

PRELIMINARY OFFERING PROSPECTUS OF FEBRUARY 12, 1999

for

1,278,000 ordinary bearer shares

in the form of no-par-value unit shares

(notional nominal value per unit share: EUR 1.00)

to a value of EUR 1,278,000.00, arising from the capital increase of ●, 1999

plus up to

150,000 ordinary bearer shares

in the form of no-par-value unit shares

(notional nominal value per unit share: EUR 1.00)

to a value of EUR 150,000.00,

in respect of the additional-allocation option granted to DG BANK Deutsche Genossenschaftsbank AG

(half arising from a reallocation from existing shareholders' holdings and half from a capital increase from authorized capital),

both classes conveying full dividend rights for the financial year 1999, i.e. as of January 1, 1999,

- Securities Code Number 622 450 -

of

i:FAO Aktiengesellschaft, Frankfurt am Main

LISTING PROSPECTUS/COMPANY REPORT

for the admission of

4,090,000 bearer shares

in the form of no-par-value unit shares
(notional nominal value per unit share: EUR 1.00)
to a value of EUR 4,090,000.00,

plus

1,278,000 bearer shares

in the form of no-par-value unit shares
(notional nominal value per unit share: EUR 1.00)
to a value of EUR 1,278,000.00,

arising from the capital increase of ●, 1999

both classes conveying full dividend rights for the financial year 1999, i.e. as of January 1, 1999,

- Securities Code Number 622 450 -

of

i:FAO Aktiengesellschaft, Frankfurt am Main

to the Regulierter Markt (Second Trading Segment) and Admission to Trading on the Neuer Markt of the Frankfurter Wertpapierbörse (FWB Frankfurt Stock Exchange)

TABLE OF CONTENTS

	Page
General Information	4
Responsibility for the Content of this Prospectus	4
Inspection of Documents	4
Subject of the Prospectus	4
Placement	4
Net Offering Proceeds, Issuing Costs	5
Securities Code Number	5
Risk Factors	6
i:FAO Aktiengesellschaft	10
Formation, Registered Office and Duration of the Company	10
Purpose of the Company	10
Capitalization	10
Major Shareholders	11
Executive Bodies of the Company	12
Employee Participation Scheme	12
Financial Year, Official Notices, Paying Agents and Depositories	13
Appropriation of Profits	13
Auditors	13
Historical Overview of i:FAO AG	14
Business Activities	15
Main Business Fields and Products	15
Market Overview and Evolution, Competitors	17
Corporate Strategy	17
Marketing and Distribution	18
Research and Development	18
Sales Evolution	18
Investments	18
Employees	18
Patents, Licenses, Important Contracts	19
Real Estate	19
Litigation	19
The Neuer Markt	20
Notes on Taxation	21
Taxation of Shareholders with unlimited Tax Liability	21
Taxation of Shareholders with limited Tax Liability (Non-Residents for Tax Purposes)	22
i:FAO AG at a Glance	23
Summary Comment on the Key Financial Ratios of the last three Years	24
Financial Statements of i:FAO Aktiengesellschaft as at December 31, 1998 prepared in Accordance with the German Commercial Code (HGB) and comparative Presentation of the Accounts of FAO Travel GmbH for 1997 and 1996 Financial Years (HGB)	27
Balance Sheet of i:FAO AG as at December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Balance Sheets	28
Income Statement of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Income Statements	30
Cash Flow Statement of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Cash Flow Statements	31
Notes to the HGB Accounts of i:FAO AG for the Year to December 31, 1998	32
Management Report of i:FAO AG as at December 31, 1998	37
Auditor's Report and Certificate on the HGB Accounts of i:FAO AG for the Year to December 31, 1998	38
Financial Statements of i:FAO Aktiengesellschaft as at December 31, 1998 prepared in Accordance with International Accounting Standards (IAS) and comparative Presentation of the reconciled Accounts of FAO Travel GmbH for 1997 and 1996 Financial Years (IAS)	39
Balance Sheet of i:FAO AG as at December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Balance Sheets	40
Income Statement of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Income Statements	42
Cash Flow Statement of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH	
Fiscal 1997 and 1996 Cash Flow Statements	43
Notes to the IAS Accounts of i:FAO AG for the Year to December 31, 1998	44
Management Report of i:FAO AG as at December 31, 1998	49
Auditor's Report and Confirmation on the IAS Accounts of i:FAO AG for the Year to December 31, 1998	50
Current Trading and Prospects	51

GENERAL INFORMATION

Responsibility for the Content of this Prospectus

i:FAO Aktiengesellschaft (hereafter also referred to as "i:FAO AG", "i:FAO" or the "Company") and the underwriting banks assume liability for the contents of this Preliminary Offering Prospectus/Listing Prospectus/Company Report ("Prospectus") under the terms of Article 13 Verkaufsprospektgesetz (German offering prospectuses act) and Article 77 together with Arts 45 ff. of the Börsengesetz (German stock exchange act), and herewith state that to the best of their knowledge, the information contained in this Prospectus is accurate, and that no material circumstances have been omitted.

Inspection of Documents

The annual reports and interim reports of the Company, as well as the public Company-specific documents cited in this Prospectus are available from/may be inspected at the premises of i:FAO AG, Glauburgstrasse 95, 60318 Frankfurt am Main, Germany, and at DG BANK Deutsche Genossenschaftsbank AG, Am Platz der Republik, 60265 Frankfurt am Main, Germany (hereinafter also referred to as "DG BANK") during regular business hours.

Subject of the Prospectus

The subject of this Prospectus as a Preliminary Offering Prospectus are:

- 1,278,000 no-par-value bearer shares (unit shares), each endowing a notional entitlement in the Company's registered capital of EUR 1.00, equivalent to a total value of EUR 1,278,000.00, arising from the capital increase of ●, 1999, plus
- up to 150,000 no-par-value bearer shares (unit shares), each endowing a notional entitlement in the Company's registered capital of EUR 1.00, equivalent to a total value of EUR 150,000.00, in respect of the additional allocation option ("greenshoe facility") granted to DG BANK Deutsche Genossenschaftsbank AG,

both classes conveying full dividend rights as from financial year 1999, i.e. as of January 1, 1999. Approval was given on February 12, 1999.

The subject of this Prospectus as a Listing Prospectus/Company Report are:

- 4,090,000 no-par-value bearer shares (unit shares), each endowing a notional entitlement in the Company's registered capital of EUR 1.00, equivalent to a total value of EUR 4,090,000.00 (existing registered capital), plus
- 1,278,000 no-par-value bearer shares (unit shares), each endowing a notional entitlement in the Company's registered capital of EUR 1.00, equivalent to a total value of EUR 1,278,000.00, arising from the capital increase of ●, 1999,

both classes conveying full dividend rights as from financial year 1999, i.e. as of January 1, 1999.

The admission of the total of 5,368,000 ordinary bearer shares to the Geregelter Markt (Second Trading Segment) with admission to trading on the Neuer Markt of the Frankfurter Wertpapierbörse (FWB Frankfurt Stock Exchange) was applied for on January 21, 1999. The listing order is expected to be issued on February 25, 1999. Trading in the above-mentioned unit shares is expected to commence on March 1, 1999.

Placement

A banking consortium with DG BANK Deutsche Genossenschaftsbank AG as lead manager, and comprising DG BANK and Dresdner Bank Aktiengesellschaft, has underwritten EUR 1,278,000.00/ 1,278,000 unit shares from the capital increase against cash contributions of ●, 1999, and has undertaken to place these shares with a wide group of investors as part of a public offering in the period between February 23 and February 25, 1999 inclusive (with reservation of the right to curtail the offering period).

Additionally, up to 30,000 unit shares out of the above mentioned placement volume are subject to a right of preferential subscription by a restricted circle of investors associated with i:FAO AG. Any of these shares not taken up on this privileged basis will be included in the main placement.

The selling existing shareholders, Louis Arnitz, Saled Beteiligungsgesellschaft mbH & Co. KG (of which Andreas Wankum is both the sole shareholder of the limited company and also a limited partner) and 3i (3i Europartners II LP and 3i Group plc either alone in concert) have granted DG BANK an option in the event of oversubscription to call on up to a further EUR 75,000.00/ 75,000 unit shares (as a greenshoe facility). DG BANK can also call on a further EUR 75,000.00/75,000 unit shares made available by Louis Arnitz on loan (greenshoe). In the event that this portion of the greenshoe option is subscribed for, the Company has undertaken to allow DG BANK to satisfy its fulfillment obligation by effecting a cash capital increase at the Bank's request to the value of EUR 75,000.00/ 75,000 unit shares from authorized capital with the existing shareholders excluded from subscribing. These options can be exercised in full or in part at any time within 30 days of the start of trading in the shares. In the event that all the shares made available as described above are not placed, then the remaining unit shares will be returned to the relevant shareholders.

The said total of 1,428,000 unit shares will be offered for sale through the bookbuilding process within a price range from EUR ● to EUR ●. When it is fixed, the bookbuilding spread will be published in an official supra-regional journal for statutory stock market notices of FWB Frankfurt Stock Exchange.

The final placement price at which all the up to 1,428,000 unit shares will be settled, is expected to be fixed on February 26, 1999 by means of the order book created during the bookbuilding process and is scheduled to be published in an official

supra-regional journal for statutory stock market notices of FWB Frankfurt Stock Exchange on February 27, 1999.

Investors are expected to be able to ascertain the number of unit shares allotted to them starting on March 1, 1999 at the financial institution managing their securities accounts.

Purchasers will probably be required to pay the purchase price for the total of up to 1,428,000 unit shares plus securities commission on March 2, 1999.

DG BANK is empowered to perform surplus allocations or to take other measures as part of the allocation of the up to 1,428,000 unit shares to be placed to stabilize the market price or to maintain this price at a level which it would not sustain otherwise. Such stabilization measures may be discontinued at any time.

Net Offering Proceeds, Issuing Costs

The net offering proceeds from the placement of the total of up to 1,428,000 unit shares consist of the placement price to be paid per bearer share multiplied by the number of shares placed, less the issuing and placement costs to be borne by the Company. The issuing and placement costs are anticipated to amount to between approximately EUR ● million and EUR ● million, including the total remuneration of the underwriting banks of between approximately EUR ● million and EUR ● million. The net offering proceeds are expected to amount to between approximately EUR ● million and EUR ● million. An estimate of the anticipated net offering proceeds and issuing costs will be published along with the bookbuilding spread.

The net proceeds of the placement of the 1,278,000 unit shares from the capital increase against cash contributions in 1999 and from the capital increase from authorized capital of up to 75,000 unit shares will accrue to the Company. It plans to use the issue proceeds primarily to establish and support a distribution organization outside Germany, to strengthen its domestic marketing activities, and to continuously extend the functionality of its IBE:TMS[®] product. The Company also plans to acquire or take equity stakes in companies involved in the field of "Internet and travel" related services or products where such initiatives are appropriate. The Company also intends to establish a financial reserve.

In the event that the greenshoe option is taken up, the net proceeds of the placement of the up to 75,000 unit shares contributed from the holdings of the selling shareholders will accrue to the selling shareholders.

Securities Code Number

Securities code number: 622 450

ISIN code: DE 000 622 450 4

Common code: 00 939 2483

RISK FACTORS

Before deciding to buy shares, prospective investors should read and consider carefully all the specific investment considerations described below in conjunction with the other information presented in this Prospectus.

Market Conditions and Competitors

i:FAO AG operates in the business travel market through its two divisions i:FAO Travel Services (which offers the product groups eHotel Services and Business Travel Management Services) and i:FAO Travel Technologies (which develops standardized Internet software). According to the Company, the business travel market in Germany had a total volume in 1997 of around DM 73 billion and has grown at a compound annual rate of around 3% in recent years.

The activities of i:FAO's Travel Services division include operating a central call center for making business travel bookings by telephone, fax, e-Mail or Internet and a dedicated in-house travel center for Germany's Kreditanstalt für Wiederaufbau (KfW). Approximately 300 companies currently use i:FAO Travel Services' products and services. In this business, the Company's biggest source of competition are the established, traditional travel agency chains. However, the Company believes that in particular its eHotel Service software program distinguishes it from the competition. This allows online reservations to be made in more than 47,000 hotels world-wide, with immediate confirmation and in most cases at specially reduced eHotel prices. However, the possibility cannot be excluded that competitors with the necessary financial strength and staying power might design and market hotel programs which appear more attractive than the Company's, with the result that the Company could be driven from at least part of this market.

The activities of the i:FAO Travel Technologies division are firstly the provision of expert support to the Company in relation to networks, PC technology, office systems and software, and secondly software development. On the software development front, IBE:TMS[®] (Internet Booking Engine: Travel Management System) is the heart of the standard software packages developed by the Company. First launched in 1996, this engine has been continuously enhanced and improved ever since. The software is deployed in mainly big companies and travel agency chains, and makes it possible both to enforce each company's own corporate travel policy and to make the best possible use of negotiated rates by the client every time one of its employees makes a booking through their PC. Siemens Business Services acts as the Company's distribution partner in marketing IBE:TMS[®] and it is also used by Siemens in-house as the online travel reservations system. The Company believes that the origin of the Travel Technologies division's products and services as in-house concepts and developments makes it difficult to compare them with its competitors' offerings. The Company also propounds the view that IBE:TMS[®] gives it the leadership position in the market for neutral, globally available standard software for interactive

travel management. However, it is safe to assume that the European market for online travel management systems is still only in its startup phase. Established packages aimed at this segment are to be found mainly in the USA (Microsoft, American Express, Sabre BTS, E-Travel), and their take-up is also most widespread in the American market. However, the possibility cannot be ruled out that these or similar suppliers, some of which have access to established distribution channels and huge financial resources, might win market share at i:FAO's expense - by for instance prioritizing the development and marketing of programs aimed specifically at the European market. Additionally, the Company has had to make considerable efforts over the last three years to achieve the eminence it currently enjoys in the Internet booking field. i:FAO estimates that the costs of this activity, which mainly take the form of upfront spending on research and development and marketing campaigns, will be greater than the division's sales revenues for at least the next eighteen months and will therefore depress the Company's trading results over that time. The future development of the Company will therefore be crucially dependent on the growth of the Internet travel market and the Internet as a whole. Although i:FAO sees an increase in Internet booking volumes as a probability, this cannot be taken for granted. Stagnating or slower growth in this market would be likely to have a negative impact on the Company's turnover, financial position and earnings.

In view of the competitive situation in both its businesses, there can be no guarantees that the Company will be able to maintain, let alone expand its market position.

Dependence on Computer Reservations Systems

The Company's services and products offering is critically dependent on access to at least one of the various commonly-used computer reservations systems for booking flights, hotels, rail tickets and rental cars plus a range of other minor services. The right of companies in the travel industry to access these systems on the prevailing standard terms is currently enshrined in Europe-wide regulations. Firstly for this reason, and secondly because i:FAO's business introduces the suppliers of computer reservation systems to new customer segments, the Company is confident it will continue to enjoy this access on favorable terms in the future. However, no guarantee of this outcome can be given.

Dependence on Distribution Partners

While the Company has retained the distribution and marketing of its Travel Services offering in its own hands, it has entered into a distribution partnership with Siemens Business Services to distribute the Travel Technologies division's IBE:TMS[®] product. The Siemens arm acts as systems integrator in the case of big companies, while the Company plans in future to service mid-sized corporate customers direct.

The Company has distribution partnerships with Woodside Travel Trust and FIRST Business Travel International in respect of eHotel Disk. The Company sees these partnership relationships as strengthening its capability without generating a direct cost. The Company also believes that its partners are unlikely to stop acting as distributors since the partnerships in question benefit both parties and they are mutually dependent. Should this eventuality nevertheless arise however, the risk of a considerable negative impact on the Company's turnover, financial position and earnings could not be excluded since in both of the businesses mentioned the Company has only a minimal or no distribution structure of its own.

Dependence on Key Customers

In its Travel Services business, i:FAO AG has a single customer, Kreditanstalt für Wiederaufbau, which accounts for approximately 20% of the division's entire turnover. The Company foresees the percentage share of the Travel Services division's business accounted for by this customer reducing as its operations expand.

On the Travel Technologies side, there is a degree of dependence on Siemens AG as a customer. The Company is confident that its dependency in this area will also decline in future as the division's trading expands. Nevertheless, no guarantee can be given that the loss of a major customer might not produce a substantial drop in sales which could have a serious impact on the Company's profitability.

