

PIXELPARK AG

MANAGEMENT REPORT

FIERCE COMPETITION IN THE MARKET FOR E-BUSINESS SERVICES

The market for e-business services has continued to grow in the last few months. Studies by Forrester Research show market growth of 46% for e-business services in Europe. Multinational companies based in Europe have made large budgets available for Internet-related projects. Demand is increasingly concentrating to business-to-business projects, in particular in supply chain management and multi-channel application. Overall, therefore, the project demands are increasing with higher project volumes and increased complexity.

Established service companies such as traditional strategy consultants and system houses are increasingly entering the market for Internet services. The market for purely Internet service providers in the USA and Scandinavia has consolidated, as competition has intensified. This fiercer competition also affected Pixelpark in the last few months and, in particular, put pressure on revenues in the short 2000 fiscal year.

PIXELPARK GEARS STRATEGY TO THE MARKET SITUATION

Pixelpark is preparing itself for changing market and customer needs. The company has already added new skills in supply chain management and integrated value added processes to its e-business solutions, following the takeover of the logistics consulting companies of the ZLU group. The combination of these skills with Pixelpark's e-business expertise sets Pixelpark apart from the competition. The acquisition of the IT service provider K2 S.A. (K2) in France also added important systems-integration and database-development skills and in the process enabled us to exceed the critical mass of 100 employees in France.

Pixelpark is positioning itself as a "digital business innovator" and, by networking management and logistics consulting with agency services and IT integration, is able to provide comprehensive Internet solutions from a single source. This makes Pixelpark one of the major competitors in the market of the future - e-business services.

SHORT 2000 FISCAL YEAR MARKED BY THE INTEGRATION OF BUSINESSES

Following rapid growth in the first few months of 2000, Pixelpark AG's revenues stabilized during the short fiscal year from July to December 2000. At the end of 2000, the Pixelpark Group employed 967 people, 241 people more than in June at the end of the 1999/2000 fiscal year.

This enables Pixelpark to successfully handle major projects. By using standards and methods, Pixelpark can therefore also use international teams to give it an edge over competitors.

In the spring and early summer of 2000, Pixelpark AG acquired the Berlin-based Logistik und Unternehmensplanung (ZLU) (literally 'Center for Logistics and Corporate Planning') and the IT service provider K2 in Paris. The most important task of the last six months was integrating ZLU and K2 into the business of the Pixelpark Group, although the two companies were not consolidated until December 31, 2000 (ZLU), and January 1, 2001 (K2), respectively.

Pixelpark AG's Annual General Meeting was held on 2 November 2000. A resolution was passed at this meeting to add a short fiscal year covering the period July 1 to December 31, 2000, for both the AG financial statements and consolidated financial statements. Comparisons of revenues between the short 2000 fiscal year and the full 1999/2000 fiscal year therefore have only limited informative value. For the first time, Pixelpark is publishing discharging consolidating financial statements pursuant to the US GAAP (Generally Accepted Accounting Principles) pursuant to section 292a of the Commercial Code for the fiscal year ended December 31 2000.

REVENUES IN THE SHORT FISCAL YEAR RISE TO €52.3M

In the (6 month) period under review, the Pixelpark Group generated total revenues of €52.3m, compared to €71.8m in the full 1999/2000 fiscal year. Total revenues also included €0.9m in research and development grants. Services were again almost the exclusive source of revenue, while proceeds from resold merchandise were insignificant during the short 2000 fiscal year.

In the short fiscal year, 28% of the Pixelpark Group's total revenue was generated with its top ten customers (previous year: 40%). The risk arising from revenues with dot.com companies was very limited. Revenues with Bertelsmann group companies as a percentage of total revenue fell to only 8% in the period under review (previous year: 18%).

Top 10 customers

Lloyds TSB Bank PLC
 Credit Suisse Group
 EP:Netshop GmbH
 Allianz Versicherungs AG
 Conrad.com AG
 Bertelsmann Broadband Group GmbH
 West-LB
 Swisscom AG
 Bank Sarasin & Co.
 Sparkassen-Finanzportal GmbH

HIGH PRESSURE ON EARNINGS FOR THE PIXELPARK GROUP

In the short fiscal year ended December 31, 2000, Pixelpark's earnings before interest, taxes, and amortization (EBITA) came to -€12.2m (previous year: -€5.5m). The net loss of €15.6m also includes other income/expenses of -€0.5m (previous year: +€1.1m), largely made up of losses on fixed assets retirements, a goodwill amortization of -€1.9m, and net interest income of €0.2m (previous year: €0.7m). The net loss also includes the result from equity participation (-€3.1m from Venturepark Incubator AG), a positive tax result of +€1.4m (previous year: -€0.4m), which was essentially due to fact that Pixelpark is integrated in the Bertelsmann Multimedia GmbH for local trade tax purposes, and minority interests of €0.4m (previous year: -€0.1 m).

The operating loss was based on both operational influences and special factors: the level of billability of our employees fell as a result of the high level of growth, some difficult major projects and the challenges of the market. The special factors included startup losses in Eastern Europe and Spain, expenses for mergers & acquisitions, the integration of ZLU and K2, the AGM and similar extraordinary costs.

EXPENDITURE RISES DISPROPORTIONATELY

Costs of revenues

The costs of revenues during the short fiscal year came to €36.5m, i.e. 70% of total revenues. This resulted in a gross margin of 30%, compared to 38% in the 1999/2000 fiscal year. The significant reduction in gross margin can be explained by the unusually low capacity utilization of productive resources in the short fiscal year caused by market conditions and the rate of growth. Furthermore, the gross margin was substantially reduced by losses on projects with some major customers. The building up of businesses in Eastern Europe and Spain also impacted on the Group's gross margin.

Selling, general and administration costs

Selling, general and administrative expenses continued to rise considerably in comparative terms. They totaled €24.4m or 47% of total revenues in the period under review (previous year: €27.0m or 38% of revenues; after deduction of one-off marketing and PR expenses connected with the IPO, the figure was only €26m or 36% of revenues). The fast rate of growth in the last few months made it necessary for Pixelpark to invest more in support structures. Furthermore, the conversion of the financial year into the short fiscal year entailed a disproportionately high level of expenditure, e.g. for the AGM and for mergers & acquisitions activities - primarily disproportionately high legal and consulting costs.

Research & development expenses

Research & development expenses at Pixelpark are incurred in the IMD research division. Research & development expenses during the fiscal year totaled €1.3m, compared to €2.9m in the 1999/2000 fiscal year. Expressed as a percentage of total revenues, these costs were halved from 4% to 2%, which shows that further investment in traditional research is currently being reduced. The R&D division received research grants of €0.9m, mainly from the European Union; this is shown as part of total revenues.

Depreciation

Depreciation on fixed assets and software during the short fiscal year was €2.1m (previous year: €3.0m), i.e. 4% of total revenues. Due to the inventory discrepancies discovered in the inventory of fixed assets carried out in November, Pixelpark AG had to enter a one-off loss on fixed assets retirements of €0.3m, which is entered under other expenses.

Amortization of goodwill

In the six months of the short fiscal year, Pixelpark undertook an amortization of goodwill amounting to €1.9m (previous year: €1.6m). The amortization does yet not include ZLU or K2, because of the dates of their first consolidation. The increase is attributable to Pixelpark CEE Holding AG (CEE) which, in addition to planned amortization of €0.3m, undertook unscheduled amortization of €0.7m to take account of the long-term nature of its planned business expansion.

POSITIVE NET INTEREST AND TAX RESULT

Pixelpark had net interest income of €0.2m, compared to €0.7m in the previous year. This was made up of interest income of €0.4m and interest expenses of €0.2m.

The consolidated statement of operation shows tax income of €1.4m. The integration of Pixelpark AG in the Bertelsmann Multimedia GmbH for local tax purposes led to proceeds of €1.6m (previous year: €0.7m). Income tax expenses amounted to €0.4m at Pixelpark Schweiz AG. This contrasts with deferred tax income of €0.2m in the period under review (previous year: deferred tax expenses of €1.1m).

RESULT FROM EQUITY PARTICIPATION

In the first quarter of the period under review, Venturepark Incubator AG carried out a capital increase with a number of well-known investors. Due to the resulting dilution effect, the equity participation was excluded from the consolidation group during the short fiscal year and will be included in the result from equity participation with a stake of 62.7% in the first quarter and 39.8% in the second quarter of the short fiscal year. Taking these stakes into account, the result from equity participation in the 6-month period totaled -€3.1m (previous year: 0).

