



Annual Report 1998



BERLINER FREIVERKEHR

(AKTIEN) AG

A n n u a l R e p o r t 1 9 9 8

Berliner Freiverkehr (Aktien) AG

*1998 Consolidated Key Figures
at a Glance*

Share capital:	<i>DM 6,540,000.00 = 1,308,000 individual bearer shares</i>
Free float:	<i>approximately 25 % = 327,000 individual bearer shares</i>
Stockholders' equity for the year ended December 31, 1998:	<i>DM 75,084,615.00</i>
Final share price at the end of the year in DM:	<i>DM 690 = price increase of 128 %</i>
Stock exchange trading volume of share in DM:	<i>2.58 billion</i>
DVFA/SG result:	<i>DM 38.897 million = + 268 %</i>
DVFA/SG result per share:	<i>DM 29.74 = +237 %</i>
Proposed issue of bonus shares:	<i>10 new shares for one old share (previous year 1:1)</i>
Proposed dividend:	<i>DM 18.00 per share = + 200 %</i>
Number of Group staff members:	<i>63 compared with 24 in the previous year</i>

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Disclaimer: The German version of the Annual Report is binding.



*With its
Annual Report for
the Year 1998, Berliner Freiverkehr (Aktien)*

*AG presents itself in its new
Group structure – well-g geared
for the dynamically changing
equity markets – as a comprehensive service provider positioned
between the issuer and the equity
market. The past fiscal year was full
of challenges. The Company again
proved to be extremely innovative,
dynamic and vigorously growing.*

*Since the Company's share price
surged by 505 % in 1997 to the
No. 1 spot among all listed German
companies, the share price increase
of 128 % in 1998 was more
moderate, but still gave the
Company a top position
among the German share
prices constituting a significant
above-index
performance.*

Even if the share's peak price from the summer of 1998 seems to be quite a distance away at this point, the good start into the fiscal year 1999 provides sufficient grounds for optimism, and particularly our long-term-oriented founder shareholders are able to record increases in value from dividends as great as 2000 %.

As earnings according to DVFA/SG rose by more than 260 % in the past fiscal year, the management will propose the announced shareholder-friendly use of earnings as it did last year. After a previous year dividend of DM 12.00 (per nominal DM 5.00 share before the stock split-up 1:1) for the past fiscal year, a dividend of DM 18.00 per individual share certificate has been proposed for the increased capital.

In addition, after bonus shares were issued with a 1:1 ratio last year, the bonus shares to be issued this year shall have a ratio of 1:10. This measure is designed to improve the fungibility of the share and reduce heavy volatility. Since the Company was promoted from the Over-the-Counter Market to the listed market in 1998, the precondition for admission to the stock exchange index was created. It is our view that the increased numbers of shares create the basis for future appreciations of the stock price that are capable of orienting themselves towards the general growth of the Company.

Reflecting the change the Company's character has gone through, the Company will change its name in its 1999 General Meeting of Shareholders. The name of Berliner Freiverkehr (Aktien) AG is linked to the old business segment of a stock broker firm and it will also be carried by our subsidiary in charge of share trading. It epitomizes the unusual success and dedication of the German stock exchange scene.

Dear shareholders, we hope that you will maintain your loyalty with

BERLINER EFFEKTENGESELLSCHAFT AG,

the service provider operating between the issuer and the equity market, which we would like to introduce by this 1998 Annual Report.

The Board of Directors



The Company

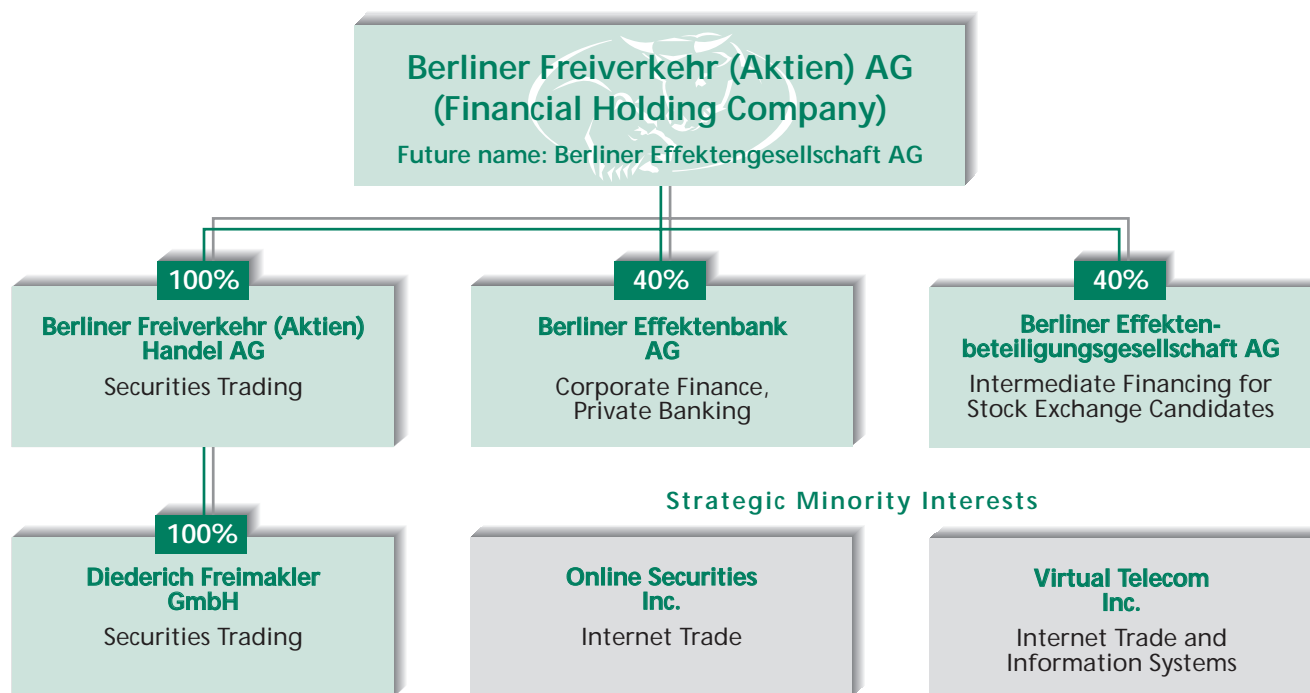
The Company



BERLINER FREIVERKEHR
(AKTIEN) AG

Corporate Profile

The Company which is listed for official trade on the Berlin and Frankfurt Stock Exchanges (Amtlicher Handel) underwent a major restructuring measure in the fiscal year 1998 and acts as a financial holding company with various subsidiaries and participations offering comprehensive services originating between the issuer and the equity market. This all-in-one concept of an offer, which is unique in Germany so far, equips the Group ideally for the swiftly changing requirements of the globalizing equity market of the future.



Company History

Originally established solely as a stockbroker company in 1986, the Company was speedily extended through changing legal forms. In the process, from the outset, the Company focused on the expansion of the Over-the-Counter Market tier on the Berlin Stock Exchange. To this private-legal market tier, the Company, not to a small extent, owes its rapid rise that took it from an insignificant local firms niche market to a market platform for some 3,000 international corporations. On this basis, in the final analysis, access to the capital market for young, innovative and fast-growing companies was gained.

The success of the Over-the-Counter Market was continued consistently when the New Market (Neue Markt) was created in 1997 as part of Over-the-Counter Market for international standards producing greater clarity for private and institutional investors.

The Company played a major part in driving the change in Germany as a financial centre. Thus, at the request of the Company, the stock exchange trading hours were extended in Germany for the first time and in 1998 eventually, floor trading in Over-the-Counter dealing on the Berlin Stock Exchange was abandoned.

From the first-time listing of Microsoft in the Berlin Over-the-Counter Market in 1991 to the introduction of companies of the most varied types – spanning from bio and genetic engineering technology via the computer and multimedia industries all the way to the introduction of Russian and Chinese enterprises – the Company has always considered itself to be a pioneer in the equity market, particularly for private investors.

Since the year 1996 the Company has made a name for itself in the underwriting business for young companies, which was practically non-existent before then.

The consistent development of this business activity and its wide range of services, in 1998, led to a participation in the new business starts of Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG. By the end of the year 1998 eventually, the entire stock broker business, still growing dramatically, was outsourced to Berliner Freiverkehr (Aktien) Handel AG, to which Diederich Freimakler GmbH, a company also acquired in the reporting year, was additionally contributed.

Stock Exchange Trade

Both subsidiaries operate primarily as so-called price-determining stock brokers (stock record brokers) on the Berlin and Frankfurt Stock Exchanges. In addition Berliner Freiverkehr (Aktien) Handel AG is also admitted to Baden-Württembergische Börse, Stuttgart. In their operations the two subsidiaries concentrate on the Over-the-Counter Market and of course the New Market. Apart from stock recording for titles of the New Market, Berliner Freiverkehr (Aktien) Handel AG is also active as a designated sponsor for the electronic trading system XETRA.

For the year ended December 31, 1998 the two subsidiaries kept the electronic broker's journal for the number of shares, bonds and options listed below, the emphasis being on stock trading.

	BFV (Berlin)	BFV (Frankfurt)	Diederich	Total
Shares Germany	157	13	94	264
Shares other countries	988	158	220	1,366
Fixed-interest securities and warrants	349	37	51	437
Total	1,494	208	365	2,067

For the mediating activity of a broker the subsidiaries receive Germany's customary broker's commission of 0.04 % to 0.08 %. These broker's commissions produce some 20 % to 25 % of the revenues from these operations.

But the main area of activity of the two subsidiaries is active market-making in the markets that we serve. The two subsidiaries charge narrow buying and selling rates and ensure sufficient market liquidity and fair prices relying on a network of international partners and electronic trading systems. We pursue an on-going global search for interesting companies from growth industries and introduce their shares to the Berlin or Frankfurt Over-the-Counter Market. In this manner we make it possible for European investors to acquire values at low expense on a Euro basis in Germany and create greater awareness for the international companies giving them better liquidity in the European economic area.