Vulnerability to Economic Fluctuations and Catastrophes

The Company says that economic factors do not have an excessive influence on its level of activity. More relevant, i:FAO AG believes, is the tendency for companies to turn their attention to reducing costs in times of economic downturn and make use of products like the Company's travel management systems for this purpose. On this assessment, which is admittedly not yet confirmed by market research, the Company's business is unlikely to turn down sharply at times of economic weakness. However, the Company can provide no guarantee for the correctness of this assessment.

Natural disasters and other incidents such as wars and terrorist attacks can have a negative impact on business travel. This eventuality would equally be likely to impact on the Company's level of activity.

Risks Arising from Potential Acquisitions

One of the ways in which the Company will consider expanding in the next few years is through acquisitions. The Company will select and investigate potential acquisitions with all due diligence. Nevertheless, acquisitions always create a not-inconsiderable business risk which is quite capable of causing substantial damage to the Company's results or threatening its survival. The Company can provide no guarantee of the success of future acquisitions.

Influence of Existing Shareholders and Management Board Members, Concentration of Share Ownership, Future Sale of Shares

After the capital increase and placement of the Company's shares, the existing shareholders and their families will still retain approximately 76.2% of the unit shares (or around 73.8% if the greenshoe allocation is fully taken up).

The concentration of share ownership means that the existing shareholders will be in the position to control the outcome of important business decisions which require the approval of shareholders, without regard to the way the rest of the shareholders vote. The existing shareholders, one of whom (Louis Arnitz) is himself a member of the Company's Management Board, will therefore be in a position to delay or prevent a change in the senior management of the Company, even if the rest of the shareholders of the Company viewed such a change as desirable.

After the expiration of the market protection agreement, the existing shareholders will be able to sell their shares, which could have a considerable negative impact on the price of the Company's shares

Negative Earnings

The Company made net losses in the 1996, 1997 and 1998 financial years due to the burden of financing its rapid expansion and the high cost of software development in the Travel Technologies division. No guarantees can be given that the Company will be able to avoid making a loss in future years.

Managing Growth

i:FAO's historic and projected future growth places significant demands on the Company in terms of its ability to integrate new employees, and requires organizational structures designed specifically to handle this growth. The Company has not yet completely succeeded in adapting its organizational structure to the rapid growth of the past. The Company believes that in the last few years it has taken adequate steps to implement the necessary measures to create the requisite staff and technical structures, particularly in respect of accounting, internal management control systems, and the organization of internal information flows. Furthermore, the Company is of the view that it has taken all necessary steps to make its management accounting systems sufficiently informative. However, the Company is aware that it will need to commit additional resources in the future to improving its control and information systems. In this connection, no guarantee can be offered that the management of the Company will at all times be in a position to implement the necessary measures at the requisite pace and on the requisite scale.

Dependence on Managers and Staff in Key Positions

i:FAO's future success is especially dependent on its ability to continue to develop and successfully bring to market in good time user solutions which are market-responsive. It follows that the Company's business success depends to a large extent on the performance of managers and employees in key positions. Even though i:FAO sees itself as the current

leader in the market for neutral, globally available, interactive travel management software packages, no assurance can be given that the Company will maintain its current position or that it will continue in future to be able to quickly identify and exploit the needs of the market and rapidly changing technologies. Because of the pronounced know-how orientation of i:FAO's business, the Company is dependent on its ability to retain and motivate its highly qualified personnel, especially its management. The loss of these managers' services in particular could significantly impair i:FAO's turnover, financial position and profitability.

Protection of Intellectual Property Rights

i:FAO's commercial success stands and falls with the technical competitiveness of its products. It follows that the protection of its intellectual property rights is of central importance to i:FAO, and it aims to achieve this primarily through confidentiality agreements with staff and outside parties, plus to a limited extent through the statutory protection afforded to trade names, origination rights and commercial secrets. The Company takes the view that the instruments available under copyright law provide the first line of defense for software products. This is certainly the case for software developments originated by permanent employees. The Company always seeks to reach an agreement with freelance employees, i.e. self-employed persons who only derive a restricted portion of their income from the Company, for them to assign the rights to exploit any original material to the Company. The possibility cannot be excluded that individual project elements might not be adequately secured in this way, with the result that the utilization right accrues to the actual originator.

i:FAO does not currently hold any patents or have any patents pending, due to the difficulty of protecting software through patents. The Company also takes the view that its ability to achieve and maintain a market leadership position as a specialist provider of neutral, globally available, interactive travel management software packages, depends more crucially on its ability to supply the highest-quality and most customer-responsive product through continuous improvements rather than on the legal protection of any current technology.

In spite of the Company's efforts to protect its intellectual property rights, unauthorized third parties may attempt to copy elements of its products or obtain and utilize information which i:FAO regards as its intellectual property. The unapproved use of i:FAO's products is difficult to monitor and i:FAO is not in a position to establish the extent of the piracy of its software products. Another factor is that commercial confidentiality and copyright laws only offer limited protection. No guarantee can be offered that the measures employed by i:FAO to protect its origination rights will be appropriate to the task. Nor can any guarantee be provided that the Company's confidentiality agreements with employees and others involved in software development will not be infringed, that i:FAO will receive commensurate compensation in the event of a breach, or that i:FAO's commercial secrets will not become known by other routes or independently developed by its competitors. Nor can any guarantee be given that i:FAO's efforts to protect its own industrial property rights through the laws on trade marks and copyrights can successfully prevent the development and design of products and technologies by third parties which are similar in effect to or compete with i:FAO's products.

To the best of its knowledge, the Company does not infringe any patent or industrial property rights in connection with its products. Nevertheless, the possibility cannot be excluded that third parties might take action against the Company claiming infringement of industrial property rights. Any such infringement action, whether justified or not, could involve the expenditure of considerable time and money to defend, would tie up management attention and resources, and could oblige i:FAO to pay user fees or enter into licensing agreements. If obliged to pay copyright fees or seek licensing agreements, these might not be available at all or only on unacceptable terms. In the event that an action against the Company for infringement of industrial property rights were to succeed and i:FAO were unable to license the rights to a protected or an equivalent technology, this could significantly impair the Company's turnover, financial position and profitability.

Risks Arising from Software Security and System Failures

Although i:FAO's products incorporate a range of different security mechanisms, they may be vulnerable on customers' premises to unauthorized accesses (so-called "break-ins") and similar malfunctions caused by unauthorized users. Although these unauthorized accesses are not ultimately capable of destroying the source products which are protected by a wide range of different safeguards, break-ins and other system failures could threaten the integrity and the secure transmission of the data stored in the computer systems of users of i:FAO's products, which could act as a deterrent to other potential customers. Furthermore, concerns on the part of existing and potential customers about data integrity and data security as well as fears of contamination by computer viruses could inhibit the growth of the Company's market in general and the expansion of i:FAO's customer base in particular.

Potential Product Liability Risk

The software which the Company designs and sells and the other services it provides are of vital importance to the smooth operation of the relevant customer's travel management function.

Both its software products and the software used in providing the Company's services may contain hidden defects. Although the Company has never received any product liability damages claims to date, the possibility cannot be ruled out that it might be faced with such claims in the future. The Company does not have product liability insurance. Errors in the provision of the Company's other services, whether negligent or not, could also cause customers substantial losses. Although the Company has employer's liability insurance in place, no guarantee can be given that this would either cover a potential specific claim or be sufficient to the scale of the damages involved. A successful liability claim against the Company could have a significant negative impact on its turnover, financial position and profitability. Furthermore, there is the risk that even a minor damages claim could harm the reputation of i:FAO AG and thus undermine vital customer confidence.

Year 2000

Many installed computer systems and software products are coded to permit the entry of two-digit date-field values only.

Starting from the year 2000, these systems will need to be reprogrammed to accept four-digit date entries in order to distinguish the date values of the 21st century from those of the 20th. This means that in less than a year, many companies will need to upgrade the computer systems and/or compliant software products they use to make them "year-2000-proof." The Company is confident that the systems and software it sells and uses itself are year-2000 compliant. However, no absolute guarantee can be provided that i:FAO's current products do not contain hidden date-function faults which could result in considerable cost expense for the Company.

Since there is also a possibility that the systems and software products used by i:FAO's customers or the service providers' downstream reservation systems might not be year-2000 compatible, the use of such non-compliant systems or products by third parties could impair the promised performance of the Company's products and thus have a negative impact. In the event that i:FAO, a significant supplier or a customer fails to convert their software in time, this could have a not-insignificant impact on i:FAO's profitability.

Currency Risks

The Company aims to expand its business beyond the borders of Germany more extensively in the future. This expansion will possibly involve the Company in billing in foreign currencies. From its present viewpoint, it is not possible for the Company to estimate the scale of the exchange rate risk arising from these transactions. However, it does not rule out the possibility of hedging this risk.

Issue Proceeds not Specifically Earmarked

The Company has not yet reached detailed decisions on the purposes for which it will use the net proceeds from the sale of the shares described in this prospectus. However, the Company intends to use the net offering proceeds primarily to extend the distribution of its IBE:TMS[®] product to other European countries, to expand its marketing effort in the markets it already serves, and to finance acquisitions of companies which manufacture internet technologies. To ensure sufficient flexibility, the Management Board will have broad discretion over the deployment of the net issue proceeds.

Taxation

The last external tax audit of the Company took place at the turn of 1997/98 and covered the years 1994 to 1996. The result of the inspection was that the Company was notified that no causes had been identified to substantiate a change in its basis of assessment. The Company believes that the tax returns prepared and submitted together with its tax advisers have been complete and correct. In the event of a future tax audit, it does not expect any significant changes to tax assessments which could result in payment of tax arrears. Nevertheless, it is by definition possible that differing perceptions of facts and circumstances could result in additional demands from the tax authorities for payment of back-tax.

Lack of a Public Market, Fixing of Selling Price, Volatility of Market Price

Before the public offering, there was no public market for the shares of i:FAO AG. The selling price will be fixed by DG BANK Deutsche Genossenschaftsbank AG in agreement with the Company and the existing shareholders using the order book created during the bookbuilding process. No guarantee can be given that the selling price of the shares will correspond to the price at which the shares will be traded on the Neuer Markt of the Frankfurt Stock Exchange subsequent to the offering, or that active trading in the shares will result and continue after the offering. The number of free float shares, changes in the operating results of the Company and its competitors, and changes in the general business environment in the industry, economy or financial markets can cause substantial fluctuations in share prices.

In general, securities markets have experienced considerable fluctuations in price and turnover volumes in the past. This is particularly true of the Neuer Markt of the Frankfurt Stock Exchange, on which the Company's shares are to be traded after it goes public. Such fluctuations could have positive or negative effects on the share price in future, regardless of the operating result or financial situation of the Company.

Reliability of Opinions and Forecasts

The opinions and forecasts reproduced in this prospectus are exclusively the opinions and forecasts of the Company and its management. Opinions and forecasts are statements which use terms and expressions such as "expect", "believe", "assume", "are of the opinion" and similar formulations. They reflect the current view of the Company's management with regard to possible future developments which are however uncertain in their outcome and therefore subject to risk. A number of factors can produce a wide variance between the predicted situation and the circumstances which actually transpire. Neither its management nor the Company guarantees the correctness of the opinions and forecasts reproduced in this prospectus.

i:FAO AKTIENGESELLSCHAFT

Formation, Registered Office and Duration of the Company

i:FAO Aktiengesellschaft traces its origins back to the "Flugbüro am Opernplatz" flight bookings agency founded by the present Management Board chairman Louis Arnitz in Frankfurt in 1977, which subsequently became "Flugbüro am Opernplatz GmbH" on June 30, 1980. By resolution of the general meeting of April 11, 1985, registered on July 22, 1985, the company's name was changed to "FAO Travel GmbH". The company was entered in the Commercial Register of the District Court of Frankfurt am Main, Germany under No. HRB 21750.

A general meeting of shareholders held on June 24, 1998 resolved to change the company's legal form to a public stock corporation and its name from FAO Travel GmbH to i:FAO Aktiengesellschaft under the provisions of Arts. 190 ff., 226, 238 ff. UmwG (German companies transformation act). This resolution was confirmed by a supplementary meeting held on August 4, 1998 which was necessary because CEA Beratungs- und Beteiligungsgesellschaft mbH had joined the company as a new equity partner before the change of legal form approved on June 24, 1998 had been registered. The formation audit report submitted by Pannell Kerr Forster GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, on September 21, 1998 ended with the following conclusion: "In accordance with the conclusive finding of our statutory examination as required by Art. 197 UmwG in conjunction with Art. 32 (2) AktG, based on the documents, ledgers and written records and verbal explanations provided to us, we confirm that the information presented by the company in its formation report is correct and complete. This is specifically the case for the statements made with regard to the company's shares, the size of its registered capital and the declaration required by Arts. 26, 27 AktG. The capital requirements defined by Art. 245 (a) UmwG in conjunction with Art. 220 (1) UmwG are satisfied."

i:FAO Aktiengesellschaft was entered in the Commercial Register of the District Court of Frankfurt on October 20, 1998 under No. HRB 45980.

The Company's founding shareholders were Mr Louis Arnitz, Mr Andreas Wankum, 3i Europartners II LP, London, 3i Group plc, London, and CEA Beratungs- und Beteiligungsgesellschaft mbH, Munich. The companies named above as participating in the formation of i:FAO AG are development capital companies. The natural persons, Louis Arnitz and Andreas Wankum, have no interests in the said companies.

The registered seat of the Company is Frankfurt am Main, Germany. The correspondence address of the Company is Glauburgstrasse 95, 60318 Frankfurt am Main.

The Company is subject to the laws of the Federal Republic of Germany.

The Company has been formed for an unlimited duration.

Purpose of the Company

The Company's business object is the production and supply of electronic travel reservations systems and solutions plus the provision of all services necessary to the operation of these systems; additionally, the marketing and use of these systems and solutions in relation to business and private travel and the provision of all the requisite services relating to business and private travel. The Company is empowered to acquire and dispose of real estate.

Within these limits, the Company is entitled to establish or acquire other businesses, to take equity stakes in such companies and to establish branch operations. The Company has the discretion to achieve its objects wholly or in part through outside mediation. It may also enter into pooled interest contracts.

Capitalization

The ordinary share capital of the predecessor company, Flugbüro am Opernplatz GmbH, amounted to DM 20,000.00 from 1980 on.

With the entry of the shareholder resolution of April 11, 1985 in the Commercial Register of the District Court of Frankfurt as record HRB 21750 on July 22, 1985, the ordinary share capital was increased to DM 50,000.00. A further capital increase to DM 100,000.00 was approved on October 2, 1990 and registered on December 7, 1990. A register entry on July 18, 1994 marked the resolution of March 18, 1994 to increase the capital to DM 120,000.00. The shareholder Andreas Wankum paid a premium of DM 600,000.00 into the capital reserve. A resolution to increase the company's ordinary share capital to DM 200,000.00 was passed on December 22, 1997 and recorded officially on April 20, 1998. The shareholders from the 3i group paid a premium of DM 2,500,000.00 into the capital reserve in this connection.

A rider to the resolution of June 24, 1998 to change the company's status to a stock corporation, which took the form of an amending resolution approved on August 4, 1998, authorized a capital increase of DM 50,000.00 to a new total of DM 250,000.00. This was recorded in the Commercial Register of the District Court of Frankfurt as entry number HRB 45980 on October 28, 1998. The premium of DM 3,400,000.00 from CEA GmbH was paid into the capital reserve. This capital restructuring left 25,500 bearer unit shares each conveying a notional title to DM 5.00 of the registered capital in the ownership of Louis Arnitz, 8,500 in the ownership of Andreas Wankum, 4,250 respectively in the possession of 3i Euro-partners II LP and 3i group plc, and 7,500 with CEA Beratungs- und Beteiligungsgesellschaft mbH.

With effect from November 17, 1998, CEA Beratungs- und Beteiligungsgesellschaft mbH assigned its shares in i:FAO AG to CEA Interactive GmbH, Munich. CEA Interactive GmbH is a wholly owned subsidiary of CEA Beratungs- und Beteiligungsgesellschaft mbH.

