A sharper focus

Annual Report 2001

pixelpark

Pixelpark in brief

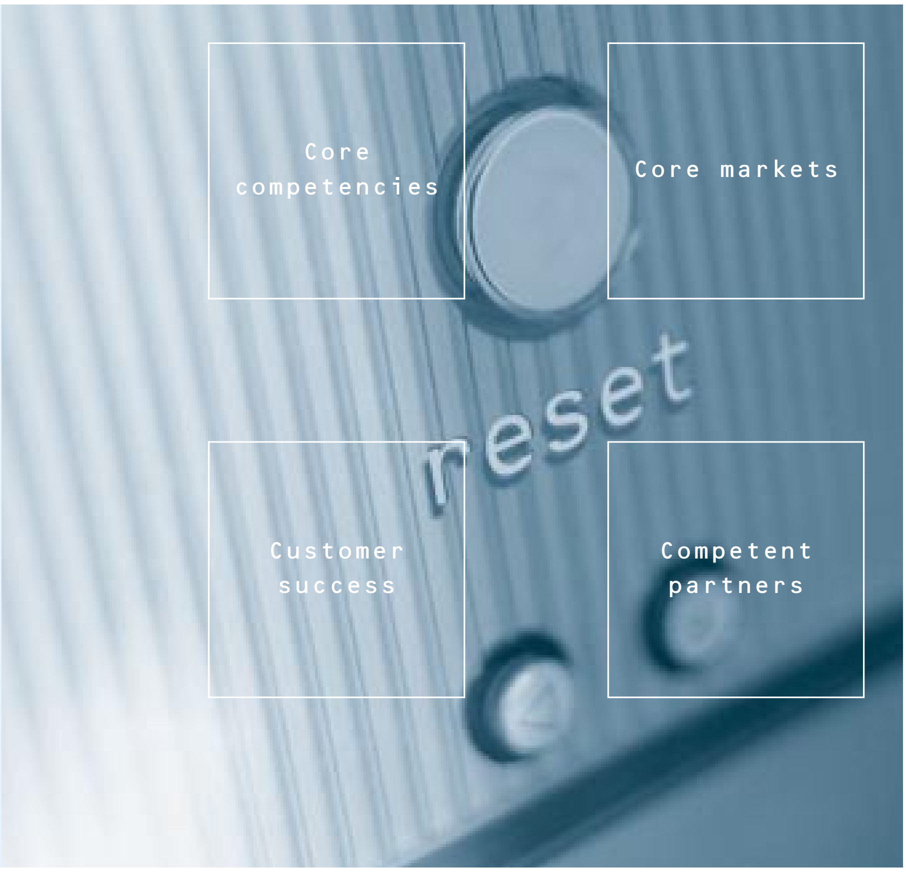
(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Key income data		
Total revenues	81,303	52,275
Gross margin	26%	30%
EBITDA	-20,250	-9,963
Operating income	-82,546	-13,921
Net loss	-86,030	-15,556
Balance sheet		
Total assets	81,278	141,889
Equity ratio	6%	51%
Investments in property, plant, equipment and software	2,048	5,749
Personnel		
Payroll total (end of fiscal year)	813	967
Personnel expenses	63,864	26,999
Total revenues per employee (average)	80	61
Share		
Average number of shares	19,560,532	18,606,765
Net loss per share (in €)	-4.40	-0.84

Contents

A sharper focus

Customer-responsive, market-oriented solutions are the key to long-term success. And also our strategic focus.

Focusing on essentials: the four components of Pixelpark's corporate strategy



Paulus Neef,
Chief Executive
Officer of Pixelpark

Dear shareholders, clients and employees,

2001 was a challenging year for us all.

The business community had to grapple with adverse market conditions in almost all sectors of trade and industry. Companies in the New Economy were tested particularly. Consolidation in the industry also meant not everyone would survive in the marketplace.

Only those who succeeded in transferring the established values of the Old Economy to the New Economy in keeping with contemporary demands had a chance.

Pixelpark reacted promptly. After taking thorough stock of the situation, we drew up a far-reaching efficiency program in spring 2001 and we took rigorous action to implement it by the third quarter of the year.

Profitability and efficiency are our declared aims. We have been tireless in identifying potential savings and in realizing these savings so that we can achieve our objectives and ensure the long-term stability of the company.

It was an extremely painful but unavoidable step for us to reduce the number of our employees. This involved a painstaking selection process, the criteria for which were competence and utilization of capacity. It goes without saying that we took every effort to mitigate hardship. Cutting the payroll was the most difficult step for us to take as we still believe our employees are the key factor for the future success of our company.

Focusing – concentrating on essentials – was the basis for our strategic reorientation in 2001.

We concentrated activities on our core European market, withdrawing from Eastern Europe, Spain and the United Kingdom in the course of the year. We consolidated in Germany and strengthened our operations in Cologne, Hamburg and Berlin. Our operations in Switzerland, Austria and France continue to build a strong core.

Another important step was to focus on our core competencies. With ten years behind it, Pixelpark is one of the oldest and most experienced companies in the New Economy. The competitive position and the fact that clients' investment behavior altered as a result of the general economic situation made it necessary to concentrate on our real competence: the expertise the company has built up over the years. The added value for customers is the high quality of the services we provide.

We failed to achieve our declared aim of operating at a profit in the fourth quarter of 2001. Revenues declined substantially in the second half and our rapidly implemented efficiency program - aimed primarily at cost reduction and process optimization - was unable to absorb the effects of even tighter conditions in the market in the fourth quarter of the year. We are still on the right track, however. The first phase of the efficiency program was implemented on schedule; and further action to restructure and reposition the company, for example, or to step up expansion of our marketing and sales is being taken. We are convinced that the effects of these measures will have a positive impact on results. We are lining ourselves up for the future at Pixelpark in keeping with customer requirements and market demands. In doing so, we can rely on our employees; their performance and competence impress. And we can build on our technology partnerships, benefiting from our partners' expertise and resources to optimize our market position. All of this justifies confidence; and we would like to take this opportunity to thank you for the confidence you have shown in us.

Berlin, May 6, 2002

Paulus Neef
CEO

Services and solutions – our competence

It's the real Internet benefits that count

Pixelpark provides integrated e-business solutions from websites to back-end integration.

Pixelpark maintained its position as one of the leading European providers of internet services in 2001. We concentrated our efforts, however, in this area, too. We provide integrated e-business solutions particularly in the marketing and sales, distribution and customer services fields; and we use innovative Internet technologies to help our clients optimize and redesign their business processes. The focus of our activities is the development and implementation of portals, marketing websites, e-shops and multichannel solutions.

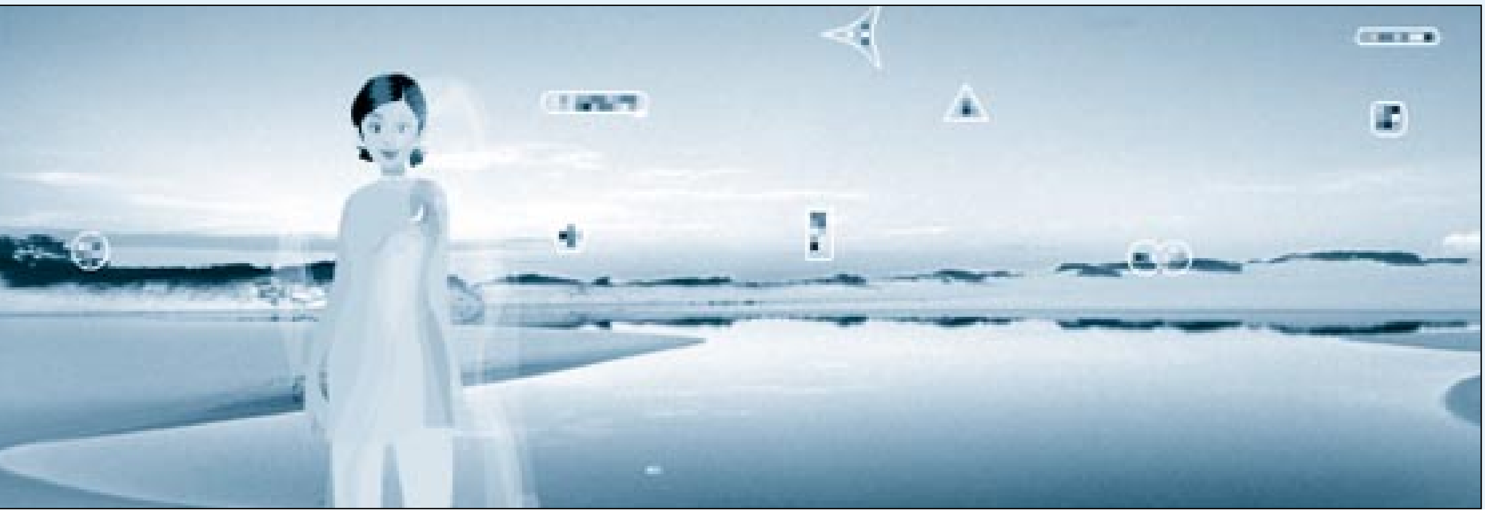
From consulting, conceptual development and creative design right through to the efficient implementation of IT solutions, we offer customers the benefits of our longstanding competence and many years' experience – combined with comprehensive knowledge of their specific industries. In addition to radically strengthening our marketing and sales activities over the course of the year, we gathered our know-how together and focused on four sectors of industry: Media & Communications, Financial Institutions, Product Industries and Service Industries. Pixelpark AG developed both general, multi-industry solutions and industry-specific solutions as well as dedicated service offerings in its fields of competence - consulting, design and IT.

Pixelpark has chosen to use J2EE (JAVA2 Enterprise Edition) and XML technologies and platforms to implement solutions as part of its IT strategy. In our opinion, these will be among tomorrow's leading technologies. Strategic partnerships provide a judicious complement to Pixelpark's in-house capacities and competency, above all in the field of IT integration. Such partnerships also mean that optimal know-how transfer is guaranteed. We are cooperating closely with leading technology providers such as BEA Systems, IBM, Intershop, Vignette, Sun, Nokia and SAP.

Pixelpark aims at innovation. And so, in all these activities, we focus on the identification of real Internet benefits and take pains to implement solutions that meet our customers' specific needs.

Our services and solutions pave the way for our customers to their future economic prosperity.

Relaxation in the workplace
Miss B@rmer's relaxation world:
www.barmer.de



Projects and references – our success

Top quality and measurable benefits

Winning design prizes is one thing. Another is helping customers achieve their goals. We succeed in both.

Over the past ten years, Pixelpark has successfully realized well over a thousand projects. The company's clients include prominent names such as ZDF, Sparkassen-Finanzgruppe, Credit Suisse, Envia, Swisscom and BASF. Many of our customers have been with us for several years; and their trust in our competence certainly pays off for them. Our in-depth knowledge of their specific industries is a guarantee we can provide individual solutions appropriate for their market environment. Pixelpark offers a customized solution whether the project be a virtual marketplace, a portal or the innovative relaunch of a customer's website.

An outstanding news portal
right on schedule for IFA 2001:
www.heute.t-online.de

Barmer – www.barmer.de

Pixelpark launched the website for the Barmer health insurance company in 1996 and has been in charge of upkeep and maintenance of the site ever since. Customer requirements include a differentiated approach to the various user groups and integration of services aimed at specific target groups. Alongside the basic requirement for information to be structured in a user-friendly way, Barmer also specified the possible integration of partners (e.g. content and health management) and the capability of users being counseled by health experts via a call-center operation.

Pixelpark more than succeeded in meeting Barmer's complex demands with a clearly structured homepage and topic areas, the Flash-animated Miss B@rmer relaxation world and use of a variety of service tools, which have been successively added to the site. This generated a significant increase in online brand awareness and a considerable increase in visitors to our client's site. The innovative design also meant Barmer was able to distinguish itself clearly from the competition with its online site.

ZDF – www.heute.t-online.de

The launch of the ZDF news portal was a special challenge in 2001. Pixelpark had just four months to successfully manage several tasks at once because the television channel's news portal was to go online in time for IFA 2001 in Berlin. We also had to satisfy a very wide range of demands: development and integration of several different information services to attract visitors to the site and to increase customer loyalty; integration of a multichannel concept (WAP, PDA and cell phones followed by MHP); and integration of streaming video/audio and Flash modules in a media library for visitors to the ZDF site. On top of this, concept and design had to be in tune with the new ZDF TV format, which had been given a facelift over the course of the year. The technical challenges were on an unprecedented scale as well. These included integration of a new content management system in the complex existing ZDF system landscape, development of a customized system interface geared to handling the editorial workflow and – of course – easy access and ready availability. Thorough and qualified training of editors, webmasters and system administrators was essential to ensure the smooth running of the operation when it came online. This was also provided by the specialists from Pixelpark.

Germany's "Channel 2" set themselves a sporty goal: doubling visitors to their site in less than six months.

Online and offline
shopping combined:
www.ep-netshop.de

Comprehensive financial information and optimum service:
www.sparkasse.de

Our client's verdict now their portal has gone online: "Pixelpark not only helped us achieve our aim of building a news portal appropriate for a media environment and in keeping with our brand, but also impressed us with its thorough competence and detailed knowledge of our specific processes and needs. In short: Pixelpark understood us."

The launch of the ZDF news portal is one of the most renowned projects in the media sector at Pixelpark AG.

EP:Netshop – www.ep-netshop.de

In spring 2000, Pixelpark's long-established know-how put it in a position to win the contract to construct the online shop for ElectronicPartner (EP:), the largest European consortium in TV, video, hifi, telecommunications, multimedia and consumer electronics. The goal of the project was to develop a completely new Internet sales and distribution channel for the customer, which was to be fully integrated in business processes at the company's head office as well as with affiliated local dealers. This made EP:Netshop the first and to date the largest-scale example of a multichannel retailing approach, a concept that has been dominating manufacturers' and retailers' marketing and sales since the second half of 2001. www.ep-netshop.de went online in January 2001.

Pixelpark had sole responsibility for the whole development and construction of the EP:Netshop: from analysis of business processes and logistics, through conceptual development and design – where consideration of brand positioning was of decisive importance – right through to the technical implementation of the online shop. In addition, the project covered the construction of a new central product database and development of the entire Internet infrastructure for EP:Netshop. The distinguishing feature of the site is that customers are able to combine all the advantages of an online shop, such as the ability to make purchases or get information anywhere and at any time, with the convenience of a local service – namely through the EP: dealer network. The shop's success has proven the approach was right. Over 70% of orders placed via the Internet are either handled by local dealers or concluded there.

The architecture implemented by Pixelpark meets all the prerequisites for extension to a portal both on an international and on a country-specific level over the next two years. Work on further personalization capabilities and individual configuration options is being carried out on an ongoing basis.

The shop provides various user-friendly customer services. For example, users can pay for goods ordered on the Internet either online or in cash at local retailers who are part of the widespread EP: dealer network. The notepad and product comparison functions are additional conveniences. And a special feature is the member shops, which enable dealers to extend their local catchment area with their own online shop.

Pixelpark developed EP:Netshop using the Intershop enfinity platform. The entire contents of the online catalog are stored in an Oracle database. The shop is also the world's first implementation of Payment Transaction Servers (XML-cartridge), innovative payment solutions from Pago.

