

# Annual Report 2004



## WEB.DE AG highlights 2004 at a glance

- Portal profitability at record level in 2004: EBIT margin of 16% and EBITDA margin of 31%
- Group revenues rise by 31% to 43,0 million. The gross operating margin reaches around 75% for the full year
- Investments in software development very high at 43% of revenues – we build the communication of the future
- Operating cash flow in the business segment Portal increases to 20.9 million Euro and 13.8 million Euro in the group
- Strong growth momentum in net income in Q4 (+350% y-o-y)
- Consolidated earnings before interest, taxes, depreciation and amortization increase to 4.4 million Euro
- Highly positive growth stimulus anticipated in all segments

## WEB.DE AG financials 2004 at a glance

(in mln. Euro, except for headcount)	2004	2003	2002
Revenues	43.0	32.8	23.6
Gross profit	32.2	24.7	17.5
Marketing and Advertising	(13.0)	(11.7)	(13.6)
Research and Development	(18.7)	(13.7)	(11.8)
EBITDA Group	4.4	3.8	(4.2)
Net result for the year	(2.4)	0.8	(12.9)
Adjusted net result for the year	1.5	0.8	(12.9)
Liquid funds	107.7	102.1	98.4
Operating cashflow	13.8	8.3	2.8
Shareholders' equity	127.1	130.4	131.4
Balance sheet total	156.2	148.8	148.8
Headcount	456	368	286

# Contents

## Report for the 2004 Financial Year

Letter to Shareholders	6
Report about Innovative Products and Technologies in the Segments Portal and Web-Telecommunications	10
Report about Corporate Governance at WEB.DE AG	16
Report of the Supervisory Board	20

## Consolidated Financial Statement (US GAAP)

Consolidated Profit and Loss Statement	26
Consolidated Balance Sheet	27
Consolidated Cash Flow Statement	28
Development of Shareholders' Equity	29
Schedule of Change in Assets	30
Notes to the Consolidated Financial Statement	31

## Consolidated Management Report

Development of the Market Environment and Market Position	50
Financing Measures and Projects	51
Revenues and Gross Operating Profit	51
Cost Structures and Development	52
Other Capital Expenditure	53
Investees	53
Human Resources	54
Assets and Financial Position	54
Earnings Position	55
Research and Development	56
Outlook	56

Independent Auditor's Report	61
------------------------------	----

Glossary	62
----------	----

Financial Calendar & Imprint	65
------------------------------	----

A woman with dark hair, wearing a bright red hoodie, is seated at a desk in an office. She is looking towards the camera with a slight smile. In front of her is a large computer monitor displaying a software interface with various panels and text. The desk is cluttered with various items, including a small yellow Pikachu figurine, a silver pen holder, and a small white figurine. The background shows a window with blinds and some office equipment. The overall atmosphere is professional yet creative.

**CREATIVITY IS INFECTIOUS:  
THE WEB.DE STAFF PULL TOGETHER,  
NOT SIMPLY TO MEET BUT TO EXCEED  
THE EXPECTATIONS OF WEB.DE USERS!**



## Dear Shareholders,

2004 was very successful for WEB.DE AG in many respects. In the fourth year of the stock exchange listing of WEB.DE AG, the digital Internet business model has again shown sustainable traction. Apart from essential technological product innovations, it was driven by best marks for WEB.DE FreeMail and the WEB.DE Club. The past fiscal year was the most successful business year in the corporate history of WEB.DE AG. Today the company has two segments, the profitably growing Portal business as well as the international, future oriented segment Web Telecommunications for which an international product roll-out is planned in 2005. With these two sound, highly viable and complementary, independent corporate segments, WEB.DE AG enjoys an excellent positioning and can rely on an outstanding strategic orientation.

### **WEB.DE, the Number 2 on the German Portal Market**

Internet use has enjoyed a positive development in Germany in 2004: different studies already refer to an Internet spread in Germany of around 55 percent. And by 2007, Internet utilization might even reach 71.8 percent. WEB.DE again boasted an excellent market position on this market during the last fiscal year. The "internet facts" study of the German Online Research Association (AGOF e.V.) for the first time presented a new and uniform reach currency for the Internet market in Germany at the end of September. For WEB.DE around 10.5 million monthly users were recorded. Today WEB.DE reaches one third of the German Internet users and clearly is ahead of competitors like MSN, AOL, Yahoo or Lycos. We therefore have moved a good step closer to our long-term goal of becoming Germany's largest portal. This is attributable not least to the attractiveness of our

fascinating products in the WEB.DE Portal, which all qualify for the mass market use. Every day we count, for instance, between 13,000 and 15,000 new registrations for WEB.DE FreeMail.

### **Portal Business Grows Dynamically with Very High Profitability**

WEB.DE AG strikes a positive balance for 2004 in both the advertising market-based business (Media Sales and E-Commerce) and the end customer business (fee-based Digital Services): in the past fiscal year 2004 fee-based Digital Services with their high margins of 75 percent plus again were a clear growth driver of the Portal business. The top seller once more was the flagship WEB.DE Club, the multiple award-winning premium E-Mail service with 370,000 members (60 Euro p.a. incl. VAT) on December 31, 2004. The target for 2004 to double the membership from 180,000 to 360,000 was outperformed thanks to the steadily growing attractiveness of the WEB.DE Club. Overall, WEB.DE AG generated revenues of 25.4 million Euro with the particularly high margin Digital Services for the full year; this was significantly higher than the prior year value (+74 percent).

### **Online Advertising with Positive Signals during the Second Half of the Year**

The development of the market for Online Advertising was very inconsistent in Germany. After a real decline in Online Advertising spendings during the first half of 2004, the market was boosted by positive dynamics during the second half of the year. During Q4/2004 a double digit percentage growth was achieved, which means that the total market for Online Advertising grew by a total four percent for the full year

2004, according to Nielsen Media Research. Media Sales grew more significantly than the Online Advertising market at WEB.DE AG. This was attributable to constantly new and consistently customer- and market-oriented Online Advertising products and a particularly strong distribution network; revenues in this business line rose by 13 percent y-o-y to a total 12.6 million Euro. The market share of WEB.DE Media Sales improved significantly during the past fiscal year so that the starting position for 2005 is likewise excellent. Thanks to sustainable investments in this area WEB.DE AG certainly expects to benefit from an emerging market boom for Online Advertising in Germany.

**Group Revenue Growth of 31 percent driven by Online Advertising and Digital Services – Gross Profit Margin reaches about 75 percent**

Revenue development was altogether very positive at group level: revenues increased in 2004 by 10.2 million Euro to a total 43.0 million Euro. With its high margin business model WEB.DE AG hence reached a new all-time high for revenues. A similarly positive development was recorded by a gross operating profit which reached 32.2 million Euro – almost the level of the total prior year revenues. Thanks to the digital nature of the business model, which allows relatively low costs of sales and high economies of scale, the gross profit margin again was about 75 percent on group level.

**Portal Profitability 2004 at a Record Level**

In 2004 WEB.DE AG increased its revenues in the WEB.DE Portal segment by 10.7 million Euro to 42.3 million Euro. This resulted in clearly positive earnings before interest, taxes, depreciation and amortization (EBITDA) of 13.2 million Euro in 2004. Consequently, the EBITDA was 3.7 million Euro or +39 percent higher versus prior year. The EBITDA margin of the WEB.DE Portal was already at 31 percent during full year 2004.

**High Investments in Software Development – We build the Communication of the Future**

WEB.DE AG continued its intensive investments in research and development for future products and new technologies totaling 18.7 million Euro. About half of these development investments were made in Web Telecommunications. The long-term research and development strategy of WEB.DE AG is already rewarded today by the product technology leadership of WEB.DE (47 test wins). At the same time Web Telecommunications creates optimum prerequisites to success all over the world. The international product rollout in the Web Telecommunications segment is planned for the current fiscal year 2005.

The milestones of product and software development in the WEB.DE Portal segment focused in 2004 on the extension of the next generation WEB.DE FreeMail, the development of the proprietary Internet telephony application WEB.DE FreePhone®, the entry on the booming DSL broadband market in Germany with WEB.DE DSL, the launch of WEB.DE Mail-Domain as well as the stepping up of WEB.DE customer relationship management and the WEB.DE billing platform.

Furthermore, WEB.DE comprehensively revamped the Portal <http://web.de> to ensure greater user friendliness and add more functions. Based on the fundamental needs of Internet users, the next-generation Portal combines the simplicity of modern user interfaces with the efficiency of a comprehensive Internet portal. This goes hand in hand with significantly reduced loading times.

With WEB.DE SmartSearch® a next-generation Internet search engine was developed in order to win back market shares from the currently dominating search engine operator Google on the profitably growing German search market, and WEB.DE intends to reach a fair share of this market. WEB.DE users benefit from SmartSearch® technology significantly improving the search result structure. Search results are linguistically analyzed and displayed to the user in addition through dynamic, context-related theme trees around the searched keyword.

**WEB.DE AG – strong operating cash flow**

With high and future-oriented investments in research and development – in which WEB.DE invested around 43 percent of revenues – WEB.DE AG generated a clearly positive operating cash flow of 13.8 million Euro in fiscal 2004, increased by +5.5 million Euro or 66 percent y-o-y. The operating cash flow in the WEB.DE Portal segment is even more impressive; with revenues of 42.3 million Euro WEB.DE generated an operating cash flow of 20.9 million Euro for the full year in the Portal business. Liquid funds recorded a correspondingly positive development at group level: they rose by 5.6 million Euro to 107.7 million Euro. Liquid funds per share amounted to 2.82 Euro on

December 31, 2004. In contrast, the WEB.DE share closed at 6.21 Euro year-end.

**Analyst Coverage on the WEB.DE Share Significantly Extended**

During the last fiscal year the number of distinguished banks publishing studies on WEB.DE AG on a regular basis increased considerably. Apart from the analyses of HSBC Trinkaus & Burkhardt, we secured coverage by SES Research and the analysts of the internationally renowned Citigroup Bank. In 2004 WEB.DE AG again held regular talks with existing and new investors in the financial capitals of Germany, Europe and the United States. Against the backdrop of the deeply rooted continuous and direct exchange with investors, WEB.DE AG consistently provided information on the most recent developments of the company. Numerous road shows, investor conferences, the successfully staged annual general meeting (with around 600 shareholders) as well as various investor visits to the corporate headquarters in Karlsruhe were the highlights of the fiscal year 2004.

**Strong Growth Momentum in Net Income**

A significant rise was recorded by net income in Q4/2004 which increased by +350 percent to 0.9 million Euro. The non-recurring write-off without any cash effects in Q3/2004 of 3.9 million Euro had an impact on the consolidated result for the full year which amounted to -2.4 million Euro (2003: 0.8 million Euro). Adjusted for this one-off effect, the consolidated net income for the year rose by +88 percent to 1.5 million Euro.



### **Clearly Positive Consolidated Earnings before Interest, Taxes, Depreciation and Amortization**

The consolidated EBITDA recorded a similarly positive development in Q4/2004 as well as for the full year 2004: as a result of the seasonally strong fourth quarter during which WEB.DE AG increased the consolidated EBITDA by +50 percent to 1.5 million Euro, the company generated a consolidated EBITDA of 4.4 million Euro for the full year in 2004.

### **2005 – Clearly Positive Growth Stimulus Anticipated in all Segments**

The Executive Board of WEB.DE AG anticipates an average annual growth in revenues of 35-40 percent for the group in coming years, with an ongoing increase in profitability for the growing Portal business and a positive consolidated result in 2005. In Web Telecommunications the international product rollout of the integrated communications solution is moving full steam ahead and will be implemented in 2005. The growth driver in the WEB.DE Portal business will again be the WEB.DE Club which is expected to number 530,000 Club members by the end of the year given the ongoing strong growth. A further growth driver will be Media Sales (Online Advertising) in 2005: clearly positive signals from the Online Advertising market and improving market conditions suggest that 2005 will again be characterized by dynamic growth after this business line, with +13 percent, grew more rapidly than the market (+4 percent) in 2004.

We thank you, our shareholders, very much for your trust and confidence. We, the Executive Board and the entire staff of WEB.DE AG, will continue to work hard towards achieving our joint objectives, turning WEB.DE AG into the largest and most profitable Internet Portal in Germany and becoming a leading, highly profitable and international player in the emerging market for integrated communication solutions.

Sincerely yours,

Executive Board of WEB.DE AG  
Karlsruhe, February 2005

## WEB.DE – Future through Innovation!

Numerous innovations in the WEB.DE Portal and in Web Telecommunications, excellent growth rates in the WEB.DE Club, a new image for the entire Portal, the penetration of new, lucrative markets – to put it in a nutshell, fiscal 2004 was an extremely successful and exciting year full of major highlights for WEB.DE AG. We would like to invite you to review WEB.DE's year 2004 with us and to get an overview of the progress made by WEB.DE in its product lines Web Telecommunications, Digital Services and Portal.

### Web Telecommunications – the market of the future!

The huge potential of the future market for integrated communication solutions is uncontested by experts and independent market observers. We began already very early on to conquer this highly promising market of integrated communication with our key product. Already today our Web Telecommunications product is very comprehensive and highly sophisticated in technological terms. Com.Win is a demanding product against the backdrop of the young emerging market which is steadily moving down the road to becoming a mass market. We are convinced that the necessary framework conditions, such as “always on” broadband Internet connections and user acceptance for integrated communication products will develop very positively in the near future.

In 2004 the focus of Web Telecommunications was on the further development of technology. With the upgrade of Com.Win to version 3.0, WEB.DE already launched a comprehensive communications solution for the still very young market of integrated communication solutions. This product integrates all communication forms and works with the most widely spread devices in the world. Access to address and

contact data anytime, anywhere, a professional technology discreetly in the background so that the user can communicate simply and intuitively – these are the user requirements which must be met. Apart from the File and Window sharing feature already integrated some time ago, Com.Win offers other functions which round off the product. They include, for instance, the integration of the Instant Messenger with integrated presence display – a key Internet application: according to a study by Bullhouse Research 70 percent of all employees in the United States already use an Instant Messenger. And in Germany, too, the exchange of messages in real time is very popular: chatting is amongst the Top 10 online applications for users (ARD/ZDF Online Study 2004).



Web Telecommunications has secured itself a starting position that is an excellent basis for the further development of the technologically very ambitious and highly performing product into a final consumer product with an exciting mass market potential. Given these optimum conditions we view the international product rollout announced for 2005 as an excellent opportunity to reach significant user numbers, both nationally and internationally.