The extraordinary general meeting of the Company held on December 23, 1998 resolved to accept Fair Invest GmbH as a further shareholder in the Company by increasing its capital by DM 50,000.00 nominal (10,000 units shares each conveying a notional title to DM 5.00 of the registered capital) to DM 300,000.00, subject to restrictions on the right of the existing shareholders to subscribe. Fair Invest GmbH acquired 3,600 shares from this capital increase and after buying further shares from Louis Arnitz and Andreas Wankum, held 5,600 unit shares. This capital increase was entered in the Commercial Register on January 21, 1999. Fair Invest GmbH paid a premium of DM 6,600,000.00 into the capital reserve.

Andreas Wankum assigned his shares in i:FAO AG to Saled Beteiligungsgesellschaft mbH & Co. KG with effect from December 31, 1998. Andreas Wankum is the sole shareholder of the limited company (GmbH) and limited partner of the commercial partnership (KG).

The general meeting of the Company held on January 20, 1999 approved numerous resolutions to change the Company's capital structure:

Firstly, it voted to convert the Company's registered capital from DM 300,000.00 to EUR 153,387.56. It then resolved a "rounding-up" capital increase from corporate funds of EUR 26,612.44 to EUR 180,000.00 to increase the notional value of each share in the Company's capital to EUR 3.00. The next step was to approve a 3-for-1 share split with the aim of redenominating the Company's capital to create unit shares each conveying a notional title to EUR 1.00 of the registered capital. The meeting then resolved to increase the Company's registered capital by EUR 3,910,000.00 to EUR 4,090,000.00 from corporate funds (the conversion of capital reserves) against the issue of new shares to the value of EUR 180,000.00 nominal.

In addition, the Management Board was authorized to increase the share capital of the Company once or several times at any time up to December 31, 2003 with the approval of the Supervisory Board by a maximum total of EUR 75,000.00 by issuing new shares against cash contributions, with the Management Board having the discretion over whether to restrict the subscription rights subject to the consent of the Supervisory Board. This authorized capital is intended to service part of the greenshoe facility. The Management Board was further authorized to increase the share capital of the Company once or several times at any time up to December 31, 2003 with the approval of the Supervisory Board by issuing

new shares against cash or non-cash contributions, however up to a maximum total of a further EUR 536,800.00, and excluding the subscription rights of the existing shareholders. This authorized capital is intended to be available to finance acquisitions and for other purposes.

In addition, the Management Board was authorized with the approval of the Supervisory Board to disburse up to 268,400 options to subscribe for up to 268,400 bearer unit shares in the Company to employees of the Company. Existing shareholders will have no statutory right to subscribe. At the same time, the meeting approved a conditional capital increase of up to 268,400 shares intended to service the above mentioned options.

The above listed resolutions of the general meeting held on January 20, 1999 were entered in the Commercial Register of Frankfurt District Court on February 9, 1999.

For the purposes of the Company's initial public offering, the general meeting of January 20, 1999 also resolved to increase the Company's registered capital against cash contributions by EUR 1,278,000.00, from EUR 4,090,000.00 to EUR 5,368,000.00, by issuing 1,278,000 new bearer unit shares. This decision is scheduled to be entered in the Commercial Register of Frankfurt District Court on February 19, 1999.

Following the registration of the cash capital increase in respect of EUR 1,278,000.00, the share capital of the Company will amount to EUR 5,368,000.00 (in words: five million, three hundred and sixty-eight thousand euro), divided into 5,368,000 no-par-value bearer unit shares each with a notional nominal value of EUR 1.00 in the Company's registered capital. Under the Company's articles of association, shareholders do not have the right to claim individual certification of their shareholdings.

In the event of a capital increase, the profit entitlement of the new shares may vary from the provisions of Art. 60 (2) AktG.

The 5,368,000 unit shares, numbered from 0,000,001 to 5,368,000, are certificated by global certificates with dividend coupons, which are deposited with the Deutsche Börse Clearing AG, Frankfurt am Main. It is not planned that individual physical certificates will be printed. Shareholders are entitled to co-ownership shares of the global certificates with dividend coupons.

The full take-up of the greenshoe facility and creation of 75,000 unit shares from the authorized capital would increase the Company's registered capital to EUR 5,443,000.00 (in words: EUR five million four hundred and forty-three thousand).

Major Shareholders

The following shareholders have the following interests in the Company:

	Without greenshoe		Greenshoe fully taken up	
	Unit shares	%	Unit shares	%
Louis Arnitz	1,858,496	34.62	1,833,496	33.69
Andreas Wankum (held indirectly through Saled Beteiligungsgesellschaft mbH & Co. KG)	619,499	11.54	594,499	10.92
3i Europartners II LP	326,791	6.09	314,291	5.77
3i Group plc	326,791	6.09	314,291	5.77
CEA Interactive GmbH	576,690	10.74	576,690	10.60
Fair Invest GmbH	381,733	7.11	381,733	7.01
Free Float	1,278,000	23.81	1,428,000	26.24
Total	5,368,000	100.00	5,443,000	100.00

The above existing shareholders have undertaken not to directly or indirectly offer or sell any shares in the Company within a period of six months starting from the date on which the Company's shares are first admitted to the Geregelter Markt and to trading on the Neuer Markt, nor to announce such an offer or sale or to take any other measures amounting in economic terms to such a disposal (with the exception of the up to 75,000 bearer unit shares from the original shareholders' existing holdings to be made available for the additional allocation option granted to DG BANK).

In addition, the existing shareholders were formerly parties to a shareholder agreement which among other things, committed each to inform the others in the event that offers were made to them to buy shares. They had also agreed reciprocal pre-emptive purchase and option rights. The agreement also bound the existing shareholders on voting issues, most importantly on votes over the composition of the Supervisory Board. It was further agreed that voting on certain issues within the decision-making preserve of general meetings would follow the proposals previously put forward by the development capital companies. By a vote of the shareholders on January 20, 1999, this agreement was terminated in the interests of the Company's stock market listing.

Executive Bodies of the Company

According to the articles of association of the Company, the **Management Board** must consist of one or more persons. It currently has two members.

The Supervisory Board appoints its members, and if required alternate members, and determines their number. The Company can be represented in law by two members of the Management Board or by one member of the Management Board and one authorized signatory ("Prokurist"). Alternate Management Board members may properly represent the Company with equal authority. If only one Management Board member is appointed, then that person may represent the Company alone.

Management Board decisions are taken on the basis of a simple majority vote, with the Chairman casting a deciding vote in the event of a tie.

The current members of the Management Board are:

Mr Louis Arnitz (42)
Management Board Chairman
Corporate strategy, growth, marketing, i:FAO Travel Technologies

Louis Arnitz founded Flugbüro am Opernplatz in 1997, which subsequently became FAO Travel GmbH. He was managing director of the limited company until its transformation into i:FAO AG. He has acted as Chairman of the Management Board of i:FAO AG from its inception.

Mrs Karin Froese (37)
Personnel, quality management systems, i:FAO Travel Services

Mrs Froese, who holds a business degree in wholesale marketing, joined Flugbüro am Opernplatz GmbH in September 1981. She has been deputy managing director since 1984. Mrs Froese immediately joined the Management Board when the GmbH converted to i:FAO AG.

At the moment, Mrs Froese is also responsible for the accounting, controlling and internal audit functions within i:FAO AG. The Company intends to appoint a new member to the Management Board in the near future to take over these functions in particular.

The members of the Management Board may be contacted at the Company's business address.

The total remuneration for the Management Board for the 1998 financial year amounted to DM 447,799.73.

Louis Arnitz currently owns a total of 1,858,496 unit shares in the Company. Assuming the extra allocation option granted to DG BANK is taken up in full, Louis Arnitz will subsequently own 1,833,496 unit shares.

According to the articles of association of the Company, the **Supervisory Board** consists of three people.

The Supervisory Board currently comprises the following members:

Mr Andreas C. Wankum
- Chairman -
Businessman, Hamburg

Mr André Mangin
- Deputy Chairman -
Banker, Frankfurt am Main

Mr Hans-Jürgen Lappat
Auditor, tax consultant, attorney at law, businessman,
Frankfurt am Main

The members of the Supervisory Board may be contacted at the Company's business address.

Under the articles, in addition to the reimbursement of the expenses incurred in the course of their duties, the members of the Supervisory Board receive a fixed payment each year of DM 5,000.00 or DM 10,000.00 in the case of the Chairman. In addition, the members of the Supervisory Board are paid a fixed amount each year for each percentage point the profit distributed to the shareholders exceeds 4% of the paid-up registered capital. The Chairman receives DM 2,000.00, the other members DM 1,000.00.

The total remuneration for the Supervisory Board for the 1998 financial year amounted to DM 5,000.00.

Andreas Wankum currently indirectly holds a total of 619,499 unit shares in the Company through Saled Beteiligungsgesellschaft mbH & Co. KG. Assuming the extra allocation option granted to DG BANK is taken up in full, Andreas Wankum will subsequently own 594,498 unit shares.

According to the articles of association of the Company, the **general shareholders meeting** must be held at the registered seat of the Company, at the location of a German stock exchange on which its shares are listed for trading, or in a major German city with a population of more than 500,000.

Each unit share carries the entitlement to one vote.

Employee Participation Scheme

The general meeting of the Company held on January 20, 1999 authorized the Management Board subject to Supervisory Board approval to disburse up to 268,400 bearer unit shares

in total to employees of the Company i:FAO AG in one or several issues through to December 31, 2003. Existing shareholders will have no statutory right to subscribe. The subscription rights will be granted to a defined circle of employees of the Company through a share options program as part of their pay. The qualifying personnel include the Management Board and all other employees. The decision whether to award stock options to the members of the Management Board is at the sole discretion of the Supervisory Board.

Each stock option will convey the right to acquire one share (preemptive share) in the Company at the exercise price (base striking price). In the case of options awarded before the Company's stock market listing, the exercise price will be the subscription price of the Company's stock on placement. Where the options are awarded after the Company's stock market listing, the exercise price will be the closing market price of the Company's share on the business day preceding the date on which the options were granted.

The stock options may not be assigned or pledged. The options may only be exercised provided the employee concerned is still employed by the Company and is not under notice of termination. The right of Management Board members to subscribe may only be exercised provided they are still permanently appointed to the Board and are not under notice of termination. Special arrangements may be made in the light of exceptional circumstances.

The right conveyed by the options may only be exercised within a minimum period of two years from their issue and a maximum period of ten years from their issue, and always only within a period of four weeks after the publication of the Company's quarterly and half-yearly results. Furthermore, options may only be exercised provided the market price on the exercise date is at least 10% higher than the base striking price of the option concerned.

The Company intends to issue the first stock options on March 1, 1999.

Financial Year, Official Notices, Paying Agents and Depositories

The financial year of the Company is the calendar year.

According to the articles of association, the Company's official notices are to be published in the Bundesanzeiger (Federal Gazette). In addition, the Company will publish its official notices in a supraregional journal for statutory stock market notices issued by the Frankfurt Stock Exchange. Publication in the Bundesanzeiger is sufficient for the official notice to have legal effect.

The Company will appoint and announce the appointment of at least one bank as German paying agent and depository, at whose counters all transactions concerning the shares may be effected. The paying agents and depositories are the financial institutions which are currently members of the consortium and which are listed later on in this Prospectus.

Appropriation of Profits

Once the Management and Supervisory Boards have determined the Company's annual net profits, up to half of the sums concerned may be transferred to other retained profit reserves.

The Boards are additionally empowered to transfer other sums up to one-quarter of the annual net profits to other retained profit reserves provided the said reserves do not (or would not after the endowment) exceed half of the Company's registered capital.

The Company's annual unappropriated net profit is at the disposition of the general shareholders meeting. In deciding the appropriation of the unappropriated net profit, the meeting may allocate further sums to retained profit reserves or carry them forward to future periods. However, it may also resolve other uses than those provided for in Art. 58 Para. 3 Sentence 1 AktG.

Auditors

The annual financial statements of FAO Travel GmbH for the year ending December 31, 1997 and the annual financial statements of i:FAO AG for the year ending December 31, 1998 were audited by Pannell Kerr Forster GmbH Wirtschaftsprüfungsgesellschaft, Feuerbachstrasse 8, 60325 Frankfurt am Main, and were granted an unqualified audit opinion.

The annual financial statements of FAO Travel GmbH for the year ending December 31, 1996 were not audited.

The annual financial statements of i:FAO AG for the year ending December 31, 1998 prepared in accordance with International Accounting Standards were also audited by the above-named firm and again granted an unqualified audit opinion. The pro-forma IAS financial statements for the 1996 and 1997 financial years have been certified by the same firm of auditors.

HISTORICAL OVERVIEW OF i:FAO AG

- 1977 Flugbüro am Opernplatz founded by Louis Arnitz; ten years in business as a travel agent focusing on arranging business travel for clients in the entertainment industry
- 1980 Formation of Flugbüro am Opernplatz GmbH
- 1985 Change of name to FAO Travel GmbH
- 1987 Change to a dedicated business travel specialist
- 1990 Founding member of Woodside Travel Trust (now with approximately 5,425 bureaus world-wide in 82 countries, and total turnover of around \$ 19.6 billion)
- 1994 Start of transformation to a technology supplier
- 1994 DIN EN ISO 9001 quality assurance certification
- 1995 First Internet site (www.ifao.de)
- 1996 First Internet booking system
- 1996 First online Internet Booking Engine (IBE)
- 1997 First business travel solution provider to offer an online Internet Booking Engine with built-in Travel Management System (IBE:TMS®)
- 1997 First Internet Booking Engine for hotels in twelve different languages
- 1997 Venture capital from 3i (UK)
- 1998 reLaunch of eHotel Service
- 1998 Conversion of legal status to i:FAO Aktiengesellschaft
- 1998 Venture capital from CEA Interactive GmbH (Germany)
- 1998 Venture capital from Fair Invest GmbH (Germany)
- 1999 Listing and IPO on the Neuer Markt

BUSINESS ACTIVITIES

i:FAO AG develops systems for making interactive travel reservations and also offers to operate and manage its systems for customers. Its businesses are divided between its i:FAO Travel Services and i:FAO Travel Technologies divisions.

Main Business Fields and Products

i:FAO Travel Services

The activities of the Travel Services division are concentrated on operating a central call center for business travel bookings. Reservations can be made by phone, fax, e-mail or via the Internet. i:FAO Travel Services operates the in-house KfW Travel Center for Kreditanstalt für Wiederaufbau (KfW) which manages all the bank staff's business travel.

The i:FAO Travel Services division takes over the making of travel arrangements for corporate customers' staff, with a primary focus on their business trips. Specifically, Travel Services makes flight reservations, prints out the tickets and forwards them to the customers concerned; similarly, it makes rail reservations, prints out the tickets and forwards them to the customers concerned. The division also makes hotel and hire car reservations and confirms them to the customer.

The i:FAO Travel Services division draws its income from intermediary's commissions on the travel services it distributes. This source is increasingly supplemented by income in the form of fixed fees for managing bigger companies' travel activity and trading markups on what are known in Germany as "net tickets".

Net tickets are discounted air tickets which the Company buys from consolidators or airlines and resells at a profit.

More than 300 companies currently use the services and products of i:FAO Travel Services. The Company believes that this division is uniquely differentiated from its competitors by the following service features:

- a) Firstly by its ability to use the i:FAO hotel program which includes more than 5,500 partner hotels around the world which offer preferred rates to i:FAO's customers. A hotel program for business travelers is a service typically offered by specialist companies like i:FAO or by big travel agency chains. These programs are based on contractual agreements with domestic and foreign hotels and hotel chains. These contracts generally commit the individual hotels or chains to providing special terms for the customers of the Company which has put together the program. In return the operator of the program undertakes to steer potential guests towards the participating hotels by appropriate distribution initiatives and the use of marketing tools (such as hotel guides etc.).

In the Company's case, all of the activities connected with the i:FAO hotel program and making hotel reservations are gathered together under the banner of eHotel Service, the name which is also used for advertising purposes.

eHotel Service provides business travelers with an end-to-end services package covering every aspect of hotel reservations; it allows customers to go beyond the special offers contained in the hotel program and make room reservations in over 47,000 hotels at favorable prices, by phone, fax, e-mail or online (with instant confirmation) via an Internet site.

The eHotel Guide (a printed catalog covering the most important partner hotels) contains additional information and the current prices of the participating hotels worldwide and can be ordered by customers of the Travel Services division together with the eHotel Disk (available on floppy disk or CD-ROM). eHotel Service is i:FAO Travel Services' most important product and is marketed throughout Germany.

