the shareholders' portion of the net income for the year plus corporate income tax which is transferred to the revenue reserves following the approval of the financial statements cannot be withdrawn by the general partner (in respect of its own profit share); the non-withdrawable amount is to be transferred to the general partner's reserve account.

A similar procedure is to be followed if the retained earnings are partially transferred to the revenue reserves with the prior consent of the general partner.

The results from ordinary activities of 1&1 AG & Co. KGaA according to German commercial law total KDM -5,023 for fiscal year 1999. Following the method of calculation described above, the profit/loss share attributable to the general partner in the single financial statements of 1&1 AG & Co. KGaA is computed as follows:

	1999 DM	1998 DM
Results from the ordinary activities of 1&1 AG & Co. KG aA	-5,023,398.40	19,096,352.85
Adjustment item:		
– Extraordinary result	-3,828,588.32	-6,059,164.83
– Trade tax	0.00	-2,249,920.42
	-8,851,986.72	10,787,267.60
Share of 1&1 AG & Co.	-3,161,044.46	4,314,907.04

Deviating from the profit and loss distribution as shown on the basis of the single financial statements of 1&1 AG & Co. KGaA, the profit/loss share due to the general partner was determined in the consolidated financial statements based on the consolidated result. Differences arose from income-affecting consolidation measures.

(7) CAPITAL SURPLUS

The additional paid-in capital developed as follows:

	KDM
Balance on January 1, 1999	12,705
Premium in connection with capital increase	100,624
Non-cash contributions	48,091
Contributions from employee stock ownership plan	22,740
Reserves of common parent company	184,160
Less:	
Cost of capital increase	-1,804
	182,356

The additional paid-in capital contains the premium of DM 190,58 per share paid in the context of the public placement of 528,000 bearer shares in connection with the capital increase in March 1999.

The non-cash contributions result from the acquisition of 20 % of the shares in 1&1 Geschäftsführungs GmbH from 3D Beteiligungen GmbH & Co. KG in return for the issue of 240,000 new shares.

The contributions from employee stock ownership plans represent the intrinsic value of the convertible bonds issued to employees as of December 31, 1999. Within shareholders' equity an amount of KDM 13,884 is shown; it will be released pro rata in accordance with the stock ownership plan.

In addition, costs in connection with the capital increase of KDM 1,804 were deducted from the amounts transferred to additional paid-in capital.

(8) INTANGIBLE ASSETS

	1999 KDM	1998 KDM
Cost		
Goodwill	112,494	17,078
Software	10,675	6,580
Licenses	3,974	2,240
Payments on account	783	0
Less subsidies	-27	-39
	127,899	25,859
Less:		
Accumulated amortization	-13,580	-6,367
Intangible assets, net	114,319	19,492

The goodwill reported as of the balance sheet date relates to the following companies acquired in the fiscal year or in prior years:

Acquired company	1999		1998	
	gross	net	gross	net
1&1 Geschäftsführungs GmbH	44,287	43,671	-	-
Schlund + Partner	25,945	22,550	16,988	16,516
GMX	18,936	18,936	-	-
AdLINK France	8,210	7,526	-	-
AdLINK Sweden	6,562	5,651	-	-
twenty4help Sweden	3,569	3,470	-	-
Axial	3,509	3,168	-	-
AdLINK Norway	1,386	1,290	-	-
A1 Marketing	78	-	78	-
twenty4help Holland	12	-	12	-
	112,494	106,262	17,078	16,516

The goodwill from the acquisition of a further 20 % of 1&1 Geschäftsführungs GmbH derives from the contribution of the shares held by 3D Beteiligungen GmbH & Co. KG in return for shares in 1&1 AG & Co. KGaA. Goodwill is measured at the fair market value of the shares granted for the non-cash capital increase out of approved capital. We refer to our comments in Note 6. The shares were consolidated for the first time in December.

KDM 16,988 of the goodwill of Schlund+Partner AG results from the acquisition of 66 % of shares in 1998. On December 31, 1999 an additional 12.71 % was purchased by 1&1 AG & Co. KGaA for a price of KDM 3,304. On the same date 1&1 AG & Co. KGaA and the other shareholders of Schlund+Partner AG contributed their shares to 1&1 Telekommunikation in a non-cash contribution. This additional 21 % was valued at its underlying market value (KDM 5,536).

By purchase agreement of December 23, 1999 1&1 Geschäftsführungs GmbH acquired a further 12.5 % of GMX for a price of DM 3.6 million. This made GMX a subsidiary of the 1&1 Group; it was therefore included in the consolidated financial statements by way of comprehensive consolidation (purchase method), and not at-equity as in the prior year. Until the acquisition date this company continued to be treated as an associated company and was recognized accordingly in the consolidated financial statements. In a shareholders' resolution of December 23, 1999 1&1 Geschäftsführungs GmbH undertook to pay in DM 26.5 million to the additional paid-in capital of GMX, thus yielding the goodwill stated above as of the balance sheet date.

GMX operates an e-mail and messaging service with integrated value-added services in Germany and Austria and currently has some 3,000,000 customers.

In a share purchase agreement dated February 22, 1999 AdLINK Europe acquired 100 % of the shares in AdLINK Sweden. The consideration was KDM 6,384, on top of which came incidental acquisition costs of KDM 459. The full purchase consideration was paid in February 1999.

On May 30, 1999 AdLINK Europe acquired 100 % of the shares in AdLINK France (formerly Accesite S. A.) with effect from July 1, 1999 and on June 30, 1999 it bought 100 % of the shares in Axial. Axial's sole purpose was to hold an investment in AdLINK France.

The total purchase price amounted to DM 14.9 million or FRF 50.0 million, KDM 9,913 of which had already been paid as of the balance sheet date. A further KDM 1,948 was due on December 31, 1999 according to the purchase agreement, but was not paid by the Company until January 2000 and is therefore reported under other liabilities as of the balance sheet date.

The purchase price installment still outstanding of KDM 3,046 must be paid by July 1, 2002 at the latest. However, the purchase agreement provides that in the event of the IPO of AdLINK Europe before this date, the purchase price installment still outstanding may be settled in the form of shares in AdLINK. The number of shares to be issued to the former shareholders of AdLINK France is determined

on the basis of the issuing price and the outstanding purchase installment of up to at maximum KDM 3,939. If the IPO of AdLINK Europe has not taken place by the due date, the payment must be made in cash. As of December 31, 1999 this amount is shown under other accrued liabilities.

