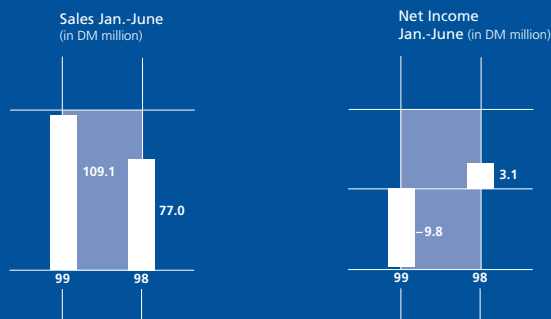


Report on the

First Half of 1999



		1999 Jan. - June	1998 Jan. - June
Sales	DM million	109.1	77.0
– IT/TC Marketing Segment		60.8	59.3
– Customer Care Segment		24.0	14.2
– Internet Providing Segment		17.8	2.5
– Online Marketing Segment		6.0	0.8
– Internet Participations Segment		0.5	0.2
Income from operations	DM million	–11.1	11.5
– IT/TC Marketing Segment		6.2	8.9
– Customer Care Segment		3.1	4.4
– Internet Providing Segment		–14.1	–0.2
– Online Marketing Segment		–3.2	–1.2
– Internet Participations Segment		–3.1	–0.4
Extraordinary expenditure for capital increase/IPO	DM million	–0.2	–5.8
Net income	DM million	–9.8	3.1
Cash-Flow	DM million	–10.8	3.7
DVFA result per share	DM	–1.14	0.92
DVFA result per share (after adj. for goodwill amortization)	DM	–0.82	0.92



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MARKET TREND

The rapid growth of the 1&1 Group's markets was sustained during the first half-year of 1999. At the end of this period, there were more than 8 million Internet users in Germany. By the end of the year, the total is expected to exceed 11 million. But other sectors, like e-commerce/Internet shopping and Internet advertising, are also enjoying enormous escalation rates.

DEVELOPMENT OF 1&1 GROUP

The 1&1 group continued the positive development begun in the first quarter into the first half-year of 1999. Compared with the same period last year, group sales rose by 41.7 % to 109.1 million DM. Growth stimulus came from the Customer Care sector and the Internet segments. First half-year sales in the Internet segments accounted for over 22 % of the total 1&1 turnover for the period. At the same time, earnings potential was impeded by our capital spending in European expansion in the Customer Care and Online Marketing segments, for our new Internet products and for a marketing campaign to increase our stock of regular customers. The annual net profit amounts to about -9.8 million DM, which is within the framework of our expectations. The DVFA net result per share was at -1.14 DM, adjusted for goodwill write-off at -0.82 DM.

Sales in **IT/TC Marketing** amounted to 60.8 million DM in the first half-year, compared to 59.3 million DM for the same period last year. Proceeds from ordinary activities, at 6.2 million DM, were under those of the same period last year (8.9 million DM). We are not satisfied with the development of sales and earnings in this sector. Essentially, this is connected with the marketing of T-Online.

Growth in the **Customer Care** segment could be increased considerably. Sales climbed from 14.2 million DM in the first half of 1998 to 24.0 million DM in the same period this year. Proceeds from ordinary activities could be raised from 1.5 million DM in the first quarter of 1999 to a total of 3.1 million DM in the first half-year. Compared with the previous year, net earnings from ordinary activities dropped, (previous year 4.4 million DM). The reason for this was the extension of the new Call Centers in Maastricht (Holland) and Zweibrücken (Germany).

Growth in the **Internet Providing** segment - 2.5 million DM in the first half of 1998 and

17.8 million DM in the past half-year - has increased excessively. The successful acquisition of new customers for our Internet services, investments in technical infrastructure, and the effect on earnings of at-equity balanced companies burdened the operating results from ordinary activities. It amounted to -14.1 million DM as against -0.2 million DM for the same period last year. At the same time there was a planned reversal of accruals amounting to 1.8 million DM (3.6 million DM for the same period last year).

Similarly high growth rates can be recorded for the **Online Marketing** sector. Here, turnover rose from 0.8 million DM to 6.0 million DM. The profit from ordinary activities, burdened by the investments in European expansion, receded from -1.2 million DM to -3.2 million DM.

In the sector **Internet Participations**, results from ordinary activities were -3.1 million DM. Taken into consideration here are the results of at-equity balanced companies and goodwill depreciation allowances.

INVESTMENTS

In the first half-year, we invested a total of 22.2 million DM. The crucial points here were acquisitions in the Internet segments and investments for our Business Enterprise Center in the Multimedia Internet Park in Zweibrücken.

EMPLOYEES

The number of employees rose in the first half-year from 819 (same period last year) to 1,124. The number of full-time employees rose from 576 to 799, and that of part-timers from 243 to 325. The largest increase was, as usual, in the Customer Care sector.