Sparkasse – www.sparkasse.de

The portal that Pixelpark developed for Sparkassen-Finanzportal GmbH, www.sparkasse.de, went online in March 2001. The launch was intended to position Sparkasse clearly as a unique and modern finance company. Emphasis was on the service nature of the pages in development of the new portal.

Sparkasse customers and other interested parties can now access comprehensive financial information, stock exchange prices and articles on a wide range of financial topics. Alongside the Sparkasse's service portfolio for private and company accounts, Internet users also have access to interactive consulting tools. Gateways from the portal to the websites of the regional members of the Sparkasse Group allow direct access to their financial product portfolios.

Pixelpark's work on this project included the full range of internet services. The company was responsible for conceptual development, design and complete technical implementation of the new Sparkasse portal. Pixelpark developed a multifunction editorial system enabling all the institutes in the Sparkasse Group to set links to their local pages while the portal's central editorial team conveniently generates and administers all the contents on the main Sparkasse.de site. In addition, the content management system incorporates up-to-date stock exchange data and other financial information from external sources. Early integration of usability research in the development process ensured the highest possible degree of acceptance among potential users of the service.




People – our major resource

Listening — understanding — realizing our customers' needs

Ten years' experience and knowledge of the market. That's the difference.

Pixelpark's employees are the interface to our customers and the reason for our success. Years of experience, skill and ability and absolute professionalism are guaranteed. But the Pixelpark brand also stands for enthusiasm, team spirit and innovative energy – and all of these are inspired by our employees.

Pixelpark's success is based on transparency, cooperation and the ability to work in interdisciplinary teams. We understand our customer needs and we are able to realize them with the professionalism and sound specialist knowledge that come from ten years' market experience. That is our major advantage over our competitors. And we are glad to exploit it for our customers' benefit.

The market has changed; and we have adapted Pixelpark's structures, our organization and our range of competencies accordingly. So, consolidation and focusing were also vital issues for our employees. In 2001, Pixelpark had roughly 800 permanent employees worldwide (as at December 31, 2001). Highly specialized consultants, project managers, conceptual developers, IT specialists, writers and designers work together in interdisciplinary, customer and project-specific teams. In addition, Pixelpark has reacted to the changed market conditions and strengthened its marketing and sales team.

Investment in the further training of Pixelpark employees continued in 2001 in line with the change in demands. Above all, the emphasis was on specialist training and management development.

We remain convinced there is a growing need for well-trained specialist staff in the IT sector. So, in September 2001, Pixelpark took on six further trainee information scientists in the application development field.

Investment in employee development gives us a sense of security. At Pixelpark we like to know our employees, their needs and their potential; and we want to be able to benefit from all of these. We have therefore extended the documentation and assessment of our employee appraisal interviews to include potential analysis, assessment from the project teams and managerial assessment.

In 2001, we were quicker than the rest in another area, too: Pixelpark provided a legal foundation for its workers' representatives with the election of Works Councils in Cologne, Berlin and Paris. The newly elected bodies worked together constructively with company management in balancing interests and drawing up redundancy schemes.

Pixelpark's special commitment on the difficult issue of redundancies should also be pointed out. The company ran a large-scale outplacement program, held seminars on finding and applying for new jobs and organized a job park, which all helped employees switch jobs as smoothly and trouble-free as possible.

Even in these difficult times, our employees are committed to Pixelpark and identify with our corporate identity. They have done their share in making Pixelpark the strong brand it has been for the last ten years; and they are putting their weight behind the company now as we meet the challenges that lie ahead. We will be doing everything to make sure it stays that way – to guarantee Pixelpark's future success.

Ready for the future – our opportunity

The focus is on profitability

Hope alone is not enough.
We have taken action to meet
tomorrow's demands.

Forecasting developments in the global economy is almost impossible, particularly in our dynamic industry. Business and industrial experts reckon with a slow revival of the economy at the latest toward the middle of 2002. Nevertheless, investment behavior will have been modified permanently.

Pixelpark is preparing itself well.
In 2002, we will have established optimum marketing and sales structures. We will have considerably streamlined our entire organization, which will be poised to respond to market demands and, above all, to individual customer needs effectively and flexibly. Our primary aim remains our profitability. With the initiated restructuring measures we will ensure the long-term stability of the company. We will anticipate market developments and keep our strategy in line with market demands. The focus will be on our customers and their success – as we will prove once again with our projects in 2002.

The Pixelpark share

Not unaffected by market happenings

Turbulence and investor insecurity characterized the 2001 exchange year.

The Pixelpark share has been listed on the stock exchange since October 4, 1999 and was included in the NEMAX-50 index in March 2000.

2001 was a very turbulent year on the stock exchange and was marked by great investor insecurity. Shares in Pixelpark AG could not avoid being affected by the downward trend in the market and lost value in the period of the report.

The Pixelpark share opened the year at € 36.40 and reached a historic low of € 2.90 in April 2001. By the end of the year, the share had recovered slightly. It closed on December 31, 2001 at a price of € 4.55.

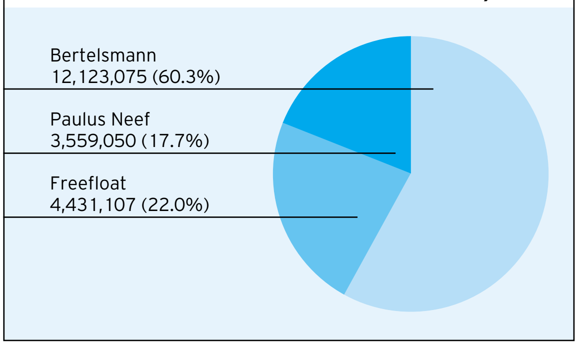
Capital increase

During the fiscal year, capital was increased by issuing 61,683 one-euro shares in connection with the acquisition of K2 S.A. In addition, 1,356,825 one-euro shares were applied for as authorized capital by the majority shareholder, Bertelsmann Multimedia GmbH. The number of outstanding shares at December 31, 2001 was 20,113,232.

Key share information

Security identification no.	514 350
Offering price	€ 15.00
Initial listing	€ 16.30
52-week low (fiscal 2001)	€ 2.90
52-week high (fiscal 2001)	€ 41.35
Closing price on December 31, 2001	€ 4.55
Number of shares at December 31, 2001	20,113,232
Weighted average of outstanding shares	19,560,532

Shareholder structure at Dec. 31, 2001

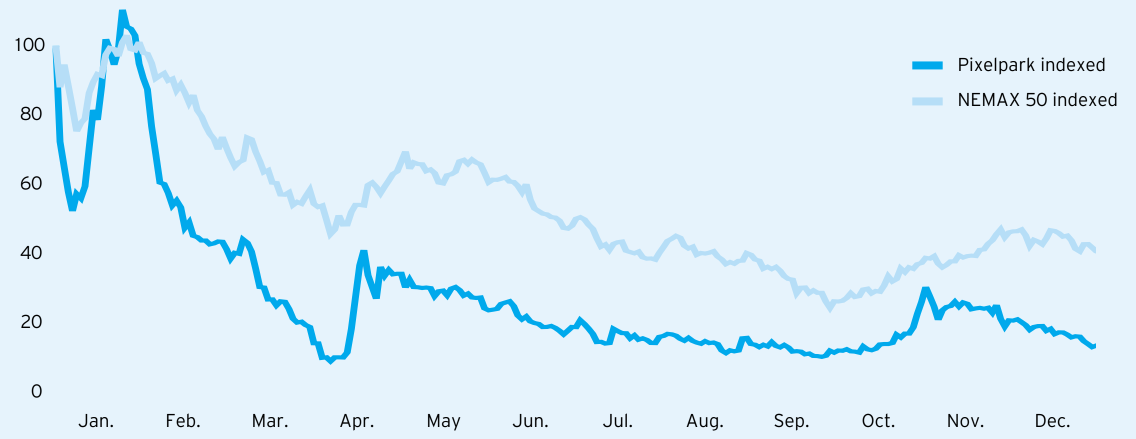


Directors' holdings

On December 31, 2001, officers of Pixelpark AG had the following company shares and stock options in their possession:

	Share holdings	Stock options
Management Board:		
Paulus Neef	3,559,050	23,900
Annette Koch	0	6,000
Supervisory Board:		
Dr. Klaus Eierhoff (until Dec. 10, 2001)	0	0
Prof. Dr. Jürgen Richter (legally placed order: Dec. 19, 2001, effective: Jan. 2, 2002)	0	0
Dr. Reinhard Liedl (until Dec. 10, 2001)	0	0
Edwin Eichler (legally placed order: Dec. 19, 2001, effective: Dec. 27, 2001)	0	0
Dr. Peter Zencke	0	0
Dr. Manfred Wassel	0	0
Susanne Brischle	0	280
Roland Westermaier	200	1,600
Total Directors' Holdings	**3,559,250**	**31,780**

Development of share price Jan. 1–Dec. 31, 2001



Consolidated financial statements

Management Report

1 General economic and industry trends

In the first half of 2001, growth in the world economy followed the trend of the previous year during which we experienced an appreciable slow-down in global economic growth. On the one hand, economic activity was curbed by the increase in oil prices; and, at the same time, monetary policy held economic growth in check. There was a sharp decline in spending on plant and equipment, particularly affecting the IT sector in which substantial surplus capacities emerged. The poor state of the economy in the USA also influenced Europe and led to a marked decline in growth on the European continent.

Economic growth in Germany in 2001 was well down on that recorded the previous year. Whereas Germany's gross domestic product (GDP) rose 3.0% in the year 2000, it was only 0.6% up on the previous year's figure in 2001. On closer inspection, fourth-quarter real GDP is seen to be slightly down on the third-quarter figure, accounting for a further slight reduction at the end of 2001 in German GDP [1].

For the latest information, visit us on the Internet at www.pixelpark.com/ir/annualreport2001

In 2001, it was impossible to sustain the momentum seen in the Internet market the previous year. Demand for e-business services, in particular, was well below expectations. In the autumn of 2000, there was still talk of growth potentials in the market; but, by the first quarter of 2001, it was obvious that large-scale companies' budgets - above all in the business-to-consumer sector - had been substantially reduced. Business-to-business applications, on the other hand were in stronger demand, whereby the emphasis was on supply chain management projects and multi-channel applications. The trend in 2001 was towards e-business solutions providing customers with demonstrable contributions to their bottom line.

Strategic consultants and system houses were able to establish themselves in the market for Internet services in 2001, which provided an additional factor increasing the competitive pressure on Pixelpark. There was not only new competition, however: the market itself had changed. In previous years, the market for Internet services had more the character of a seller's market, but it now shifted completely in the direction of a buyer's market. Against this background, the entire industry had to emphatically increase its marketing and sales activities in the 2001 business year. Not all companies have survived this shift in the market and the intensified competition among providers of internet services unscathed. Some have had to pull out of the market altogether.

1) Source: Statistisches Bundesamt (Federal Statistical Office Germany), Volkswirtschaftliche Gesamtrechnung (National Accounts), Jahresergebnisse der Inlandsproduktsberechnung, Fachserie 18, January 2002

2 Restructuring: the characteristic feature of fiscal 2001

2001 was an extraordinarily difficult year for the Pixelpark Group. For the first time in the history of the Group, restructuring was the characteristic feature of an entire fiscal year.

Developments in the first quarter of 2001 already indicated that no improvement in Pixelpark's important market for Internet services was to be reckoned with in the remainder of the year. There had been noticeable reductions in spending on Internet services in almost every country in which Pixelpark was represented. The Pixelpark Group was operating in Germany, Switzerland, Austria, France, the United Kingdom, Spain, the USA, Brazil and Eastern Europe.

At March 31, 2001, first-quarter costs for the Pixelpark Group totaled € 30.3m with total revenues of only € 26.1m. The Group's gross margin was € 6.9m (approximately 27% of revenues) and the operating loss [2] at this point in time amounted to € 12.7m.

In March 2001, the Management Board of Pixelpark AG introduced an efficiency program the primary aim of which was to achieve break-even across all segments of the company at the latest by the fourth quarter of the year.

To accomplish this, it was necessary for the Pixelpark Group

1. to enhance its market approach by focusing activities on core services and core countries,
2. to adjust capacities in line with the anticipated reduction in revenues,
3. to substantially reduce operating costs, which had been continually increasing until then,
4. to assess the profitability of each individual location and then take appropriate steps and
5. to take greater advantage of potential synergies between the various locations, above all in the area of marketing and sales.

The majority of the projects on Pixelpark's books in Germany were being worked on by employees at the company's offices in Berlin, Cologne and Hamburg. Utilization of capacity in the company's most recently opened offices in Stuttgart, Frankfurt am Main and Dortmund, which had younger employees and smaller projects than the other locations, was less than satisfactory. In none of these locations was the local outlook encouraging; and there were no major prospects of additional acquisitions. The resultant surplus capacity led the Management Board of Pixelpark AG to shut down these offices during the second and third quarter of the year. Personnel cuts were implemented in such a way as to mitigate hardship, primarily by means of agreements to terminate contracts etc. The Works Councils being established in Berlin, Cologne and Dortmund at roughly this time were immediately actively involved in the negotiations.

2) After depreciation, amortization of goodwill and other intangible assets and impairment charges.

Appreciable capacity adjustments also became necessary at our locations in Berlin, Cologne, Hamburg and Munich. Surplus capacities were cut to a level in keeping with orders on hand. Personnel reductions were accomplished by means of termination agreements etc. both in the operative business areas and in the holding. Overall, Pixelpark AG cut the number of its employees in Germany from 651 on March 31, 2001 to 472 on September 30, 2001.

At the same time, Pixelpark AG took active steps to meet developments in the market in Germany, bringing the organization of its operative units into line with the modified market conditions. Above all, Pixelpark AG developed a new strategy in marketing and sales and in customer services specifically aimed at strengthening its marketing operations in the various industries the Group serves.

In view of the poor market conditions in Eastern Europe, Pixelpark AG decided to pull out of business there in the first quarter of 2001. The CEE Holding companies were divested following a management buy-out (MBO). Pixelpark AG retains a 15% share. Cooperation agreements with Pixelpark CEE in Eastern Europe guarantee the Pixelpark network continued access to development capacities beyond July 1, 2001 at rates considerably below the level in Germany.

Our office in the USA was closed on June 30, 2001. A considerable cutback in business activities had already begun in the year 2000. By December 31, 2000 our office in the USA had been reduced to only two employees. The number of employees in Pixelpark's companies in France, Austria, the United Kingdom and Spain was adjusted in line with reduced revenue expectations as was the number of employees at ZLU. Between March 31 and September 30, 2001 Pixelpark cut the number of its employees in these companies from 391 to 299.

Efficiency program implemented according to plan by autumn 2001

By September 30, 2001, the Pixelpark Group succeeded in reducing total quarterly costs by € 6.1m compared with the figure for the first quarter of the year. The greater part of these savings was achieved as a result of the personnel measures that had been introduced. In addition, all cost positions were reviewed and appropriate cuts in expenditure were effected in the individual locations throughout the Group. In particular, non-chargeable traveling expenses, buying in of external services, rental costs, the costs of organizing the Annual General Meeting and costs for production of interim reports were cut to a minimum. The payment of bonuses in Germany was adjusted in keeping with the earnings position of Pixelpark AG and it was decided to put an immediate freeze on jobs. Capacities were adjusted in line with reduced revenue expectations at almost all the Pixelpark Group's locations and the marketing and sales organization was also brought into line with the modified market conditions.