In addition to the acquisition price, consulting fees of KDM 277 incurred in connection with the acquisition were capitalized as incidental acquisition costs.

The purchase agreement stipulates sales and profit targets based on the budget of AdLINK France for 2000 which adjust the purchase price if they are exceeded or fallen short of. The maximum amount by which the purchase price could increase or decrease is FRF 3.0 million or KDM 894.

With effect from August 23, 1999 the Company acquired 100 % of the shares in AdLINK Norway (formerly NetAd AS) for a purchase consideration of NOK 5.0 million (KDM 1,184). The purchase agreement also provides for a further purchase consideration payment in the amount of KDM 2,181 at maximum if certain sales and profit figures based on the budget of AdLINK Norway are reached in 1999 and 2000.

All European companies acquired by AdLINK Europe operate in the field of online advertising, i. e. the marketing of advertising space for the operators of websites in the Internet.

100 % of twenty4help Knowledge Service AB (formerly Westcall AB, Ljusdal/Sweden) was acquired by way of a purchase agreement of October 26, 1999 by twenty4help Knowledge Service GmbH Europe. The total purchase consideration was KDM 4,930. twenty4help Sweden renders call center services for technical hotlines.

All acquisitions made in the fiscal year are included in the consolidated financial statements by way of comprehensive consolidation using the purchase method from the respective acquisition date.

A useful life of 6 years was assumed in amortizing goodwill.

The investment allowances for investments in intangible assets of KDM 27 are treated as reductions of acquisition costs.

(9) PROPERTY, PLANT AND EQUIPMENT

	1999 KDM	1998 KDM
Acquisition cost		
Land and buildings	25,072	18,748
Company cars	2,504	2,302
Office equipment	28,226	15,211
Office fixtures and fittings	3,098	2,497
Building improvements	1,187	472
Buildings under construction	0	5,859
Less subsidies	-13,243	-14,402
	46,844	30,687
<i>Less:</i>		
Accumulated depreciation	-17,969	-10,308
Property, plant and equipment, net	28,875	20,379

The buildings under construction recognized in the prior year were completed in fiscal year 1999 and transferred to land and buildings. The investment subsidies reported mainly relate to the construction work for the Multimedia-Internet-Park, Zweibrücken, completed in 1999 (KDM 12,776) and to capital expenditures in Dortmund.

(10) INVESTMENTS

	1999 KDM	1998 KDM
Book value at the beginning of the fiscal year	24,015	534
Additions at cost	22,482	25,846
Disposals at net book value	-208	0
Adjustments		
• Dividends paid	-545	-332
• Profit shares and amortization of goodwill	-7,913	-2,033
	37,831	24,015

	Share 1&1	Goodwill (gross) KDM	Operating result KDM	At equity value	
				Dec. 31, 1998 KDM	Dec. 31, 1999 KDM
NT plus	38.5 %	15,136	2,810	-438	-908
FUN	33.3 %	0	59	-220	-588
Jobs & Adverts	27.5 %	9,013	-10,519	-389	-3,942
akamedia	25.1 %	251	0	-9	-42
ICAN	40.0 %	286	-2,313	0	-434
ONLY Solutions	26.1 %	2,494	77	0	-49
Metropolis	41.0 %	2,360	-1,122	0	-591
iTrade	26.0 %	3,465	-5,445	0	-1,464
ImmOnline	30.0 %	2,103	-820	0	-275
Disposals				-1,622	-165
		35,108		-2,678	-8,458

The 1&1 Group holds stakes in the following associated companies that are included in the consolidated financial statements at-equity:

Shares already held as of December 31, 1998:

- NT plus AG (formerly NT plus Riedlbauer GmbH Neue Telekommunikation, Marketing und Dienstleistungen), Osnabrück
- fun communications GmbH, Karlsruhe
- GMX Gesellschaft für Datenkommunikationsdienste mbH, Munich (until December 23, 1999; thereafter comprehensive consolidation)
- Jobs & Adverts AG, Oberursel
- akamedia Akademie für interaktive Medien und Kommunikation GmbH, Dortmund

Shares acquired in fiscal year 1999:

- ICAN Internet Services GmbH, Vienna/Austria
- ONLY Solutions Gesellschaft für Softwareentwicklung mbH, Kassel
- Metropolis AG, Reutlingen
- iTrade AG, Munich
- ImmOnline AG, Paderborn

The shares in AgroLogic AG, Zweibrücken, city.guide1 Internet GmbH, Berlin, Player Network OGS GmbH & Co. KG, Zweibrücken, and Player Network OGS Verwaltungs GmbH, Zweibrücken, held as of December 31, 1998 were sold in fiscal year 1999. The losses on disposal totaled KDM 955.

In December 1999 more shares were acquired in GMX Gesellschaft für Datenkommunikationsdienste mbH, Munich, in which the Company held a 50.0 % stake as of December 31, 1998. As of December 31, 1999 the company held 62.5 % of the shares in GMX. This participation was subsequently fully consolidated and therefore no longer appears as investment.

Except for the goodwill resulting from the acquisition of NT plus all goodwill is amortized over 6 years. The goodwill attributable to NT plus is being written off over 10 years.

The Company holds a 27,51 % stake in Jobs & Adverts AG (formerly Jobs & Adverts Online GmbH). Jobs & Adverts AG and its subsidiaries operate job advertisement sites on the Internet.

As of December 31, 1998 the Company held a share in Jobs & Adverts of a nominal value of DM 18,500. This share represented 37.0 % of the capital stock of Jobs & Adverts Online GmbH.

In fiscal year 1999 1&1 Group made an additional contribution of KDM 500 to the additional paid-in capital of Jobs & Adverts Online GmbH in accordance with the agreement for the purchase of the aforementioned share (KDM 18,500). The contractual stipulations concerned the attainment of certain financial targets by Jobs & Adverts.

In a purchase and assignment agreement of June 17, 1999 the Company sold a partial share of a nominal value of DM 800 to a trustee holding the shares on behalf of employees of Jobs & Adverts in connection with an employee stock ownership plan.

In connection with the increase of the capital stock of Jobs & Adverts Online GmbH from DM 50,000 to DM 54,100 1&1 assumed an original capital contribution of a nominal value of DM 1,500. Here, 1&1 paid a premium of KDM 6,951 which was transferred to the additional paid-in capital of Jobs & Adverts Online GmbH.