### WEB.DE Portal: The Next-Generation Portal

The Portal business of WEB.DE was extremely successful in fiscal 2004. Many significant novelties supplemented the Portal and considerably increased its attractiveness. This was implemented in both visual and conceptual terms during the third quarter of last year – with the most comprehensive relaunch in the history of WEB.DE. The new WEB.DE now combines the simplicity of modern user interfaces with the efficiency of a comprehensive Internet Portal. Transparent, simple and clearly structured – WEB.DE, the Portal of the future is always worth a visit.

The screenshot shows the WEB.DE Portal homepage with a blue header and navigation menu. The main content area is divided into several sections: 'Schlagzeilen' (Headlines) with a 'Kanzler Schröder' article, 'Neu: SmartStier 3.0', 'WEB.DE DSL', 'Online Sicherheitscheck', 'Leiterservice', 'WEB.DE Exklusiv', and 'WEB.DE mit sammeln & ausgeben'. There are also sections for 'Shopping', 'Magazine', 'Aktuelles', 'Sport', 'Services', 'Specials', and 'Galerien'. A search bar is visible at the top right, and a 'WEB.DE SmartSearch' logo is in the bottom right corner.

We would now like to showcase some of the services which considerably extended the Portal last year and have made it even more attractive for our customers.

### From searching to finding on the Web – WEB.DE SmartSearch®

Since the middle of last year WEB.DE has offered its users a next-generation search feature with SmartSearch®. Search results are analyzed linguistically and dynamic, context-related theme trees around the searched keyword are shown to the user. SmartSearch® hence structures the search process in a unique manner. In this way search on the Internet is not only fun but also takes the user quickly and comfortably to the desired destination.

Example WEB.DE SmartSearch® with search term „Canary“

The screenshot shows the WEB.DE SmartSearch results for the search term 'Canary'. The results are organized into a hierarchical tree structure. The main categories are 'Canary Islands', 'Tenerife', 'Lanzarote', and 'Canary Wharf'. Under 'Canary Islands', there are sub-categories like 'Tenerife', 'Lanzarote', and 'Canary Wharf'. Under 'Tenerife', there are sub-categories like 'Palma', 'Islas Canarias', 'Hierro', 'Gomera', and 'Hotels'. Under 'Lanzarote', there are sub-categories like 'Information' and 'Self Catering'. Under 'Canary Wharf', there are sub-categories like 'Docklands' and 'London'. There are also sections for 'Birds', 'Palma', 'Mapas', 'Canarios', 'Información', and 'Sobre'.

### VoIP – Future Technology on the threshold to a mass market

The new freedom of Internet telephony – that's WEB.DE FreePhone®. Without a contractually agreed minimum charge, minimum use and without an installation or basic fee, WEB.DE has offered telephony over the Internet since 2004. Internet telephony provides top quality at cost-effective rates thanks to new technologies and the increasing availability of broadband Internet access. Phone calls on the Internet amongst FreePhone® users as well as with the Internet tele-

phony partners siggate, freenet and nikotel are completely free of charge. With FreePhone® WEB.DE has secured itself a central position on the booming Internet telephony market at an early stage.



VoIP (Voice over IP) has made its way and continues to grow rapidly – particularly through the peering of the VoIP networks of different providers. With its top product FreePhone® WEB.DE is excellently positioned in the VoIP network with a strong reach. By 2010 Internet telephony is set to become one of the most used applications on the Internet. Consequently VoIP has major strategic significance as a catalyst for Web Telecommunications.

### WEB.Cent – More than mere “small change” for the Internet

Not only was the successful Portal business enriched by new Digital Services but existing services were likewise essentially extended and even made more attractive. The successful micropayment system WEB.Cent, for instance, was turned into a bonus program. WEB.DE is the only provider to have added a bonus program to a micropayment system. Consequently, it gives

users an opportunity to charge their WEB.Cent account not only by conventional payment processes, but also to easily and conveniently collect WEB.Cent for each online purchase. The scheme includes partner stores like Douglas.de, Quelle.de as well as another 40 stores. Of course, the collected WEB.Cent can also be spent on the numerous WEB.DE services and in more than 300 partner stores.

### Fast and secure Internet Access – WEB.DE DSL

The entry of WEB.DE in the broadband business was a particular highlight in 2004. On the attractive, but also contested, DSL market WEB.DE launched its DSL product with a clear focus on security. Its successful approach was proven by the DSL test of PC Praxis (03/2005) rating No. 3, ahead of competitors like 1&1, Freenet and GMX with “great extras” like the comprehensive anti-virus package and, since the beginning of 2005, an integrated hosting package including 1,000 Megabyte storage space and 500 E-Mail addresses. An excellent product at a fair price – this is how we want to turn WEB.DE DSL into a test-winning product so that our customers have no reason not to buy their DSL from WEB.DE.

### The WEB.DE Club – A synonym of success!

The WEB.DE Club – the premium email offering of WEB.DE – was again the flagship of Digital Services in fiscal 2004. With 370,000 members on December 31, 2004 the Club was able to more than double its membership in the full year 2004. The concept of constantly stepping up the attractiveness of the WEB.DE Club through innovative functions and new offerings at a fair price once again proved to be highly successful. Since the middle of the year all Club customers have had access to a professional anti-virus security

package for their own PC which affords them extensive protection from viruses, worms, trojans and other PC pests.

WEB.DE customers do not have to worry about being short of storage space: WEB.DE has extended the storage space for its Club customers to an unlimited size. Users now can store E-Mails, photos and files in their mailbox without any limit, since the storage space can be used for both the E-Mail box, for the WEB.DE Photo Album and WEB.DE Online Storage. The discussion about storage space is, therefore, definitively closed for Club members.



In future, too, you can look forward to attractive extensions and upgrades for the WEB.DE Club. It pays to stop by!

#### **WEB.DE, the Digital Home – Just Come In!**

In fiscal 2004 WEB.DE once again excelled through its creativity. The Portal business was further extended in order to provide Internet users with the fundamental Internet services (communication, search, information and services). The 47 tests won by WEB.DE up to now speak for themselves. They prove that our high quality services, tailored to the needs of Internet users, give our more than 10 million active users fun, convenience and quality in their daily communication. This is emphasized by the current test of the “Internet Magazin”: in the “Portals” category WEB.DE was elected most popular website in February 2005 – ahead of all competitors like Yahoo, AOL, Freenet or also T-Online.

With this excellent positioning of the Portal and with the international rollout in Web Telecommunications scheduled for 2005, we look positively to the future. The excellent position of the Portal already secured today through intensive research and development, creates optimum prerequisites for worldwide success in Web Telecommunications. For this reason we are thoroughly convinced by our strategy and, of course, endeavor to constantly increase the added value for Internet users by providing them with an attractive and compact communication package.

Welcome to WEB.DE!

A collage of images. On the left, a family of four (two men, a woman, and a child) is smiling. In the center, a large, detailed close-up of a dragon's eye with scales. On the right, a woman with long brown hair is looking at a computer monitor in an office setting. The background is a blurred office environment with other people and computer monitors.

GOOD IDEAS ARE THE  
FOUNDATION FOR THE SUCCESS OF WEB.DE AG.

WHAT MAKES WEB.DE SO SPECIAL  
IS ITS ABILITY TO CARRY THEM THROUGH WHILST  
KEEPING ITS EYE FIRMLY ON THE BALL!





# Corporate Governance Report of the Executive Board and Supervisory Board

Responsible and value-oriented corporate management is deeply rooted in WEB.DE AG. It has a long tradition and hence enjoys a very high standing. We consider it to be an indispensable prerequisite and central requirement for a sustainable increase in the value of the company for our shareholders and investors.

The Executive Board and the Supervisory Board of WEB.DE AG see corporate governance as a decisive component of a modern capital market and of Germany as a business location. WEB.DE AG welcomes the German Corporate Governance Code which embodies essential statutory provisions on the management and supervision of German listed companies and encompasses internationally and nationally recognized standards of good and responsible corporate management. The German Corporate Governance Code aims to promote the trust and confidence of international and national investors as well as the general public in the management and supervision of German exchange-listed stock corporations.

## Declaration of conformity

In accordance with §161 AktG (German Stock Corporation Act) the executive board and supervisory board of exchange-listed companies have to declare once a year that the recommendations of the “Government Commission on the German Corporate Governance Code” published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being complied with or specify any noncompliance with a Code recommendation. The declaration has to be made permanently accessible to stockholders.

The Executive Board and Supervisory Board issued the annual declaration of conformity in accordance with §161 AktG on July 14, 2004; this declaration was also published on the website of WEB.DE AG under <http://webde-ag.de> and made permanently accessible. They declared that they have met the recommendations of the Government Commission German Corporate Governance Code with some minor exceptions, which are explained below. The Executive Board and Supervisory Board of WEB.DE AG intend to comply with these recommendations in future, too.

## Annual General Meeting

In accordance with the Code the company has made it easier for all shareholders to personally exercise their voting rights. Those who did not want or were not able to exercise their voting right personally had proxies acting on specific instructions appointed by the company. As in the previous year, the annual general meeting was broadcast live on the Internet on June 16, 2004. The corresponding speeches by the members of the Executive Board are available as a streaming video on the Internet pages of WEB.DE AG (<http://webde-ag.de>).

## Close co-operation between the Executive Board and Supervisory Board

Based on good and responsible Corporate Governance at WEB.DE, the Executive Board and Supervisory Board cooperate in an ongoing and very close manner. They have intensive coordination in the areas recommended by the Code and also beyond these areas which means that immediate, regular and intensive interexchange between the Executive Board and the Supervisory Board is ensured. There



is a deviation from the recommendation on setting up qualified committees as well as an audit committee (Clauses 5.3.1 and 5.3.2), since the Supervisory Board has only three members and setting up committees is not considered purposeful under the specific circumstances prevailing at WEB.DE.

The Executive Board of WEB.DE AG has committed itself to gearing the company management to the corporate interests, the principles of business policy and corporate guidelines as well as the generally accepted rules of management practice. The Executive Board and the Supervisory Board cooperate closely for the benefit of the company. Against this backdrop, the Executive Board elaborates the strategic orientations in consultation with the Supervisory Board and ensures their execution.

The bylaws of the company as well as the rules of procedure of the Executive Board regulate reservations as to consent in respect of decisions or measures which would fundamentally change the assets, financial and earnings situation of the company. The Supervisory Board receives all documents required for a decision early on so as to permit a constructive and open debate and the adoption of resolutions.

During their term of office the members of the Executive Board are subject to a far-reaching contractual prohibition of competition. In addition, any secondary occupations of Executive Board members and specifically, the assumption of external supervisory board mandates, must, as a matter of principle, be approved by the Supervisory Board.

The members of the Supervisory Board declare that they are independent of the Executive Management and do not have any business relations with the company which might influence their independent opinion forming. The Supervisory Board provides information in its report to the annual general meeting about any conflicts of interest which may have arisen.

#### **Success-based compensation for the Executive Board and the Supervisory Board**

The annual general meeting adopted, in line with the recommendations in the Code, adjustments in respect of the compensation of the Supervisory Board members as well as corresponding amendments to bylaws. Since fiscal 2003 the Executive Board and the Supervisory Board have received success-dependent compensation as recommended by the Code. The company publishes the overall compensation of the members of the executive and non-executive bodies including their stock options. By way of deviation from the recommendations of the Code, the individual Executive Board and Supervisory Board compensations (Clauses 4.2.4 and 5.4.5) are not disclosed in order to protect privacy and in recognition of the constitutionally guaranteed right to informational self-determination. Furthermore, stock options are not limited in the event of unforeseen developments as recommended by the Code (Clause 4.2.3).

In 2004 the fixed compensation of the overall Executive Board amounted to an aggregate 1.1 million Euro. Variable compensation to the amount of 0.5 percent of the positive consolidated result before income tax was already introduced in fiscal 2003; this is limited to a maximum 25 percent of the fixed compensation. The total subscription rights to ordinary shares as well as their allocation can be taken from the Directors' holdings on the corresponding web pages of our Investor Relations section as well as from this annual report on page 48. The founders Michael and Matthias Greve, who do not receive any option rights to ordinary shares of WEB.DE AG, are awarded, by way of compensation, a director's fee which is determined by the annual increase in the company's market capitalization. As soon as the market capitalization crosses the threshold of 510 million Euro. The founders receive at the end of the year a director's fee of 12,800 Euro for each increase in the market capitalization by another 51 million Euro.

In 2004 the fixed compensation of the overall Supervisory Board, consisting of three members, amounted to an aggregate of 45 T Euro. The compensation of the Supervisory Board of WEB.DE Aktiengesellschaft can be broken down as follows:

Each member of the Supervisory Board receives fixed compensation as well as further success-dependent compensation to the amount of 0.1 percent of the positive consolidated result before income tax in accordance with the adopted consolidated financial statements, but maximum 10,000 Euro. The Chairman elected by the Supervisory Board receives double the fixed and success-dependent compensation, to maximum 20,000 Euro. The Deputy

Chairman receives the 1.5-fold of the fixed and the success-dependent compensation, to maximum 15,000 Euro. Apart from the compensations, members of the Supervisory Board receive a flat-rate reimbursement of expenses of 500 Euro for every personal participation in a meeting of the Supervisory Board.

### Transparency

The open and transparent handling of information for the relevant target groups of WEB.DE AG enjoys a high status as responsible and value-based corporate management. Transparency is a holistic commitment which promotes and consistently intensifies the confidence and trust of all persons in their relationship with WEB.DE AG. It is not just the Supervisory Board and the Executive Board that are bound by these principles: the staff also identifies with them. A Corporate Governance officer was appointed to supervise compliance with the German Corporate Governance Code.

In addition to the statutory information and disclosure obligations for German stock corporations, the Executive Board of WEB.DE AG regularly reports, taking into account the necessary equal treatment of all shareholders, on all matters concerning the company in annual and quarterly reports, ad hoc disclosures and at analyst conferences and press events. These reports and communications as well as presentations are published on the website of WEB.DE AG. The information is intended for all WEB.DE shareholders and for the more than 10 million WEB.DE users who visit the website every month.

### Accounting and auditing

WEB.DE AG prepares its accounts on the basis of generally recognized international accounting principles (US GAAP). The financial statements are published as structured reports within 90 days of the end of the fiscal year and the quarterly reports within 30 days of the end of the reporting period. The auditor attends the Supervisory Board meetings during which the financial statements are discussed, audited and adopted by the Supervisory Board.

The auditor has made a declaration of independence, as required by the Code, vis-à-vis the Supervisory Board; other mandates of the auditor at WEB.DE, outside the auditing activity, do not exist. In this way WEB.DE AG meets the recommendations of the German Corporate Governance Code.