However, in the third quarter of 2001 – in particular in the month of September – revenues fell far short of expectations despite the fact that they had already been revised. Compared with the previous quarter, the Pixelpark Group's revenues dropped over 25%. The considerable savings which had been achieved on the cost side up until September 30, 2001 totaling some 20% (compared with March 31, 2001) only partially offset this sudden revenue decline. An order volume lower than expected – above all in

Germany, Switzerland and the United Kingdom – meant it would no longer be possible to achieve profitability in all segments in the fourth quarter, although a reversal of trends was already recognizable on the cost side and, thus, in Pixelpark's result (EBITDA), too.

Further package of measures adopted in December 2001

In November 2001, the Management and Supervisory Boards of Pixelpark AG discussed further measures aimed at achieving profitability at the earliest possible stage. Particular attention was paid to the current cost situation and the geographical focus of the Pixelpark Group. The Management Board of Pixelpark AG introduced a further package of measures in December 2001. In order to focus on Pixelpark's core business and in view of the reduced revenue expectations for 2002, the Management Board of Pixelpark AG decided to pull out of business operations immediately in the United Kingdom and Spain.

Pixelpark also introduced personnel measures in its core countries, Germany, Switzerland, France and Austria. The Pixelpark Group will considerably reduce staff at all levels – both in the operative business areas and in the holding - and cut its payroll total to approximately 600. While focusing on these core countries, Pixelpark is also slimming down its hierarchies. The directors of the various national companies will in future be reporting directly to the Chairman of the Management Board (CEO). The Pixelpark Management Board expects these additional measures to have been implemented by the end of the first quarter of 2002. They will lead to a significant reduction in costs for the Pixelpark Group in 2002. Pixelpark's improved cost base means it will be possible to achieve a turnaround in the Group result (EBITDA) even with lower revenues included in planning for 2002 than were generated in 2001.

Overall, restructuring costs amounted to € 14.6m in 2001, resulting in one-off effects on the operative result of the Pixelpark Group in the last three quarters of the 2001 fiscal year.

3 Positioning Pixelpark

After extensive restructuring and sharpening up its IT profile, Pixelpark is geared to provide increased utility in Internet-based corporate processes with marked improvements and innovative redesign. The developments of the last few months have shown that clients expect investments to make a clearly defined and demonstrable contribution to the achievement of their corporate goals. For this reason, Pixelpark pinpoints the specific benefits of Internet solutions for its clients and realizes these solutions drawing on its assembled competence in conception, creation, implementation and design as well as its technological and industry-specific expertise.

Customers profit from high quality project management and relevant, documented and readily accessible experience from numerous process improvement projects that have already been realized. Pixelpark's catalog of know-how is geared to the specific challenges which the various industries have to confront.

Pixelpark's Internet solutions are not only efficient but also accompanied by tailor-made creative work. In the current buyer's market, our customers are able to stand out with creativity in concept and design. Of vital importance in this respect is the user friendliness of the interface, which is tailored to the individual target group. Pixelpark offers proof that efficiency and individual solutions are not contradictions. Pixelpark aims to distinguish itself clearly from its competitors with the consulting competence it has built up in the solutions field.

Pixelpark also has the relevant implementation competence. The core of Pixelpark's implementation work is to provide Internet benefits making sensible use of Internet technologies. This aim is also the basis for the company's IT and partnership strategy. Accordingly, Pixelpark invests in core technologies with targeted further training. This process was stepped up in building up our Java competence and in development of the MySAP product range and will be continued, in accordance with market demand, with respect to other technologies, as well.

Pixelpark's range of services is rounded off by strategic partnerships with leading technology providers. As part of the Pixelpark Alliance Program, Pixelpark is now cooperating with providers such as IBM, SAP, Nokia, BEA Systems, Intershop and Vignette. This puts Pixelpark in an admirable position to provide clients with Internet benefits and optimize their corporate processes using Internet technologies in accordance with customer needs.

4 Earnings position

Total revenues

In the 2001 fiscal year, the Pixelpark Group generated total revenues amounting to € 81.3m. Compared with the short 2000 fiscal year, this meant an increase of 56%. In comparing the two years, however, it should be borne in mind that the period covered by the 2000 fiscal year consisted of only six months while the 2001 fiscal year ran a full 12 months. The total revenues figure includes grants from research projects amounting to € 1.4m. In the short 2000 fiscal year, the Pixelpark Group received a total of € 0.9m in grants from research projects. Revenues from goods purchased were of no consequence.

In the period reported here, revenues of € 27.8m came from the top ten clients. This corresponds to approximately 34% of total revenues.

The top ten clients in the 2001 fiscal year

- Lloyds TSB
- Swisscom AG
- Envia AG
- ZDF
- Barmer Ersatzkasse
- Conrad.com AG
- Credit Suisse
- Bertelsmann AG
- Bank Sarasin & Cie
- WestLB

The share of revenues generated by companies belonging to the Bertelsmann Group has gone down to roughly 4% from 8% the previous year.

Costs of revenues

In the 2001 fiscal year, the ratio of costs of revenues to total revenues was 74%. Overall, costs of revenues amounted to € 60.2m. In the short 2000 fiscal year, the costs of revenues was € 36.5m. The gross margin of the Pixelpark Group was € 21.1m in the 2001 fiscal year, corresponding to 26%. Thus, the gross margin had narrowed compared with the short 2000 fiscal year (30.1%). This was primarily due to the lower level of capacity utilization, particularly in the first half of 2001. On closer inspection, the costs of revenues were substantially reduced over the course of the 2001 fiscal year. While costs of revenues were still € 19.2m in the first quarter of 2001, they could be cut to € 7.1m in the fourth quarter of the year.

Selling, general and administrative expenses

Selling, general and administrative expenses were rigorously cut in the period of the report. The largest savings in this area were due to the personnel measures introduced in implementation of the efficiency program. Alongside personnel measures, substantial reductions in non-chargeable traveling expenses, consulting costs and the costs of organizing the Annual General Meeting and producing interim reports also contributed to a reduction in selling, general and administrative expenses. Overall, selling, general and administrative expenses amounted to € 40.2m in the 2001 fiscal year, compared with € 24.4m the previous year. The ratio of selling, general and administrative expenses to total revenues in 2001 was 49%, slightly higher than the previous year (47%). However, this was due to the marked reduction in revenues in 2001. On closer inspection, Pixelpark managed to continually reduce selling, general and administrative expenses over the course of the 2001 fiscal year. While selling, general and administrative expenses were still € 11.2m in the first quarter of 2001, they could be cut to € 9.7m in the fourth quarter of the year.

Research and development expenses

Research and development expenses in the Pixelpark Group totaled € 1.2m in the 2001 fiscal year. The figure for the previous year was € 1.3m. There was only a slight change in the ratio of research and development expenses to total revenues compared with the previous year. The income from grants for research and development of € 1.4m to set against these costs came primarily from the European Union. Pixelpark will let existing projects run their course and will not be submitting any further tenders for new research and development projects.

Restructuring costs

In the 2001 fiscal year, restructuring costs recognized in the Pixelpark Group amounted to € 14.6m. The greater part of these costs relate to measures effected in Germany.

The following table shows restructuring costs in the 2001 fiscal year.

(in €k)	Jan. 1 - Dec. 31, 2001
Germany	11,255
Austria	94
France	646
United Kingdom	1,378
Spain	1,094
ZLU	129
Total	**14,596**

Depreciation and amortization

Depreciation on fixed assets and software totaled € 4.5m in the 2001 fiscal year, compared with € 2.1m the previous year.

Compared with the short 2000 fiscal year, there was an increase in amortization of goodwill and other intangible assets in the Pixelpark Group in the 2001 fiscal year. Amortization of goodwill amounted to € 1.9m in fiscal 2000. Amortization of goodwill and other intangible assets amounted to € 7.5m in the period reported here. The figure relates entirely to scheduled amortization of goodwill and other intangible assets.

As the cash flows originally expected from the subsidiaries have not materialized, Pixelpark decided to effect a marked adjustment in the relevant valuations. In accordance with current market conditions, impairment charges on goodwill and other intangible assets in the ZLU Group, K2 and CEE were applied. These impairment charges amounted to a total of € 35.7m in the 2001 fiscal year.

Group result

The Pixelpark Group recorded an EBITDA result (before restructuring costs) of –€ 20.2m in the 2001 fiscal year, compared with –€ 10.0m in the short 2000 fiscal year.

Net interest was –€ 2.0m in the 2001 fiscal year, compared with € 0.2m the previous year. This includes interest payments to Bertelsmann AG. Loans from Bertelsmann AG amount to € 40m.

Other income and expenses relate to currency translation losses as well as gains and losses on the disposal of assets. In the period of the report, they amounted to –€ 0.3m, compared with –€ 0.5m in the short 2000 fiscal year.

The Group result before interest and taxes (the operating loss) went down from –€ 13.9m in the short 2000 fiscal year to –€ 82.5m in 2001.

The tax result (excluding deferred taxes) of € 8.8m is positive since Pixelpark AG is integrated with Bertelsmann AG for German trade tax purposes. The previous year's tax result was € 1.3m. The tax result also contains tax expenses relating to Pixelpark Schweiz AG amounting to € 0.1m. Deferred taxes amounted to € 1.3m in the period of the report, compared with € 0.2m the previous year.

The result from equity participation of –€ 11.8m (previous year: –€ 3.1m) had a substantial impact on the net loss of the Pixelpark Group. This result relates to the non-scheduled write-off of the value of our investment in Venturepark Incubator AG. Pixelpark AG decided to withdraw from the incubation business in the first quarter of the 2001 fiscal year. As no further cash flows were expected from the participation at this point in time, the Management Board of Pixelpark AG decided to write off the entire investment. Although Pixelpark's actual investment only amounted to € 1.6m, discontinuing the involvement resulted in book losses amounting to a total of € 12.2m. The background to this was that the value of the investment had increased as a result of cash capital brought in by unrelated strategic investors in the fourth quarter of 2000. This increase in the value of the investment did not affect the net result in 2000 but was included in equity as additional paid-in capital. In contrast, the write-off in 2001 did have an impact on the net result. It was possible to improve Pixelpark AG's position in the liquidation in the further course of the year. The result from equity participation result includes income from winding up the business activities of Venturepark Incubator AG amounting to € 0.4m.

After taking one-off restructuring costs into account, the Pixelpark Group's net loss in the 2001 fiscal year was € 86.0m, compared with € 15.6m the previous year.

5 Financial position

As a result of the high net loss, shareholders' equity in the Pixelpark Group went down over the course of the 2001 fiscal year from € 71.7m (January 1, 2001) to € 4.9m (December 31, 2001).
The financial involvement of Bertelsmann AG was of great importance to Pixelpark. In May 2001, Bertelsmann Multimedia GmbH stepped up its investment in Pixelpark AG, increasing the size of its holding in the company from 57.6% to 60.3%. Bertelsmann AG also topped up its loan to Pixelpark AG by € 15.0m in December 2001. In addition, priority was postponed for the entire loan of € 40.0m. Income obtained from the capital increase and the loan was used primarily to finance the restructuring measures introduced in implementation of the efficiency program and to generally strengthen the liquidity situation of Pixelpark AG.

With the support of these measures from the Bertelsmann Group, the Pixelpark Group had a cash balance of € 27.7m at December 31, 2001.

6 Business risks

The Pixelpark Group's risk management system for the early recognition and avoidance of risks is an integral part of its business, planning and controlling processes. Risks are identified through management reporting. In addition, Pixelpark uses the internal auditing services of the Bertelsmann Group to identify risks. Management makes use of the controlling process to introduce appropriate measures to counteract risk.

The Pixelpark Group's business operations consist chiefly of project work. The projects run over several months and the work volume on the different projects varies from quarter to quarter. Customer projects are very complex, and there is a significant risk in the management of such large projects. Most projects are carried out at fixed prices. So, there is a risk that actual costs exceed those calculated in advance. In the majority of cases, it is not possible to pass on non-scheduled costs. Because of this, the Pixelpark Group improved its risk management monitoring system during fiscal 2001. This system has already been implemented in our various national companies and will be further extended in 2002. It is also crucial that our extensive restructuring measures and associated reorganization do not put implementation of risk management procedures themselves at risk.

While customer projects have to some extent increased in size and scope so that they run longer, there is still a limit to the planning range in the Pixelpark Group. Currently, it is approximately 8 weeks. Conclusion of follow-up contracts and acquisition of new clients represents an enormous challenge for the Pixelpark Group, particularly at the present time. It is of decisive importance to the Group's financial position and results. To ensure the successful implementation of orders, the Pixelpark Group monitors the status of the individual projects by turn. Monitoring begins with acceptance of the order and continues until the client takes delivery of the project work.

The Pixelpark Group's client spread has changed over the last year. The share of total revenues generated by the top ten clients has increased from 28% in the short 2000 fiscal year to 34% in the 2001 fiscal year. The loss of one or more larger clients could have a negative effect on the financial and earnings position of the Group.

Pixelpark's lasting success in the market will depend primarily on the competence of its employees. One of management's most important tasks is therefore to increase the qualification of its employees in targeted areas and to bind high performers to the company. Pixelpark has taken various measures in this respect in human resources. However, if unforeseen market developments force us to cut the size of the organization further, there is a risk of skills being lost.

The Internet market continues to be characterized by short-lived technological trends. Here the important thing is to go for the "right" technologies – those that will establish themselves in the market - in training the employees. Pixelpark aims to reduce this risk as far as possible through close cooperation with leading technology providers.

The valuations of the national companies in France and Austria and the valuation of ZLU (or the valuation of the corresponding goodwill and intangible assets) are based on an impairment test in accordance with US-GAAP. Developments in each of the regional markets are included in the calculations of the relevant book values. A slight economic recovery from the second half of 2002 was included in the calculations for the national companies in France and Austria and for ZLU. There is a risk that the assumed upturn away from the current loss situation and into the profit zone will not occur. If targets are not achieved and the market value of the individual companies is below the book value, there is a risk of impairment charges.

As a result of the personnel measures introduced in implementation of the efficiency program, the number of employees at our Berlin location has been reduced considerably. The office space in Berlin is designed for a far larger number of employees and is on a fixed lease until mid-2010. The Management Board of Pixelpark AG assumes it will be possible to gradually sublet the free space up until the end of 2003, albeit at a lower price than Pixelpark pays itself. Provisions were set aside at December 31, 2001 to cover the period that office space stands empty and the difference between the estimated receipts and the actual price paid by Pixelpark. There is a risk that results will be affected should current estimates of prices for subletting not be achieved or if the office space cannot be sublet to the assumed extent.

A longer lease was signed just last year for the office in London. Pixelpark has already found a subtenant, but not for the full remaining term of the lease. There are currently no rental costs to impinge on results as the rents received from the tenant are in line with the actual rental costs. If Pixelpark is unable to find a replacement for the current subtenant when the lease expires, there is a risk of the result being affected by rental costs.

Pixelpark's accounts for the year ended December 31, 2001 also contain provisions for the liquidation of its operations in Spain. Should the amount forecast be insufficient to cover the cost of the liquidation, further expenses may arise, which would have an impact on future accounts.