FINANCIAL POSITION

The shareholders' equity of the Pixelpark Group rose in the period from July 1 to December 31, 2000, from €58.6m to €71.7m despite the high group loss. The main reason for this was the capital increase in Pixelpark AG for the ZLU Group (€12.3m) and the already mentioned capital increase at Venturepark Incubator AG (€14.4m), which led to an increase in the consolidated shareholders' equity as effect of subsidiaries' equity transactions that consists in the amount in excess of book value brought in by unrelated parties.

The change in cash flow was not only caused by the operating losses in the period under review. Net cash used by the company in operating activities totaled €2.2m. At the same time,

it invested €5.3m in the period under review in fixed assets and software licenses, mainly in leasehold improvements and office and other equipment. This compares with €7.2m in the twelve-month period from July 1999 to June 2000 and shows an increase in capital expenditure.

In December 2000, as per the contract, Pixelpark paid the purchase price of €23.0m to ZLU shareholders in cash. Pixelpark received a long-term loan (to be repaid by 31 January 2002) from the Group parent company Bertelsmann AG to pay these liabilities. Bertelsmann AG provided the company with €25m in December 2000 at market interest rates.

With the funds from the Bertelsmann group, the Pixelpark Group has cash on hand of €20.6m as at December 31, 2000.

BUSINESS RISKS IDENTIFIED

The business risks of the Pixelpark Group remain essentially unchanged. A significant risk for the Pixelpark Group lies in the management of large and complex projects. As the Pixelpark Group offers its services mainly in the form of fixed-price contracts, there are costing risks as well as default and guarantee risks. Despite continuous monitoring of the progress of major projects, there were some project delays during the short fiscal year, which considerably impaired the profitability of some of the projects. In response to this, Pixelpark is currently introducing a standardized monitoring system for all large projects.

Management of growth is and remains a challenge for Pixelpark. Due to the rapid pace of growth, the capacity utilization of staff was lower in the last few months. This will be countered by the introduction of inter-site resource management.

The integration of newly acquired companies is also a major success factor for Pixelpark. Pixelpark has set up a standardized post-merger integration process, which will be used to integrate new companies and their employees. The integration of the acquired firms is now almost complete, even if they will not be consolidated before December 31, 2000, and January 1, 2001, respectively.

Following the integration of new companies and with the establishment of businesses in Eastern Europe and Spain, Pixelpark is now active throughout Europe. This will enable Pixelpark to counter the prevailing conditions of strong competition from established service companies such as traditional strategy consultants and system houses. Pixelpark is not represented with branches outside Europe, but is in a position to handle orders there at any time, for example by establishing project offices.

Pixelpark is opening up the Eastern European market mainly through its Austrian subsidiary Pixelpark CEE Holding AG. The first successes are the establishment of subsidiaries in Hungary and Slovakia. In order to achieve greater focus for the capital expenditure for the international establishment of businesses, the further expansion of Eastern European activities is being slowed for the time being and will only be resumed in a few months time.

With continuous growth in the proportion of IT projects, Pixelpark is very exposed to rapid developments in technology. Pixelpark has concluded a series of close technology partnerships in order to identify technological trends early.

Pixelpark AG introduced a risk management system in the previous year. Risks will be recorded in full twice a year and evaluated continuously. Ad hoc reporting for major risks is also provided.

SEGMENT REPORTING

Pixelpark operates its business internationally via national companies of varying legal forms, by which the business is controlled internationally.

The key figures in the individual countries for the period under review are as follows:

	Total revenues in €m	EBITDA in €m
Germany operational	30.1	(4.0)
Switzerland	13.7	2.7
Austria	2.4	0.1
France	1.9	(0.9)
UK	5.4	(1.1)
USA	0.4	(0.3)
Spain	0.1	(0.8)
Eastern Europe	0.4	(0.8)
Other/Consolidation/Central management	(2.1)	(4.9)
Total	52.3	(10.0)

Total revenues is distributed as follows across the individual geographical areas:

	<u>%</u>
Germany:	58
Switzerland:	26
UK:	10
Austria:	5
France:	4
Other:	<u>-3</u>
	100

GERMANY OPERATIONAL

Pixelpark Germany again accounted for the lion's share of the service business during the short fiscal year. Total revenues including research and development grants was €30.1m in the half-year, compared to €47.8m in the previous year. If seasonal effects are disregarded, this is the equivalent of an annual growth in revenue of 26%. The number of employees also increased very sharply in this period, from 460 on 30 June to 567 on December 31 excluding central management and head office positions. Pixelpark Germany continues to bear the operational costs for building up scalable solutions in the various solution centres and the IMD research department. Therefore the results for Pixelpark Germany, even after excluding management costs, are only partly comparable to the results of the international locations.

SWITZERLAND

As the unchallenged market leader in the local market, Pixelpark Schweiz has been able to extend its dominance, especially in the area of financial service providers. Customers in Switzerland include Credit Suisse and Swisscom. With a current headcount of 132 employees, the Swiss subsidiary generated total revenues of €13.7m and a profit on sales of just under 20% based on EBITDA. Switzerland will continue along this growth path in the current fiscal year.

AUSTRIA

Pixelpark has now also become the market leader in Austria. Following rapid expansion, Pixelpark Austria now employs 59 people (June 2000: 36) and generated revenues of €2.4m (full previous year: €2.9 m) and broke even.

FRANCE

The results of Pixelpark France suffered in the last few months due to under-utilization of capacity and an increase in staff of Pixelpark France caused by the integration of the IT service provider K2. The effect of the integration was that Pixelpark France increased revenues only to €1.9m despite an increase in the number of employees, as staff of both Pixelpark France and K2 spent a great deal of time on training, unification of processes, etc. Despite a very good brand name in France, the acquisition process in France is nevertheless very time-consuming and costly. Overall, the loss in France was therefore €0.9m (EBITDA) after breaking even in the previous years.

K2 will be consolidated from January 1, 2001. A merger of the two companies is planned in the next few months, in order to benefit from the far-reaching synergy potential.

UK

Pixelpark UK's revenues in the period under review totaled €5.4m, compared to €3.7m in the 1999/2000 fiscal year. The main customer, which generated a significant proportion of revenues, was Lloyds TSB, the largest customer of the Pixelpark Group in the period in question. The short fiscal year saw losses of €1.1m due to high outsourcing costs combined with a simultaneous low staff capacity utilization.

SPAIN

Pixelpark Spain only commenced operations at the beginning of the short fiscal year. It came into being from a joint venture with BBVA, a Spanish bank that currently holds 20% of the Spanish company. A team of 20 permanent, qualified employees has been built up in Spain in just a few months. Losses of €0.8m to date have been incurred during the setup phase, compared to revenues of just €0.1m.

USA

In the short fiscal year the office in the USA was downsized to a sales office with just 2 members of staff. This enabled the losses of Pixelpark USA to be reduced from €2.4m in the previous year to €0.3m. There are currently no plans to actively resume activities in the USA. The legal entity will probably be closed in the first half of 2001.

CENTRAL AND EASTERN EUROPE

Pixelpark has also been developing contacts in Central and Eastern Europe since summer 2000. With S&T as a partner and minority shareholder, CEE has now begun business activities in Hungary - and in Slovakia with the purchase of NEX, which will be consolidated from 1.1. These companies will provide services for the local markets and as a sub-contractor for Pixelpark in Western Europe, as the costs structures in the countries are significantly lower. The expansion into Central and Eastern Europe resulted in startup losses of €0.8m during the short fiscal year. Furthermore, Pixelpark undertook a €0.7m unscheduled amortization of goodwill in the Group. The speed and timing of further expansion will be re-defined over the next few months.

PERSONNEL

NUMBER OF EMPLOYEES IN THE GROUP RISES TO 967

As at December 31, 2000, Pixelpark employed 967 permanent staff in the Group, 241 more than at the end of June 2000. 39 of these were recruited in startup countries such as Central and Eastern Europe and Spain.

Germany	567
Switzerland	132
Austria	59
UK	44
France	47
USA	2
Spain	20
Central and Eastern Europe	19
Central management positions	<u>77</u>
Total number of employees	967

RESEARCH & DEVELOPMENT

Since 1994, the internal research department IMD has been engaged in application-oriented research in conjunction with renowned research institutes and many well-known national and European companies. During the short fiscal year, Pixelpark received research grants of €0.5m in Germany and €0.4m in Switzerland.