In addition to the commission income earned by acting as an intermediary for hotel bookings, eHotel Service generates further income from licensing of the eHotel Disk and eHotel.de software, and from the sale of advertising space in the eHotel media – the guide, the disk, and the Internet site.

- b) Secondly, the Company believes that its comprehensive offering of business travel products and services, sufficient to satisfy all the needs of a modern company, in itself sets i:FAO apart from its rivals; the membership of the Travel Services division in the international alliance Woodside Travel Trust (WTT) is also a relevant factor. WTT unites over 5,500 travel agencies in 82 countries. i:FAO was a founding member of WTT in 1990 and is a minority shareholder in the alliance. WTT is an operating partnership of business travel management providers who work together to look after customers on a global basis. The Company also believes that its ability to provide detailed records and breakdowns of the booking activity of i:FAO's customers is a particularly valuable service for corporate customers, in that it allows them to monitor all their reservations traffic. It also says that another feature unique to i:FAO Travel Services is the price guarantee it provides on bookings; if a hotel subsequently demands a higher rate than the price most recently confirmed by eHotel, i:FAO will reimburse the difference.

i:FAO Travel Technologies

The activities of the i:FAO Travel Technologies division are firstly the provision of expert support to the Company in relation to networks, PC technology, office systems and software.

The division's second focus is on software development.

At the heart of this latter effort is the **IBE:TMS®** (Internet Booking Engine: Travel Management System) core product developed by the Company itself. First launched in 1996, this specialist standardized software package for business travel bookings has been continuously enhanced and improved ever since. The software is an engine for making online bookings

from Internet, Intranet or Extranet networks. All the system data and the IBE:TMS[®] server software are located on the IBE:TMS[®] server, which is administered like any regular Windows NT server. IBE:TMS[®] effectively sets up a virtual travel agency on the relevant network which can be accessed from any computer in the company twenty-four hours a day. It therefore covers all the desktop workstations, any company staff working from a home office, and anyone away from the office with a notebook and the necessary network link. Once the customer's employee has logged onto the IBE:TMS[®] homepage, he or she is offered a range of options. These include booking flights, hotels, hire cars or rail journeys, amending existing bookings, or changing the personal data stored in the relevant user profile.

More than 700 airlines, 47,000 hotels and every leading firm in the rental car business are all bookable through IBE:TMS[®]. It supports bookings of single and return flights as well as complicated routes with multiple stopovers and service components. It can handle any combination of flight, hotel and hire car bookings. It automatically takes account of the previously booked legs. It displays interactive, graphic seating plans for a range of airlines which allow users to book their preferred seat on the plane with a single mouse click. Secretariat bookings are supported by an easy-to-use coordinator module which makes it possible to harmonize the arrangements made for multiple travelers. Travel confirmations are instantly displayed on screen and simultaneously transmitted by e-mail. Bookings can be cancelled, even down to individual components.

In the event that a travel booking made via IBE:TMS[®] requires a travel document, i.e. a flight or rail ticket, the booking data is automatically copied to any travel agency of the customer's choice. The agency can then call on the data to print out the relevant travel document and forward it to the customer. In this context, it is relevant that the travel agency does not need any special IBE:TMS[®]-compatible technology to perform this task.

The Start menu provides the user with direct access to their personal profile alongside the various options for booking, as well as a table of their previous reservations. Everyone in the company who travels on business can store their personal profile in the system with their own preferences such as favorite seat, customer code number and frequent flyer program reference number. The profiles are easy to administer and automatically respected for every booking. In the case of flights, the system displays not only the price according to the prescribed parameters, but also if requested the cheapest flight available on that route. For hotel bookings, the system always automatically identifies and displays the "best buy."

According to the Company's description, using IBE:TMS[®] within a company guarantees that every travel reservation made in the company will comply with the host company's travel policy. The term "travel policy" refers to the special rules and regulations a specific company lays down for its staff to arrange and pay for their business travel. These can cover both the costs of travel and the formal aspects of reserving and paying. As far as corporate travel policies are concerned, the central system installed in any company can be immediately and precisely customized to meet the needs and resources of that company. This can be done by, for instance, specifying preferred airlines (globally, regionally, nationally or between individual cities), hotel chains (globally and country by country),

hotels (in cities) or car hire firms. IBE:TMS[®] also makes it possible to conveniently administer a wide range of other dimensions of travel management, including permitted credit cards, prescribed travel agency partners, customer-specific databases of agreed corporate terms for flights, hotels and car hire, the company's offices and departments, system languages and layout (interfaces to match the company's corporate design), a corporate profile with a multitude of supplementary information, data encryption, user rights, and system usage reporting.

The centralized administration of IBE:TMS[®] makes it possible for customers to gain control over the entire bookings process and at the same time reduce processing costs both in-house and at the travel agency. The system also guarantees that every single booking complies with all the company's current conditions. Importantly, IBE:TMS[®] is totally neutral and its use is not tied to using the services of any single travel agency, credit card company or airline.

In the case of IBE:TMS[®], the division's income overwhelmingly takes the form of license fees. The size of the license fee is based on the number of users (defined profiles) in the company. A flat-rate monthly fee is then payable for each profile, so that the number of actual bookings made per profile is not the key issue.

Another product of i:FAO Travel Technologies is the **eHotel Disk** mentioned earlier in connection with eHotel Service. This is available on diskette or CD-ROM and works as a Windows software package for selecting hotels and making bookings by fax or e-mail. Prices and a wealth of supplementary information about specific hotels can be retrieved from **eHotel Disk**. Among the product's range of additional features is the ability to select hotels by reference to specified facilities and a function for comparing two hotels.

In addition to the IBE:TMS[®] and eHotel Disk products we have described, i:FAO Travel technologies has also developed a range of web sites.

For instance, **eHotel.de** serves as the central web site for eHotel Service. This web site permits round-the-clock interactive reservations with more than 47,000 hotels around the world. Bookings can be made with the user's credit card details encrypted. The site's user guidance is exceptionally clear and it can be used in three languages (German, English, French).

Business-class.de has been open as an Internet business travel agency since 1996. Through Business-class.de, i:FAO offers selected products and services from i:FAO Travel Services and i:FAO Travel Technologies.

Internet-Reisebuero.de offers the same technical content as Business-class.de, but its extra information and different design are intended to appeal more to private customers.

Reiseservice.de is a big mall-type web site which provides a shop window and selling platform for more than 1,600 service providers who all share a travel theme. Reiseservice.de has already won a fistful of prizes for the best tourist web site.

Finally the Company also offers a **corporate web site**. This acts as a marketing tool and provides information about i:FAO, forthcoming events, trade fairs and exhibitions the Company will be taking part in, a library of i:FAO press releases and publications together with a collection of graphics for journalists to download, information about Woodside Travel Trust, and job vacancies. There are also direct hyperlinks to

the eHotel.de (for eHotel Service) and IBETMS.net (for IBE:TMS®) and the Reiseservice.de, Internet-Reisebuero.de and Business-class.de web sites.

Market Overview and Evolution, Competitors

According to the Company, the total volume of the business travel market in the German Federal Republic in 1997 was approximately DM 73 billion and its average annual growth rate over the last few years has been 3%. i:FAO expects the market's turnover to rise well beyond DM 80 billion in the year 2000. The areas of the market serviced by the Company (air travel, hotels, rail travel and car hire) account for just under 50% of the business travel market's total volume.

More than 100 million individual transactions made up the business travel market in 1997. The Company believes that in theory, all of these bookings can be made online. The Company expects important parts of the business travel market to recognize the advantages of online booking in the future, in the process unlocking a huge market potential.

In both its main businesses, the Company faces stiff competition for an attractive market. As well as the traditional competitors in the form of established travel agency chains, an increasing number of new suppliers such as online booking systems continues to enter the market.

In the Company's view, there are currently five or six globally operating companies in the Internet travel services market. To these can be added a handful of national suppliers which offer more specialized systems for the bigger markets such as the USA, Canada, UK, France or Germany.

The leading players are currently Microsoft/American Express (AXI American Express Interactive), Internet Travel Network (ITN), Sabre (Business Travel Solutions BTS), E-Travel and XTRA-Online. All of these providers are domiciled in the USA.

There are also providers which concentrate on the German market. These are Lufthansa AirPlus (not yet available on the market to the best of the Company's knowledge), BTI Euroloyd Eurelios (Windows software), SAP (integration of an Amadeus-linked travel booking tool into HR/3), and Daimler-Benz (currently running an internal pilot project).

However, the Company believes that its product is clearly differentiated from the other programs on the market in Germany by the fact that all the others either require the presence of SAP software or else are tied to the provider's own products. The Company propounds the view that at present it is the only supplier which provides an independent business travel management product.

At the same time the Company regards itself as enjoying a real advantage from its success so far in turning its former travel industry competitors into customers. For instance, some of the top German travel agency chains are users of i:FAO's eHotel Disk or IBE:TMS® system. The Company also licenses products such as its Hotels program to other travel agents.

Corporate Strategy

The Company's strategy is aimed at improving its market position and continuously increasing its turnover and profit, and essentially incorporates the following elements:

Strengthened market position

i:FAO's priority focus is to gain a controlling market position in Germany and selected foreign markets – especially for its Travel Technologies division and its key product IBE:TMS®. As far as the Travel Services division is concerned, the objective is expansion with a focus on quality and earnings. Its priority will be to increase the role played by its call center in supporting travelers making Internet bookings.

Core competencies concept

All the products and services the Company develops in future will ideally be based on several core competencies developed and nurtured by i:FAO. The Company defines the following as its core competencies:

- Internet-technology-based interactive travel information and booking systems
- the development, technical realization and design of web sites and Internet sites
- i:FAO hotel program, eHotel Service
- Business Travel Management Service

Multiple benefit strategy

The Company plans to build on the strategy of multiple exploitation it has already applied to several products and apply it to more products and services in future. The purpose of the strategy is that as far as possible, whenever products are sold or services provided in the future, the Company should seek to realize sales, commission, advertising and license fee income all at the same time.

Increased advertising income

All the Company's software products are designed to accommodate advertising. The Company believes that its web sites in particular offer considerable extra potential to gain earnings from advertising. The Company is confident that it is continually becoming more expert at creating and marketing a context-sensitive advertising environment and will be able in future to derive exceptional benefit from the attractive target audience of frequent travelers it can promise to advertisers.

Securing and enhancing service quality

The Company's quality assurance system was awarded certification under the DIN EN ISO 9001 standard by external auditors as long ago as 1994. DIN EN ISO 9001 is an international standard developed from a series of three international standards specifying companies' quality management systems. The 9001 standard is based on a model for assuring quality in the areas of development, production, assembly and customer service. By gaining this certification, the Company believes that it established an early standard which provides a guide for the continuous improvement of the quality of its internal processes. The Company states that its primary ambition is not to be the cheapest supplier in the market but to be recognized as the provider of the best performance.

Increased efficiency

In spite of its rapid expansion in the past and the rapid growth it plans for the next few years, the Company says that it is itself increasing the attention devoted to enhancing the efficiency of its operations and its internal processes. Its aim in doing so is to make sure that it achieves cost benefits in both divisions through optimizing its cost management and exploiting the potential for synergies.

Marketing and Distribution

The Company pursues different distribution and marketing strategies in each of its divisions.

Its strategy in the Travel Services division again differentiates between two areas of business. In the field of Business Travel Management Services, the Company aims to win new customers by exploiting its Internet offerings. Its marketing effort in this area is restricted to traditional direct marketing. On the eHotel Service side however, the division aims at faster growth which it tries to drive forward through television, press and Internet advertising.

The Company has developed sales models based on distribution partnerships for all the different products of the Travel Technologies division. In the Company's view, the IBE:TMS[®] product has been established as the industry standard in the German market with the help of Siemens Business Services. Siemens Business Services performs the role of systems integrator for major corporate accounts while i:FAO intends to service mid-sized customers directly in future. To look after small customers, the company plans to set up an IBE:TMS[®] shop on the Internet, where customers will be able to instantly purchase an IBE:TMS[®] license and a dedicated internet bookings site online. The division's marketing and distribution activities are currently concentrated on the German, Austrian and United Kingdom markets. However, Siemens Business Services has been given a global distribution license and has already received the first inquiries from the USA and Australia.

Research and Development

As an Internet technology provider, i:FAO has always placed a high value on research and development (R&D). This function is part of the Travel Technologies division. All software, and most importantly the key IBE:TMS[®] product, is developed in house. The Company believes that its customers have a unique advantage in the form of the Travel Technologies division's Development Support System, which customers can also access via the Internet. This i:FAO-developed software manages the entire development process and makes it completely transparent. The Development Support System provides a vehicle for IBE:TMS[®] users to directly contact i:FAO's developer team. i:FAO is determined to continue to invest in R&D in the future. A sign of the seriousness of this intention is the fact that more than 200 current IBE:TMS[®] development jobs have been registered and more than 40 new functions are planned for the system. The 200 development jobs originate from the division's own Development Support System, in other words they overwhelmingly originate from criticisms, suggestions and enhancement proposals submitted by IBE:TMS[®] users. The Company pays close attention to the demands of the

market, especially in relation to functionality and new features and distribution issues.

Sales Evolution

The evolution of i:FAO's sales is essentially clear from the financial statements. Almost all the Company's turnover in 1996 and 1997 came from the Travel Services division. 1998 was the first year in which Travel Technologies could point to a significant sales volume of approximately DM 1 million. It is not possible to quote specific figures at this point because the Company's management accounting system did not provide a breakdown of sales by product groups in previous years. However, the Company expects the Travel Technologies division to contribute strongly rising sales in future years.

Investments

i:FAO AG's investments between 1996 and 1998 are shown in the following table (in DM):

	1996	1997	1998
Software	79,917	15,285	24,330
Hardware	17,991	109,657	88,760
Office systems and outfitting	68,675	65,716	289,250
Tenants improvements	8,743	4,388	25,316

The Company is currently planning investments to set up and maintain a distribution organization outside Germany, to expand its distribution activities inside Germany, and to continuously improve the functionality of its IBE:TMS[®] product.

The Company plans to make tangible asset investments to expand its base of computer workstations and servers.

Employees

The Company's growth is also reflected in the continuous rise in the number it employs on a permanent or regular contract basis. The table below shows the number of i:FAO's employees at the end of each year.

December 31, 1994	18 employees
December 31, 1995	25 employees
December 31, 1996	32 employees
December 31, 1997	38 employees
December 31, 1998	52 employees

The number of people employed in the various areas of the Company at December 31, 1998 was as follows:

Travel Services	16 employees
Travel Technologies	21 employees
Executive Office/Accounting	8 employees
Freelance staff	7 employees

The Company aims to continue to grow its workforce steadily in the future as well.

Patents, Licenses, Important Contracts

i:FAO does not currently hold any patents or have any applications pending. The Company justifies this stance by reference to the extremely poor protection that patents provide for software.

The Company holds an IATA (International Air Transport Association) license which permits it to issue flight tickets itself for all the airlines affiliated to IATA and receive payments in return. Payments and commissions are settled through BSP (Bank Settlement Plan) Deutschland, a central clearing facility for IATA. The Company also holds a Deutsche Bahn AG (DB) license which authorizes it to issue rail tickets itself for settlement with DB. Both licenses are issued to i:FAO Aktiengesellschaft both in the name of the central call center at the Company's head office and for the KfW Travel Center operated by i:FAO. As far as the administration of travel bookings is concerned, the Company is dependent on the continuance of these licenses.

To access the computer reservations systems (CRS, also sometimes known as GDS or global distribution systems) of the airlines, hotel chains, car hire companies and the German rail operator, i:FAO Travel Services relies on the Start/Amadeus system which is in widespread use throughout Germany and for which it has a long-term user contract. Although the Company regards its access to this reservations system as a major benefit, it would be able to switch to an alternative system if the need arose.

The Company has also signed a distribution partnership agreement with Siemens Business Services (formerly Siemens Nixdorf Informationssysteme AG) which entitles Siemens Business Services to distribute key i:FAO products in its own name and for its own account during the term of the contract (through to end-2002). In addition, American Express Corporate Travel, DER Business Travel, Derpart and FIRST Business Travel International also act as distributors of IBE:TMS[®] based products.

Apart from the above-named patents, licenses or contracts, the Company is not dependent on any other patents, licenses or contracts of critical importance to its business or profitability.