7 Segment reporting

Pixelpark operates its business internationally via national companies of various types. International operations are controlled by the individual national companies. In Germany, there are two companies: Pixelpark AG and Zentrum für Logistik und Unternehmensplanung (ZLU) – literally Center for Logistics and Corporate Planning. The "German operations" segment consists of Pixelpark AG. The "ZLU" segment covers the company's business activities in Germany (ZLU GmbH) and of the subsidiary in Brazil. "Switzerland" covers Pixelpark Schweiz, Twoway and Digivision, which has been consolidated since August 2001.

The following table shows the revenues and operating results (EBITDA before restructuring costs) of the individual segments in the 2001 fiscal year.

(rounded)	Total revenues Jan. 1 - Dec. 31, 2001 € m	Share of total revenues %	EBITDA Jan. 1 - Dec. 31, 2001 € m
German operations	36.5	45	-6.6
Switzerland	21.6	27	0.9
Austria	3.7	5	-0.5
France	5.3	7	-3.2
United Kingdom	7.0	8	-2.5
Spain	0.9	1	-1.5
ZLU	7.4	9	-3.4
USA	0.9	1	-0.3
Eastern Europe	0.8	1	-1.3
Miscellaneous / Consolidation / Central Management	-2.8	-4	-1.8
Total	**81.3**	**100**	**-20.2**

German operations

Restructuring was the characteristic feature of the 2001 fiscal year in the Pixelpark Group's core country. The bulk of the measures in the efficiency program initiated in spring 2001 were directed at Germany.

The majority of the projects on Pixelpark's books in Germany were being worked on by employees at the company's offices in Berlin, Cologne and Hamburg. The offices in Stuttgart, Frankfurt and Dortmund were responsible for a far smaller number of projects. This gave rise to surplus capacity, prompting the Management Board of Pixelpark AG to close these offices in the course of the second and third quarters of 2001. However, significant capacity adjustments were also necessary in Berlin, Cologne, Hamburg and Munich. Personnel cuts were implemented in such a way as to mitigate hardship and in consultation with workers' representatives.

In Germany, implementation of the measures in the efficiency program proceeded until the autumn according to plan. In the third quarter of 2001, Pixelpark experienced an abrupt decline in revenues in Germany. In August, Pixelpark had managed to increase its revenues in Germany by approximately 50% compared with the figure for July. In September, however, revenues fell below the July level. This placed considerable pressure on the operating result in Germany in the third quarter of 2001. The cost-cutting measures that had been introduced offset the sudden drop in sales to some extent. Lower costs made up for half the loss in revenues in the third quarter of 2001. Nevertheless, at this point the Management Board of Pixelpark AG was forced to recognize that the market situation, which had deteriorated considerably above all in the third quarter, meant that the original goal of profitability in Germany in the fourth quarter of 2001 was no longer feasible. In November 2001, the Management and Supervisory Boards of Pixelpark AG discussed further measures aimed at achieving profitability in the near future. Above all, this involved review of the current cost situation in Germany.

In December 2001, the Management Board of Pixelpark AG decided to implement further cost reduction measures. These measures are geared towards anticipated revenues in 2002 at the same level as revenues in the second half of 2001. Pixelpark will reduce the number of its employees in Germany to approximately 300. This measure will have been fully implemented by the end of the first quarter of 2002.

The number of employees in Germany on December 31, 2001 was 416, compared with 644 employees on December 31, 2000. The number of employees in central management functions went down from 77 to 37 as per December 31, 2001.

In the German operations segment, Pixelpark secured revenues of € 36.5m (including grants for research projects) in the 2001 fiscal year in what was a markedly poorer market environment. This is also clear on comparison with the short 2000 fiscal year (€ 30.1m). Comparison shows revenue growth of 22%. It should be borne in mind, however, that the short 2000 fiscal year only covered a period of six months. German operations accounted for 45% of the overall revenues of the Pixelpark Group.

The EBITDA (before restructuring costs) was –€ 6.6m in Germany in the 2001 fiscal year, compared with –€ 10.3m in the short 2000 fiscal year. Restructuring costs of € 11.3m were recorded for implementation of the efficiency program in Germany in the 2001 fiscal year.

Switzerland

Switzerland was again the second-largest country in the Pixelpark Group in the 2001 fiscal year. The decline in demand for Internet services affected the Swiss market later than it did the other European countries such as Germany, France and the United Kingdom. While the other national companies in the Pixelpark Group had already witnessed a marked reduction in demand for Internet services in the first half of 2001, in Switzerland it was possible to maintain the first quarter's level of incoming orders into the second quarter of 2001. As usual, the result in Switzerland was at a very high level overall.

Although Digivision AG was consolidated for the first time in the Pixelpark Group with effect from August 2001, it could not make up for the sudden decline in revenues in the third quarter of 2001; compared with the previous quarter, revenues went down 19%. On the one hand, Switzerland was now also feeling the effects of the reduced budgets for Internet services; on the other hand, along with all the other segments in the Pixelpark Group, Switzerland suffered a pronounced drop in revenues in September.

Revenues totaled € 21.6m in the 2001 fiscal year, compared with revenues of € 13.7m in the short 2000 fiscal year. Switzerland recorded an EBITDA of € 0.9m for the whole of the 2001 fiscal year, compared with € 2.7m in the short 2000 fiscal year. The Swiss result for the 2001 fiscal year was characterized by one-off costs for integration of Digivision AG, recorded in the second half of 2001. The expected level of revenues from Digivision projects could not be realized. At the same time, personnel costs increased as a result of the takeover of employees. This had a negative impact on results, in particular in the fourth quarter of 2001. Personnel adjustments were implemented in keeping with the order situation. An agreement was concluded with the vendor of Digivision (Switzerland), according to which the purchase price was limited to CHF 4.1m. This reduced the purchase price by CHF 1.0m.

As of December 31, 2001, Pixelpark had a total of 157 employees in Switzerland: an increase of 25 over the figure for December 31, 2000 (132 employees).

Austria
In the 2001 fiscal year, Pixelpark generated revenues amounting to € 3.7m in Austria. This corresponds to approximately 5% of the revenues of the entire Pixelpark Group in this period. Compared with the short 2000 fiscal year (€ 2.4m), revenues increased some 54%.

The EBITDA amounted to –€ 0.5m in the 2001 fiscal year, compared with € 0.1m in the short 2000 fiscal year. Encouragingly, Pixelpark achieved a positive EBITDA of € 0.1m in Austria in the fourth quarter of 2001.

Restructuring costs totaling € 0.1m were recorded in Austria for implementation of the efficiency program in 2001.

The number of employees at Pixelpark Austria was 50 at December 31, 2001. Compared with the previous year, this represented a reduction of 9 employees.

France
In the 2001 fiscal year, Pixelpark generated total revenues amounting to € 5.3m in France. Compared with the short 2000 fiscal year (€ 1.9m), revenues increased considerably. On comparing the two fiscal years, it should be taken into account that the period under review in the short 2000 fiscal year consisted of only six months. In addition, K2 was consolidated in the Pixelpark Group for the first time with effect from January 1, 2001. Pixelpark acquired 100% of the IT service provider, K2, in July 2000. As the capital increase for K2 was not entered in the Commercial Register until January 2001, K2 was consolidated with effect from January 1, 2001. K2 was merged with Pixelpark France in mid-2001.

On the income side, business in France was considerably poorer in the 2001 fiscal year than in 2000. We had to considerably down-scale revenues forecast in the spring towards the middle of the year. The regional market provided no indication of significant improvement in the order position for the rest of the year. The first restructuring measures were introduced in the third quarter of 2001. Surplus capacities were cut to a level corresponding to orders on hand and office space was consolidated at our location in Paris.

The introduction of new labor relations legislation for small and medium-scale companies on July 1, 2001 had an additional impact on results. The law provides for additional paid holidays for employees working longer than 35 hours per week. The EBITDA (before restructuring costs) in the 2001 fiscal year was –€ 3.2m, compared with –€ 0.9m in the short 2000 fiscal year.

In December 2001, the Management Board of Pixelpark AG introduced further cost-cutting measures. Because of continued poor utilization of capacity in the company in France, further capacity adjustments had to be implemented there. In line with the order situation and in view of the fact that new dismissal protection legislation was to come into effect in 2002, termination contracts were offered to further employees in December 2001. Restructuring costs in the 2001 fiscal year totaled € 0.6m. However, restructuring measures will not have a positive impact on accounting figures until the first quarter of 2002 at the earliest.

As of December 31, 2001 Pixelpark had a total of 88 employees in France, 41 more than on December 31, 2000.

United Kingdom

In the 2001 fiscal year, Pixelpark generated total revenues of € 7.0m in the United Kingdom, compared with € 5.4m in the short 2000 fiscal year. The EBITDA (before restructuring costs) came to –€ 2.5m. Restructuring costs amounted to € 1.4m.

2001 was a very difficult year for Pixelpark in the United Kingdom. In the first two quarters of the year, there was a sufficient workload - mainly from work on regular accounts. The loss of Pixelpark’s largest client toward the middle of the year, however, meant a marked reduction in capacity utilization in the UK. There were no promising new acquisitions to set against the surplus capacities that emerged. In December 2001, the Management Board of Pixelpark AG decided to pull out of operative business in the United Kingdom. In December, the London office was cut to 8 employees (previous year: 44 employees). Pixelpark was able either to sublet its office space or to terminate its lease.

Spain

Pixelpark’s office in Spain generated total revenues of € 0.9m in the 2001 fiscal year, compared with € 0.1m in the short 2000 fiscal year. The EBITDA was –€ 1.5m, compared with -€ 0.8m the previous year. The payroll total as of December 31, 2001 was 23 (previous year: 20).

In the third quarter of 2001, we held initial talks with the minority shareholder, Banco Bilbao Vizcaya Argentina, S.A. [BBVA], to negotiate a reduction in Pixelpark’s share in Pixelpark Latam.

In December 2001, the Management Board of Pixelpark AG decided to withdraw from operative business in Spain.

ZLU

The 2001 fiscal year was a very difficult one for the Zentrum für Logistik und Unternehmensplanung (ZLU) – literally Center for Logistics and Corporate Planning. Although various extraordinary expenses had a direct impact on revenues and results in 2001, the revenues generated by ZLU in particular did not come up to the expectations of Pixelpark. The downward trend in the market made greater effort necessary to meet increasingly difficult competitive conditions. There were changes in management and the marketing orientation of the organization was improved. In the very difficult market situation, we have decided to prioritize the realisation of ZLU's revenue potential over a full integration of ZLU. Consequently, ZLU has been positioned as a stand-alone brand. The future of the company lies in specialization and further development of traditional logistics consulting.

ZLU generated revenues totaling € 7.4m in 2001. (In the short 2000 fiscal year, ZLU was taken over with effect from December 19, 2000. However, December 31, 2000 was taken as the valuation date. Because of this, there is no comparable figure for the company for the previous year.)

The ZLU result was primarily affected by one-off expenses amounting to some € 1.2m relating to a research and development project. In addition, expenses of approximately € 0.5m were recorded for termination payments. The ZLU EBITDA (before restructuring costs) in the 2001 fiscal year was –€ 3.4m. Restructuring costs amounted to € 0.1m.

The payroll total as of December 31, 2001 was 71. In view of the high fluctuation rate of ZLU employees since mid-2000, Pixelpark reduced the useful life of the intangible asset, employees, to 1.5 years.

USA

Our office in the USA was closed with effect from June 30, 2001. We had already begun to substantially reduce business activities in the year 2000. In 2001, Pixelpark generated revenues of € 0.9m in the USA, compared with € 0.4m in the short 2000 fiscal year. The EBITDA came to –€ 0.3m, the same level as the previous year (-€ 0.3m). Closure of Pixelpark's location in the USA had a positive deconsolidation effect of € 0.3m.

Eastern Europe

In the 2001 fiscal year, Pixelpark secured total revenues in Eastern Europe amounting to € 0.8m, compared with € 0.4m in the short 2000 fiscal year. The EBITDA came to –€ 1.3m, compared with –€ 0.8m the previous year.

The companies belonging to CEE Holding were divested following a management buy-out (MBO). Pixelpark AG has a 15% share in the new company since July 1, 2001. It was therefore able to deconsolidate the company with effect from June 30, 2001.

8 Outlook

Restructuring was the characteristic feature in the Pixelpark Group for the entire 2001 fiscal year. The organization that has emerged from this process has been considerably slimmed down, is well-adapted to the new market conditions and ready to pave the way to the future for the Pixelpark Group. Initial results show that we have already considerably reduced costs in Pixelpark's most important core country, Germany.

In the 2002 fiscal year, the Pixelpark Group is not expecting any marked improvement in demand for Internet services before the second half of the year. Focusing on only a few selected countries means that Group revenues will be down in 2002. The primary aim remains profitability. Provisions have already been set aside to more or less completely cover the costs of the restructuring measures adopted in December 2001 so that further significant expenses for restructuring our operations are not expected in the first quarter of 2002. Our withdrawal from operative business in the United Kingdom is proceeding according to plan.

Assuming the targets set in budgeting for the current fiscal year are substantially achieved, the liquidity of the Pixelpark Group this year is guaranteed.

Subsequent events

In February 2002, a liquidation agreement for Pixelpark Iberia, S.L. and the holding company, Pixelpark Latam Participaciones, S.A., was drawn up with the minority shareholder in Spain. The costs of the liquidation will be met by the two shareholders in accordance with their shares in the company, so that Pixelpark will be responsible for 80%. Restructuring provisions of € 2.6m to cover the costs of liquidation were set aside in the annual accounts as of December 31, 2001. According to current estimates, this will suffice to cover all expenses.

On March 1, 2002, Bertelsmann AG announced that it would treat € 20m of its loans to Pixelpark AG as a conditional write off with debtor warrant. This improved the equity capital position of Pixelpark AG. The measure has no impact on Group accounting according to US-GAAP.

