

Annual Report 2002



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## 1. Summary of key data

	<b>01.01.-31.12.2002</b>	<b>01.01.-31.12.2001</b>
	<b>€ 000</b>	<b>€ 000</b>
Total transaction value	24,813	20,398
Revenues	4,145	4,350
EBITDA	-6,558	-22,739
EBITDA (excluding discontinued operations)	-3,478	-17,226
EBIT	-7,081	-30,218
EBIT (excluding discontinued operations)	-4,001	-24,704
Consolidated net loss	-6,980	-29,102
Consolidated net loss (excl. disc. operations)	-3,900	-23,588
Net loss per share	-0.68	-2.99
Net loss per share (excl. discontinued operations)	-0.38	-2.42
Cash flow from operating activities	-5,652	-26,285
Employees as of 31.12.	78	207

## 2. Foreword by the Managing Board

**Dear Business Friends, Clients, Shareholders and Employees,**

Despite the adverse overall economic situation, Travel24.com has continued to improve its business basis. We were able to substantially increase our online sales in a tourism market that was experiencing a general decline in 2002.

Furthermore, in reaching the break-even point in the third quarter we achieved the goals set for the past financial year. These successes were the product of consistent restructuring strategy, introduced as early as August 2001. By reducing the cost basis and focussing on the core business as the mainstay of the restructuring process we have created a firm foundation for future growth. In addition, unlike many other eBusiness strategies, the eTravel business model has quickly established itself as a sound, future-oriented concept that will secure a 25% to 30% share of the market in the medium term.

With our familiar brand, technological expertise and premium service we occupy an optimum position in this continued growth market. When the economic environment improves and the political situation returns to normal there will be a resumption in the positive growth of eTravel – to the benefit of the Travel24.com Group.

At this point I would like to thank you for the confidence you have placed in us. We are convinced that the most difficult phase is behind us and that with the experience gained, resolute cost management and a clear focus we are optimally equipped for the future.

Your



Marc Maslaton  
CEO Travel24.com AG

Munich, March 2003

### 3. Report by the Supervisory Board

In the year under review the Supervisory Board has performed its duties as prescribed by law and the articles of association, and monitored the management of the Company. It has held ongoing discussions with the Managing Board on business development and the future strategic orientation of the Company. In the 2002 financial year there were nine joint meetings. The main subject matter of the meetings was strategic orientation, as well as the restructuring and financing of the Group. The Supervisory Board is satisfied that the Company's strategy adequately meets the challenges of the market and that it fulfils the prerequisites for the planned corporate goals.

Between meetings the Managing Board informed the Supervisory Board about special or urgent proposals and requested its approval as necessary. The Chairman of the Supervisory Board received regular updates on the current business situation and major business transactions.

The Deputy Chairman of the Supervisory Board, Dr Hellmut K. Albrecht of Munich, resigned for personal reasons from his post as of 14 January 2002. The Supervisory Board thanks Dr Albrecht for his contribution to the work of the Board. In accordance with the shareholders' resolution of 12 June 2002, Knut Wehner has changed from the Managing Board to the Supervisory Board. The Managing Board has thus been reduced to two persons. The Supervisory Board elected Joachim Semrau as its Deputy Chairman.

In conformance with the German Commercial Code the annual financial statements of Travel24.com AG were audited by Reiner Distel, Wirtschaftsprüfer (*Certified Auditor*), Rosenstraße 1, D-40479 Düsseldorf, according to the auditing standards of the German Institute of Certified Accountants (IDW). The consolidated financial statements of Travel24.com AG were audited by Reiner Distel, Wirtschaftsprüfer (*Certified Auditor*), Rosenstraße 1, D-40479 Düsseldorf, according to the auditing standards of the IDW as well as the International Standards of Auditing (ISA) and in compliance with the United States Generally Accepted Accounting Principles (US-GAAP). The audit did not lead to any objections.

The Supervisory Board has closely examined the annual financial statements and management report and raised no objections. The auditor participated at this meeting. The Supervisory Board has approved the audit result submitted by the auditor and established that he has raised no objections. The Company is a "small" stock corporation as defined in Art. 267 Section 1 HGB. The Company is, however, obliged to conduct an audit, because in accordance with Art. 267 Section 3 HGB, it avails itself of an organised market as defined in Art. 2 Section 5 of the *Wertpapierhandelsgesetz* [Securities Trading Act] by issuing securities as defined in Art. 2 Section 1 (1) of the Securities Trading Act.

The Supervisory Board has recommended that the auditor for the 2003 financial year be elected by the General Meeting in line with the valid provisions on statutory audits. The Supervisory Board approves the annual financial statements prepared by the Managing Board. The Supervisory Board and Managing Board agree that the net loss of € 7.1m shown in the annual financial statements of Travel24.com AG pursuant to German commercial law for the year ending 31 December 2002 be carried forward to new account. The annual financial statements are adopted subject to this condition.

The Supervisory Board would like to thank the Managing Board, partners and all employees for the high degree of commitment they showed and the work they performed in the past year.



Andrea Wessels Bahlsen  
(Chairperson)

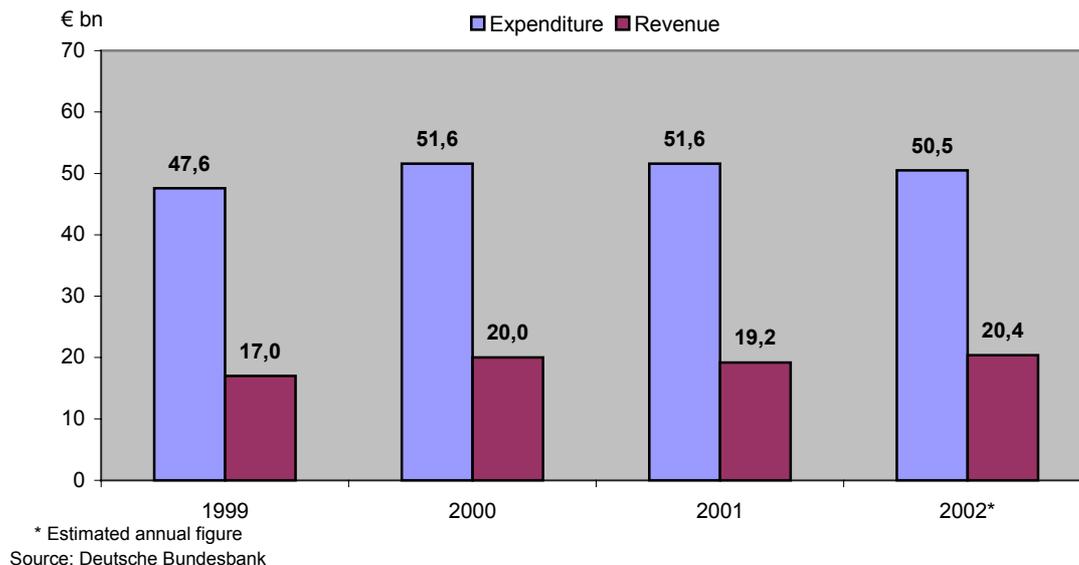
March 2003

## 4. Travel24.com and its market

### Travel market

In 2002 the travel industry experienced one of its most crisis-ridden periods with an almost 9% decline in sales. Last year, for the first time in 20 years less private and business trips were taken abroad than in the previous year. Expenditure on foreign travel by Germans decreased by 2.5% to € 50.5 billion (Dresdner Bank Travel Analysis, January 2003).

### Survey of the German travel market

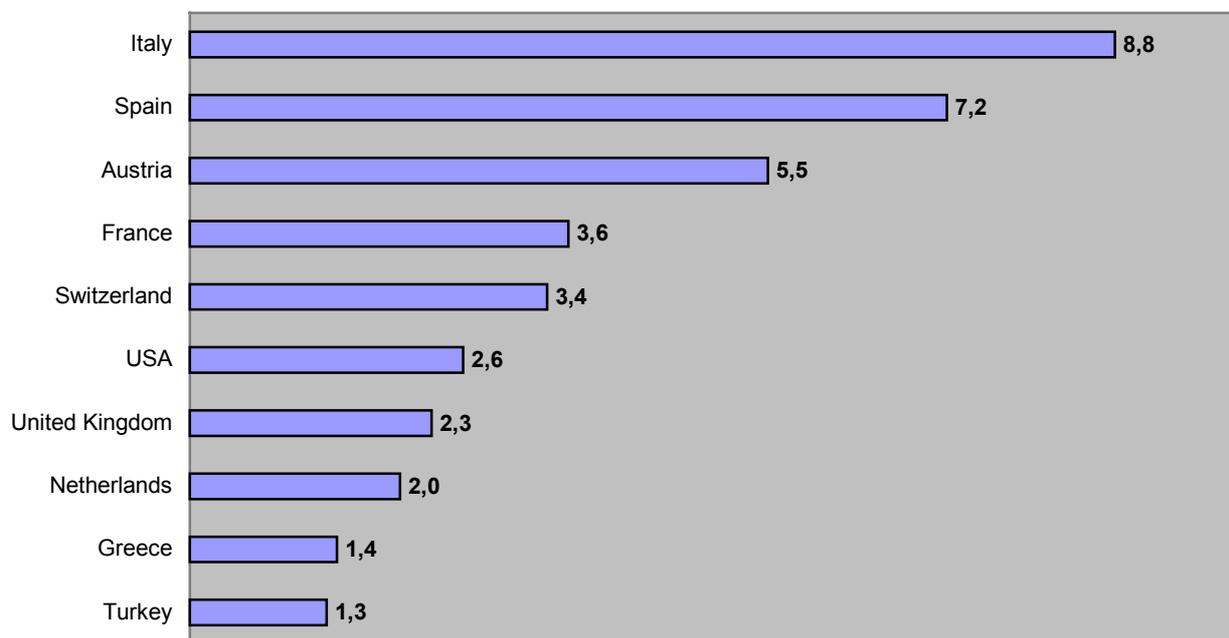


Source: Analysis of the Dresdner Bank: Dismal state of the travel industry, structure and perspectives for German foreign travel 2002/2003, page 1, January 2003.

This is mainly attributable to the high level of unemployment and increased financial burden on citizens. Fear of terrorist attacks was also a critical factor in the decline in long-distance holidays and travel to Islamic countries. The slack in air travel bookings gave rise to a shift in the travel market: Germans preferred overland destinations, a trend from which particularly Austria, France and Switzerland profited. As a classic air travel destination, Spain likewise suffered under this reserved behaviour. The image of the Balearic Islands is still dented: the eco tax, discussions on "undesirable" vacationers and strikes prevented many Germans from visiting the islands. The most popular foreign destination for Germans last year was Italy.

The 19th Tourism Analysis by the Leisure Time Research Institute of British American Tobacco (01/2003) confirmed these trends for the year 2003. Drastic changes are anticipated in the overall travel industry: there is a continued trend away from expensive, long-haul flights to lower-cost short breaks by car, rail and bus and also to cruises. New growth markets are to be seen in Russia and the Baltic States, Hungary, the Czech Republic, China and Hong Kong.

## Expenditure on foreign travel by Germans (in € bn, 2002\*)



\* Estimated annual figure  
Source: Deutsche Bundesbank

Source: Analysis of the Dresdner Bank: Dismal state of the travel industry, structure and perspectives for German foreign travel 2002/2003, page 2, January 2003.

## Brand

The Travel24.com brand has established itself in the minds of online customers and has grown into an entity of considerable significance. According to the *stern* Trendprofile of September 2002, the strong awareness, appeal and use of the Travel24.com brand continues unabated in 2002. It determined that the Travel24.com brand was recognised by 15.3% of all Germans and by no less than 28.9% of the 24.57 million Internet users (cf. 2001: 20.0%).

## Travel portal brand triad: total population

(Figures in %)

BEKANNTHEIT		SYMPATHIE		NUTZUNGSBEREITSCHAFT	
31,4	bahn.de	18,8	tui.de	18,1	lastminute.com
29,9	tui.de	18,7	lastminute.com	18,0	tui.de
29,2	lastminute.com	15,1	bahn.de	16,7	bahn.de
25,3	ltur.de	14,8	ltur.de	13,3	ltur.de
15,3	travel24.com	5,9	travel24.com	6,5	travel24.com
4,4	travelchannel.de	2,1	travelchannel.de	2,3	travelchannel.de
3,7	expedia.de	1,5	expedia.de	2,0	opodo.de
2,4	opodo.de	1,2	start.de	1,9	expedia.de
2,3	start.de	1,1	opodo.de	1,8	start.de
2,3	ebookers.com	0,7	ebookers.com	1,2	ebookers.com
0,9	travelocity.de	0,4	travelocity.de	0,9	travelocity.de

Source: *stern* Trendprofile, Online-Marken Reiseportale, page 5, September 2002

Legende:

Bekanntheit	Awareness
Sympathie	Allegiance
Nutzungsbereitschaft	Willingness to use

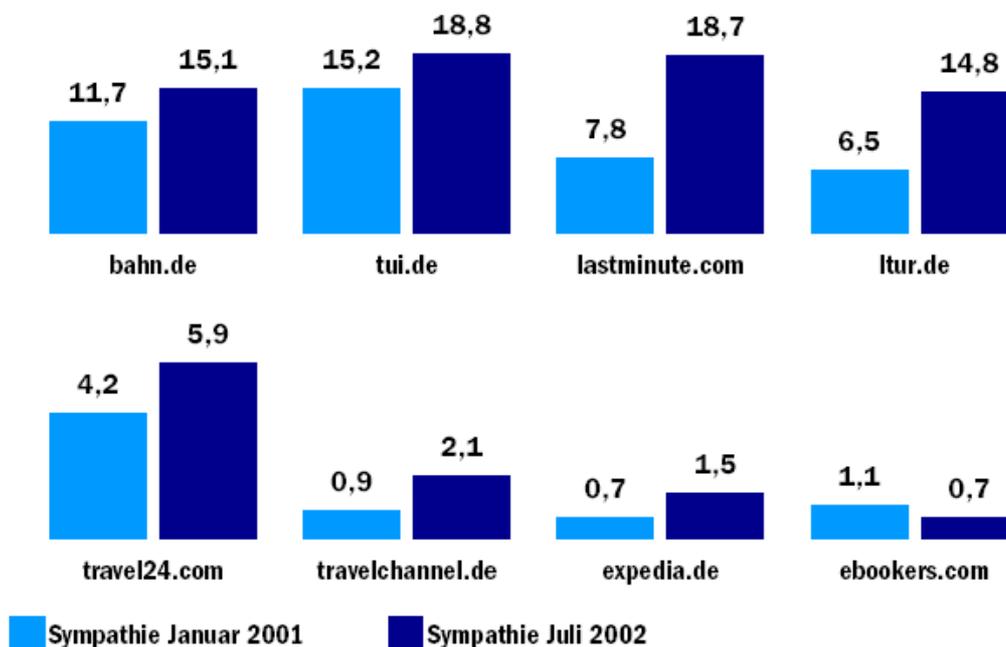
**Travel portal brand triad: Onliners**  
(Figures in %)

BEKANNTHEIT		SYMPATHIE		NUTZUNGSBEREITSCHAFT	
54,2	lastminute.com	35,8	lastminute.com	37,6	lastminute.com
51,4	bahn.de	29,3	ltur.de	29,5	bahn.de
47,2	ltur.de	25,1	tui.de	28,2	ltur.de
43,7	tui.de	23,4	bahn.de	26,6	tui.de
28,9	travel24.com	13,0	travel24.com	15,0	travel24.com
10,4	travelchannel.de	5,9	travelchannel.de	6,4	travelchannel.de
8,8	expedia.de	3,8	expedia.de	5,1	opodo.de
6,0	opodo.de	3,0	start.de	5,0	expedia.de
5,9	ebookers.com	2,7	opodo.de	4,7	start.de
5,7	start.de	1,8	ebookers.com	3,1	ebookers.com
1,3	travelocity.de	0,7	travelocity.de	2,2	travelocity.de

Source: *stern* Trendprofile, Online-Marken Reiseportale, page 6, September 2002

Travel24.com brand allegiance was further improved compared to the previous year: 5.9% of the total population had a positive attitude to the Travel24.com brand. With a growth of 1.7% over the previous year Travel24.com was able to position itself ahead of the direct competition and to consolidate its lead.

**Trends in brand allegiance**  
(Figures in %)



Source: *stern* Trendprofile, Online-Marken Reiseportale, page 10, September 2002  
Legende: Sympathie = Allegiance January 2001, Allegiance July 2002

This success was achieved by a selective strategy: firstly, Travel24.com has invested efficiently in advertising and secondly it maintains a high-quality Website and a top level of service, as was confirmed again this year by several trade magazines.

In collaboration with beverage manufacturer Drinkstar GmbH of Rosenheim – one of the market leaders in low-calorie soft drinks and fruit juices – the Travel24.com brand was presented on its Website [www.deit.de](http://www.deit.de) with continuously updated travel offers for an attractive and lucrative target group, i.e. young, spontaneous and self-assured consumers who are among Travel24.com's best customers for wellness, sports and

weekend vacations. This and the sale of 50 million deit bottles featuring the Travel24.com logo on their labels in summer 2002 resulted in an increase in the range and booking potential. Brand awareness was promoted by this alliance.