The shareholders' meeting of Jobs & Adverts Online GmbH on August 11, 1999 passed a resolution changing its form to that of a stock corporation with the name Jobs & Adverts AG. Prior to the change of form capital was increased out of company funds. The share capital of Jobs & Adverts AG initially totaled KEUR 10,000. In arithmetical terms, KEUR 3,549 was attributable to the 1&1 Group.

At the extraordinary shareholders' meeting of Jobs & Adverts AG on September 16, 1999 it was decided to increase subscribed capital from KEUR 10,000 to KEUR 12,900, thereby excluding the subscription right of existing shareholders. The new shares were due to be placed in the Neuer Markt of the Frankfurt Stock Exchange in October 1999. However, the initial public offering was postponed due to unfavorable capital market conditions. The capital increase diluted the stake of the 1&1 Group in Jobs & Adverts AG to 27.5 %.

By share purchase agreement dated December 3, 1999 the Company acquired 26 % of the share capital of iTrade. The acquisition took place as the share capital of iTrade was increased from EUR 87,500 to EUR 118,243 by issuing 30,743 preferential shares each having a par value of EUR 1, thereby excluding the subscription right of existing shareholders. Additionally, 1&1 Geschäftsführungs GmbH undertook to make an additional contribution

of KDM 4,969 to the additional paid-in capital. Also, incidental acquisition costs were incurred. iTrade operates an innovative trade forum in the Internet in which businesses and private persons can auction products and place purchase requests.

The shares in ONLY Solutions were acquired by way of a purchase and assignment agreement of November 17, 1999. As a result, 1&1 Geschäftsführungs GmbH now owns shares with a nominal value of KDM 18 in the capital stock of ONLY Solutions of KDM 69. The reported acquisition costs are made up of the purchase price for the shares of KDM 300 and an additional contribution to the additional paid-in capital of KDM 3,000. ONLY Solutions is developing an image search engine for the Internet.

At the extraordinary shareholders' meeting of ImmOnline on December 3, 1999 it was decided to increase the share capital from KEUR 70 to KEUR 30, excluding the subscription rights of existing shareholders. The Company was permitted to acquire the new shares in return for payment of a premium of KEUR 1,520. The incidental costs of acquisition totaled KDM 38.

On December 17, 1999 the Company acquired 20,500 no-par shares in Metropolis AG, each having a par value of EUR 1 (41 %). A purchase consideration of KDM 1,671 was agreed with the former sole shareholder, 21TORR Medien Design GmbH. KDM 630 of this amount is due to be paid on March 31, 2000.

On that same day an increase in the share capital of Metropolis was decided, taking it to KEUR 250, of which 1&1 Geschäftsführungs GmbH purchased 82,000 shares of a par value of EUR 1. In addition, the Company paid a premium of DM 1.0 million to the additional paid-in capital of Metropolis.

By share purchase and assignment agreement of June 18, 1999 1&1 Geschäftsführungs GmbH acquired a 40 % stake in ICAN. The total purchase price paid to the former shareholders amounted to ATS 3.0 million, or KDM 426. The incidental acquisition costs for legal advice totaled KDM 8.

The Company holds KDM 251 of the capital stock of akamedia Akademie für interaktive Medien und Kommunikation GmbH, which has a total capital stock of DM 1,000,000. By virtue of an agreement concluded in the context of the acquisition of the participation, all profits arising until December 31, 2000 are due to the seller, who will also equalize any losses.

As of the balance sheet date the Company holds a participation in NT plus AG. Having acquired 41 % of the shares with effect from July 1, 1998, the Company holds a 38.5 % stake on December 31, 1999. Owing to differences between the cost of acquiring the participation and the prorated equity attributable to the Company, goodwill of KDM 15,136 arose at the time of acquisition; this goodwill is being amortized over 10 years.

(11) OTHER FINANCIAL ASSETS

The other financial assets decreased by KDM 13,661 as compared with the prior year.

This decrease was primarily due to the repayment of the loan of KDM 10,000 granted in fiscal year 1998 to Nacamar Group plc., London/England, the repayment of the loan of KDM 2,000 extended to Jobs & Adverts AG and to the initial comprehensive consolidation of GMX Gesellschaft für Datenkommunikationsdienste mbH as of December 31, 1999. The latter had the consequence for the consolidated financial statements for the year ended

December 31, 1999 that the dormant participation of KDM 4,000 reported under other financial assets in the prior year, and which had been increased during the year to KDM 7,000, was offset against the corresponding position of 1&1 Geschäftsführungs GmbH during the consolidation of inter-company balances on the balance sheet date.

Loans extended to associated companies and employees had the opposite effect in fiscal year 1999. The loans to associated companies include the loan receivables due from ICAN Internet Services GmbH (KDM 1,337), AgroLogic AG (KDM 140), 21Torr Medien Design GmbH (KDM 200) and fun communications GmbH (KDM 700). All loans extended to associated companies bear interest of 6 % p. a.

(12) INVENTORIES

Inventories consist of the following merchandise:

	1999 KDM	1998 KDM
PCs and printers	2,433	2,910
T-Online/Internet products (modems)	1,111	1,955
ISDN products (PC adapter cards, analog transducers and telephones)	1,646	1,796
Cellular telephones	462	1,183
CD ROMs	41	57
Other	703	114
	6,396	8,015
<i>Less:</i>		
Valuation allowances	-412	-330
Inventories, net	5,984	7,685

(13) ACCOUNTS RECEIVABLE AND OTHER ASSETS

	1999 KDM	1998 KDM
Accounts receivable, trade	56,746	35,301
Less:		
• Individual bad debt allowances	-2,212	-1,044
• Lump-sum bad debt allowances	-861	-562
Accounts receivable, trade, net	53.674	33.695
Other accounts receivable		
Accounts receivables from tax authorities	2,397	187
Approved subsidies	740	1,771
Claims against suppliers	676	580
Amounts collected by direct debit	428	0
Asset value of reinsurance policy	134	107
Interest due from associated companies	26	321
Bonus for target achievement	0	2,664
Purchase price reduction for properties in Zweibrücken	0	2,000
Payments on account	0	619
Other	1,024	875
	5,425	9,124
Less:		
• Individual bad debt allowances	-137	0
Other accounts receivable, net	5,288	9,124
	58,962	42,819

(14) LIABILITIES DUE TO SHAREHOLDERS

	1999 KDM	1998 KDM
	358	369

The liabilities to the general partner contain the expenses incurred in connection with the management and the statutory compensation for the assumption of liability.