### Additional commitments

The Executive Board of WEB.DE AG is of the opinion that in view of the many scandals in the United States and Europe, it is more important than ever to proactively advocate responsible corporate management and trust-building measures on the capital market.

For that reason in 2002 we already made several additional commitments on a voluntary basis which go beyond the standard commitments of the German Corporate Governance Code and are to ensure even higher transparency:

Quarterly reports are published within 30 days instead of the required 45 days. Moreover, stock buy-backs are notified without any statutory obligation and the securities transactions of members of executive and non executive board are also published below the statutory notification limits on the website of WEB.DE AG.

The Executive Board and  
Supervisory Board of WEB.DE AG  
Karlsruhe, March 2005

## Report of the Supervisory Board

In the course of fiscal 2004, too, the Supervisory Board of WEB.DE AG fulfilled the tasks assigned to it by virtue of the company bylaws, the rules of procedure and the law. It was in a regular, ongoing and intense dialogue with the Executive Board of the company and was informed in writing and verbally about the company's business development, the current situation and anticipated development as well as major investment projects.

In fiscal 2004 the Supervisory Board discussed all major business transactions with the Executive Board, intensively monitored the executive management and agreed upon the planned projects of WEB.DE AG with the Executive Board. I personally had regular contacts with the Executive Board, as well outside Supervisory Board meetings, and obtained information about the business development, the current situation and essential business transactions. No committees were set up by the Supervisory Board since the Supervisory Board of WEB.DE AG only consists of three persons.

In fiscal 2004 the Supervisory Board held a total of six meetings and two conference calls. No member of the Supervisory Board attended fewer than half the meetings. The plenary meeting of the Supervisory Board also dealt with a performance evaluation of the Supervisory Board on a regular basis. Over the last fiscal year the deliberations of the Supervisory Board focused on the basic future development of the company, the evolution of revenues, results, employment and the financial position of WEB.DE AG.

By letter dated June 9, 2004 the member of the Supervisory Board, Mr. Klaus-Dieter Scheurle, resigned from his office with immediate effect. We should like to thank Mr. Scheurle for his contributions to the Supervisory Board. By decision of the Karlsruhe court of registration, Dr. habil. Karl Schlagenhaut, Karlsruhe, was appointed member of the Supervisory Board on June 14, 2004. At the Supervisory Board meeting on June 15, 2004 Dr. habil. Schlagenhaut was elected Deputy Chairman of the Supervisory Board.

At the ordinary Annual General Meeting on June 16, 2004 the members of the Supervisory Board Felix Greve and Hansjörg Reiter were re-elected for a further term until the end of the general meeting deciding on the discharge of each for fiscal 2008. The two members of the Supervisory Board were each elected with 99.99 percent of the votes and the two members of the Supervisory Board accepted their election.

Furthermore, the ordinary General Meeting again appointed KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as independent auditor for fiscal 2004.

The financial statements of WEB.DE as of December 31, 2004 the management report as well as the consolidated financial statements as of December 31, 2004 were audited by the independent auditor, and an unqualified audit opinion was issued by the auditor for the statements and reports.

The financial statements, the management reports and the audit reports were submitted to the Supervisory Board and explained in detail at the meeting of the Supervisory Board on the financial statements. During the meeting the auditor gave an account of the most relevant findings of the audit. The Supervisory Board took approving note of the auditor's report.

The financial statements and the consolidated financial statements of WEB.DE AG for fiscal 2004 as well as the management reports and the proposal of the Executive Board for the appropriation of the balance sheet profit were duly examined by the Supervisory Board. Based on the final result of its examination the Supervisory Board stated that there were no objections to the financial statements and the consolidated financial statements and management reports prepared by the Executive Board. The Supervisory Board of WEB.DE AG approved the financial statements and the consolidated financial statements of WEB.DE AG as prepared by the Executive Board. The financial statements are thus adopted. Moreover, the Supervisory Board approved the proposal of the Executive Board for the appropriation of the balance sheet profit.

The Executive Board of WEB.DE AG also presented the Supervisory Board with its report for fiscal 2004 disclosing relations with affiliated companies and the corresponding audit report of KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. In its audit report on the report disclosing relations with affiliated

companies, KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, issued the following opinion:

“On the basis of our duty of examination and assessment, we hereby confirm that

- (1) the actual statements in the report are correct,
- (2) the consideration given by the company for the legal transactions specified in the report was not unreasonably high.”

The Supervisory Board took approving note of the auditor's report and examined the management report disclosing relations with affiliated companies. Based on the conclusions of its examination, the Supervisory Board had no objections to the declaration of the Executive Board at the end of its report on relations with affiliated companies.

Transparency, responsible corporate management and value-based control are incorporated into the term corporate governance. WEB.DE AG considers responsible corporate governance to be a central prerequisite for the creation of sustainable value for shareholders and investors.

Under the German Corporate Governance Code the Executive Board and the Management Board of WEB.DE AG issued the annual declaration of conformity in accordance with §161 AktG (German Stock Corporation Act) on July 14, 2004, which was also published on the website of WEB.DE AG under <http://webde-ag.de>

and was made permanently accessible. The declaration stresses the commitment of WEB.DE AG to the recommendations of the Code. Moreover, the Executive Board and the Supervisory Board report on corporate governance at WEB.DE in accordance with Clause 3.10 of the German Corporate Governance Code as amended on May 21, 2003 on pages 16-19 of this Annual Report.

The Supervisory Board would like to thank the Executive Board and all the employees of WEB.DE AG for their high commitment, enormous dedication and successful work in fiscal 2004.

The Supervisory Board  
Hansjörg Reiter (Chairman)  
Karlsruhe, March 15, 2005





**CUSTOMER SATISFACTION  
IS THE BE ALL AND END ALL.  
IT IS THE KEY TO ECONOMIC SUCCESS.**





# WEB.DE AG Consolidated Profit and Loss Statement for the 2004 Financial Year

(in T Euro, except for share details)	2004	2003
Sales revenues	42,965	32,824
Cost of sales	(10,781)	(8,107)
<b>Gross operating profit</b>	<b>32,184</b>	<b>24,717</b>
Marketing and advertising	(12,980)	(11,710)
General administration costs	(3,100)	(2,120)
Research and development	(18,707)	(13,725)
<b>Operating result</b>	<b>(2,603)</b>	<b>(2,838)</b>
Financial income	4,074	3,796
Net income from associated companies	(3,901)	0
<b>Net result for the year from continuing activities</b>	<b>(2,430)</b>	<b>958</b>
Result from discontinued activities	0	(199)
<b>Net result for the year</b>	<b>(2,430)</b>	<b>759</b>
Net result per share from continuing activities	(0.07)	0.03
Result per share from discontinued activities	0.00	(0.01)
Net result per share	(0.07)	0.02
Average number of outstanding shares	<b>36,112,716</b>	36,277,856

The explanations in the notes are part of the consolidated financial statement.

# WEB.DE AG Consolidated Balance Sheet

## as of December 31, 2004

<b>A S S E T S</b> (in T Euro)	<b>12/31/2004</b>	<b>12/31/2003</b>
<b>Short-term assets</b>		
Cash and cash equivalents	16,145	5,554
Marketable securities	14,747	30,698
Trade accounts receivable	5,555	4,751
Due from associated companies	126	158
Prepaid expenses and other short-term assets	3,565	2,459
<b>Total short-term assets</b>	<b>40,138</b>	<b>43,620</b>
<b>Long-term assets</b>		
Property, plant and equipment	21,117	17,655
Intangible assets	3,827	3,173
Goodwill	6,749	6,749
Financial assets	0	3,901
Lendings	7,661	7,912
Marketable securities	76,728	65,809
<b>Total long-term assets</b>	<b>116,082</b>	<b>105,199</b>
<b>Total assets</b>	<b>156,220</b>	<b>148,819</b>

<b>L I A B I L I T I E S</b> (in T Euro)	<b>12/31/2004</b>	<b>12/31/2003</b>
<b>Short-term liabilities</b>		
Trade accounts payable	724	819
Liabilities against associated companies	66	0
Advance payments received	4,130	2,776
Provisions	3,180	1,507
Tax provisions	13	0
Deferred revenues	8,807	3,749
Other short-term liabilities	2,036	1,423
<b>Total short-term liabilities</b>	<b>18,956</b>	<b>10,274</b>
<b>Long-term financial leasing liabilities</b>	<b>10,154</b>	<b>8,161</b>
<b>Shareholders' equity</b>		
Common shares at 1 Euro	38,203	38,198
Capital reserve	102,841	102,824
Treasury stock	(13,003)	(11,755)
Other comprehensive income	483	101
Accumulated total loss	(1,414)	1,016
<b>Total shareholders' equity</b>	<b>127,110</b>	<b>130,384</b>
<b>Total liabilities</b>	<b>156,220</b>	<b>148,819</b>

The explanations in the notes are part of the consolidated financial statement.

# WEB.DE AG Consolidated Cash Flow Statement for the 2004 Financial Year

(in T Euro)	2004	2003
<b>Net cash provided by operating activities</b>		
Net result for the year	(2,430)	759
Result from discontinued activities	0	199
Depreciation/amortization on intangible assets and tangible assets	7,032	6,599
Depreciation on investments	3,901	0
Result from the sale of marketable securities	(833)	(473)
<b>Change in assets and liabilities</b>		
Trade accounts receivable	(804)	(145)
Due from associated companies	32	333
Other assets and prepaid expenses	(1,797)	(300)
Short-term liabilities	8,682	1,344
Result from sale of assets	(27)	0
<b>Inflow/outflow from operating activities</b>	<b>13,756</b>	<b>8,316</b>
<b>Net cash used/provided by investing activities</b>		
Investments in intangible assets	(2,637)	(1,510)
Investments in property, plant and equipment	(8,511)	(2,836)
Proceeds from sale of fixed assets	28	308
Expenditure for purchase of securities	(38,638)	(48,416)
Proceeds from sale of securities	44,884	38,587
Issuance of loans	0	(151)
Payments from company acquisitions	942	800
<b>Inflow/outflow of funds from investing activities</b>	<b>(3,932)</b>	<b>(13,218)</b>
<b>Net cash used by financing activities</b>		
Capital increase	22	0
Discharge of long-term liabilities	1,993	(291)
Acquisition of treasury stock	(1,248)	(1,350)
<b>Inflow/outflow from financing activities</b>	<b>767</b>	<b>(1,641)</b>
<b>Net cash from discontinued business segments</b>	<b>0</b>	<b>327</b>
<b>Increase/Decrease of cash and cash equivalents</b>	<b>10,591</b>	<b>(6,216)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>5,554</b>	<b>11,770</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>16,145</b>	<b>5,554</b>

The explanations in the notes are part of the consolidated financial statement.

## WEB.DE AG Development of Shareholders' Equity for the 2004 Financial Year

(in T Euro, except for share details)	Common stocks	Subscribed capital	Capital reserve	Accumulated total loss	Treasury stock	Other comprehensive income	Total shareholders' equity
<b>January 1, 2003</b>	<b>38,198,819</b>	<b>38,198</b>	<b>102,824</b>	<b>257</b>	<b>(10,405)</b>	<b>499</b>	<b>131,373</b>
Acquisition of treasury stock					(1,350)		(1,350)
Result for the year				759			759
Other comprehensive income						(398)	(398)
<b>December 31, 2003</b>	<b>38,198,819</b>	<b>38,198</b>	<b>102,824</b>	<b>1,016</b>	<b>(11,755)</b>	<b>101</b>	<b>130,384</b>
Capital increase from conditional capital	4,467	5	17				22
Acquisition of treasury stock					(1,248)		(1,248)
Result for the year				(2,430)			(2,430)
Other comprehensive income						382	382
<b>December 31, 2004</b>	<b>38,203,286</b>	<b>38,203</b>	<b>102,841</b>	<b>(1,414)</b>	<b>(13,003)</b>	<b>483</b>	<b>127,110</b>

The explanations in the notes are part of the consolidated financial statement.

# WEB.DE AG Schedule of Change in Assets for the 2004 Financial Year

(in T Euro)	COST OF ACQUISITION AND PRODUCTION			
	01/01/2004	Additions	Disposals	12/31/2004
<b>Intangible assets</b>				
Licenses and other intangible assets	7,758	2,637	0	10,395
Goodwill	9,240	0	0	9,240
	<b>16,998</b>	<b>2,637</b>	<b>0</b>	<b>19,635</b>
<b>Property, plant and equipment</b>				
Leased assets	9,050	2,300	0	11,350
Technical facilities and machinery	15,474	5,350	2	20,822
Other plant, office furniture and equipment	5,232	861	8	6,085
	<b>29,756</b>	<b>8,511</b>	<b>10</b>	<b>38,257</b>
<b>Financial assets</b>				
Associated companies	48	0	0	48
Investees	11,511	0	0	11,511
Other loans	7,912	761	1,012	7,661
Fixed assets securities	65,836	13,622	2,730	76,728
	<b>85,307</b>	<b>14,383</b>	<b>3,742</b>	<b>95,948</b>
	<b>132,061</b>	<b>25,531</b>	<b>3,752</b>	<b>153,840</b>

(in T Euro)	AMORTIZATION / DEPRECIATION			BOOK VALUE	
	01/01/2004	Additions	Disposals	12/31/2004	12/31/2003
<b>Intangible assets</b>					
Licenses and other intangible assets	4,585	1,983	0	6,568	3,173
Goodwill	2,491	0	0	2,491	6,749
	<b>7,076</b>	<b>1,983</b>	<b>0</b>	<b>9,059</b>	<b>9,922</b>
<b>Property, plant and equipment</b>					
Leased assets	400	260	0	660	8,650
Technical facilities and machinery	9,735	4,031	2	13,764	7,058
Other plant, office furniture and equipment	1,966	758	8	2,716	3,266
	<b>12,101</b>	<b>5,049</b>	<b>10</b>	<b>17,140</b>	<b>17,655</b>
<b>Financial assets</b>					
Associated companies	48	0	0	48	0
Investees	7,610	3,901	0	11,511	3,901
Other loans	0	0	0	0	7,912
Fixed assets securities	27	0	27	0	65,809
	<b>7,685</b>	<b>3,901</b>	<b>27</b>	<b>11,559</b>	<b>77,622</b>
	<b>26,862</b>	<b>10,933</b>	<b>37</b>	<b>37,758</b>	<b>105,199</b>

# WEB.DE AG Notes to the Consolidated Financial Statement (US-GAAP) as of December 31, 2004

## 1. The parent company

WEB.DE Aktiengesellschaft, Karlsruhe (hereinafter also referred to as “WEB.DE”), operates the Internet portal WEB.DE. With several magazines, which are comprised of some 100 theme areas and numerous services, WEB.DE represents one of the most comprehensive German online offerings. The company has been listed on the Frankfurt Stock Exchange since February 2000. Since October 2002 the company has extended its business model with the development of the Com.Win product in the field of Web Telecommunications.