BERLINER FREIVERKEHR

(AKTIEN) HANDEL AG

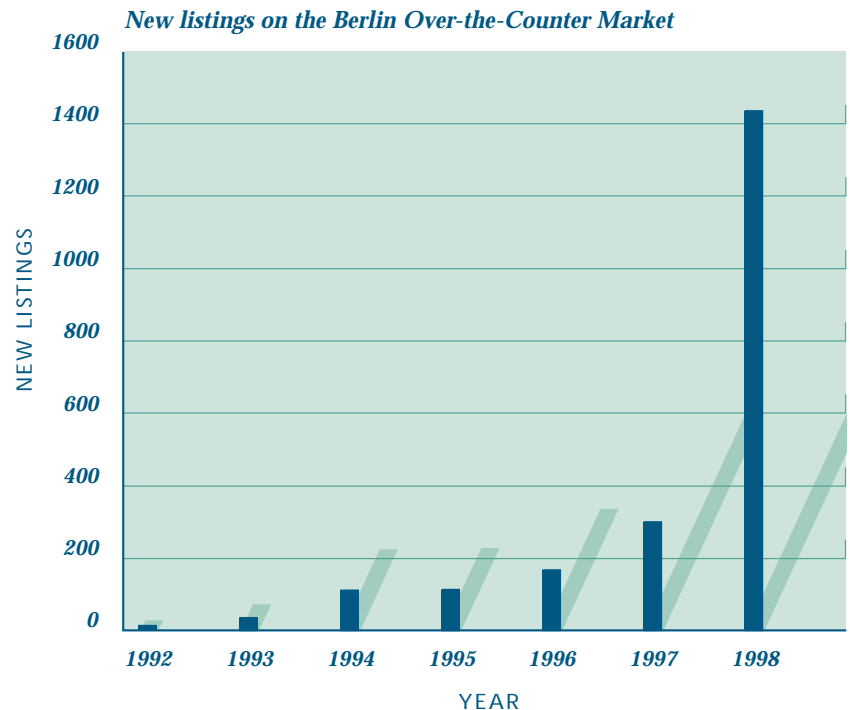
DIEDERICH FREIMAKLER GMBH

The Berlin Over-the-Counter Market

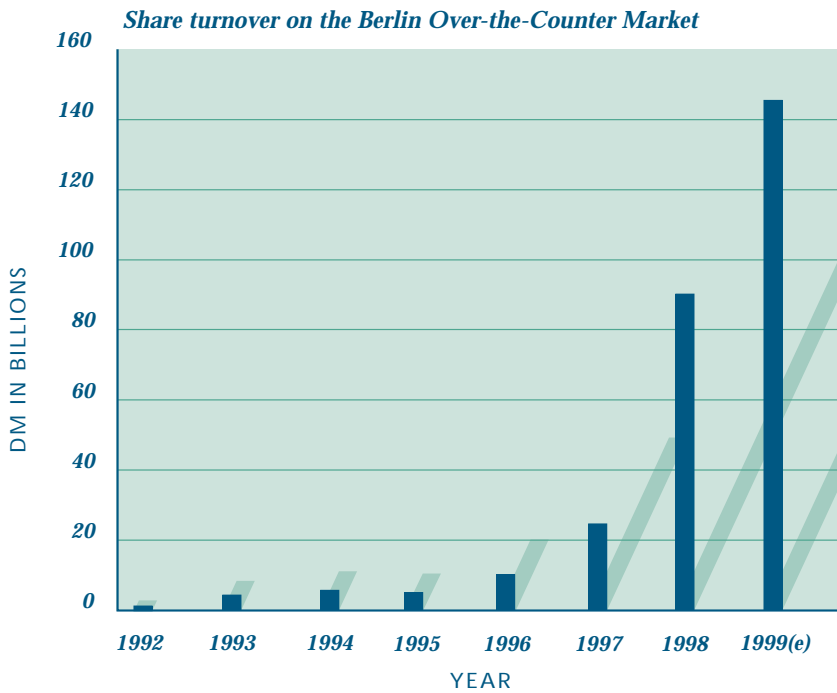
Also closely linked to the rapid growth of the two broker companies is the impressive success of Berlin's Over-the-Counter Market, which grew in just a few years from an insignificant market tier with a few local enterprises to a buttress of the Berlin Stock Exchange enjoying nationwide significance.

Apart from Berliner Freiverkehr (Aktien) Handel AG and Diederich Freimakler GmbH all nationwide German broker companies are present in Berlin as market-makers and stock record brokers.

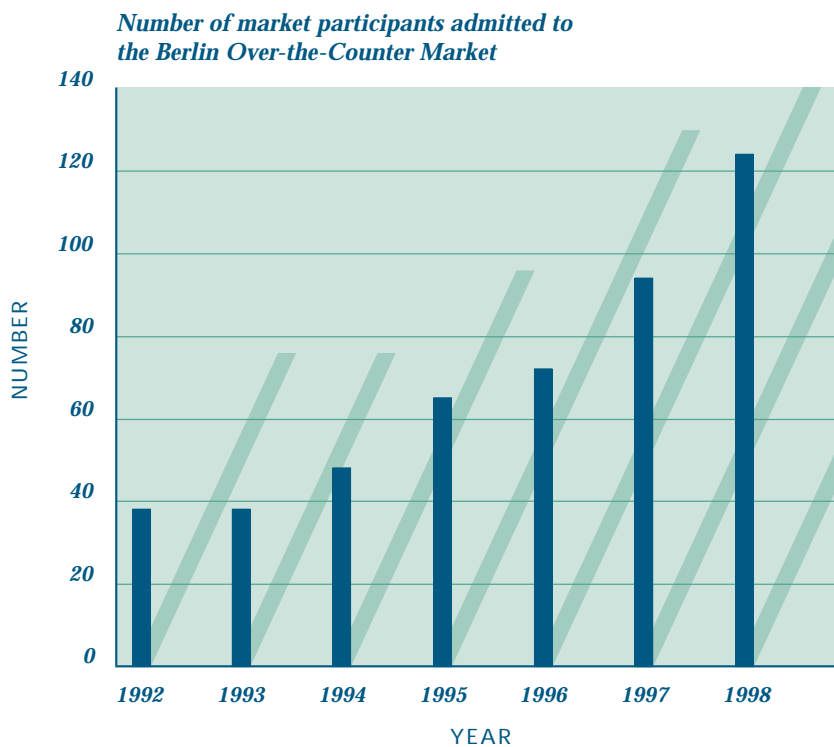
Every month numerous new, interesting shares are listed on the Berlin Over-the-Counter Market.



For many titles the turnover realized in Berlin achieves higher unit numbers than do the relevant original stock exchanges. The total turnover of Berlin's Over-the-Counter Market is growing constantly reaching a steadily rising percentage of the total share turnover realized on the Berlin Stock Exchange, also in comparison with all the other German stock exchanges.



Since the Berlin Over-the-Counter Market has developed a good reputation as an innovative and efficient trading platform for growth values from all over the world, the number of operators admitted to the Berlin Stock Exchange and operating in this attractive and liquid market is steadily growing.





BERLINER EFFEKTENBANK
AKTIENGESELLSCHAFT

Banking Business

By July 1998 the Federal Supervisory Office for Credit Business gave Berliner Effektenbank AG the permission to engage in banking operations. Furthermore, the Company became a member of Bundesverband deutscher Banken e.V. (Federal Association of German Banks), Bankenverband mittel- und ostdeutscher Länder e.V. (Association of Central and Eastern German States) and in Einlagensicherungsfonds des Bundesverbandes deutscher Banken e.V. (Deposit Protection Fund of the Federal Association of German Banks).

Berliner Effektenbank is extraordinarily lean-built. Even if the number of staff is rising continuously, the bank is structured in a way that makes it limit its activities to its core competencies purchasing all other services for the technical and administrative area.

Areas of Activity

Berliner Effektenbank considers itself a private investment bank that limits its operations to the business areas of Private Banking and Corporate Finance. In the Private Banking sector the activity focuses on investment management, investment consultancy and share placement. In the Corporate Finance sector Berliner Effektenbank AG deals with new issue business, new listings and capital increases as well as business consecutive to underwriting. While Berliner Effektenbank AG has a comprehensive banking licence, the bank management intends to emphasize the Banks character as the more competent specialist institution by clear focussing.

Private Banking

Experienced investment specialists make sound proposals for customers having full regard to their personal requests. Constantly monitoring the equity markets with the use of the most modern systems the investment specialists respond to market developments in a dialogue with customers. The basically independent recommendations cover the German and international stock and fixed interest markets, investment funds, option coupons and all dealings for future settlements.

The Private Banking operations have developed extremely well exceeding our expectations. By the end of the year the bank had more than 900 private customers.



Corporate Finance

Creating the Company Law prerequisites is part of preparing for an official listing of shares. Together with the issuer and the auditor, tax consultant and lawyer, Berliner Effektenbank monitors all restructuring steps. Once the underwriting concept has been established, the bank will monitor the technical handling taking the requirements of the various market segments and stock exchanges into account. In 1998 Berliner Effektenbank AG successfully performed IPO market listings on the Berlin Stock Exchange, on the New Market of the Frankfurt Stock Exchange, in official Berlin and Frankfurt Stock Exchange Trading, as well as various international private listings.

On aggregate Berliner Effektenbank AG and its precursor companies monitored nine underwriting projects in 1998 accounting for a total volume of more than DM 200 million.

Capital Stock and Equity Relationships

At the time of its establishment the bank's capital stock was DM 15 million. Given the favourable development of business, it made sense to adjust the bank's equity capital to the increased business volume. Therefore, the bank's General Meeting of Shareholders on April 12, 1999 decided to add another DM 3 million to the equity capital. In the process of converting its accounts to EURO the capital is to be increased further, to EURO 10 million.

Venture Business

Prior to a stock exchange listing, the Company will support the issuers at their request providing financing solutions for restructuring measures and bridge financing throughout the project life of listing shares on the stock exchange. Since the projects monitored by Berliner Effektenbeteiligungsgesellschaft AG are closely linked to the contents of the bank's corporate finance activities, the Company has no other staff besides the four Members of the Board of Directors. In the past fiscal year, Berliner Effektenbeteiligungsgesellschaft AG participated in three companies which listed their shares on the stock exchange with Berliner Effektenbank AG. Furthermore, Berliner Effektenbeteiligungsgesellschaft AG, as of December 31, 1998, held interests in four other companies.