Berlin, March 18, 2002

Paulus Neef Chairman of the Management Board	Annette Koch Member of the Management Board

Consolidated statement of operations for the fiscal year ended December 31, 2001

(in €k)	Jan. 1-Dec. 31, 2001	Jul. 1-Dec. 31, 2000
1. Revenues	79,873	51,357
2. Research and development grants	1,430	918
Total revenues	**81,303**	**52,275**
3. Costs of revenues	-60,165	-36,547
4. Selling, general and administrative expenses	-40,154	-24,407
5. Research and development expenses	-1,234	-1,283
6. Restructuring costs	-14,596	0
7. Impairment charges	-35,711	-666
8. Depreciation	-4,466	-2,095
9. Amortization of goodwill and other intangible assets	-7,523	-1,198
Operating loss	-82,546	-13,921

(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Operating loss	-82,546	-13,921
10. Interest income	677	348
11. Interest expenses	-2,648	-172
12. Other expenses, net	-273	-514
Losses before taxes, result from equity participation and minority interests	-84,790	-14,259
13. Income tax	10,069	1,428
14. Result from equity participation	-11,787	-3,100
15. Minority interests in earnings of subsidiaries	478	375
Net loss	**-86,030**	**-15,556**
Losses per share (in €)	-4.40	-0.84
Weighted average of outstanding shares	19,560,532	18,606,705

For further explanations refer to notes

Consolidated balance sheet as of December 31, 2001

Assets (in €k)	Dec. 31, 2001	Dec. 31, 2000
A. Current assets		
Cash	27,743	20,576
Accounts receivable, net	9,797	26,591
Accounts due from non-consolidated related parties	7,989	6,251
Unbilled revenues	5,276	5,396
Prepaid expenses and other current assets	5,283	7,886
	56,088	66,700
B. Non-current assets		
Property and equipment, net	6,398	8,616
Software, net	907	1,500
Investments in associated companies	164	12,428
Other assets	0	766
Goodwill and other intangible assets, net	17,721	51,879
	25,190	75,189
	81,278	**141,889**

For further explanations refer to notes

Liabilities and shareholders' equity

(in €k)	Dec. 31, 2001	Dec. 31, 2000
A. Current liabilities		
Current bank debt	884	1,095
Accounts payable	12,781	13,600
Accounts due to non-consolidated related parties	2,763	984
Deferred revenues	2,039	5,721
Accrued expenses and other current liabilities	13,344	14,005
Income taxes payable	2,117	4,320
Deferred taxes	45	157
	33,973	39,882
B. Non-current liabilities		
Other liabilities	98	1,432
Accounts due to non-consolidated related parties	40,000	25,084
Deferred taxes	2,307	3,331
	42,405	29,847
C. Minority interests		
	0	478
D. Shareholders' equity		
Common stock divided into 18,694,724 shares as of December 31, 2000, divided into 20,113,232 shares as of December 31, 2001, nominal value of Euro 1.00	20,113	18,695
Additional paid-in capital	92,861	74,984
Retained losses	-109,063	-23,033
Accumulated translation adjustment	989	1,036
	4,900	71,682
	81,278	**141,889**

Consolidated cash flow statement for the fiscal year ended December 31, 2001

(in €k)	Jan. 1-Dec. 31, 2001	Jul. 1-Dec. 31, 2000
Cash flows from operating activities		
Net loss	-86,030	-15,556
Depreciation and amortization	47,700	3,959
Loss on disposal of fixed assets	230	359
Minority interests	-478	-375
Losses in equity investees	12,199	3,100
Net change in operating assets	20,738	-6,447
Net change in operating liabilities	-10,228	10,307
Net cash used in operating activities	-15,869	-4,653
Cash flows from investment activities		
Cash paid for acquisitions, net of cash acquired	-4,399	-26,297
Capital expenditure	-2,863	-5,271
Proceeds from disposal of fixed assets	362	104
Net cash used in investing activities	-6,900	-31,464

(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Net cash used in investing activities	-6,900	-31,464
Cash flows from financing activities		
Repayment of debt financing	-212	-1,010
Proceeds from capital increase	14,925	0
Proceeds from contribution by minority shareholders of subsidiaries	0	2,000
Proceeds from shareholder financing	15,000	25,000
Net cash from financing activities	29,713	25,990
Net cash flows	6,944	-10,127
Effect of exchange rates on cash	223	112
Cash, beginning of period	20,576	30,591
Cash, end of period	**27,743**	**20,576**

For further explanations refer to notes

Equity roll forward July 1, 2000 to December 31, 2001

(in €k)	Common stock	Additional paid-in capital	Retained losses
Balance at July 1, 2000	**18,601**	**46,847**	**-7,477**
Issuance of shares for acquisition of the ZLU Group	94	12,181	
Effect of subsidiaries' equity transactions		15,956	
Net loss			-15,556
Other comprehensive income: Translation adjustments			
Comprehensive income			
Balance at December 31, 2000	**18,695**	**74,984**	**-23,033**
Issuance of shares for acquisition of K2 S.A.	61	4,309	
Capital increase	1,357	13,568	
Net loss			-86,030
Other comprehensive income: Translation adjustments			
Comprehensive income			
Balance at December 31, 2001	**20,113**	**92,861**	**-109,063**

For further explanations refer to notes

Accumulated translation adjustments	Total shareholders' equity	Comprehensive income
669	**58,640**	
	12,275	
	15,956	
	-15,556	-15,556
367	367	367
		-15,189
1,036	**71,682**	
	4,370	
	14,925	
	-86,030	-86,030
-47	-47	-47
		-86,077
989	**4,900**	

Consolidated statement of changes in fixed assets for the fiscal year ended December 31, 2001 according to US-GAAP

(in €k)	Historical costs						
	Balance Jan. 1, 2001	Initial consolidation	Effect of exchange rates	Additions	Reclassi-fications	Disposals	Balance Dec. 31, 2001
I. Intangible assets							
1. Software	2,671	57	4	256	-27	-52	2,909
2. Goodwill	46,251	0	0	8,484	0	-4,288	50,447
3. Other intangible assets	8,912	0	4	4	0	0	8,920
	57,834	57	8	8,744	-27	-4,340	62,276
II. Property and equipment							
1. Leasehold improvements	1,373	151	2	1,091	0	-172	2,445
2. Production, office and other equipment	13,492	698	114	701	113	-864	14,254
3. Advance payments and construction in progress	86	0	0	0	-86	0	0
	14,951	849	116	1,792	27	-1,036	16,699
III. Financial assets							
1. Investments in associated companies	15,323	33	4	116	0	-425	15,051
2. Investments in consolidated companies	205	0	0	0	0	-205	0
	15,528	33	4	116	0	-630	15,051
	88,313	**939**	**128**	**10,652**	**0**	**-6,006**	**94,026**

Depreciation and amortization							Losses in equity investees	Net book value	
Balance Jan. 1, 2001	Initial consolidation	Effect of exchange rates	in the fiscal year	Extraordinary in the fiscal year	Disposals	Balance Dec. 31, 2001	in the year	Dec. 31, 2001	Dec. 31, 2000
1,171	58	2	735	79	-43	2,002	0	907	1,500
3,284	0	0	6,000	34,567	-4,287	39,564	0	10,883	42,967
0	0	0	1,523	559	0	2,082	0	6,838	8,912
4,455	58	2	8,258	35,205	-4,330	43,648	0	18,628	53,379
276	4	1	267	24	-15	557	0	1,888	1,097
6,059	127	51	3,464	482	-439	9,744	0	4,510	7,433
0	0	0	0	0	0	0	0	0	86
6,335	131	52	3,731	506	-454	10,301	0	6,398	8,616
3,100	0	0	0	0	0	3,100	-11,787	164	12,223
0	0	0	0	0	0	0	0	0	205
3,100	0	0	0	0	0	3,100	-11,787	164	12,428
13,890	**189**	**54**	**11,989**	**35,711**	**-4,784**	**57,049**	**-11,787**	**25,190**	**74,423**

Notes to the consolidated financial statements for the 2001 fiscal year

1 General principles

Pixelpark AG came into being as a result of transformation of Pixelpark Multimedia 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 § 267 para. 3 of the Handelsgesetzbuch (HGB) – German Commercial Code. The consolidated financial statements of Pixelpark AG were drawn up in accordance with United States Generally Accepted Accounting Principles (US-GAAP). Thus, Pixelpark AG made use of the option pursuant to § 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 operations. All figures are shown in € k (thousand euros).

The figures reported for the 2001 fiscal year cover 12 months, while the figures shown for the previous year cover only 6 months. Comparison of figures for the 2001 fiscal year with those of the previous year is therefore only possible to a limited extent.

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, 2001, the Pixelpark Group had 813 employees (previous year: 967) at various locations in Germany, Switzerland, Austria, France, the United Kingdom, Spain and Brazil.

3 Changes in the scope of the consolidation

(a) Scope of the consolidation

The scope of the consolidation changed as follows compared with the previous year.
The purchase method has been applied for all acquisitions.

Digivision AG, Zurich
Pixelpark Schweiz AG took over 100% of the shares in Digivision AG, Zurich with effect from August 1, 2001. This added a multimedia agency and full-service provider in the e-business field to the assets of the company and, thus, rounded off the range of services offered by the Group.

Purchase price € 2,777k

K2 S.A., Paris
Pixelpark France S.A.R.L. acquisition of 100% of the shares in K2 S.A., Paris took contractual effect on January 1, 2001. K2 S.A. was merged with Pixelpark France S.A.R.L (continuing company) on June 21, 2001 with effect from January 1, 2001.

Purchase price € 6,059k, incl. € 1,688k cash and 61,683 shares in PP AG at € 70.86 per share

Removals from the scope of the consolidation:

Pixelpark CEE Holding AG, Vienna
Pixelpark CEE Holding AG and its 100% subsidiaries, Pixelpark Hungary Kft., Budapest and Pixelpark Slovakia s.r.o., Bratislava were divested following a management buy-out on June 21, 2001. This reduced Pixelpark AG's stake to 15%. The group of companies was deconsolidated with effect from June 30, 2001 and is now shown at cost.

Sales price € 0k

Pixelpark Hungary Kft., Budapest
See Pixelpark CEE Holding AG; deconsolidated with effect from June 30, 2001.

Pixelpark Slovakia s.r.o. ; Bratislava
See Pixelpark CEE Holding AG; deconsolidated with effect from June 30, 2001.

ZLU Inc. Logistics and Management Consulting, Boston
Deconsolidated due to insignificance with effect from June 30, 2001 as no business operations had been effected since 2000.

Pixelpark Inc., New York, USA
No significant revenues could be generated in the USA, so that operations were discontinued on the balance-sheet date (sale of assets and reduction of the number of employees to zero). The company was deconsolidated with effect from December 31, 2001.

Venturepark Incubator AG i.L., Berlin
Venturepark Incubator AG was shown at equity in previous years' accounts. It was decided to open liquidation proceedings as per November 1, 2001. As Pixelpark AG can expect no future proceeds from the liquidation, the investment was valued at € 0k as per December 31, 2001.

The following companies were acquired or formed the previous year:

ZLU Group
100% of the ZLU Group[1] was acquired with effect from December 19, 2000. The companies 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.

Purchase price € 35,951k, incl. € 23,008k cash, € 669k for interest expenses and 93,552 shares in PP AG at € 131.20 per share

Twoway GmbH
Some Pixelpark Schweiz AG's activities were transferred to Twoway GmbH, Basle, formerly Scopo Intermediale Gestaltung GmbH, Basle, with effect from July 1, 2000. For this reason, 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.

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, and ZLU do Brasil Ltda. Consultoria para Logistica e Gestão Empresarial, São Paulo, Brazil.

On acquisition of the ZLU Group on December 31, 2000, the purchase price was initially allocated to intangible assets. Hidden reserves were disclosed totaling € 8,906k. Hence, the purchase price was allocated as follows:

(in €k)	
Purchase price	35,951
Current assets	4,231
Fixed assets	329
Company name	1,058
Clients	6,867
Employees	982
Liabilities acquired	4,400
Residual goodwill	**26,884**

On acquisition of K2 S.A. and Digivision AG, goodwill was calculated as the difference between the purchase price paid and the book values of assets and liabilities acquired on the date of acquisition.

On acquisition of K2 S.A., the purchase price was allocated as follows:

(in €k)	
Purchase price	6,059
Fixed assets	164
Current assets	1,757
Liabilities acquired	1,021
Residual goodwill	**5,159**

On acquisition of Digivision AG, the purchase price was allocated to assets and liabilities as follows:

(in €k)	
Purchase price	2,777
Fixed assets	341
Current assets	1,303
Liabilities acquired	1,090
Residual goodwill	**2,223**

This resulted in the following Group structure as per December 31, 2001:

	Share of capital %	Equity [2] Dec. 31, 2001 € k	Result from equity participation[3] fiscal year 2001 € k	Consolidation method
Pixelpark Schweiz AG, Basle	100.0	9,473	1,914	full consolidation
Digivision AG, Zurich	100.0	-393	-926	full consolidation
Pixelpark Inc., New York (until Dec. 31, 2001)	100.0	0	7	deconsolidated
Pixelpark Austria GmbH, Vienna	100.0	-373	-934	full consolidation
Pixelpark France S.A.R.L., Paris	100.0	-1,730	-4,814	full consolidation
Pixelpark UK Ltd., London	100.0	-3,067	-4,250	full consolidation
Pixelpark Hungary, Kft Budapest (until June 30, 2001)	100.0	-532	-245	deconsolidated
Twoway GmbH, Basle	100.0	-248	-113	full consolidation

	Share of capital %	Equity [2] Dec. 31, 2001 € k	Result from equity participation [3] fiscal year 2001 € k	Consolidation method
Hypercomm AG, Zurich	100.0	67	-1	at-equity consolidation
ZLU Group [4]	100.0	2,613	-803	full consolidation
Venturepark GmbH, Berlin	100.0	19	-2	at-equity consolidation
Pixelpark Latam, S.A., Madrid	80.0	1,977	52	full consolidation
Pixelpark Iberia, S.A., Madrid	80.0	-3,011	-2,334	full consolidation
Pixelpark Partici-paciones, S.A., Madrid	80.0	50	-3	full consolidation
Pixelpark CEE Holding AG, Vienna (until June 30, 2001)	15.0	-5,593	419	deconsolidated
Incubator AG, Basle	43.0	257	21	at cost
Venturepark Incubator AG i.L., Berlin	39.8	-	-11,700	full consolidation

2) According to US-GAAP
3) According to US-GAAP, without impairment charges and amortization on intangible assets
4) 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, and ZLU do Brasil Ltda. Consultoria para Logistica e Gestão Empresarial, São Paulo, Brazil.

(b) Changes in the scope of the consolidation

Pro-forma data according to APB 16 cannot be provided for K2 S.A. or Digivision AG: merger of K2 S.A. with Pixelpark France S.A.R.L. was backdated to January 1, 2001; and, for Digivision AG, no US-GAAP data are available for the previous year.

The data given for comparison below was calculated as follows: The consolidated financial statements for the 2001 fiscal year include the results of Digivision AG for the period from August 1 to December 31, 2001 (revenues: € 316k; net loss: € 926k). These were subtracted from the figures for the Group.

Deconsolidation of the Pixelpark CEE Holding AG Group was taken into account in the pro-forma calculation by subtracting the CEE Group's results for the period from January 1 to June 30, 2001 (revenues: € 756k; net loss: € 174k) from the overall figures for the Group as at December 31, 2001. The figures for the period ended December 31, 2000 were adjusted by subtracting the result for the CEE Group for the period July 1 to December 31, 2000 (revenues: € 105k; net loss: € 687k).

Deconsolidation of Pixelpark Inc., New York, USA was not taken into account in the calculations since it had negligible effects on comparability of the Group results.

This pro-forma view of the change in the scope of the consolidation provides the following data:

(in €k)	pro-forma data Jan. 1 - Dec. 31, 2001	pro-forma data Jul. 1 - Dec. 31, 2000
Revenues	80,231	51,873
Net loss	-84,930	-14,869
Losses per share (in €)	-4.34	-0.80
Number of shares	19,560,532	18,606,765

The figures for the previous year relate to a period of 6 months while those for the fiscal 2001 cover a period of 12 months.

(c) Data on at-equity consolidated holdings

Venturepark Incubator AG i.L. was included as an at-equity holding in the consolidated financial statements for the previous fiscal year. A decision was made to open liquidation proceedings for the company as per November 1, 2001. The company's equity amounts to € 0k. It was therefore not included in the consolidated statements prepared to the balance-sheet date of December 31, 2001.

The Pixelpark Group owns 100% of the shares in Venturepark GmbH, Berlin and Hypercomm AG, Zurich. However, results from these investments are of no significance; hence the companies are only consolidated at equity.

4 Summary of significant accounting policies

The consolidated financial statements were drawn up in accordance with US statutory accounting requirements. They include Pixelpark AG and its subsidiaries. Consolidation of debts, consolidation of earnings and expenses and, where applicable, elimination of unrealized results of intra-group transactions were carried out in respect of all inter-company relations. To ensure consistency in reporting the figures for the 2001 fiscal year, figures for the previous year have been reclassified in the statement of operations.