In the sphere of online cooperation a further interesting partner was acquired in the form of SUB AQUA. The diving vacation specialist complements Travel24.com's sports and wellness sector, making it one of the leading online suppliers for diving enthusiasts.

The newly initiated Travel24.com partner programme secures a broad Internet user group for the Company and attractive commissions for its partners. Participants receive a percentage of each successfully completed sales transaction generated by their Website. The dispersion of the Travel24.com banner thus initiated ensures that a high level of target group traffic is acquired by committed partners.

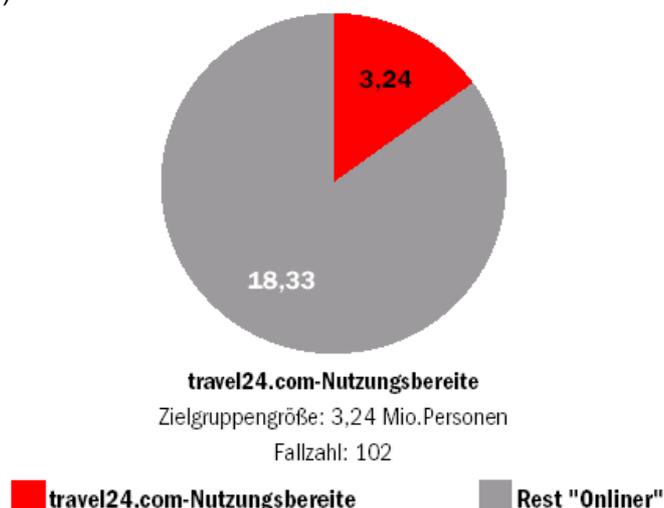
This traffic is further boosted by search engine marketing. These Internet tools generate a selected patronage, distinguished by its above-average propensity to purchase travel products. Brand awareness was further consolidated by selective allocation of the advertising budget.

In addition to these advertising measures, allegiance to the Travel24.com brand was secured by the quality of its offerings. The existing concept of travel presentation was adhered to and details were improved. The high quality of the [www.travel24.com](http://www.travel24.com) page has been confirmed in the tests and studies by well-known specialised magazines. *Computerbild* magazine (15/2002, p. 88) voted Travel24.com the second-best online travel service, only 0.02 points behind the test winner. The search function received special acclaim: "If it is well conceived, as with Travel24, you'll get much more accurate hits." Travel24.com also scored well when it came to the wide range of information available ("simple navigation with a clearly structured user interface"). In the final analysis, *Computerbild* calculated a price advantage of almost 33% compared to catalogue prices. Travel24.com emerged as winner of the call centre hotline test conducted by *Tele Talk* magazine (5/2002, p. 38 ff.), among others for its clearly laid out and user-friendly homepage. The distinction is a further endorsement of the call centre test by *Capital* magazine (6/2002, p. 82 ff.) in which Travel24.com was once again certified as "an excellent call centre". *Tomorrow* magazine ranked Travel24.com second in its "Best online travel portal" test (5/2002, page 64 ff). *Fliegen&Sparen* (2/2002, p. 28 ff.) and *Online Today* (3/2002, p. 26 ff.) likewise gave top marks to Travel24.com. Travel24.com was able impress with its high quality and service.

But the potential for Travel24.com is by no means exhausted. According to the target group analysis of the *stern* Trendprofile study, 3.2 million Internet users are distinctly amenable to making their travel reservations in future through Travel24.com – a clear indication that all prerequisites are given for continuation of the Company's positive sales and business trends in 2003.

### Target group potential

(Figures in million persons)



Source: *stern* Trendprofile, Online-Marken Reiseportale, page 26, September 2002

Legende:

Travel24.com Nutzungsbereite	Willing to use travel24.com
Zielgruppengröße: 3,23 Mio. Personen	Target group potential. 3.23m persons
Fallzahl	Yield
Rest "Onliner"	Other "onliners"

In 2002 the Travel24.com brand was able to distinguish itself in terms of familiarity, affinity and the degree of use and further consolidate its leading position.

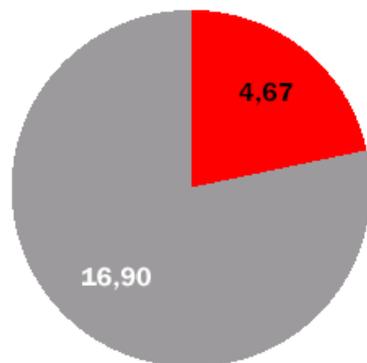
### General tourist trends in eCommerce / eTravel

Varying assessments of the general trend in the travel industry have been made for 2003. The Dresdner Bank estimates that due to the financial course taken by the Federal Government there will be only a marginal increase in the income available to German households and that cuts can be anticipated in both daily consumption and vacations (Dresdner Bank, Dismal state of the travel industry, structure and perspectives for German foreign travel 2002/2003). According to the Dresdner Bank, the war in Iraq will also have consequences for the German travel industry. The TNS Emnid Institute has forecast other results for 2003: A survey showed that 74% of all respondents were planning at least one week's vacation (01/2003). A similarly positive overall trend for the tourism market is predicted by the 19th Tourism Analysis of the Leisure Research Institute of British-American Tobacco (*Die Reiselust der Deutschen bleibt ungebrochen* [The Germans' urge to travel is as strong as ever], 01/2003).

On the other hand, a consensus exists as far as the online travel market is concerned: Development opportunities are described in extremely positive terms by the various sides. The *stern* Trendprofile study thus confirms that eTravel is a recipe for success and continues to be gaining ground. Already 4.61 million Germans have made their travel reservations in the Internet and a similarly large group, about 4.67 million, are proposing to book their travel online in the foreseeable future.

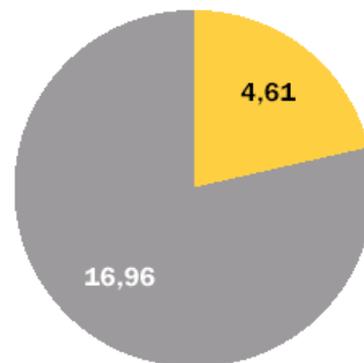
### Target group potential

(Figures in million persons)



**Online-Nutzungsplaner (in den nächsten 6 Monaten):  
Reisebuchungen**

Zielgruppengröße: 4,67 Mio. Personen, Fallzahl: 147



**Online-Nutzer: Reisebuchungen**

Zielgruppengröße: 4,61 Mio. Personen

Fallzahl: 145

Source: *stern* Trendprofile, Online-Marken Reiseportale, page 12, September 2002

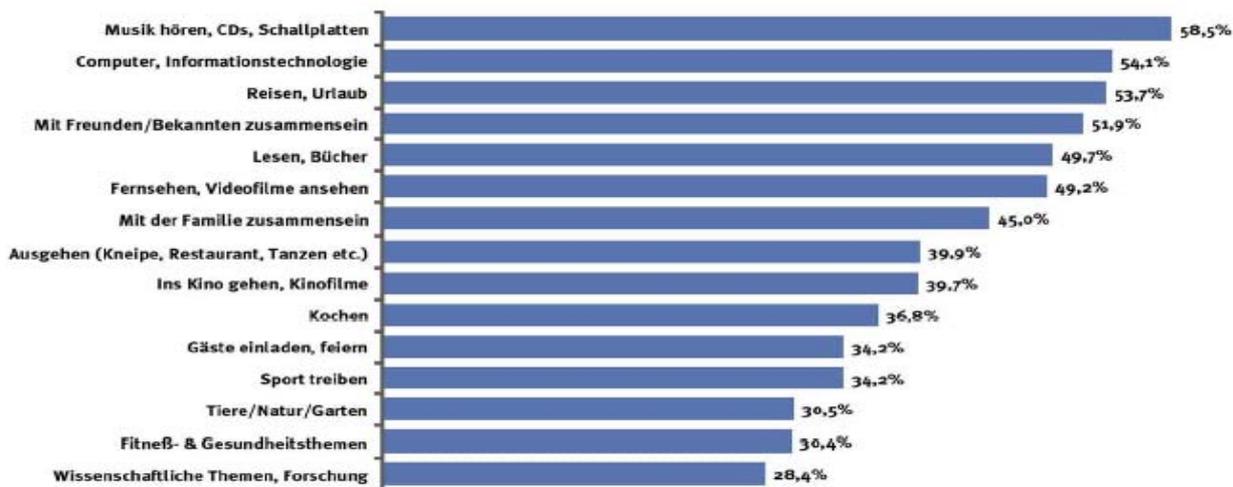
Legende:

Online-Nutzungsplaner (in den nächsten 6 Monaten): Reisebuchungen	Willing to use online travel booking within the next 6 months
Zielgruppengröße: 4,67 Mio. Personen	Target group potential. 4.67m persons
Fallzahl	Yield
Online-Nutzer: Reisebuchungen	Online users: travel bookings

The positive trend in the online travel market is also reflected in a study conducted by Fittkau & Maaß, market research and consulting company, who determined that 38.9% of Internet users wish to purchase travel online (Fittkau & Maaß, 15. *WWW-Benutzeranalyse W3B, Electronic Commerce im Internet* [15th WWW User Analysis W3B, Electronic Commerce in the Internet], p. 13). This number correlates with the areas of interest of Internet users: "Travel and vacation" is No. 3 in the list of leisure activities with 53.7% (Fittkau & Maaß, 15. *WWW- Benutzeranalyse W3B, Soziodemographie und Methodik* [15th WWW User Analysis W3B, Socio-demography and Methodology], page 13).

### Areas of interest / Hobbies of Internet users

(Figures in %)

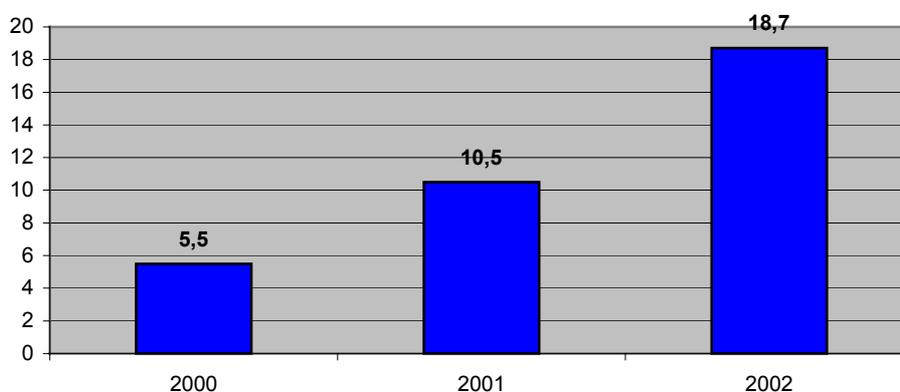


Source: Fittkau & Maaß, 15. *WWW-Benutzer-Analyse W3B, Soziodemographie und Methodik* [15th WWW User Analysis W3B, Socio-demography and Methodology], page 13, October / November 2002

Trends in the online travel market thus contrast markedly with the situation in the total offline travel industry. Whereas experts for the overall travel industry are anticipating a decline in 2003, the online sector will show a sizeable increase. This trend is discernible in the online sales generated by Travel24.com. Whilst the Group achieved a 70% increase in online bookings compared to 2001, total sales generated online rose to € 18.7 million (2001: € 10.5 million).

## Online sales of Travel24.com AG

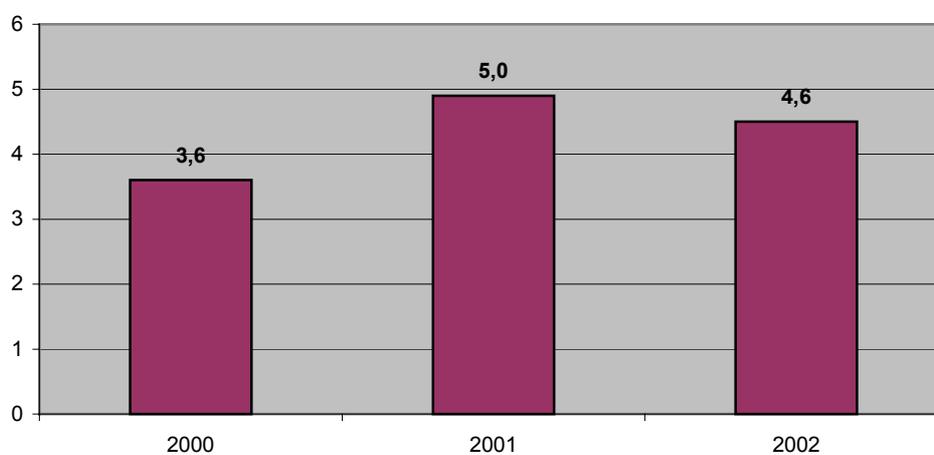
in € m



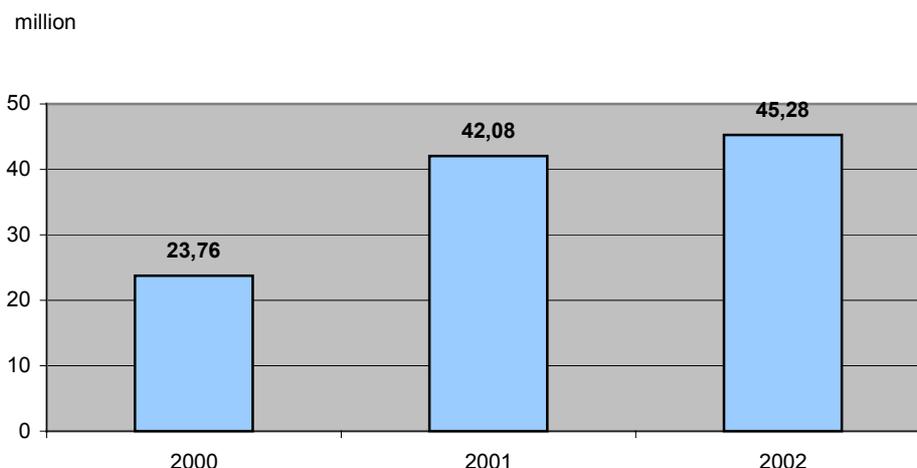
The significance of this achievement becomes evident when seen against a background of slightly declining visits and stagnant page impressions at the Travel24.com Website (visits: 4.6m compared to 5.0m in 2001; page impressions 45.28m compared to 42.08m in 2001). This is a clear proof that marketing effectiveness has been increased by selective allocation of the advertising budget with an emphasis on online business.

## Trend in visits to Travel24.com

million



## Trend in page impressions at Travel24.com



In an extremely adverse tourism and macro-economic climate with virtually stagnant page impressions and a slight downward trend in visits, Travel24.com AG has managed to achieve a substantial increase in its online sales. Restructuring – particularly refocusing on the online business – has thus proved to be a correct and necessary step.

## 5. Outlook

During the past year new vendors have appeared on a market that has demonstrated continued growth. In this context it has become evident that our investment in the brand will provide us with a long-term advantage, as the latter conveys confidence and security and has a high identification factor.

The development of more efficient online booking tools results in constantly improved levels of service and customer loyalty. The so-called look-to-book rate, the ratio of “lookers to bookers”, persists at the low level of under 1%, although this figure has doubled compared to the previous year. This fact supports our theory that the average Internet user has only been online for about three years and goes through an evolutionary process of user behaviour before he makes a travel booking. This initial familiarisation phase with simple functions such as e-mail and “infosurfing” is followed by a second phase in which low-price merchandise (CDs, books) is purchased for the first time online. Not until the third phase are higher-value transactions made – for example travel. This time-lag makes us optimistic that this year we will once again see a substantial increase in online sales.

Following the successful restructuring in 2001 and 2002, the focus for 2003 will be on exploiting the development potential of the market with further investments in the brand and technology in order to increase the profitability of Travel24.com.

## 6. Consolidated key figures

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# Group management report and management report of Travel24.com AG

as of 31 December 2002

## 1. General

The strategy of refocusing on the core competencies of the travel business as announced and introduced in the 2001 financial year was continued in 2002. Activities which did not belong to the core business of Travel24.com AG were discontinued, areas of operation that were unprofitable in the long-term were abandoned or disposed of to enable the continued existence of the original business model of travel retailing via new communications and distribution channels. The accompanying cost reduction programme with a simultaneous improvement in earnings from travel retailing and technological activities have enabled the Company to achieve a break-even operating result for the first time in the third quarter of 2002. This reaffirms the management's priority goal of making the business model profitable in the long-term - despite continued adverse conditions in the overall tourism market.

## 2. Economic environment

### 2.1 The Tourism market

The terrorist attacks of 11 September 2001 had severe repercussions on the year 2002. A climate of uncertainty that had come into being in 2001 was further provoked by a series of follow-up attacks in tourist regions such as Tunisia, Indonesia and Kenya. Leading tour operators announced an average 6.4% decline in sales in the past financial year (Source: *DRV Fakten & Zahlen zum deutschen Reisemarkt* [DRV Facts and Data on the German Travel Market], March 2003). The bleak economic prospects for 2003, the high level of unemployment and the speculation sparked off in the last quarter of 2002 regarding an increase in the tax burden and the resulting reduction in available income have prevented a resumption of the industry's customary level of bookings and travel sales. For the current financial year the industry is again poising itself for a predominantly price-based competition, accompanied by stagnant to marginally increasing sales.