BERLINER EFFEKTENBETEILIGUNGSGESELLSCHAFT
AKTIENGESELLSCHAFT





Report of the Board of Directors

Report of the Board of Directors

After the Company's vigorous growth in 1997 and a pertaining rise in earnings of some 560% resulting in a price increase of more than 500% for our stock, the 1998 year under review is fully dedicated to the announced restructuring of the Group that will make it a comprehensive service provider between the issuer and the equity market.

We may say today that this new Group structure was successfully created without harm to the general business development in the individual affiliated companies. A rise in earnings of more than 260% after taxes in 1998 is a very positive trend and shows that the Company continues growing faster than the aggregate equity market. Of course, this repeat surge in sales and earnings could only be achieved with numerous new staff members. From January 1998 to April 1999 the number of Group employees rose from 24 to more than 60. Related to the rise in earnings, another increase in staff productivity can be identified. This fact demonstrates the high qualification, willingness to achieve on the part of our staff in all affiliated companies of the Group and their total identification with our Company. To all of them the Board expresses thanks for a job well done in an often difficult equity market environment. Much appreciation also to all Supervisory Board Members in the affiliated companies, who bear a larger share of responsibility particularly due to new legislation and, precisely as the Group was going through the restructuring phase, were challenged beyond the usual supervisory and auditing call of duty and by their expertise contributed essentially to the future-oriented realignment of our Company. And an extra debt is owed to our loyal shareholders who placed such great trust in the management last year.

On balance the share price of +128% in 1998 clearly outperformed the overall market, and the Company is again in the top group of German stock corporations after being Number One in 1997, yet the price development in the year under review fell short of the business development. This is not satisfactory because the Company is committed to the shareholder value idea. Hence, as a major measure, the Board of Directors plans to issue bonus shares of a 1:10 ratio in order to raise general fungibility, reduce share price volatility and finally open up new price perspectives for the share that is optically listed as "expensive". Alongside, offering DM 18.00 per share on the increased equity for the 1998 year under review, another attractive and clearly increased dividend (+200%) has been proposed. Further shareholder-friendly measures are being planned.

Of course the major factor in the future growth potential of the Company is a sufficient equity base.

Consequently, as a central measure in the general restructuring of the past year, a two-fold capital increase was implemented. First the shareholders were offered new shares in the summer of 1998 with a 10:1 ratio at DM 1,200 per share, with the major shareholders of the Company renouncing their stock subscription right in favour of the Company. The shares of stock resulting from this offer should be placed as a public offer in September 1998. Owing to a negative market environment, the Board of Directors on a short-term basis had decided to postpone the placement. Meanwhile the placement was performed very successfully in February 1999, so that the Company received a total of DM 65 million as liquid funds through this "two-fold" equity increase. Since management took the view that the issue price for the full profit-bearing new shares could be regarded as extremely attractive, the shares were offered to the free shareholders on a preferred basis for subscription. Furthermore, the subscribers were issued two so-called BZV certificates for each share as a bonus. This new product for the preferred subscription of new issues was developed by Berliner Effektenbank AG and avoids a new issue enmeshment of grey market prices with the share price of our Company, which the management does not want. The preferred subscription scheme was favourably accepted by the shareholders of our Company, so that we may assume a shareholder structure that is very long-term-oriented and constant. In addition to the successfully implemented capital increase and placement, despite the attractive dividend for the year 1998, no full distribution of the Group earnings will be made, rather earnings were fully or partly put into capital reserves in some of the affiliated companies, to adjust the equity base to the increased business volume.




Beside raising the equity capital, another important measure in the 1998 year under review involved switching the market tier for shares of Berliner Freiverkehr (Aktien) AG. This change-over was effected in September 1998 leading from the Over-the-Counter Market to the listed market on the Berlin and Frankfurt Stock Exchanges and it is now offering institutional and international investors the appropriate platform for an investment in our innovative high-growth Company. A mandatory requirement for the market tier change was the increase of our share's free float to at least 25 %. This move was made possible because longstanding shareholders refrained from exercising their subscription rights and exploitation under last summer's capital increase. With the envisioned share split of 1:10, a transparent business policy and international standards of reporting we will make our Company more attractive for investors.

The persistent success of our Company is certainly anchored in the innovative capability and the presently unique structure of comprehensive services in the equity market under the roof of the finance holding. In this system the individual affiliates interact organically beyond the customary synergetic effects enhancing the attractiveness for new customers in all Group companies.

In 1998 again, the business activity, in terms of turnover and earnings, focused on the old core business in the area of stock exchange trading, which could be reinforced substantially by the 100 % acquisition of Diederich Freimakler GmbH. The entire business segment, by the middle of the year, was placed into the newly founded Berliner Freiverkehr (Aktien) Handel AG, for January 1, 1998 retroactively. At the end of the year this company received its new licence as a finance service provider along with all required stock exchange listings and will keep the old, well-established name, while the finance holding company as a stock exchange-quoted company boasting far more comprehensive services will bear the company name of Berliner Effektengesellschaft AG in the future. To Berliner Freiverkehr (Aktien) Handel AG, the newly acquired Diederich Freimakler GmbH was contributed by the end of the year 1998. The meaningful organizational division of the market has already been started for these two affiliated companies. In a next step the two companies will move the existing trading offices to the registered office of the Group and into a new, large trading centre.





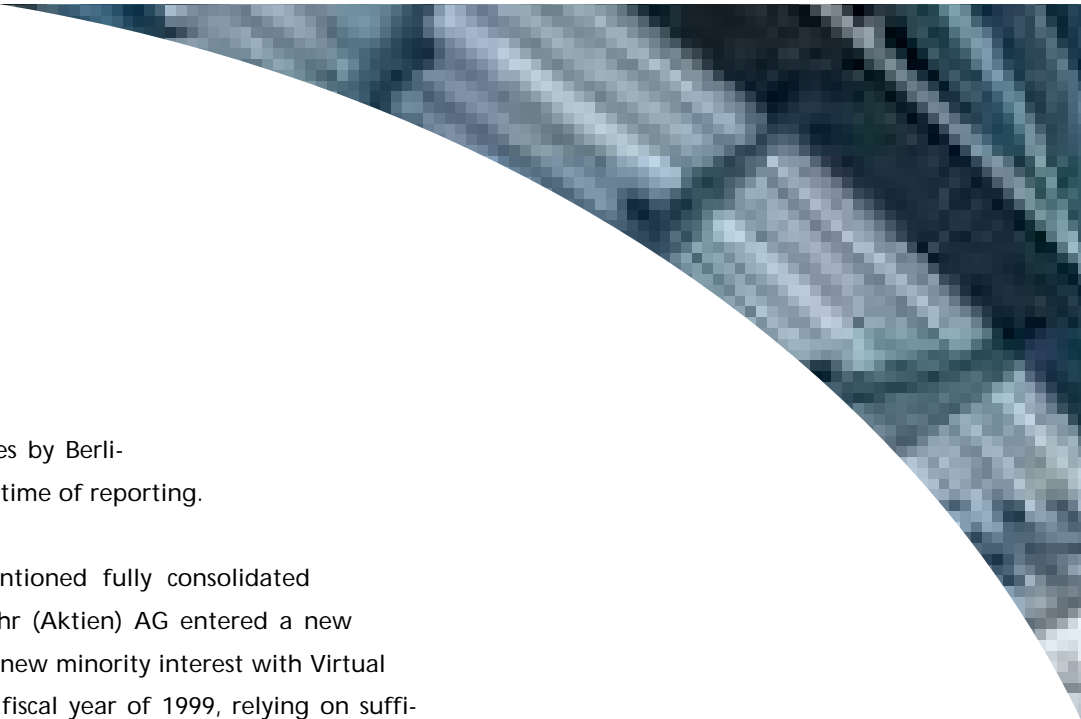
A merger of both stock broker firms under Company Law is sought for the medium term.

Seen from the perspective of Berliner Freiverkehr (Aktien) AG shareholders, the acquisition of Diederich Freimakler GmbH was made on extremely attractive conditions. The largest portion of the purchasing price was made by issuing new blocked shares excluding the subscription rights for long-standing shareholders. This led to a dilution of 3.8% for shareholders. Compared with it Diederich Freimakler GmbH realized some 33% of the proceeds in the stock broker business in the first quarter of 1999 thus contributing to a significant reduction of PER (= price-earnings ratio) for the finance holding.

Both stock broker companies concentrate on stock recording in Over-the-Counter Market dealing for a total of 2,000 titles from all over the world. Here Diederich Freimakler GmbH is particularly active as a market maker for German companies primarily from the Neue Markt whereas Berliner Freiverkehr (Aktien) Handel AG has a leading position in the trade with foreign titles. Both companies should defend their good position in the market and expand it further whereas growth is limited by the possibility of hiring additional qualified and experienced staff as quickly as possible.

But also investments in the newly established Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG contributed significantly to the good consolidated result. Berliner Effektenbank AG received its full banking licence on July 1, 1998 and considers itself a private investment bank focussing on corporate finance and private banking. On aggregate nine equity market transactions (new issues, capital increases and/or secondary issues and private placements) totalling DM 200 million were handled. In private banking over 900 customers were gained. In the lean corporate structure with various outsourced services, primarily in technical handling activities, the basis for the welcome business success can already be seen in the abbreviated business year.

In parallel Berliner Effektenbankbeteiligungsgesellschaft AG produced a good result for the fiscal year. At the same time substantial hidden reserves could be deposited in this company, which more than offset the



general risks attached to
bridge funding of new issues by Berliner Effektenbank AG at the time of reporting.

Apart from the above mentioned fully consolidated affiliates, Berliner Freiverkehr (Aktien) AG entered a new participation by acquiring a new minority interest with Virtual Telecom Inc. In the current fiscal year of 1999, relying on sufficient equity capital, further participations are to be entered into that could develop new markets for the company constituting a meaningful addition to our business areas. This allows affiliates to concentrate on their core competence, cope better with the persistently high growth and continue to grow organically.

The restructuring of Berliner Freiverkehr (Aktien) AG into the present structure did not only cause financial expenses, but placed heavy strains on the entire Group workforce. Particularly the implementation of the 6th Amendment to the German Banking Law (and its numerous requirements for finance service providers in terms of compliance and reporting) bound personal resources to a large degree. The integration of a great number of new staff, the creation of new company-internal organizational structures and a substantial technical expansion had absolute priority for the management last year.