## 2. Accounting principles

### Consolidation

The consolidated financial statements were prepared in accordance with the Generally Accepted Accounting Principles valid in the United States of America (US-GAAP). Assets, liabilities, earnings, and expenditures of the companies majority-owned by the company were consolidated. Investees not controlled by the company but over which the company exercises a material influence have been accounted at equity. Other investees have been accounted at acquisition cost. Receivables, liabilities, revenues, expenditures and earnings between consolidated companies have been eliminated. The necessary tax deferments have been made for consolidation events affecting income to the extent that it is likely that the difference in tax expense will be offset in future fiscal years.

The fiscal year of the fully consolidated subsidiaries corresponds to the fiscal year of the parent company.

### Presentation method

The consolidated financial statements are prepared in thousands of Euro (T Euro). The fiscal year corresponds to the calendar year.

### Use of estimates

In order to prepare the consolidated financial statements in conformity with US-GAAP, the Executive Board of the company has to make assumptions and estimates which influence the reported assets and liabilities as well as the contingent liabilities as of the balance sheet date and the reported income and expenditure during the period under review. The actual figures can deviate from these estimates.

### Liquid funds/Cash and cash equivalents

All short-term liquid funds with an original time to maturity of up to three months are classified as cash and cash equivalents. Due to their short-term maturity, the book values of cash and cash equivalents correspond approximately to their fair values.

### Trade accounts receivable

Receivables are reported at their nominal value which corresponds to their market value. Valuation allowances for receivables are calculated in accordance with the probability of their uncollectibility.

### Financial assets

Financial assets are valued at amortized costs.

### Securities

Securities are reported in accordance with the Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". All securities are either classified as "held-to-maturity securities" or "available-for-sale securities".

Held-to-maturity securities are valued at amortized cost. Available-for-sale securities are stated at market value. Unrealized profits and losses from available-for-sale securities are, as a matter of principle, reported as "other changes in shareholders' equity not affecting the income statement". Insofar as decreases in value are not of a temporary nature, they are taken into account as affecting the income statement. The valuation of securities and of the realized and unrealized profits and losses is undertaken on the basis of an individual valuation.

The purchase and sale of securities in the two categories are included in the company's consolidated cash flow statement as incoming and outgoing payments from investments.

### Reporting of long-lived assets

Tangible fixed assets are reported at acquisition and production cost, minus depreciation according to the straight-line method over their useful life. The corporate building capitalized within the framework of a financing lease with an initial lease period of 20 years is depreciated according to the straight-line method over a period of 40 years. The useful life of IT hardware is three years and four to ten years for all other company equipment.

Software purchased against consideration is reported at cost and written off using the straight-line method over the useful life of two to five years.

On each balance sheet date, WEB.DE assesses the recoverability of the carrying value of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment of Long-Lived Assets". Special write-offs must therefore be made irrespective of useful life in the event of an expected permanent diminution in value. To this end, the sum of the non-discounted future cash flows from the utilization of the assets must be estimated and set against the carrying value. If the sum determined in this way is smaller than the carrying value, a write-down to the fair value must be made.

Goodwill is valued in accordance with SFAS 141/142 ("Business Combinations" and "Goodwill and Other Intangible Assets"). There is no regular amortization of goodwill. In the presence of corresponding information, an impairment test is carried out at least once a year instead. In this connection, a two-stage process is applied. In a first stage, the then valued fair value of the business entities acquired is compared with the depreciated carrying value including goodwill. If the fair value of the reporting units is below the carrying value, the fair value is – in a second step – compared to the carrying value of the goodwill of the reporting unit. The fair value of the goodwill is determined by comparing the fair values of the individual assets and liabilities of the reporting unit with the fair value of the whole reporting unit. If the resulting goodwill is below the existing carrying value of the goodwill, a corresponding write-down is necessary.



### Income taxes

WEB.DE reports income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" by using the liability method. According to this method, deferred taxes are determined based on the difference between the value of assets and liabilities in the financial statements prepared for financial reporting purposes under US-GAAP and the financial statements prepared for tax purposes using the statutory tax rates in those years when the differences are expected to be reversed. Deferred taxes will be written off if the company has not yet reported profits and/or if the worthless expiration of unused tax losses is more likely than their use.

### Earnings per share

The earnings per share (EPS) are determined in accordance with SFAS No. 128, "Earnings per Share". They are calculated by dividing the earnings owed to each shareholder by the weighted average number of outstanding shares during the year. The diluted earnings per share correspond to the earnings per share, since the effect of diluting securities is very low.

### Revenue recognition

WEB.DE generated revenues in fiscal 2004 primarily in the following areas: **(1)** Online Advertising (Media Sales), **(2)** E-Commerce transactions, **(3)** Digital Services and **(4)** Web Telecommunications.

- (1)** With Online Advertising, WEB.DE provides its customers with ad insertions on its own website. Rates for advertising space vary, depending on

the placing of the advertisement and the number of insertions. The revenues depend on the insertions or can be realized in line with other performance criteria, if other performance criteria have been agreed upon.

- (2)** With E-Commerce transactions, the customer is normally billed for each successfully mediated transaction or on a similar service basis. Revenues are generated based on the actual number of mediated transactions or on the basis of fulfillment of the agreed service parameters.
- (3)** With Digital Services, WEB.DE directly provides a fee-based service for the customer, e.g., WEB.DE Club, SMS message forwarding or a directory entry.
- (4)** With Web Telecommunications WEB.DE generates revenues from continuous monthly subscription fees and/or the sale of telephone minutes. The revenues from Digital Services depend on the services provided.

Advance customer payments on services to be provided by WEB.DE are reported as deferred income and down payments received and recognized as revenues on a prorata temporis basis at the time the service is provided. Revenue is only recognized insofar as recovery is likely and WEB.DE has no material future obligations.

The reporting of barter transactions is based on EITF 99-17. In fiscal 2004 WEB.DE recognized revenues from barter transactions in the amount of 180 T Euro.

### Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income", makes it mandatory to report so-called comprehensive income. In addition to the consolidated income, comprehensive income includes "other changes in shareholders' equity not affecting the income statement". This encompasses all changes in equity not included in the income statement that are not related to transactions with shareholders. Unrealized gains and losses from the market valuation of securities are reported under "other changes in shareholders' equity not affecting the income statement".

Both the changes in shareholders' equity not affecting the income statement and the entire comprehensive income are reported in the development of the Group's equity.

### Stock-based compensation

WEB.DE reports the stock options issued by the company using the intrinsic value method in accordance with APB 25 "Accounting for Stock issued to Employees". The personnel expenses incurred in this respect are distributed over the term of the respective options and calculated from the difference between the market price of the WEB.DE share and the exercise price of the option on its valuation date. The determination of the intrinsic value of the option is based on the current market value of the WEB.DE share on the day the options are issued.

SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 123(R), "Share-Based Payment", were published for the purpose of reporting stock-based compensation. These standards regulates accounting and valuation methods as well as the disclosure duties for stock-based compensation schemes based on a valuation of the issued options at fair value. They offer the possibility to continue reporting in accordance with APB 25 for fiscal years commencing before June 15, 2005 provided that the required disclosure duties in accordance with SFAS No. 123 are fulfilled in the Notes.

The following table shows the effect of the application of SFAS 123 on the income and earnings per share:

(in T Euro)	2004	2003
Net result for the year	(2,430)	759
Expensed stock options	0	0
Stock option expenses based on fair value	(676)	(1,273)
<b>Pro forma result</b>	<b>(3,106)</b>	<b>(514)</b>
Undiluted earnings per share	(0.07)	0.02
<b>Pro forma undiluted earnings per share</b>	<b>(0.09)</b>	<b>(0.01)</b>
Diluted earnings per share	(0.07)	0.02
<b>Pro forma diluted earnings per share</b>	<b>(0.09)</b>	<b>(0.01)</b>

### **New accounting rules**

Since January 1, 2004, WEB.DE has applied the Emerging Issues Task Force EITF Issue 00-21, "Revenue Arrangements with Multiple Deliverables". This issue concerns the reporting of transactions that involve the delivery or performance of multiple components. It specifies whether or when individual deliverables should be divided into separate units of accounting and how the arrangement consideration should be allocated to the separate units of accounting. The application of EITF Issue 00-21 did not have any impact on the consolidated financial statements of WEB.DE.

In January 2003 FASB published Interpretation No. 46, "Consolidation of Variable Interest Entities". The new Interpretation modifies the duty of consolidation for special purpose entities. A company must consolidate a special purpose entity if it bears a material part of the economic risks and/or opportunities existing in this company. In December 2003 the Financial Accounting Standards Board adopted Interpretation No. 46R (FIN 46R) (Consolidation of Variable Interest Entities (revised)) which replaced the original provision FIN 46 (Consolidation of Variable Interest Entities). FIN 46R explains the concept of an interest in a variable interest entity ("VIE") and provides for the consolidation of the VIE by the primary beneficiary, if the VIE does not have sufficient equity to finance its activities without additional subordinated financial support from third parties and/or if the largest shareholder lacks certain essential characteristics of a controlling financial interest in the VIE. The provisions of FIN 46R have been effective

for individually defined special purpose entities from December 31, 2003 and for all other VIEs from March 31, 2004. The application of the new provisions did not have any impact on the consolidated financial statements of WEB.DE.

In December 2004 FASB published SFAS No. 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29". The new standard specifies the reporting of exchange transactions. At the exchange of assets only transactions which result in changes of operating cash flows lead to revenue.

By contrast, APB Opinion No. 29 made revenue recognition dependent on the degree of similarity of the exchanged assets. The new standard has to be applied to fiscal years commencing after June 15, 2005. A voluntary premature application is possible but does not take place.

In December FASB also published a revised version of SFAS No. 123, "Share-Based Payment". In accordance with the new Standard SFAS No. 123(R) any options issued under an employee participation program are basically to be reported at fair value and charged to expense. The previous option under SFAS No. 123 to continue using the intrinsic value method under APB 25 and to state the fair value merely in the Notes, is superseded. The new standard has to be applied to fiscal years commencing after June 15, 2005. A voluntary premature application is possible but does not take place.

### 3. Additional information on the consolidated cash flow statement

WEB.DE paid 1,526 T Euro in taxes in the fiscal year (2003: 1,372 T Euro) and 5 T Euro in interest (2003: 7 T Euro). This amount concerns capital yields tax. Interest income amounted in fiscal 2004 to 5,067 T Euro (2003: 4,562 T Euro).

The liquid funds of the group break down as follows as of December 31, 2004:

(in T Euro)	Liquid funds
Current accounts	3,294
Fixed deposit accounts	12,851
<b>Total</b>	<b>16,145</b>

In connection with vehicle leases 200 T Euro has been invested for a fixed term in a guarantee account.

### 4. Additional information on the balance sheet

The accounts receivable and payable reported in the balance sheet are mainly due within less than one year. The other assets include accounts receivable with a residual term of more than one year to an amount of 14 T Euro (2003: 315 T Euro).

The valuation allowance for trade accounts receivable amounts to 2,297 T Euro for fiscal 2004 (2003: 1,779 T Euro).

There are no receivables from the Executive Board. Loans to employees amount to 566 T Euro (2003: 0 T Euro). In fiscal 2003 they were reported as other assets.

Prepaid expenses include invoices already paid for insurance policies and the maintenance of software.

The other assets consist essentially of dues from corporate income tax refunds.

The advance payments received consist of payments of WEB.DE users within the framework of the micro-payment service, WEB.Cents.

Deferred income essentially includes advance payment of Club membership dues to the amount of 8,134 T Euro.

### 5. Loans

The loans include dues from associated companies to the amount of 0 T Euro (2003: 1,011 T Euro).

### 6. Changes in the scope of consolidation

#### Acquisition of subsidiaries

Effective March 1, 2004 a 100% interest in B2ABC Performance GmbH was acquired at a purchase price of 1 Euro.

Effective December 22, 2003 a 100% interest in more-IPO.de GmbH was acquired at a purchase price of 51 T Euro.

#### Discontinued Operations

In December 2003 the 60% shareholding in More.de was sold off. The purchase price amounted to 1 Euro. The result for the fiscal year 2003 was 41 T Euro.

The divestiture was made because of the declining attractiveness of the business model relating to financial market places. In the wake of the divestiture an amortization of the remaining goodwill to the amount of 240 T Euro was made in fiscal 2003.

This amortization as well as the result attributable to More.de in fiscal 2003 and the related payment flows are identified in the income statement and in the cash flow statement as items of discontinued operations.

#### 7. Investees

In 2004 a non-recurring valuation allowance not affecting payment was made in respect of the minority

interest in VolPGroup Inc., Miami (USA) to an amount of 3,901 T Euro.

#### 8. Advertising costs

Advertising costs are reported as expenditure as they arise. External advertising costs amounted to 2,257 T Euro in fiscal 2004 and 2,339 T Euro in fiscal 2003.

#### 9. Securities

The following overview shows the development of the securities:

(in T Euro)	AVAILABLE-FOR-SALE			HELD-TO-MATURITY
	Acquisition costs	Market price	Unrealized result	
<b>2004</b>				
Bonds < 1 year	0	0	0	13,604
Bonds > 1 year	13,848	14,747	722	63,124
	<b>13,848</b>	<b>14,747</b>	<b>722</b>	<b>76,728</b>
<b>2003</b>				
Bonds < 1 year	600	605	3	17,522
Bonds > 1 year	29,410	30,093	358	48,287
	<b>30,010</b>	<b>30,698</b>	<b>361</b>	<b>65,809</b>

The market value of the available-for-sale securities on the balance sheet date contains the interest income from interest accrued.

The market value of the held-to-maturity securities amounts to 77,509 T Euro (2003: 66,579 T Euro) on the balance sheet date.

The unrealized gains from held-to-maturity securities result from the market valuation of securities

previously classified as available-for-sale. The corresponding amounts are realized in accordance with the term of the respective securities. All other held-to-maturity securities are reported at amortized acquisition costs.

The securities are essentially fixed-interest bonds with an average residual maturity of approximately 3 years.

### 10. Market value of financial claims and liabilities

Financial claims and liabilities whose carrying value approximates their market value include cash and cash equivalents, short-term financial investments, trade accounts receivable and payable as well as all other short-term assets and liabilities. The market value of publicly quoted financial claims and liabilities corresponds to the price quoted. An estimate of the market value for unquoted equity interests and loans is not practicable.