### 2.2 The online travel market

As a consequence of the shift in sales away from classic travel retailing through travel agencies in favour of online booking, this marketing channel was again able to significantly increase its share of the market in 2002 (Source: *Ulysses – Web-Tourismus* [Ulysses – Web Tourism], November 2002). Even with stagnant anticipated sales for the overall travel industry in 2003, leading opinion research institutes forecast a continuation of this trend.

This trend is reinforced by the significantly lower distribution costs in the online travel segment that prompt individual service providers (e.g. low-cost airlines) to make their products available exclusively through this sales channel. Established service providers (e.g. Lufthansa) also motivate their customers to purchase online, granting discounts in return for bookings effected independently. In addition, the prerequisite infrastructure such as the rising number of Internet connections in German households (43%, Source: *Statistisches Bundesamt* [Federal Office of Statistics], February 2003) and increased user friendliness of available booking modules contribute to a constant growth in consumer acceptance – with comparable or more comprehensive information content of individual Websites on tourism products, destinations and travel regulations.

## 3. The Group's strategy

Travel24.com AG operates in the segment dedicated to retailing travel and specific tourism components. The goal of the Group and its collective activities is to provide a continuous presence for the customer via a wide range of communications media. Its portfolio contains a full range of products and services that contains all the standard package tours and individual products of leading German tour operators as well as products tailored to the needs of individual customer groups – supplemented by detailed information on travel destinations and customised professional advice.

### 3.1 Customer benefits

The customer benefits on the one hand from the wide choice of available travel alternatives, on the other hand from the user friendliness of available information and booking interfaces. Ongoing development of the Website [www.travel24.com](http://www.travel24.com) and the booking modules employed, as well as the high quality of consulting services provided by sales agents in direct contact with the customer, generate an added value that is acknowledged by the customer. Again in 2002 this resulted in numerous awards in a number of publications (FVW, Capital, FAZ, etc.).

Based on experience gained in the past, the Company is proposing to extend its unique position to include the key elements innovation and service and to employ the resulting added value to boost customer loyalty.

### 3.2 Brand policy

The priority goal is to stabilise the level of brand awareness and resulting visits to the Travel24.com Website. Following the success of image-building efforts in 2000 and 2001, accompanied by steadily increasing acceptance of the Internet as a medium, brand activities are aimed at increased efficiency of the employed tools in order to draw the attention of the growing number of Internet users to the Travel24.com Website. Predominantly online marketing tools will be used for the purpose. The dedicated approach to brand positioning and advertising that has been pursued since last year has resulted in a consistently high brand awareness level and a renewed growth in allegiance compared to the previous year (Sources: *stern* Trendprofile July 2002; *stern* Trendprofile January 2001). Notwithstanding the communications media employed to advertise the brand, the values projected by the brand are of overriding significance in the future. These include the allegiance to the Travel24.com brand (Source: *stern* Trendprofile, op. cit.) determined by market research institutes and the confidence placed in the services provided by a steadily increasing number of regular customers.

### 3.3 Product strategy

In the final analysis the attractiveness of the Website is defined by its diversity and the choice of products tailored to individual customer segments. In addition to the package tours offered by operators, the Company enables its customers to combine travel services to form an individual arrangement. In order to expand the possible combinations and the advertised spectrum of products and services the Group is endeavouring to increase the number of partners directly linked through its booking modules. In accordance with the principle of anchoring the traveller's decision-making process to the chosen destination or accommodation (e.g. the hotel), promotions are run on destination highlights directly linked via the booking engine, thereby bypassing outside reservation systems and avoiding the related reduction in sales revenue. In addition, exclusive holidays specially put together by Travel24.com in concert with tour operators for specific seasons, departure dates and destinations are to be placed online. These are products that embrace the trend towards more frequent but shorter stays at the holiday destination. Here again, parallel to the standard (catalogue) products and services – in collaboration with various tour operators - package deals are to be offered for a limited number of destinations to highlight the merits of the Travel24.com Website and its service spectrum against the competition.

## 4. **Course of business**

### Course of business of Travel24.com AG and the Travel24 Group

#### 4.1 Travel24.com AG

The restructuring measures initiated in the 2001 financial year were continued in the past year and had repercussions for virtually all operational sectors. As of the balance sheet date the Company employed 15 persons (equalling an annual average of 13.5 or 12.2 full-time employees, excluding Managing Board in each case), the workforce having remained virtually unchanged compared to the beginning of the year. Over half of the employees also perform duties for affiliated companies – particularly in the marketing, personnel, legal, investor relations and accounting & controlling sectors. At the same time personnel costs were reduced by over 50% compared to last year.

Whereas the visits counted at the Website remained just below the previous year's level, page impressions once again increased by almost 8% to more than 45 million. There was an even sharper increase in fully automatic bookings made over the Internet. In the same period sales conducted via the travel portal [www.Travel24.com](http://www.Travel24.com) showed an exceptionally high increase, attributable in part to the start-up of our own scheduled flight booking module. The increase in the number of bookings received via the portal set against

a virtually constant number of visits means that the average look-to-book rate of all booking modules has improved. In the current year we are anticipating a further increase in the look-to-book rate, as the comparative values of the Anglo-Saxon competitors lie substantially above those of travel retailers operating in Germany and France.

In the past 2002 financial year the Company has for the main part been financed through equity capital or directly from funds raised in the initial public offering. The shortfall in the 2002 annual statement of Travel24.com AG amounts to about € 7.1 million and is mainly attributable to the following factors:

Brand build-up / Marketing	approx. € 1 million
Allowance for litigation risks	approx. € 1 million
Operating expenses	approx. € 2 million
Allowance for doubtful accounts / loss on investments	approx. € 3 million

The depreciation and allowances totalling approx. € 3 million, calculated on accounts receivable for sales and services and due from affiliated companies as shown in the individual financial statements of Travel24.com AG for the 2002 financial year mainly resulted from the insolvency declaration of Aeroworld GmbH and the waiver of loans in the 2002 financial year.

#### 4.2 Subsidiaries of the Travel24 Group

Whilst the development of online travel retail business handled in 2002 by Travel24 GmbH was satisfactory, the stationary travel agency sector reported declining sales. The sales shortfall was mainly attributable to the closure of the department responsible for group travel and the downscaling of business volume in corporate sales. The travel agencies on the works premises of Audi AG were able to maintain their revenue at the same level as the previous year, the office at Munich Airport and the travel agency at Eching reported sales revenue approx. 8% below that of the previous year. The Company concluded the 2002 financial year with a deficit of € 10,839 after allowance was made for the loan waiver of € 0.5m by Travel24.com AG. The loss of € 0.5 m, which was not covered by shareholder's equity, is secured by a declaration of subordination by Travel24.com AG.

In the 2002 financial year the transaction value of all bookings made via the booking modules operated by Buchungsmaschine AG exceeded the € 50 million mark for the first time. In the second half of 2002 the Company successfully launched its booking module for scheduled flights, thus rounding off its portfolio of travel booking applications. Further optimisation of work routines, the exploitation of additional sources of income from the increased business volume with a simultaneous adjustment of expenditure enabled this subsidiary to cover its costs in the second half. However, this was not sufficient to completely absorb the losses incurred in the first half, resulting in an annual deficit of € 0.8m as at 31 December 2002. The loss of € 3.0 m not covered by shareholders equity is for the most part secured by a declaration of subordination by Travel24.com AG. The residual amount is covered by the value of self-engineered software that was not capitalised.

In the course of the restructuring measures already introduced in the wholly-owned subsidiary xsnet Gesellschaft für multimediale Informationssysteme mbH in 2001, the company's remaining activities were allocated to other subsidiaries and its business activities discontinued as of 31 December 2002. Technical support and development of the www.travel24.com Website were integrated into Travel24.com AG; all further activities relating to third-party customers, e.g. technical support and programming services, were transferred to Buchungsmaschine AG. The annual deficit disclosed in the balance sheet date amounts to € 0.2m. The loss of € 1.3m not covered by shareholders' equity is secured by a declaration of subordination by Travel24.com AG.

The refocusing of the Travel24 Group on the German market resulted in reduced commitment in the Netherlands towards mid-year. With a remaining 49% stake in Munckhof Business Travel B.V., the Venlo-based subsidiary no longer belongs to the reporting entity. In addition, the purchaser and manager of this unit was granted an option to acquire a further 24% interest in Munckhof Business Travel B.V., to be exercised by 31 December 2003 at the latest.

Following the events of 11 September 2001 and notwithstanding drastic cost reduction and restructuring measures, tour operator Aeroworld GmbH was unable to effect an improvement in its booking situation – with the result that this subsidiary – following cancellation of the parent guarantee – was obliged to institute insolvency proceedings on 3 June 2002 at the Düsseldorf Local Court. In the management's judgement,

adequate provision has been made for possible risks which may ensue to the parent company from the insolvency proceedings.

As a consequence of the continued unsatisfactory profit situation of Spanish subsidiary Eurosun Viajes S.A. the shell of the company was sold to a foreign investor in mid-year.

#### 4.3 The Travel24 Group

The past financial year was a year of consolidation for Travel24.com AG and its subsidiaries. Developments mainly brought about by the adverse economic situation such as the insolvency of Aeroworld GmbH, consistent implementation of the restructuring measures initiated in 2001 and concentration on the goals of the Travel24 Group all required a streamlining of the shareholding structure and concentration of activities on a limited number of operative subsidiaries.

The consolidated financial statements prepared according to US-GAAP disclose a net loss for the year of € 6.98 m. For the main part this result is attributable to the losses incurred by the parent Company Travel24.com AG and discontinued activities. This primarily relates to the tour operator activities of Aeroworld GmbH.

In the past financial year liquid assets available to the Company fell from € 5.5m to € 0.9m. Cash flow from operating activities in 2002 amounted to € -5.7m (previous year; € -26.3m, allowing for discontinued operations), whilst cashflow from investing activities and financing totalled € 0.1m (previous year: € 1.1m, allowing for discontinued operations). Alone in the first quarter of 2002 net cash outflow amounted to € 3.8m due to the restructuring.

With the aim of satisfying liquidity requirements derived from the budget for the 2003 financial year and stemming the negative development of shareholders' equity that has become apparent, a refinancing programme was introduced in the fourth quarter in the form of a convertible bond. The initial interest in subscription from the ranks of the major shareholders and the Company's founding members will, upon successful conclusion of negotiations, enable immediate reinforcement of the capital base.

## 5. Risk report

The events of 11 September 2001 and the attacks carried out in tourist regions in 2002 had severe repercussions in the entire tourist industry. Even at the start of the current financial year there is still no sign of normalisation in the booking and travel patterns of German tourists. Not least because of the recently started war in Iraq and the as yet unforeseeable consequences for the security of European and US nationals, there is a general mood of restraint among travellers and in the industry as a whole.

In the competitive field the so-called low-cost airlines have made considerable advances in 2002 with their aggressive pricing policy and expanding route networks. Because reservations on these airlines can only be made through their own call centres or online, traditional carriers such as Lufthansa followed suit by encouraging customers to make reservations online in return for discounts - and this has given a significant boost to the entire travel sector. Industry experts now agree that the shift in market shares observed in 2002 in favour of travel services with an established Internet presence will continue - regardless of whether the travel industry continues to record a decline in sales or whether the volume of bookings remains at the same level as the previous year.

Not least because of the growing attractiveness of the online travel sector that has brought a number of competitors in its wake, image building is absolutely essential to distinguish oneself from the rest of the field. Travel24.com AG attaches great importance to the image-building process by way of brand reinforcement, technical innovations and ongoing development in the service sector, all of which will help the Company to achieve a unique position in the market. It may be possible to reduce interruptions and delays to internal schedules to a minimum - particularly with regard to technological improvements in our own online booking applications - but these cannot be completely eliminated.

As of 31 December 2002 Travel24.com AG had a total of five pending legal procedures and two imminent lawsuits. With regard to the five pending legal procedures, Travel24.com AG is the party being sued (defendant's lawsuit) in two cases and in the other three proceedings it is the plaintiff (plaintiff's lawsuit). As of March 2003 only one of the defendant's lawsuits is still pending. In the two above-mentioned imminent

lawsuits legal proceedings have been instituted. Adequate provision was made to cover all from today's standpoint foreseeable risks ensuing from these disputes. Depending on the outcome of the legal proceedings, the possibility of a substantial burden on liquid assets cannot be excluded.

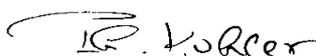
Although the management is convinced of the Company's long-term development prospects, certain corporate risks ensue from existing and future holdings and investments. These result in particular from the increasingly scarce equity capital and liquid funds, necessitating the provision of further financial means in the form of equity capital and/or borrowed capital for the continuation of business activities. The Managing Board is currently pursuing various alternatives for capital procurement and is optimistic about the possibility of strengthening the Company with new funds in the short term. Should this not be possible, the continued existence of the Group could be in jeopardy. The provision of additional capital is currently being planned with a view to securing the long-term future of the Company. In this respect the intention is to raise outside capital as well as using equity capital for financing.

## 6. Outlook

During the past year new vendors have appeared on a market that has demonstrated continued growth. In this context it has become evident that our investment in the brand will provide us with a long-term advantage, as the latter conveys confidence and security and has a high identification factor. The development of more efficient online booking tools results in constantly improved levels of service and customer loyalty. The so-called look-to-book rate, the ratio of "lookers to bookers", persists at the low level of under 1%, although this figure has doubled compared to the previous year. This fact supports our theory that the average Internet user has only been online for about three years and goes through an evolutionary process of user behaviour before he makes a travel booking. This initial familiarisation phase with simple functions such as e-mail and "infosurfing" is followed by a second phase in which low-price merchandise (CDs, books) is purchased for the first time online. Not until the third phase are higher-value transactions made – for example travel. This time-lag makes us optimistic that this year we will once again see a substantial increase in online sales.

Following the successful restructuring in 2001 and 2002, the focus for 2003 will be on exploiting the development potential of the market with further investments in the brand and technology in order to increase the profitability of Travel24.com.

Munich, March 2003



Philip Kohler



Marc Maslaton

## Consolidated financial statements 2002

### Consolidated balance sheet as of 31 December, figures according to US-GAAP

<b><u>ASSETS</u></b>	<u>31.12.2002</u>	<u>31.12.2001</u>
	<b>in € 000</b>	<b>in € 000</b>
<b><u>Current assets</u></b>		
Liquid funds and securities	939	6,455
Accounts receivable, net of valuation adjustments	424	324
Prepaid expenses and other assets	<u>272</u>	<u>1,220</u>
<b>Total current assets</b>	<b><u>1,635</u></b>	<b><u>7,999</u></b>
<b><u>Non-current assets</u></b>		
Property, plant and equipment, net	418	1,189
Goodwill	609	644
Financial assets	<u>966</u>	<u>1,826</u>
<b>Total non-current assets</b>	<b><u>1,993</u></b>	<b><u>3,659</u></b>
<b>Total assets</b>	<b><u><u>3,628</u></u></b>	<b><u><u>11,658</u></u></b>
<b><u>LIABILITIES</u></b>		
<b><u>Current liabilities</u></b>		
Liabilities due to banks	17	0
Trade accounts payable	994	1,820
Provisions	2,748	2,460
Other current liabilities	<u>333</u>	<u>1,146</u>
<b>Total current liabilities</b>	<b><u>4,092</u></b>	<b><u>5,426</u></b>
<b><u>Non-current liabilities</u></b>		
Long-term debt, less current portion		
Capital lease obligations, less current portion		
Deferred revenues		
Deferred taxes		
Pension accrual		
<b>Total non-current liabilities</b>	<u>0</u>	<u>0</u>
Minority interest		
<b><u>Shareholders' equity</u></b>		
Subscribed capital	10,473	10,473
Treasury stock	(356)	(1,383)
Additional paid-in capital	62,655	63,572
Remuneration from stock options	(58)	(232)
Consolidated balance sheet loss	<u>(73,178)</u>	<u>(66,198)</u>
<b>Total shareholders' equity</b>	<b><u>(464)</u></b>	<b><u>6,232</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u><u>3,628</u></u></b>	<b><u><u>11,658</u></u></b>

## Consolidated statement of income from 1 January to 31 December, figures according to US-GAAP

	01.01.- 31.12.2002 <u>in € 000</u>	01.01.- 31.12.2001 <u>in € 000</u>
Revenues	4,145	4,350
Cost of revenues	(476)	(1,078)
<b>Net profit on sales</b>	<b><u>3,669</u></b>	<b><u>3,272</u></b>
<b>Operating expenses:</b>		
Selling and marketing expenses	(4,402)	(12,763)
General and administrative expenses	(3,689)	(6,581)
Amortisation of goodwill	(35)	(5,411)
Depreciation and amortisation	(489)	(2,067)
<b>Total operating expenses</b>	<b><u>(8,615)</u></b>	<b><u>(26,822)</u></b>
<b>Operating income / loss</b>	<b><u>(4,946)</u></b>	<b><u>(23,550)</u></b>
<b>Other income / expenses</b>		
Interest income	265	1,230
Interest expenses	(161)	(114)
Income / expenses accounted for by the equity method	(33)	(369)
Other operating income and expenses	978	(785)
<b>Total other income / expenses</b>	<b><u>1,049</u></b>	<b><u>(38)</u></b>
<b>Earnings from ordinary activities before income taxes and discontinued operations</b>	<b><u>(3,897)</u></b>	<b><u>(23,588)</u></b>
Taxes on income	(3)	0
<b>Earnings from ordinary activities</b>	<b><u>(3,900)</u></b>	<b><u>(23,588)</u></b>
<b>Discontinued operations:</b>		
Losses from operating activities	(1,893)	(5,514)
Income / loss from winding up	(1,187)	0
Shortfall from discontinued operations	(3,080)	(5,514)
<b>Net loss for the year</b>	<b><u>(6,980)</u></b>	<b><u>(29,102)</u></b>