CASH FLOW DEVELOPMENT

The 1&1 Group cash flow for the first half-year of 1999, measured in terms of the US-GAAP, amounted to -10.8 million DM. This can mainly be attributed to massive investments in the Internet sectors.

SEGMENT REPORTS

■ IT/TC MARKETING

In the first half-year of 1999, our co-operative marketing activities with the IT/TC industry ran according to plan. Only our account development efforts for T-Online were unsatisfactory. As a result of the quarrel between AOL and T-Online over the new T-Online price lists, AOL sued out preliminary injunctions

against 1&1 as well. Consequently, we were unable to quote prices in our May and June enclosures for T-Online. During this period, the number of new accounts fell drastically. Hence, our quota of new accounts on expiry of the contract (30 June 1999) was below schedule, the effect of which was a negative result of 3 million DM – especially through the loss of a contractually agreed upon goal-accomplishment bonus. Currently, we are negotiating with T-Online about a compensation, and the possibilities of a new co-operation agreement. In the meantime, our co-operation agreement with Bank 24 has expired. We have a new agreement with the discount broker ConSors to market Internet depots.

■ CUSTOMER CARE

The field of Customer Care could be further expanded during the first half-year of 1999. In the User Help Desk business, a whole row of new clients, such as BMW and Die Continentale, could be won. Concurrently, a number of existing agreements in the sphere of technical hotlines could be expanded both in Dortmund (Germany) as also in our still new branch operations in Zweibrücken (Germany) and Maastricht (Holland).

■ INTERNET PROVIDING

In the Internet Providing segment, our products and services have developed very successfully. At the end of the first six months, more than 200,000 customers (first quarter 1999: approx. 150,000) were using our Internet services. Both our high-performance and inexpensive Internet access (from 4 pfennigs per minute incl. telephone costs) and the 1&1 PureTec product range (top-level domains, web sites and Internet shops) are extremely successful. In the month of July, 1&1 had a market share of over 30% of the domains applied for at DE-NIC. In the sphere of hosting of commercial Internet offers by Schlund + Partner AG, which belongs to the 1&1 Group, we are market leader in Germany with over 40,000 commercial web sites.

■ ONLINE MARKETING

As far as our Internet advertising network 1&1 AdLINK was concerned, the first half of 1999 was characterized by the European expansion. After the takeover of Adnet AB, Sweden in the first quarter, 1&1 could further extend its position in Europe with the acquisition of Accesite, the leading online advertising agency in France. In the meantime, together with independent co-operative partners, 1&1 AdLINK Europe handles more than 330 million page impressions

(30 June 1999: 250 million). In Germany, too, a large number of new sites could be won, which enabled us to increase the number of page impressions to more than 85 million (30 June 1999: 60 million).

■ INTERNET PARTICIPATIONS

In the realm of Internet participations, a further interesting participation agreement was signed in the first half-year. The ICAN Internet Services GmbH (holding: 40%) is in the process of developing a complete entertainment program for the Internet. Their purpose is to offer the easiest possible access to the best and most interesting offers available in the world of online. Their own editorial contributions, screened, classified and prepared for people by people, will play a key role. The offer has been online in Austria since January 1999, and will be available in Germany in the autumn of 1999.

Our participating interests in Jobs & Adverts (1&1 holding: 37%) and GMX (1&1 holding: 50%) are progressing successfully. The online employment market Jobs & Adverts was able to almost double the number of job offers and job applications in the first six months of the year, and so further expand its market share.

The largest German e-mail and messaging service GMX, with over 1.3 million customers at the end of the first half-year of 1999, was able to expand its leading role in this sector. With more than 67 million page impressions, GMX is the leading independent Internet offer in Germany.

Two participations, the Internet games service Player Network OGS GmbH & Co. KG (holding until then: 33.3%) and the regional information supplier city.guide1 (holding until then: 49%) have not developed as we had hoped, and we have parted with them. Both interests were written-off at 0.6 million DM.

GENERAL MEETING OF SHAREHOLDERS

The first general meeting of shareholders of 1&1 Aktiengesellschaft & Co. KG took place at the beginning of June 1999 in the Alte Oper in Frankfurt/Main. Shareholders and investors indicated their full approval of our re-alignment towards Internet services with a characteristic range of products, and the European expansion. Carl-Friedrich Meißner, Kurt Dobitsch, Hans-Peter Bachmann and Bernhard Dorn (substitute member) were elected to the Supervisory Board.

OUTLOOK

We are very satisfied with developments thus far in our Internet enterprises and the Customer Care sector. It is already apparent that the massive investments in the Internet domain and in Customer Care were a step in the right direction. On the other hand, we will probably not achieve our growth target for sales and earnings in the sphere of IT/TC Marketing.

