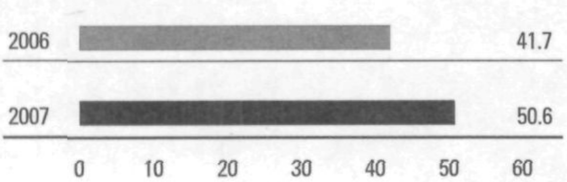
ad pepper
the e-advertising network

Annual Report 2007

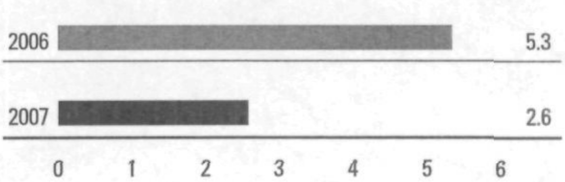
Overview of the main key figures

Overview of the main key figures	2007	2006
Net sales, in EUR million	50.6	41.7
Gross profit, in EUR million	24.2	20.5
Gross margin	48 %	49 %
EBITDA (earnings before taxes, interest, depreciation and amortization) in EURk	6,35	7,80
EBIT (earnings before interest and taxes), in EUR million	3.77	5.82
EBT (earnings before taxes), in EUR million	4.4	6.5
Consolidated net gain, in EUR million	2.6	5.3
Earnings per share, in EUR (basic)	0.23	0.49
Noncurrent assets, in EUR million	36.8	34.0
Current assets, in EUR million	32.0	32.2
Equity ratio	82 %	77 %
Employees (as per 31 December)	241	205

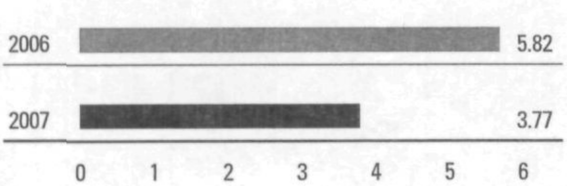
Net Sales (in EUR million)



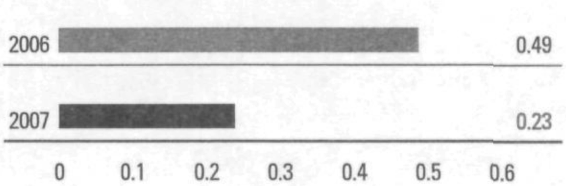
Consolidated net gain (in EUR million)



EBIT (in EUR million)



Earnings per share (in EUR million)



Contents

Jens Körner (CFO), Michael A. Carton (Director of the Board), Niels Nüssler (CSO), Ulrich Schmidt (CEO)

Dear shareholders,
dear friends and partners of our company,

the past financial year was once again a successful one for the ad pepper media-Group. For the first time in the Group's history, we passed the psychologically important sales target of EUR 50 million. Compared to last year, this corresponds to an impressive growth of 21.4 percent. Profit developments were also convincing: With a profit before tax of EUR 4.4 million, we once again managed to record an excellent result. The liquidity situation with EUR 17.6 million is excellent and an equity ratio of 82.0 percent means that we can start into the coming financial year with confidence.

The online marketing market continues to grow at an overproportionate rate and, from year to year, is becoming increasingly important in relation to the advertising market as a whole. The strategic approach pursued by ad pepper media remains focused on offering advertisers, website and media agencies within the business areas of branding, performance, e-mail, affiliate and search engine marketing with individual solutions that cover the entire range of online advertising.

We consider it our task here to position ad pepper media's extensive portfolio even more comprehensively on the market and to make the company's strengths even more transparent.

A closer look at the fourth quarter of the past financial year shows that the persistent pursuit of this strategy is financially successful: With sales totalling EUR 14.6 million, we have not only recorded the most successful quarter in our Group's history, but with growth of 26.9 percent compared to the same quarter of the previous quarter, we have significantly boosted sales dynamism once again.

The development of our Webgains affiliate marketing platform, which was acquired in 2006 and was then primarily introduced in the core European markets, deserves special mention. Apart from the UK, the home market for Webgains, Germany was by far the economically most successful country, so that we can now say that our affiliate network has become firmly established as a player to be reckoned with in this extremely relevant segment of the market.