Real Estate

The company does not own any real estate.

All the Company's business premises are leased.

Litigation

No court or arbitration proceedings which might have a significant influence on the economic situation of the Company or which have had such an influence in the past three financial years are currently under way, nor to the best of the Company's knowledge are any such proceedings pending, threatened, or anticipated. The only legal dispute currently in process is with an advertising customer and involves a sum of approximately DM 20,000.00.

THE NEUER MARKT

The Neuer Markt is designed to provide access to the capital market particularly for innovative, fast-growing, small to medium-sized companies (referred to as "issuers" in this section). This officially recognized and supervised trading segment of the Frankfurter Wertpapierbörse (FWB Frankfurt Stock Exchange) has been operating since March 10, 1997.

The Neuer Markt is targeted at private and institutional investors who are willing to take risks.

All trading of shares listed on the Neuer Markt takes place exclusively at the FWB Frankfurt Stock Exchange. Neuer Markt shares are traded through open outcry on the floor of the FWB Frankfurt Stock Exchange, but also through the new XETRA electronic trading system. The Neuer Markt's trading model combines a central order book maintained by a private broker (ledger broker) who establishes the price, with "Betreuer" or "designated sponsors" who provide liquidity when bids cannot be met from the order book. The designated sponsors act as market makers during the trading sessions, i.e. they quote ask and bid prices on request. Provided a quotation request has been submitted to that effect, shares can be traded on the Neuer Markt throughout the trading sessions subject to continuously quoted prices (variable price trading). The minimum unit quantity for variable-price trading of Neuer Markt stocks has been set at 1 share since April 1, 1998. In addition, it is standard practice to fix a daily published price for every Neuer Markt share at a specified time each trading day. Transactions through the Neuer Markt are settled on the second business day after their conclusion.

In addition to satisfying the admission requirements for the "Geregelter Markt" (Second Trading Segment), an issuer which wishes its shares to be admitted for trading on the Neuer Markt must in all cases also meet the following additional admission requirements:

- Minimum free float after listing should be 20% and preferably 25%;
- The initial offering must be for ordinary shares;
- Annual financial statements must be prepared in German and English complying with IAS (International Accounting Standards) or US GAAP (US Generally Accepted Accounting Principles);
- At least 50% of the placement must derive from a capital increase;
- The existing shareholders should undertake not to dispose of any shares for at least six months from the date of the shares' admission to the Neuer Markt;
- The issuer must accept the "Übernahmekodex" (German Takeover Code) published by the relevant experts' committee of the Finance Ministry (Börsensachverständige Kommission);
- The anticipated market value of the shares admitted for trading must be at least EUR 5 million.

In addition, the following ongoing requirements apply to issuers

- Preparation of quarterly reports in German and English;
- Publication of annual financial statements no later than three months, and publication of quarterly reports no later than two months after the relevant closing date;
- Publication of an annual corporate action calendar with all relevant dates;
- Presentations to analysts at least once a year;
- Publication of changes in the shareholdings of members of executive bodies, with separate disclosures for the Managing and Supervisory Boards, at least once a year;
- Appointment of at least two permanent designated sponsors.

Designated sponsors ("Betreuer") are either companies authorized to trade on the Frankfurter Wertpapierbörse or dealers who function as market makers during trading sessions. The duties of designated sponsors include:

- Continuous provision of firm bid and ask prices;
- Immediate execution of customer orders;
- Limitation of the bid/ask differential (spread) to a maximum of 5%;
- At least 50% of requests for the share by the ledger broker to a Betreuer must result in a bid/ask limit response;
- Regular analysis of the issuer from a capital market viewpoint
- Advice to the issuer to ensure ad hoc publicity requirements are met and to provide continuous information coverage for its investors.

NOTES ON TAXATION

The following section does not claim to present a comprehensive list of all tax considerations which could be of relevance in the acquisition of shares. The information provided is based on the tax regulations still effective in the Federal Republic of Germany at the time of preparation of this Prospectus, which by their nature are subject to change. These notes cover only the tax treatment of dividends, profits resulting from disposals, and gifts and inheritances. Since it would be impossible to comprehensively discuss all of the related taxation issues, the information presented does not address specific constellations of circumstances which could be of significance to individual purchasers of the shares.

Potential investors are strongly advised to seek the advice of their own tax advisors in the event of doubts about taxation.

Taxation of Shareholders with unlimited Tax Liability

a) Income and Corporation Tax

Dividends paid by an Aktiengesellschaft (a public limited company) whose registered place of business is in the Federal Republic of Germany to its shareholders in Germany are subject to income or corporation tax on the gross dividend (cash dividend plus corporation tax imputation credit). In addition, the cash dividend (gross dividend minus corporation tax imputation credit) is subject to an investment income tax of 25%, which can be offset against tax liability as part of the tax assessment process.

Since January 1, 1995, a Solidaritätszuschlag ("solidarity surcharge") has been levied in addition to income or corporation tax and investment income tax; this surcharge currently amounts to 5.5%. The tax levied on dividends is thereby increased to 26.375% (investment income tax plus 5.5% of investment income tax).

As part of the tax assessment procedure, the investment income tax and the solidarity surcharge levied on this tax are offset against the total tax liability. The same applies to the corporation tax that was paid by the Company and levied on dividends in the corporation tax imputation procedure. This prevents double taxation of the Company's and the shareholder's profits. The result is that dividend income is taxed only at the individual income or corporation tax rate to which the shareholder is subject.

For example, if the Company approves the distribution of a dividend amounting to DM 70.00, the shareholder receives a cash amount of DM 51.54, or the total dividend less the withheld investment income tax of DM 17.50 and the solidarity surcharge on this tax of DM 0.96. The withheld taxes (investment income tax plus solidarity surcharge) amounting to DM 18.46 and DM 30.00 for the corporation tax paid by the Company are credited against the shareholder's individual tax liability. If the shareholder's personal tax liability is greater than the imputation amounts, he/she owes tax; if the reverse situation applies, a tax refund is due.

Persons resident for tax purposes who receive income from capital assets as part of their personal assets, are granted a savers tax allowance and an overall allowance for income-related expenses totaling DM 6,100.00 for single persons (expected to reduce to DM 3,100.00 as from January 1, 2000) or DM 12,200.00 for married couples (expected to reduce to DM 6,200.00 as from January 1, 2000). The gross dividend (cash dividend plus corporation tax imputation credit) is offset against this allowance. Provided an exemption application is submitted to the financial institution managing the securities account, the gross amount of the dividend is paid out regularly, provided that a sufficient amount of the allowance remains unused.

b) Taxation of Profits on Disposals

Gains from the disposal of shares held as part of the business assets of a shareholder resident in Germany are as a rule subject to taxation.

Gains from the disposal of privately held shares are only subject to income tax under the present legislation if

- aa) disposal takes place within six months of acquisition of the shares. A tax allowance of DM 1,000.00 per year is granted on these windfall profits. Speculative losses can be offset against windfall profits up to the full amount of the windfall profits that the taxpayer achieved in the same calendar year, or
- bb) if the shareholder directly or indirectly held a significant interest in the nominal capital of the company (i.e. one exceeding 25%) at any time during the last five years. In this case, the profit from disposal is considered to be the amount by which the disposal price less disposal costs exceeds the acquisition price. Within certain limits, the profit from disposal is not subject to tax.

Under the provisions of a tax reform bill scheduled to be put before the German parliament in Spring 1999 and to have retroactive effect from January 1, 1999, any sale of securities after December 31, 1998 will count as a taxable speculative transaction if

- aa) the acquisition and disposal of the shares are not separated by more than twelve months. A tax allowance of DM 1,000.00 per year will continue to be granted on these windfall profits. Unlike the previous situation, it will be possible to offset speculative losses against the windfall profits achieved in future years where they exceed the windfall profits available in the same calendar year, or
- bb) if the shareholder directly or indirectly held an interest of at least 10% in the nominal capital of the company at any time during the last five years. The basis for calculating the profit from disposal is the same as described above. No allowance for profits from disposals will be available in future.

c) Inheritance and Gift Tax

The acquisition of shares by a living person by way of a gift or as inheritance on account of death is only subject to German inheritance or gift tax if the testator or donor was a resident of Germany pursuant to Section 2 of ErbStG (German Inheritance Tax Law).

For family members and relatives, allowances in varying amounts are applicable. If the shares are held as business assets, a tax allowance of DM 500,000.00 is granted in the event of inheritance or acquisition by way of anticipated succession.

d) Wealth Tax

As the situation now stands, wealth tax will not be levied for assessment periods after January 1, 1997 until further notice, because the new legislation required by the German Federal Constitutional Court due to the unconstitutionality of certain provisions of the Wealth Tax Law had not been passed by December 31, 1996.

Taxation of Shareholders with limited Tax Liability (Non-Residents for Tax Purposes)

a) Income and Corporation Tax

Shareholders who are residents of countries other than Germany are subject to a limited tax liability on their income from dividends in Germany, if the beneficiary of the dividend has his/her habitual residence, company management, or registered place of business in Germany. However, the tax liability is considered to have been discharged on payment of investment income tax plus the solidarity surcharge.

This means that the cash dividend is subject to an investment income tax of 25% plus a solidarity surcharge amounting to 5.5% of the investment income tax levied, as is the case with shareholders who are residents of Germany. However, in numerous double taxation agreements, the right of the source state to levy a withholding tax is limited to a ceiling rate or is suspended. If this tax is lower than the investment income tax charged in the Federal Republic of Germany (currently 25%) plus solidarity surcharge, the non-resident shareholder may claim a reduction in the investment income tax. However, this reduction will only be granted in the form of a refund by the German tax authorities. Applications should be directed to the Federal Office of Finance, Friedhofstrasse 1, 53221 Bonn, Germany.

Shareholders with a limited tax liability are eligible neither for a corporation tax imputation credit, nor for a savers tax allowance.

On the other hand, where the shares belong to the assets of a business establishment or a permanent business facility in the Federal Republic of Germany maintained by the non-resident shareholder, taxes are levied as in the case of a shareholder resident in Germany who holds shares within the assets of a business establishment in Germany. (For more information, please see the section entitled "Taxation of shareholders with unlimited tax liability") In this case, shareholders with limited corporation tax liability are subject to a reduced corporation tax rate of 42% (plus a solidarity surcharge amounting to 5.5% of the corporation tax). As part of the proposed tax reform in Germany, it is planned to abolish this lower rate of

corporation tax from January 1, 1999 in return for the planned reduction in the rate of corporation tax levied on retained earnings.

b) Taxation of Profits from Disposal

Gains from the disposal of shares held by a shareholder with limited tax liability are not subject to German income tax, unless

- the shares belong to a business establishment or a permanent business facility in the Federal Republic of Germany, or
- the shareholder directly or indirectly held an interest in the share capital of a domestic Kapitalgesellschaft (public limited company) exceeding 25% (at least 10% in the case of disposals effected after January 1, 1999) at any time during the previous five years, and no exemption based on a putatively applicable double taxation agreement exists.

c) Inheritance and Gift Tax

The acquisition of shares held by shareholders with limited tax liability by way of a lifetime gift or as inheritance on account of death is only subject to German inheritance or gift tax if

- the testator, donor or recipient was a resident of Germany pursuant to Art. 2 of the ErbStG (German Inheritance Tax Law), or
- at the time of transfer to the recipient, the shares belonged to the assets of a business establishment or a permanent business facility in the Federal Republic of Germany belonging to the shareholder, or
- the shareholder, either individually or together with other persons associated with him/her, directly or indirectly held an interest in the nominal capital of the company amounting to at least 10%.

d) Wealth Tax

As in the case of shareholders resident in Germany, wealth tax will not be levied for assessment periods after January 1, 1997 until further notice.

i:FAO AG AT A GLANCE
(IAS basis)

	1996 DM '000	1997 DM '000	1998 DM '000	Change 1997 from 1996 in %	Change 1998 from 1997 in %
Total sales	4,977	4,608	6,128	-7	33
Direct materials costs	2,074	1,909	2,240	-8	17
Personnel expenses	2,046	3,040	3,446	49	13
Depreciation	124	146	220	18	51
Result from ordinary activities	-335	-1,907	-2,127	-469	-12
Net loss for the year	-207	-1,267	-1,417	-512	-12
Cash flow (from current operations)	-287	-1,260	-2,348	-339	-86
Earnings per share based on:					
total of 50,000 shares (DM/share)	-4.140	-25.34	-28.34	-512	-12
total of 4,090,000 shares (DM/share)	-0.051	-0.31	-0.35	-512	-12
Fixed assets	419	410	670	-2	63
Current assets	481	2,761	10,303	475	273
Deferred taxes on income	78	720	1,431	823	99
Equity	568	1,881	10,554	231	461
Provisions	33	40	199	21	398
Liabilities	361	1,958	1,657	442	-15
Balance sheet total	980	3,892	12,425	297	219
Equity ratio	58.0%	48.3%	84.9%	-17	76
Employees (at end of respective year)	31	42	45	35	7
Trainees	0	0	0	n/a	n/a
Net return on sales	-4.16%	-27.50%	-23.12%	-561	16

SUMMARY COMMENT ON THE KEY FINANCIAL RATIOS

of the last three Years

1998 Key Measures compared to 1997

The following background explanations to the key financial ratios of i:FAO AG for 1998 compared to 1997 and 1996 relate to the assets and liabilities, income and cash flow statements of the group's accounts for 1998 drawn up in accordance with IAS. The comparative figures for 1997 and 1996 have been taken from the 1997 accounts of FAO Travel GmbH, and have been restated where necessary to comply with the IAS procedure.

DATA FROM THE INCOME STATEMENT

Sales Revenue

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
4,977	4,608	6,129	-7%/33%

Most of the sales growth between 1997 and 1998 can be credited to the IBE division, whose revenues increased by around DM 900,000.00 over the previous year. Other significant increases were the DM 380,000.00 rise in flight and rail ticket sales and the DM 200,000.00 rise in commission income. The slight decline in 1997 compared to 1996 reflects the trend of the wider business travel market.

Materials Expense

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
2,074	1,909	2,240	-8%/17%

This heading mainly records bought-in tickets and passed-on commissions. The slower rate of expansion of this heading compared to sales revenues is explained by the Company's changing sales mix due the higher share of labor-intensive IBE services.

Personnel Expense

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
2,046	3,040	3,446	49%/13%

The increase in labor costs was almost entirely due to an increase in the number of employees involved in IBE development and marketing.

Depreciation

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
124	146	220	18%/51%

The sharp increase in the depreciation heading, especially between 1997 and 1998, was due to investment in office systems and outfitting.

Result from Ordinary Operations

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
-335	-1,907	-2,127	469%/12%

The increased deficit in 1998 over 1997 was essentially due to the rise in other operating expenses, especially the marketing, legal and consultancy costs generated by the Company's proposed listing and flotation. The rise in 1997 over 1996 was due to the massive increase in personnel expenses due to setting up the IBE division.

Net Loss

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
-207	-1,267	-1,417	512%/12%

The low level of the Company's net loss compared to its deficit from ongoing operations in each year was primarily due to the positive effects of capitalizing deferred tax entitlements.

DATA FROM THE CASH FLOW STATEMENT

	1996 DM '000	1997 DM '000	1998 DM '000
Net outflow of funds from ongoing operating activities	-287	-1,260	-2,348
Net outflow of funds from investing activities	-209	-234	-478
Net inflow of funds from financing activities	68	3,880	9,929
Funds at January 1	452	24	2,410
Funds at December 31	24	2,410	9,513

The cash outflows from ongoing operations have increased by around DM 1,000,000.00 in every year of the comparison.

The main source of financing for the Company in both 1997 and 1998 was the net inflow from financing activities. These totals reflect the capital increases effected during the two years. In 1996 the Company's activities were financed from net cash.

DATA FROM THE BALANCE SHEET

Fixed Assets

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
419	410	670	2%/63%

The increase in this heading in 1998 compared to 1997 was primarily due to the investments made in office systems and outfitting.

Current Assets

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
481	2,761	10,303	475%/273%

The increase in this heading reflects the increase in liquid funds resulting from the capital increases effected during the year.

Deferred Taxes on Income

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
78	720	1,431	823%/99%

Since the realization of loss carry-overs allowable against both corporation tax and municipal trading tax is anticipated in the future, the resulting deferred tax entitlements have been capitalized. The sharp increase in 1997 compared to 1996 reflects the trend of the company's pre-tax results which resulted in the repayment entitlements concerned.