## Consolidated cash flow statements from 1 January to 31 December

	01.01.- 31.12.2002 in € 000	01.01.- 31.12.2001 in € 000
<b>1. Cash flow from operating activities:</b>		
Net loss for the year	(6,980)	(23,588)*
Adjustments to reconcile net loss to cash flow from operating activities:		
- Depreciation of tangible assets	489	2,067
- Amortisation of goodwill	35	5,411
- Depreciation of investments	861	468
- Creditor compensation by way of shares	274	0
- Increase / (decrease) in outside interests	0	(4)
- Changes in operating assets and liabilities		
Trade accounts receivable	(101)	(1,732)
Trade accounts payable	(828)	(2,703)
Deferred income and other accounts receivable	948	1,529
Other liabilities	(813)	(4,064)
Provisions	289	(3,542)
- Transfer to adjustment item for remuneration from stock options	174	(127)
<b>Cash flow from operating activities:</b>	<b>(5,652)</b>	<b>(26,285)</b>
<b>2. Cash flow from investing activities:</b>		
- Sale of assets	327	395
- (Additions to) / disposals of fixed assets	(29)	(1,269)
- (Additions to) / Disposals of intangible assets / goodwill	(18)	782
- (Additions to) / disposals of financial assets	(162)	2,543
<b>Cash flow from investing activities:</b>	<b>119</b>	<b>2,451</b>
<b>3. Cash flow from financing activities:</b>		
- Purchase of own shares	0	(1,239)
- Unrealised gain / (loss) on available-for-sale securities	0	(78)
<b>Cash flow from financing activities</b>	<b>0</b>	<b>(1,317)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(5,533)</b>	<b>(25,151)</b>
Cash and cash equivalents at the beginning of the reporting period	6,455	31,606
Cash and cash equivalents at the end of the reporting period	922	6,455
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(5,533)</b>	<b>(25,151)</b>
<b>Update:</b>		
Interest payments	161	114

### Notes:

In this cash flow statement funds are defined as "net available liquid assets", i.e. the funds include liquid assets declared in the balance sheet and deposit liabilities shown in the balance sheet under liabilities to banks.

\* Net loss for the year before discontinued operations

## Consolidated development of shareholders' equity from 1 January to 31 December

(in € 000, with the exception of figures per share)

	Number of issued shares	Share capital Preferential shares	Share capital Ordinary shares	Own shares	Capital reserve	Remuneration from share options	Available- for-sale securities	Consoli- dated net loss	Total
<b>As per 31 December 1999</b>	<b>663,723</b>	<b>0</b>	<b>927</b>	<b>0</b>	<b>4,131</b>	<b>0</b>	<b>0</b>	<b>-2,848</b>	<b>2,210</b>
Capital increase from business funds from 14 February 2000			2,073		-2,073			0	0
Capital increase from cash contributions and re- division of shares according to resolution from 14 February 2000 and initial public offering	8,936,277		6,600		67,200			0	73,800
Issue of stock options and partial deferred expenses for remuneration from stock options					134	-105			29
Expenses for procurement of equity (gross)					-8,809			0	-8,809
Contribution when buying subsidiaries and granting shares					2,243				2,243
Purchase of own shares				-144				0	-144
Fair value valuation of securities							78		78
Net loss for the year								-34,248	-34,248
<b>As per 31 December 2000</b>	<b>9,600,000</b>	<b>0</b>	<b>9,600</b>	<b>-144</b>	<b>62,826</b>	<b>-105</b>	<b>78</b>	<b>-37,096</b>	<b>35,159</b>
Capital increase against contribution in kind (from Authorised Capital II)	872,606		873						873
Net purchase of own shares				-1,239					-1,239
Issue of stock options and partial deferred expenses for remuneration from stock options					151	-127			24
Fair value valuation of securities							-78		-78
Retroactive correction of contribution when buying subsidiaries and granting shares					595				595
Net loss for the year								-29,102	-29,102
<b>As per 31 December 2001</b>	<b>10,472,606</b>	<b>0</b>	<b>10,473</b>	<b>-1,383</b>	<b>63,572</b>	<b>-232</b>	<b>0</b>	<b>-66,198</b>	<b>6,232</b>
Capital increase against contribution in kind (from Authorised Capital II)									
Net purchase of own shares									
Issue of stock options and partial deferred expenses for remuneration from creditor compensation by way of shares				1,027	-753				274
Deferred income, remuneration from stock options					-164	174			10
Fair value valuation of securities									
Retroactive correction of contribution when buying subsidiaries and granting shares									
Net loss for the year								-6,980	-6,980
<b>As per 31 December 2002</b>	<b>10,472,606</b>	<b>0</b>	<b>10,473</b>	<b>-356</b>	<b>62,655</b>	<b>-58</b>	<b>0</b>	<b>-73,178</b>	<b>-464</b>

## Notes to the consolidated financial statements (US-GAAP)

as of 31 December 2002

### 1. Business purpose and group structure

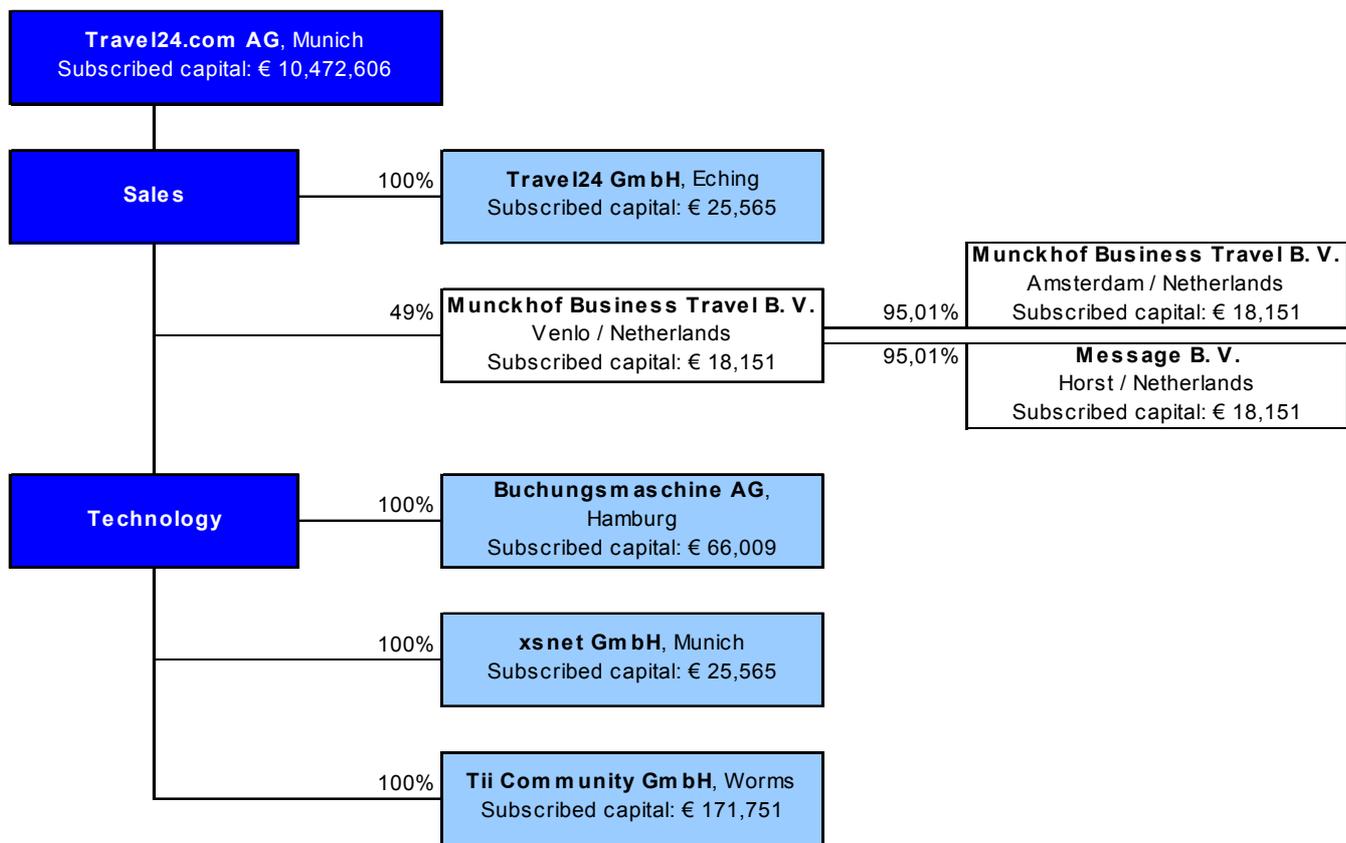
Travel24.com AG, Munich, was founded with the adoption of the articles of association on 22 February 1996 as Travel Systems AG and recorded in the commercial register at Munich Local Court on 27 February 1996. The Company name was changed to Travel24.com AG by shareholders' resolution on 14 February 2000 and the change was recorded in the commercial register on 24 February 2000. Since 15 March 2000 the shares in the Company have been listed on *Neuer Markt* at the Deutsche Börse AG in Frankfurt am Main (since 1 January 2003: Prime Standard).

The business activities of Travel24.com AG – hereinafter referred to as the Company – and its subsidiaries extend to the organisation and marketing of travel services (business segment “Travel marketing & distribution”) and the development and marketing of system components for online information and reservation systems (business segment “Travel technology”).

The following subsidiaries are owned by the Company as of 31 December 2002:

	Ownership share	Subscribed capital	Equity	Net profit (loss) for the year	
		31.12.2002	31.12.2002	2002	2001
	%	€ 000	€ 000	€ 000	€ 000
Buchungsmaschine AG, Hamburg	100	66	-2,988	-782	-2,296
Travel24 GmbH, Eching	100	26	-453	-11	190
xsnet Gesellschaft für multimediale Informationssysteme mbH, Munich	100	26	-1,323	-207	-1,118
Tii Community GmbH, Worms	100	172	8	8	904

As of the balance sheet date, the Group structure was as follows:



The above Group structure results from the following business transactions:

- With the agreements of 2 June 1998 / 21 August 1998 all shareholdings in Travel24 GmbH were purchased with a nominal value of DM 50,000. The business purpose of the Company is the operation of travel agencies, the organisation and marketing of travel as well as associated services.
- Under an agreement dated 11 June 1999 Travel24.com AG purchased all shareholdings in Tii Community GmbH. The Tii Community GmbH discontinued its business activities as per 31 December 2000.
- xsnet Gesellschaft für multimediale Informationssysteme mbH was purchased on 18 August 1999. The business purpose of xsnet Gesellschaft für multimediale Informationssysteme mbH is the development and marketing of multimedia data and programs of all types, e.g. audio, video, graphics, animation and databases for off- and online systems, as well as training and consultation, leasing and marketing of all types of hard- and software. The company discontinued its activities as of 31 December 2002.
- With the stock contribution agreement of 16 / 17 / 18 August 2000 Travel24.com AG purchased a total of 73.003% of the shares (48,189 non-par-value shares) in Buchungsmaschine AG, endowed with profit entitlement starting 1 January 2000 against the transfer of no-par-value bearer shares in Travel24.com AG as well as a cash payment (settlement of fractions). The remaining 26.997% of the shares (17,820 non-par-value shares) were acquired by Travel24.com AG by exercising an option agreement of 16/17 August 2000, likewise against the transfer of non-par-value bearer shares in Travel24.com AG as well as a cash payment. The 872,606 shares in Travel24.com AG to be transferred were issued from the Authorised Capital II, with the exclusion of subscription rights on the part of the existing shareholders, at an issue price of € 1 per share. The Managing Board of Travel24.com AG has decided to increase the capital stock by € 872,606, from € 9,600,000 to € 10,472,606. The capital increase was recorded in the commercial register on 14 May 2001. The business purpose of Buchungsmaschine AG is the development, training and marketing of software

and hardware, the creation of databases on tourist services for corporate and private business partners, the integration of reservation systems and IT systems for tourist companies, the processing of tourist services, the operation of online services and web hosting, as well as the sale of other services of all kinds.

- By virtue of the agreement of 13 July 2000 Travel24.com AG purchased a 95.25% shareholding in Munckhof Business Travel Venlo B.V. against the transfer of non-par-value shares in Travel24.com AG and a cash payment. Under the agreement dated 24 July 2002 Travel24.com AG reduced its equity stake to 49%. The Company's equity interest and its share of profits are shown by the equity method. For the purposes of comparison, this data is shown for the financial years 2002 and 2001. The consolidated results for 2001 include the profits/losses of Munckhof. Munckhof Business Travel Venlo B.V. is a travel agency and tour operator.

Munckhof Business Travel Venlo B.V. has two other subsidiaries. Munckhof Business Travel Amsterdam B.V. is a travel agency and tour operator. Message B.V. operates a marketing agency and organises events.

- Details of the discontinued business operations of subsidiaries Aeroworld GmbH and Eurosun Viajes S.A. are to be found in Section 11 of the appendix.

## 2. Summary of essential accounting and valuation principles

### 2.1 Basis of the presentation

The consolidated financial statements of Travel24.com AG as of 31 December 2002 were prepared in accordance with United States Generally Accepted Accounting Principles (US-GAAP). The accounting rules valid on the balance sheet date have been applied.

The consolidated financial statements of the Company include the financial statements of Travel24.com AG and its subsidiaries as listed in Note 1. All significant balances and transactions generated by the intercompany exchange of goods and services have been eliminated on consolidation in accordance with US-GAAP. In conformance with SFAS 144 business operations that were completely or partly discontinued in 2002 were not included in the consolidation. The prior-year figures resulting from former activities were reclassified to correlate with the current year's mode of presentation.

The consolidated financial statements have a discharging effect as defined in Art. 292a HGB (German Commercial Code).

### 2.2 Use of estimates

The preparation of the consolidated financial statements in compliance with generally accepted accounting principles requires that the management make certain estimates and assumptions that have an effect on the reporting of assets and liabilities, the disclosure of contingent liabilities and commitments as of the balance sheet date as well as earnings and expenses in the reporting period. The actual results may differ from these estimates.

### 2.3 Cash and cash equivalents

The Company considers all liquid funds with a term of three months or less at the time of their acquisition to be cash equivalents.

### 2.4 Fixed assets

Tangible assets are disclosed at their acquisition cost. Subsequent appreciation is capitalised; repair and maintenance costs are charged to expenses in the financial year in which they were incurred. Depreciation is calculated using the straight-line method based upon the useful life of the assets. Office furniture and equipment are depreciated over three to eight years, software three to five years.

### 2.5 Long-term assets

Long-term assets, including goodwill and other intangible assets, are examined for loss of value if events or changes in circumstances indicate that the book value of an asset may no longer correspond to its actual value. If the sum of the expected future non-discounted cash flows is less than the book value of the asset, a

loss is posted to the amount of the difference between the market value (based on the estimated discounted future cash flow) and the book value of the asset.

#### 2.6 Business combinations and goodwill

Business combinations are disclosed according to the purchase method. Operating results are taken into account from the respective date of acquisition. In July 2001 the Financial Accounting Standards Board (FASB) adopted standard SFAS 142 which applies to goodwill and other intangible assets. In the 2002 financial year the Company examined all goodwill and completely wrote off the goodwill of xsnet Gesellschaft für multimediale Informationssysteme mbH to the total of € 35,252.

#### 2.7 Revenue recognition

Revenues from travel retailing (commissions) are posted at the start of travel. Previous to this, payments received from customers are posted as deposits under current liabilities without an effect on income. Deposits paid are posted as revenues in the month of start of travel.

#### 2.8 Taxes on income and earnings (tax on earnings)

The Company shows taxes on income and earnings in the balance sheet using the liability method. By this method deferred taxes are recorded on the differences between the value carried on the balance sheet to German accounting provisions and the respective fiscal basis for calculating assets and liabilities; the taxes are recorded using the estimated rates of taxation for the years in which differences will be balanced out. The effects of a change in tax rates on deferred taxes are expensed in the result for the period in which the change takes place. Furthermore, the necessary valuation adjustments are made so that deferred tax assets are carried at the amount likely to be realised.

#### 2.9 Employee participation program (stock-based compensation)

In the accounting of existing stock option plans the Company complies with Statement No. 123 of the Financial Accounting Standards Board (SFAS 123) including the corresponding interpretations. The latter requires that expenses for the issue of stock options be calculated as the fair value of options granted, expensed over the expected average term for each option programme.