(15) LIABILITIES DUE TO BANKS

	1999 KDM	1998 KDM
Loans	18,232	18,257
Less:		
Current liabilities	-25	-24
Non-current liabilities	18,207	18,233
Short-term portion of non-current liabilities	25	24
Short-term loans	0	30,000
Advances on current account	2,590	1,445
Current liabilities	2,615	31,469
Total liabilities due to banks	20,822	49,702

In July 1996, an annuity loan of KDM 1,000 with a fixed interest rate of 6.25 % p. a. and an initial annual amortization rate of 2.0 %, was entered into, secured by a land charge.

In September 1997 the Company raised two long-term loans of KDM 4,000 and KDM 4,400 in connection with financing the Multimedia Internet Park in Zweibrücken. Repayment will begin in 2002 at 4 % of the original loan amount p.a. The loans bear interest at fixed rates of 5.40% p.a. and 6.39% p. a. respectively until 2002.

A further loan of DM 8.75 million (96 % paid out) was raised in 1998 in the context of the KfW program and is earmarked for the acquisition of shares in NT plus. It bears 4 % interest and is to be repaid semi-annually starting from March 31, 2001 in equal installments until September 30, 2008.

In fiscal year 1998 the Company was provided with a loan of KDM 155 in connection with the promotion of economic development and employment. The loan, which bears interest at 3 % above the discount rate p.a., is earmarked for the training of 60 employees and does not need to be repaid nor does it bear interest if 60 full-time jobs are retained until 2003.

The interest expenses for all liabilities due to banks amounted to KDM 2,813 in 1999 and KDM 1,554 in 1998.

(16) MATURITIES AND CURRENT LIABILITIES

a) Maturity

The maturities of the non-current liabilities to banks, convertible bonds and short-term loans are shown in the table below:

	1999 KDM	1998 KDM
2000	0	25
2001	1,438	27
2002	1,467	268
2003	1,566	808
2004	1,462	1,904
Thereafter	12,803	15,643
Summe	18,736	18,675

b) Current Liabilities

The Company has the following credit lines for overdrafts and other short-term loans with several banks:

	1999 KDM	1998 KDM
Available credit lines	39,064	35,050
Utilization	115	27,073
Average interest rate (in %)	5.25	5.01
Unused credit lines	38,949	7,977

(17) OTHER LIABILITIES

	1999 KDM	1998 KDM
Purchase price installments for acquisition of investments	9,834	1,760
Taxes	7,409	2,137
Social security	2,436	1,228
Due to former shareholders	1,550	0
Debtors with credit balances	1,154	881
Due to the labor office	107	0
From state subsidies	0	1,333
Other	1,416	309
	23,906	7,648

The liabilities connected with the acquisition of investments represent outstanding purchase price installments and other payment obligations to the former shareholders of the companies acquired, as derived from the share purchase agreements. They relate to, in particular, outstanding purchase price obligations from the acquisition of 12.71 % of the shares in Schlund+Partner AG (KDM 2,426), AdLINK Internet Media S.A. France (KDM 1,948), GMX Gesellschaft für Datenkommunikationsdienste mbH (KDM 4,230), Buchungsmaschine AG (KDM 600) and Metropolis (KDM 630).

The liabilities due to former shareholders relate to obligations of the foreign companies acquired in the fiscal year towards former owners.

The liabilities due to the labor office result from subsidies received that are linked to various conditions (creation of jobs, etc.). Where these conditions were not completely fulfilled as of December 31, 1999, the funds received were reported as other liabilities.

(18) ADVANCE PAYMENTS RECEIVED

	1999 KDM	1998 KDM
Advance payments received	10,157	7,073

The advance payments received are customer prepayments for the annual organization of stands at the computer fair CeBIT.

(19) CONVERTIBLE BOND

The Company has a stock option plan for executives. This entails an authorization to issue convertible bonds to executives and to create the required conditional capital to service conversion rights (Note 6).

Two convertible bonds can be issued for the implementation of the stock option plan (tranche (a) up to a total nominal value of KDM 600 and tranche (b) up to a total nominal value of KDM 400).

• *Tranche (a)*

The general partner was authorized, subject to the approval of the supervisory board, to issue on one or more occasions until February 15, 2003 interest-bearing convertible bonds with a maximum total value of KDM 600 and a maximum term of seven years to executive employees of the 1&1 Group and to members of the representative bodies of subsidiaries of the 1&1 Group.

• *Tranche (b)*

The supervisory board was authorized to issue on one or more occasions until February 15, 2003 interest-bearing convertible bonds with a maximum total nominal value of KDM 400 and a maximum term of seven years to members of the management board of the general partner's general partner, subject to the consent of the latter's supervisory board.

The shareholders' statutory subscription right was precluded in each case.

Two installments from tranche (a) of KDM 202 and KDM 251 were issued in the fiscal year. KDM 11 of this amount was repaid due to the withdrawal of three subscribers; the amount to be shown in the balance sheet therefore totals KDM 442.

In fiscal year 1999 (January 7, 1999) tranche (b) partially convertible bonds in the amount of KDM 200 were issued to Mr. Richard Seibt.

Further partially convertible bonds in the amount of KDM 108 were issued in the year under review. KDM 221 was repaid as employees left the company and new employee stock ownership plans were introduced. Thus, as of the balance sheet date KDM 329 of tranche (a) and KDM 200 of tranche (b) were reported under bonds.

The convertible bonds which bear 4 % interest p. a. may be converted as a whole or in parts to shares in 1&1 AG & Co. KGaA. Each DM 5 par value of the convertible bonds is entitled to be converted to an ordinary bearer share with a par value of DM 5. If the conversion right is exercised a cash payment of DM 75 is to be made for the purchase of one share.

The conversion right may be exercised for the first time if in the first three years since the date of issue of the convertible bond (first reference period) the average stock market price (i. e. the single cash price of the Frankfurt Stock Exchange) of the Company's share has increased by at least 10 % p.a. over its initial value (i.e. by at least 30 %) and the increase in the first reference period is equal to or greater than the percentage increase of the German stock market index DAX in the same period (exercise hurdles).