DEPENDENT COMPANY REPORT

In the report of the board of directors of Pixelpark AG for the short fiscal year July-December 2000 on the relationships between the company and related parties in accordance with section 312 AktG, the board of the company issued the following concluding statement:

"Pursuant to section 312 AktG, Pixelpark AG, as a group company of Bertelsmann AG, has drawn up a dependent company report.

Pixelpark companies received fair consideration in all legal transactions listed in the report on relations to related companies. Based on the circumstances known to the Board at the time transactions subject to disclosure took place, they were not disadvantaged by the measures either taken or not taken listed in the report."

OUTLOOK - FOUNDATIONS LAID FOR FUTURE GROWTH

The Pixelpark Group has been operating in a significantly more competitive market in the last few months. Nevertheless, Pixelpark has still grown faster than the market average, but the extension of the sales cycles and the higher demands on the portfolio of services have necessitated high levels of investment by Pixelpark. Pixelpark is therefore currently simplifying its organizational structure and has initiated an audit of all its processes with the aim of increasing efficiency.

For the current fiscal year that commenced in January 2001, Pixelpark is expecting to see double-digit growth rates, i.e. much slower growth compared to the 1999/2000 fiscal year. Growth will essentially come from the Pixelpark Group including KLU and K2 which by then will be consolidated.

The objective is to significantly improve Pixelpark's operating result in 2001 and to return to the profit zone by the end of the year. With this aim in view, measures to improve efficiency have already been put in place since the beginning of the year. However, we expect additional costs in the first few months for the implementation of the package of measures.

In February 2001, Venturepark Incubator AG, in which Pixelpark AG has a 39.8% holding, announced that in future it would restrict its business model to the management of a venture capital fund and at the same time reduce its workforce from 65 to approx. 15 people.

Berlin, April 3, 2001



Paulus Neef
Chairman and CEO



Dr. Jan Kantowsky
CFO and COO

Pixelpark AG consolidated

**Statement of operation - US GAAP format
for the fiscal year ended December 31, 2000**
in thousand Euro

	<u>1.7. - 31.12.2000</u>	<u>1.7.1999 - 30.6.2000</u>
1. Revenues	51357	70237
2. Research and development grants	918	1548
Total revenues	52275	71785
3. Costs of revenues	(36547)	(44309)
4. Selling, general and administrative expenses	(24407)	(27027)
5. Research and development expenses	(1283)	(2923)
6. Depreciation	(2095)	(2985)
7. Amortisation of goodwill	(1864)	(1586)
Operating losses	(13921)	(7045)
8. Interest income	348	1115
9. Interest expenses	(172)	(459)
10. Other income / expenses	(514)	1084
Losses before taxes, result from equity participation and minority interest	(14259)	(5305)
11. Income tax	1428	(445)
12. Result from equity participation	(3100)	(12)
13. Minority interest in earning of subsidiaries	375	(77)
Net Loss	(15556)	(5839)
Earnings per share	(0,84)	(0,33)
Compound average of outstanding shares	18606765	17674572

For further explanations refer to notes.

Pixelpark AG, consolidated balance sheet

Fiscal year ended December 31, 2000

in thousand Euro

Assets

	<u>31.12.2000</u>	<u>30.6.2000</u>
A. Current Assets		
Cash	20576	30591
Accounts receivable, net	26591	18054
Due from related parties	6251	1110
Unbilled revenues	5396	10323
Prepaid expenses and other current assets	<u>7886</u>	<u>8928</u>
Total current assets	<u>66700</u>	<u>69006</u>
B. Non-current assets		
Property and equipment, net	8616	6049
Software, net	1500	859
Investments in subsidiaries	12428	12
Other assets	766	35
Other tangible assets and goodwill	<u>51879</u>	<u>10478</u>
Total assets	<u>75189</u>	<u>17433</u>

For further explanations refer to notes.

	Liabilities and shareholders' equity	
	<u>31.12.2000</u>	<u>31.6.2000</u>
A. Current liabilities		
Current portion of long term dept and capital lease	1095	1462
Accounts payable	13600	4996
Due to related parties	984	635
Deferred revenues	5721	7502
Accrued expenses and other current liabilities	14005	10263
Income taxes payable	4320	1089
Deferred taxes	157	348
	<u>39882</u>	<u>26295</u>
B. Non-current liabilities		
Long term dept and capital lease obligations	0	34
Other liabilities	1432	108
Due to related parties	25084	0
Deferred taxes	3331	0
	<u>29847</u>	<u>142</u>
C. Minority interests	<u>478</u>	<u>1362</u>
D. Shareholders' equity		
Common stock		
devided into 18.601.172 shares as of June 30, 2000,		
devided into 18.694.724 shares as of December 31, 2000,		
nominal value of 1 Euro	18695	18601
Additional paid-in capital	74984	46847
Accumulated deficit	(23033)	(7477)
Cumulative translation adjustment	1036	669
Shareholders' equity	<u>71682</u>	<u>58640</u>
Total liabilities and shareholders' equity	<u>141889</u>	<u>86439</u>

Pixelpark AG consolidated**Cash flow**
for the fiscal year ended December 31, 2000
in thousand Euro

	<u>1.7. - 31.12.2000</u>	<u>1.7.1999 - 30.6.2000</u>
Cashflows from operating activities		
Net loss	(15556)	(5839)
Depreciation and amortization	3959	4571
Loss on disposal of fixed assets	359	804
Minority interests	(375)	77
Equity in losses of investees	3100	12
Net increase in operating assets	(3947)	(31138)
Net increase in operating liabilities	<u>10307</u>	<u>20369</u>
Net cash used in operating activities(2153)(11144)
Cashflows from investing activities		
Cash paid for acquisitions, net of cash acquired	(26297)	(1682)
Capital expenditures	(5271)	(7240)
Proceeds from disposal of fixed assets	104	198
Effect of deconsolidation	<u>(2500)</u>	<u>0</u>
Net cash used in investing activities(33964)(8724)
Cashflows from financing activities		
Net borrowings (repayments) of debt financing	(1010)	(300)
Proceeds from capital increase	0	47730
Proceeds from contribution by minority shareholders of subsidiaries	2000	0
Flotation costs paid	0	(3096)
Proceeds (repayments) of shareholder financing	<u>25000</u>	<u>(10160)</u>
Net cash flows from financing activities2599034174
Effect of exchange rates on cash	<u>112</u>	<u>(213)</u>
Net cash flows	(10015)	14093
Cash, beginning of period	<u>30591</u>	<u>16498</u>
Cash, end of period	<u><u>20576</u></u>	<u><u>30591</u></u>

For further explanations refer to notes.

Pixelpark AG, Berlin

**Equity Roll Forward
July 1, 1999 - December 31, 2000**

	Common Stock	Additional paid-in capital	Retained earnings	Accumulated other compre- hensive income	Total stockholders' equity
	TEUR	TEUR	TEUR	TEUR	TEUR
Balance at June 30, 1999	444	15892	(1638)	121	14819
Net losses			(5839)		(5839)
Other comprehensive income				548	548
Capital increase from shareholders	14676	(14676)			0
Increase of capital, net of flotation costs	3182	41452			44634
Issuance of common stock for acquisitions	299	4179			4478
	<u>18601</u>	<u>46847</u>	<u>(7477)</u>	<u>669</u>	<u>58640</u>
Balance at June 30, 2000					
Net losses			(15556)		(15556)
Other comprehensive income				367	367
Issuance for acquisition of ZLU	94	12181			12275
Effect of subsidiaries' equity transactions		15956			15956
	<u>18695</u>	<u>74984</u>	<u>(23033)</u>	<u>1036</u>	<u>71682</u>
Balance at December 31, 2000					

For further explanations refer to notes.

Pixelpark AG, Berlin

Notes to consolidated financial statements for the 2000 short fiscal year

Including explanatory remarks on the accounting, valuation and consolidation methods forming a departure from German law.

1. General principles

Pixelpark AG came into being as a result of transformation of Pixelpark Agentur GmbH by way of a shareholder resolution adopted on August 9, 1999, and entered in the commercial register on September 15, 1999.