#### 2.10 Net earnings per share

Earnings/loss per share (undiluted) are calculated from the weighted average number of outstanding ordinary shares in the reporting period. The diluted earnings/loss per share are calculated on the basis of the weighted average number of outstanding ordinary shares in the reporting period and existing equity-related rights. The latter comprise stock options and stock subscription rights (including the Company's own shares). The basic net loss per share for the 2002 and 2001 financial years is the same as the diluted net loss per share, because all stock options issued to employees have been excluded from this calculation.

### 3. Liquid funds and securities

The reserves shown include current, fixed deposit and time deposit accounts at financial institutions and cash equivalents. A distinction is made between fixed deposits with terms of less than three months and those with terms of more than three months. The balances for the previous year had to be adjusted to make allowance for discontinued operations.

	31 December	
	2002	2001
	€ 000	€ 000
Cash, cheques and bank balances	152	533
Term deposits up to 3 months	736	5,922
<b>Total cash and equivalents</b>	<b>888</b>	<b>6,455</b>
Term deposits over 3 months, as well as reserved deposits	0	0
Securities	51	0
<b>Total marketable securities</b>	<b>51</b>	<b>0</b>
<b>Grand total</b>	<b>939</b>	<b>6,455</b>

#### 4. Prepaid expenses and other assets

Prepaid expenses and other assets comprise the following:

	31 December	
	2002	2001
	€ 000	€ 000
Taxes:		
Corporate tax and surcharge (solidarity tax contribution)	0	478
Capital gains tax and surcharge (solidarity tax contribution)	29	0
Trade tax	0	21
Sales tax	27	245
<b>Sub-total taxes</b>	<b>56</b>	<b>744</b>
Advance payments for travel services	154	0
Performance bonds and deposits	2	0
Debit balances of accounts payable	0	1
Other	60	475
<b>Sub-total other prepaid expenses &amp; assets</b>	<b>216</b>	<b>476</b>
<b>Grand total</b>	<b>272</b>	<b>1,220</b>

#### 5. Tangible fixed assets and investments

Tangible fixed assets and investments as of 31 December 2002 are shown in the movement schedule on the following page:

## Travel24.com AG - Group

### Development of fixed assets in the 2002 financial year

	Acquisition and production costs					Depreciation and amortisation					Residual book values	
	01.01.2002	Additions	Disposals	Transfer	31.12.2002	01.01.2002	Additions	Disposals	Transfer	31.12.2002	31.12.2002	31.12.2001
	€	€	€	€	€	€	€	€	€	€	€	€
<b>I. Intangible assets</b>												
1. Concessions, industrial property rights and similar rights and values	1,121,917	17,711	436,023	0	703,605	751,056	207,177	416,026	0	542,207	161,398	370,861
2. Advance payments	1,112,571	0	0	0	1,112,571	1,112,571	0	0	0	1,112,571	0	0
	<u>2,234,489</u>	<u>17,711</u>	<u>436,023</u>	<u>0</u>	<u>1,816,176</u>	<u>1,863,627</u>	<u>207,177</u>	<u>416,026</u>	<u>0</u>	<u>1,654,778</u>	<u>161,398</u>	<u>370,861</u>
<b>II. Tangible assets</b>												
Other fixtures and fittings, tools and equipment	1,903,085	28,554	1,355,564	0	576,075	1,085,074	281,409	1,046,834	0	319,649	256,426	818,012
<b>III. Financial assets</b>												
1. Investments	7,172,455	0	703,183	0	6,469,271	5,849,048	0	0	0	5,849,048	620,223	1,323,407
2. Loans due from companies with which the Company is linked by virtue of participating interests	4,204,570	6,699	0	0	4,211,268	4,087,532	0	0	0	4,087,532	123,736	117,038
3. Other loans	385,936	97,599	261,886	0	221,649	0	0	0	0	0	221,649	385,936
	<u>11,762,961</u>	<u>104,297</u>	<u>965,069</u>	<u>0</u>	<u>10,902,189</u>	<u>9,936,580</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,936,580</u>	<u>965,609</u>	<u>1,826,381</u>
	<u>15,900,535</u>	<u>150,562</u>	<u>2,756,657</u>	<u>0</u>	<u>13,294,440</u>	<u>12,885,281</u>	<u>488,586</u>	<u>1,462,860</u>	<u>0</u>	<u>11,911,007</u>	<u>1,383,433</u>	<u>3,015,254</u>

## 6. Goodwill

Taking into account the pro forma information on formerly consolidated subsidiaries, goodwill comprises the following:

	Goodwill € 000	Depreciation	Accumulated depreciation	Net book values	
		2002 € 000	31.12.2002 € 000	31.12.2002 € 000	31.12.2001 € 000
Buchungsmaschine AG	6,256	0	5,756	500	500
Travel24 GmbH	271	0	162	109	109
xsnet Gesellschaft für multimediale Informationssysteme mbH	59	35	59	0	35
Tii Community GmbH	290	0	290	0	0
<b>Total consolidated companies</b>	<b>6,876</b>	<b>35</b>	<b>6,267</b>	<b>609</b>	<b>644</b>

	Goodwill € 000	Depreciation	Accumulated depreciation	Net book values	
		2002 € 000	31.12.2002 € 000	31.12.2002 € 000	31.12.2001 € 000
Aeroworld GmbH	4,138			-	500
Munckhof Business Travel B.V.	1,526			-	1,068
Eurosun Viajes S.A.	193			-	0
<b>Total, no longer consolidated companies</b>	<b>5,857</b>			<b>-</b>	<b>1,568</b>

## 7. Other liabilities

Other liabilities comprise the following:

	31 December	
	2002	2001
	€ 000	€ 000
Social security salaries & wages	118	130
Credit balances in accounts receivable	0	43
Purchase price obligations for subsidiaries		
- Aeroworld GmbH	0	603
- Eurosun Viajes S.A.	20	15
Advance payments received	195	150
Other	0	205
<b>Grand total</b>	<b>333</b>	<b>1,146</b>

## 8. Provisions

	31 December	
	2002	2001
	€ 000	€ 000
Legal disputes	709	516
Outstanding invoices	414	448
Personnel expenses	116	189
Auditing fees	102	403
Rental charges	72	150
Supervisory Board remuneration	123	92
Provisions from discontinued operations	1,100	649
Interest charges	91	0
Other	21	13
<b>Grand total</b>	<b>2,748</b>	<b>2,460</b>

## 9. Shareholders' equity

### 9.1 Share capital

As of 1 January 2000 the share capital totalled € 927,202.68 (DM 1,813,450.83), divided into 663,723 no-par-value bearer shares.

Pursuant to the provisions of the *Aktiengesetz* [Stock Corporation Act] on capital increase from corporate funds (Art. 207 ff. AktG) a resolution was adopted at the ordinary general meeting on 14 February 2000 to increase the Company's share capital by € 2,072,797.32 from currently € 927,202.68 to € 3,000,000.00 by converting a corresponding portion of the capital reserve. In addition, the share capital was re-divided so that each individual share certificate represents € 1 of the total share capital.

With the resolution of 14 February 2000 the Company's share capital – upon recording the capital increase from corporate funds and the re-division of the shares – was increased by up to € 6,782,000, to € 9,782,000 against cash contributions through the issue of up to 4,200,000 new no-par-value registered shares and up to 2,582,000 new no-par-value bearer shares. The issue price for each share was € 1, total issue price of shares therefore amounted to up to € 6,782,000.

Commerzbank Aktiengesellschaft was entitled to subscribe to the new shares. The bearer shares subscribed by Commerzbank Aktiengesellschaft were placed on the *Neuer Markt* in the course of an initial public offering and the issue proceeds transferred to the Company. The shares were issued at the price of € 29.

The resolutions adopted at the ordinary general meeting on 14 February 2000 were recorded in the commercial register at the Munich Local Court on 24 February 2000 and 8 March 2000. The 4,200,000 new registered shares were subscribed by the existing shareholders; all other subscription rights on the part of the shareholders were excluded. Bearer shares and registered shares are endowed with the same rights. € 4,200,000 of the total cash capital increase of up to € 6,782,000 was implemented and recorded in the commercial register at the Munich Local Court on 24 February 2000.

The recording of the capital increase of € 2,400,000 required for the IPO was made in the commercial register at the Munich Local Court on 8 March 2000.

The share capital as of 31 December 2000 totalled € 9,600,000. It was divided into 5.4 million no-par-value bearer shares and 4.2 million registered shares.

At the extraordinary general meeting on 12 December 2000 a resolution was adopted to convert the 4.2 million registered shares in the Company into bearer shares. The resolution on the conversion was recorded in the commercial register at the Munich Local Court on 6 February 2001.

With approval of the Supervisory Board dated 8 / 9 March 2001 the Managing Board resolved on 29 December 2000 to increase the Company's € 9,600,000 share capital against contributions in kind by € 872,606 to a new total of € 10,472,606 by issuing 872,606 new no-par-value bearer shares to the value of € 1 per share. The new shares are endowed with full dividend rights as of 1 January 2000. The resolution was recorded in the commercial register at the Munich Local Court on 14 May 2001. The new shares are admitted to trading at the stock exchange.

### 9.2 Authorised capital

On 9 July 1999 the Managing Board was authorised for the period through to 9 July 2004, subject to the consent of the Supervisory Board, to increase the share capital by € 340,861.25 by means of one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital I).

On 14 February 2000 the Managing Board was authorised for the period through to 13 February 2005, subject to the consent of the Supervisory Board, to increase the share capital by € 4,450,000 by means of one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital II). The Authorised Capital totalling € 872,606 was realised in the form of a non-cash contribution of Buchungsmaschine AG. As of 31 December 2002 the remaining Authorised Capital II amounted to € 3,577,394.

Furthermore, at the extraordinary general meeting on 12 December 2000 the Managing Board was authorised for the period through to 12 December 2005, subject to the consent of the Supervisory Board, to increase the share capital of the Company by € 3,000,000 by means of one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital III). This resolution has not yet been recorded in the commercial register.

### 9.3 Contingent capital and stock option programme

The Company's share capital has been increased by a nominal sum of € 299,999.97 subject to a contingency (contingent capital). The contingent capital increase will only be implemented to the extent that the holders of stock options exercise the option rights issued by the Company's Managing Board on the basis of the authorisation of the general meeting on 14 February 2000 with the consent of the Supervisory Board or issued by the same. On the basis of the authorisation from the Company's annual general meeting of 14 February 2000 subscription rights (option rights) were offered to the staff, senior employees and management of the Company and its affiliates. A total of 9,900 of these option rights have been issued. By resolution of the general meeting on 25 June 2001 the Contingent Capital was renamed Contingent Capital I and with the exception of € 20,000 it was withdrawn. Currently 2,880 options are still outstanding. 7,020 options have been properly cancelled.

By resolution of the general meeting on 25 June 2001 the share capital of the Company was increased by a nominal sum of € 900,000 through a contingent capital increase (Contingent Capital II). The contingent capital increase will only be implemented to the extent that the holders of stock options exercise the option rights issued by the Company's Managing Board on the basis of the authorisation of the general meeting on 25 June 2001 with the consent of the Supervisory Board or issued by the same. On 30 July 2001 a total of 576,500 option rights was offered to the staff, senior employees and management of the Company and its affiliates on the basis of the authorisation from the Company's general meeting on 25 June 2001 following the appropriate resolutions of the Management and Supervisory Boards. 552,250 options have been accepted. 125,750 options are still outstanding as of 31 December 2002. Whilst 196,000 options had reverted to the Company by the end of the 2001 financial year, 230,500 options had been properly cancelled.

By resolution of the general meeting on 12 June 2002 the Company's share capital was nominally increased by € 4,300,000 subject to contingencies by issuing up to 4,300,000 new no-par value bearer shares with dividend rights from the start of the financial year in which they are issued (Contingent Capital III). The Managing Board has been authorised, with the consent of the Supervisory Board, to float no-par-value bearer or registered convertible bonds valued at up to € 4,300,000 in one or more issues with a maximum term of five years and to grant the holders of the convertible bonds conversion privileges for up to 4,300,000 new shares in the Company, proportionately representing up to € 4,300,000 of the share capital, within the strict limitations of this resolution and in accordance with the convertible bond conditions to be specified by the Managing Board with the consent of the Supervisory Board.

All shareholders have the right to subscribe. However, the Managing Board is authorised, subject to the approval of the Supervisory Board, to exclude the pre-emptive rights of shareholders to convertible bonds,

- provided the issue price is not substantially higher than the theoretical market value of the convertible bonds calculated according to generally accepted investment mathematical principles and the shares to be issued in satisfaction of the conversion privileges pursuant to Art. 186 para.3 (4) AktG do not exceed 10% of the share capital, either at the date they become effective or are exercised (the limitation to 10% of share capital is to include shares issued on existing authorised capital with the exclusion of pre-emptive rights, as well as the Company's own shares that are resold with the exclusion of pre-emptive rights).
- provided convertible bonds with conversion rights are subscribed for restructuring purposes by one or more investors for cash, or
- insofar as fractional amounts occur due to a subscription ratio.

Upon issue of the convertible bonds the holders will receive an irrevocable right to convert these to new shares in the Company, subject to the conditions set by the Managing Board with the consent of the Supervisory Board. The proportion of shares issued to share capital may not exceed the nominal value of the convertible loans. The conversion rate is calculated by dividing the nominal value of the convertible bonds by the conversion price, i.e. 1 : 1 (a new share in the Company may be exchanged for each € 1 nominal value of the convertible bonds). Subject to the convertible bond conditions, the conversion privilege may be exercised at any time during the entire term. The conversion price is € 1 per share, less the nominal value of the bond issue.

#### 9.4 Stock option plan 2000

Under the stock option plan of 10 March 2000 options were granted to 54 employees for the purchase of 180 shares each at the IPO price of € 29 per share. This corresponds to 100% of the market value on the issuing day. The holding period for these shares is two years for the first 40% and an additional year for each further 20% until after five years all options are fully exercisable. All options must be exercised within seven years of the date on which the option was granted. Further regulations on exercise periods, disposal rights, cancellation and taxation have been laid down within the framework of the stock option programme. To date none of these options have been exercised. As of the balance sheet date 2002 the stock option rights of 38 former employees were cancelled.

#### 9.5 Stock option plan 2001

Under the stock option plan of 30 July 2001, 552,250 shares in Travel24.com AG were issued to 305 employees at € 1.32 per share. This corresponds to 88% of the market value on the issuing day. The holding period for these shares is two years for the first 40% and an additional year for each further 20% of the shares until after five years all option shares are fully exercisable. All options must be exercised within seven years of the date on which the option was granted. Further regulations e.g. on exercise periods, disposal rights and taxation have been laid down within the framework of the stock option programme. To date none of these options have been exercised. In the period between the issuing of these options until 31 December 2002 the stock option rights for 426,500 shares of former employees were cancelled.

#### 9.6 Employee Participation Programme

The market values of the options granted in 2000 and 2001 were calculated at the point in time the commitments were made according to US-GAAP rules (SFAS No. 123, Accounting for Stock-Based Compensation) applying the Black-Scholes model. The assumptions made in this respect and the resulting market value are as follows:

	Stock option plan 2001	Stock option plan 2000
Risk-free interest	5%	5%
Volatility	50%	50%
Estimated fluctuation	0%	0%
Mean expected term	3.4 years	3.7 years
Market value per option	€ 0.65575	€ 13.76
Number of outstanding options as per		
<b>31 December 2002</b>	<b>125,750</b>	<b>2,880</b>
31 December 2001	356,250	3,780
Expense booked (in € 000)		
	<b>2002</b>	<b>6</b>
	2001	29
		<b>5</b>
		-3

In the 2001 financial year proceeds of € 3,000 were posted for the stock option plan 2000. This is calculated from the surplus of the lapsed share options of former employees over the expense for outstanding share options for the given period.

The changes in the options from the Company's stock option plans are as follows:

	2002	2002	2001	2001
	Number of weighted average issued options	Average strike price €	Number of weighted average issued options	Average strike price €
as of 1 January	360,030	1.61	9,720	29.00
granted	0	-	552,250	1.32
exercised	0	-	0	-
terminated	-231,400	1.43	-201,940	2.13
<b>as of 31 December</b>	<b>128,630</b>	<b>1.94</b>	<b>360,030</b>	<b>1.61</b>

## 9.7 Own shares

Pursuant to the resolution adopted by the shareholders' meeting on 12 December 2000 Travel24.com AG was authorised to purchase its own shares in conformance with Art. 71 AktG.

Own shares held by the Company reflect the following situation:

	Number of shares	Share price (average) €	Acquisition costs € 000	Percentage of share capital %
Purchases in 2000	42,422	3.40	144	
Purchases in 2001	354,300	3.64	1,288	
Payment of residual purchase price Munckhof Business Travel B.V.	-21,430	3.61 *	-77	
Shares reissued in 2002	-276,667	3.61 *	-999	
<b>Balance as of 31 December 2002</b>	<b>98,625</b>	<b>3.61 *</b>	<b>356</b>	<b>0.94</b>

\* Projection of the average price calculated since the last stock purchase for evaluating the disposal of own shares

The reduction in own shareholdings in 2002 is mainly attributable to the cash-saving payment of certain services and consultations by means of shares held by the Company, with the aim of maintaining the value of other shares in circulation.