Should these exercise hurdles not be achieved for the first reference period, the conversion right may only be exercised if in one of the following reference periods, i. e. in the first four years (second reference period) or in the first five years (third reference period) since the date of issue of the convertible bond the average stock market price of the Company's share has increased by at least 10 % p. a. over its initial value (i. e. by at least 40 % or 50 %) and the increase in the respective reference period was equal to or greater than the percentage increase of the German stock market index DAX in the same period.

For tranche (a) the date of issue of the convertible bonds is deemed to be the date on which the resolution was passed by the general partner, for tranche (b) it is deemed to be the date on which the resolution was passed by the supervisory board of the Company (September 1, 1998 in each case).

The reference period in which the exercise hurdles are first reached is relevant for the conversion right. The conversion right may not be exercised before the end of the first reference period, and then only in a partial amount of up to 60 %. After the end of the third reference period a total (i. e. including conversion rights exercised previously) of up to 80 % may be exercised, when the convertible bond falls due 100 % of the conversion rights may be exercised. The conversion right lapses if the exercise hurdles fail to be achieved for any of the three reference periods.

Using an option pricing model in accordance with SFAS 123 ("Accounting for Stock-Based Compensation"), the fair value of the options as of December 31, 1999 is KDM 23,104. A volatility of 85.2 % for the 1&1 share and 29.9 % for the DAX and a risk-free interest rate of 5.1 % was used for the calculation.

In accordance with SFAS 123 the Company made use of the option of determining the value of the options connected with the convertible bonds according to the method used to determine intrinsic value as set forth in APB 25 and to recognize this value in the financial statements. The effects on earnings (personnel expenses) for the fiscal year calculated in this way amount to KDM 8,856. The convertible bonds have an aggregate intrinsic value of KDM 22,740 as of December 31, 1999. This amount was transferred to the additional paid-in capital. The outstanding part, not yet affecting current year's result as compensation cost of KDM 13,884 is shown as an adjustment item within shareholder's equity.

On the basis of the option pricing model, the personnel expenses of the fiscal year amount to KDM 9,242, the earnings per share are DM - 5.42 per share.

(20) PENSION PLANS

The Company has a pension plan for one of the members of the management board of the general partner's general partner. The plan is non-contributory, unfunded but reinsured and guarantees a fixed monthly retirement and disability pension. As of December 31, 1999 the pension reserves totaled KDM 256 (prior year: KDM 154).

The pension expenses were as follows:

December 31,	1999 KDM	1998 KDM
In accordance with pension scheme		
- Service cost	44	16
- Interest cost	12	7
Net pension expenses	56	23

The following table shows the status of the pension reserves and the underlying assumptions used to determine the pension reserves.

December 31,	1999 KDM	1998 KDM
Actuarial present value of pension obligations		
Vested obligations	0	0
Accrued pension obligations	256	125
Projected pension obligation	258	201
Plan assets at fair value	113	107
Pension obligation in excess of plan assets	145	94
Unrecognized net gain/loss	38	-30
Prior service cost	33	16
Pension reserve reported in the balance sheet	256	154
Discount rate	6 %	6 %
Future salary increases	0 %	0 %
Future pension increases	2,5 %	2,5 %

(21) DEFERRED INCOME

In March 1997 the Company negotiated a new cooperation agreement with a major customer to replace an earlier agreement with this customer which expired on December 31, 1999.

The new cooperation agreement led in fiscal year 1997 to a one-time payment of KDM 15,000 intended to offset the investments by 1&1 and the disadvantages resulting from the amendment to the agreement.

This sum was taken to income over the residual term of the agreement in order to offset the one-time charges (personnel expenses, depreciation) and certain other disadvantages. This resulted in income of KDM 3,497 in the fiscal year (prior year: KDM 7,100).

Deferred income also comprises deferred customer prepayments from web hosting (KDM 6,154).

(22) OTHER OPERATING INCOME / EXPENSES

Other operating income largely consists of the subsidies for operating expenses in connection with the Multimedia-Internet-Park in Zweibrücken (KDM 4,400; prior year: KDM 3,721) and KDM 3,497 from the compensation payment from a customer (see Note 21).

This item also contains losses on the sale of shares in Player Network OGS (KDM -582), city.guide 1 Internet GmbH (KDM -66) and AgroLogic AG (KDM -307).

(23) INCOME TAXES AND DEFERRED TAXES

German trade tax on income is levied on a company's taxable income adjusted for certain revenues which are not subject to such tax and for certain expenses which are not deductible for purposes of trade tax on income. The effective trade tax rate depends on the municipality in which the company operates. The average trade tax rate during the period under review was approx. 16 %. Trade tax is levied on the entire profit, i. e. on both the shareholders' and the general partner's profit share.

In contrast, corporate income tax is only levied on the profit share attributable to the shareholders, while the general partner must pay the income taxes due on its profit share itself.

Corporate income tax in Germany is levied at 45 % in 1998 and 40 % in 1999 for retained earnings and at 30% on distributed profits. Additionally a solidarity surcharge of 5.5% (1997: 7.5 %) is imposed on the assessed corporate income tax. Corporate income tax and solidarity surcharge are not levied on the general partner's profit share.

In the fiscal year corporate income was determined assuming a retention of profits.

Temporary differences between the commercial and tax balance sheets result above all from the inclusion of associated companies at equity. While the deferred taxes on the loss carryforwards from the losses of the individual associated companies are accounted for in a so-called commercial balance sheet II prepared separately for consolidation purposes, an deferred tax asset is set up in the consolidated financial statements to account for tax losses from consolidated companies and from companies valued at equity of KDM 11,520 (prior year: KDM 653). This deferred tax asset was calculated on the basis of a composite tax rate (corporate income tax, solidarity surcharge and trade tax on income) under the assumption of profit retention (51.4 %; prior year: 55.9 %).

Deferred tax assets were set up for the balance of the differences between the values of the investments under tax law and commercial law as of the balance sheet date where they are due to differences that will be equalized in the near future. Considering a valuation allowance of between 30 % and 100 % these items amount to KDM 1,560 (prior year: KDM 665).