### 11. Intangible assets

The intangible assets result, in addition to the goodwill, from software, licenses and patents acquired against payment.

Since fiscal 2002 WEB.DE has applied SFAS 142 ("Goodwill and Other Intangible Assets") and carries out the relevant impairment tests.

The following overview represents the development of intangible assets:

(in T Euro)	Licenses and other intangible assets	Patents	Goodwill
<b>Acquisition and production costs</b>			
December 31, 2004	9,154	1,241	9,240
December 31, 2003	7,059	699	9,240
<b>Amortizations</b>			
December 31, 2004	6,568	0	2,491
December 31, 2003	4,585	0	2,491
<b>Book value</b>			
December 31, 2004	2,586	1,241	6,749
December 31, 2003	2,474	699	6,749

Licenses and other intangible assets are depreciated on a straight-line basis.

In 2004 patents to an amount of 542 T Euro and licenses to an amount of 2,095 T Euro were acquired. The average weighted exploitation period amounts to 5 years for patents and 2.3 years for licenses. The total average exploitation period amounts to 4.9 years.

For the assets reported as of December 31, 2004 the following expenses related to regular amortization are expected for the fiscal years to come:

(in T Euro)	Expected amortizations of intangible assets
2005	1,396
2006	1,154
2007	559
2008	380
2009 and beyond	338

## 12. Income tax

The net income before tax for the year pertains only to business activities in the Federal Republic of Germany.

A corporate income tax rate of 25% is used for the calculation of deferred taxes. In addition, a solidarity tax of 5.5% has to be paid on top of the corporate income tax.

Furthermore, WEB.DE is liable to trade tax that is determined and levied on a local basis and is deductible for the purpose of determining the corporation tax.

The following table illustrates the reconciliation of income taxes based on a combined income tax rate of 39% for 2004 and 40% for 2003:

(in T Euro)	2004	2003
Expected tax expenditure/income	948	(383)
Change in write-offs of deferred taxes, net	2,645	1,775
Amortization of investees which is not deductible for tax purposes	(1,704)	0
Differences in result tax balance sheet/US-GAAP leasing	(20)	(183)
Differences in result for intangible assets	1,757	0
Other differences tax balance sheet/US-GAAP	(3,626)	(1,209)
<b>Reported tax income/expenditure</b>	<b>0</b>	<b>0</b>

On December 31, 2004, there was a tax loss carry-forward to the amount of approximately 79.1 million Euro (2003: 77.1 million Euro). The resulting deferred taxes were, as in the previous year, fully subject to valuation allowances.

The following table presents the deferred taxes on the balance sheet date:

(in T Euro)	2004	2003
<b>Deferred tax assets</b>		
From loss carry-forward	30,836	31,859
From leasing liabilities	3,960	3,158
From intangible assets	4,106	5,480
<b>Total deferred tax assets</b>	<b>38,902</b>	<b>40,497</b>
Valuation allowance	(34,073)	(36,718)
<b>Deferred tax assets, net</b>	<b>4,829</b>	<b>3,779</b>
<b>Deferred tax liabilities</b>		
From leasing assets	(4,169)	(3,374)
Others	(660)	(405)
<b>Total deferred tax liabilities</b>	<b>(4,829)</b>	<b>(3,779)</b>
<b>Reported tax income/expenditure</b>	<b>0</b>	<b>0</b>

On December 31, 2004 there were tax receivables from capital yield tax refunds to the amount of 2,900 T Euro (2003: 1,412 T Euro).

### 13. Shareholders' equity

The fully paid up share capital of the company amounts to 38,203 T Euro as of December 31, 2004 and is divided into 38,203,286 no-par value bearer shares.

In accordance with a resolution adopted by the annual general meeting held on January 11, 2000, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the share capital of the company once or several times by a total of up to 16,875,000 Euro by issuing new common shares in exchange for cash or non-cash contributions up to December 31, 2004 (Authorized Capital I). On this basis, the share capital was increased by 476,768 Euro by a non-cash contribution on June 6, 2000 and by 222,051 Euro by a non-cash contribution on September 4, 2000. The Authorized Capital I then amounted to 16,176,181 Euro. By resolution of the annual general meeting of July 17, 2003 the Authorized Capital I was reduced to 15,250,000 Euro. The authorization concerning the Authorized Capital I now runs until July 17, 2008.

By resolution of the annual general meeting of July 17, 2003 the Executive Board was furthermore authorized, with the approval of the Supervisory Board, to increase the share capital of the company during the period ending on July 17, 2008 once or several times by up to 3,800,000 Euro by issuing new common shares in exchange for cash contributions (Authorized Capital II). No use of the Authorized Capital II was made by December 31, 2004.

In accordance with a resolution adopted by the annual general meeting held on July 17, 2003, the share capital was conditionally increased by a total of up to 3,000,000 Euro by issuing up to 3,000,000 new

common shares (Conditional Capital I). The conditional capital increase is to serve the granting of option rights and will only be made insofar as the holders of option rights exercise their rights.

Following a corresponding exercise of employee options 4,467 new shares were issued to employees in 2004 and the share capital was increased by a nominal 4,467 Euro in this respect. The premium paid in connection with the issue of the new shares of 17 T Euro was allocated to the capital reserve. The entry of the newly issued shares in the commercial register was made on January 31, 2005 in accordance with § 201 para 1 AktG.

In accordance with a resolution adopted by the annual general meeting held on July 17, 2003, the share capital is conditionally increased by another amount of up to 16,000,000 Euro by issuing up to 16,000,000 new, non-par value bearer shares with entitlement to profits from the commencement of the fiscal year in which they are issued (Conditional Capital II). The conditional capital increase serves the granting of shares to the bearers or creditors of bonds with warrants or convertible bonds which are issued in accordance with the above-mentioned authorization by the company or one of its subordinate affiliates up to July 17, 2008, insofar as a cash issue is concerned.

In accordance with a resolution adopted by the annual general meeting held on July 17, 2003, the Executive Board was empowered to issue bonds with warrants or convertible bonds of a total nominal amount of up to 640,000,000 Euro with a term of up to 20 years. The issuing of bonds can also be made against a contribution in kind.



In accordance with a resolution adopted by the annual general meeting held on June 16, 2004, the Executive Board was authorized – as in previous years – to acquire up to 3,800,000 shares of the company, corresponding to just under 10% of, but not exceeding 10% of, the share capital of the company, by December 15, 2005.

As of December 31, 2004, the company holds 2,173,174 treasury shares that were acquired in exchange for a payment of 13,003 T Euro. The shares were not called in.

The company has not distributed any dividends to date. The basis for the dividend distribution are the financial statements of WEB.DE AG under German GAAP.

#### 14. Stock-based compensation

WEB.DE has the possibility to issue up to 3,000,000 option rights for the purchasing of WEB.DE shares to employees of the company as well as to employees and managers of affiliated companies. One option right entitles to the purchase of one WEB.DE share.

WEB.DE has a stock option plan for its employees. Based on this stock option plan, stock options are granted in the event of permanent employment. As of December 31, 2004, the company issued a total of 1,683,720 options to subscribe to WEB.DE shares to employees of WEB.DE AG and its subsidiaries. It will only be possible to exercise the options if WEB.DE share prices have increased by at least 10% at any one time since the issuing of the options. The exercise price is based on the WEB.DE share price at the time the options were allocated, plus a 10% premium. The options may be exercised in portions of one third after the 2nd, 3rd, and 4th year on the 3rd to 20th stock market trading day after the ordinary annual general meeting or after the publication of a quarterly or semi-annual report. If all the options were fully exercised this would lead to the utilization of the conditional capital in the amount of 1,684 T Euro. The options expire after a maximum of ten years after issue.

The following table summarizes the information on times to maturity and exercise prices of the stock options of the company as of December 31, 2004:

	Tranche 1-3	Tranche 4-8	Tranche 9-10	Tranche 11-17	Tranche 18-23	Tranche 24-27	Total
Outstanding options December 31, 2003	375,766	324,701	117,597	669,670	132,375	0	1,620,109
Issued options	0	0	0	0	0	141,000	141,000
Exercised options	0	0	0	(4,467)	0	0	(4,467)
Expired options	0	(9,180)	(1)	(21,866)	(21,375)	(20,500)	(72,922)
Outstanding options December 31, 2004	375,766	315,521	117,596	643,337	111,000	120,500	1,683,720
Weighted average exercise price of outstanding options (in Euro)	27.57	9.04	5.18	5.61	8.21	8.44	
Number of exercisable options	375,766	298,740	78,397	214,446	0	0	967,349
Weighted average time to maturity (in years)	0.00	0.02	0.31	0.68	1.60	2.55	

The company applies APB Opinion 25 “Accounting for Stock Issued to Employees” for reporting the stock option program. Consequently, expenses are determined based on the number of options exercised and the difference between the issuing price and the stock market price at the time of the commitment. This future expenditure is set against the corresponding increase in the capital reserve.

The weighted average market value of options issued during the fiscal year was approximately 2.65 Euro per option. The market value of the options is estimated on the day of issue by using the Black Scholes model, whereby in fiscal 2004 risk-free interest rates of 2.3-3.35%, an anticipated term of three years, an anticipated dividend yield of 0%, an average future fluctuation of 10%, and an anticipated volatility of 35% were assumed.

Calculating the compensation expenditure for all outstanding options in accordance with SFAS 123 would have led to a decrease in the net result for the year of 676 T Euro (graded vesting). The earnings per share would have been reduced by 0.02 Euro.

#### 15. Contingent liabilities and other financial obligations

In the course of its ordinary business activities, the company may become involved in legal disputes, damage claims, preliminary investigations and legal proceedings including product liability and economic disputes. As of December 31, 2004, the company and its legal counsels are of the opinion that there are no material matters concerning the company’s business, its financial situation or its operating result.

The affiliated companies have entered into rental and lease agreements for various facilities and vehicles. In the coming years, these contracts will result in the following minimum annual payments:

(in T Euro)	Operating leases minimum accounts
2005	939
2006	571
2007	314
2008	26
2009	0
2010 and beyond	0
<b>Total</b>	<b>1,850</b>

The expenses for operating leases and rent payments amounted to 1,018 T Euro in fiscal 2004 (2003: 585 T Euro).

#### 16. Financing leases

The corporate building capitalized under a financing lease with an initial lease period of 20 years is depreciated over a period of 40 years using the straight-line method. The leased assets consist of 2,838 T Euro for plots of land and 7,851 T Euro for buildings. The leasing terms and conditions include a call option according to which plots of land and buildings can be taken over no later than at the end of the minimum lease term. The cost of acquisition of the leased assets and the depreciation taken on them is reported in the Statement of Changes in Fixed Assets (Annex to the Notes).

The amount of the future lease payments varies with the amount of the investments that will be incurred in the future for the extension of the corporate building. Based on the extension condition as of the balance sheet date, the future annual lease payments (interest and redemption portion) will amount to 890 T Euro in 2005 and 973 T Euro from 2006 onwards. As of the balance sheet date, this results in a total lease liability (as cash value of the future lease payments) of 10,462 T Euro. The lease payments for the coming years based on the present extension condition are broken down as follows:

(in T Euro)	Lease payments	of which interest	of which redemption
2005	890	582	308
2006	973	647	326
2007	973	629	344
2008	973	608	365
2009	973	587	386
2010 and beyond	13,486	4,753	8,733
<b>Total minimum accounts</b>	<b>18,268</b>	<b>7,806</b>	<b>10,462</b>

Based on the present investment plans going beyond the existing extension condition as of the balance sheet date, there are no possible additional annual lease liabilities.

#### 17. Information by region and segments and on key accounts

The outline of segment reporting follows the internal management structure of the company (management approach). Since 2004 WEB.DE has been operating within the meaning of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Infor-

mation", in the two segments WEB.DE Portal and Web Telecommunications.

In the segment WEB.DE Portal, WEB.DE AG operates the portal <http://web.de> with numerous offerings and services (Club Membership, Media Sales, FreeMail, Paid Services). In the segment Web Telecommunications, WEB.DE AG develops innovative and integrated communication solutions for consumers and business customers.

In fiscal 2003 the company operated only in one segment subject to reporting (WEB.DE Portal). Because of the increasing importance of Web Telecommunications two segments are reported for the first time for fiscal 2004. Since the prerequisites in terms of cost accounting for an economically proper separation of the two segments were only created in fiscal 2003, there is no adjustment of prior year figures in accordance with SFAS No. 131.

The two segments developed as follows during the fiscal year:

(in T Euro)	WEB.DE Portal	Web Telecommunications	Neutral Items	Group
Revenues	42,275	690	0	42,965
Depreciation	6,504	529	0	7,033
EBIT	6,698	(9,328)	0	(2,630)
EBITDA	13,202	(8,799)	0	4,403
Balance sheet total	25,268	1,955	128,997	156,220
Investment	7,780	1,068	2,300	11,148

The allocation of revenues and expenditure to the segments is carried out on the basis of internal cost accounting. The valuation is made, like the entire group accounting, in accordance with US-GAAP and includes no imputed values. The reconciliation includes, more particularly, non-assignable central functions. No revenues were generated between the segments.

The geographic allocation of revenues by regions in which the customers are located breaks down as follows in fiscal 2004:

(in T Euro)	2004	2003
Germany	38,439	30,130
Other countries	4,526	2,694
<b>Total</b>	<b>42,965</b>	<b>32,824</b>

Revenues in other countries were generated above all (67%) in Switzerland and Ireland.

In fiscal 2004 WEB.DE had no single customer generating more than 10% of revenues.

#### 18. Transactions with associated entities

The tax consultant firm Steuerberatungsgesellschaft Hansjörg Reiter GmbH, Karlsruhe, works on a regular basis for the company. Its managing partner, Mr. Hansjörg Reiter, is Chairman of the Supervisory Board of WEB.DE. WEB.DE was billed a total of 11 T Euro (2003: 8 T Euro) for tax consulting services in the course of the fiscal year.

WEB.DE entered into business transactions with Cinetic GmbH, Gesellschaft zur Entwicklung und Vertrieb von Medientechnik, Karlsruhe (Cinetic), the parent company of WEB.DE, to the amount of 33 T Euro (2003: 141 T Euro). This concerned primarily the provision of different services. Cinetic provided cafeteria services to WEB.DE for an amount of 204 T Euro.

In fiscal 2004 WEB.DE provided various services to Informia AG, Munich (Informia) which were billed by WEB.DE in fiscal 2004 to the amount of 122 T Euro. Furthermore, WEB.DE provided media services for Informia to the amount of 120 T Euro. Informia acted as an intermediary for the final customers. In fiscal 2004 the loan granted to Informia by WEB.DE was repaid to an amount of 1,011 T Euro (2003: 800 T Euro).