## 10. Tax on earnings

Due to the uncertainty of realising deferred taxes, as a result of only limited past business activities, the lack of profitability to date and allowances for fluctuation in the annual results, deferred tax assets have been written down in full. For the same reasons only minimal earnings tax was incurred in the financial year. The loss carried forward as of 31 December 2002 was € 73,178,043.

## 11. Discontinued operations

On 3 June 2002 Aeroworld GmbH initiated insolvency proceedings at the Düsseldorf Local Court – not least as a consequence of the attacks of 11 September 2001 and their impact on the travel industry. By ruling of the Düsseldorf Local Court of 1 September 2002 insolvency proceedings were opened on the assets of Aeroworld GmbH and Dr. Onno Klopp, solicitor of Düsseldorf, appointed official receiver. In the report submitted to the creditors' meeting on 9 October 2002 pursuant to Art. 156 InsO (Insolvency Act) the receiver estimated that a dividend of 10% would be apportionable to the creditors. However, this result could be positively influenced, inter alia, by the collection of outstanding and disputed accounts due to Aeroworld GmbH. At the time of preparation of the annual report 2002 the disposal of assets of Aeroworld GmbH had not yet been completed. Adequate provision has been made in the balance sheet of Travel24.com AG for possible risks which may ensue to the parent company from the insolvency proceedings.

By virtue of the contract dated 24 June 2002 Travel24.com AG transferred 100% of its shareholdings in Eurosun Viajes S.A., Palma de Mallorca / Spain to a foreign investor. In disposing of these shareholdings, Travel24.com AG effected the reduction of its business involvement in Spain as proposed in the annual report 2001.

The results of these discontinued operations are shown separately in the statement of income for the 2002 and 2001 financial years. Operating losses for the 2002 financial year amounted to € 4.972m for Aeroworld GmbH and € 0.316m for Eurosun Viajes S.A. The operating results were relieved of € 2.208m due to the deconsolidation of Aeroworld GmbH. The following table contains all the relevant facts and figures of the 2001 financial year for these two companies:

	Aeroworld (as reported) € 000	Eurosun (as reported) € 000	Loan write-off Travel24.com AG € 000	Goodwill write-down € 000	Totals € 000
Sales	31,508	504			32,012
Operating loss	-4,448	-114		-1,367	-5,929
Net gain (loss)	1,922	-114	-5,955	-1,367	-5,514
Total assets	4,142	338			4,480

## 12. Segment information

The companies on the reporting entity of Travel24.com AG were active in a number of business areas. The individual segments achieved their revenues with the following activities:

- a) Travel retail (travel marketing & distribution)
- b) Development and operation of system components for Web-based information and reservation systems (travel technology)

The business activities of the Travel24 Group cover the following business areas and services and are conducted by the following companies:

<u>Business segment</u>	<u>Company</u>
<b>a) Travel marketing &amp; distribution</b> Travel retail	<b>Travel24.com AG</b> , Munich <b>Travel24 GmbH</b> , Eching
<b>b) Travel technology</b> Development and operation of system components for Web-based information and reservation systems	<b>Buchungsmaschine AG</b> , Hamburg <b>Tii Community GmbH</b> , Worms <b>xsnet Gesellschaft für multimediale Informationssysteme mbH</b> , Munich

Segment information by business division:

<b>Segment presentation for 2002</b>	Travel Marketing & Distribution	Travel Technology	Eliminations	Travel24-Group	Discontinued operations	Group (incl. disc. operations)
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Revenues - trade	2,593	1,552		4,145	4,742	8,887
- intersegment	1,089	530	-1,619	0		0
<b>Total revenues</b>	<b>3,682</b>	<b>2,082</b>	<b>-1,619</b>	<b>4,145</b>	<b>4,742</b>	<b>8,887</b>
Operating result	-7,040	-1,245	4,388	-3,897	-3,080	-6,977
Assets	9,063	917	-8,549	1,431	2,197	3,628
Depreciation	223	301	0	524		524

<b>Segment presentation for 2001</b>	Travel Marketing & Distribution	Travel Technology	Eliminations	Travel24-Group	Discontinued operations	Group (incl. disc. operations)
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Revenues - trade	3,110	1,240		4,350	32,363	36,713
- intersegment	475	1,214	-1,689	0	-4,701	-4,701
<b>Total revenues</b>	<b>3,585</b>	<b>2,454</b>	<b>-1,689</b>	<b>4,350</b>	<b>27,662</b>	<b>32,012</b>
Operating result	-24,221	-3,416	4,048	-23,588	-5,514	-29,102
Assets	15,068	4,494	-7,904	11,658	5,771	17,429
Depreciation	7,400	360	-281	7,479	2,093	9,571

### 13. Earnings per share

Earnings / losses per share (basic) are calculated from the weighted average number of outstanding ordinary shares in the reporting period. The diluted loss per share is calculated from the weighted average number of outstanding ordinary shares in the reporting period and the equity-related rights. The latter comprise stock options and stock subscription rights (taking into account the Company's own shares). Currently there is no difference in the number of diluted and basic outstanding shares.

The ratios for the earnings per share are determined as follows:

Earnings per share (both basic and diluted)	2002 € 000, except amount per share and number of shares	2001
Weighted average number of shares in circulation	10,277,168	9,736,407
Loss after taxes, before discontinued operations	-3,900	-23,588
per share	-0.38	-2.42
Loss from discontinued operations	-1,893	-5,514
per share	-0.18	-0.57
Loss on disposal of discontinued operations	-1,187	0
per share	-0.12	0
Net loss for the year	-6,980	-29,102
per share	-0.68	-2.99

### 14. Contingent liabilities and other financial obligations

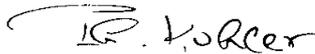
As of 31 December 2002 the following obligations existed:

	2003 € 000	2004 € 000	2005 € 000	2006 € 000	2007 € 000
Office rent	188	117	110	51	0
Car leases	67	34	19	2	0
Services / consulting fees	260	120	49	0	0
Licenses / software systems	169	90	25	0	0
<b>Grand total</b>	<b>684</b>	<b>361</b>	<b>203</b>	<b>53</b>	<b>0</b>

## 15. Litigation

As of 31 December 2002 Travel24.com AG had a total of five pending legal procedures and two imminent lawsuits. With regard to the five pending legal procedures, Travel24.com AG is the party being sued (defendant's lawsuit) in two cases and in the other three proceedings it is the plaintiff (plaintiff's proceedings). As of March 2003 only one of the defendant's lawsuits is still pending. Legal proceedings have been instituted in the two above-mentioned imminent lawsuits. Adequate provision was made to cover all from today's standpoint foreseeable risks ensuing from these disputes. Depending on the outcome of the legal proceedings, the possibility of a substantial burden on liquid assets cannot be excluded.

Munich, March 2003



Philip Kohler



Marc Maslaton

## Differences between US-GAAP and HGB

### 1. General

The consolidated financial statements of Travel24.com AG (hereinafter referred to as "the Company" or "Travel24") as of 31 December 2001 were prepared in accordance with § 292a German Commercial Code (HGB) in line with US generally accepted accounting principles ("US-GAAP") and in accordance with German Accounting Standard No. 1 (DRS 1) of the German Accounting Standard Committee (*Deutscher Standardisierungsrat*, German Standardisation Committee, DSCR e.V.) as discharging consolidated financial statements.

The provisions of HGB and the German Stock Corporation Act (AktG) differ in a number of key aspects from US-GAAP. The essential differences that could be relevant for the net worth, financial position and earnings of the Company are described below:

Under HGB all balance sheet and income statement items must be disclosed in the form and sequence laid down in §§ 266, 275 HGB. Under US-GAAP a different grouping is required and the sequence of balance sheet items begins with the short-term items.

Under US-GAAP the short-term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion due within one year is treated as short-term.

In contrast to HGB financial statements, software purchased for internal use is not treated as an intangible fixed asset, but as tools and equipment. The manufacturing costs of self-developed software may be capitalised under US-GAAP and depreciated over the usual service life. Under HGB self-developed software in fixed assets may not be capitalised. Since 1999 the Company has taken all construction costs for self-developed software into consideration as expenses under US-GAAP.

### 2. Deferred taxes on loss carryforwards

Under HGB deferred tax claims arising from tax loss carryforwards may not be shown on the balance sheet, as the anticipated future tax savings are deemed not to have been realised. Under US-GAAP such future tax reduction claims must be capitalised. Their valuation is based on whether they are more likely to be taken advantage of within the use of loss carryforwards. The Company has adjusted the value of the capitalised tax loss carryforwards in full as of 31 December 2001, as it is not certain whether they will be realised.

### 3. Stock options for employee participation

Under US-GAAP remuneration to employees in the form of equity capital participation (stock-based compensation) must be shown on the balance sheet in two forms. Under the one method the market value of the employee participation is determined and stated as an expense over the period of the vested rights of the stock options or other equity capital instrument. Alternatively, only the difference between the exercise price of an option and the market price of the underlying instrument at the time the option was granted may be shown as an expense over the period of vested rights. If using this method, the impact on the annual result calculated by the first method must be shown as a pro forma figure in the annual financial statements. The Company has elected to use the first method. Under the accounting rules currently in force, pursuant to HGB there would be no expenses to be posted on the statement of income.

#### **4. Expenses for the initial public offering**

Under US-GAAP the costs in connection with the placement of shares on the stock exchange are to be treated as a reduction in the premium from the issue of shares. Under HGB these costs are extraordinary expenses.

#### **5. Transactions in foreign currencies**

Under US-GAAP transactions in currencies other than the functional currency of the Company (e.g. accounts receivable or payable in foreign currencies) are to be recorded at the valid exchange rate at the time they are first booked. These items are to be valued on each successive balance sheet date using the exchange rate on the reporting date. Differences arising from currency translations as a consequence of exchange rate fluctuations are taken into consideration as expenses/gains in the statement of income, whereby any unrealised gains are disclosed. Under HGB only currency losses arising from valuation on the balance sheet date are shown on the statement of income on the balance sheet date. Currency gains are only taken into account when these are realised (e.g. settlement of a debt in a foreign currency).

#### **6. Acquisitions**

The capital consolidation with company mergers under US-GAAP uses the “purchase method”. By this method, the assets and liabilities of the purchased company are re-valued at the point in time of the company merger. Any possible difference between the re-valued assets and liabilities (“net assets”) and the purchase price is stated as goodwill and depreciated over the anticipated useful life. Profits or losses on the part of the purchased company are taken into consideration from the point in time of the company merger. Under HGB, company mergers are also implemented using the purchase method. Under certain conditions, profits and losses of the purchased company may be taken into consideration retroactively.

## Audit opinion

I have audited the consolidated financial statements prepared by Travel24.com AG, Munich, comprising the balance sheet, statement of income, statement of changes in shareholders' equity, statement of cash flows and notes for the financial year from 1 January to 31 December 2002. The preparation and content of the consolidated financial statements are the responsibility of the Managing Board of the Company. It is my responsibility, on the basis of my audit, to express an opinion on whether the consolidated financial statements comply with US Generally Accepted Accounting Principles (US-GAAP).

I have conducted my audit of the consolidated financial statements in accordance with German accounting rules and in compliance with the generally accepted auditing principles laid down by the *Institut der Wirtschaftsprüfer* (IDW, German Institute of Auditors). Accordingly, the audit must be planned and conducted so that any material misstatements in the consolidated financial statements will be recognised. Within the framework of the audit, evidence to support the values and disclosures in the accounts was verified on the basis of random samples. The audit also includes an assessment of the applied accounting principles and significant estimates and judgements made by the legal representatives as well as an appraisal of the overall presentation of the consolidated financial statements. I believe that my audit provides a reasonable basis for my opinion.

Subject to the following qualification, my audit did not lead to any objections:

The consolidated financial statements were prepared under the assumption that the Company is still a going concern, although the Group has so far posted negative cash flows from current business activities. Plans for the continuation of the Group's business activities require additional cash in the form of equity capital and / or borrowed funds. Should the Group not succeed in procuring the required capital within the given timeframe, its existence is in jeopardy. The consolidated financial statements do not contain any adjustments to allow for this uncertainty in respect of the underlying assumption that the Company will continue in business.

In my opinion, subject to this qualification, the consolidated financial statements in compliance with US-GAAP give a true and fair view of the net worth, financial position, earnings and cash flows of the Group for the financial year.

My audit, which also covered the consolidated management report prepared by the Managing Board for the financial year 2002, did not lead to any objections. In my opinion, the management report presents a general and fundamentally accurate picture of the Company's financial and business situation and accurately portrays the risks inherent in future developments.

Furthermore, I confirm that the consolidated financial statements and the consolidated management report for the financial year 2002 fulfil the prerequisites for discharging the Company from the preparation of consolidated financial statements and a consolidated management report under German law. The audit of the necessary harmonisation of the consolidated accounting with the 7th EU Directive required for discharge from consolidated accounting under German law has been conducted by me on the basis of the interpretation of the guideline by the Contact Committee for Accounting Directives of the European Commission.

Düsseldorf, 28 March 2003

Reiner Distel  
*Wirtschaftsprüfer* [Certified Auditor]

# Annual financial statements of Travel24.com AG

## Balance sheet of Travel24.com AG as of 31 December

<u>ASSETS</u>	31.12.2002	31.12.2001	<u>LIABILITIES</u>	31.12.2002	31.12.2001
	in € 000	in € 000		in € 000	in € 000
<b>A. Fixed assets</b>			<b>A. Shareholders' equity</b>		
I. <u>Intangible fixed assets</u>			I. <u>Share capital</u>	10,473	10,473
Concessions, industrial property rights and similar rights and values	126	215	II. <u>Additional paid-in capital</u>	70,390	70,390
II. <u>Property, plant and equipment</u>			III. <u>Revenue reserves</u>		
Other fixtures and fittings, tools and equipment	43	205	Reserve for own shares	42	372
III. <u>Financial assets</u>			IV. <u>Accumulated deficit</u>	-80,162	-73,381
1. Shares in affiliated companies	779	2,770		<u>743</u>	<u>7,853</u>
2. Investments	721	0	<b>B. Provisions</b>		
3. Loans due from companies with which the Company is linked by virtue of participating interests	124	0	Other provisions	<u>2,178</u>	<u>1,247</u>
4. Other loans	<u>222</u>	<u>386</u>	<b>C. Liabilities</b>		
	<u>2,015</u>	<u>3,576</u>	1. Liabilities due to banks	14	0
<b>B. Current assets</b>			2. Trade accounts payable	580	1,546
I. <u>Accounts receivable and other assets</u>			3. Liabilities due to affiliated companies	26	14
1. Trade accounts receivable	17	21	4. Other liabilities	63	768
2. Due from affiliated companies	428	847	- thereof from taxes: € 27,770.96 (prior year: € 30,732)		
3. Other assets	<u>107</u>	<u>1,067</u>	- thereof from social security:		
	<u>552</u>	<u>1,935</u>	€ 14,546.18 (prior year € 19,397)		
II. <u>Investments</u>				<u>683</u>	<u>2,327</u>
Treasury stock	<u>42</u>	<u>372</u>			
III. <u>Cash in hand, balances with banks, and cheques</u>	<u>762</u>	<u>5,524</u>			
	<u>1,356</u>	<u>7,830</u>			
<b>C. Prepaid expenses</b>					
	<u>232</u>	<u>20</u>			
	<u>3,603</u>	<u>11,427</u>		<u>3,603</u>	<u>11,427</u>

## Statement of income of Travel24.com AG from 1 January to 31 December

	01.01.- 31.12.2002 in € 000	01.01.- 31.12.2001 in € 000
1.Revenues	1,013	437
2.Other operating revenue	1,162	264
3.Personnel expenses		
a) Wages and salaries	-961	-2,073
b) Social security and pension costs	-157	-313
4.Depreciation of intangible fixed assets and tangible assets	-155	-1,946
5.Other operating expenses	-7,790	-22,142
6.Income from other investments and financial assets	17	0
7.Other interest and similar income	525	1,557
– of which from affiliated companies € 284,898 (prior year € 714,134)		
8.Depreciation on financial assets and short-term Investments / marketable securities	-646	-7,473
9.Interest and similar expenses	-116	-76
10.Result of ordinary activities	-7,108	-31,764
11.Taxes on income and earnings	-3	0
12.Other taxes	0	-1
13.Net loss for the year	-7,110	-31,764
14.Loss carryforward	-73,381	-41,389
15.Withdrawals from reserve for own shares / Transfer to reserve for own shares	329	-227
16.Accumulated deficit	<u>-80,162</u>	<u>-73,381</u>

# Notes to the annual financial statements of Travel24.com AG

for the financial year from 1 January 2002 to 31 December 2002

## 1. General comments

Travel24.com AG, Munich – hereinafter also referred to as “Company” – was founded with the adoption of the articles of association on 22 February 1996 and recorded in the commercial register at Munich Local Court on 27 February 1996. Since 15 March 2000 the shares in the Company have been listed on Neuer Markt of Deutsche Börse AG in Frankfurt am Main (since 1 January 2003: Prime Standard).

The corporate purpose of Travel24.com AG is tour operating and retailing of travel services, in particular through the use of state-of-the-art communication media, e.g. call centres and online services. Furthermore, the Company develops and operates system components for online information and reservation systems.