(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/cost-to-cost method. 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 or, on the liabilities side, under deferred revenues.

In the case of online advertising, only the commission retained on clients' online advertising budgets is shown as revenue, in accordance with EITF 99-19. Revenues are recorded in the period in which they are realized. Grants for European Union research and development projects are recorded as revenue in the period in which the entitlement contractually arises and the costs are incurred.

(b) Use of estimates

The financial statements of the Pixelpark Group are also partly based on management estimates. In particular, estimates were used in assessing the percentage of completion of projects, in impairment tests and in calculating provisions to cover restructuring costs. These estimates were supported by our project accounting systems, for example, and by previous experience. Actual results may, however, deviate from estimates.

(c) Foreign currency translation adjustments

The figures in the financial statements of foreign subsidiaries were converted into euros as follows. Balance-sheet figures were converted based on the rate of exchange applicable on the balance-sheet date. Figures in the statements of operation were converted based on the average rate of exchange for the year. In accordance with US-GAAP, differences arising from the use of these different rates of exchange are included in equity as other comprehensive income and have no bearing on the net result.

Accumulated translation adjustments developed as follows:

(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Balance, beginning of period	1,036	669
• Translation adjustments	281	367
• less translation adjustments for deconsolidated subsidiaries	-329	0
• Total translation adjustments	-47	367
Balance, end of period	**989**	**1,036**

(d) Losses per share

Losses per share are calculated on the basis of the weighted average of outstanding shares. As Pixelpark reported losses for the period under review, the shares from authorized but unissued capital (stock options) have not been included in the calculation.

(e) Capitalization of software for internal use

Pursuant to SOP 98-1, only personnel expenses are capitalized for the development of software produced in-house for internal use. Depreciation is applied according to the straight-line method over an anticipated effective useful life of between 2 and 4 years.

(f) Goodwill and other intangible assets

Goodwill is calculated in the local currency of the companies acquired. 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. For acquisitions effected prior to July 1, 2001, goodwill is amortized over a period of 7 years, in accordance with APB 16. Goodwill arising from acquisitions effected after July 1, 2001 is not amortized, in accordance with SFAS 142.

(g) Impairment

The Group reviews the valuations of long-lived assets, including intangible assets, if events or modified circumstances suggest that the book values and fair values of the assets no longer match. The valuation of an asset which is actually employed results from comparison of the book value of the asset with the future non-discounted cash flow likely to be achieved with the asset. If this shows that the value of an asset has diminished, then its valuation is reduced by the amount to which its book value exceeds the fair value. The estimated fair value is generally a valuator's assessment or the estimated future discounted cash flow. Thus, actual results may differ considerably from such estimates.

Impairment charges were applied with respect to the following companies:

(in €k)	Impairment charges Jan. 1 - Dec. 31, 2001	Impairment charges Jul. 1 - Dec. 31, 2000
Pixelpark CEE Holding AG, Vienna	4,423	666
Pixelpark France S.A.R.L., Paris	3,485	0
ZLU Zentrum für Logistik und Unternehmensplanung GmbH, Berlin	27,218	0
Pixelpark UK, London	20	0
Software etc.	565	0
Impairment charges	**35,711**	**666**

The impairment charges are recorded in the consolidated statement of changes in fixed assets (appendix to these notes) as extraordinary depreciation, although they are regarded as reducing historical costs according to US-GAAP.

(h) Fair value of financial instruments

The fair value of financial instruments corresponds to the amount at which the instrument would be traded between two parties in a real transaction, excluding distress sale or liquidation. The Group's financial instruments consist primarily of cash, accounts receivable, accounts payable and provisions as well as short and long-term debt.

Book values for assets and liabilities are essentially consistent with their fair values.

(i) Marketing expenses

Marketing expenses are recorded as expenditure at the time they are incurred. These expenses amounted to € 2,859k (previous year: € 513k) for the group as a whole.

(j) Stock-based compensation programs

Pixelpark accounts for stock-based compensation using the intrinsic value method prescribed in APB 25 and other associated commentaries.

Following a decision of the Extraordinary General Meeting of Pixelpark AG on September 16, 1999, the Management Board of Pixelpark AG is empowered to issue on one or several occasions up until September 15, 2004 options rights for the purchase of up to 910,000 new non-par shares in Pixelpark AG with the agreement of the Supervisory Board.

For information on the conditional increase in capital with respect to stock options, refer to section 5 (g).

Status of the stock options at December 31, 2001:

	Outstanding options			Exercisable options	
Exercise price per option in €	Outstanding options no.	Average remaining term in years	Average exercise price per option in €	Exercisable options no.	Average exercise price per option in €
15.75	73,000	2.75	15.75	24,333	15.75
79.21	159,150	3.88	79.21	-	-
5.70	157,255	4.65	5.70	-	-
	389,405	**3.98**	**37.63**	**24,333**	**15.75**

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

	Jan. 1 – Dec. 31, 2001		Jul. 1 – Dec. 31, 2000	
	Outstanding options no.	Average exercise price per option in €	Outstanding options no.	Average exercise price per option in €
Balance, beginning of period	431,750	57.85	149,400	15.75
Options granted	188,750	5.70	289,200	79.21
Options exercised	-	-	-	-
Options expired	231,095	49.32	6,850	41.69
Balance, end of period	**389,405**	**37.63**	**431,750**	**57.85**
Exercisable options, end of period	24,333	15.75	-	-
Average fair-value assessment per option granted in the period	-	3.71	-	25.15

The Group has not yet recorded any compensation expenses according to APB 25.

Calculation of the fair value of options granted within the framework of the stock option program in 2001 (and 2000) was based on the Black-Scholes option pricing model with the following expectations: a volatility of 128 % (102 %), a dividend yield of 0 %, a risk-free interest rate of 4.58 % (5.35 %) and an expected term of five years.

If the method defined in SFAS 123 had been applied to calculate expenses in granting options under the stock option program, the net loss and losses per share would have been effected as shown as follows (pro-forma data):

		Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Net loss US-GAAP	Group € k	-86,030	-15,556
	Pro-forma € k	-86,547	-15,739
Losses per share US-GAAP	Group €	-4.40	-0.84
	Pro-forma €	-4.42	-0.85

(k) Deferred taxes and income 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 tax 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 previous years are also taken into account. Where appropriate, capitalized deferred taxes are adjusted to the likely realizable amount.

Pixelpark AG is integrated with Bertelsmann Multimedia GmbH for German trade tax purposes. Consequently, Pixelpark AG's tax loss is included in the tax return for Bertelsmann Multimedia GmbH. Depending on the tax result at Bertelsmann Multimedia GmbH, Pixelpark AG either effects payment to Bertelsmann Multimedia GmbH, or receives a reimbursement. Because of a change in German tax legislation from January 1, 2002, continuation of the current arrangement requires that a control agreement be drawn up.

Pixelpark AG received a tax reimbursement of € 8,809k in the period of the report (2000: € 1,630k). Of this, € 1,080k was received in cash in the period of the report. The remainder is reported under accounts due from non-consolidated related parties. Following the 2000 tax reform, the rate of corporation tax of 40%, or 30% for dividend expenses, was reduced to a uniform rate of 25%. The effect of this reduction in the year 2000 was € 2,670k for Pixelpark AG.

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Deferred tax assets and liabilities according to US-GAAP were as follows:

(in €k)	Dec. 31, 2001	Dec. 31, 2000
Deferred tax assets		
Tax losses carried forward	24,167	8,630
Provisions for restructuring costs	1,668	0
Fixed assets	27	0
Deferral for straight-line rent	418	311
Total deferred tax assets, gross	26,280	8,941
less valuation allowances	-12,637	-6,251
Total deferred tax assets, net	**13,643**	**2,690**
Deferred tax liabilities		
Percentage of completion	1,102	1,084
Flotation expenses	960	960
Holdings	7,974	261
Accounts due from non-consolidated related parties	3,258	0
Other intangible assets	2,553	3,331
Fixed assets	4	175
Accounts receivable	80	195
Software for internal use	64	123
Provisions	0	49
Total deferred tax liabilities	15,995	6,178
Total deferred taxes, net	**2,352**	**3,488**

Valuation allowances on deferred tax assets increased by € 6,386k.

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

(in €k)	Germany	Abroad	**Total**
Loss before taxes, result from equity participation and minority interests	-79,420	-5,370	**-84,790**
Previous year	-11,586	-2,673	**-14,259**
Taxes			
- Current income tax	9,049	-234	**8,815**
Previous year	1,630	-375	**1,255**
- Deferred taxes	1,140	114	**1,254**
Previous year	0	173	**173**

The effective tax rate was derived from the statutory tax rate of 38.3% (2000: 50.9%) as follows:

(in %)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Statutory tax rate	38.3	50.9
Foreign tax differential	-0.7	3.4
Reduction in the rate of corporation tax in Germany	0.0	-18.7
Change in valuation allowances for deferred tax assets	-7.6	-17.8
Effect of amortization of goodwill	-17.6	-6.5
Non-deductible expenses	-0.1	-0.7
Other	-0.4	-0.6
Effective tax rate	**11.9**	**10.0**

At December 31, 2001, the Group had the following accumulated tax losses: € 69.4m for corporation tax and € 1.0m for trade tax in Germany, € 1.3m income taxes in Switzerland, € 1.0m in Austria, € 5.5m in France, € 6.8m in the United Kingdom and € 3.1m in Spain. All these amounts are available to the Group according to current tax legislation. No deferred tax liabilities have been recorded for retained earnings of subsidiaries that have been continually reinvested. Such deferred tax liabilities would amount to approximately € 500k.

(l) Foreign exchange gains and losses
Despite the international orientation of the Pixelpark Group, it is not subject to any particularly high exchange-rate risk. Sales in countries outside the euro-zone were billed almost without exception in the relevant national currency. In the 2001 fiscal year, foreign exchange gains and losses arose primarily through the financing of the national companies by Pixelpark AG. The net gain amounted to € 477k, compared with a net loss of € 206k the previous year.

(m) Additional information on cash flow
In the 2001 fiscal year, interest payments amounted to € 1,471k (previous year: € 91k) and tax payments amounted to € 366k (previous year: € 251k).

Acquisitions in the 2001 fiscal year were financed to the tune of € 4,371k (previous year: € 12,275k) by the issuance of shares.

(n) Recent accounting standards
In June 2001, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards (SFAS) 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that the purchase method be applied to mergers initiated after June 30, 2001. It defines the types of intangible assets to be shown separately from goodwill. SFAS 142 requires that goodwill and certain intangible assets no longer be written off. However, the valuation of assets must be reviewed at least once a year. SFAS 142 is to be applied with effect from the first fiscal year ending after December 15, 2001. Early application of the standard is permitted under certain circumstances. SFAS 142 was applied to the acquisition of Digivision AG on August 1, 2001, whereby the goodwill arising has not been amortized.

In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets". This statement resolves various interpretations of SFAS 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be disposed of", in which most of the requirements of the statement are to be found. SFAS 144 points to the guidelines for accounting the sale of business operations in APB 30 "Reporting the results of operations – extraordinary, unusual and infrequently occurring events and transactions". This resulted in a single, consistent accounting model for disposals and created several possibilities for the handling of transactions. SFAS 144 applies to fiscal years commencing after December 15, 2001. Earlier application is possible. The Group does not expect initial application of this standard to have any significant effects.

5 Notes on the consolidated balance sheet

(a) Unbilled revenues

Unbilled revenues, which consist of the difference between revenues for ongoing projects and prepayments received, were almost unchanged compared with the previous year. They amounted to € 5,276k in fiscal 2001 and € 5,396k in fiscal 2000. As a rule, prepayments had been received in respect of projects not completed by December 31, 2001.

(b) Accounts receivable

A marked improvement in the collection of accounts and the lower overall revenues in the 2001 fiscal year meant accounts receivable went down from € 26,591k to € 9,797k as at December 31, 2001. A further contributing factor was that various large projects were billed in the last quarter of the previous year, which had a significant effect on the balance-sheet entry for the short 2000 fiscal year. At December 31, 2000, accounts receivable corresponded to 109% of fourth-quarter revenues. In fiscal 2001, the figure was 69%. Accounts due from non-consolidated related parties of € 7,989k include a tax reimbursement from the Bertelsmann Group amounting to € 7,729k. Accounts due from non-consolidated related parties are generally in line with the previous year's figure of € 6,251k.

Valuation allowances in respect of outstanding accounts rose from € 1,066k to € 1,613k in the period of the report. This increase was due to isolated events. No valuation allowances were applied to accounts due to non-consolidated related parties.

(c) Other current assets

Prepaid expenses and other current assets went down from € 7,886k to € 5,283k in the year of the report. This was mainly attributable to the fact that prepayments totaling € 2,142k were received in fiscal 2000 compared with € 643k in the reported year. Other current assets consist: other accounts due from employees € 1,492k, tax receivable € 1,185k, prepaid expenses € 449k and miscellaneous € 1,514k.

(d) Fixed assets

A statement of changes in fixed assets in the 2001 fiscal year is included as an appendix to these notes. Fixed assets are valued at their historical cost less depreciation. They are depreciated on a straight-line basis over their ordinary useful lives. The following depreciation periods are applied:

Software	3 years
Leasehold improvements	3 -10 years
Equipment, fixtures and fittings	3 - 5 years

Leasehold improvements are depreciated over their ordinary useful lives or over the duration of the lease, whichever is the less. The useful life is regularly reviewed by management with regards to ongoing technical developments. Service and repair costs are included as expenses, while the costs of replacements and supplementary investments that extend the ordinary useful life or increase capacity are capitalized. On the sale or disposal of fixed assets, historical costs less depreciation applied are closed out. Profits or losses arising have an impact on the statement of operations.

Goodwill is amortized on a straight-line basis over its expected useful life: seven years. The figures for amortization of goodwill and intangible assets in fiscal 2000 and fiscal 2001 were € 1,864k and € 42,649k including impairment charges. Accumulated depreciation amounted to € 3,284k on December 31, 2000 and € 41,647k on December 31, 2001. Depreciation on software produced in-house came to € 172k in fiscal 2001.

A statement of changes in fixed assets in the 2001 fiscal year is included as an appendix to these notes. With regard to impairment, refer to section 4 (g).

The marked reduction in investments in associated companies from € 12,428k in the year 2000 to € 164k in the year of the report is mainly due to the results from associated companies. Until liquidation of Venturepark Incubator AG i.L., Berlin commenced on November 1, 2001, a result from this investment was consolidated of -€ 12,199k. The valuation of the investment has diminished by this amount.

The reduction in goodwill and other intangible assets from € 51,879k at December 31, 2000 to € 17,721k at December 31, 2001 is attributable to divestment of Pixelpark CEE Holding AG (€ 4,287k), scheduled amortization of € 8,257k and impairment charges totaling € 35,205k for Pixelpark CEE Holding AG, ZLU Zentrum für Logistik und Unternehmensplanung GmbH and Pixelpark France S.A.R.L. Increases in goodwill arise from the acquisition of Digivision AG and K2 S.A.