Whilst branding is and remains one of our most important pillars in the medium term, generating high sales, a stronger trend towards performance-based web formats was noted in the past year. Performance marketing uses online media to trigger an action by the user which can be measured, for instance, the purchase of products or services on the Internet. As part of the media mix, performance marketing with its sales-orientated approach is an excellent supplement when it comes to winning and keeping customers and ultimately where e-commerce is concerned. Due to this fact, success-based advertising on the Internet has over the past two years become one of the main fields of online marketing activities. In this context, we are in an excellent position, and have been able to grow much faster than some of our competitors.

The acquisition in 2007 of ad agents GmbH, a highly specialised agency offering its customers a comprehensive portfolio that covers almost all areas of search-engine marketing and search-engine optimisation, has expanded our product portfolio to include an equally strong growing marketing segment of online marketing.

Another central topic of both last year and this year is campaign targeting. ad pepper media is now going one step further and in addition to conventional targeting methods based on keywords and global topics is now offering semantic targeting on websites with iSense. What's special about this technology is that it recognises and analyses the entire text of a webpage in a fraction of a second, identifies the main topics contained there and positions relevant campaigns. Not only are we working hard on developing our semantic iSense targeting technology further, we are also determined to launch iSense on other markets following the market launch in the UK and Germany.

Another milestone in January of the past financial year was the take-over of the Danish ad serving provider Emediate ApS which is already a market leader in Scandinavia. Following the takeover of AdTech by AOL and of DoubleClick by Google, Emediate is one of the few providers on the market with still independent and powerful ad serving; this makes Emediate even more attractive for potential customers, irrespective of whether they are advertisers, agencies or websites. We are also using Emediate for our own inventory and expect to additionally cut costs in this way.

On the whole, 2007 was still not an easy year for us. In some areas, the expansion of our business model and the further development of our product portfolio led to costs and investment which were higher than planned. This was why in the third quarter of 2007 we decided to implement a cost-savings and efficiency-boosting programme. The positive impact of this programme on our cost basis already materialised in the fourth quarter. Additional payments in conjunction with the sale of the minority share in dMarc Broadcasting and Falk eSolutions, which increased EBIT in the previous financial year by a total of EUR 6.8 million, were helpful and contributed considerably to positive development of revenue.

In the first weeks of the current financial year, our markets developed as scheduled when compared to the traditionally very strong four quarter. The positive trend with performance-based products is continuing and will also lead to overproportionate growth rates in 2008. This means that we should be able to further expand the good market position of our products.

Dear shareholders, we would like to thank you for placing your trust in us and we will work hard in the new financial year in order to continue the path of growth of ad pepper media-Group, and this will, in the meantime, lead to higher capital market valuation.

Management Board
ad pepper media International N.V.

Ulrich Schmidt | Jens Körner | Niels Nüssler | Michael A. Carton

Report by the Supervisory Board


Michael Oschmann (Chairman)

Dear shareholders,

In the 2007 financial year, the Supervisory Board performed the tasks required of it under law and the company's articles of association. The Supervisory Board regularly advised the Management Board, supervised the activities of the Management Board and was involved in decisions of basic importance to the company and the Group.

Comprehensive information

In the 2007 financial year, the Management Board reported to the Supervisory Board regularly, promptly and comprehensively, both in writing and verbally. In this context, all matters relevant to the company in conjunction with planning, business developments, the risk situation, risk management, important business transactions and projects, as well as deviations from targets in the course of business were particularly addressed and discussed. During the individual meetings, the Management Board also informed the Supervisory Board of important business matters and events.

In 2007, the Supervisory Board met in four ordinary meetings and in addition maintained regular contacts with the Management Board, both in person and by phone. The Management Board also continuously informed the Chairman of the Supervisory Board of important developments and pending decisions. We passed resolutions to the extent to which applicable law and the company's articles of association required decisions by the Supervisory Board concerning individual operations and measures by the Management Board.