Moreover, deferred tax assets were set up for the anticipated benefits of subsidiaries' tax loss carryforwards in accordance with the regulation in SFAS 109. Considering a 100 % valuation adjustment of the adjustment item for deferred tax assets from tax loss carryforwards of GMX of KDM 4,478, they amount to KDM 7,753.

The following table shows a reconciliation of the amount stated in the income statement on the basis of the tax rates effective for the shareholders and the general partner on the result before taxes:

	1999 KDM	1998 KDM
Anticipated tax benefits/expenses before offsetting stock issuance expenses against equity	18,179	-4,735
• Tax saving from offsetting stock issuance expenses against equity		
– Shareholders	1,316	1,115
– General partner	593	213
Anticipated tax benefits/expenses	20,087	-3,407
• Non-deductible personnel expenses from convertible bond		
– Shareholders	-4,046	-
– General partner	-506	-
• Non-deductible amortization of goodwill		
– Shareholders	-4,061	-547
– General partner	-508	-104
• Differences in tax rates of foreign companies	-821	-
• Depreciated deferred tax assets from tax loss carryforwards of fully consolidated companies	-1,033	-
• Non-deductible other expenses (net)	-863	-314
Tax income/expenses according to the income statement	8,249	-4,372

(24) COMPREHENSIVE INCOME

The Company applies provision SFAS No. 130, "Reporting Comprehensive Income", which contains a standard for reporting and for the components of comprehensive income. Comprehensive income breaks down as follows:

	1999 KDM	1998 KDM
Net loss/income including general partner's profit/loss share	-30,620	8,057
Other Comprehensive Income (loss):		
Currency translation adjustments	-22	0
	-30,642	8,057

(25) OTHER FINANCIAL OBLIGATIONS AND CONTINGENCIES

a) Leases and Rent

As of December 31, 1999 the rent obligations for buildings and obligations from an EDP maintenance agreement amounted to KDM 6,682, KDM 6,552, KDM 5,841, KDM 4,543 and KDM 3,038 for the years 2000 to 2004 respectively. The aggregate minimum rent payments are KDM 25,200, the minimum obligations from the EDP maintenance agreement are KDM 291.

b) Contingent Liabilities and Other Obligations

In connection with the purchase agreements for the acquisition of shares in ICAN Internet Services GmbH, Metropolis AG, ImmOnline AG, Only Solutions Gesellschaft für Softwareentwicklung mbH and Buchungsmaschine AG, the Company committed itself under certain conditions either to purchase shares at a point in time not yet determined at a price as yet undetermined or to sell shares to the other shareholders at a price as yet undetermined (so-called Mexican stand-off). The purpose of these agreements is, in the case of deviating interpretations by the groups of shareholders, to find a way of arranging the relationships between shareholders which is in the interests of the Company.

In connection with the acquisition of the above mentioned investments the Company undertook to make certain additional payments to capital and provide additional financing in the form of credit lines. These obligations to make additional payments, the time of payment of which is to be determined by the relevant company management, amounted to KDM 14,056 as of the balance sheet date.

In the purchase agreement for 100 % of the shares in AdLINK France (formerly: Accessite S.A.) dated May 30, 1999, AdLINK Europe undertook to recognize adjustments to the purchase price of a maximum of KEUR 457 if Accessite achieves certain sales and earnings targets in fiscal year 2000.

The purchase price installment still outstanding of KEUR 1,557 must be paid by July 1, 2002 at the latest. This purchase price installment still outstanding bears interest according to the 3 month EURIBOR since the time the shares were acquired. The purchase agreement also requires that in the case of the IPO of AdLINK Europe, purchase price installments still outstanding may be satisfied in the form of shares in AdLINK Europe. The number of shares to be issued to the former shareholders of AdLINK France is determined on the basis of the issuing price and the purchase installments still outstanding, up to a maximum of KEUR 2,014. If the IPO of AdLINK Europe has not taken place by the deadline, the payment must be made in cash.

Within the context of the acquisition of AdLINK Norway (formerly: NetAd Advisors & Brokers AS), the Company undertook to pay—in addition to the purchase price of KEUR 605 agreed and already paid—another KEUR 1,115 (maximum) to the seller if certain sales and income targets are reached in fiscal years 1999 and 2000. The retroactive purchase price adjustments are due for payment following the general shareholders' meetings of AdLINK Norway in the years 2000 and 2001.

In connection with the acquisition of 100 % of the shares in AdLINK Internet Media S.A., Madrid, which took place in January 2000 (formerly X Media Server S. L., Madrid) X Media must pay the general manager an additional KEUR 714 on top of the purchase price for a minimum period of activity by the company management until June 30, 2003 as well as KEUR 902 for having achieved set targets with respect to sales and income in the fiscal years 2000 to 2002.

The payment must be made in cash or, following the IPO of AdLINK, in shares. For this, the issuing price will be used as a basis for determining the number of shares to be issued to the general manager.

The management board has no knowledge of any other facts which could have a significant, adverse effect on the business activities, the financial situation or the operating result of the Company.

(26) SEGMENT REPORTING

The Company operates in 5 different segments: IT/TC marketing, Internet providing, customer care, online marketing and Internet investments.

The IT/TC marketing segment is mainly represented by the partial business units of 1&1 Telekommunikation and comprises the marketing and distribution of multimedia products via traditional communication and distribution channels. Above all the Company markets electronic subscriptions (ISDN, T-Online connections, cellular phone cards and Internet accounts) in conjunction with the related hardware and software applications. Its activities include marketing home banking for banks and other financial institutions. Furthermore, this market segment covers the pooling of different IT product and service providers' marketing activities in the traditional advertising media.

The customer care segment entails the operation of technical hotlines for the IT and telecommunications industry, providing problem-solving support for their end customers. The key subsidiaries rendering services in this segment are twenty4help Knowledge Service GmbH Europe, twenty4help Knowledge Service GmbH Deutschland and their subsidiaries.

In the Internet providing business the Company acts as an Internet provider and web hoster. The Company maintains the necessary hardware (computer center, network) and sells the required access software (browsers) enabling users to access the Internet. The accompanying services are rendered by 1&1 Telekommunikation (Internet providing), Schlund+Partner and 1&1 puretec (both web hosting).

The online marketing segment—in which the subsidiaries in the partial group of AdLINK Internet media GmbH Europe operate—concerns the marketing of Internet advertising space on the websites of content providers to the advertising industry with the aid of a new technology allowing the efficient selection and addressing of target groups.