Equity

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
568	1,881	10,554	231%/461%

The increase in the equity heading reflects the capital increases implemented during 1997 and 1998.

Provisions

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
33	40	199	21%/398%

The additional provisions in 1998 were made primarily in respect of outstanding invoices for previously-received legal and consultancy services (essentially connected with the Company's proposed stock market listing and IPO).

Liabilities

1996 (DM '000)	1997 (DM '000)	1998 (DM '000)	Change
361	1,958	1,657	442%/15%

The end-1998 liabilities total included DM 800,000.00 worth of shareholders' loans to the Company and DM 411,000.00 due to banks. The decline from the previous year's total was primarily due to the paying-down of liabilities to banks, whose expansion between 1996 and 1997 accounts for the perceptible rise shown.

FINANCIAL STATEMENTS OF i:FAO AKTIENGESELLSCHAFT AS AT DECEMBER 31, 1998 PREPARED IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB) AND COMPARATIVE PRESENTATION OF THE ACCOUNTS OF FAO TRAVEL GMBH FOR 1997 AND 1996 FINANCIAL YEARS (HGB)

BALANCE SHEET

of i:FAO AG as at December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Balance Sheets

	Note	1998 DM	1997 DM	1996 DM
ASSETS				
A. Business start-up expenses		0.00	0.00	430,000.00
B. Fixed assets				
I. Intangible assets	2			
Computer software		100,149.00	115,164.00	133,616.00
II. Tangible assets	2			
1. Other plant, office systems and outfitting		471,780.00	201,160.77	179,293.00
2. Tenants' improvements		90,487.00	85,967.00	98,968.00
		<u>562,267.00</u>	<u>287,127.77</u>	<u>278,261.00</u>
III. Financial assets	2			
Equity investments		7,635.00	7,635.00	7,635.00
C. Current assets				
I. Receivables and other assets	3			
1. Trade receivables		675,024.69	296,660.75	344,501.96
2. Due from shareholders		0.00	0.00	1,009.78
3. Other assets		114,502.45	54,039.87	111,449.56
		<u>789,527.14</u>	<u>350,700.62</u>	<u>456,961.30</u>
II. Cash in hand, bank and girobank balances	4	9,512,747.12	2,409,739.15	23,484.57
D. Deferred charges to operation	5	22,602.38	2,054.33	1,347.86
		<u>10,994,927.64</u>	<u>3,172,420.87</u>	<u>1,331,305.73</u>

	Note	1998 DM	1997 DM	1996 DM
EQUITY AND LIABILITIES				
A. Equity				
I. Registered capital	6	250,000.00	200,000.00	120,000.00
II. Capital reserve	7	13,100,000.00	3,100,000.00	600,000.00
III. Carried-forward profit/loss		-2,139,285.17	199,190.45	54,626.70
IV. Net profit/loss for the year		-2,127,776.47	-2,338,475.62	144,563.75
B. Paid-in contributions in respect of an authorized capital increase				
	8	39,760.00	0.00	0.00
C. Provisions				
	9			
1. Provisions for taxes		0.00	0.00	6,453.75
2. Other provisions		199,415.00	39,545.66	26,900.00
D. Liabilities				
	10			
1. Liabilities to banks		410,754.77	1,371,013.94	70,807.18
2. Loans from shareholders		800,000.00	0.00	0.00
3. Trade payables		283,878.77	405,760.91	27,100.95
4. Liabilities to shareholders		0.00	0.00	2,064.61
5. Other liabilities		162,230.74	180,960.53	260,996.30
		1,656,864.28	1,957,735.38	360,969.04
E. Deferred credits to income				
	11	15,950.00	14,425.00	17,792.49
		10,994,927.64	3,172,420.87	1,331,305.73

INCOME STATEMENT

of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Income Statements

	Note	1998 DM	1997 DM	1996 DM
Sales revenues	12	6,128,506.15	4,607,564.74	4,977,137.07
Other capitalized own work		0.00	0.00	430,000.00
Other operating income		74,412.04	93,440.06	194,016.01
Total operating performance		6,202,918.19	4,701,004.80	5,601,153.08
Cost of materials	13	2,239,964.99	1,908,741.53	2,073,694.17
Gross profit		3,962,953.20	2,792,263.27	3,527,458.91
Personnel expenses	14	3,445,576.42	3,040,368.72	2,046,599.57
Depreciation	15	220,111.84	576,162.72	124,273.39
Other operating expenses	16	2,389,475.88	1,463,117.26	1,260,627.43
Operating profit/loss		-2,092,210.94	-2,287,385.43	95,958.52
Other interest and similar income	17	64,019.87	5.68	1,875.97
Interest and similar expenses	17	97,895.40	49,611.37	3,032.76
Net financial income/expense		-33,875.53	-49,605.69	-1,156.79
Profit/loss from ordinary operations		-2,126,080.47	-2,336,991.12	94,801.73
Net extraordinary income/expense		0.00	0.00	0.00
Taxes on income		0.00	0.00	-58,253.27
Other taxes		1,690.00	1,484.50	8,491.25
Net profit/loss for the year	18	-2,127,776.47	-2,338,475.62	144,563.75

CASH FLOW STATEMENT

of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Cash Flow Statements

	1998 DM	1997 DM	1996 DM
Net profit/loss for the year	-2,127,776	-2,338,476	144,564
Depreciation on fixed assets	220,112	576,163	124,273
Increase/decrease in long-term provisions	0	0	0
Other non-cash expenses and income/deferred taxation	1,525	-6,394	6,993
Gains/losses on the disposal of fixed assets	-1,931	96,716	0
Cash flow before changes in working capital	-1,908,071	-1,671,990	275,830
Change in inventories, receivables and other assets	-459,375	106,261	148,997
Change in payables and other liabilities	-140,612	293,192	-67,542
Increase/decrease in short-term provisions	159,869	12,585	-214,032
Cash flow from current operating activities	-2,348,188	-1,259,952	143,253
Inflow of funds from fixed-asset disposals	16,539	0	0
Outflow of funds for fixed-asset investment	-494,844	-234,000	-639,228
Cash flow from investing activities	-478,305	-234,000	-639,228
Inflow of funds from capital increases	10,089,760	2,580,000	0
Outflow of funds to shareholders	0	0	0
Inflow of funds from bonds issued and loans taken up	39,741	1,300,207	67,867
Outflow of funds for the redemption of bonds and loans	-200,000	0	0
Cash flow from financing activities	9,929,501	3,880,207	67,867
Net cash increase/decrease in funds	7,103,008	2,386,255	-428,108
Funds at the start of the reporting period	2,409,739	23,484	451,592
Funds at the close of the reporting period	9,512,747	2,409,739	23,484

NOTES

to the HGB Accounts of i:FAO AG for the Year to December 31, 1998

BALANCE SHEET

1. Accounting and Valuation Principles

i:FAO Aktiengesellschaft (formerly FAO Travel GmbH) converted its legal status to that of a stock corporation in the course of the year under report, subject to the provisions for changing company form laid down in articles 226 and 238ff. of Germany's company transformation act (UmwG). It was registered in its new form as entry HRB 45980 in the Commercial Register of Frankfurt District Court on October 20, 1998.

i:FAO qualifies as a **small corporation** within the meaning of Article 267 (1) of the German Commercial Code (HGB).

The 1998 financial statements of i:FAO AG have been prepared in accordance with the principles of presentation and valuation of the German Commercial Code (HGB), and complies with the supplementary requirements of Germany's stock corporation law (AktG). The Notes to the accounts explain the accounting and valuation methods applied in the particular instances.

The income statement was prepared on the "total-cost" basis.

The Company's financial year is the calendar year.

2. Fixed Assets

Bought-in **intangible assets** were valued at their cost of acquisition less regular depreciation. All depreciation was on a straight-line basis.

Tangible fixed assets have been valued throughout at their cost of acquisition or manufacture, and the value of tangible assets with a limited useful life has been reduced by regular depreciation on a pro rata straight-line basis.

The depreciation period applied is the standard service life recognized by the tax authorities. The depreciation rates vary between 10% and 25%. Low-value assets with a purchase cost of up to DM 800.00 are written off in full in the year of accrual.

The need for asset write-downs in response to an anticipated permanent reduction in their value did not occur during the year under report.

The equity interest in WTT Woodside Travel Trust shown under financial assets is carried at cost of acquisition.

The changes in the Company's fixed assets position over the year are shown in the table below.

Regular depreciation is based on the following useful life assumptions

Computer software	4 - 5 years
Computer hardware	4 years
Office systems and furniture/fittings	5 - 10 years
Tenant's improvements, livery elements	Length of lease

STATEMENT OF FIXED ASSET MOVEMENTS

	Cost of acquisition or manufacture	Additions	Disposals	Cumulative depreciation	Position at 12/31/98	Position at 12/31/97	Depreciation in year
I. Intangible assets							
Computer software	202,227.28	24,330.20		126,408.48	100,149.00	115,164.00	39,345.20
II. Tangible assets							
1. Other office systems and outfitting	334,073.39	378,011.80	16,539.00	223,767.19	471,779.00	201,158.77	92,783.33
2. Tenant's improvements	144,580.39	25,316.05		79,409.44	90,487.00	85,967.00	20,796.05
3. Low-value items	1.00	67,186.26		67,187.26	1.00	2.00	67,187.26
	478,654.78	470,514.11	16,539.00	370,363.89	562,267.00	287,127.77	180,766.64
III. Financial assets							
Equity investments	7,635.00				7,635.00	7,635.00	
	688,517.06	494,844.31	16,539.00	496,772.37	670,051.00	409,926.77	220,111.84

3. Receivables and Other Assets

Outstanding debts have been valued at their nominal value after allowing for all foreseeable risks. No global bad debt provision was made in view of the Company's actual previous defaults record.

A specific risk provision was made for the first time during the year.

Nature of receivable	Total at 12/31/98	12/31/97	Payable in more than one year
1. Trade receivables	675,024.69	296,660.75	0.00
2. Other assets	114,502.45	54,039.87	0.00
	789,527.14	350,700.62	
To point 1.			
a) Includes risk provision of	23,590.64	0.00	
To point 2.			
b) Element related to tax			
– value added tax	45,505.86	38,785.01	
– corporation tax, investment income tax	25,568.42	8,335.13	
– municipal trading tax	6,683.00	6,683.00	
c) Owed by shareholders	1,873.30	236.73	
d) Deferred interest	8,283.00	0.00	
e) Owed by employees	4,300.00	0.00	

The increase in trade receivables is essentially the result of the growth of IBE sales plus higher commission income in the traditional travel business than the previous year.

4. Cash in Hand, Bank and Girobank Balances

The total shown in the balance sheet essentially relates to the capital contributions of the investors who joined the Company in the course of the capital increases in 1998, which have been deposited for fixed terms or on the overnight market.

A total of DM 9,000,000.00 was deposited with Commerzbank AG, Frankfurt, at rates between 2.75% and 3.20%.

5. Deferred Charges to Operation

This item reflects advance exhibition costs which have already been paid but which relate to the 1999 financial year.

6. Registered Capital

	DM 5 shares held at 12/31/98	Nominal value	in %
Arnitz, Louis	24,000	120,000	48.0
Saled GmbH & Co. KG	8,000	40,000	16.0
3i Europartners II LP	4,250	21,250	8.5
3i Group plc	4,250	21,250	8.5
CEA GmbH*)	7,500	37,500	15.0
Fair Invest GmbH	2,000	10,000	4.0
	50,000	250,000	100.0

*) The auditors have agreed to the inclusion of the following statement:
The CEA GmbH referred to in the table is CEA Interactive GmbH and not CEA Beratungs- und Beteiligungsgesellschaft mbH. CEA Beratungs- und Beteiligungsgesellschaft mbH transferred its share in the Company to CEA Interactive GmbH with effect from November 17, 1998. This transaction only became known after the accounts had been audited and approved.

The shareholders meeting of i:FAO Aktiengesellschaft held on August 4, 1998 acting as FAO Travel GmbH resolved a capital increase of DM 50,000.00 to DM 250,000.00 and to accept CEA Beratungs- und Beteiligungsgesellschaft mbH (hereafter referred to as CEA GmbH) as a new shareholder. CEA GmbH holds 7,500 shares equivalent to DM 37,500.00 nominal, while the premium paid into the capital reserve amounted to DM 3.4 million.

By a resolution of December 23, 1998, the general meeting of i:FAO Aktiengesellschaft approved a further capital increase of DM 50,000.00, equivalent to 10,000 unit shares with a face value of DM 5.00, to be distributed as follows:

	Number of new DM 5 shares from capital increase of 12/31/98	Nominal value
Arnitz, Louis	3,264	16,320
Wankum, Andreas	1,088	5,440
3i Europartners II LP	544	2,720
3i Group plc	544	2,720
CEA GmbH*)	960	4,800
Fair Invest GmbH	3,600	18,000
	<u>10,000</u>	<u>50,000</u>

Fair Invest GmbH became a new shareholder in the Company. The change had not been notified for inclusion in the Commercial Register of the relevant District Court at the time these financial statements were prepared, as the contribution of CEA GmbH*) and both 3i Group shareholders had not been received by the account closing date.

The contributions paid in respect of the capital increase by the closing date are shown as an exceptional item ahead of provisions (see Note 8).

i:FAO Aktiengesellschaft was further notified that its shareholders Mr Arnitz and Mr Wankum had sold 1,500 and 500 shares from their holdings respectively to Fair Invest GmbH as of December 28, 1998. Mr Wankum transferred his shareholding to Saled Beteiligungsgesellschaft mbH & Co. KG on December 31, 1998.

7. Capital Reserve

Movements

	Position at 01/01/98	Payments in	Position at 12/31/98
3i premium from 97	2,500,000	0	2,500,000
Wankum premium from 95	600,000	0	600,000
CEA GmbH premium 8/4/98	0	3,400,000	3,400,000
Fair Invest GmbH 12/23/98	0	6,600,000	6,600,000
Total	<u>3,100,000</u>	<u>10,000,000</u>	<u>13,100,000</u>

8. Exceptional Item

The special heading for "Paid-in contributions in respect of an authorized capital increase" results from the capital sums received by the Company in relation to the capital increase approved by the general meeting of December 23, 1998. Their composition is as follows:

Position at 01/01/98	0
Fair Invest GmbH	18,000
Arnitz, Louis	16,320
Wankum, Andreas	<u>5,440</u>
Position at 12/31/98	<u><u>39,760</u></u>

9. Provisions

The Other provisions total incorporates all foreseeable risks and contingent liabilities.

The provisions concerned were made to cover employees' holiday pay and residual holiday entitlements, audit and consultancy fees, trade indemnity association contributions, and outstanding invoices in connection with the capital increases and planned listing and IPO.

*) The auditors have agreed to the inclusion of the following statement:
The CEA GmbH referred to in the table is CEA Interactive GmbH and not CEA Beratungs- und Beteiligungsgesellschaft mbH. CEA Beratungs- und Beteiligungsgesellschaft mbH transferred its share in the Company to CEA Interactive GmbH with effect from November 17, 1998. This transaction only became known after the accounts had been audited and approved.

	Opening amount 01/01/98	Consumed	Written back	Paid in	Position at 12/31/98
Holiday	9,545.66	9,545.66	0.00	27,415.00	27,415.00
Trade association	0.00	0.00	0.00	30,000.00	30,000.00
Annual accounts	20,000.00	20,000.00	0.00	47,000.00	47,000.00
Outstanding invoices	10,000.00	10,000.00	0.00	95,000.00	95,000.00
	<u>39,545.66</u>	<u>39,545.66</u>	<u>0.00</u>	<u>199,415.00</u>	<u>199,415.00</u>

10. Liabilities

The following table shows the breakdown of the Company's **liabilities** by repayment value and maturity term.

Table of liabilities

	Total value 12/31/98	Total value 12/31/97	Repayable in Up to 12 months	1-5 years
1. Liabilities to banks	410,754.77	1,371,013.94	144,088.77	266,666.00
2. Loans from shareholders	800,000.00	0.00	200,000.00	600,000.00
3. Trade liabilities	283,878.77	405,760.91	283,878.77	0.00
4. Other liabilities	162,230.74	180,960.53	162,230.74	0.00
	<u>1,656,864.28</u>	<u>1,957,735.38</u>	<u>790,198.28</u>	<u>866,666.00</u>

To point 1. This essentially comprises a small companies loan from the Kreditanstalt für Wiederaufbau (KfW), Frankfurt, at interest of 5.5%.