The company is a large corporation within the meaning of section 267 subsection 3 of the Handelsgesetzbuch (HGB) - German Commercial Code. The consolidated financial statements of Pixelpark AG were drawn up in accordance with the American Generally Accepted Accounting Principles (US GAAP). Hence, Pixelpark AG has made use of the option pursuant to section 292a of the HGB to draw up discharging consolidated financial statements based on US GAAP. The cost-of-sales format was used for the statement of income. All figures are shown in €k (thousands of euros).

2. The company at a glance

Pixelpark has developed into a full-service Internet service provider on the European market. Its range of services extends from strategy consulting, conceptual and graphic realization of complex web-based solutions, technical integration and links to existing systems as well as devising complete logistics systems. The latter was made possible by integration of the ZLU group.

The company, formed in 1991, today covers the European core markets and provides its customers with service regarding the conception and realization of their Internet strategies in Europe. Pixelpark has been listed on the *Neuer Markt* at the Frankfurt Stock Exchange since October 4, 1999.

As at December 31, 2000, Pixelpark AG had 967 employees at various locations in Germany, Switzerland, Austria, France, the United Kingdom and Spain, as well as in Eastern Europe, the United States and Brazil.

3. Changes in the consolidation scope

(a) Consolidated group

Compared to the previous year, the following extensions and changes have taken place with regard to the consolidation scope.

All acquisitions were reported on the basis of the purchase method.

	Purchase price
ZLU group	
100% of the ZLU group ¹ was acquired with effect from December 19, 2000. The holdings were incorporated into the consolidated financial statements in accordance with the purchase method as per December 31, 2000. Allocation of the purchase price is based on fair values of the assets and liabilities at the time of purchase. For this purpose, allocation of the purchase price which Pixelpark AG paid for acquisition of LMC International Holding für Logistik und Management Consulting GmbH and ZLU Logistik Beteiligungsgesellschaft mbH was carried out with effect from December 31, 2000. Although purchase of the ZLU group acquired legal force with the pertinent entry being made in the commercial register on December 19, 2000, for reasons of simplicity the effective date of valuation of the purchase price allocation has been taken as December 31, 2000.	<p>€35,282k of which €23,008k was in cash and issue of 93,552 shares with a value of €131.20 each</p>
Venturepark	
With effect from April 1, 2000, Pixelpark acquired a 62.7% share in Venturepark Incubator AG, formerly Grizzly-Farm AG. Following a capital increase in the form of a cash contribution by a third party as per October 1, 2000, the company now only holds 39.8% of shares. The resulting dilution effect on shares and the pro-rated allocation of the additional capital paid in by unrelated parties was shown as not affecting the operating result in shareholders' equity under the item additional paid in capital of subsidiaries' equity transactions.	<p>€1,567k in cash</p>

¹ The ZLU group consists of LMC International Holding für Logistik und Management Consulting GmbH, Berlin, ZLU Logistik Beteiligungsgesellschaft mbH, Berlin, ZLU Inc. Logistics and Management Consulting, Boston, USA, Zentrum für Logistik und Unternehmensplanung ZLU GmbH, Berlin, ZLU do Brasil Ltda. Consultoria para Logística e Gestão Empresarial, São Paulo, Brazil.

Purchase price

Pixelpark Spain

100% of Pixelpark Latam S.A. (Spain) was acquired with effect from June 30, 2000. Banco Bilbao carried out a capital increase in the amount of €2000k with premium on October 11, 2000. The resulting dilution effect on shares and the pro-rated allocation of the additional capital paid in by unrelated parties was shown as not affecting the operating result in shareholders' equity under the item additional paid in capital of subsidiaries' equity transactions.

€60k in cash

Pixelpark Iberia S.A., Madrid was formed with effect from July 1, 2000.

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Pixelpark Participaciones S.A., Madrid was formed with effect from July 1, 2000.

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Pixelpark Switzerland

Some Pixelpark Schweiz AG's activities were transferred to twoway GmbH, Basel, formerly Scopo Intermediale Gestaltung GmbH, Basel, with effect from July 1, 2000. Hence, the company (which was not active during the previous year and therefore not consolidated) was initially consolidated with effect from July 1, 2000.

Pixelpark Central and Eastern Europe

Pixelpark Hungary Kft, Budapest was formed with effect from August 7, 2000.

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The following companies were acquired or formed in the preceding years:

	Purchase price
Pixelpark Inc. was formed with effect from February 1, 1998.	--
75% of Pixelpark MMK AG was acquired with effect from July 1, 1998.	€5,494k in cash
75% of Pixelpark Köln GmbH, formerly bitlab Köln GmbH, was acquired with effect from November 1, 1998.	€487k in cash
Pixelpark UK Ltd. was formed in London with effect from July 1, 1999.	--
100% of Furrer & Partner AG, Zurich was acquired with effect from July 1, 1999.	€2,519k of which €1,270k was in cash and 83,253 shares with a value of €15 each
75% of Pixelpark Austria GmbH, formerly use-it! GmbH, was acquired with effect from July 1, 1999. The holding was increased to 100% with effect from April 1, 2000.	75%: €30k in cash 25%: €1,278k in cash (paid in July 2000)
The remaining 25% in Pixelpark MMK AG, Basel was acquired with effect from October 1, 1999.	€3,234k for 215,294 shares with a value of €15 each plus ancillary costs
Furrer & Partner AG was merged with Pixelpark MMK AG with effect from October 1, 1999, and renamed Pixelpark Schweiz AG.	--
25% of Pixelpark Köln GmbH was acquired with effect from January 1, 2000. Pixelpark Köln GmbH was merged with Pixelpark AG with effect from January 1, 2000.	€128k in cash
75% of Pixelpark CEE Holding AG, formerly easteurope.com AG, were taken over with effect from April 1, 2000. In addition to the purchase price, a service agreement was concluded. Part of the payments to be rendered under this agreement were subsequently qualified as forming part of the purchase price.	€1,700k in cash; Additional purchase price: €3,903k

This resulted in the following group structure as per December 31, 2000:

	Share of capital %	Equity ² Dec. 31, 2000 €k	Affiliates' results according to US GAAP SFY2000 €k	Consolidation method
Pixelpark Schweiz AG, Basel	100.0	7,519	2,501	Full consolidation
Pixelpark Inc., Delaware, USA	100.0	268	-292	Full consolidation
Pixelpark Austria GmbH, Vienna	100.0	560	-66	Full consolidation
Pixelpark France S.A.R.L., Paris	100.0	-885	-973	Full consolidation
Pixelpark UK Ltd., London	100.0	-413	-1,111	Full consolidation
Pixelpark Hungary Kft, Budapest	100.0	-146	-159	Full consolidation
Twoway GmbH, Basel	100.0	-129	-123	Full consolidation
Pixelpark CEE Holding AG, Vienna	75.0	920	-795	Full consolidation
Pixelpark Latam, S.A., Madrid	80.0	1,925	-132	Full consolidation
Pixelpark Iberia, S.A., Madrid	80.0	-675	-678	Full consolidation
Pixelpark Participaciones, S.A., Madrid	80.0	53	-7	Full consolidation
Venturepark GmbH, Berlin	47.6	21	-2	At-equity consolidation
Venturepark Incubator AG, Berlin	39.8	30,675	-7,052	At-equity-consolidation
ZLU group ³	100.0	1,089	-	Full consolidation

(b) Pro forma information on changes in the consolidation scope

The un-audited pro forma data according to US GAAP on the 2000 short fiscal year also include the Zentrum für Logistik und Unternehmensplanung ZLU

² Pursuant to US GAAP

³ The ZLU group consists of LMC International Holding für Logistik und Management Consulting GmbH, Berlin, ZLU Logistik Beteiligungsgesellschaft mbH, Berlin, ZLU Inc. Logistics and Management Consulting, Boston, USA, Zentrum für Logistik und Unternehmensplanung ZLU GmbH, Berlin, ZLU do Brasil Ltda. Consultoria para Logística e Gestão Empresarial, São Paulo, Brazil.

GmbH for the period from July 1 to December 31, 2000. Other companies were not included in the evaluation due to their insignificant effects on the comparability of the consolidated results.