The Internet investments segment involves the acquisition of minority interests in new Internet or multimedia businesses. This segment also includes the development of the Multimedia-Internet-Park. It is chiefly represented by 1&1 Geschäftsführungs GmbH and MIP Multimedia Internet Park.

Sales for fiscal years 1998 and 1998 developed as follows:

Sales	1999 KDM	1998 KDM
Before consolidation		
• IT/TC marketing	114,993	187,312
• Customer care	77,166	43,888
• Online marketing	18,800	6,354
• Internet providing	74,021	15,706
• Internet investments	2,388	822
	287,368	254,082
Consolidation		
• IT/TC marketing	-18,064	-63,207
• Customer care	-16,820	-10,576
• Online marketing	-875	-645
• Internet providing	-12,998	-6,606
• Internet investments	-1,204	-112
	-49,961	-81,146
After consolidation		
• IT/TC marketing	96,929	124,105
• Customer care	60,346	33,312
• Online marketing	17,925	5,709
• Internet providing	61,023	9,100
• Internet investments	1,184	710
	237,407	172,936

In customer care, the biggest customer accounted for approx. 18.1 % (1998: 15.5 %) of sales, the second largest approx. 9.0 % (prior year: 13.6 %) and the third largest customer approx. 8.8 % (prior year: 12.1 %). Other European countries contributed a total of KDM 7,603 (prior year: KDM 0).

In online marketing the largest customer represented 14.6 % of sales, the second largest 9.8 % and the third largest 9.5 %. Of the segment's total consolidated sales KDM 4,920 (prior year: KDM 0) was generated in other European countries.

In the IT/TC marketing segment approx. 21.9 % of sales were contributed by the largest customer and 9.0 % and 8.4 % by the second and third largest customers respectively. All sales were generated in Germany.

The reconciliation of the operating result according to internal reporting (result before interest, non-recurring expenses and taxes) to the Group's results from ordinary activities on the balance sheet dates is as follows:

Operating result	1999 KDM	1998 KDM
Operating results acc. to internal reporting		
• IT/TC marketing	4,054	19,961
• Customer care	7,717	9,340
• Online marketing	-8,589	-2,218
• Internet providing	-24,876	-9,030
• Internet investments	-820	92
	-22,513	18,145
Adjustments on group level		
• Amortization of goodwill		
- IT/TC marketing	0	0
- Customer care	-99	-12
- Online marketing	-2,033	0
- Internet providing	-2,923	-472
- Internet investments	-615	0
• Result from companies valued at equity		
- IT/TC marketing	-459	-438
- Customer care	-42	-9
- Online marketing	0	0
- Internet providing	0	0
- Internet investments	-10,467	-2,231
Result after consolidation and before financing		
• IT/TC marketing	3,595	19,523
• Customer care	7,576	9,319
• Online marketing	-10,622	-2,218
• Internet providing	-27,799	-9,502
• Internet investments	-11,902	-2,139
Financing on group level		
• Interest expenses	-2,832	-1,976
• Interest income	2,904	1,581
	72	-395
Results from ordinary activities	-39,079	14,588

The development of the segment results reflects the strategic realignment of the Group. This is characterized by a moderate development of the older segments of IT/TC marketing and a healthy expansion in the online marketing, Internet providing and Internet investments segments. Substantial start-up losses were accepted during the expansion phase.

	1999 KDM	1998 KDM
Tangible and intangible assets		
IT/TC marketing	38,611	39,028
Customer care	32,746	15,930
Online marketing	40,783	3,145
Internet providing	28,756	21,250
Internet investments	35,676	32,438
Other	127,454	28,432
Total	304,026	140,223

The "other" item relates to the Holding company which acts as the central service provider for the subsidiaries and is responsible for the strategic alignment of the Group.

(27) CHANGES IN THE REPORTING ENTITY

In the course of fiscal year 1999 the following companies were acquired in their entirety by 1&1 AG & Co. KGaA or its subsidiaries twenty4help Europe and AdLINK Europe and have been included in the consolidated financial statements as of December 31, 1999 by way of comprehensive consolidation:

- GMX Gesellschaft für Datenkommunikation mbH, Munich (62.5% indirect via 1&1 Geschäftsführungs GmbH)
- twenty4help Knowledge Service AB, Ljusdal/Sweden (98,10 %)
- AdLINK Internet Media AB, Stockholm/Sweden (99,05 %)
- AdLINK Internet Media S. A., Paris/France (99,05 %)
- AdLINK Internet Media AS, Oslo/Norway (99,05 %)
- AdLINK Internet Media GmbH Deutschland, Montabaur (99,05 %)

We refer to our comments in Note 8.

In addition, the following companies were founded in the fiscal year:

- 1&1 Geschäftsführungs GmbH, Montabaur (100 %)
- twenty4help Knowledge Service GmbH, Zweibrücken (100 %)
- WebAuto GmbH, Montabaur (100 %)
- AdLINK Internet Media Services GmbH, Vienna (99,05 %)
- AdLINK Internet Media GmbH Deutschland, Montabaur (99,05 %)

With regard to 1&1 Geschäftsführungs GmbH we refer to our comments in Note 7. Following the merger with 1&1 Beteiligungen GmbH & Co. KG it is the economic and legal successor to the latter company.

twenty4help Knowledge Service GmbH was founded by shareholders' agreement dated February 5, 1999. Like twenty4help Knowledge Service GmbH Deutschland it also operates a call center.

WebAuto GmbH operates a car market in the Internet to which approx. 1,200 car dealers are affiliated. It was founded on November 4, 1999.

AdLINK Internet Media Services GmbH was founded on September 22, 1999. Like AdLINK Internet Media GmbH Deutschland, which was founded on September 29, 1999, the company operates in the field of online advertising.

Please see Note 23 for other obligations resulting from the purchase and assignment agreement.

In accordance with the US accounting standards APB 16.96, the following company figures and information must be stated as if the companies acquired in 1999 had already belonged to the 1&1 Group at the beginning of the prior year: sales, results from ordinary activities, result after taxes and earnings per share for 1999 and 1998. The following table contains the required information:

	1999 KDM	1998 KDM
Sales	250,581	179,514
Results from ordinary activities	-53,472	-71
Result after taxes, minority interests, including general partner's share	-44,500	-6,841
Earnings per share	-9.03	-1.55

(28) EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On December 30, 1999 the general partner made a written declaration demanding the conversion of its capital contribution to share capital.