The annual financial statements of the Company as of 31 December 2002 were prepared in compliance with the accounting rules set forth in the *Handelsgesetzbuch* [German Commercial Code, HGB] and the supplementary provisions of the *Aktiengesetz* [Stock Corporation Act, AktG]. The statement of income was prepared by the type of expenditure format.

Travel24.com AG is a "small" stock corporation as defined in Art. 267 Section 1 HGB. The Company is, however, obliged to conduct an audit because, in accordance with Art. 267 Section 3 HGB, it avails itself of an organised market as defined in Art. 2 Section 5 of the *Wertpapierhandelsgesetz* [Securities Trading Act] by issuing securities as defined in Art. 2 Section 1 (1) of the Securities Trading Act.

As the parent company, the Company prepares consolidated financial statements with a discharging effect, as defined in Art. 292a HGB, in compliance with the United States Generally Accepted Accounting Principles (US-GAAP).

## 2. Selected accounting and valuation principles

Purchased intangible fixed assets are stated at cost minus scheduled depreciation. Scheduled depreciation is calculated by the straight-line method on the basis of a useful life of three to five years.

Tangible assets are stated at acquisition or production costs minus scheduled depreciation. Scheduled depreciation is calculated by the straight-line method on the basis of a useful life of three to ten years. Low-value assets with a purchase price of up to € 410 are written off in full in the year of acquisition.

Financial assets are stated at the lower of cost or market value. Permanent reductions in value are allowed for through unscheduled depreciation.

Accounts receivable and other assets are disclosed at their nominal value. Immediate valuation adjustments are made on doubtful receivables associated with discernible risks and unrecoverable receivables are written off. The principle of lower of cost or market has been applied.

Liquid funds are stated at their nominal value.

The share capital (or subscribed capital) corresponds to the nominal sum of € 10,472,606 laid down in the articles of association and recorded in the commercial register.

The other provisions are formed for all discernible risks and uncertain liabilities to the required amount in accordance with the principle of reasonable commercial prudence.

Liabilities are stated at the repayment sum. Insofar as the current values exceed the re-payment sums, the liabilities are stated at the higher current value.

### 3. Comments on the balance sheet

#### 3.1 Fixed assets

The fixed-asset movement schedule based on the acquisition and production costs of the assets is shown below:

	Acquisition and production costs					Depreciation and amortisation					Residual book values	
	01.01.2002	Additions	Disposals	Transfer	31.12.2002	01.01.2002	Additions	Disposals	Transfer	31.12.2002	31.12.2002	31.12.2001
	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000	in € 000
<b>I. Intangible assets</b>												
1. Concessions, industrial property rights and similar rights and values	717	17	414	0	321	502	95	402	0	195	126	215
2. Advance payments	1,113	0	0	0	1,113	1,113	0	0	0	1,113	0	0
	<u>1,830</u>	<u>17</u>	<u>414</u>	<u>0</u>	<u>1,434</u>	<u>1,614</u>	<u>95</u>	<u>402</u>	<u>0</u>	<u>1,307</u>	<u>126</u>	<u>215</u>
<b>II. Property, plant and equipment</b>												
Other fixtures and fittings, tools and equipment	831	8	778	0	61	627	60	669	0	18	43	205
<b>III. Financial assets</b>												
1. Shares in affiliated companies	11,683	0	1,177	-865	9,641	8,912	591	498	-144	8,862	779	2,770
2. Investments	5,849	0	0	865	6,714	5,849	0	0	144	5,993	721	0
3. Loans due from companies with which the Company is linked by virtue of participating interests	4,088	124	0	0	4,211	4,088	0	0	0	4,088	124	0
4. Other loans	386	98	262	0	222	0	0	0	0	0	222	386
	<u>22,005</u>	<u>221</u>	<u>1,439</u>	<u>0</u>	<u>20,788</u>	<u>18,849</u>	<u>591</u>	<u>498</u>	<u>0</u>	<u>18,942</u>	<u>1,846</u>	<u>3,156</u>
	<u>24,666</u>	<u>246</u>	<u>2,630</u>	<u>0</u>	<u>22,282</u>	<u>21,090</u>	<u>746</u>	<u>1,569</u>	<u>0</u>	<u>20,267</u>	<u>2,015</u>	<u>3,576</u>

### 3.2 Financial assets

The following explanations are provided of changes:

The holding acquired in Aeroworld GmbH, Düsseldorf, was written down to a book value of € 1 due to the initiation of insolvency proceedings.

The holding in Eurosun Viajes S.A., Palma de Mallorca / Spain was disposed of in the 2002 financial year.

In its annual statement for the year ending 31 December 2002 xsnet GmbH, Munich reported a loss of € 1,322,589 that was not covered by share capital following discontinuation of activities in the 2002 financial year. Due to the continued loss of value the holding was written down to € 1.

46.25% of the original 95.25% holding in Munckhof Business Travel B.V., Venlo / Netherlands was sold. As of 31 December 2002 the Company thus still held a 49% interest. The partly owned subsidiary is shown under the balance sheet item "Investments" as of 31 December 2002 (previous year: shown under "Shares in affiliated companies").

#### Details of shareholdings as of 31 December 2002 pursuant to Art. 285 No. 11 HGB:

	Shareholding ratio	Equity capital	Net profit (loss)
	%	31.12.2002 € 000	for the year 2002 € 000
Travel24 GmbH, Eching	100%	(453)	(11)
Tii Community GmbH, Worms	100%	8	8
xsnet Gesellschaft für multimediale Informationssysteme mbH, Munich	100%	(1,323)	(207)
Buchungsmaschine AG, Hamburg	100%	(2,988)	(782)
Munckhof Business Travel B.V., Venlo / Netherlands	49%	142	(100)
Aeroworld GmbH, Düsseldorf*	100%	(1,149)	1,922

\* Due to the initiation of insolvency proceedings no annual accounts have been prepared for the 2002 financial year. Figures for equity capital and net results for the year relate to the 2001 financial year.

### 3.3 Accounts receivable and other assets

All accounts receivable and other assets have a residual term of less than one year.

### 3.4 Shareholders' equity

#### 3.4.1. Share capital

As of 1 January 2000 the share capital amounted to € 927,202.68 and comprised 663,723 no-par-value bearer shares.

Pursuant to the provisions of the *Aktiengesetz* [Stock Corporation Act] on capital increase from corporate funds (Art. 207 ff. AktG) a resolution was adopted at the ordinary general meeting on 14 February 2000 to increase the Company's current share capital by € 2,072,797.32 from the current € 927,202.68 to € 3,000,000 through the conversion of a partial sum of the capital reserve. In addition, the share capital was re-divided so that one common stock share represented an arithmetical portion of € 1 of the total share capital.

With the resolution from 14 February 2000 the share capital of the Company – upon recording the capital increase from corporate funds and the re-division of the shares – was increased by up to € 6,782,000 to € 9,782,000 against cash contributions through the issue of up to 4,200,000 new no-par-value registered shares and up to 2,582,000 new no-par-value bearer shares. The issue price for each share was € 1, total issue price of shares therefore amounted to up to € 6,782,000.

Commerzbank Aktiengesellschaft was entitled to subscribe to the new shares. The bearer shares subscribed by Commerzbank Aktiengesellschaft were placed on the *Neuer Markt* in the course of an initial public offering and the issue proceeds transferred to the Company. The shares were issued at the price of € 29.

The resolutions adopted at the ordinary general meeting on 14 February 2000 were recorded in the commercial register at the Munich Local Court on 24 February 2000 and 8 March 2000. The 4,200,000 new registered shares were subscribed by the existing shareholders; all other subscription rights on the part of the shareholders were excluded. Bearer shares and registered shares are endowed with the same rights. € 4,200,000 of the total cash capital increase of up to € 6,782,000 was implemented and recorded in the commercial register at the Munich Local Court on 24 February 2000.

The recording of the capital increase of € 2,400,000 required for the IPO was made in the commercial register at the Munich Local Court on 8 March 2000.

The share capital as of 31 December 2000 was € 9,600,000. It was divided into 5.4 million no-par-value bearer shares and 4.2 million registered shares.

At the extraordinary general meeting on 12 December 2000 a resolution was adopted to transform the 4.2 million registered shares in the Company into bearer shares. The resolution on the transformation was entered in the commercial register at Munich Local Court on 6 February 2001.

In accordance with the share transfer agreement of 16 / 17 August 2000, the shareholders of Buchungsmaschine AG transferred their shares in Buchungsmaschine AG based in Norderstedt for 637,002 no-par-value bearer shares in Travel24.com AG and a cash payment of DM 4,672,000 to the Company. The shares must be issued from Authorised Capital II in accordance with Art. 2 Section 3 of the share transfer agreement. In accordance with the option right agreement of 16/17 August 2000 other shareholders in Buchungsmaschine AG offered Travel24.com AG the contribution of their shares in Buchungsmaschine AG, based in Norderstedt, against the granting of 235,604 unregistered shares in Travel24.com AG and a cash payment of DM 1,728,000. The offer was accepted in a regular manner and within the given time. The shares must likewise be issued from Authorised Capital II in compliance with Art. 3 Section 3 of the option right agreement. With approval of the Supervisory Board dated 8/9 March 2001 the Managing Board therefore resolved on 29 December 2000 to increase the Company's share capital of € 9,600,000 by € 872,606 to € 10,472,606 by issuing 872,606 new no-par-value bearer shares to the value of € 1 per share. The new shares are endowed with full dividend rights as of 1 January 2000. The remaining Authorised Capital II, originally € 4,450,000, amounts to € 3,577,394 after the capital increase. The statutory subscription right of the shareholders was excluded. The non-cash capital increase was recorded in the commercial register at the Munich Local Court on 14 May 2001.

As of 31 December 2002 the share capital of the Company amounted to € 10,472,606 and was divided into 10,472,606 no-par-value bearer shares.

#### 3.4.2. Authorised capital

On 9 July 1999 the Managing Board was authorised for the period through to 9 July 2004, subject to the consent of the Supervisory Board, to increase the share capital by € 340,861.25 by means of one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital I).

On 14 February 2000 the Managing Board was authorised for the period through to 13 February 2005, subject to the consent of the Supervisory Board, to increase the share capital by € 4,450,000 by means of one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital II). The authorised Capital totalling € 872,606 was realised in the form of a non-cash contribution of Buchungsmaschine AG. As of 31 December 2002 the remaining Authorised Capital II amounted to € 3,577,394.

By shareholders' resolution of 12 June 2002 the Authorised Capital II was opened in such a way that the exclusion of the subscription rights is also permissible in the event of a capital increase for a cash contribution in the following cases:

- capital increases against cash contribution for restructuring purposes, or
- capital increases against cash contribution, insofar as the issue price of the shares is not significantly below the Company's market price and the new shares issued to the exclusion of subscription rights do not exceed 10% of the share capital, neither at the time the authorisation takes effect, nor at the time of exercising. This figure must take into account shares that have been, or are to be issued, for the servicing of convertible bonds to the exclusion of subscription rights as well as Company shares that are to be resold to the exclusion of subscription rights.

Furthermore, at the extraordinary general meeting on 12 December 2000 the Managing Board was authorised for the period through to 12 December 2005, subject to the consent of the Supervisory Board, to increase the share capital of the Company by € 3,000,000 through one or more issues of new no-par-value bearer shares against cash contributions or contributions in kind (Authorised Capital III). This resolution has not yet been recorded in the commercial register.

### 3.4.3. Contingent capital (stock option programme and convertible bond issue)

#### Stock option programme

The share capital of the Company has been increased subject to contingency by a nominal sum of € 299,999.97 (contingent capital). The increase in contingent capital was limited to the extent to which the holders of stock options exercise the option rights granted to them by the Company's Managing Board by virtue of the authorisation of the shareholders of 14 February 2000 with the consent of the Supervisory Board or issued by the same. Subscription rights (option rights) were offered to the staff, senior employees and management of the Company and its affiliates on the strength of the authorisation of the Company's shareholders of 14 February 2000. A total of 9,900 of these option rights have been issued. By resolution of the general meeting on 25 June 2001 the Contingent Capital was renamed Contingent Capital I and with the exception of € 20,000 it was withdrawn. At present, 2,880 options are still outstanding. 7,020 options have been properly terminated.

By resolution of the general meeting on 25 June 2001 the share capital of the Company was increased by a nominal sum of € 900,000 through a contingent capital increase (Contingent Capital II). The contingent capital increase will only be implemented to the extent that the holders of stock options exercise the option rights issued by the Company's Managing Board on the basis of the authorisation of the general meeting on 25 June 2001 with the consent of the Supervisory Board or issued by the same. On 30 July 2001 a total of 576,500 option rights was offered to the staff, senior employees and management of the Company and its affiliates on the basis of the authorisation from the Company's general meeting on 25 June 2001 following the appropriate resolutions of the Management and Supervisory Boards. 552,250 options have been accepted. As of 31 December 2002 125,750 options are still outstanding. Whilst 196,000 options had reverted to the Company by the end of the 2001 financial year, 230,500 options had been properly cancelled.

#### Convertible bond issue

By resolution of the general meeting on 12 June 2002 the Company's share capital was nominally increased by € 4,300,000 subject to contingencies by issuing up to 4,300,000 new no-par value bearer shares with dividend rights from the start of the financial year in which they are issued (Contingent Capital III). The Managing Board has been authorised, with the consent of the Supervisory Board, to float no-par-value bearer or registered convertible bonds valued at up to € 4,300,000 in one or more issues with a maximum term of five years and to grant the holders of the convertible bonds conversion privileges for up to 4,300,000 new shares in the Company, proportionately representing up to € 4,300,000 of the share capital, within the strict limitations of this resolution and in accordance with the convertible bond conditions to be specified by the Managing Board with the consent of the Supervisory Board.

All shareholders have the right to subscribe. However, the Managing Board is authorised, subject to the approval of the Supervisory Board, to exclude the pre-emptive rights of shareholders to convertible bonds

- if the issue price is not substantially higher than the theoretical market value of the convertible bonds calculated according to generally accepted investment mathematical principles and the shares to be issued in satisfaction of the conversion privileges pursuant to Art. 186 para.3 (4)

AktG do not exceed 10% of the share capital, either at the date they become effective or are exercised (the limitation to 10% of share capital is to include shares issued on existing authorised capital with the exclusion of pre-emptive rights, as well as the Company's own shares that are resold with the exclusion of pre-emptive rights).

- provided convertible bonds with conversion rights are subscribed for restructuring purposes by one or more investors for cash, or
- insofar as fractional amounts occur due to a subscription ratio.

Upon issue of the convertible bonds the holders will receive an irrevocable right to convert these to new shares in the Company, subject to the conditions set by the Managing Board with the consent of the Supervisory Board. The proportion of shares issued to share capital may not exceed the nominal value of the convertible loans. The conversion rate is calculated by dividing the nominal value of the convertible bonds by the conversion price, i.e. 1 : 1 (a new share in the Company may be exchanged for each € 1 nominal value of the convertible bonds). Subject to the convertible bond conditions, the conversion privilege may be exercised at any time during the entire term. The conversion price is € 1 per share, less the nominal value of the bond issue.

#### 3.4.4. Additional paid-in capital

Capital reserves as of 31 December 2002 remained unchanged compared to the previous year at € 70,389,616. Capital reserves are the difference between the higher issue amounts and the amounts of nominal basic capital increase in conjunction with the capital increases approved in the past. The most substantial issuing premium (€ 67,200,000) results from the issue of a total of 2.4 million bearer shares in the 2000 financial year which were placed in the course of an initial public offering on the *Neuer Markt*.