As sound and solid foundations have now been laid, further business success should not take a long time coming. Growth as a comprehensive service provider cannot be predicted by the management in each and every respect, as it is dependent upon a multitude of external parameters in the extremely dynamic equity market, which our Company confronts actively. Meaningful strategic planning and positioning and our lean and clear structures allow action to be taken quickly and make it possible for the future Berliner Effektengesellschaft AG to secure its firm position in a global equity market.

Berlin, April 15, 1999

The Board of Directors

Financial Statements of Berliner Freiverkehr (Aktien) AG

Balance Sheet for the year ended December 31, 1998, Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin.

ASSETS

December 31, 1998

December 31, 1997

	DM	DM	DM
A. Fixed assets			
I. Intangible assets			
1. Licences, industrial property rights and similar rights and values and licenses to such rights and values		0.00	23,849.00
II. Tangible assets			
1. Property and equipment		0.00	603,264.00
III. Financial assets			
1. Equity in affiliates	49,012,579.00		750,000.00
2. Participations	1,471,736.00	50,484,315.00	20,120,000.00
		50,484,315.00	21,497,113.00
B. Current assets			
I. Accounts receivable and other assets			
1. Accounts receivable from affiliates	20,208,523.76		441,750.00
– with a remaining term of more than one year DM 0.00 (previous year DM 0.00) –			
2. Other assets	7,547,161.00	27,755,684.76	1,707,164.46
II. Securities			
1. Other securities		0.00	3,874,950.07
III. Cash, deposits with banks		0.00	17,456,877.60
		27,755,684.76	23,480,742.13
C. Accruals and deferrals		0.00	52,123.63
		78,239,999.76	45,029,978.76

Freiverkehr (Aktien) AG

LIABILITIES

December 31, 1998

December 31, 1997

	DM	DM	DM
		98	97
A. Equity capital			
I. Subscribed capital	6,540,000.00		3,000,000.00
II. Capital reserves	22,708,945.00		250,000.00
III. Revenue reserves			
1. Legal reserves	50,000.00		50,000.00
2. Other revenue reserves	2,626,687.76		1,500,000.00
	<u>2,676,687.76</u>		<u>1,550,000.00</u>
IV. Net income/Net loss	<u>23,544,000.00</u>	<u>55,469,632.76</u>	<u>9,070,218.69</u>
			<u>13,870,218.69</u>
B. Special item with accrual character		0.00	68,656.00
C. Provisions			
1. Provisions for accrued taxes	0.00		8,706,822.67
2. Other provisions	75,000.00	75,000.00	1,303,575.54
			<u>10,010,398.21</u>
D. Accounts payable			
1. Amounts owed to affiliates	22,695,367.00		0.00
2. Amounts owed to companies in which investments are held	0.00		20,000,000.00
3. Other accounts payable	0.00	22,695,367.00	1,080,705.86
			<u>21,080,705.86</u>
		<u>78,239,999.76</u>	<u>45,029,978.76</u>



Profit & Loss Account

Profit & Loss Account

Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin:

Profit and Loss Account for the period from January 1 to December 31, 1998

	1/1/ - 31/12/1998		1/1/ - 31/12/1997	
	DM	DM	DM	DM
1. Revenues		0.00	25,413,620.95	
2. Other operating revenues	7,558,988.00		227,936.22	
3. Payroll costs				
a) wages and salaries	0.00		2,898,936.45	
b) social welfare expenditure and expenses for retirement pension and allowance	0.00	0.00	211,095.79	3,110,032.24
4. Amortization		0.00	146,169.29	
5. Other operating expenses	1,593,682.84		2,536,095.73	
6. Income from participations	39,211,300.05		857,142.86	
– in affiliates DM 39,211,300.05 (DM 857,142.86 previous year) –				
7. Other interest and similar revenue	169,987.04		332,912.74	
– from affiliates DM 0.00 (DM 0.00, previous year) –				
8. Interest and similar expenditure	321.803,57		49.095,37	
– from affiliates DM 159,092.66 (DM 0.00, previous year) –				
9. Taxes on corporate income, business profits and net worth	19,224,319.61		10,417,838.10	
10. Other taxes		0.00	12,227.00	
11. Annual net profit	25,800,469.07		10,560,155.04	
12. Prior year's earnings carryforward	370,218.69		60,063.65	
13. Transfer to earnings reserves				
a) to legal reserves	0.00		50,000.00	
b) to other earnings reserves	2,626,687.76	2,626,687.76	1,500,000.00	1,550,000.00
14. Net profit	23,544,000.00		9,070,218.69	

Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin: Development of fixed assets (gross figures)

Costs of aquisition and production

	1/1/1998	additions	book transfers	disposals	31/12/1998
	DM	DM	DM	DM	DM
I. Intangible assets					
1. Licences, industrial property rights and similar rights and values and licenses to such rights and values	35,338.14	0.00	0.00	35,338.14	
II. Tangible assets					
1. Property and equipment	959,295.79	0.00	0.00	959,295.79	
III. Financial assets					
1. Equity in affiliates	750,000.00	50,930,853.00	20,080,000.00	22,748,274.00	49,012,579.00
2. Participations	20,120,000.00	1,471,736.00	-20,080,000.00	40,000.00	1,471,736.00
	<u>20,870,000.00</u>	<u>52,402,589.00</u>	<u>0.00</u>	<u>22,788,274.00</u>	<u>50,484,315.00</u>
	<u>21,864,633.93</u>	<u>52,402,589.00</u>	<u>0.00</u>	<u>23,782,907.93</u>	<u>50,484,315.00</u>

Accumulated amortization

Book value

1/1/1998	amortization in the fiscal year	book transfers	reinstated depreciation	disposals	31/12/1998	31/12/1998	31/12/1997
DM	DM	DM	DM	DM	DM	DM	DM
11,489.14	0.00	0.00	0.00	11,489.14	0.00	0.00	23,849.00
356,031.79	0.00	0.00	0.00	356,031.79	0.00	0.00	603,264.00
0.00	0.00	0.00	0.00	0.00	0.00	49,012,579.00	750,000.00
0.00	0.00	0.00	0.00	0.00	0.00	1,471,736.00	20,120,000.00
0.00	0.00	0.00	0.00	0.00	0.00	50,484,315.00	20,870,000.00
<u>367,520.93</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>367,520.93</u>	<u>0.00</u>	<u>50,484,315.00</u>	<u>21,497,113.00</u>

1. General Notes

The 1998 Annual Report for the year ended December, 1998 has been prepared in conformity with the rules of accounting, valuation and classification of financial statements of the German Commercial Code (HGB). The provisions of the German Stock Corporation Law have been complied with. The balance sheet has been prepared according to the provisions of § 264 HGB and classification was based on § 266 section 2 and section 3 HGB.

The Profit and Loss Account has been prepared in accordance with the "total cost" type of accounting and has been classified according to § 275 section 2 HGB.

As of January 1, 1998 the business operation was contributed into a newly established stock corporation. From this contribution two financial investments into newly founded companies were excluded. The previous year's figures remained unchanged.

2. Methods of Accounting and Valuation

The Annual Report contains all assets, debts, expenditures and earnings. The items on the asset side have not been put against the items on the liability side, nor have expenditures been charged against earnings.

The financial investments which consist partly of shares in affiliates and holdings, are fixed at the cost of acquisition or the lower applicable value.

Receivables and other assets have been recorded at their cost of acquisition and their nominal value respectively.

Identifiable risks are taken into account and provisions made. Amounts owed are carried as liabilities for the repayable amount.

3. Explanation of the Individual Balance Sheet Items

Fixed Assets

For the development of the fixed assets at historic acquisition rates and the concurrent presentation of the accumulated depreciation, refer to the fixed-asset movement schedule.

The total amount of financial investments denominated in foreign currency amounts to DM 1,472,000.

Current Assets

Other assets include receivables due from the revenue office from corporate income tax of DM 6,672,000.

Stockholder's Equity

On April 24, 1998 a capital increase based on Company funds was carried out by a conversion of revenue reserves to capital stock in the amount of DM 1,500,000.

Furthermore the net income as shown in the balance sheet for the year ended December 31, 1997 of DM 1,500,000 was contributed to revenue reserves and a decision was made to convert this amount to basic capital. During the fiscal year, DM 2,627,000 from the profit for the year were contributed into the revenue reserve.

In connection with capital increases during the fiscal year, premiums of DM 22,459,000 were transferred to capital reserves.

Other Financial Obligations

There are no liabilities and financial obligations that are not apparent in the Financial Statements.

4. Explanation of the Items of the Profit and Loss Account

Other operating revenues contain a participation of federal and state governments in the municipal trade tax made available to Berliner Freiverkehr (Aktien) Handel Aktiengesellschaft amounting to DM 7,559,000.

5. Other Notes

Investment holdings:

Berliner Effektenbeteiligungsgesellschaft AG

Capital stock:		DM	5,000,000.00
Holding:	40%	DM	2,000,000.00
Stockholders' equity:		DM	10,442,134.67
1998 annual net profit:		DM	5,376,023.20

Berliner Effektenbank AG

Capital stock:		DM	15,000,000.00
Holding:	40%	DM	6,000,000.00
Stockholders' equity:		DM	18,886,977.24
1998 annual net profit:		DM	3,870,608.29

Berliner Freiverkehr (Aktien) Handel AG

Capital stock:		DM	6,000,000.00
Holding:	100%	DM	6,000,000.00
Stockholders' equity:		DM	53,428,008.43
1998 annual net profit:		DM	24,495,429.43

Tax Burden

Earnings from normal business activity are liable to a corporate income tax rate of 50.7 %.

Number of Workers, Payroll Costs

In the fiscal year the employment of workers was discontinued by Berliner Freiverkehr (Aktien) Aktiengesellschaft. Based on the outsourcing of the stock broker business to Berliner Freiverkehr (Aktien) Handel AG, the following agreement concerning contracts of service and employment was concluded:

Effective from the cut-off date, the acquiring company enters into all agreements signed by the transferor company, including all service and employment contracts related to stock exchange trading. The transferor company and the acquiring company shall adopt an economic position as if the acquiring company was a contractor at the cut-off date.

As a result the Company incurred no payroll costs during the fiscal year.

Statements Concerning Shares

As of December 31, 1998 the stock capital amounts to DM 6,540,000 and it is divided up into 1,308,000 individual share certificates.