Amounts due from associated companies:

- 122 T Euro (2003: 1,140 T Euro) from Informia AG,
- 4 T Euro (2003: 28 T Euro) from Cinetic GmbH.

Amounts payable to associated companies :

- 66 T Euro (2003: 0 T Euro) to Cinetic GmbH

#### 19. Events after the balance sheet date

There were no reportable events after the balance sheet date.

#### 20. Additional local disclosure requirements

##### a) § 292 a HGB (German Commercial Code)

The parent company WEB.DE, a listed company, prepares its consolidated financial statements in accordance with international law, which pursuant to § 292 a of the German Commercial Code (HGB) re-

leases the company from the duty to prepare financial statements in accordance with German law.

In accordance with the interpretation of DRS 1 in conjunction with DRS 1a by the Deutsche Rechnungslegungs Standards Komitee (DRSC), the consolidated reporting of the parent company complies with Directive 83/349/EEC.

#### **Treasury shares**

By resolution of the annual general meeting held on May 15, 2001, July 11, 2002, July 17, 2003 and June 16, 2004, the Executive Board was authorized to acquire up to 3,800,000 shares of the company, corresponding to almost 10% of the current share capital but no more than 10% of the share capital of the company, based on the principle of equal treatment, by January 17, 2005. As of December 31, 2004 WEB.DE held 2,173,174 treasury shares. This corresponds to an arithmetical share in the share capital of 2,173,174 Euro or 5.7%. 1,244,404 shares, corresponding to a share in the share capital of 1,244,404 Euro or 3.3%, were acquired in 2001; 574,921 treasury shares, corresponding to a share in the share capital of 574,921 Euro or 1.5%, were acquired in 2002 and 181,539 treasury shares, corresponding to a share in the share capital of 181,539 Euro or 0.5%, were acquired in 2003. In fiscal 2004 the number of acquired treasury shares was 172,310, corresponding to a share in the share capital of 172,310 Euro or 0.45%. The shares were acquired at an average price of 7.24 Euro. The shares were acquired for the purpose of investing existing liquid funds.

#### **b) Explanation of material differences between the German Commercial Code (HGB) and US-GAAP**

The material differences between the reporting of WEB.DE AG according to the German Commercial Code (HGB) and US-GAAP concern the following aspects:

##### **Reporting of securities at market value**

Pursuant to US-GAAP, securities held as a current liquidity reserve are reported at market value as of the balance sheet date; the change in value is offset, without any effect on the income statement, against the item "other changes in shareholders' equity not affecting the income statement" within the shareholders' equity. As of December 31, 2004, the corresponding amount is 483 T Euro (2003: 101 T Euro). Losses in value that are not of a transitory nature have an immediate effect on income. In fiscal 2004, a 0 T Euro (2003: 75 T Euro) diminution in value that had occurred but was not yet realized was reported as an expense.

According to US-GAAP, securities held to maturity are to be reported at amortized cost. If there is no major impairment, changes in value do not have to be taken into account during the term. Consequently, all held-to-maturity securities of the company are reported at amortized cost. Any premium and/or discount at the time of acquisition is recognized on a prorated basis until maturity as interest expense and/or income.

### Leases

Within the framework of a financing lease with an initial lease period of 20 years, the corporate building was capitalized and depreciated with a cash value of 11,350 T Euro in accordance with US-GAAP. The resulting discounted lease payments are reported as financing lease liability.

In accordance with German GAAP (HGB) the monthly lease payments are recognized as expenses. There is no capitalization of the leased building.

### Self-developed intangible assets

Expenses related to the filing and successful legal defence of self-developed patents must be capitalized as intangibles under US-GAAP and are amortized over the term of the patents or a shorter useful life. Under the German Commercial Code (HGB) such expenses must be reported as expenditure during the period in which they are incurred.

For the development of infrastructure software for own use and the filing of self-developed patents WEB.DE

capitalized under US-GAAP expenses to the amount of 542 T Euro (2003: 378 T Euro) in fiscal 2004.

### Treatment of goodwill

Under US-GAAP any acquired goodwill must not be regularly amortized but must be subjected to an annual impairment test and, if necessary, a special value adjustment must be made. According to HGB any acquired goodwill is amortized over its probable useful life.

As of December 31, 2004 WEB.DE had goodwill to the amount of T EUR 6,749 (2003: 6,749 T Euro) according to US-GAAP.

### c) Scope of consolidation

The consolidated financial statements of WEB.DE AG, Karlsruhe, include the financial statements of the subsidiaries in which the parent company holds a direct majority of voting rights as well as the associated companies.

These companies are shown in the following table:

	Share in %	Shareholders' equity 12/31/2004 (in T Euro)	Net income 2004 (in T Euro)
More-IPO.de GmbH, Munich	100	(13)	(15)
WEB.DE Club Service GmbH, Karlsruhe	100	46	3
WEB.DE FreeMail GmbH, Karlsruhe	100	6,025	0
Digital Entertainment GmbH & Co. KG, Karlsruhe	100	(12)	(8)
WEB.DE Support GmbH, Karlsruhe	100	21	(15)
WEBTelecom GmbH, Karlsruhe	100	36	(6)
B2ABC Performance GmbH, Karlsruhe*	100	(473)	(495)
Informia AG, Munich **	49	(454)	377

\* B2ABC was acquired in 2004 and is consolidated for the first time.

\*\* as of 12/31/2004

Informia AG is consolidated at equity. The at equity carrying value was written off in fiscal 2002 by 25 T Euro to o.

#### d) Declaration on the Corporate Governance Code

The Executive Board and the Supervisory Board have made the declaration on the Corporate Governance Code prescribed under § 161 German Stock Corporation Act and made it permanently available to the shareholders on their website.

#### e) Directors' Dealings

In the expired year two directors' dealings operations have accrued:

- Mr. Robert Gratzl – Sale: 4,000 shares as of June 18, 2004
- Mr. Michael Greve – Sale: 10 shares as of December 21, 2004

#### f) Executive Board and power of representation

The following were Members of the Executive Board during the fiscal year:

**Matthias Greve**, Chairman of the Executive Board, Chief Executive Officer

##### External mandate:

- Managing Director of Cinetic Medientechnik GmbH, Karlsruhe
- Managing Director of FreeMail GmbH, Karlsruhe

**Michael Greve**

##### External mandate:

- Managing Director of Cinetic Medientechnik GmbH, Karlsruhe
- Managing Director of FreeMail GmbH, Karlsruhe

**Robert Gratzl**

##### External mandate:

- none

**Matthias Hornberger**

##### External mandates:

- Member of the Supervisory Board of Informia AG, Munich
- Managing Director of B2ABC Performance GmbH, Karlsruhe
- Managing Director of more-IPO.de GmbH, Karlsruhe

**Matthias Ehrlich**

##### External mandate:

- none

The total compensation (fixed compensation) of the members of the Executive Board amounted to 1,085 T Euro during the year under review. On the balance sheet date, the Executive Board held subscription rights to 457,860 common shares of WEB.DE AG under WEB.DE AG's stock option program (2003: 457,860 shares). Details of the stock option program are presented in Chapter 14 Stock-based Compensation.

The following were Members of the Supervisory Board during the fiscal year:

**Hansjörg Reiter, Karlsruhe**, Tax Advisor  
Chairman of the Supervisory Board

**External mandate:**

- Managing Director of the tax consultant firm “Hansjörg Reiter GmbH”, Karlsruhe

**Klaus-Dieter Scheurle (until June 9, 2004)**, Bank Director, Deputy Chairman of the Supervisory Board

**External mandate:**

- none

**Dr. habil. Karl Schlagenhauf, Karlsruhe (from June 14, 2004)**, Technical MBA, Deputy Chairman of the Supervisory Board

**External mandates:**

- Chairman of the Supervisory Board of adisoft AG, Karlsruhe
- Chairman of the Supervisory Board of efa.ag, Cologne
- Chairman of the Supervisory Board of JPKinstruments AG, Berlin
- Member of the Supervisory Board of AP Automation+Productivity AG, Karlsruhe
- Member of the Supervisory Board of CAS Software AG, Karlsruhe
- Managing Director of Kajak GmbH, Karlsruhe

**Felix Greve, Pfinztal**, Certified Engineer

**External mandates:**

- Managing Director of MIRA Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Karlsruhe
- Managing Director of MAG Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Karlsruhe
- Managing Director of FARAH Vermögensverwaltungs- und Beteiligungsgesellschaft mbH, Karlsruhe

The total compensation of the members of the Supervisory Board amounted to 54 T Euro in fiscal 2004.

Reportable shareholdings of executive and non-executive directors as of December 31, 2004:

Executive Board	Shares	Options
Matthias Greve	none	none
Michael Greve	none	none
Matthias Ehrlich	none	95,000
Matthias Hornberger	546	181,430
Robert Gratzl	none	181,430
<b>Total</b>	<b>546</b>	<b>457,860</b>

Supervisory Board	Shares	Options
Hansjörg Reiter	none	none
Dr. Karl Schlagenhauf	none	none
Felix Greve	none	none



Cinetic GmbH, Gesellschaft zur Entwicklung und Vertrieb von Medientechnik, Karlsruhe (of which Matthias and Michael Greve hold 50% each) holds 21,584,505 shares of WEB.DE AG. Felix Greve indirectly holds 510,000 shares through three asset management companies.

In accordance with § 41 para 3 of the German Securities Trading Act (WpHG), the company submitted the notifications of Cinetic Medientechnik GmbH, Karlsruhe as well as of Messrs. Matthias Greve and Michael Greve, both of Karlsruhe, of April 5, 2002 in accordance with § 41 para 2 sentence 1 WpHG stating that their voting rights of WEB.DE AG, Karlsruhe, continued to exceed the limit value of 50% on April 1, 2002 and amounted to 56.506% of the voting rights on April 1, 2002, for publication in the Handelsblatt newspaper on April 26, 2002 and notified the Federal Financial Supervisory Authority (BaFin) accordingly in writing.

In accordance with § 25 para 1 of the German Securities Trading Act (WpHG), the company submitted the notification of Mr. Felix Greve of December 23, 2002 in accordance with § 21 para 1 WpHG stating that his voting rights of WEB.DE AG, Karlsruhe, fell below the limit value of 5% on December 20, 2002 for publication in the Handelsblatt newspaper on December 31, 2002 and notified the Federal Financial Supervisory Authority (BaFin) accordingly in writing.

WEB.DE disclosed on March 19, 2003 in accordance with § 21 para 1 sentence 1 of the German Securities Trading Act (WpHG), that the company held as of March 18, 2003 altogether more than 1,909,940 treasury shares and hence exceeded the 5% limit value in accordance with § 21 para 1 sentence 1 of the German Securities Trading Act (WpHG). The notification was published on March 21, 2003 in the journal for statutory stock market announcements.

#### **g) Headcount and personnel expenses**

The WEB.DE Group employed an annual average of 430 people (2003: 329) in fiscal 2004. Personnel expenses for the fiscal year amounted to 22,132 T Euro (2003: 17,633 T Euro). 18,824 T Euro (2003: 15,146 T Euro) are accounted for by wages and salaries and 3,308 T Euro (2003: 2,487 T Euro) by social security costs.

The Executive Board  
Karlsruhe, February 16, 2005

### A Business Development Report

#### 1. Development of the Market Environment and Market Position

In fiscal 2004 the German national economy did not benefit from the anticipated and much needed growth impetus. The German gross domestic product grew by a mere 1.6% versus prior year; during the fourth quarter of 2004 it even fell by 0.2% q-o-q. Whilst foreign trade continued to have a positive impact on the German business development, private consumption was stagnant. Consequently, the structural challenges in Germany and, more particularly, the unemployment rate did not really enjoy a positive development in 2004. However, sentiment indicators, such as the IFO business climate index, suggested a more positive picture towards the end of the year.

Unchanged weak domestic demand continued to burden the domestic business situation so that experts do not anticipate a stepping up of growth in 2005 either.

The advertising market experienced a rather reluctant and irregular development in Germany in 2004: whilst the gross advertising spend in conventional media grew by 5.8% in Germany y-o-y (Nielsen Media Research, 2005), the Online Advertising market gained merely +4% and remained behind the overall development of advertising expenses in Germany. The highest advertising revenues were generated by the television industry (7.7 billion Euro), followed by daily newspapers (4.5 billion Euro) and general interest periodicals (3.9 billion Euro). After a decline

in Online Advertising revenues during the first half year 2004, the sector benefited from a more positive development with stronger growth dynamics during the second half year. Consequently, a double digit percentage growth was achieved in Q4/2004. During the full year 2004 gross advertising revenues on the Internet rose to a total 308 million Euro (2003: 296 million Euro). The share of online advertising in the overall advertising market determined by Nielsen Media Research of 21.2 billion Euro in 2004, continues to account for a mere 1.5%. By contrast, the share of media time of the Internet in the total media consumption already amounts to 12% (forsa Gesellschaft für Sozialforschung und statistische Analysen mbH, 2004).

Internet utilization continued to grow considerably in Germany in 2004: different studies (@facts, AGOF etc) already refer to a spread of the Internet in Germany of between 54 and 55%. Growth in new Internet users going online is likely to slow down slightly yet remain at a high level in the coming years. In 2007 the spread of the Internet is likely to reach 71.8% in Germany (EITO Study 2004).

The Online Shopping Survey 2004 by TNS Emnid and Enigma GfK saw a rise in the number of online users shopping online during the last 12 months by 15% to 23 million. The share of e-shoppers in Internet users hence rose from 63% in 2003 to 71% in 2004. This corresponds to more than a third of the population aged 14+.

WEB.DE sustained its strong market position on the German Internet market in 2004. The current “Internet facts” study by AGOF (German Online Research Working Association) ranks WEB.DE, with more than 10.5 million visitors per month, second in terms of reach amongst portals, behind T-Online (13.2 million), but clearly ahead of its direct competitors Yahoo (6 million), Lycos (5.3 million) and AOL (5 million). Today WEB.DE reaches around one third of the German Internet users.