To point 2. This total relates to the loan advanced by the 3i Group shareholders, original value DM 1 million, rate 7.50%.

To point 4.

a) Of which relating to tax	71,414.92	90,162.72
b) Of which relating to social security	86,619.89	81,116.01

11. Deferred Credits to Income

This heading incorporates prepayments received in respect of licenses and maintenance agreements which relate to the 1999 financial year.

INCOME STATEMENT

12. Sales Revenues

Revenues increased by DM 1,520,000.00 over the preceding year, essentially due to higher sales of the IBE and eHotel product groups. Most importantly, the first substantial income was achieved from sales of IBE products.

Total turnover was around 33% higher than the previous year.

13. Materials Input

Materials expense was essentially incurred in the traditional Travel business and related to acquisitions of tickets for resale and passed-on commissions.

14. Personnel Expenses

Personnel costs totaled DM 3,446,000.00 compared to DM 3,040,000.00 in 1997. The increase resulted from the expansion of the staff engaged on developing and marketing the IBE and eHotel products.

Averaged over the year, the workforce was 38 people strong.

15. Depreciation

The unusually high prior-year value included the writing-off in full of the costs of starting and building up the business, amounting to DM 430,000.00.

16. Other Operating Expenses

This heading was boosted by the costs of the Company's conversion to stock corporation status, its planned listing and IPO, and increased marketing activity.

17. Interest Income/Expense

The financial result for the year under report was depressed by the interest on the loan advanced by the 3i shareholders (see Note 10) as well as the interest on the existing KfW small companies loan.

The interest income derives from the cash surplus resulting from the capital increases.

18. Net Loss on the Year

Reconciliation with the balance sheet loss:

12. Net loss on the year	-2,127,776.47
13. Loss carried over at 12/31/1997	-2,139,285.17
14. Accumulated attributable loss	<u>-4,267,061.64</u>

Key Financial Ratios:

	1998	1997
Return on sales	-34.72%	-50.75%
DVFA/SG result	-2,127,776.47	-1,908,475.62
Operating cash flow	-1,907,664.63	-1,762,312.90

Per-share basis:

DVFA/SG result	-48.15	-47.71
Operating cash flow	-43.17	-44.06

- 1.) Operating cash flow: Net profit
+ Depreciation
+/- Change in long-term provisions
- 2.) The 1997 result has been corrected for the writing-off in full of the costs of starting and building up the business, amounting to DM 430,000.00.
- 3.) The per-share figures were calculated on the basis of the weighted average of outstanding shares during 1998.

OTHER INFORMATION

a) Members of the Managing Board

The composition of the Managing Board of i:FAO Aktiengesellschaft is as follows

Mr Louis Arnitz, Chairman

Mrs Karin Froese

b) Supervisory Board

In compliance with the articles of association of i:FAO Aktiengesellschaft, the Supervisory Board currently comprises three members; Andreas C. Wankum, Chairman; André Mangin, Deputy Chairman; Hans-Jürgen Lappat.

c) Other Financial Liabilities

Leasing agreements were in force on December 31, 1998 in respect of computer hardware, copier machines and the like. The resulting financial obligation on i:FAO Aktiengesellschaft amounted to approximately DM 149,000.00. Vehicle leasing contracts and the Company's existing tenancy agreement produced future financial obligations to the value of approximately DM 147,000.00 and DM 1,405,000.00 respectively at the account closing date.

Managing Board, i:FAO Aktiengesellschaft

Frankfurt am Main, January 12, 1999

Louis Arnitz

Karin Froese

MANAGEMENT REPORT

of i:FAO as at December 31, 1998

Trading Progress and Position of the Company

The outstanding event of 1998 was the conversion of the Company's legal form to a stock corporation and renaming as i:FAO Aktiengesellschaft. After 3i Group joined the Company as a new equity partner in 1997, putting the resulting new investment funds to good use was a priority for 1998. New investors in the shape of CEA Beratungs- und Beteiligungsgesellschaft mbH and Fair Invest GmbH were also welcomed on board during 1998.

The preparations for the Company's stock market listing and IPO during 1999 occupied the attention of all the workforce, but especially the Managing Board, during the second half of the year. The work involved, in particular the involvement of external advisers and increased expenditure on printed matter and the like, inevitably led to higher costs but these were offset by the first sales of IBE products to the value of DM 912,000.00 and the continuous expansion of the Company's turnover year by year. These developments meant that we were able to expand our investment in personnel and marketing without impairing the Company's results, so that the net loss was reduced by DM 211,000.00 compared to the previous year.

Research and Development

In order to secure our position in the marketplace and extend our market leadership, the Company has planned to invest heavily in staff development, in building our software developer team and in strategic marketing. We were able to put most of our plans into effect or prepare the ground for them during the year just ended. The continuous development of our IBE:TMS software packages was a top priority, and crucial objectives were successfully met.

Important Developments since the End of the Financial Year

The Company plans to implement a capital increase and redenominate its registered capital into euro on January 20, 1999. The Company's reporting practice will also be updated from the 1999 financial year to reflect its global market; in future we will present accounts to comply with both German commercial law procedures and IAS (International Accounting Standards). The Company is scheduled for listing and an initial public offering on the Neuer Markt in the first quarter of 1999. The Company is presently engaged in promising negotiations with a consortium of banks and has already planned and authorized considerable marketing expenditure to take advantage of this development.

Outlook for the Future

Our business plan provides for further new product launches in the IBE:TMS product area during 1999 and the subsequent years, backed by the necessary software development and investment capacity. Further growth in the Company's expenditure on personnel, marketing, public relations and distribution can be expected. Our plan shows that these additional costs will not only be offset by the steady and unbroken rise in the Company's earning power, but will in fact be exceeded by the effects of increased profit margins and lower unit fixed costs.

AUDITOR'S REPORT AND CERTIFICATE

on the HGB Accounts of i:FAO AG for the Year to December 31, 1998

"Based on an audit performed in accordance with our professional duties, the accounting and the financial statements comply with the legal regulations. The financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of i:FAO Aktiengesellschaft, Frankfurt am Main. The management report is in agreement with the financial statements."

Frankfurt am Main, January 13, 1999

Pannell Kerr Forster GmbH

- Wirtschaftsprüfungsgesellschaft -

(W. Hofmann)
Wirtschaftsprüfer

(H. Schütz)
Wirtschaftsprüfer

FINANCIAL STATEMENTS OF i:FAO AKTIENGESELLSCHAFT AS AT DECEMBER 31, 1998 PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS (IAS) AND COMPARATIVE PRESENTATION OF THE RECONCILED ACCOUNTS OF FAO TRAVEL GMBH FOR 1997 AND 1996 FINANCIAL YEARS (IAS)

BALANCE SHEET

of i:FAO AG as at December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Balance Sheets

	Note	1998 DM	1997 DM	1996 DM
ASSETS				
A. Fixed assets				
I. Intangible assets	2			
Computer software		100,149.00	115,164.00	133,616.00
II. Tangible assets	2			
1. Other plant, office systems and outfitting		471,780.00	201,160.77	278,261.00
2. Tenants' improvements		90,487.00	85,967.00	0.00
		<u>562,267.00</u>	<u>287,127.77</u>	<u>278,261.00</u>
III. Financial assets	2			
Equity investments		7,635.00	7,635.00	7,635.00
B. Current assets				
I. Receivables and other assets	3			
1. Trade receivables		675,024.69	296,660.75	344,501.96
2. Other assets		114,502.45	54,039.87	112,459.34
		<u>789,527.14</u>	<u>350,700.62</u>	<u>456,961.30</u>
II. Cash in hand, bank and girobank balances	4	9,512,747.12	2,409,739.15	23,484.57
C. Deferred charges to operation				
	5	22,602.38	2,054.33	1,347.86
D. Deferred taxes on income				
	6	1,430,598.00	719,837.00	78,334.00
		<u>12,425,525.64</u>	<u>3,892,257.87</u>	<u>979,639.73</u>

	Note	1998 DM	1997 DM	1996 DM
EQUITY AND LIABILITIES				
A. Equity				
I. Registered capital	7	250,000.00	200,000.00	120,000.00
II. Capital reserve	8	13,100,000.00	3,100,000.00	600,000.00
III. Carried-forward profit/loss		-1,419,448.17	-152,475.55	54,626.70
IV. Net profit/loss for the year		-1,417,015.47	-1,266,972.62	-207,102.25
B. Paid-in contributions in respect of an authorized capital increase				
	9	39,760.00	0.00	0.00
C. Provisions				
	10			
1. Provisions for taxes		0.00	0.00	60.20
2. Provisions for deferred taxes		0.00	0.00	6,393.55
3. Other provisions		199,415.00	39,545.66	26,900.00
		199,415.00	39,545.66	33,353.75
D. Liabilities				
	11			
1. Liabilities to banks		410,754.77	1,371,013.94	70,807.18
2. Loans from shareholders		800,000.00	0.00	0.00
3. Trade payables		283,878.77	405,760.91	29,165.56
4. Other liabilities		162,230.74	180,960.53	260,996.30
		1,656,864.28	1,957,735.38	360,969.04
E. Deferred credits to income				
	12	15,950.00	14,425.00	17,792.49
		12,425,525.64	3,892,257.87	979,639.73

INCOME STATEMENT

of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Income Statements

	Note	1998 DM	1997 DM	1996 DM
1. Sales revenues	13	6,128,506.15	4,607,564.74	4,977,137.07
2. Other operating income		74,412.04	93,440.06	194,016.01
3. Cost of materials	14			
Expenditures on raw materials and supplies and bought-in merchandise		2,239,964.99	1,908,741.53	2,073,694.17
4. Personnel expenses	15			
a) Wages and salaries		2,890,732.54	2,584,879.31	1,748,686.49
b) Social security contributions and expenditures on pension provision and welfare		554,843.88	455,489.41	297,913.08
		3,445,576.42	3,040,368.72	2,046,599.57
5. Depreciation on intangible and tangible fixed assets	16	220,111.84	146,162.72	124,273.39
6. Other operating expenses	17	2,389,475.88	1,463,117.26	1,260,627.43
Operating profit/loss		-2,092,210.94	-1,857,385.43	-334,041.48
7. Other interest and similar income	18	64,019.87	5.68	1,875.97
8. Interest and similar expenses	18	97,895.40	49,611.37	3,032.76
Net financial income/expense		-33,875.53	-49,605.69	-1,156.79
9. Profit/loss from ordinary operations		-2,126,086.47	-1,906,991.12	-335,198.27
10. Taxes on income	6	-710,761.00	-641,503.00	-136,587.27
11. Other taxes		1,690.00	1,484.50	8,491.25
12. Net profit/loss for the year	19	-1,417,015.47	-1,266,972.62	-207,102.25

CASH FLOW STATEMENT

of i:FAO AG for the Year to December 31, 1998 and comparison with FAO Travel GmbH Fiscal 1997 and 1996 Cash Flow Statements

	1998 DM	1997 DM	1996 DM
Net profit/loss for the year	-1,417,015	-1,266,973	-207,102
Depreciation on fixed assets	220,112	146,163	124,273
Increase/decrease in long-term provisions	0	0	0
Other non-cash expenses and income/deferred taxation	-709,236	-647,897	-71,341
Gains/losses on the disposal of fixed assets	-1,931	96,716	0
Cash flow before changes in working capital	-1,908,071	-1,671,990	-154,170
Change in inventories, receivables and other assets	-459,375	106,261	148,997
Change in payables and other liabilities	-140,612	293,192	-67,542
Increase/decrease in short-term provisions	159,869	12,585	-214,032
Cash flow from current operating activities	-2,348,188	-1,259,952	-286,747
Inflow of funds from fixed-asset disposals	16,539	0	0
Outflow of funds for fixed-asset investment	-494,844	-234,000	-209,228
Cash flow from investing activities	-478,305	-234,000	-209,228
Inflow of funds from capital increases	10,089,760	2,580,000	0
Outflow of funds to shareholders	0	0	0
Inflow of funds from bonds issued and loans taken up	39,741	1,300,207	67,867
Outflow of funds for the redemption of bonds and loans	-200,000	0	0
Cash flow from financing activities	9,929,501	3,880,207	67,867
Net cash increase/decrease in funds	7,103,008	2,386,255	-428,108
Funds at the start of the reporting period	2,409,739	23,484	451,592
Funds at the close of the reporting period	9,512,747	2,409,739	23,484

NOTES

to the IAS Accounts of i:FAO AG for the Year to December 31, 1998

BALANCE SHEET

1. Accounting and Valuation Principles

i:FAO Aktiengesellschaft (formerly FAO Travel GmbH) converted its legal status to that of a stock corporation in the course of the year under report, subject to the provisions for changing company form laid down in articles 226 and 238ff. of Germany's company transformation act (UmwG). It was registered in its new form as entry HRB 45980 in the Commercial Register of Frankfurt District Court on October 20, 1998.

The 1998 financial statements of i:FAO AG have been prepared in accordance with the principles of presentation and valuation laid down in the standards issued by the IASC, as well as the supplementary regulations under commercial law.

The Notes to the accounts explain the accounting and valuation methods applied in the particular instances.

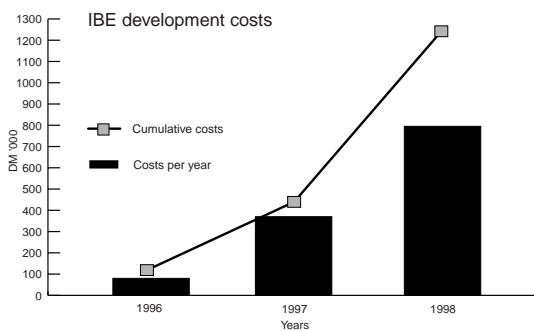
The income statement was prepared on the "total-cost" basis

The Company's financial year is the calendar year.

2. Fixed Assets

In 1998 as in the two previous years, the Company's biggest expense heading was software development costs, which amounted to DM 1.2 million in total in the year. It was not possible to capitalize these costs since the concretization requirements laid down by IAS 9 and IAS 38 were not satisfied.

The following graph shows the growth of this expenditure heading:



Bought-in **intangible assets** were valued at their cost of acquisition less regular depreciation. All depreciation was on a straight-line basis.

Tangible fixed assets have been valued throughout at their cost of acquisition or manufacture, and the value of tangible assets with a limited useful life has been reduced by regular depreciation on a pro rata straight-line basis.

The depreciation period applied is the standard service life recognized by the tax authorities. The depreciation rates vary between 10% and 25%.

The equity interest in WTT Woodside Travel Trust shown under financial assets is carried at cost of acquisition.

The changes in the Company's fixed assets position over the year are shown in the table below.

Regular depreciation is based on the following useful life assumptions:

Computer software	4 - 5 years
Computer hardware	4 years
Office systems and furniture/fitings	5 - 10 years
Tenant's improvements, livery elements	Length of lease

STATEMENT OF FIXED ASSET MOVEMENTS

	Cost of acquisition or manufacture	Additions	Disposals	Cumulative depreciation	Position at 12/31/98	Position at 12/31/97	Depre- ciation in year
I. Intangible assets							
Computer software	202,227.28	24,330.20		126,408.48	100,149.00	115,164.00	39,345.20
II. Tangible assets							
1. Other office systems and outfitting	334,073.39	378,011.80	16,539.00	223,767.19	471,779.00	201,158.77	92,783.33
2. Tenant's improvements	144,580.39	25,316.05		79,409.44	90,487.00	85,967.00	20,796.05
3. Low-value items	1.00	67,186.26		67,187.26	1.00	2.00	67,187.26
	478,654.78	470,514.11	16,539.00	370,363.89	562,267.00	287,127.77	180,766.64
III. Financial assets							
Equity investment	7,635.00				7,635.00	7,635.00	
	688,517.06	494,844.31	16,539.00	496,772.37	670,051.00	409,926.77	220,111.84

3. Receivables and Other Assets

Outstanding debts have been valued at their nominal value after allowing for all foreseeable risks. No global bad debt provision was made in view of the Company's actual previous defaults record.

A specific risk provision was made for the first time during the year.