Overall, the book value of goodwill and other intangible assets as at December 31, 2001 breaks down as follows:

(in €k)	
Pixelpark Schweiz AG	8,492
Pixelpark Austria GmbH	1,170
Pixelpark Köln GmbH	221
Pixelpark France S.A.R.L.	1,000
ZLU Group (other intangible assets)	6,838
Total	**17,721**

As a result of divestment of Pixelpark CEE Holding AG, the discontinuation of business operations in the USA and the associated reduction in the number of employees, property and software has gone down from € 10,166k to € 7,305k. Here there was a marked reduction in intangible assets (software) and in general equipment, fixtures and fittings.

(e) Current liabilities

In fiscal 2001, current liabilities went down to € 33,973k from € 39,882k the previous year. The principal reasons for this were a reduction in deferred revenues from € 5,721k to € 2,039k and lower figures for accounts payable and current bank debt.

Accrued expenses and other current liabilities break down as follows:

(in €k)	Dec. 31, 2001	Dec. 31, 2000
Personnel incl. social security contributions	3,480	4,887
Repayment obligations for customer prepayments and warranty claims	2,946	5,642
Repayment obligations for EU funds etc.	852	0
Annual financial statements	442	316
Other	5,624	3,160
Total	**13,344**	**14,005**

Provisions for personnel include restructuring costs of € 3,047k (previous year: € 0k). Other contains restructuring provisions of € 5,579k (previous year: € 0k). A total of € 14,596k was allocated to restructuring measures in the reported year, of which € 5,970k was paid out during the year.

(f) Non-current liabilities

In the short 2000 fiscal year, Pixelpark AG was granted a shareholder loan of € 25,000k from Bertelsmann AG. Under an agreement dated December 19, 2001, this loan was topped up to € 40,000k. Interest is payable on the loan at a fixed rate of 8.5%. The loan is repayable on March 31, 2003. If Pixelpark AG becomes over-indebted, the lender's claim ranks as inferior to all other claims from present or future creditors. On March 1, 2002, Bertelsmann AG and Pixelpark AG agreed that € 20,000k of this loan would be treated as a conditional write-off with debtor warrant.

Other liabilities break down as follows:

(in €k)	Dec. 31, 2001	Dec. 31, 2000
Accruals for lease obligations incurred during the rent-free period	0	793
Payment due to minority shareholders in subsidiaries	0	190
Other	98	449
Total	**98**	**1,432**

(g) Shareholders' equity
The paid-in common stock of Pixelpark AG amounted to € 20,113k at December 31, 2001, divided into 20,113,232 no-par-value shares. Shares in Pixelpark AG were distributed as follows at the end of the fiscal year:

	Dec. 31, 2001	Dec. 31, 2000
Number of shares	20,113,232	18,694,724
Bertelsmann Multimedia GmbH (%)	60.3	57.6
Paulus Neef (%)	17.7	19.0
Free float (%)	22.0	23.4
	100.0	**100.0**

Bertelsmann Multimedia GmbH discharged its disclosure obligations pursuant to § 160 para. 1 no. 8 and § 20 paras. 1 and 4 of the AktG (German Stock Corporation Law). A disclosure from Gütersloh pursuant to § 20 paras. 1 and 3 and § 20 para. 4 AktG issued on October 23, 2000 was published in the Bundesanzeiger (Federal Official Gazette) on November 11, 2000. In this disclosure, Bertelsmann Multimedia GmbH states that it owns more than one quarter of the shares in Pixelpark AG.

At the Annual General Meeting held on September 16, 1999, the Management Board was authorized to increase the share capital of the company, subject to the approval of the Supervisory Board, on one or several occasions at any time through September 15, 2004 by up to € 1,512,060 in exchange for cash or non-cash consideration (authorized capital I) and excluding shareholders' pre-emptive rights. The Management Board exercised this instrument with the approval of the Supervisory Board as follows:

At the meeting of the Supervisory Board on December 14, 2000, it was decided to increase capital for the acquisition of K2 S.A. The capital increase was entered in the Commercial Register on January 15, 2001. This increased share capital by € 61,683 to € 18,765,407. Following a Supervisory Board decision on May 17, 2001, a further capital increase took place in exchange for cash. Share capital increased a further € 1,356,825 to € 20,113,232 at the balance-sheet date. This exhausts the allocation of authorized capital I. Excluding shareholders' preemptive rights and allowing Bertelsmann Multimedia GmbH to take over and subscribe to new shares enabled it to increase its holding in the company to 60.3%.

At the Annual General Meeting held on November 2, 2000, the Management Board was authorized, subject to the approval of the Supervisory Board, to increase common stock through 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). No use was made of this instrument in the period of the report.

When the capital increase for the acquisition of K2 S.A. was effected and shares issued at a market price of € 70.86, € 4,309k was allocated to additional paid-in capital. The capital increase for cash effected in accordance with the Supervisory Board decision of May 17, 2001 increased share capital by € 1,356,825 and, with an issue price of € 11.00 per share, increased additional paid-in capital by € 13,568k.

The common stock of Pixelpark AG has been conditionally increased by € 910k, divided into 910,000 no-par-value payable-to-bearer shares. The conditional capital increase will only be effected to the extent that option holders take advantage of their rights to exercise options issued up until September 15, 2004 as authorized by the Annual General Meeting on September 16, 1999. The new shares participate in profits from the start of the fiscal year in which the options are exercised and new shares arise.

According to German Stock Corporation Law, the distribution of dividends depends on the level of shareholders' equity in the balance sheet according to HGB.

Dividends can only be declared and distributed from accumulated earnings (after the deduction of certain possible transfers to the reserves) shown in the balance sheet drawn up according to commercial law. The shareholders' equity in the company according to the German Commercial Code (HGB) differs from the figure shown in these financial statements, which are based on the accounting regulations valid in the USA. At December 31, 2001, the balance sheet drawn up in accordance with the German Commercial Code showed accumulated losses of € 85,988k.

(h) Other financial commitments

The Group leases office space, vehicles and business equipment under fixed-term leases or leases which cannot be terminated within the basic term. The following commitments from non-terminable rental and leasing agreements arise for future years:

(in €k)	
Year 1	2,520
Year 2	2,534
Year 3	2,198
Year 4	2,338
Year 5	2,338
> 5 years	20,708
Total	**32,636**

The above figures include amounts reported as restructuring provisions in the consolidated financial statements for the fiscal year ended December 31, 2001 according to EITF 94-3.

The following rental and leasing expenses arose in fiscal 2000 and 2001:

(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Rental and leasing expenses	3,494	2,864

At December 31, 2001, contingent liabilities pursuant to § 251 HGB existed regarding the pledging of assets amounting to € 1,349k. A fixed-term deposit account in Switzerland was pledged for the provision of a bank credit line. No use was made of this credit line to December 31, 2000 or December 31, 2001.

6 Notes on the statement of operations (cost-of-sales accounting)

(a) Segments

Segment reporting is carried out by country in keeping with the internal reporting structures in the Pixelpark Group. In Germany, there are two companies: Pixelpark AG and Zentrum für Logistik und Unternehmensplanung GmbH (ZLU). The "German operations" segment consists of Pixelpark AG. The "ZLU" segment covers the company's business activities in Germany (ZLU GmbH) and of the subsidiary in Brazil. "Switzerland" covers Pixelpark Schweiz AG, Twoway GmbH and Digivision AG, which was consolidated in August 2001.

The national Pixelpark companies operate in more or less the same fields, namely agency services and systems and technology. For the sake of clarity, all national companies have been included in the table below, even if they do not fulfil the size criteria required to be classified as segments. Revenues in the individual segments correspond to the revenues of the companies in the individual country. The amounts shown in the table are those prior to consolidation. Figures for previous years are shown in bright figures below the figure for the 2001 fiscal year. Segment controlling is based on operating results (EBITDA).

The same accounting principles are applied in segment reporting as in the consolidated financial statements according to US-GAAP.

Segment reporting

(in €k)	German operations	Switzerland	Austria	France
External revenues	34,837	21,226	2,821	5,203
Internal revenues				
within the segment	0	220	0	0
with other segments	1,702	186	869	87
Total revenues	36,540	21,632	3,689	5,290
Previous year	30,063	13,715	2,381	1,867
EBITDA	-6,611	872	-547	-3,236
Previous year	-10,322	2,695	97	-944
Restructuring costs	-11,255	0	-94	-646
Depreciation	-2,701	-740	-225	-295
EBITA **	-21,132	132	-866	-4,177
Previous year	10,230	-3,685	-309	-74
Impairment charges	-565	0	0	-3,485
Amortization of goodwill and other intangible assets	-79	-1,475	-164	-674
Operating loss	-21,211	-1,343	-1,030	-8,336
Previous year	-11,943	2,471	-3	-979
Other income/expenses	-201	622	6	-395
Interest income	1,055	261	0	0
Interest expenses	-2,125	-17	-95	-242
Income tax	8,809	-123	21	0
Result from equity participation	-11,787	0	0	0
Net loss before minority interests	-25,460	-600	-1,098	-8,973
Minority interests	0	0	0	0
Net loss after minority interests	-25,459	-600	-1,098	-8,973
Previous year	-9,957	2,378	-66	-973
Balance sheet total	92,922	17,397	1,737	3,673
Previous year	112,514	14,967	2,583	2,789
Investments	149	223	161	1,011
Previous year	3,397	369	336	378
Long-lived assets	3,979	271	543	1,500

* Includes both consolidation and the costs of central management.
** For "German operations" and "Total" impairment charges are included

Eastern Europe	UK	USA	Spain	ZLU	Consolidation *	Total
506	6,709	939	918	7,192	952	**81,303**
250	0	0	0	222	-692	**0**
0	270	4	0	3	-3,121	**0**
756 402	6,979 5,439	943 388	918 133	7,417 0	-2,862 -2,113	**81,303** **52,275**
-1,317 -837	-2,476 -1,051	-324 -337	-1,483 -825	-3,415 0	-1,713 1,561	**-20,250** **-9,963**
0	-1,378	0	-1,094	-129	0	**-14,596**
-56	-177	-16	-40	-216	0	**-4,466**
-1,373 93	-4,031 718	-340 2,463	-2,617 0	-3,760 0	-1,713 -3,977	**-39,877** **5,459**
-4,423	-20	0	0	-27,218	0	**-35,711**
0	0	0	0	-5,131	0	**-7,523**
-5,796 -855	-4,051 -1,111	-340 -365	-2,617 -833	-36,109 0	-1,713 1,561	**-82,546** **-12,057**
1,534	-3	358	-1	2,563	-4,756	**-273**
11	18	0	63	26	-757	**677**
-162	-234	-11	-43	-217	498	**-2,648**
-1	0	0	0	585	778	**10,069**
0	0	0	0	0	0	**-11,787**
-4,414	-4,270	7	-2,598	-33,152	-5,951	**-86,508**
165	0	0	313	0	0	**478**
-4,249 -687	-4,270 -1,111	7 -292	-2,285 -723	-33,152 0	-5,951 -4,125	**-86,030** **-15,556**
351 3,402	2,242 5,245	0 737	2,707 2,031	7,027 0	-46,777 -2,379	**81,279** **141,889**
39 103	163 499	2 8	41 181	258 0	0 0	**2,047** **5,271**
0	355	0	172	485	0	**7,305**

Total segment revenues have been adjusted for amounts from insignificant segments and for consolidated revenues and expenses.

Operating losses have been adjusted for amounts from insignificant segments and for consolidated revenues and expenses.

Balance-sheet totals have been adjusted for initial and follow-up consolidation of funds and debts.

(b) Additional explanatory remarks on the operating result

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

(in €k)	Jan. 1 - Dec. 31, 2001	Jul. 1 - Dec. 31, 2000
Cost of materials		
a) Cost of raw materials, supplies and purchased goods	1,280	2,033
b) Cost of purchased services	12,841	11,663
	14,121	**13,696**
Personnel costs		
a) Wages and salaries	54,703	22,719
b) Social security charges	9,161	4,280
	63,864	**26,999**

7 Notes on risk management

The Pixelpark Group's business operations consist chiefly of project work. The projects run over several months and the work volume on the different projects varies from quarter to quarter. Customer projects are very complex, and there is a significant risk in the management of such large projects. Most projects are carried out at fixed prices. So, there is a risk that actual costs exceed those calculated in advance. In the majority of cases, it is not possible to pass on non-scheduled costs.

While customer projects have to some extent increased in size and scope so that they run longer, there is still a limit to the planning range in the Pixelpark Group. Currently, it is approximately 8 weeks. Hence, follow-up contracts and acquisition of new clients are of decisive importance for the Group's financial position and results.

The Pixelpark Group's client spread has changed over the last year. The share of total revenues generated by the top ten clients has increased from 28% in the short 2000 fiscal year to 34% in the 2001 fiscal year. The loss of one or more larger clients could have a negative effect on the financial and earnings position of the Group.

The Internet market continues to be characterized by short-lived technological trends. Here the important thing is to choose technologies with a promising future for further training of employees. Pixelpark aims to reduce this risk as far as possible through close cooperation with leading technology providers.

Developments in individual regional markets are taken into account in valuation of national companies (or the valuation of the corresponding goodwill and intangible assets) according to US-GAAP. A slight economic recovery from the second half of 2002 was assumed in the calculations for the national companies in France and Austria and for ZLU. There is a risk that such an upturn away from the current loss situation and into the profit zone will not occur. If targets are not achieved and the market value of the individual companies is below the book value, there is a risk of impairment charges.

As a result of the personnel measures introduced in implementation of the efficiency program, the number of employees at our Berlin location has been reduced considerably. The office space becoming vacant in Berlin as a result hereof is on a fixed lease until mid-2010. It is assumed it can be gradually sublet up until the end of 2003. Provisions were set aside at December 31, 2001 to cover the period that office space stands empty and the difference between the price paid by Pixelpark and the lower estimated receipts from subletting. There is a risk that results will be affected should the currently estimated receipts from subletting not be achieved or if the office space cannot be sublet to the assumed extent. Similar risks arise after the current subletting agreement expires in London as well as after the liquidation of our Pixelpark companies in Spain decided on in 2002.

8 Related party transactions

(a) Transactions with non-consolidated related parties

Pixelpark is included as an affiliated company in the consolidated financial statements of Bertelsmann AG. Details of Pixelpark's dealings with the companies in the Bertelsmann Group are, therefore, shown below. Due to the international presence of the Group, Pixelpark is involved in numerous projects for Bertelsmann subsidiaries both in Germany and abroad. On October 25, 2001, a framework agreement was concluded between Bertelsmann AG and Pixelpark AG to intensify project work so that optimization and extension of Bertelsmann AG's online activities and those of its subsidiaries and associated companies can be assured. Pixelpark conducts numerous projects for Bertelsmann companies, lasting for periods between two months and over a year. At the same time, Pixelpark is able to make use of the services of Bertelsmann AG and its majority-owned subsidiaries, primarily in Germany and, to a limited extent, in Switzerland, France and Spain.

The following table shows the relationship between the Pixelpark Group and Bertelsmann companies:

	from/to Bertelsmann companies
Work and services provided by Pixelpark	- Project business: service agreements and contracts to provide work and services - Hosting
Work and services provided for Pixelpark	- Allocation of services by the Bertelsmann head office (tax, legal services, BEBSY) - Technologies, networks, IT systems
Other	- Provision of a long-term loan - Integrated inter-company relationship between Pixelpark AG and Bertelsmann Multimedia GmbH for German trade tax purposes

The following table provides an overview of revenues for work and services between the Bertelsmann companies and Pixelpark.