This request was approved by a resolution passed at the extraordinary shareholders' meeting on February 22, 2000. The extraordinary shareholders' meeting also elected to change the legal form of 1&1 AG & Co. KGaA to that of a stock corporation bearing the name "United Internet AG" and having its seat in Montabaur.

The management board was also permitted to carry out IPOs for the operative subsidiaries. However, the plan is that the 1&1 Group will retain the majority of voting rights and equity investments in these companies.

In January 2000 New Media Marketing and Sales Ltd., London/UK was acquired for a purchase price of KDM 6,292. Of this sum KDM 3,081 has already been paid; the remaining amount was deferred until March 31, 2003. The purchase agreement stipulates that the remaining purchase price be settled in the form of shares in AdLINK Europe following its conversion to a stock corporation and IPO. The number of shares to be transferred in return will be based on the ratio of the residual purchase price to the issue price of the shares.

A second acquisition was made in January 2000: of 100% of the shares in X Media Server S.L., Madrid/Spain, for a total purchase consideration of DM 1,117.

**1&1 AKTIENGESELLSCHAFT & CO. KOMMANDIT-
GESELLSCHAFT AUF AKTIEN, MONTABAUER**

Based on our audit, we have rendered the following unqualified opinion on the consolidated financial statements of 1&1 Aktiengesellschaft & Co.

Kommanditgesellschaft auf Aktien for the year ended December 31, 1999, and the group management report for fiscal year 1999:

“We have audited the group accounting (consolidated financial statements and group management report) of 1&1 Aktiengesellschaft & Co. Kommanditgesellschaft auf Aktien for the year ended December 31, 1999. The group accounting as defined by Sec. 292a HGB comprises the records required by U.S. GAAP and an orderly presentation of the disclosures required by Article 36 of the Seventh EC Directive concerning consolidated financial statements. The management board of the general partner is responsible for the group accounting. It is our responsibility to assess, on the basis of our audit, whether the group accounting complies with U.S. GAAP and the other conditions for exemption of Sec. 292a HGB are fulfilled.

We conducted our audit of the consolidated financial statements pursuant to Sec. 317 HGB and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the net worth, financial position and results of operations of the Company as conveyed by the consolidated financial statements, in compliance with the U.S. generally accepted accounting principles (U.S. GAAP), and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipa-

ted. During the course of the audit, the effectiveness of the system of internal controls is assessed and the disclosures made in the accounting, financial statements and management report are verified, mainly on the basis of spot checks. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the consolidated financial statements, in accordance with the U.S. generally accepted accounting principles, present a true and fair view of the net worth, financial position and results of operations of the Group and comply with U.S. GAAP. In all material respects, the group management report accurately presents the situation of the Group and the risks arising from future developments.”

Eschborn, Frankfurt/Main

March 17, 2000

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Fluck
Wirtschaftsprüfer

Herzing
Wirtschaftsprüfer

Annual Report of the Supervisory Board

The Supervisory Board of 1&1 Aktiengesellschaft & Co. KGaA, now called United Internet AG, observed its statutory obligations during the business year. The Management Board of the general partner provided the Supervisory Board with comprehensive quarterly reports on the development of business, including sales and the company's financial standing. Moreover, it informed the Supervisory Board of intended business strategies, fundamental corporate planning and company profitability, as well as return on equity. The reports were provided to all members of the Supervisory Board. On the basis of these reports, the Supervisory Board was able to monitor and advise on all major business decisions and developments.

The Supervisory Board was appointed by a resolution of the Annual General Meeting of 1&1 Aktiengesellschaft & Co. KGaA on 7 June 1999 for the period up to the conclusion of the Annual General Meeting, which is to decide on granting dismissal to members of the Supervisory Board entering the fourth business year after their appointment; the business year of appointment is not counted. Mr. Carl-Friedrich Meißner was appointed Chairman, Mr. Kurt Dobitsch Vice-Chairman. In the past financial year, the Supervisory Board met on 22 April, 7 June, 30 July and 27 October 1999. In addition to discussing current business developments, the Supervisory Board focused particularly on the development of participations and acquisitions, changing the company name from 1&1 to United Internet and the transformation of the company into a stock corporation.

No committees were formed by the Supervisory Board. The annual statements and condensed management report of the company as well as the consolidated annual statements according to US-GAAP

and consolidated management report of the Group were audited by Arthur Anderson Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, Frankfurt am Main, who issued an unqualified audit opinion. The Supervisory Board also audited the annual statements and condensed management report of the company as well as the proposal for the allocation of unappropriated surplus and the consolidated annual statements according to US-GAAP and consolidated management report. The Supervisory Board was joined in its discussions on 20 March, 2000 by the independent auditor, who reported on significant results of the audit. The Supervisory Board accepted the result of the auditor's examination. After final examination the annual statements were found to meet all statutory requirements. There are no objections. The Supervisory Board therefore approved the annual statements and the proposal for the allocation of unappropriated surplus of the general partner in its meeting on 23 March, 2000 (the general partner retired from that capacity when the company's transformation into an Aktiengesellschaft, or stock corporation, was formally registered). The annual statements were formally approved. The Supervisory Board expresses its thanks and acknowledgement to the Management Board and staff of 1&1 Aktiengesellschaft & Co. KGaA (now: United Internet AG) for the successful work and commitment which they displayed in the company's second financial year as a stock corporation.

Montabaur, April 2000

The Supervisory Board
Carl-Friedrich Meißner
(Chairman of the Supervisory Board)

SUPERVISORY BOARD:

Carl-Friedrich Meißner (Chairman)

Age: 61

Hans-Peter Bachmann

Age: 42

Kurt Dobitsch

Age: 45

MANAGEMENT BOARD:

Ralph Dommermuth (Founder)

Age: 36

With 1&1 since 1988

Michael Scheeren

Age: 42

With 1&1 since 1991

Richard Seibt

Age: 47

With 1&1 since 1998



Further information available via:

United Internet AG
Investor Relations
Elgendorfer Straße 57
D-56410 Montabaur

Telephone: ++49 26 02/96-1076

Telefax: ++49 26 02/96-1013

E-mail: Investor-Relations@united-internet.de

Internet: www.united-internet.de