Nature of receivable	Total at 12/31/98	12/31/97	Payable in more than one year
1. Trade receivables	675,024.69	296,660.75	0.00
2. Other assets	114,502.45	54,039.87	0.00
	789,527.14	350,700.62	
To point 1.			
a) Includes risk provision of	23,590.64	0.00	
To point 2.			
b) Element related to tax			
– value added tax	45,505.86	38,785.01	
– corporation tax, investment income tax	25,568.42	8,335.13	
– municipal trading tax	6,683.00	6,683.00	
c) Owed by shareholders	1,873.30	236.73	
d) Deferred interest	8,283.00	0.00	
e) Owed by employees	4,300.00	0.00	

The increase in trade receivables is essentially the result of the growth of IBE sales plus higher commission income in the traditional travel business than the previous year.

4. Cash in Hand, Bank and Girobank Balances

The total shown in the balance sheet essentially relates to the capital contributions of the investors who joined the Company in the course of the capital increases in 1998, which have been deposited for fixed terms or on the overnight market.

A total of DM 9,000,000.00 was deposited with Commerzbank AG, Frankfurt, at rates between 2.75% and 3.20%.

5. Deferred Charges to Operation

This item reflects advance exhibition costs which have already been paid but which relate to the 1999 financial year.

6. Deferred Taxes on Income

The losses carried forward at the account closing date will reduce the Company's future corporation and municipal trading tax liabilities. In line with IAS 12, this entitlement has been capitalized as a deferred income tax credit since i:FAO AG's business plan provides for this benefit to be realized by the end of 2002. The Company's deferred tax entitlements have increased as in the following table:

	1998	1997	1996
Deferred tax entitlement on year's result	710,761	641,503	78,334
Cumulative tax entitlement	1,430,598	719,837	78,334

7. Registered Capital

	DM 5 shares held at 12/31/98	Nominal value	in %
Arnitz, Louis	24,000	120,000	48.0
Saled GmbH & Co. KG	8,000	40,000	16.0
3i Europartners II LP	4,250	21,250	8.5
3i Group plc	4,250	21,250	8.5
CEA GmbH*)	7,500	37,500	15.0
Fair Invest GmbH	2,000	10,000	4.0
	50,000	250,000	100.0

The shareholders meeting of i:FAO Aktiengesellschaft held on August 4, 1998 acting as FAO Travel GmbH resolved a capital increase of DM 50,000.00 to DM 250,000.00 and to accept CEA Beratungs- und Beteiligungsgesellschaft mbH (hereafter referred to as CEA GmbH) as a new shareholder. CEA GmbH holds 7,500 shares equivalent to DM 37,500.00 nominal, while the premium paid into the capital reserve amounted to DM 3.4 million.

By a resolution of December 23, 1998, the general meeting of i:FAO Aktiengesellschaft approved a further capital increase of DM 50,000.00, equivalent to 10,000 unit shares with a face value of DM 5.00, to be distributed as follows:

	Number of new DM 5 shares from capital increase of 12/31/98	Nominal value
Arnitz, Louis	3,264	16,320
Wankum, Andreas	1,088	5,440
3i Europartners II LP	544	2,720
3i Group plc	544	2,720
CEA GmbH*)	960	4,800
Fair Invest GmbH	3,600	18,000
	10,000	50,000

The deferred tax entitlement total was calculated on the assumption of future corporation tax rates of 35% on retained earnings and 30% on distributed earnings, with 50% of attributable profit being paid out. Adding in the solidarity surcharge and municipal trading tax meant that an aggregate tax ratio of 48% was applied to the accumulated deferred tax entitlement.

The figures cited take account of the reduction of the available corporation-tax-allowable losses through the utilization of loss carry-backs.

For the sake of prudence, the deferred tax entitlements were discounted by a factor of 30% in order to also reflect the probable time scale over which the loss carry-overs will be used up in the future years.

Fair Invest GmbH became a new shareholder in the Company. The change had not been notified for inclusion in the Commercial Register of the relevant District Court at the time these financial statements were prepared, as the contribution of CEA GmbH*) and both 3i Group shareholders had not been received by the account closing date.

The contributions paid in respect of the capital increase by the closing date are shown as an exceptional item ahead of provisions (see Note 8).

i:FAO Aktiengesellschaft was further notified that its shareholders Mr Arnitz and Mr Wankum had sold 1,500 and 500 shares from their holdings respectively to Fair Invest GmbH as of December 28, 1998. Mr Wankum transferred his shareholding to Saled Beteiligungsgesellschaft mbH & Co. KG on December 31, 1998.

*) The auditors have agreed to the inclusion of the following statement: The CEA GmbH referred to in the table is CEA Interactive GmbH and not CEA Beratungs- und Beteiligungsgesellschaft mbH. CEA Beratungs- und Beteiligungsgesellschaft mbH transferred its share in the Company to CEA Interactive GmbH with effect from November 17, 1998. This transaction only became known after the accounts had been audited and approved.

8. Capital Reserve

Movements

	Position at 01/01/98	Payments in	Position at 12/31/98
3i premium from 97	2,500,000	0	2,500,000
Wankum premium from 95	600,000	0	600,000
CEA GmbH premium 8/4/98	0	3,400,000	3,400,000
Fair Invest GmbH 12/23/98	0	6,600,000	6,600,000
Total	3,100,000	10,000,000	13,100,000

9. Exceptional Item

The special heading for "Paid-in contributions in respect of an authorized capital increase" results from the capital sums received by the Company in relation to the capital increase approved by the general meeting of December 23, 1998. Their composition is as follows:

Position at 01/01/98	0
Fair Invest GmbH	18,000
Arnitz, Louis	16,320
Wankum, Andreas	5,440
Position at 12/31/98	<u>39,760</u>

10. Provisions

The **Other provisions** total incorporates all foreseeable risks and contingent liabilities.

The provisions concerned were made to cover employees' holiday pay and residual holiday entitlements, audit and consultancy fees, trade indemnity association contributions, and outstanding invoices in connection with the capital increases and planned listing and IPO.

	Opening amount 01/01/98	Consumed	Written back	Paid in	Position at 12/31/98
Holiday	9,545.66	9,545.66	0.00	27,415.00	27,415.00
Trade association	0.00	0.00	0.00	30,000.00	30,000.00
Accounts	20,000.00	20,000.00	0.00	47,000.00	47,000.00
Outstanding invoices	10,000.00	10,000.00	0.00	95,000.00	95,000.00
	<u>39,545.66</u>	<u>39,545.66</u>	<u>0.00</u>	<u>199,415.00</u>	<u>199,415.00</u>

11. Liabilities

The Company's **liabilities** are carried at their repayment value.

Table of liabilities

	Total value 12/31/98	Total value 12/31/97	Repayable in	
			Up to 12 months	1-5 years
1. Liabilities to banks	410,754.77	1,371,013.94	144,088.77	266,666.00
2. Loans from shareholders	800,000.00	0.00	200,000.00	600,000.00
3. Trade liabilities	283,878.77	405,760.91	283,878.77	0.00
4. Other liabilities	162,230.74	180,960.53	162,230.74	0.00
	<u>1,656,864.28</u>	<u>1,957,735.38</u>	<u>790,198.28</u>	<u>866,666.00</u>

To point 1. This essentially comprises a small companies loan from the Kreditanstalt für Wiederaufbau (KfW), Frankfurt, at interest of 5.5%.

To point 2. This total relates to the loan advanced by the 3i Group shareholders, original value DM 1 million, rate 7.50%.

To point 4.

a) Of which relating to tax	71,414.92	90,162.72
b) Of which relating to social security	86,619.89	81,116.01

12. Deferred Credits to Income

This heading incorporates prepayments received in respect of licenses and maintenance agreements which relate to the 1999 financial year.

INCOME STATEMENT

13. Sales Revenues

Revenues increased by DM 1,520,000.00 over the preceding year, essentially due to higher sales of the IBE and eHotel product groups. Most importantly, the first substantial income was achieved from sales of IBE products.

Total turnover was around 33% higher than the previous year.

14. Materials Input

Materials expense was essentially incurred in the traditional Travel business and related to acquisitions of tickets for resale and passed-on commissions.

15. Personnel Expenses

Personnel costs totaled DM 3,446,000.00 compared to DM 3,040,000.00 in 1997. The increase resulted from the expansion of the staff engaged on developing and marketing the IBE and eHotel products.

Averaged over the year, the workforce was 38 people strong.

16. Depreciation

The unusually high prior-year value included the writing-off in full of the costs of starting and building up the business, amounting to DM 430,000.00.

17. Other Operating Expenses

This heading was boosted by the costs of the Company's conversion to stock corporation status, its planned listing and IPO, and increased marketing activity.

18. Interest Income/Expense

The financial result for the year under report was depressed by the interest on the loan advanced by the 3i shareholders (see Note 10) as well as the interest on the existing KfW small companies loan.

The interest income derives from the cash surplus resulting from the capital increases

19. Net Loss on the Year

Key Financial Ratios:

	1998	1997
Return on sales	-23.12%	-27.50%
Net loss	-1,417,015.47	-1,266,972.62
Operating cash flow	-1,196,903.63	-1,120,809.90

Per-share basis

Net loss	-32.07	-31.67
Operating cash flow	-27.08	-28.02

- 1.) Operating cash flow: Net profit
+ Depreciation
+/- Change in long-term provisions
- 2.) The per-share figures were calculated on the basis of the weighted average of outstanding shares during 1998.

OTHER INFORMATION

a) Members of the Managing Board

The composition of the Managing Board of i:FAO Aktiengesellschaft is as follows:
Mr Louis Arnitz, Chairman
Mrs Karin Froese

b) Supervisory Board

In compliance with the articles of association of i:FAO Aktiengesellschaft, the Supervisory Board currently comprises three members; Andreas C. Wankum, Chairman; André Mangin, Deputy Chairman; Hans-Jürgen Lappat.

c) Other Financial Liabilities

Leasing agreements were in force on December 31, 1998 in respect of computer hardware, copier machines and the like. The resulting financial obligation on i:FAO Aktiengesellschaft amounted to approximately DM 149,000.00. Vehicle leasing contracts and the Company's existing tenancy agreement produced future financial liabilities to the value of approximately DM 147,000.00 and DM 1,405,000.00 respectively at the account closing date.

Managing Board, i:FAO Aktiengesellschaft

Frankfurt am Main, January 12, 1999

Louis Arnitz

Karin Froese

MANAGEMENT REPORT

of i:FAO AG as at December 31, 1998

Trading Progress and Position of the Company

The outstanding event of 1998 was the conversion of the Company's legal form to a stock corporation and renaming as i:FAO Aktiengesellschaft. After 3i Group joined the Company as a new equity partner in 1997, putting the resulting new investment funds to good use was a priority for 1998. New investors in the shape of CEA Beratungs- und Beteiligungsgesellschaft mbH and Fair Invest GmbH were also welcomed on board during 1998.

The preparations for the Company's stock market listing and IPO during 1999 occupied the attention of all the workforce, but especially the Managing Board, during the second half of the year. The work involved, in particular the involvement of external advisers and increased expenditure on printed matter and the like, inevitably led to higher costs but these were offset by the first sales of IBE products to the value of DM 912,000.00 and the continuous expansion of the Company's turnover year by year. These developments meant that we were able to expand our investment in personnel and marketing without impairing the Company's results.

Research and Development

In order to secure our position in the marketplace and extend our market leadership, the Company has planned to invest heavily in staff development, in building our software developer team and in strategic marketing. We were able to put most of our plans into effect or prepare the ground for them during the year just ended. The continuous development of our IBE:TMS software packages was a top priority, and crucial objectives were successfully met.

Important Developments since the End of the Financial Year

The Company plans to implement a capital increase and redenominate its registered capital into euro on January 20, 1999. The Company's reporting practice will also be updated from the 1999 financial year to reflect its global market; in future we will present accounts to comply with both German commercial law procedures and IAS (International Accounting Standards). The Company is scheduled for listing and an initial public offering on the Neuer Markt in the first quarter of 1999. The Company is presently engaged in promising negotiations with a consortium of banks and has already planned and authorized considerable marketing expenditure to take advantage of this development.

Outlook for the Future

Our business plan provides for further new product launches in the IBE:TMS product area during 1999 and the subsequent years, backed by the necessary software development and investment capacity. Further growth in the Company's expenditure on personnel, marketing, public relations and distribution can be expected. Our plan shows that these additional costs will not only be offset by the steady and unbroken rise in the Company's earning power, but will in fact be exceeded by the effects of increased profit margins and lower unit fixed costs.

AUDIT REPORT AND CONFIRMATION

on the IAS Accounts of i:FAO AG for the Year to December 31, 1998

We have duly audited the balance sheet as at December 31, 1998, and the income and cash flow statements for the year just ended, plus the notes to the accounts, of i:FAO Aktiengesellschaft, Frankfurt, prepared in accordance with International Accounting Standards (IAS). The preparation and the contents of the financial statements are the responsibility of the Managing Board of the Company. It is our task to provide an opinion on these financial statements on the basis of the audit conducted by our company.

We have conducted our audit examination in accordance with the International Federation of Accountants' (IFAC) International Standards of Auditing. These principles require a sufficiently detailed audit to permit an auditor's opinion to be given beyond reasonable doubt that the financial statements do not contain significant inaccuracies. The audit includes an audit trail with random sampling of the documentary proofs on which the accounting and figures in the financial statements are based. Furthermore, it contains an audit of the accounting and valuation methods applied, significant estimates provided by management and an assessment of the general testimony of the financial statements. We are satisfied that our audit examination provides a sufficiently secure and precise foundation for our audit opinion.

It is our conviction that the financial statements and the cash flow statement represent a true and faithful picture of the assets and financial position of i:FAO Aktiengesellschaft, Frankfurt, on December 31, 1998 in all major respects and that the earnings position and payment flows of the financial year just ended are fairly represented and in conformance with International Accounting Standards.

Frankfurt am Main, January 13, 1999

Pannell Kerr Forster GmbH
- Wirtschaftsprüfungsgesellschaft -

(W. Hofmann)
Wirtschaftsprüfer

(H. Schütz)
Wirtschaftsprüfer

CURRENT TRADING AND PROSPECTS

During the first six months of 1998, the focus of our activity was on utilizing the new investment funds which flowed into the Company from the accession of new equity partners to secure our market position and extend our market leadership. We also invested in staff development, in building our software developer team and in strategic marketing. We were able to put most of our plans into effect during the year just ended, and the continuing effort we committed to enhancing our IBE:TMS[®] software packages was rewarded with success.

Once we had converted our legal status to that of an Aktiengesellschaft, the preparations for the Company's stock market listing and IPO could begin. The involvement of external advisers and the changes in our corporate identity led to higher costs but these were offset by the first sales of IBE:TMS[®] products to the value of DM 912,000.00 and the continuous expansion of the Company's overall turnover. However, this increased expense and our investment in personnel and marketing did not impair the Company's overall results.

The Company expects to continue to make good trading progress and, as laid out in our business plan, will continue to increase the number of IBE:TMS product innovations and to support them through investment.

During the current financial year, the Company plans to continue to build up and maintain a distribution organization outside Germany and to strengthen our marketing activities in the German market. We will do this principally by substantially strengthening the marketing support for our eHotel and IBE:TMS[®] products. We also intend to increase the Company's workforce by around 25% in order to bring our human resource capacity into line with our plans.

Frankfurt am Main, February 1999

i:FAO Aktiengesellschaft, Frankfurt am Main

On the basis of the above Listing Prospectus/Company Report, it is intended that the said

4,090,000 bearer shares

in the form of no-par-value unit shares
(notional nominal value per unit share: EUR 1.00)
to a value of EUR 4,090,000.00,
(existing registered capital)

plus

1,278,000 bearer shares

in the form of no-par-value unit shares
(notional nominal value per unit share: EUR 1.00)
to a value of EUR 1,278,000.00,
arising from the capital increase of ●, 1999

both classes conveying full dividend rights for the financial year 1999, i.e. as of January 1, 1999

- Securities Code Number 622 450 -

of

i:FAO Aktiengesellschaft, Frankfurt am Main

shall be admitted to the Geregelter Markt (Second Trading Segment) and to trading on the Neuer Markt of the Frankfurter Wertpapierbörse (FWB Frankfurt Stock Exchange)

Frankfurt am Main, February 1999

DG BANK
Deutsche Genossenschaftsbank AG

Dresdner Bank
Aktiengesellschaft