This unaudited pro forma view for the change of the consolidation scope would show the following:

	Un-audited pro-forma data July 1-Dec. 31, 2000 €k	Un-audited pro-forma data July 1, 1999 -June 30, 2000 €k
Revenues	58,080	64,434
Net loss	-18,240	-9,746
Profit/loss per share (in €)	-0.97	-0.55

The data for the current year refer to a six-month period, while the data for the previous year refer to a period of twelve months.

In July 200, Pixelpark acquired 100% of the service provider K2 S.A. (K2), Paris. However, K2 will not be initially consolidated until January 1, 2001, as entry in the commercial register of the capital increase did not take place until the beginning of January 2001.

(c) Data on at-equity-consolidated holdings

Ratios of Venturepark Incubator AG in €k

Current assets	28,345	Current liabilities	4,101
Non current assets	6,431	Non current liabilities	
		Shareholders' equity	30,675
Assets	34,776	Liabilities	34,776
Revenues	396		
Net loss	-7,052		

4. Summary of significant accounting policies

The consolidated financial statements were drawn up in accordance with the US statutory accounting requirements. They include Pixelpark AG and its subsidiaries. Consolidation of debts, consolidation of expenses and earnings and, where applicable, elimination of unrealized results of intra-group transactions was carried out in respect of all intercompany relations.

(a) Revenue recognition, use of the percentage of completion method

In the case of fixed fee contracts to develop customer-specific concepts and software, revenues are recognized using the percentage of completion based on costs incurred. In order to establish the percentage of completion in terms of costs incurred, the accumulated actual costs incurred by the cutoff date are compared to the current budget for total costs. If ongoing project planning shows that the project is moving into the loss zone, the loss is recorded in the period in which it was established. For the balance sheet the prepayments received are compared to the accumulated revenues which have already been shown in the accounts. Depending on whether the deviation is positive or negative, the difference is shown on the assets side under unbilled revenues and under deferred revenues on the liabilities side.

As is standard market practice, only the retained commission in respect of online advertising budgets is shown as revenue in the case of online advertising.

R&D grants from the European Union for research and development projects are recorded as revenue in the period in which the entitlement contractually arises, the costs are incurred and the grants received by the company. This treatment corresponds to US EITFs No 99-19 that was approved in July 2000.

(b) Use of estimates

The financial statements of the Pixelpark Group are also partly based on estimates made by management. In particular, estimates were used in assessing the percentage of completion of projects. These estimates were supported by existing project cost estimating systems. Actual results may, however, deviate from the estimates.

(c) Foreign currency translation adjustments

When the balance sheet and the statement of operations of foreign subsidiaries were converted into euros, the rate of exchange applicable on the date of the balance sheet and the average rate of exchange for the year was taken for the statement of operation. Differences arising from use of these different rates of exchange are, pursuant to the HGB, entered in the statement of operation with effect on net income and, pursuant to US GAAP, as "other comprehensive income" not affecting net income.

The following foreign currency translation adjustments were established in the past two years:

	July 1-Dec. 31, 2000	July 1, 1999- June 30, 2000
	€k	€k
Net loss as of US GAAP	-15,556	-5,839
Foreign currency translation adjustments	367	548
Comprehensive income	<u>-15,189</u>	<u>-5,291</u>

Accumulated "Other comprehensive income" has developed as follows:

	July 1-Dec. 31, 2000	July 1, 1999- June 30, 2000
	€k	€k
Balance, beginning of the period under review	669	121
Foreign currency translation adjustments	367	548
Balance, end of the period under review	<u>1,036</u>	<u>669</u>

(d) Earnings per share

Earnings per share is calculated on the basis of the weighted average of shares outstanding. As Pixelpark showed a loss for the period under review, the shares from authorized but unissued capital (share options) have not been included in the calculation.

(e) Capitalization of software for internal use

In the case of self-produced software for internal use, pursuant to SOP98-1 only personnel expenses are capitalized for the development of software and depreciated according to the straight-line method over the anticipated effective life of between 2 and 4 years.

(f) Goodwill and other intangible assets

Goodwill is calculated in the local currency of the companies acquired (push-down accounting). When a company is purchased, the purchase price is initially split up into the fair values of the tangible and intangible assets purchased which are in excess of book values. The differences calculated in this way are depreciated over the period of the remaining effective life of the assets in question, currently 6-10 years. A passive deferred tax is formed for the disclosed excess value; in turn this increases goodwill. The remaining difference following disclosure of the excess value of fair valuation is shown as goodwill and amortized over a 7-year period.

In order to establish the fair value of the goodwill shown on the balance sheet, goodwill is compared to the future expected cash flows of the individual holdings (impairment). With the exception of Pixelpark CEE Holding AG, this comparison has not resulted in any need for unscheduled impairment.

In the case of Pixelpark CEE Holding AG, an unscheduled amortization in respect of goodwill of €666k was carried out.

(g) Fair value of financial instruments

The carry amounts of assets and liabilities are essentially in conformity with fair value.

(h) Marketing expenses

Marketing expenses are recorded as expenditure at the time they are incurred. For the group as a whole these expenses amounted to €513k (the figure for the previous year was €2,488k, of which €2,118k was spent on advertising in connection with going public).

(i) Stock-based compensation programs

Pixelpark accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25. Due to the fact that the exercise price of the option was the same as the fair value of the stocks on the measurement date, no personnel expenses needed to be entered pursuant to US GAAP.

The stock options are issued to the entitled persons once a year. The options are not transferable and lapse if the option holder leaves the company. The option rights will each have a term of five years. Following expiry of a two-year lock-up period, the entitled parties may exercise one third of the options issued per tranche, a further third can be exercised after three years at the earliest and the final third may be exercised four years after the date of issue at the earliest.

For the first tranche, the exercise price of the option is 105% of the offer price of the stocks when they are listed on the stock exchange and is, for each further tranche, 120% of the average closing market price on the ten trading days prior to the date of issue. In addition, the options may only be exercised provided that quoted market price has previously met or exceeded the relevant exercise price.

Status of the stock options at December 31, 2000:

Exercise price per option €	Outstanding options			Exercised options	
	Outstanding options number	Average remaining term years	Average exercise price per option €	Options exercised number	Average price exercise per option €
15.75	145,350	3.75	15.75	-	-
79.21	286,400	4.88	79.21	-	-
	431,750	4.50	57.85	-	-

The stock options developed as follows in the period under review:

	July 1, 2000-Dec. 31, 2000		July 1, 1999-June 30, 2000	
	Outstand-ing options number	Average exercise price per option €k	Outstand- ing options number	Average exercise price per option €k
Balance at the beginning of the period	149,400	15.75	-	-
Options granted	289,200	79.21	181,650	15.75
Options exercised	-	-	-	-
Lapsed options	-6,850	-41.69	-32,250	15.75
Balance at the end of the period	<u>431,750</u>	<u>57.85</u>	<u>149,400</u>	<u>15.75</u>
Options exercised at the end of the period	-	-	-	-
Average fair value of options granted during the period	25.15		12.04	

On the basis of the Black-Scholes option pricing model, the accumulated fair value of the stock options based on Pixelpark AG's stock option plan amounted to €875k in respect of the first tranche and to €2,521k in respect of the second tranche. An expiry rate of 50% was assumed for the first tranche and 65% for the second tranche. Were Pixelpark to carry the stock option plan in the balance sheet pursuant to SFAS No 123, there would be the following pro forma results:

		July 1 -Dec. 31, 2000	July 1, 1999-June 30, 2000
Net loss US GAAP	Consolidated €k	-15,556	-5,839
	Pro forma €k	-15,739	-6,008
Earnings per share US GAAP	Consolidated €	-0.84	-0.33
	Pro forma €	-0.85	-0.34

The accumulated fair value totaling €3,396k is to be distributed over four years; in the year under review, six months were set for the first tranche and 1.5 months for the second tranche. The effect of this is €183k in respect of the net loss (the figure for the previous year was €169k).

(j) Deferred taxes

In order to take into consideration the tax consequences of differences between valuations of assets and liabilities in the US GAAP balance sheet and the corresponding local bases of assessment, deferred taxes are formed annually on the basis of the tax rates applicable to the taxable profit in the year in which the differences will probably be leveled out.

Capitalized deferred taxes arising from tax losses carried forward from the previous year under US GAAP are also to be taken into consideration; an allowance is passed unless use can be assumed within a relatively short period of time. All deferred tax assets have been allowed for in the Pixelpark Group on the basis of the tax loss carryforwards from previous years (with the exception of Pixelpark Austria GmbH).