In the second half-year, stimulus is expected to come from Europeanization of Online Marketing and Customer Care, and from new products in the Internet Providing sector. The introduction of our Internet Portal with GMX and the IPO of an Internet participation are on the agenda for the next months. By the end of this year, the continuation of our strategy of participation will further enhance our Internet portfolio. This will help us to further expand and consolidate our market position.

Consolidated income statement according to US-GAAP as of June 30, 1999 und 1998		1999	1998	Change in %
Net sales	DM	109,097,270	77,030,434	41.6
Cost of sales and services	DM	-106,370,721	-67,832,803	56.8
Gross margin	DM	2,726,549	9,197,631	-70.4
Selling, general and administrative expenses	DM	-13,188,809	-2,078,274	534.6
Other operating income/expenses	DM	4,244,641	4,718,726	-10.0
Amortization of goodwill	DM	-1,949,400	0	
Operating income	DM	-8,167,019	11,838,083	-169.0
Interest expenses	DM	-954,953	-700,380	36.3
Interest income	DM	738,803	376,607	96.2
Results from companies stated at-equity	DM	-2,743,314	0	
Income from operations	DM	-11,126,483	11,514,310	-196.6
Expenses in connection with the IPO and capital increase	DM	-168,252	-5,793,000	
Income before taxes on income	DM	-11,294,735	5,721,310	-297.4
Income tax expenses	DM	-82,811	-2,669,427	-96.9
Net income	DM	-11,377,546	3,051,883	-472.8
Minority interest	DM	1,593,279	0	
Net income after minority interest	DM	-9,784,267	3,051,883	-420.6
but incl. general partner's share in result				
General partner's share in result	DM	3,494,381	-1,220,753	
Income (for shareholders of the KGaA)	DM	-6,289,886	1,831,130	

Consolidated cash flow statement as of June 30, 1999 und 1998	1999	1998	Change
Cash flows from operating activities			
Net Income	(9,784,267)	3,051,883	(12,836,150)
Adjustments to reconcile net income			
to net cash provided by operating activities:			
Depreciation and amortization	6,144,248	2,736,736	3,407,512
(Undistributed earnings)/unbalanced losses of associated customers	1,447,347	332,016	1,115,331
Changes in assets/liabilities			
(Increase)/decrease in own shares		1,000,000	(1,000,000)
(Increase)/decrease in accounts receivable	(6,976,150)	12,263,028	(19,239,178)
(Increase)/decrease in other assets	2,485,050	(1,292,711)	3,777,761
(Increase)/decrease in inventory	2,016,748	(3,305,578)	5,322,326
(Increase)/decrease in prepaid expenses	397,468	802,491	(405,023)
Increase/(decrease) in liabilities	3,690,771	(1,114,482)	4,805,253
Increase/(decrease) in advance payments	(6,832,553)	(4,923,636)	(1,908,917)
Increase/(decrease) in other accrued liabilities	(5,644,396)	1,016,650	(6,661,046)
Increase/(decrease) in accrued taxes	896	458,173	(457,277)
Increase/(decrease) in other liabilities	1,866,697	(3,733,340)	5,600,037
Increase/(decrease) in deferred income	347,952	(3,619,430)	3,967,382
Increase in pension accruals	0	0	0
Total adjustments:	(1,055,921)	619,916	(1,675,838)
Net cash provided by (used in) operating activities	(10,840,188)	3,671,799	(14,511,987)
Cash flows from investing activities:			
Capital expenditure	(15,518,253)	(8,809,186)	(6,709,067)
Investment in other financial assets	(2,463,689)		(2,463,689)
Disposal of fixed assets		245,293	(245,293)
Purchase of additional shares in investments	(4,228,049)	(29,788,178)	25,560,129
Net cash provided by (used in) investing activities	(22,209,991)	(38,352,071)	16,142,080
Cash flows from financing activities:			
Capital increase	99,912,134	31,929,487	67,982,647
IPO expenses	(3,524,058)		(3,524,058)
Issue of convertible bond	255,250		255,250
(Increase)/decrease in loans	48,722	7,081	41,641
Dividends paid	355,070	(3,920,000)	4,275,070
Paid in by minorities	106,721		106,721
(Payment)/Repayment of shareholder loan			0
Subsidies received			0
(Repayment)/borrowings (to) from bank	(24,865,768)	15,070,785	(39,936,553)
Net cash provided by (used in) financing activities	72,288,072	43,087,353	29,200,719
Net increase/(decrease) in cash	39,237,892	8,407,080	30,830,812
Cash, beginning of year	7,293,154	2,778,473	4,514,681
Cash, end of 2nd quarter	46,531,046	11,185,553	35,345,493