The shares have no privileges, they are issued with the bearer's name.

Approved Capital

The Board of Directors is entitled to raise the capital stock of the Company with the consent of the Supervisory Board by April 23, 2003 once or several times by up to DM 1,200,000 (approved capital I) by issuing new bearer shares against cash deposits or to raise it by up to DM 1,260,000 (approved capital II) once or several times by issuing new bearer shares against cash or non-cash capital contributions.

In the event of capital increases from the approved capital II the Board of Directors shall be entitled to decide, with the consent of the Supervisory Board, on the exclusion from the subscription right of shareholders, if a capital increase based on non-cash capital contributions is made in order to acquire an interest in another company or obtain very high sums from the capital increase.

Capital Increase from the Approved Capital

In the fiscal year, capital increases from the approved capital I of DM 300,000 and from the approved capital II of DM 240,000 were made.

6. Supervisory Board and Board of Directors

Board of Directors

The Members of the Board of Directors are:

Holger Timm, Berlin

Sabine Bronowsky, Berlin

Dr. Guido Georg Rudolf Sandler, Berlin

Dr. Wolfgang Janka, Berlin

Klaus-Gerd Kleversaat, Krummensee

– since January 1, 1998 –

– since June 24, 1998 –

– since June 24, 1998 –

Supervisory Board

Wolfgang Hermanni, Berlin (Chairman), business man

Andrä Dujardin, Berlin, business man

Joachim Falk, Berlin, lawyer

– until April 24, 1998 –

Christian Graf von Bassewitz, Düsseldorf,

Banker

– since April 24, 1998 –

Remuneration

The Board of Directors was not paid remunerations in 1998. For Supervisory Board remunerations DM 20,000 were put aside in the fiscal year.

7. Use of Earnings

The Financial Statements

The net income as shown in the Balance Sheet of DM 23,544,000.00 is based on the profit carryforward of DM 370,218.69 and the annual net profit of DM 25,800,469.07 taking into account that contributions to the legal revenue reserve of DM 0,00 and to other revenue reserves of DM 2,626,687.76 were made before.

The General Meeting will suggest a dividend payment of DM 18.00 per share.

Berlin, April 1999

Berliner Freiverkehr (Aktien)
Aktiengesellschaft

The Board of Directors

Holger Timm

Dr. Guido Georg Rudolf Sandler

Klaus-Gerd Kleversaat

Dr. Wolfgang Janka

Sabine Bronowsky





Directors' Report

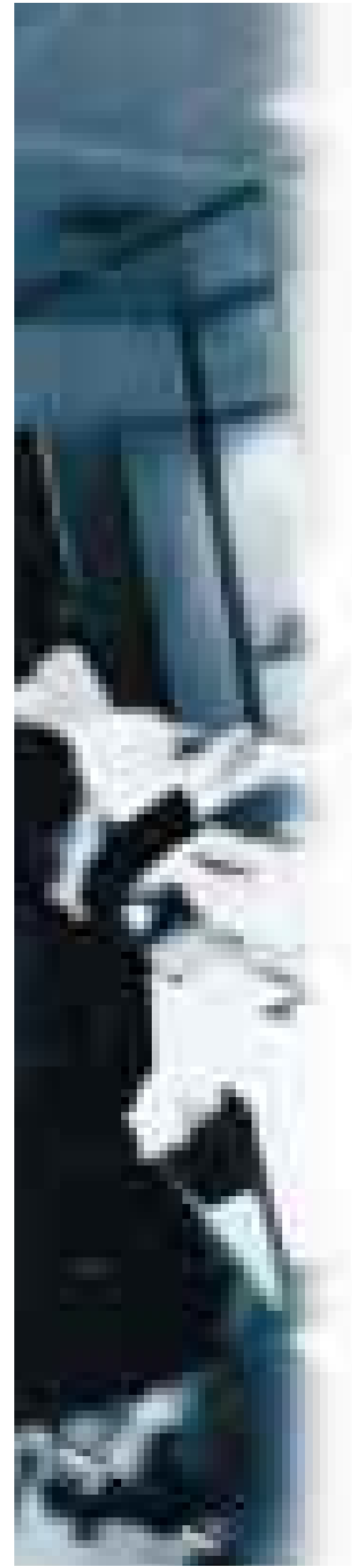
The fiscal year of 1998 as far as the Company was concerned was marked by the reorganization moves that were intended to lead to the establishment of the Berlin Freiverkehr Group. In this respect the General Meeting on April 24 gave the Board of Directors permission to sign a merger agreement with Berliner Freiverkehr (Aktien) Emissionsberatung GmbH and a contribution agreement with a to-be-established Company concerning the contribution of the stock exchange operations division. Berliner Freiverkehr (Aktien) Emissionsberatung GmbH was merged into the Company, it was not struck from the registration court's register.

Thereafter, the Company, on August 26, 1998 set up Berliner Freiverkehr (Aktien) Handel AG and contributed this company to its business operations. Solely the 40% interests in Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG were left out of the contribution measure. In the course of the fiscal year 1998 the newly founded company was granted its licence to manage finance service provider transactions permitting it to take over the complete stock exchange business.

The contribution agreement for the to-be-established company provided for the contribution to be made retroactively by January 1, 1998. Implementing this contribution agreement, the Company thus ceded its active business operations. The Company now limits its activities to acquiring strategic interests for the development and expansion of the finance service group. For this purpose, Diederich Kursmaklergesellschaft mbH, now called Diederich Freimaklergesellschaft mbH, was purchased and later contributed to Berliner Freiverkehr (Aktien) Handel AG.

The Company staff, via the contribution, was transferred to Berliner Freiverkehr (Aktien) Handel AG. Following the transfer, the Board of Directors of the Company began identifying the persons to be entrusted with the exercise of its new functions as future employees. Those persons were mainly officials responsible for the divisions of accounting, reporting and communication with the general public and the equity markets. Experts analyzing forthcoming participations will be hired on a case-by-case basis and teams will be formed on demand, but they are not kept on permanent stand-by duty by the Company.

As a measure to strengthen the capital of the Company that has been converted to a holding company in the meantime, in the course of the fiscal year 1998 a capital increase by DM 300,000 nominally and/or 60,000 shares of stock from approved capital had been decided. The identified shareholders of the Company who hold more than 5% of the capital stock, relinquished their subscription rights in favour of the Company. Subsequent to the handling of the subscription business for the remainder of shareholders, the released shares were to be placed on or after September 9, 1998. This placement was initially postponed in September 1998 due to the poor market environment and was now performed successfully in February 1999.



As early as after the implementation of the subscription business, the Company had sufficient capital by December 31, 1998 to provide its subsidiaries with sufficient capital for handling their transactions.

Free capital from the share placement of February 1999 now serves the expansion of holdings and the future take-over of additional industries and competitors.

At present the Company still operates a branch in Frankfurt, but since it withdrew to its holding functions, this branch will be abandoned in the course of the fiscal year 1999.

Regardless of that fact individual affiliates will keep Frankfurt-based branches or establish new ones.

In the first weeks of the new fiscal year 1999 the growth of the Company affiliates observed during the fourth quarter 1998 was confirmed, so that the Board of Directors of the Company, on the basis of its current knowledge, takes the view that serious aspects that could impair the earning capacity of the Company and require reporting have not occurred. Still one will have to take into account that the Company is operating in a highly competitive environment which is influenced by equity market fluctuations on German and foreign stock exchanges. These risks are of a general nature and cannot be influenced by the Board of Directors of the Company. The Board of Directors takes great care to ensure that affiliates realize cost-relevant measures with the greatest degree of caution and with due regard to potentially heavy equity market fluctuations.

Berlin, March 30, 1999

Berliner Freiverkehr (Aktien) AG

The Board of Directors

Report of Independent Auditors

Report of Independent Auditors

"We have conducted our audits in accordance

with the required auditing standards and

have found that accounting and the

Financial Statements are in conformity

with the legal requirements. The Finan-

cial Statements, complying with the

principles of proper accounting, pre-

sent fairly, in all material respects the

financial position and the assets and

earnings of Berliner Freiverkehr

(Aktien) Aktiengesellschaft, Berlin.

The Directors' Report corresponds

to the Financial Statements."

Berlin, April 1, 1999

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Otte

Auditor

Butte

Auditor

Consolidated Financial Statements

Consolidated Financial Statements of Berliner Freiverkehr

Consolidated Financial Statements for the year ended December 31, 1998,
Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin

ASSETS

	DM	DM	DM
	98	98	98
1. Cash reserves			
a) Cash and cash equivalents		55,869.66	
b) Deposits with central reserve banks including Deutsche Bundesbank: DM 10,696,306.34		10,696,306.34	
c) Deposits with postal giro and savings offices		460,528.64	11,212,704.64
3. Accounts receivable, credit institutions			
a) payable daily		27,517,448.63	
b) other accounts receivable		103,194,355.67	130,711,804.30
4. Accounts receivable, customers including those secured by mortgage DM 0.00			19,608,451.58
5. Bonds and other fixed-interest bearing securities			
a) Money market papers			
aa) from public issuers including Deutsche Bundesbank collateral DM 0.00	0.00		
ab) from other issuers including Deutsche Bundesbank collateral DM 0.00	0.00	0.00	
b) Loans and bonds	1,539,550.00		
ba) from public issuers including Deutsche Bundesbank collateral DM 299,550.00	299,550.00		
bb) from other issuers including Deutsche Bundesbank collateral DM 0.00	1,240,000.00	1,539,550.00	1,539,550.00
6. Shares and other non-fixed-interest bearing securities			13,927,711.74
7. Equity in credit institutions DM 0.00 financial service institutions			1,471,736.00
11. Intangible assets			24,067,955.39
12. Property and equipment			2,980,700.99
14. Own shares or participations par value/accounting par value DM 247,655.00			2,112,986.00
15. Other assets			402,348.19
16. Accruals and deferrals			84,547.97
			208,120,496.80

of Berliner Freiverkehr (Aktien) AG

(Aktien) AG

LIABILITIES

	DM	DM	DM
1. Accounts payable to credit institutions			
a) payable daily		2,904,715.28	
b) with agreed term or period of notice		3,845,716.19	6,750,431.47
2. Accounts payable to customers			
b) other accounts payable			
ba) payable daily	28,463,162.03		
bb) with agreed term	76,793,514.66	105,256,676.69	105,256,676.69
5. Other accounts payable			440,186.15
7. Provisions			
a) provisions for pensions and similar accounts payable		65,000.00	
b) provisions for taxes		11,946,892.09	
c) other provisions		8,518,062.33	20,529,954.42
8. Special item with accrual character			58,633.00
12. Stockholders' equity			
a) subscribed capital		6,540,000.00	
b) equity reserves		22,708,945.00	
c) revenue reserves		0.00	
ca) legal reserves	232,582.23		
cb) reserve for own shares	845,194.40		
cc) bylaws-required reserves	0.00		
cd) other revenue reserves	2,941,702.03	4,019,478.66	
d) net income		25,357,780.45	
e) shares of outside share-holders		16,458,410.96	75,084,615.07
			208,120,496.80
1. Contingent liabilities			
a) contingent liabilities from bills forwarded and settled		0.00	
b) liabilities from suretyships and guarantee agreements		63,349.50	
c) liability from the provision of collateral for outside liabilities		0.00	63,349.50
2. Other accounts payable			
a) repurchase liabilities from untrue security pension transaction		0.00	
b) placement and take-over liabilities		0.00	
c) irrevocable lending commitments		9,003,715.09	9,003,715.09