The tax loss carryforwards are shown in the following table:

	Dec. 31, 2000	June 30, 2000	Duration
	€k	€k	
Pixelpark AG, Berlin	18,814	9,496	unlimited
Pixelpark Inc., Delaware	3,923	3,680	15 years
Pixelpark Schweiz AG, Basel	0	0	
Pixelpark Austria GmbH, Vienna	141	43	unlimited
Pixelpark France S.A.R.L., Paris	947	0	unlimited
Pixelpark UK Ltd., London	1,807	764	unlimited
Pixelpark CEE Holding AG, Vienna	987	287	unlimited
Pixelpark Hungary	0	0	
Pixelpark Iberia, Madrid	0	0	
Pixelpark Latam, Madrid	0	0	
Pixelpark Latam Part., Madrid	0	0	
Pixelpark Twoway	0	0	
ZLU GmbH, Berlin ¹	0	0	
LMC Int. Holding	0	0	
ZLU affiliated company	0	0	
ZLU do Brasil	0	0	
ZLU Inc.	0	0	

¹ The exact designation of the companies in the ZLU group can be seen in the footnote re 3 (a) consolidation entities.

Deferred taxes on the assets and liabilities sides under US GAAP are as follows as at December 31, 2000, and June 30, 2000, respectively:

	Dec. 31, 2000	June 30, 2000
	<u>€k</u>	<u>€k</u>
Deferred tax assets		
Tax loss carryforward	8,630	5,968
Deferral for straight-line rent	311	55
	<u>8,941</u>	<u>6,023</u>
Total deferred tax assets, gross		
Valuation allowance	-6,251	2,685
	<u>-2,690</u>	<u>2,685</u>
Total deferred tax assets, net		
Deferred tax liabilities		
Percentage of completion	1,084	1,380
Flotation expenses	960	1,307
Holdings	261	-
Other intangible assets	3,331	-
Fixed assets	175	238
Accounts receivable	195	56
Software for internal use	123	48
Accruals	49	4
	<u>6,559</u>	<u>3,033</u>
Total deferred tax liabilities,		
Net deferred taxes	<u>6,178</u>	<u>348</u>

Effective income taxes following transition to US GAAP deviate significantly from calculated tax expense, based on the pre-tax result pursuant to US GAAP. In the past financial year the statutory tax rate for the Group was 50.9%. This results in the following tax reconciliation pursuant to SFAS No. 109.

	July 1 - Dec. 31, 2000	July 1, 1999-June 30, 2000
	€k	€k
Expected tax expense at statutory German tax rate		
Foreign tax differential	-7,257	-2,745
Reduction of the corporation tax rate in Germany	-484	-476
Change in valuation allowance	2,670	
Effect of amortization of goodwill	2,533	2,556
Non-deductible expenses	926	882
Other	100	61
	84	167
Actual tax income pursuant to US GAAP	<u>-1,428</u>	<u>445</u>

Tax expenditure and income break down as follows for Germany and abroad:

	Germany	Abroad	Total
	€k	€k	€k
Loss before taxes, result from equity participation and minority interest			
<i>Previous year</i>	-11,586	-2,673	-14,259
	-5,912	607	-5,305
Taxes			
Current income taxes	1,630	-375	1,255
<i>Previous year</i>	1,479	-766	713
Deferred taxes	0	173	173
<i>Previous year</i>	-546	-612	-1,158

(k) Subsidiaries' equity transactions

At the time a subsidiary sells its stocks to unrelated parties at a price in excess of its book value, the Company's net investment in that subsidiary increases. If at that time, the subsidiary is a newly-formed company, Pixelpark records the increase in "effect of subsidiaries' equity transactions" in the additional paid-in capital in the Shareholders' equity. This procedure was chosen in the 2000 short fiscal year for the capital increase at Venturepark Incubator AG as well as for Pixelpark Latam S.A.

5. Notes on the consolidated balance sheet

(a) Unbilled revenues

Compared to the previous year, unbilled revenues, constituting the difference between revenues in respect of ongoing projects and prepayments received, declined sharply from €10,323k to €5,396k. The reason for this is that numerous major projects were completed in the course of the financial year and hence final bills could be issued. As a rule, customers had made prepayments in respect of projects which had not been completed by December 31, 2000.

(b) Accounts receivable

Despite clear improvements in the management of accounts receivable, the number of accounts receivable has risen perceptibly due to the increased level of activity, namely from €18,054k to €26,591k. However, this development corresponds to the development in unbilled work and services. Due to the fact that many projects are only billed on completion, inventories fell while the number of accounts receivable rose.

Value adjustments in respect of outstanding accounts rose from €518k to €1,066k during the period under review.

(c) Other current assets

The other current assets and prepaid expenses on the assets side fell in the period under review from €8,928k to €7,886k. The principal reason for this was the change in the treatment of prepayments made by Pixelpark CEE Holding AG to the minority shareholder S&T. As the final allocation of the purchase price took place in the 2000 short fiscal year, portions of the purchase price (€2,953k), which had previously been classified as other current assets, were shown on the consolidated balance sheet as goodwill.

(d) Non current assets

The development of fixed assets in the 2000 short fiscal year (July-December) can be seen from the consolidated changes in fixed assets forming part of the notes to the consolidated financial statements. Goodwill has increased substantially due to enlargement of the consolidated entity, mainly the result of the acquisition of the ZLU group.

In addition to the ZLU group, goodwill was created by the final allocation of the purchase price of Pixelpark CEE Holding AG. The following goodwill was created at the time of initial consolidation:

	Purchase price €k	Share of equity €k	Deferred taxes €k	Goodwill €k	Date
Pixelpark MMK AG 75%	5,494	1,225		4,269	July 1, 1998
Pixelpark MMK AG 25%	3,234	636		2,598	Oct. 1, 1999
Furrer & Partner AG	2,519	-797		3,316	July 1, 1999
Pixelpark Schweiz AG	11,247	1,064		10,183	
Pixelpark Köln GmbH 75%	487	-9		496	Nov. 1, 1998
Pixelpark Köln GmbH 25%	128	-3		131	Jan. 1, 2000
Pixelpark Köln GmbH	615	-2		627	
Pixelpark Austria GmbH 75%	30	-161		191	July 1, 1999
Pixelpark Austria GmbH 25%	1,278	-54		1,332	April 1, 2000
Pixelpark Austria GmbH	1,308	-215		1,523	
Pixelpark CEE Holding AG I	1,700	1,353		347	March 31, 2000
Pixelpark CEE Holding AG II	3,903	0		3,903	July 1, 2000
Pixelpark CEE Holding AG	5,603	1,353		4,250	
ZLU group	35,951	9,014	3,331	30,268	Dec. 31, 2000
	54,724	11,204	3,331	46,851	

All in all, the book value of goodwill divides up as follows as at December 31, 2000:

	€k
Pixelpark Schweiz AG	7,589
Pixelpark Austria GmbH	1,740
Pixelpark Köln GmbH	412
Pixelpark CEE Holding AG	2,958
ZLU group	30,268
Total	42,967

When the ZLU group was purchased, the first step was to distribute the purchase price over intangible assets. In this connection, a step-up totaling €8,906k was disclosed. Hence the purchase price breaks down as follows: (in €k)

Purchase price:	36,004
Current assets:	4,231
Fixed assets:	329
Firm:	1,058
Customers:	6,867
Staff:	982
Liabilities taken over:	4,400
Remaining goodwill:	26,937

Due to the hiring of new employees and the development of new locations, fixed assets and software have also increased, namely from €6,908k to €10,166k. In this connection, there were, in particular, increases in leasehold improvements and in office and other equipment.

The investments in subsidiaries include the holding in Venturepark Incubator AG, which was transferred from the full consolidation to an at-equity consolidation as at July 1, 2000. The sharp increase in the book value is due to the capital increase at Venturepark Incubator AG. A capital increase with a premium in an amount of €34,475k was carried out in the fall of 2000. Due to this capital increase, the share of capital stock of Pixelpark fell from 62.7% to 39.8%. As a result of the contribution to the additional paid in capital by unrelated parties, the participation in Venturepark rose by €14,368k. The investments in subsidiaries also contain the holding in NEX Slovakia of €204k. This holding will be consolidated with effect from January 1, 2001.