## 2. Financing Measures and Projects

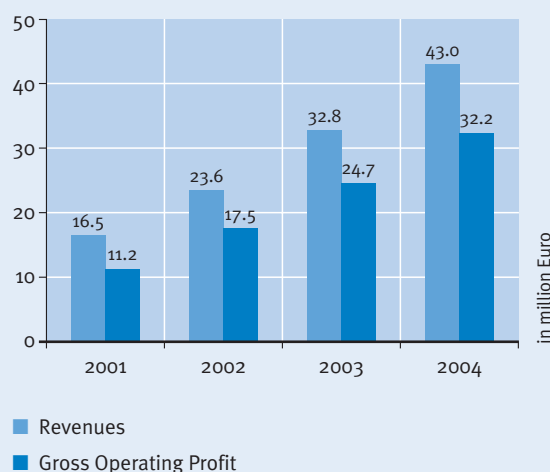
The financial position of the WEB.DE Group continued its highly positive development during the last fiscal year and can be described as excellent. Cash and cash equivalents (including fungible fixed interest securities of the current assets and fixed assets) amounted to 107.7 million Euro as of December 31, 2004. In fiscal 2004 the liquidity of the Group hence rose by 5.6 million Euro (2003: +3.7 million Euro). Operating activities contributed an operating cash flow of 13.7 million Euro; this corresponded to a rise by 65% or 5.4 million Euro compared to 2003.

Moreover, WEB.DE AG holds treasury stock with a market value of 13.5 million Euro (valued at a XETRA closing price of 6.21 Euro per share as of December 30, 2004). At the end of fiscal 2004 there was no bank debt outstanding.

## 3. Revenues and Gross Operating Profit

In fiscal 2004 the WEB.DE Group achieved revenues to the amount of 43.0 million Euro. This corresponds to an increase of 10.2 million Euro or 31% y-o-y. The gross operating profit rose almost proportionally to the rise in revenues, from 24.7 million Euro by 7.5 million Euro or 30% to 32.2 million Euro. The margin amounted to approximately 75% of revenues, as in the previous year.

The development in revenues and gross operating profit can be broken down as follows on an annual basis:



The activities of the WEB.DE Group consist of the segments WEB.DE Portal and Web Telecommunications. The business model of the Portal <http://web.de> with many different services and offerings is based on three main pillars:

- Media Sales (Online Advertising)
- E-Commerce
- Fee-based Digital Services

In Media Sales the WEB.DE Group attained revenues of 12.6 million Euro in fiscal 2004. This corresponds to 29% (2003: 34%) of the total revenues within the Group. The revenues from Online Advertising rose by 12.5% in fiscal 2004 versus 2003. Against the backdrop of the development of the overall German online advertising market in 2004 can be deemed a success because WEB.DE succeeded in gaining further market share. At the same time it can be observed that the German online advertising market continues to lag considerably behind the American and even British online advertising markets in terms of its share in the overall advertising volume and development.

E-Commerce includes transaction income from direct marketing activities, in which WEB.DE has a share in the revenues of the E-Commerce providers as an intermediary. Revenues in E-Commerce amounted to 4.3 million Euro in fiscal 2004 (compared to 6.3 million Euro in fiscal 2003 and 3.8 million Euro in fiscal 2002). The E-Commerce business of WEB.DE was again characterized by high volatility in 2004.

The growth in revenues in fiscal 2004 was clearly driven by the largest and most growth-oriented business line, "Digital Paid Services". Revenues with fee-based Digital Services amounted to 25.4 million Euro in fiscal 2004. This corresponds to an increase in revenues of 10.8 million Euro or 74% versus 2003 (14.6 million Euro). Within the paid services business line the "WEB.DE Club", the premium product

of WEB.DE FreeMail, was clearly the spearhead of success. In the WEB.DE Club alone the number of customers increased by more than 106% in fiscal 2004 to 370,000 (2003: 180,000). The success and growth of fee-based Digital Services prove the increasing willingness of a constantly growing group of users to pay for value-added services on the Internet. The share of fee-based Digital Services in the total revenues of WEB.DE rose from 43% to 59% in fiscal 2004. This means that in terms of its future growth, WEB.DE becomes increasingly independent of the volatile and highly cyclical advertising and E-Commerce business lines.

The Web Telecommunications segment accounted for 0.7 million Euro, or approximately 2% (prior year 4%) of total revenues. This segment is of considerable strategic significance, which means that the comprehensive long-term investments are justified and necessary. It is still in the build-up and product development phase, so that it has not yet made any major contributions to revenues in 2004.

#### 4. Cost Structures and Development

WEB.DE is a company with lean cost structures. Our business model, with margins of 75%, enables us to achieve huge economies of scale and profitability leaps with rising revenues.

The structure of total operating expenses of WEB.DE is shaped by the main blocks of Marketing and Advertising, and Research and Development. By contrast, the level of general administrative costs is of minor importance for operations.

Against the backdrop of a rise in revenues of 31% or 10.2 million Euro and a corresponding increase in gross operating profit (ie revenues minus cost of sales) by 30% or 7.5 million Euro, the expenditure on Marketing and Advertising only grew under-proportionately by 1.3 million Euro or 11%, to 13.0 million Euro in fiscal 2004. General administrative expenses rose, after structural adjustments and preparations for future growth, by 1.0 million Euro to 3.1 million Euro in fiscal 2004. During the last fiscal year they merely amounted to 7% of revenues.

On the other hand, capital expenditure on product development in Portal and Web Telecommunications business continued to be intensified in a deliberate and consistent manner in 2004. Research and development expenses rose from 13.7 million Euro in 2003 by 5.0 million Euro or 36%, to 18.7 million Euro in 2004. Consequently, WEB.DE reinvested altogether more than 43% (2003: 41%) of its revenues in the development of new products in 2004. Even if this development spend reduces the current profit because it is immediately expensed in the full amount, we see this expenditure as an investment in the further consolidation of the economic success of WEB.DE in the future.

### 5. Other Capital Expenditure

In fiscal 2004 WEB.DE made investments in fixed assets on a scale of 8.5 million Euro (2003: 2.8 million Euro). This investment primarily concerned the operating infrastructure as well as the data center and server capacities in anticipation of further growth.

Most of the software used by WEB.DE is developed in-house. WEB.DE owns the whole core technology of its products. The investment in third party software and in other non-tangible assets amounted to 2.6 million Euro in 2004 (2003: 1.5 million Euro).

### 6. Investees

In fiscal 2004 a non-cash-effective one-off valuation allowance was made in respect of the investment in VoIPGroup Inc., Miami (USA), in an amount of 3.9 million Euro. The investment has no strategic relevance for the Group, so that the measure has no impact whatsoever on the future earnings position of the Group. Moreover, WEB.DE launched its own VoIP offering based on a different technology in 2004, under the name of WEB.DE FreePhone®.

Apart from that, there were no essential transactions in the field of investees in fiscal 2004.

### 7. Human Resources

At the end of fiscal 2004 the WEB.DE Group had a total headcount of 456 (including part timers on a pro-rated basis). The headcount as of December 31, 2004 breaks down as follows:

Department	Headcount
Executive Board	5
Media Sales	44
Software Development and IT	172
Portal Services	92
Product Management and Project Management	44
Customer Service	48
General Administration, Finance	51
<b>Total</b>	<b>456</b>

Hence, the headcount of the WEB.DE Group increased by 88 people in the course of 2004. The focus of personnel recruitment measures was on Portal service, product development and system administration.

The business success of WEB.DE is very much dependent on the performance and commitment of its staff. Consequently, loyalty, motivation and recruitment of highly qualified staff are of vital importance. Against this backdrop all employees of WEB.DE AG and its majority subsidiaries are integrated into an employee participation program (stock option plan). Moreover, WEB.DE attaches great importance to the technical and methodological advanced and further training of its staff through regular internal and external training and qualification schemes, particularly for the top management level.

## B Status Report

### 1. Assets and Financial Position

With a 7.4 million Euro higher balance sheet total versus prior year amounting to 156.2 million Euro, the shareholders' equity of the WEB.DE Group amounted to 127.1 million Euro as of December 31, 2004 (2003: 130.4 million Euro) or 81% (2003: 88%) of the balance sheet total. Cash and cash equivalents of the WEB.DE Group (including fungible fixed interest securities of the current assets and fixed assets) amounted to 107.7 million Euro (2003: 102.1 million Euro) or 69% of the balance sheet total as of December 31, 2004 or 2.82 Euro per share (2003: 2.67 Euro per share). WEB.DE is hence in an excellent financial condition.

As of December 31, 2004 there was no bank debt outstanding. Within the scope of a long-term real

estate leasing agreement, the "Amalienbadstrasse" site in Karlsruhe, used for operating purposes, was rented in 2001. This lease, as well as additional investment measures of the lessor in 2004, will result in finance leasing commitments with a cash value of 10.2 million Euro (2003: 8.2 million Euro) for the next 17 years.

In fiscal 2004 the operating cash flow amounted to +13.8 million Euro and could, hence, be significantly improved versus fiscal 2003 (+8.3 million Euro). The operating cash flow 2004 by segments can be broken down as follows:

(in mln. Euro)	Operating Cash Flow
WEB.DE Portal segment	+20.9
Web Telecommunications segment	-8.8
Finance and Investees	+1.7
<b>Total WEB.DE Group</b>	<b>+13.8</b>

With 20.9 million Euro, the operating cash flow of the WEB.DE Portal amounted to just under 50% of the Portal revenues. This illustrates the earnings and financial strength of the WEB.DE Portal in an impressive manner.

The operating cash flow of Web Telecommunications was around -8.8 million Euro. This follows from the high investments in the range of Com.Win.

Furthermore, the development of the financial position was characterized in 2004 by fixed asset investments in the amount of 11.1 million Euro (2003: 4.3 million Euro) and the purchasing of treasury

stock at acquisition costs totaling 1.2 million Euro, within the scope of the corresponding resolution on authorization of the annual general meetings 2004 and 2003, respectively. Treasury stock was directly written off with its acquisition costs from the shareholders' equity in accordance with US-GAAP.

Fixed assets including software and other intangible assets had carrying values totaling 24.9 million Euro as of December 31, 2004 (2003: 20.8 million Euro). Furthermore, goodwill totaled 6.7 million Euro and long-term lessee loans in connection with the real estate lease agreement and other loans totaled 7.7 million Euro.

## 2. Earnings Position

With revenues of 42.3 million Euro, the Group achieved clearly positive earnings before interest, taxes, depreciation and amortization (EBITDA) of 13.2 million Euro (2003: 9.5 million Euro) in the WEB.DE Portal segment in fiscal 2004. Consequently, the EBITDA increased by 3.7 million Euro or +39%. The EBITDA margin in the Portal already reached 31% of revenues in 2004.

The EBITDA developed in a similarly positive manner at the Group level in fiscal 2004: as a result of the seasonally strong fourth quarter during which WEB.DE raised the Group EBITDA by +50% to 1.5 million Euro, the Group generated a consolidated EBITDA of 4.4 million Euro (2003: 3.8 million Euro) for the full year 2004.

The net income grew very positively in Q4/2004 and reached 0.9 million Euro (variation versus Q4/2003: +0.7 million Euro, +350%). However, the non-recurring

effect of a non-cash-effective book value write-off in Q3/2004 (3.9 million Euro) placed a considerable burden on the consolidated result for the full year which reached -2.4 million Euro (2003: net income for the year 0.8 million Euro). Adjusted for this one-off effect, the consolidated net income for the year would have amounted to 1.5 million Euro (corresponding to an increase by 88% or 0.7 million Euro y-o-y).

Despite the clearly higher development effort and expenditure of 18.7 million Euro (corresponding to +5.0 million Euro versus 2003) which squeezed the consolidated result, the earnings before interest and taxes (EBIT) of the Group continued to improve to -2.6 million Euro. In this connection it must be stated that the WEB.DE Portal segment shows a positive EBIT of 6.7 million Euro for 2004; this is 3.6 million Euro, or 113%, above the Portal EBIT for 2003. Hence, the Portal business of WEB.DE already generated a noteworthy ratio of net earnings to sales (before taxes and interest) of 16% in 2004 (2003: 10%).

Because of the further high investments in the area of Com.Win, the Web Telecommunications division closed with a negative EBIT of 9,3 million Euro in 2004.

## C Research and Development

A total of 172 people were employed in the fields IT, Technology Development and Development of Services and Applications in the Group as of December 31, 2004.

WEB.DE AG continued to invest heavily in research and development of future products and new technologies with a total 18.7 million Euro, half of which

is earmarked for Web Telecommunications. Long-term research and development investments have been rewarded by the leadership position of WEB.DE in product technology (47 test wins). At the same time they constitute the optimum prerequisites for Web Telecommunications.

In 2004 the main development achievements were in the WEB.DE Portal segment, particularly the upgrade of WEB.DE FreeMail, the development of a proprietary VoIP application, WEB.DE FreePhone®, the launch of the ISP product WEB.DE DSL, WEB.DE Mail-Domain as well as the extension of our CRM and billing platform.

Moreover, WEB.DE completely revamped its entire <http://web.de> portal to ensure further improvements to user friendliness and also add new features. Proceeding from the fundamental needs of Internet users, the new WEB.DE now combines the simplicity of modern user interfaces with the efficiency of an extensive Internet portal. This goes hand in hand with significantly reduced loading times.

With WEB.DE SmartSearch® a next-generation Internet search engine has been developed. It clearly improves the search result structure by analyzing search results linguistically and displaying additional dynamic, context-related theme trees around the searched keyword for the user.

Moreover, development efforts focused in fiscal 2004 on the Web Telecommunications product Com.Win for which new product functionalities were developed and launched within the framework of numerous release and development cycles.

## D Outlook

When it comes to corporate development, WEB.DE is not completely untouched, by the impact of the general economic framework conditions.

So far fiscal 2005 has largely been marked by reluctant yet cautious optimism concerning the general economic development. A decisive factor will be the development in private consumption in 2005. All the same, major structural issues and challenges of the German economy and our social security system have still to be resolved. Consequently, the future general economic environment continues to be uncertain, with ongoing dampened growth prospects for the German economy.

Despite this precarious general economic environment in Germany, we anticipate a successful fiscal year 2005 for WEB.DE.

Against the backdrop of the development in revenues for our fee-based Digital Services in 2004 – more particularly for our premium subscription product WEB.DE Club – we assume that acceptance of the fee-based Digital Services offered by WEB.DE by our users will continue to grow steadily in 2005.

With WEB.DE DSL, WEB.DE has entered the high growth but also very competitive market for broadband Internet access. WEB.DE DSL targets a booming market which is about to cross the threshold to a mass market. BITKOM anticipates approximately eight million DSL accesses in Germany by 2006. By 2007 this number is set to reach ten million. According to a study by HSBC Trinkaus & Burkhard (based on



EITO, eMarketer and Data monitor) 19 million DSL connections are expected in Germany in 2010. Already now, WEB.DE is used by a monthly 30% of Internet users (= more than 10 million users) for whom the WEB.DE DSL offering represents an attractive complement to the WEB.DE services portfolio.