Consolidated Profit & Loss Account

Consolidated Profit & Loss Account

Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin:

Consolidated Profit and Loss Account for the period ended January 1 to December 31, 1998

	DM	DM	DM
	98	98	98
1. Interest income from			
a) credit and money market transactions		1,479,877.22	
b) accounts payable from fixed interest bearing securities and Debt Register claims		78,022.12	
			1,557,899.34
2. Interest expense			693,484.41
3. Current income from			
a) shares and other non-fixed interest bearing securities		299,534.94	
b) participations		0.00	
c) equity in affiliates		0.00	
			299,534.94
4. Income from profit pooling, profit transfer or partial profit transfer agreements			0.00
5. Income from commissions			23,815,865.60
including brokerage 0.00			
6. Commission expense			1,116,752.27
including brokerage for pool compensation 0.00			
7a. Income from financial transactions			
a) income from securities		242,152,114.85	
c) options		1,281,788.01	
d) exchange difference from task business		38,902,493.67	
			282,336,396.53
7b. Expense from financial transactions			
a) expense from securities		218,142,504.76	
c) options		1,335,974.18	
d) exchange difference from task business		362,024.01	
			219,840,502.95
8. Other operating income			438,299.92
9. Income from the liquidation of the special item with accrual character			10,023.00

	DM	DM	DM
	98	98	98
10. General administrative expense			
a) payroll expenses			
aa) wages and salaries	13,526,405.45		
ab) social welfare expenditure and expenses for retirement pension and allowance including DM 74,000.00 for retirement pension	551,561.57	14,077,967.02	
b) other administrative expenses		8,157,321.07	22,235,288.09
11. Depreciation of intangible fixed assets and property and equipment			877,191.51
12. Other operating expenses			6,253.36
13. Depreciation on accounts payable and on certain securities and allocations to provisions in the credit business			350,000.00
19. Earnings from normal business activity			63,338,546.74
23. Taxes on corporate income, business profits and net worth			29,923,436.78
24. Other taxes, if not shown under item 12			2,139.00
27. Annual net profit			33,412,970.96
27a. Annual net profit share of outside shareholders			4,338,410.96
28. Profit carryforward/loss carryforward from previous year			323,210.86
28a. Profit carryforward share of outside shareholders			70,511.75
32. Transfers to revenue reserves			
a) to legal reserves		182,582.23	
b) to own share reserves		845,194.40	
c) to bylaws-required reserves		0.00	
d) to other profit reserves		2,941,702.03	3,969,478.66
34. Net income			25,357,780.45

Consolidated Fixed Assets

Consolidated Fixed Assets

Berliner Freiverkehr (Aktien) Aktiengesellschaft, Berlin: Financial Statements for the year ended December 31, 1998, development of fixed assets (gross figures)

Costs of acquisition and production

	1/1/1998 DM	additions DM	disposals DM	book transf DM
I. Intangible assets				
Intangible fixed assets	35,338.14	54,615.37	0.00	(
Goodwill	0.00	24,312,590.56	0.00	(
	<u>35,338.14</u>	<u>24,367,205.93</u>	<u>0.00</u>	(
II. Fixed assets				
Other property and equipment	1,174,489.20	2,915,004.16	213,199.54	(
III. Financial investments				
Participations	40,000.00	1,471,736.00	40,000.00	(
IV. Investments held as fixed assets	0.00	2,415,921.08	0.00	(
	<u>1,249,827.34</u>	<u>31,169,867.17</u>	<u>253,199.54</u>	(

Depreciation

Book value

31/12/1998	1/1/1998	depreciation of the fiscal year	disposals	31/12/1998	31/12/1998
DM	DM	DM	DM	DM	DM
89,953.51	11,489.14	15,284.54	0.00	26,773.68	63,179.83
24,312,590.56	0.00	307,815.00	0.00	307,815.00	24,004,775.56
24,402,544.07	11,489.14	323,099.54	0.00	334,588.68	24,067,955.39
3,876,293.82	488,069.05	554,091.97	146,568.19	895,592.83	2,980,700.99
1,471,736.00	0.00	0.00	0.00	0.00	1,471,736.00
2,415,921.08	0.00	0.00	0.00	0.00	2,415,921.08
32,166,494.97	499,558.19	877,191.51	146,568.19	1,230,181.51	30,936,313.46

I. General

1. Preliminary Remarks

For the year ended December 31, 1998, Berlin Freiverkehr (Aktien) Aktiengesellschaft has prepared Consolidated Financial Statements for the first time.

2. Consolidated Group

Berlin Freiverkehr (Aktien) Aktiengesellschaft is a parent company for the Group Berliner Freiverkehr (Aktien). For the purpose of establishing the Consolidated Financial Statements four additional domestic companies were included in the consolidated group besides the parent company. All these companies are subsidiaries.

II. General Accounting Principles for Balance Sheet Preparation, Valuation and Consolidation

1. Preparation of Balance Sheet

The Financial Statements of Berliner Freiverkehr (Aktien) AG have been prepared in conformity with the German Commercial Code (HGB) and the Ordinance Regulating Accounting by Credit Institutions and Financial Service Institutions (RechKredV).

The classification of the Financial Statements is based on RechKredV, for the Profit and Loss Account, the columnar form was chosen.

2. Consolidation

The subsidiaries considered have been consolidated according to the book value method in conformity with § 301 section 1 No. 1 HGB. The book values of participations have been put against their relevant equity capital at the time of the acquisition of shares.

Shares not counting towards the equity capital of the Group, as well as earnings by subsidiaries, are shown in the Balance Sheet by a balancing item entitled "share of outside shareholders".

Accounts receivable and payable among the companies included in the Consolidated Financial Statements are put against one another as is the case with expenses and revenues.

Given the minor importance to the financial position, the assets and the earnings, there is no ad-equity assessment for associated companies in the Consolidated Balance Sheet. They are shown under the position "participations".

3. Valuation

The valuation of assets, liabilities and pending transactions is based on the provisions of §§ 252 and the following sections of HGB, if no special rules according to §§ 340 and the following sections of HGB exist. The Ordinance Regulating Accounting by Credit Institutions and Financial Service Institutions (RechKredV) has been observed.

Accounts receivable from credit institutions and customers are shown in the Balance Sheet at par value, shares of the trading portfolio of the bank at the lower of cost or market and accounts payable at the repurchase values. The pro-rata interest determined at the balance sheet date is shown with the accounts receivable or payable on which it is based.

Identifiable risks have been dealt with through individual value adjustment and provisions. The individual value adjustment and the general bad debt provision are separate from the book inventory. Property and

ents for the Year Ended December 31, 1998

Ended December 31, 1998

equipment are recorded at the cost of acquisition or production, less scheduled straight-line depreciation. Low-valued commodities are fully amortized in the year of acquisition.

4. Currency Adjustment

For Berliner Effektenbank AG, Diederich Freimaklergesellschaft mbH and Berliner Freiverkehr (Aktien) Handel the assessment of foreign currency assets has been made according to the provisions of § 340 h HGB. For this purpose all assets and debts denominated in convertible foreign currencies were converted at the exchange rates in effect at the Balance Sheet date. For the Balance Sheet items the method of single-covered assets and debts was used and the option of realizing losses from the currency translation according to § 340 h HGB exclusively was exercised.

For Berliner Freiverkehr (Aktien) Aktiengesellschaft and Berliner Effektenbeteiligungsgesellschaft Aktiengesellschaft the imparity principle has been observed.

The total amount of asset items in foreign currency that has been recorded in the Consolidated Balance Sheet and translated to DM is DM 10,133,000. The total amount of foreign currency debt translates to DM 5,702,000.

III. Notes to the Consolidated Balance Sheet and the Consolidated Profit and Loss Account

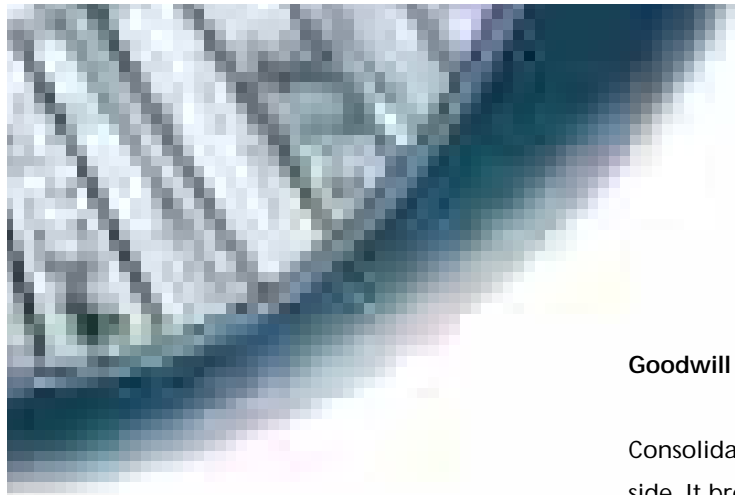
1. Assets

Accounts receivable from credit institutions

Remaining term	in DM
up to three months	103,194,355.67
more than three months	
to one year	0.00
more than one year to five years	0.00
more than five years	0.00
total	103,194,355.67

Accounts receivable from customers

Remaining term	in DM
up to three months	5,059,755.74
more than three months	
to one year	14,548,695.84
more than one year to five years	0.00
more than five years	0.00
total	19,608,451.58



Goodwill

Consolidation produced a difference of DM 24,312,590.56 on the assets side. It breaks down as follows:

Diederich Freimaklergesellschaft mbH, Berlin	DM	12,312,590.56
Berliner Effektenbank Aktiengesellschaft	DM	9,000,000.00
Berliner Effektenbeteiligungsgesellschaft AG	DM	3,000,000.00

Goodwill of Diederich Freimaklergesellschaft mbH is amortized over the estimated period of benefit of 10 years. Amortization during the fiscal year is DM 307,815.00 on a pro-rata basis. Goodwill of Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG in the subsequent years will be amortized on a quarter basis at least and in conformity with § 309 section 1 HGB.