#### 3.4.5. Revenue reserves (reserve for own shares)

The sales of the Company's own shares as of 31 December 2002 were as follows:

<u>Date</u>	<u>Sale/Purchase</u>	<u>Number</u>	<u>Percentage of share capital</u>	<u>Price in €</u>	<u>Purchase price in €</u>
28.12.00	Purchase	18,972	0.20	3.48	66,022.56
28.12.00	Purchase	20,000	0.21	3.27	65,400.00
28.12.00	Purchase	3,450	0.04	3.71	12,799.50
02.01.01	Purchase	16,255	0.17	3.82	62,094.10
02.01.01	Purchase	9,500	0.10	4.31	40,945.00
03.01.01	Purchase	15,973	0.17	4.25	67,885.25
04.01.01	Purchase	500	0.01	5.16	2,580.00
04.01.01	Purchase	3,200	0.03	5.48	17,536.00
05.01.01	Purchase	5,000	0.05	5.07	25,350.00
05.01.01	Purchase	15,000	0.16	5.01	75,150.00
10.01.01	Purchase	12,000	0.13	4.21	50,460.00
15.01.01	Purchase	5,000	0.05	4.20	21,000.00
15.01.01	Purchase	10,000	0.10	4.19	41,900.00
16.01.01	Purchase	2,000	0.02	4.20	8,400.00
24.01.01	Purchase	1,600	0.02	6.26	10,013.95
30.01.01	Purchase	6,000	0.06	7.02	42,142.80
01.02.01	Purchase	4,000	0.04	7.02	28,095.20
05.02.01	Purchase	3,000	0.03	6.62	19,860.60
06.02.01	Purchase	4,000	0.04	6.34	25,360.00
12.02.01	Purchase	8,000	0.08	5.99	47,920.00
13.02.01	Purchase	8,000	0.08	5.91	47,280.00
14.02.01	Purchase	11,000	0.11	5.79	63,690.00
16.02.01	Purchase	2,300	0.02	5.40	12,420.00
19.02.01	Purchase	15,000	0.16	5.12	76,800.00
20.02.01	Purchase	10,000	0.10	4.73	47,300.00
29.03.01	Purchase	27,600	0.29	3.04	83,904.00
02.04.01	Purchase	22,400	0.23	3.06	68,544.00
03.04.01	Purchase	10,000	0.10	2.60	26,000.00
03.04.01	Purchase	20,000	0.21	2.53	50,600.00
06.04.01	Purchase	10,000	0.10	2.19	21,920.00
12.04.01	Purchase	50,000	0.52	1.94	96,789.50
17.04.01	Purchase	5,865	0.06	2.05	12,000.49
27.04.01	Purchase	7,200	0.08	2.44	17,568.00
30.04.01	Purchase	500	0.01	2.50	1,250.00
03.05.01	Purchase	1,000	0.01	2.30	2,300.00
04.05.01	Purchase	5,000	0.05	2.55	12,750.00
07.05.01	Purchase	4,500	0.05	2.45	11,025.00
10.05.01	Purchase	5,000	0.05	2.35	11,750.00
11.05.01	Purchase	7,320	0.08	2.30	16,836.00
15.05.01	Purchase	3,000	0.03	2.05	6,150.00
29.06.01	Purchase	1,987	0.02	2.00	3,974.00
05.07.01	Purchase	5,600	0.05	1.88	10,528.00
23.07.01	Sale	-21,430	0.20		
30.04.02	Sale	-70,000	0.67		
30.04.02	Sale	-170,000	1.62		
31.07.02	Sale	-36,667	0.35		
		<b>98,625</b>	<b>0.94</b>		<b>1,432,293.35</b>

Pursuant to a resolution adopted by the extraordinary shareholders' meeting on 12 December 2000, Travel24.com AG was authorised to purchase its own shares in accordance with Art. 71 AktG (German Stock Corporation Act). During the financial year 2002 a total of 276,667 shares were

transferred by the Company in the discharge of obligations. No further shares were acquired by the Company during this period, resulting in an overall decrease in the holdings of own shares to 98,625 as of 31 December 2002. Valued at the price of € 0.43 on the balance sheet date, these are disclosed at € 42,409 (previous year € 371,539) in the annual financial statements. The reserve for own shares of € 42,409 shown under revenue reserves was formed to an amount corresponding to the stock of the Company's own shares (§ 272 Section 4 HGB). The proportion of the Company's own shares in the capital stock decreased to 0.94%.

### 3.5 Provisions

The development and composition of other provisions as of 31 December 2002 can be seen in the following statement of provisions:

	as of 01.01.2002	Consumption	Dissolution	Addition	as of 31.12.2002
	€ 000	€ 000	€ 000	€ 000	€ 000
Legal and consulting services	330	330	0	50	50
Holiday entitlement, bonuses and compensation payments	100	100	0	21	21
Outstanding invoices	244	220	24	111	111
Supervisory Board remuneration	92	26	0	57	123
Litigation	469	248	158	1,709	1,772
Others	12	12	0	101	101
	1,247	936	182	2,049	2,178

### 3.6 Liabilities

All liabilities have a residual term of less than one year.

## 4. Comments on the statement of income

### 4.1 Sales revenues

Besides commission income of € 0.975m the sales revenues of € 1.013m were mainly derived from minor travel services transacted via Travel24.com AG.

### 4.2 Other operating income

Other operating income of € 1.162m was mainly derived from the proceeds of a court settlement worth € 0.370m, the write-back of provisions to the amount of € 0.182m, the refund of security bonds to the amount of € 0.096m, on-debiting of costs of € 0.122m, the receipt of € 0.03m in payment of accounts receivable for which a valuation allowance had been made and the revaluation of disputed obligations to the amount of € 0.344m.

### 4.3 Other operating expenses

The total of € 7.79m in other operating expenses includes the costs of legal and consulting services (€ 0.951m), Internet licences and services (€ 0.711m), marketing costs (€ 0.343m), losses from the disposal of fixed assets (€ 0.182m), allowances for uncollectible accounts (€ 2.2m) and the allocation to provisions for litigation risks (€ 1.175m).

The main items included in allowances for uncollectible accounts totalling € 2.2m were accounts receivable from Aeroworld GmbH (€ 1.39m), Eurosun Viajes S.A. (€ 0.312m) and Buchungsmaschine AG (€ 0.235m).

The depreciation was necessary due to the losses incurred by the subsidiaries and the debt waivers that ensued in the 2002 financial year.

#### 4.4 Depreciation on financial assets and short-term investments / marketable securities

The following depreciation was reported in the 2002 financial year:

	<u>in € 000</u>
Aeroworld GmbH	500
xsnet GmbH	91
Own shares	<u>55</u>
	<u><u>646</u></u>

### 5. Other disclosures

#### 5.1 Contingent liabilities, other risks and long-term obligations

As of 31 December the Company had submitted declarations of subordination for the following companies:

<u>Beneficiaries</u>	<u>in € 000</u>
Buchungsmaschine AG	2,709
xsnet Gesellschaft für multimediale Informationssysteme mbH	1,353
Travel24 GmbH	428
	<u><u>4,490</u></u>

The obligations ensuing from rent agreements, service / consulting agreements and leasing agreements are as follows:

	Total	2003	2004	2005	2006
	€ 000	€ 000	€ 000	€ 000	€ 000
Service / consulting agreements	88	88	0	0	0
Leasing and rental agreements	249	103	78	68	0
	<u><u>337</u></u>	<u><u>191</u></u>	<u><u>78</u></u>	<u><u>68</u></u>	<u><u>0</u></u>

A guarantee of € 531,246 in favour of the Company was given by Commerzbank AG for leasing agreements and company purchase contracts as well as for contract fulfilment purposes. The guarantee was issued in favour of TravelSafe / Gerling Konzern Allgemeine Versicherungs AG and Axa Colonia. The guarantee is deposited on fixed-term accounts at Commerzbank AG. In addition, a fixed-term deposit of € 205,000 in favour of Travel24.com was signed over to the IATA.

#### 5.2 Average number of employees during the financial year

On an annual average a total of 13.5 staff were employed by the Company (excluding board members) in the 2002 calendar year.

#### 5.3 Executive bodies of the Company

In the 2002 financial year the members of the **Managing Board** of the Company were:

- |                    |          |                                 |
|--------------------|----------|---------------------------------|
| ▪ Mr Marc Maslaton | Merchant | Munich (Chairman)               |
| ▪ Mr Philip Kohler | Merchant | Starnberg                       |
| ▪ Mr Knut Wehner   | Merchant | Düsseldorf (until 12 June 2002) |

Total remuneration to Board members of Travel24.com AG for regular emoluments, non-cash benefits and other compensation in the 2002 financial year amounted to € 391,138. Directorships in Buchungsmaschine AG were held by Philip Kohler and Marc Maslaton (until 30 November 2002). The board members were not members of the executive boards of any other companies in 2002.

Pursuant to Art. 95 (AktG) (in conjunction with Art. 8 of the articles of association) the Company has a Supervisory Board consisting of six members.

**The members of the Supervisory Board are:**

- |                              |          |                                 |
|------------------------------|----------|---------------------------------|
| ▪ Mrs Andrea Wessels Bahlsen | Lawyer   | Munich (Chairperson)            |
| ▪ Mr Joachim Semrau          | Merchant | Munich (Deputy Chairman)        |
| ▪ Mr Christofor Henn         | Merchant | Palma de Mallorca, Spain        |
| ▪ Dr Armin Reiners           | Lawyer   | Munich                          |
| ▪ Mr Hans Joachim Richter    | Merchant | Lausanne, Switzerland           |
| ▪ Mr Knut Wehner             | Merchant | Düsseldorf (as of 13 June 2002) |
| ▪ Dr Hellmut K. Albrecht     | Merchant | Munich (until 14 January 2002)  |

Hans Joachim Richter holds further positions at Heberlein AG and Kinowelt AG. Christofor Henn holds further positions at Grubargés Inversión Hotelera S.A. and Barceló Crestline Corp. In addition, Dr. Armin Reiners holds a further position at AVA Aktiengesellschaft für Vermögensplanung und Anlagemanagement.

Expenses of € 59,500 were incurred for the Supervisory Board of Travel24.com AG in the reporting year.

As of the balance sheet date 31 December 2002 the shares and options held by members of the Managing and Supervisory Boards under the employee participation program were as follows:

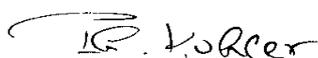
	<u>Shares</u>	<u>Options</u>
<b>Managing Board</b>		
Philip Kohler		30,000
Marc Maslaton	317,520	
<b>Supervisory Board</b>		
Christofor-Guillem Henn	36,449	
Dr. Armin Reiners	0 <sup>1</sup>	
Hans-Joachim Richter	0	
Joachim Semrau	0 <sup>2</sup>	
Knut Wehner	86,673 <sup>3</sup>	
Andrea Wessels Bahlsen	23,823	

<sup>1</sup> Dr Armin Reiners holds 3,448 shares as trustee

<sup>2</sup> Mr Joachim Semrau holds 43,000 shares as a trustee

<sup>3</sup> Figure excluding shares held in trust by third parties: 43,673 shares

Munich, March 2003



Philip Kohler



Marc Maslaton

## Audit opinion

I have audited the annual financial statements of Travel24.com AG, as well as the accounting and management report of the Company, for the financial year from 1 January 2002 to 31 December 2002. The accounting and preparation of the annual financial statements and management report in accordance with German commercial provisions and the supplementary regulations of the articles of association are the responsibility of the legal representatives of the Company. It is my task, on the basis of my audit, to give an opinion on the annual financial statements, the accounting and the management report.

I have conducted my audit of the annual financial statements to Art. 317 of HGB and in compliance with the generally accepted auditing principles in Germany adopted by Institut der Wirtschaftsprüfer (IDW). According to the latter, the audit must be planned and performed so that any material misstatements and violations which may have a significant impact on the presentation of a true and fair view of the net worth, financial position and earnings conveyed by the annual financial statements in accordance with generally accepted accounting principles, and by the management report, may be recognised with a sufficient degree of certainty. In determining the scope of the audit, findings on the business activity and on the business and legal environment of the Company, as well as possible expected errors, have also been assessed. In the course of the audit the efficacy of the internal controlling system as well as vouchers to support the disclosures in the annual financial statements and management report have been examined primarily on the basis of random samples. The audit covers an evaluation of the applied accounting principles and the essential estimates made by the general partner, as well as an appraisal of the overall presentation of the annual financial statements and management report. I believe that my audit provides a reasonable basis for my opinion.

With the exception of the following qualification my audit did not lead to any objections:

The financial statements were prepared under the assumption that the Company is still a going concern, although the Group has so far posted negative cash flows from current business activities. Plans for the continuation of the Group's business activities require additional cash in the form of equity capital and/or borrowed funds. Should the Company not succeed in procuring the required financial means within the given timeframe, its existence is in jeopardy. The financial statements do not contain any adjustments to allow for this uncertainty in respect of the underlying assumption that the Company will continue in business.

Subject to this qualification, I am satisfied that the annual financial statements give a true and fair view of the net worth, financial position, earnings and cash flows of the Company. The management report presents an accurate view of the position of the Company and accurately presents the risks from future developments.

Düsseldorf, 28 March 2003

Reiner Distel  
*Wirtschaftsprüfer* [Certified Auditor]

## 7. Awards 2002



July 2002

“Eight major last-minute providers in the test: 2nd place”



April 2002

“What is the quality of advice given by Internet travel agencies? Rating: @@@@”



April 2002

“Test winner: Call centre hotline test”



April 2002

“Ready for take-off: the best travel portals on the Internet: 2nd place.”



March 2002

“Travel24 receives top marks for its extensive offerings and excellent call centre.”

## 8. Press comments in 2002

**15 January 2002**

Has something for everybody.



**18 January 2002**

“Travel24 ... is one of the most popular travel Websites. The smart television advertising has made the name familiar to a lot of people and has a lasting effect. The portal has won many awards.”



**February 2002**

“The provider is available around the clock.”



**14 March 2002**

“Internet travel agencies – Clearer, simpler, more diverse – The ... Travel24.com site ... presents the best ideas.”



**21 March 2002**

“The site has an impressive array of travel offers and many extras.”



**18 April 2002**

“A mouse click helps you to save: for example at Travel24.com’s “Search and book/package holidays” you’ll find the catalogue prices for hundreds of holiday hotels offered by leading operators. Once you’ve located a bargain you can book it online there and then.”



**22 April 2002**

“Test winner Travel24.com: Its clearly laid out and user-friendly Webpage helped the company to secure first place.”



**26 April 2002**

“In the Internet Travel24.com offers low-cost holiday homes around the globe. Package and wellness holidays as well.”



**8 May 2002**

“The subheading ‘Fitness and Sport’ is particularly appealing: it shows all currently available active holidays at a glance.”



**12 May 2002**

“Overall rating: very good”



**15 May 2002**

“Travel24: Attractive travel portal that gives you an appetite for taking a vacation. A site map offers a quick overview. At the link “TravelScout24” you’ll find a host of useful and up-to-date travel-related information.”



**May 2002**

“www.travel24.com – Online booking at Travel24 is soon to be extended to fitness holidays, sports vacations and weekend breaks.”



**5 July 2002**

“Real online travel agencies provide more detailed information and endeavour to commit their customers with magazines, maps, communities and chat forums. At the Travel24.com online portal would-be vacationers will find not only package deals, flights and rental cars. Short videos will also convey an impression of the vacation destination. The magazine features service topics and even a vacation etiquette to help avoid embarrassing blunders in foreign countries. Travellers to Moslem countries will find useful tips: for example how to dress appropriately, snapshot no-no’s and how to behave with regard to tipping, baksheesh and handouts.”



**15 July 2002**

“The search function is the essence of a last-minute site. If it is well conceived, as with Travel24 (2nd place), you’ll get much more accurate hits.”



**29 July 2002**

“Flights, rental cars, travel info, package deals – you’ll find all that in Web at www.travel24.com. Great service: Hotline 01805/252560 with personal advice around the clock.”



**21 August 2002**

“25 holiday saving tips: The easiest way to find last-minute offers is to look into the Internet (e.g. at www.travel24.com).”



**26 August 2002**

"The 500 leading travel shopping sites: Travel24 (package tours, specials, events & tickets)"



**14 September 2002**

"www.travel24.com – professionally made travel portal with wide range of last minute vacations; specials such as sports vacations and wellness trips; booking possible online and by phone. Summary: Congratulations. Gives you itchy feet!"



**September 2002**

*stern* Trendprofile: "Travel24.com greatly boosts its level of allegiance – among the 'onliners' Travel24.com improves its utilisation ratio."



**18 October 2002**

"The world of giant discounts – save on hotel accommodation as well. Europe's best hotel reservation system: www.travel24.com (01805/252560)"



**24 October 2002**

"Top 5 travel sites – diving holiday special www.travel24.com."



**28 November 2002**

"King Customer compact: Cheap flights online – travel portal helps you to find what you want – Travel24.com is the first online travel portal to assemble all low-cost flights – and place them prominently on its homepage."



**9 December 2002**

"If you want to do your own bookings it helps to compare: in Germany online portals such as Travel24.com give you the best overview of the prices offered by low-cost airlines." Even airline hot tips such as Intersky or Skyeurope are included."



**12 December 2002**

"Bargains by mouse click – low-cost airlines: If you want to save money on your vacation you'll now find the cheapest airlines at Travel24.com."



## 9. Major corporate announcements 2002

17.01.2002	Ad hoc: Changes in the Supervisory Board
26.02.2002	Strategic management system is adopted as a standard for companies on the <i>Neuer Markt</i> .
05.03.2002	Vacation for body and mind – Travel24.com expands its online offerings to include wellness and sports breaks.
28.03.2002	Ad hoc: Consolidated financial statements published as due
02.05.2002	Vacation planning made easy: Travel24.com invites bookings with moving pictures
16.05.2002	Excellent test results for customer-friendly Internet plus personalised consultation
11.07.2002	Wellness holidays and active breaks for deit beverage market
16.07.2002	Computerbild commends unbeatable prices and well-conceived site
28.08.2002	Mid-year figures as expected
18.09.2002	Immerse yourself in an underwater paradise - Diving specials included in online product range
10.10.2002	Travel24.com supports new segmentation of the German stock market
14.10.2002	Almost 30% of Internet users are familiar with Travel24.com
12.11.2002	Simpler, faster and more customer-friendly vacation booking
20.11.2002	Ad hoc: Travel24.com AG reaches break-even point
26.11.2002	All low-cost airlines at a glance
27.11.2002	Ad hoc: Go-ahead for sustained stabilisation

## 10. Calendar

<b>31 March 2003</b>	Balance sheet press conference and analysts' conference
<b>30 May 2003</b>	Publication of Three-Month Report 2003
<b>29 August 2003</b>	Publication of Half-Year Report 2003
<b>28 November 2003</b>	Publication of Nine-Month Report 2003

## 11. Imprint

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