(e) Current liabilities

Current liabilities increased from €26,295k (June 30, 2000) to €43,213k (December 31, 2000) in the 2000 short fiscal year. The principal reasons for this were the €8,604k increase in liabilities arising from accounts payable, as well as the €3,742k increase in accrued expenses and other current liabilities.

The other current accruals and liabilities break down as follows:

	Dec. 31, 2000	June 30, 2000
	€k	€k
Personnel incl. social security contributions	4,887	4,406
Annual financial statements	316	132
Repayment obligations for customer prepayments and warranty claims	5,642	656
Other	3,160	5,069
	<hr/>	<hr/>
Total	14,005	10,263
	<hr/>	<hr/>

Other current accruals and liabilities include the sum of €4,500k for repayments of customer prepayments and warranty claims for customer projects.

(f) Non-current liabilities

Pixelpark AG received a shareholder loan from Bertelsmann AG of €25,000k in the 2000 short fiscal year. Interest is payable on this loan at standard market rates and the loan plus interest are to be repaid by January 31, 2001.

The remaining non-current liabilities break down as follows:

	Dec. 31, 2000	June 30, 2000
	€k	€k
Accruals for lease obligations incurred during the rent- free period	793	108
Payment due to minority shareholders of subsidiaries	190	0
Other	449	34
	<hr/>	<hr/>
Total	1,432	142
	<hr/>	<hr/>

(g) Shareholders' equity

The fully paid-in common stock of Pixelpark AG amounts to €18,695k and is divided into 18,694,724 no-par-value shares. The shares in Pixelpark AG were held as follows as at December 31, 2000:

	Dec. 31, 2000	June 30, 2000
Number of shares	18,694,724	18,601,172
Bertelsmann Multimedia GmbH %	57.6	57.9
Mr. Paulus Neef %	19.0	19.3
Free Float	23.4	22.8
	<u>100.0</u>	<u>100.0</u>

Bertelsmann Multimedia GmbH discharged its disclosure obligations pursuant to section 160 subsection 1 number 8 of the AktG (German Stock Corporation Law) in combination with section 20 subsections 1 and 4 of the AktG. The disclosure of October 23, 2000 (pursuant to section 20 subsections 1 and 3 of the AktG as well as section 20 subsection 4 of the AktG), from Gütersloh, which was published in the Bundesanzeiger (Federal Official Gazette) on November 11, 2000, shows that Bertelsmann Multimedia GmbH owns more than one quarter of the shares in Pixelpark AG.

At the General Meeting held on November 2, 2000, a resolution was adopted to increase capital for acquisition of the ZLU group (ZLU) and K2 S.A. (K2). For this reason, the capital increase for ZLU was entered in the Commercial Register in December 2000. Hence, share capital had been increased by €93,552 to €18,694,724 as at the balance sheet date. The capital increase for K2 was not entered in the Commercial Register until January 2001.

At the General Meeting held on November 2, 2000, the Board of Management was authorized, with the consent of the Supervisory Board, to increase common stock by October 31, 2005 by one or several issues of up to 2,200,000 individual bearer share certificates in return for cash or non-cash capital contributions of up to €2,200,000.00 (authorized capital II). This resolution does not affect the as yet unused portion of authorized capital I amounting to a total of €1,356,815, which can be utilized up to September 4, 2004.

Due to the acquisition of the ZLU group and issue of shares with a stock exchange quotation of €131.70 as at the announcement date, the capital reserve rose by €12,180k. Due to amounts paid into the shareholder equity of subsidiaries (Venturepark Incubator AG and Pixelpark Latam) by unrelated parties, the additional paid in capital increased by €15,956k. Full details of transfer of shareholders' equity are contained in Annex 4.

(h) Other financial commitments

As at December 31, the following future commitments existed arising from lease and leasing agreements:

	€k
Year 1	4,122
Year 2	4,267
Year 3	3,899
Year 4	3,748
Year 5	3,648
> 5 years	<u>20,716</u>
Total	<u><u>40,400</u></u>

In past fiscal years, the following expenses arose from lease and leasing obligations:

	July 1 -Dec. 31, 2000	July 1, 1999- June 30, 2000
	<u>€k</u>	<u>€k</u>
Lease and leasing expenses	<u><u>2,864</u></u>	<u><u>1,421</u></u>

No contingencies pursuant to section 251 of the HGB (German Commercial Code) existed outside the Group as at December 31, 2000.

6. Notes on the statement of operation (cost-of-sales accounting format)

(a) Segments

Pursuant to the Group's internal reporting structures, Pixelpark carries out segment reporting according to country.

The national Pixelpark companies essentially operate in the same lines of business, namely strategic consulting, agency services and in the field of systems and technology.

For reasons of clarity all regions have been shown even, if they do not fulfil the size criteria required for a segment. Pixelpark has national companies in the individual regions. Revenues in the individual segments correspond to revenues of the companies in the individual regions. The amounts shown are prior to consolidation measures. Figures for previous years are shown in brackets below the figure in question for the short fiscal year. The company controls its segments in accordance with the operating results pursuant to EBITDA and EBITA respectively.

Figures in €k

	Germany	Switzerland	Austria	France	Eastern Europe	UK	USA	Spain	Consolidation	Total
Revenue										
External revenue	29663	13622	1253	1818	105	5364	332	118		52275
Revenue from other segments	400	93	1128	49	297	75	56	15	-2113	0
Total revenue	30063	13715	2381	1867	402	5439	388	133	-2113	52275
	47806	18722	2855	2032	77	3682	1083		4473	71784
EBITDA										
	-10322	2695	97	-944	-837	-1051	-337	-825	1561	-9963
	-7777	3957	426	96	-88	-676	-2389	0	2379	-4072
Operating Income (EBITA)										
	-11943	2471	-3	-979	-855	-1111	-365	-833	1561	-12057
	-10230	3685	309	74	-93	-718	-2463	0	2379	-7067
Net loss for the year after minorities										
	-9957	2378	-66	-973	-687	-1111	-292	-723	-4125	-15556
	-7649	2535	214	41	-80	-764	-2673	0	2537	-5839
Assets										
	112514	14967	2583	2789	3402	5245	737	2031	-2379	141889
	68025	14313	2976	1247	0	3509	947	0	-4329	86688
Investments										
	3397	369	336	378	103	499	8	181	0	5271
	5711	576	401	120	80	296	56	0	0	7240

(b) Additional explanatory remarks on the operating result

The principal expense items, personnel expenses and costs of materials developed as follows during the period under review:

	July 1 -Dec. 31, 2000	July 1, 1999- June 30, 2000
	€k	€k
Costs of materials		
a) Cost of raw materials, supplies and purchased goods	2,033	2,934
b) Cost of purchased services	11,663	16,984
	<u>13,696</u>	<u>19,918</u>
Personnel Costs		
a) Wages and salaries	22,719	28,531
b) Social security charges	4,280	4,342
	<u>26,999</u>	<u>32,873</u>

7. Related party transactions

(a) Transactions with related parties

Pixelpark is consolidated as an affiliated company in the consolidated financial statements of Bertelsmann AG. Therefore, the following contains a description of relations with all companies consolidated by Bertelsmann. Due to the international presence of the Group, Pixelpark is involved in numerous projects for Bertelsmann subsidiaries both in Germany and abroad. The numerous projects with Bertelsmann companies last for periods of between two months and more than a year. Conversely, Pixelpark uses the services of Bertelsmann AG and its majority-owned subsidiaries. These services are essentially provided in Germany and, to a limited extent, in Switzerland, France and the United States.

The following table shows the relations between Pixelpark AG and its related parties:

	<u>from/to Bertelsmann companies</u>
Work and services provided by Pixelpark AG	- Project business: service agreements and contracts to provide work and services - Hosting
Work and services provided for Pixelpark AG	- Service allocation of the Bertelsmann headquarters (taxes, legal services, BEBSY) - Technologies, networks, IT systems
Other	- Provision of a long-term financing credit - integrated inter-company relationship for trade-tax purposes between Pixelpark AG and Bertelsmann Multimedia GmbH

The following is an overview of revenues from work and services between the Bertelsmann companies and Pixelpark.

	<u>Bertelsmann companies July 1 -Dec. 31, 2000 €k</u>	<u>Bertelsmann companies July 1, 1999- June 30, 2000 €k</u>
Work and services provided by Pixelpark AG for	3,939	10,919
Work and services provided for Pixelpark AG by	2,192	2,054

The Pixelpark Group realizes 8% of its total revenues (the figure for the previous year was 18%) with members of the Bertelsmann Group. Pixelpark received adequate consideration for all work and service provided.