As per December 31, 1998 a goodwill of DM 24,004,775.56 will be shown under the item Intangible Fixed Assets.

Loans and Bonds

Loans and bonds of DM 1,539,550 are included in the Consolidated Balance Sheet. They consist of a participation certificate and a loan from a public issuer. The securities are quoted on the stock exchange.

Shares and Other Non-Interest Bearing Securities

The item "shares and other non-fixed-interest bearing securities" consists of marketable securities which break down to DM 7,549,718.80 of listed securities and DM 8,490,978.90 of non-listed securities.

The Consolidated Financial Statements include DM 2,416,000 of securities dealt with as fixed assets.

Own Shares or Participations

Berliner Effektenbank Aktiengesellschaft holds 49,531 shares of stock in Berliner Freiverkehr (Aktien) Aktiengesellschaft with an accounting par value of DM 247,655.00. This constitutes a share of 3.8% in the subscribed capital of Berliner Freiverkehr (Aktien) Aktiengesellschaft.

Fixed Assets

The development of fixed assets in the fiscal year 1998 is shown in the fixed-asset movement schedule attached to these notes to the Consolidated Financial Statements.

2. Liabilities

Accounts payable from credit institutions

Remaining term	in DM
up to three months	6,750,431.47
more than three months to one year	0.00
more than one year to five years	0.00
more than five years	0.00
total	6,750,431.47

Accounts payable from customers

Remaining term	in DM
up to three months	105,256,676.69
more than three months to one year	0.00
more than one year to five years	0.00
more than five years	0.00
total	105,256,676.69

Other Provisions

The item "Other provisions" shows mainly provisions for royalties payable to staff.

Special Item with Accrual Character

For a percentage of the fixed assets of Berliner Freiverkehr (Aktien) Aktiengesellschaft the possibility of special depreciation allowances pursuant to § 1 – 4 of the Development Area Law via a special item with accrual character was made use of in recent years. New allocations were not made in the year under review. Dissolutions were made as scheduled.

Stockholders' Equity

Subscribed Capital

The capital stock of Berliner Freiverkehr (Aktien) Aktiengesellschaft of DM 6,540 million is divided into 1,308,000 shares of stock. They carry no privileges and are made out to the bearer.

Approved Capital

The Board of Directors of Berliner Freiverkehr (Aktien) Aktiengesellschaft is entitled to increase the capital stock of the Company until April 23, 2003 with the consent of the Supervisory Board by issuing new bearer shares against cash once or several times by up to DM 1,200,000 (approved capital I) and by the issue of new bearer shares against cash or cash deposits once or repeatedly by up to DM 1,260 million (approved capital II).

In the event of capital increases from the approved capital II the Board of Directors shall be entitled to decide, with the consent of the Supervisory Board, on the exclusion of shareholders from the subscription right, if a capital increase based on non-cash capital contributions is made in order to acquire an interest in another company or obtain very high sums from the capital increase.

Capital increase from the approved capital

In the fiscal year, capital increases from the approved capital I of DM 300,000 and from the approved capital II of DM 240,000 were made.

Balancing Item for Shares of other Shareholders

The balancing item for shares of other shareholders concerns Berliner Effektenbank Aktiengesellschaft and Berliner Effektenbeteiligungsgesellschaft Aktiengesellschaft.

It breaks down to:

Subscribed capital:	DM	12,120,000.00
Revenue reserves:		
legal reserves:	DM	273,873.36
reserve for own shares	DM	1,267,791.60
bylaws-required reserves	DM	0.00
other revenue reserves	DM	472,521.38
Net income:	DM	2,324,224.62

3. Profit and Loss Account

Other Administrative Expenses

"Other administrative expenses" includes essentially expenses for news and information services respectively, Chamber of Official Brokers costs, stock exchange fees, legal and consultancy costs and stock exchange services.

4. Other Notes

Dealing in Futures with other Price Risks

The transactions executed with Berliner Effektenbank Aktiengesellschaft concerned exclusively share options exercised on behalf of the customer.

Presentation of Volumes for the Year Ended December 31, 1998

	par values (DM in thousands)	credit risk equivalent (DM in thousands)
Share options	29,150	2,622

All transactions have a remaining term of less than one year

Classification of Contracting Party for the Year Ended December 31, 1998

Contracting party	par values (DM in thousands)	credit risk equivalent (DM in thousands)
OECD banks	14,575	1,311
Customers (incl. stock exchange contracts)	14,575	1,311
Total	29,150	2,622

Other Financial Obligations and Liability Relationships

Berliner Freiverkehr (Aktien) Handel Aktiengesellschaft has other financial obligations which are listed below:

The term account with the BHF Bank for DM 100,000 serves Hermes Kreditversicherungs-AG as collateral for a surety for DM 500,000 which it granted the Berlin Stock Exchange.

Lombardkasse issued statements of guarantee to the Berlin Stock Exchange for DM 1,500,000 and DM 1,000,000 and to the Stuttgart Baden-Württemberg Stock Exchange in the amount of DM 300,000.

Furthermore Lombardkasse issued statements of guarantee to the Frankfurt Stock Exchange for DM 1,000,000 and a collateral based on the German Stock Exchange Law – explicitly as security for stock exchange liabilities, in particular the risks associated with business discontinuance transactions and price differences. These guarantees are covered by term accounts with Lombardkasse AG of DM 2,800,000 and DM 500,000.

A term deposit of some DM 60,000 was given in pledge for an operating funds loan from Berliner Volksbank e.G, although the loan was not used.

BHF-Bank issued a guarantee to Presse-Vertriebsgesellschaft mbH in Frankfurt for DM 15,000 in connection with the renting of office rooms for the Frankfurt operational facility.

The collateral used was a term account with BHF-Bank of the same amount.

Another bank guarantee by BHF-Bank covers an amount of DM 70,000 which serves as collateral for the renting of new office rooms on Kurfürstendamm, Berlin by VEBAU Bau- und Verwaltungs GmbH.

At the cut-off date 7 leasing vehicles were used by the staff members of Berliner Freiverkehr (Aktien) Handel AG, the contracts run between 24 and 36 months.

Owing to its membership in the Deposit Guarantee Fund of German Banks, Berlin Effektenbank Aktiengesellschaft has a duty to make further contributions pursuant to § 4, item 12 to reimburse the fund for all measures of assistance for difficulties of the bank.

Investment Holdings

Affiliates included in the Financial Statements.

Berliner Effektenbeteiligungsgesellschaft AG, Berlin

Capital stock:		DM	5,000,000.00
Holding:	40%	DM	2,000,000.00
Stockholders' equity:		DM	10,442,134.67
Annual net profit 1998:		DM	5,376,023.20

Berliner Effektenbank AG, Berlin

Capital stock:		DM	15,000,000.00
Holding:	40%	DM	6,000,000.00
Stockholders' equity:		DM	18,886,977.24
Annual net profit 1998:		DM	3,870,608.29

Berliner Freiverkehr (Aktien) Handel AG, Berlin

Capital stock:		DM	6,000,000.00
Holding:	100%	DM	6,000,000.00
Stockholders' equity:		DM	53,428,008.43
Annual net profit 1998:		DM	24,495,429.43

Diederich Freimaklergesellschaft mbH, Berlin

Capital stock:		DM	500,000.00
Holding:	100%	DM	500,000.00
Stockholders' equity:		DM	11,311,849.44
Annual net profit 1998:		DM	3,139,849.44

Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG are subject to the uniform management of Berliner Freiverkehr (Aktien) Aktiengesellschaft.

Associated enterprises

Online Securities Holding inc., Delaware

Share in stockholders' equity: 33.4 %

Annual Average of Persons Employed

In the fiscal year an average number of 36 persons were employed in the Berliner Freiverkehr (Aktien) Aktiengesellschaft Group.

Notes to Income Tax Burden

The earnings from normal business activity bear an income tax burden of 44.7 %.

Remunerations of Officers of Berliner Freiverkehr (Aktien) Aktiengesellschaft

For their activity for Berliner Freiverkehr (Aktien) Aktiengesellschaft and its subsidiaries the Members of the Board of Directors of Berliner Freiverkehr (Aktien) Aktiengesellschaft received remunerations of DM 5,610,000. For remunerations for Members of the Supervisory Board reserves of DM 50,000 were formed during the fiscal year.

Bodies of Berliner Freiverkehr (Aktien) Aktiengesellschaft

Board of Directors

The Members of the Board of Directors are:

Holger Timm, Berlin

Sabine Bronowsky, Berlin

Dr. Guido Georg Rudolf Sandler, Berlin – *since January 1, 1998* –

Dr. Wolfgang Janka, Berlin – *since June 24, 1998* –

Klaus-Gerd Kleversaat, Krummensee – *since June 24, 1998* –

Supervisory Board

Wolfgang Hermanni, Berlin (Chairman), business man

Joachim Falk, Berlin, lawyer – *until April 24, 1998* –

Andrä Dujardin, Berlin, business man

Christian Graf von Bassewitz, Düsseldorf, banker – *since April 24, 1998* –

Berlin, April 1, 1999

Berliner Freiverkehr (Aktien)
Aktiengesellschaft

The Board of Directors

Holger Timm

Dr. Guido Georg Rudolf Sandler

Klaus-Gerd Kleversaat

Dr. Wolfgang Janka

Sabine Bronowsky



I. Business Trend and Situation of Group

Business Activity

Participation in the establishment of the companies BEG Berliner Effektengesellschaft Unternehmensberatung AG (renamed Berliner Effektenbank AG) and BEG Berliner Effektenbeteiligungsgesellschaft AG (renamed Berliner Effektenbeteiligungsgesellschaft) on October 29, 1997 laid the foundations for a comprehensive reorganization of the Group. While core business was handled by the listed company Berliner Freiverkehr (Aktien) AG as the major legal entity as late as the year ended December 1997, this company assumed the function of a mere holding company effective from the cut-off date.