Membership of the Supervisory Board

Michael Oschmann
1969; German national
> Chairman of the Supervisory Board for the whole year ended 31 December 2007
> Businessman, Managing Director of Telefonbuchverlag Hans Müller GmbH & Co., Nuremberg
> Member of the Supervisory Board since 10 January 2000, current term ending in 2009

Merrill Dean
1941; US national
> Member of the Supervisory Board for the whole year ended 31 December 2007
> Management Consultant, CEO Director Interfilm Ltd.
> Member of the Supervisory Board since 10 January 2000, current term ending in 2008

Dr. Günther Niethammer
1944; German national
> Member of the Supervisory Board for the whole year ended 31 December 2007
> Businessman, Managing Director Odewald & Compagnie Gesellschaft für Beteiligungen mbH
> Member of the Supervisory Board since 1 July 2000, current term ending in 2010

Jan Andersen
1967; Danish national
> Member of the Supervisory Board for the whole year ended 31 December 2007
> Businessman, Managing Director of Grabacap ApS
> Member of the Supervisory Board since 31 December 1999, current term ending in 2010

Remuneration of the Supervisory Board	2007	2006
	EUR	EUR
Michael Oschmann	0	0
Merrill Dean	0	0
Dr. Günther Niethammer	5,000	5,000
Jan Andersen	0	0

Unqualified auditors opinion for the Group Accounts

Auditors Ernst & Young audited the Consolidated Annual Accounts of ad pepper media International N.V., including the Management Report for the 2007 Financial Year and issued its unqualified auditors opinion.

The Supervisory Board examined the Consolidated Annual Accounts and the Management Report as well as the auditor's report. These were discussed with the auditor who reported on the main results of his audit and answered the questions asked. The Supervisory Board approved the result of the audit. On 15 April 2008, the Supervisory Board approved the 2007 Annual Accounts prepared by the Management Board. The Annual Accounts for the 2007 financial year are thereby approved.

Corporate Governance

ad pepper media International N.V. is a company under Dutch law with subsidiaries in both the Netherlands and abroad. All of the company's activities are carried out in compliance with Dutch company law and German capital market legislation, in particular, the Securities Trading Law (WpHG). Ordinary shares are accepted on the Frankfurt Stock Exchange for trading in the Prime Standard. In the interest of all shareholders, the Supervisory Board is committed to increasing shareholder value and has always attached enormous importance to the principles of corporate governance. Although the company on the basis of its own rules adheres to the requirements described in the Dutch Corporate Governance Code, deviations can arise from the legal provisions applicable to ad pepper media. In the section on „Corporate Governance" of this Annual Report, ad pepper reports in detail on adherence to the Dutch Corporate Governance Code.

Thanks to the enormous and committed effort by the Management Board and all the staff of ad pepper media International N.V. and the companies in the individual European countries and the US, ad pepper media was able to master the challenges of the past financial year and is now in a very good position to tackle the new financial year. All the members of the Supervisory Board would like to express their very special thanks and recognition for the excellent work performed and the staff's extraordinary team spirit.

Nuremberg, 15 April 2008

On behalf of the Supervisory Board

Michael Oschmann, Chairman

Corporate Governance: „Comply or Explain"

Introduction

In 2005 ad pepper media International N.V. took measures for the application of the Dutch Corporate Governance Code (the "Code"), which became effective on 1 January 2004. In the context thereof ad pepper media adopt in 2005:

> regulations for the Board of Directors;
> regulations for the Supervisory Board;
> a profile for the Supervisory Board;
> regulations concerning ownership of and transactions in securities by the Board of Directors;
> an internal risk management and control system. Copies of these documents will be available upon request. In deviation of the Code ad pepper media is of the opinion that its website is not suitable for posting these documents since the website is purely used for commercial and marketing purposes.

At the 2005 annual general meeting of shareholders, the corporate governance policy was discussed and the general meeting was requested to further improve the corporate governance structure and to vote for an amendment to the Company's articles of association, to further reflect the Company's compliance with the Code.

Each substantial change in the corporate governance structure of the Company and in the compliance of the Company with the Code was submitted to the general meeting of shareholders for discussion.

This chapter gives an outline of ad pepper media's corporate governance structure. Deviations from the Code are specifically discussed and explained herein.

Board of Directors

ad pepper media is managed by a Board of Directors which is responsible for the Company's aims, strategy and policy, and results (which is required to be initiated by the chief executive officer (the "CEO"). The Board of Directors is in charge of managing the day-to-day business and of the operational, tactical and strategic decisions of the Company. The responsibility for the management of the Company is vested in the Board of Directors as a whole. ad pepper media's Board of Directors consists of one director A (the CEO) and three directors B.

The Board of Directors is responsible for complying with relevant legislation and regulations, for managing the risks associated with ad pepper media's activities and for it's financing. The Board of Directors is required to report related developments to, and discuss the internal risk management and control system with the Company's Supervisory Board.