For turnover-tax and local trade-tax purposes, Pixelpark AG has an integrated inter-company relationship with Bertelsmann Multimedia GmbH, which, for its part, is a wholly-owned subsidiary of Bertelsmann AG. On the basis of this tax integration, Pixelpark received trade-tax income of €1,630 m during the last fiscal year.

With effect from July 1, 2000, Pixelpark took over most services for accounting, etc., which had previously been outsourced. In the last fiscal year, recourse was still made to a number of support services in connection with the financial statements and taxation. These services were charged at the internal prices typical in the Group against itemized vouchers and can be terminated with short notice.

Bertelsmann AG granted Pixelpark AG a loan of €25,000k in December 2000. Interest payable on the loan is 8%, i.e. market interest rates. The loan plus interest must be repaid by January 31, 2002.

Conversion of the fiscal year of Pixelpark AG from June 30 to December 31 took place at the request of Bertelsmann AG, which, for its part, also converted its fiscal year with effect from December 31, 2001, in order to benefit from the advantages of the tax reform. Bertelsmann will settle additional financial burdens incurred by Pixelpark as a result of the conversion. It is anticipated that a total of €353k will be assumed.

(b) Transactions with other related parties

With only a few exceptions no transactions of any significance took place with other parties:

- Sportgate AG in formation

Sportgate AG in formation is a holding of Venturepark Incubator AG. The Chairman of the Supervisory Board is Paulus Neef, who is also Chairman of the Board of Management of Pixelpark. In the past fiscal year, Pixelpark completed a concept for developing the Internet portals for Sportgate. The consideration for service was €1,131k.

- S&T

S&T AG, Vienna, is the second shareholder in Pixelpark CEE Holding AG. Pursuant to a service agreement between Pixelpark CEE Holding AG and S&T, S&T provides service in connection with infrastructure, administration, etc., for Pixelpark CEE Holding AG. In the short fiscal year the costs of these services was €60k. However, as contractually agreed, Pixelpark CEE Holding AG made a prepayment in this respect.

8. Other information

(a) Number of employees

On December 31, 2000, the Pixelpark Group had 967 employees (the figure for the previous year was 726). The average number of employees in the 2000 short fiscal year was 852 (the figure for the previous year was 501).

(b) Board of Management and Supervisory Board

Total emoluments of the members of the Board of Management amounted to €376k in the fiscal year which has ended (the figure for the previous fiscal year was €542k). The emoluments for the Supervisory Board for the fiscal year which has ended were agreed by a resolution adopted by the General Meeting in November 2000. The members of the Supervisory Board received emoluments totaling €51k for the 1999/2000 fiscal year and the 2000 short fiscal year.

Pixelpark AG had two members of the Board of Management in the 2000 short fiscal year:

Mr. Paulus Neef (chairman), Chief Executive Officer, Berlin

Dr. Jan Kantowsky, Chief Financial Officer und Chief Operations Officer, Berlin

Mr. Paulus Neef is a member of the supervisory boards of Venturepark Incubator AG and Sportgate AG in formation.

Dr. Jan Kantowsky is a member of the supervisory boards of Venturepark Incubator AG and 4Content AG.

The following persons are members of the Supervisory Board:

Dr. Klaus Eierhoff (Chairman), Board of Management of Bertelsmann AG, Gütersloh

Dr. Reinhard Liedl (Deputy Chairman), Divisional Manager of Bertelsmann Direct Group, Gütersloh (since September 25, 2000)

Mr. Peter Zencke, Board of Management SAP AG, Walldorf

Dr. Klaus Eierhoff is a member of the following bodies:

Bertelsmann AG, Gütersloh	Board of Management
bn.com, New York, USA	Supervisory Board
Bookspan, New York, USA	Board
DealTime.com Inc., New York, USA	Administrative Board
Donauland-Geschäftsführungsgesellschaft mbH, Vienna, Austria	Chairman of the Supervisory Board
mediaWays GmbH, Verl	Chairman of the Supervisory Board
ECI for boeken en platen B.V., Vianen, Netherlands	Chairman of the Supervisory Board

Dr. Reinhard Liedl is a member of the following bodies:

AOL Europe, Luxembourg,	Chairman of the supervisory Board
bol.com AG, Berlin	Chairman of the Supervisory Board
Donauland-Geschäftsführungsgesellschaft mbH; Vienna, Austria	Chairman of the Supervisory Board
mediaWays GmbH, Verl	Chairman of the Supervisory Board
DealTime.com Inc., New York, USA	Administrative Board
Europe Loisir Service S.A., Paris, France	Administrative Board
Mondolibri S.p.A, Milan, Italy	Administrative Board
Bookspan, New York, USA	Board
EDP (Espasa/Difusora/Plaza), Barcelona, Spain	Administrative Board

Mr. Peter Zencke is not a member of any further supervisory boards or other supervisory bodies.

(c) Occurrences after the end of the fiscal year

On February 22, 2001, the Board of Management of Venturepark Incubator AG, which was still owned by Pixelpark AG (39,8%) on the balance sheet date, resolved to confine business activities to management of a venture fund in future. As a result, the number of employees is to be reduced from 65 to 15. The ensuing restructuring costs are currently being calculated and will, for the most part, be incurred in the first quarter of 2001.

On March 7, 2001, Pixelpark AG announced a change in management with effect from April 15, 2001. Dr Kantowsky is leaving the company and will be replaced by Ms Annette Koch.

The capital increase for the acquisition of K2 was registered on January 15, 2001. Hence, K2 was consolidated with effect from January 1, 2001.

Berlin, March 26, 2001



Paulus Neef
Chairman of the Board of Management, CEO



Dr. Jan Kantowsky
CFO und COO

Pixelpark AG

Consolidated statement of changes in fixed assets for the year ended December 31, 2000, US-GAAP format

in thousand Euro

	Historical costs				
	Balance 07-01-2000	Effect of change rates	Additions	Reclassifications	Disposals
I. Intangible assets					
1. Software	1693	2	818	164	(6)
2. Goodwill	11898	182	34171	0	0
3. Other intangible assets	<u>0</u>	<u>0</u>	<u>8912</u>	<u>0</u>	<u>0</u>
	<u>13591</u>	<u>184</u>	<u>43901</u>	<u>164</u>	<u>(6)</u>
II. Property, plant and equipment					
1. Leasehold improvements	390	0	597	482	(96)
2. Production, office and other equipment	9777	36	4248	109	(678)
3. Advance payments and construction in progress	<u>755</u>	<u>0</u>	<u>86</u>	<u>(755)</u>	<u>0</u>
	<u>10922</u>	<u>36</u>	<u>4931</u>	<u>(164)</u>	<u>(774)</u>
III. Financial assets					
1. Investments in associated companies	12	0	15311	0	0
2. Investments in consolidated companies	<u>0</u>	<u>0</u>	<u>205</u>	<u>0</u>	<u>0</u>
	<u>12</u>	<u>0</u>	<u>15516</u>	<u>0</u>	<u>0</u>
	<u>24525</u>	<u>220</u>	<u>64348</u>	<u>0</u>	<u>(780)</u>

Balance 12-31-2000	Depreciation and amortization						Balance 12-31-2000	Equity in losses of investees in the year	Net book value	
	Balance 07-01-2000	Effect of exchange rates	D & A in the year	Extraordinary depreciation	Disposals	12-31-2000			12-31-2000	06-30-2000
2671	834	6	331	0	0	1171	0	1500	859	
46251	1420	0	1198	666	0	3284	0	42967	10478	
8912	0	0	0	0	0	0	0	8912	0	
57834	2254	6	1529	666	0	4455	0	53379	11337	
1373	243	0	33	0	0	276	0	1097	147	
13492	4630	14	1731	0	(316)	6059	0	7433	5147	
86	0	0	0	0	0	0	0	86	755	
14951	4873	14	1764	0	(316)	6335	0	8616	6049	
15323	0	0	0	0	0	0	(3100)	12223	12	
205	0	0	0	0	0	0	0	205	0	
15528	0	0	0	0	0	0	(3100)	12428	12	
88313	7127	20	3293	666	(316)	10790	(3100)	74423	17398	