(in €k)	Jan. 1. – Dec. 31, 2001	Jul. 1. – Dec. 31, 2000
Work and services provided by Pixelpark for Bertelsmann companies	2,956	3,939
Work and services provided for Pixelpark by Bertelsmann companies	727	2,192

The Pixelpark Group realized roughly 4% of its total revenues with companies in the Bertelsmann Group (previous year: 8%). Pixelpark received adequate consideration for all work and services provided.

As described in the notes on deferred taxes and income taxes, Pixelpark AG has an integrated inter-company relationship for German trade tax purposes with Bertelsmann Multimedia GmbH, which is a wholly-owned subsidiary of Bertelsmann AG. On the basis of this inter-company relationship, Pixelpark received trade-tax income of € 8,809k during the 2001 fiscal year.

The share of accounting services outsourced and handled under contract by Bertelsmann AG was further reduced in the 2001 fiscal year. Services provided by Bertelsmann in 2001 related primarily to technical support for the consolidation software and the SAP system as well as tax and legal services. They were itemized and charged individually at the internal prices typical in the Group. The underlying contracts for these services can be terminated at short notice.

In December 2000, Bertelsmann AG granted Pixelpark AG an unsecured loan of € 25m. This was topped up to € 40m in December 2001. Interest is payable on the loan at market rates (currently at a fixed rate of 8.5%). The loan is to be repaid by March 31, 2003.

(b) Transactions with other related parties

There were no notable transactions with other related parties in the 2001 fiscal year; and, with only a few exceptions, there were no notable transactions with other related parties in the short 2000 fiscal year. The exceptions were:

- Sportgate AG i.G. i.L.

Sportgate AG i.G. i.L. is a holding of Venturepark Incubator AG i.L. The Chairman of the Supervisory Board is Paulus Neef, Chairman of the Management Board of Pixelpark AG. In the short 2000 fiscal year, Pixelpark completed work on development of a concept for an Internet portal for Sportgate. The value of the services was € 1,131k.

- S&T AG

In the short 2000 fiscal year, S&T AG, Vienna, was the second shareholder in Pixelpark CEE Holding AG. Pursuant to a service agreement between Pixelpark CEE Holding AG and S&T AG, the latter provided services in terms of infrastructure, administration etc. for Pixelpark CEE Holding AG. The costs of these services was € 60k in the short fiscal year. However, Pixelpark CEE Holding AG made a prepayment for these services as contractually agreed.

9 Particular information required under § 292a HGB

Differing accounting, valuation and consolidation methods

Pixelpark AG made use of the option pursuant to § 292a HGB to draw up discharging consolidated financial statements in accordance with the United States Generally Accepted Accounting Principles (US-GAAP) valid on the balance-sheet date.

The accounting, valuation and consolidation methods in US-GAAP differ essentially in the following respects:

Balance-sheet layout

In German financial reporting, the balance sheet and statement of operations are prepared pursuant to §§ 266, 275 HGB. US-GAAP stipulates a different layout: balance-sheet items are arranged in order of realizability beginning with current items. Furthermore, current components of non-current debtors and creditors are shown separately in the balance sheet.

Software developed in-house

Under German law, the cost of developing software in-house is not included in the balance sheet. Expenses arising are taken to the statement of operations immediately.

According to US-GAAP, personnel costs chargeable to the development of software in-house may be capitalized and written off over its expected useful life (straight-line method over 2 to 4 years): see SOP 98-1. The company makes use of this provision.

Goodwill

According to US regulations, goodwill is to be capitalized and amortized over its expected useful life. The useful life depends on the nature of the business acquired. Adjustment to shareholders' equity possible under German law is not allowed.

Unrealized gains/losses at the balance-sheet date

Under German law, only realized gains can be recorded (the principle of unequal treatment of losses and gains). However, unrealized gains can also be recorded according to US-GAAP.

Under German law, non-hedged foreign currency transactions are recorded at the lower of original cost and market rate on the balance-sheet date. American accounting standards (SFAS 52) stipulate that all non-hedged foreign currency transactions be recorded at the market rate on the balance-sheet date. Unrealized currency gains and losses are recorded in the statement of operations.

Under German law, derivative financial instruments are valued on the basis of their original cost and in accordance with the realization rule and the principle of unequal treatment of losses and gains. According to US-GAAP, derivative financial instruments are recorded at market rates. Unrealized gains and losses arising from such treatment are recorded in the statement of operations.

Deferred taxes
Under German law, deferred tax assets and liabilities are recorded for all temporary differences affecting results for taxable income or the consolidated statement of operations (timing concept). No deferred taxes are recorded for tax losses carried forward.

According to SFAS 109, however, deferred taxes are recorded for all temporary differences between tax values and those in the consolidated financial statements (temporary concept). Deferred taxes are recorded for tax losses carried forward. These are also based on future tax rates.

Stock-based compensation programs
According to US-GAAP, there are two alternatives for the valuation of employee stock option plans. Under APB 25, the difference between the exercise price and the price on the balance-sheet date is recorded as an expense. Alternatively, SFAS 123 can be applied, under which the market value of the options is calculated using a statistical model (Black-Scholes option pricing model) and expenses recorded over the period to the exercise date. Pixelpark applied APB 25 in preparing the consolidated financial statements. The effects of applying SFAS 123 are shown in pro-forma data in the notes.

Under German law, no expenses arise for stock option plans financed from conditional capital.

10 Other information required under § 292a HGB

(a) Number of employees
On December 31, 2001, the Pixelpark Group had 813 employees (previous year: 967). The average number of employees in the 2001 fiscal year was 1,019 (previous year: 852).

(b) Management Board and Supervisory Board
Total emoluments of the members of the Management Board amounted to € 504k in the 2001 fiscal year (previous year: € 376k). No decision has yet been taken by the shareholders on emoluments for the Supervisory Board. Provisions of € 42k (previous year: € 51k) have been recorded in the accounts.

The Management Board of Pixelpark AG was made up as follows in fiscal 2001:

Paulus Neef (Chairman), Chief Executive Officer, Berlin

Dr. Jan Kantowsky, Chief Financial Officer and Chief Operations Officer, Berlin, to April 15, 2001

Annette Koch, Chief Financial Officer, Bielefeld, from April 15, 2001

Paulus Neef is a member of the Supervisory Boards of Venturepark Incubator AG i.L. and Sportgate AG i.G. i.L.

Dr. Jan Kantowsky was a member of the Supervisory Boards of Venturepark Incubator AG i.L. (to March 28, 2001) and 4Content AG.

Annette Koch has been a member of the Supervisory Board of Venturepark Incubator AG i.L. since June 26, 2001.

Supervisory Board:
In accordance with the resolution adopted at the Annual General Meeting on June 27, 2001, the number of members on the Supervisory Board was increased from three to six.

The Supervisory Board was made up as follows in fiscal 2001:

Dr. Klaus Eierhoff (Chairman to December 10, 2001), Board of Management of Bertelsmann AG, Gütersloh

Dr. Reinhard Liedl (Deputy Chairman to December 10, 2001), Divisional Manager of Bertelsmann Direct Gruppe, Gütersloh

Peter Zencke, Board of Management of SAP AG, Walldorf

Prof. Dr. Jürgen Richter (Chairman since January 8, 2002), Chairman of the Board of Management of Bertelsmann Springer Science + Business Media GmbH, Berlin. Member of the Supervisory Board by court appointment on December 19, 2001 (with effect from January 2, 2002)

Edwin Eichler, (Deputy Chairman since January 8, 2002), Chairman of the Board of Management of Mohn Media Mohndruck GmbH, Gütersloh. Member of the Supervisory Board by court appointment on December 19, 2001 (with effect from December 27, 2001)

Dr. Manfred Wassel since June 27, 2001, Chairman of the Board of Management of syskoplan AG, Gütersloh

Susanne Brischle, since September 21, 2001, workers' representative, Berlin

Roland Westermaier, since September 21, 2001, workers' representative, Berlin

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

Barnes & Nobles.com Inc., New York, USA	Board
Bookspan, New York, USA	Board
DealTime.com Inc., New York, USA	Board
Donauland-Geschäftsführungsgesellschaft mbH, Vienna, Austria	Chairman of the Supervisory Board
ECI for boeken en platen B.V., Vianen, The Netherlands	Chairman of the Supervisory Board

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

AOL Europa, Luxemburg, Luxemburg	Supervisory Board
bol.com AG, Berlin	Supervisory Board
Donauland-Geschäftsführungsgesellschaft mbH, Vienna, Austria	Supervisory Board
DealTime.com Inc., New York, USA	Board of Trustees
Europe Loisir Service S.A., Paris, France	Board of Trustees
Mondolibri S.p.A, Milan, Italy	Board of Trustees
Bookspan, New York, USA	Board

Peter Zencke is a member of the following governing body:

SupplyOn, Munich	Supervisory Board

Prof. Dr. Jürgen Richter is a member of the following governing bodies:

Nord/LB Norddeutsche Landesbank Girozentrale	Advisory Board
Dresdner Bank AG, Berlin	Advisory Board
Deutsche Bank AG, Berlin	Advisory Board
Lycos Europe N.V.	Chairman of the Supervisory Board
Universitätsdruckerei H. Stürtz AG, Würzburg	Chairman of the Supervisory Board
Best Entertainment AG, Heusenstamm	Supervisory Board (to June 30, 2001)
Deutsche Post AG, Bonn	Supervisory Board (to June 30, 2001)

Manfred Wassel is a member of the following governing body:

IT-Akademie, Gütersloh	Advisory Board

Edwin Eichler, Susanne Brischle and Roland Westermeier are not members of any other supervisory boards or other governing bodies.

(c) Subsequent events

- On February 25, 2002, after it was found that sale of Pixelpark Latam S.A. and its subsidiaries could not be concluded at the stipulated conditions, the shareholders decided to liquidate the companies.

- On January 8, 2002, the Supervisory Board decided to discontinue the business operations of Pixelpark UK Ltd., London. Pixelpark UK Ltd. is being retained as a non-operating company.

- On March 1, 2002, Bertelsmann AG (as represented by the majority shareholder Bertelsmann Multimedia GmbH) announced that it would treat € 20m of its loans to Pixelpark AG as a conditional write off with debtor warrant. This improved the equity capital position of Pixelpark AG.

Berlin, March 18, 2002

Paulus Neef
Chairman of the
Management Board
CEO

Annette Koch
Member of the
Management Board
CFO

Auditors' Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Pixelpark AG for the fiscal year from January 1 to December 31, 2001. The preparation and the content of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Pixelpark AG-Group for the fiscal year 2001 in accordance with accounting principles generally accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's management for the fiscal year from January 1 to December 31, 2001, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2001 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Berlin March 18, 2002
KPMG Deutsche Treuhand Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hannich	Dr. Hasenburg
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

The Supervisory Board has exercised the duties incumbent on it in accordance with the law and company statutes and has continually monitored management of the company by the Management Board. The Supervisory Board held 12 meetings during the fiscal year running from January 1 to December 31, 2001.

The Management Board reported at length on business and earnings developments at these meetings, answering the questions of the Supervisory Board. In addition, the Supervisory Board was fully informed of significant business events and discussed these with the Management Board. The principal issues discussed by the Supervisory Board were

- the status of the efficiency program and the introduction of appropriate cost-cutting measures
- the general business situation of the Pixelpark Group
- election of the Chairman and Deputy Chairman of the Supervisory Board
- company acquisitions
- the Pixelpark AG stock option program
- annual budgeting for 2002
- the liquidity position of Pixelpark AG (capital increase and the loan from Bertelsmann AG)
- the management buy-out (MBO) of Pixelpark CEE Holding AG
- project risks
- Dr. Jan Kantowsky's departure from and Annette Koch's appointment to the Management Board

Particular attention was also paid to the following investment:
- acquisition of Digivision AG

There were changes in the Management Board of Pixelpark AG in the course of the year. The Management Board of Pixelpark AG was made up as follows in the 2001 fiscal year:

Paulus Neef (Chairman), Chief Executive Officer, Berlin
Dr. Jan Kantowsky, Chief Financial Officer and Chief Operations Officer, Berlin, to April 15, 2001
Annette Koch, Chief Financial Officer, Bielefeld, from April 15, 2001

The composition of the Supervisory Board changed during the period of the report. In accordance with a resolution adopted at the Annual General Meeting on June 27, 2001, the number of members on the Supervisory Board was increased from three to six. Dr. Manfred Wassel joined the Supervisory Board on June 27, 2001. Susanne Brischle and Roland Westermaier joined the Supervisory Board on September 21, 2001 to represent the employees.

The previous Chairman, Dr. Klaus Eierhoff, and Deputy Chairman, Dr. Reinhard Liedl, resigned from the Supervisory Board with effect from December 10, 2001. On December 19, 2001, Prof. Dr. Jürgen Richter and Edwin Eichler were appointed by the court to raise to the full the number of members of the Supervisory Board of Pixelpark AG.

2001 was very difficult for Pixelpark with restructuring the characteristic feature of the entire fiscal year. Management introduced an efficiency program in spring 2001 aimed at achieving profitability by the fourth quarter of the year. Cost-cutting measures were implemented according to plan but were only able to partly offset the sudden decline in revenues experienced in the third quarter of the year. The Supervisory Board and the Management Board discussed developments together, particularly during this crucial period for Pixelpark, and took appropriate action immediately. In December 2001, it was decided to pull out of business operations in the United Kingdom and Spain. In view of the regional market situation in these two countries, no promising acquisitions were to be expected. These measures have the Supervisory Board’s full support.

The Chairman of the Supervisory Board remained in constant contact with the Management Board and was also informed of all major business developments outside meetings of the Supervisory Board.

The annual accounts and consolidated financial statements, the management report, the dependent company report and the auditors’ reports from KPMG were made available to all members of the Supervisory Board.

The auditors audited the annual accounts and consolidated financial statements including the management report and awarded them their unqualified audit certificate.

KPMG also audited the dependent company report prepared by the Management Board according to § 312 AktG (German Stock Corporation Law). KPMG reported the result of its audit and issued the following audit certificate:

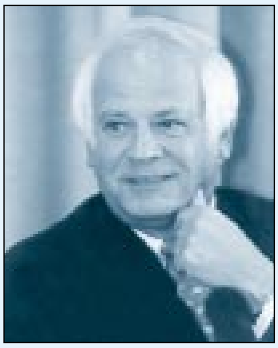
“Following our mandatory audit and assessment, we confirm that

1. the figures given in the report are accurate and
2. the payments made by the company in the transactions listed in the report were not unduly high.”

The Supervisory Board acknowledged the result of the audit and has independently examined the annual accounts, the consolidated financial statements, the management report and the dependent company report. No objections were raised. The Supervisory Board has therefore approved the annual accounts and dependent company report prepared by the Management Board as well as the management report. The annual accounts are thereby adopted. The Supervisory Board supports the management board's proposal for the distribution of loss. The auditors took part in and reported the results of its audit to the meeting of the Supervisory Board on the annual accounts.

The Supervisory Board would like to thank the Management Board and all employees of Pixelpark AG and its associated companies in recognition of their effort and commitment in the fiscal year.

Berlin, March 25, 2002



The Supervisory Board

Prof. Dr. Jürgen Richter
- Chairman -

Imprint

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Pixelpark AG
Rotherstraße 8, 10245 Berlin
Germany
Phone: +49(30)5058-0
Fax: +49(30)5058-400
E-Mail: info@pixelpark.com
www.pixelpark.com

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