In its new function the company will be the shareholder in strategic participations and thus the umbrella company of the Group. The most important participations so far include:

- ◆ the 100 % participation in Berliner Freiverkehr (Aktien) Handel AG, which continued the core business of Berliner Freiverkehr (Aktien) AG from January 1, 1998.
- ◆ the 40 % participation in Berliner Effektenbank AG, which started its business activity on July 1, 1998 and
- ◆ the 40 % participation in Berliner Effektenbeteiligungsgesellschaft AG, which started its business activity in 1998.

The major Company Law procedures of reorganization were concluded by the year ended December 31, 1998. For the ensuing period there is the task of taking over the newly acquired Diederich Freimaklergesellschaft mbH – which was contributed to Berliner Freiverkehr (Aktien) Handel AG – into Berliner Freiverkehr (Aktien) Handel AG also under Company Law.

Additionally, on top of the three above mentioned major participations, there are two other strategic participations that have been considered outside the full consolidation in the Consolidated Financial Statements.

Results of Operations

The group proved to be extremely income-strong and this holds true for the new participations as well. For details, please refer to the other components of the Consolidated Financial Statements.

Given the interlocking of staff on the various bodies of the Group companies, and based on § 17 AktG (Company Law), it was safe to assume that the umbrella company had control over the participations Berliner Effektenbank AG and Berliner Effektenbeteiligungsgesellschaft AG and a profit and loss transfer agreement would not have to be signed. For this reason the Group management opted for a full consolidation of these participations.

The involvement in strategic participations and the scheduled take-over of new participations in the Group led to the recognition of a difference on the assets side. It has to be amortized pursuant to the rules of consolidated accounting and DVFA. But with the earnings capacity of the participations acquired, no lasting negative earnings-related influence must be expected from this amortization.

Situation of Capital

The umbrella company of the Group started the fiscal year 1998 on a capital stock of DM 3,000,000.00. Initially, throughout the course of the fiscal year 1998, it could be increased to the amounts posted in the other components of the Consolidated Financial Statements. As a result of the originally intended cash increase from capital I – which was to be realized after the implementation of the subscription business in the first half of the month of September 1998 in order to engage in new strategic participations – the umbrella company of the Group first did not manage to generate any liquid funds.

The placement of the capital increase was initially postponed because of negative market conditions. It could be performed successfully in the second month of the fiscal year 1999. With this and other measures from the fiscal year 1998, the umbrella company of the Group created a solid capital base for its new business orientation.

Appointment to Bodies and Staff Situation

The new business orientation of the Group is accompanied by a new appointment of staff to the bodies of the umbrella company of the Group and of the Group companies. In the wake of it, several persons were appointed as Directors of the umbrella company serving also on the Board of Directors of the Group's affiliates. For the fiscal year 1999 it is intended to fine-tune the position of the bodies within the Group bearing in mind the special requirements of the German Banking Law and its ancillary laws.

The staffing policy of the Group is also adjusted to the new business orientation. Thus as early as during the fiscal year 1998 a start was made to identify appropriate staff to support the Group management. This task has now been successfully completed. The relevant contracts of employment for persons to hold key positions have already been signed.

II. Risks of Future Development

Owing to its new alignment the Group is developing into a global provider in the finance market. Comparability with existing stock broker companies, the Group's origin, ceased as early as December 31, 1998. In the future the Group will continue its development into a global provider of services in the financial service arena broadening its reach both technically and geographically beyond domestic borders.

The measures of business operations expansion adopted by the Group reduce the one-sided dependence upon the situation of the equity market and the Group's vulnerability to global market tendencies.

As the Group is mostly active on the German capital market, its success in the medium and long term will partly hinge on the fate of the German capital market. This dependence may only partly be offset by the development of activities abroad.

The Group management has to ensure that affiliates install risk monitoring systems and control systems for their operations. The Group management for its part is perfecting the reporting system within the Group and will set up its own risk monitoring systems in the process.

III. Current Transactions and Estimated Development

Specially Important Transactions After Conclusion of the Fiscal Year 1998

Besides the successful placement of the capital increase from approved capital I decided as early as 1998 there are no significant transactions to be reported after concluding the fiscal year 1998.

Group Development

The start of the fiscal year 1999 continued the positive trend of the year 1998. So far there have been no indications that the profit growth the Group management aspires to for 1999 could not be realized.

Berlin, April 6, 1999

Holger Timm

Dr. Guido Georg Rudolf Sandler

Klaus-Gerd Kleversaat

Dr. Wolfgang Janka

Sabine Bronowsky

Report of Independent Auditors

Report of Independent Auditors



"We have conducted our audits in accordance with the required auditing standards and have found that the Consolidated Financial Statements of Berliner Freiverkehr (Aktien) AG are in conformity with the legal requirements. The Consolidated Financial Statements, complying with the principles of proper accounting, present fairly, the financial position and the assets and earnings of the Group.

The Group Management Report corresponds to the Consolidated Financial Statements."

Berlin, April 1, 1999
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Otte
Auditor

Butte
Auditor

Consolidated DVFA/SG Results of Operations

Consolidated DVFA/SG Results of Operations

Determination of Consolidated DVFA/SG Results of Operations	DM in thousands	DM in thousands	DM in thousands
1. Basis as per Consolidated Profit and Loss Account 1998			
a) earnings from normal business activity	63.338		
b) taxes on income and profits	-29.923		
c) other taxes	-2		
d) annual net profit		33.413	
e) outside shareholders' share of annual net profit		-4.338	
Basis, transitional accounting			29.075
2. Diederich Freimaklergesellschaft mbH			
a) earnings before taxes (incl. I-III quarters 1998)	3.451		
b) adjustment extraordinary expenses (non-recurring)	7.672		
c) tax expenses (incl. I.-III quarter 1998)	-1.938		
d) adjustment, Diederich Freimaklergesellschaft		9.185	
3. Berliner Freiverkehr (Aktien) AG			
"Non-recurrent costs of capital acquisition" Capital increase and subscription business 1998		637	
4. Income(loss) according to DVFA/SG			38.897

Notes:

The annual income (loss) of Diederich Freimaklergesellschaft mbH was considered for the full fiscal year 1998.

The extraordinary expense to be adjusted concerns the acquisition-related costs of a comprehensive management bonus contract that had been agreed with a senior staff member at an earlier time.

The non-recurrent costs of capital acquisition concern commission costs for the execution of a commission business from a capital increase. The placement of non-subscribed shares was performed in February 1999. Costs from the second transaction were not incurred until the year 1999.





Report of the Chairman of the Supervisory Board

Report of the Chairman of the Supervisory Board

The Supervisory Board obtained in-depth information about the management and development of Berliner Freiverkehr (Aktien) AG in the year 1998. In these meetings the Supervisory Board discussed a number of important issues of business principle and detail. The discussions addressed the development of the Company and of the German and international equity markets with due regard to the general economic development. The Supervisory Board also dealt in depth with the issues of reorganization and the development of a holding structure which made the Company the umbrella company of the Group.

During the period under review the Board of Directors, at regular intervals, informed the Members of the Supervisory Board about the situation of the Company and the material business transactions orally and in writing. The Supervisory Board dealt with the reports of the Board of Directors in its meetings.

The Members of the Supervisory Board took care that the Board of Directors carried out appropriate measures and installed a monitoring system to recognize developments hazardous to the existence of the Company at an early stage (§ 91 section 2 AktG [Company Law]).


For the new function of a holding company the risk monitoring system consists mainly of the development of a powerful controlling system and the possibility of obtaining consolidated comparative figures throughout the year. The corresponding staffing measure of the Company has been initiated by the Board of Directors. Technical facilities have been prepared and largely taken into operation.

The Supervisory Board of the Company in its old composition met for a circular decision on February 4 and an ordinary meeting on February 11 and again on March 11.

In the Ordinary Shareholders' Meeting on April 24, 1998 a new Supervisory Board was elected. Subsequent to the first constituent meeting of the Supervisory Board in its new composition took place. Additional Supervisory Board meetings followed on June 24, 1998, July 29, 1998 and October 27, 1998. In between the meetings a total of four circular decisions was taken.

Since the workload of the Members of the Supervisory Board has risen substantially, the Board of Directors and the Supervisory Board have suggested to the General Meeting of June 15, 1999 that the Supervisory Board be extended to six persons. This would allow a meaningful establishment of committees and work groups.

The Annual Report for the fiscal year 1998 has been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, Frankfurt am Main based on the accounts and the Directors' Report of the Company. The auditing company has issued its



unqualified audit certificate to us. The report was available to us. We for our part have audited the Financial Statements, the Directors' Report of the Board of Directors and its proposal concerning the use of the net income as shown in the Balance Sheet. The auditors attended the deliberations concerning the Financial Statements. We join the auditors' finding concerning the Financial Statements based on our own audit.

With the final result of our audit available, we have no objections to raise. We are in agreement with the Financial Statements as prepared by the Board of Directors. They have hereby been approved. We agree to the proposal of the Board of Directors concerning the use of the income as shown in the Balance Sheet.

The Board of Directors further presented the Consolidated Financial Statements and the Group Management Report and the Report of Independent Auditors bearing the unqualified audit certificate to the Supervisory Board. The auditor was KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, Frankfurt am Main.

We for our part have audited the Consolidated Financial Statements and the Group Management Report of the Board of Directors. At our request the auditor took part in the deliberations concerning the audit. We join the auditor's finding concerning the Financial Statements based on our own audit.

With the final result of our audit available, we have no objections to raise. We approve of the Consolidated Financial Statements as prepared by the Board of Directors.

Berlin, April 13, 1999

Wolfgang Hermanni
Chairman of the Supervisory Board



BERLINER FREIVERKEHR

(AKTIEN) AG

Kurfürstendamm 119 · 10711 Berlin · Telephone: ++49-30 / 890 21-100 · Telefax: ++49-30 / 890 21-199