According to an internal survey a high percentage of the more than 10 million WEB.DE users still have narrowband access. This means that WEB.DE AG has a significant DSL marketing potential within its existing customers. WEB.DE will significantly increase the added value per customer. Not least because of this development WEB.DE anticipates further positive business stimulus and contributions to revenues from its DSL offering in 2005.

In fiscal 2005 the focus of our efforts in the Portal segment will be on upgrading our fee-based product range and the conversion of our large user basis to paying customers. This holds huge future revenue potential for WEB.DE – as impressively proven by the dynamic business development for fee-based services over the last few years.

The online advertising market will not have a major breakthrough in 2005 either. However, there are some clear signals and positive tendencies as far as the acceptance and the status of the online medium in the overall advertising mix of advertisers is concerned. An increasing number of companies from the classic consumer goods industries and branded products allocate steadily increasing advertising budgets to the online segment. Overall, WEB.DE has an excellent positioning in the online advertising market. Subject to a positive general economic environment, we

anticipate a positive development in Media Sales for 2005.

Overall, we proceed for 2005 on the assumption of a highly positive business development and a significant, profitable growth in revenues in the Portal business.

The fixed asset investments planned for 2005 concern in particular the further extension of the IT and data center capacities in anticipation of the increase in Portal utilization and in the digital business lines. The intensity of capital expenditure and capital requirements is likely to be more or less at the level of 2004.

We will increase our headcount more specifically in product development, IT and Portal services to implement our product development and marketing plans.

Apart from the extension of our fee-based Portal services, the focus of our development activities will clearly be on further upgrading the Web Telecommunications products in 2005. Against the backdrop of the strategic importance of this segment, we will continue our development activities at the existing high level. We expect this to trigger sustainable long-term positive impacts on the economic development of WEB.DE.

## **E** Information about Special Risks involved in the Future Development

### **1. Acceptance of the Internet, Technological Change, Acceptance of the Products and Business Model**

WEB.DE's ability to generate rising revenues based on the attractiveness of the Internet very much depends on continuing high growth rates of the Internet. This applies in particular to the acceptance and demand for fee-based digital services, E-Commerce offerings, Internet telecommunications services as well as other Internet services. Based on the risks involved in the use of the Internet, acceptance of the Internet could be delayed with corresponding negative effects on the result of WEB.DE. The same would apply if WEB.DE AG were to fail in future to adapt its product offering to rapid technological change.

If WEB.DE were no longer able in future to further upgrade its products, particularly the current top sellers, in a way that they will cover the needs of users, leading to a drop in demand for these digital products or a significant decline in customer subscriptions, this might have a considerable and lasting impact on the future assets, financial and earnings position of WEB.DE.

Competition for Internet users, paying users and Internet advertisers is growing. There is a clear trend indicating that revenues will be generated by those Internet providers who have the widest reach. WEB.DE is one such provider. Sustained loss of essential reach could have a major impact on the future assets, financial and earnings position.

In future WEB.DE expects to generate the great majority of its earnings from Online Advertising, E-Commerce, Digital Services and Web Telecommunications. If the Internet were not accepted as the medium for advertising and commerce or if fee-based contents and services on the Internet were not to become established practice, the business of WEB.DE would suffer badly.

WEB.DE currently makes huge development efforts in Web Telecommunications and allocates considerable human and financial resources to this new Web Telecommunications, offering which is currently being stepped up. If WEB.DE were not to succeed within a reasonable period in successfully developing and/or successfully distributing a marketable product whose revenues justify the high capital expenditure in this business line, this would have an adverse effect on the assets, financial and earnings position of WEB.DE.

### **2. Permanent System Availability and Software Security**

The services provided by WEB.DE are based on a technical infrastructure that encompasses highly sophisticated data centers, networks, servers, routers, storage systems, middleware and software components. Any major impairment of one or more of these systems, which would interrupt website services of WEB.DE, could damage its image and, by extension, the company's business success.

Any interference caused by Internet users, e.g. by hacker attacks, viruses or similar cannot be categorically ruled out. They may also involve liability claims asserted by users against WEB.DE. Expen-

diture incurred in connection with the remedying of damage caused by third parties could have a material and negative impact on the business, financial and earnings position of WEB.DE. At the same time, insurance against such damage is currently not available at all or only available subject to major restrictions.

### **3. Growth Management**

WEB.DE continuously adjusts its internal structures, processes and resources to future corporate development and planned growth. Any failure in growth management, particularly in organizational and human resources development, could mean that goals are not reached and could have a major adverse impact on the financial and earnings position of WEB.DE.

### **4. Dependence on Key Executives**

The economic success of WEB.DE is primarily attributable to the market knowledge of its founders, Matthias and Michael Greve, as well as to the performance of key executives. No guarantee can be given for the company's ongoing ability to recruit, integrate, motivate and retain qualified experts in future. The departure of key executives could have a major adverse impact on the development of WEB.DE.

### **5. Investment Risks in connection with Liquid Funds and Investees**

Against the backdrop of a basically conservative investment philosophy, liquid funds are invested almost exclusively in fixed interest and money market securities. Investment in investment grade, fixed interest bonds can be affected by interest variations,

solvency risks or the similar. This can result in share price losses for the securities, and jeopardize or clearly reduce the profitability of investments made by WEB.DE. Of course, similar share price risks also exist in respect of treasury stock.

If necessary, WEB.DE will extend its business model and/or its technology basis in the years to come through acquisitions and investments in other companies. Unsuccessful investments may have considerable negative effects on the asset, financial and earnings position of WEB.DE.

### **6. Fluctuations in Quarterly Results**

It cannot be ruled out that the quarterly results of the company are particularly subject to a high volatility which could result in marked fluctuations in the share price of WEB.DE AG.

At present, no risks concerning the future development which could result in a permanent impairment of the assets, financial position and income of WEB.DE can be identified.

### **7. Risk management**

WEB.DE sees efficient and forward-looking risk management as an important and value-creating task and a decisive driver for the success of our business activity. Our monitoring system identifies, classifies and evaluates risks.

The objectives of risk management include a systematic analysis of potential risks and the promotion of risk-oriented thinking and action within the overall organization. The controlled management of risks is to contribute towards consistently seizing oppor-

tunities, increasing business success and enhancing shareholder value.

Risk management is aimed specifically at supporting an improvement of risk awareness and risk transparency, identification of all major risks, initiation of appropriate control and monitoring measures and the securing of reliable management information about the risk situation of the company.

The risk management of WEB.DE is guided by the following principles:

- The implementation of effective risk management requires clear and unequivocal allocations of tasks and responsibilities in the overall organization as well as a more systematic risk management process.
- Risk management must cover all risks associated with the business activity.
- Risk management is implemented by the executive levels in the same way as by the operating business units within the framework of their clearly defined performance areas of responsibility.
- The functionalities and reliability of the risk management system must be monitored and, if necessary, adjusted on an ongoing basis.
- The risk management system must be properly documented and communicated within the company.

Against this backdrop the goal of a risk management system is to provide those responsible with appropriate tools for risk analysis and assessment. The Risk Management Manual is regularly updated by the Risk Manager.

A central Risk Manager of WEB.DE has the competency to issue methods and guidelines for the risk management system. He coordinates and reports on essential risks. This includes a status review of the risk inventory and reporting. Risks are identified by the managers responsible for the different performance areas and assessed, then risk management measures are formulated and executed.

A risk stocktaking and assessment is carried out at least once a year. If there is a need to take action, proper risk management and tracing measures have to be taken and included in the reporting. If necessary, the Supervisory Board is informed through the Executive Board within the framework of a Supervisory Board meeting. An instantaneous information report serves for short-term and fast reporting on new risks within the scope of risk management.

The Executive Board  
Karlsruhe, February 16, 2005

# Independent Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the WEB.DE Aktiengesellschaft, Karlsruhe, for the business year from January 1, to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, to December 31, 2004, has not led to any reservations.

In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Frankfurt am Main, February 25, 2005

KPMG Deutsche Treuhandgesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Böttcher	Weiß
German Public Auditor	German Public Auditor

# Glossary

## Account

Individual user access authorization to a computer or a personal email box.

## Always-On

Refers primarily to Internet connections which are not interrupted by the user who is permanently online. This is mostly the case for so-called → **flat rates**.

## Annual press conference

Publication of results for the past fiscal year

## B2B Business-to-Business

Electronic business transactions between companies, their suppliers and dealers.

## B2C Business-to-Consumer

Commercial transactions between manufacturers or dealers and final consumers over the Internet, e.g. for → **E-Commerce** or → **Online Shopping**.

## Backbone

Rapid, high capacity network connection which interconnects further networks on a supra-regional level.

## Banner

Advertising space on a website which is often linked through a → **hyperlink**.

## Black Scholes

Price calculation model for options to determine the theoretically correct warrant price. The model was developed by Fischer Black and Myron Scholes.

## Browser

Computer program for the display of → **websites**. A browser is used to navigate on the Internet.

## Content

Content of an online presence, for instance text, graphics or multimedia.

## Corporate Governance

Essential provisions of the German Corporate Governance Code for the management and supervision of exchange-listed German companies, which include internationally accepted standards of good and responsible corporate management.

## CRM Customer Relationship Management

System of intensive care for customer relationships.

## Directors' Dealings

Transactions in shares of the company (issuer) or related financial instruments of persons of WEB.DE AG subject to notification.

## Directors' Holdings

Holdings of shares of the company (issuer) or related financial instruments of persons of WEB.DE AG subject to notification.

## Domain

Specific area in the hierarchical name space of the Internet which is covered by a domain name server. Example: in "WEB.DE", ".de" represents the so-called top level domain and "WEB" the so-called second level domain.

## Download

Retrieval of files or programs from the Internet or another computer network. Data is copied from a third party computer to the user's own.

**DSL Digital Subscriber Line**

Digital broadband connection through a telephone network. Several rate structures such as volume-based rate, → **flat rate** (see also <http://dsl.web.de>).

**EBIT**

Earnings before interest and taxes.

**EBITDA**

Earnings before interest, taxes, depreciation and amortization.

**E-Commerce Electronic Commerce**

Collective term for business transactions through electronic media like the Internet.

**E-Mail Electronic Mail**

Fast and cost-effective sending and receiving of electronic mail between Internet users. The header of an email includes address information (addressee, sender, sending mode and title).

**Equity Method**

An accounting method for shares in companies on whose business policy a significant influence can be exerted. The proportional annual income of the company on which a significant influence can be exerted is then included in the book value of the shares.

**Flat rate**

A flat rate is a rate which covers Internet access by a monthly flat rate – without limitation in terms of time or transfer volume.

**Free float**

Part of the share capital which is widely spread, i.e. which is freely floated and not held by large shareholders.

**Goodwill**

Values which do not appear on the balance sheet but can make an essential contribution to success (e.g. known brand name, good reputation, loyal customer-ship, existing patents etc).

**Homepage**

Website which appears after the entry of an Internet address. Often refers to a person's private website.

**Hosting**

Service provided by an → **ISP** which provides storage space for its customers on servers.

**Hyperlink**

Reference to another document or another part of the text in a → **Hypertext**.

**Hypertext**

Electronic documents which consist of cross-references that the reader can read in non-linear order.

**Instant Messenger**

Program with which Internet users can determine whether other users of the Instant Messaging system (e.g. friends, colleagues) are also online, i.e. on the Internet. In that case brief messages can be sent directly, so that an online conversation in real time becomes possible (example ICQ).

**Internet**

The Internet is a worldwide network of computers with no central network management, on the common basis of the Internet Protocol.

**IP Internet Protocol**

Manufacturer-independent transport protocol for worldwide, cross-network communication.

**ISP Internet Service Provider**

Service provider which gives third parties access to the Internet but also offers Internet-based services (like → **Hosting**).

**Margin**

Designation for the margin between purchase and sale price.

**Media Sales**

The marketing (monetization) of advertising formats (print ads, TV and/or radio commercials, banners etc) on advertising supports (media).

**Online Shopping**

Shopping on the Internet.

**Operating cash flow**

The liquid funds generated over a certain period of time through the operating business. The operating cash flow includes the net income for the year, variations in terms of depreciation and amortization, accruals and current assets.

**Peering**

Data exchange between two or more data networks (computer networks) on the Internet.

**PER Price/Earnings Ratio, P/E Ratio**

Ratio of the earnings of a stock corporation to the current stock price.

**Portal**

Internet access or startup page that generally has a comprehensive range of navigation functions, content and extra services such as email (e.g. www.web.de)

**q-o-q**

Quarter-on-quarter comparison

**Telco**

Telecommunications provider

**Unified Messaging UMS**

Designates an approach which transforms the various messages received (voice messages, faxes, E-Mails etc) into a uniform format and renders them retrievable (e.g. at WEB.DE).

**Unique User**

Designation for different Internet users who visit a website during a certain period of time.

**US-GAAP United States Generally Accepted Accounting Principles**

The annual and quarterly financial statements of WEB.DE AG are prepared in accordance with US-GAAP.

**VoIP Voice over IP**

Internet telephony which allows worldwide voice transmission in real time over the Internet.

**Website**

Internet site with contents of a provider that can be retrieved through an URL on the Internet.

**y-o-y**

Year-on-year comparison

**@ sign**

Separating sign used in E-Mail addresses (e.g. john.public@web.de)



# Imprint

## ■ Publisher

WEB.DE AG  
Amalienbadstrasse 41  
76227 Karlsruhe  
Germany  
Tel. +49 (0) 721 94329-0  
Fax +49 (0) 721 94329-22  
<http://webde-ag.de>

Contact:  
Richard Berg,  
Head of Investor Relations  
Silvia Teschner,  
Assistant Investor Relations  
[investor.relations@webde-ag.de](mailto:investor.relations@webde-ag.de)

## ■ Design/Production

Art Crash Werbeagentur GmbH  
Weberstrasse 9  
76133 Karlsruhe  
Germany

## ■ Photography

Deniz Saylan  
Mediaconsulting & Fotoproduktionen  
Kappstrasse 18  
70619 Stuttgart  
Germany  
<http://www.denizsaylan.com>

## Financial Calendar

Dates	
April 2005	Roadshow Switzerland
April 2005	Roadshow UK
May 2005	Roadshow USA
05/10/2005	Retail Investors Day
05/25/2005	Publication of report Q1/2005
07/07/2005	Annual General Meeting 2005
07/21/2005	Publication of report Q2/2005
08/16/2005	Retail Investors Day
10/20/2005	Publication of report Q3/2005
11/08/2005	Retail Investors Day



**WEB.DE**

WEB.DE AG  
Amalienbadstrasse 41  
76227 Karlsruhe  
Germany  
Tel. +49 (0) 721 94329-0  
Fax +49 (0) 721 94329-22  
<http://webde-ag.de>  
<http://web.de>