The Board of Directors performs its activities under the supervision of the Supervisory Board. In performing it's duties, the Board of Directors acts in accordance with the interests of the Company and the business connected with it and, to that end, is required to consider all appropriate interests associated with the Company. The Board of Directors shall provide the Supervisory Board in good time with all information necessary for the exercise of the duties of the Supervisory Board. The Board of Directors laid down regulations for the Board of Directors about the division of duties within the Board and the procedure of the Board for the financial year 2005.

Members of the Board of Directors shall be appointed by the general meeting of shareholders from a binding nomination prepared by the Supervisory Board. Under the present articles of association of the Company the general meeting of shareholders may resolve that the list of candidates shall not be binding upon a resolution passed with a two third majority of the votes cast representing more than one half of the issued capital. The Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to incorporate provision IV.1.1 of the Code, due to which the binding nomination can be more easily declared non-binding. The proposal was adopted in this regard by the annual general meeting of shareholders.

Under the present articles of association of the Company members of the Board of Directors are appointed for an indefinite period of time. As of 1 January 2008, new members of the Board of Directors shall enter, if possible, into a five-year employment contract. This is not completely in line with provision II.1.1 of the Code. Partly this can be explained by historical factors. The first members of the Board of Directors have been involved as founders of the Company and have a strong long lasting relationship with the Company. On the other hand it requires a lot of effort to attract qualified new members of the board of management that wish to operate in the dynamic environment of the new economy with a high risk profile. Depending on the market circumstances the Company may agree on the appointment of new members of the Board of Directors for a term of five years.

The Company's remuneration policy was adopted by the 2005 annual general meeting of shareholders. Due to the business environment in which ad pepper media is operating it is hard to have the variable part of the remuneration of the Board of Directors be linked to previously-determined, measurable long-term targets that can also be influenced. Therefore the variable part of the remuneration of the Board of Directors is mostly linked to short-term targets and principle II.2 of the Code can not be applied in its entirety.

In deviation of principle II.2. of the Code the maximum remuneration in the event of dismissal of present and future members of the Board of Directors may not be limited to a one year's salary. For future contracts it may hinder the recruitment of highly qualified people in the Company's branch of business. Existing contracts continue unaltered. Most of them contain a change of control provision.

ad pepper media has no outstanding loans to any member of the Board of Directors other than to Mr Michael A. Carton for which loan agreements are at arm's length. ad pepper media has not provided any guarantees for the benefit of any member of the Board of Directors.

In the year 2003 the general meeting of shareholders adopted the Executive Stock Option Program which was meant to be kept in place for a long term. In 2005 the Board of Directors submitted to the annual general meeting of shareholders a proposal to slightly amend this program. The proposal was adopted by the annual general meeting. Although it is not in all respects in line with provisions II.2.1 through II.2.5 of the Code, there is no intention to further change this program since the Company wishes to continue with the long-term policy introduced upon its adoption.

The Supervisory Board shall determine the remuneration of the individual members of the Board of Directors within the scope of the remuneration policy adopted by the general meeting of shareholders. The Supervisory Board shall report on the remuneration of the Board of Directors which shall include the principal points of the remuneration report of the Supervisory Board concerning the remuneration policy of the Company. This remuneration report shall contain an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the remuneration policy planned by the Supervisory Board for the next financial year. Such overview will not comply to the fullest extent with provision II.2.10 of the Code. It is for instance difficult to determine the peer group. If there is a peer group these would be United States companies which have a remuneration system that is not comparable to the Central European system.

The Supervisory Board will draw up regulations concerning ownership of and transactions in securities by the Board of Directors, other than securities issued by ad pepper media. These regulations will allow members of the Board of Directors to invest in any listed company. Investments in non-listed competitive companies will not be allowed without approval of the Supervisory Board. The present agreements with the members of the Board of Directors contain regulations as described above. The Company does not comply with provision II.2.6 of the Code which requires members of the Board of Directors to give periodic notice of any changes in his holding of securities in Dutch listed companies to the chairman of the Supervisory Board for the reason that this is not in line with German privacy legislation. The shares held by the members of the Board of Directors in the Company are long-term investments.

A member of the Board of Directors is required to report immediately and to provide all relevant information to the chairman of the Supervisory Board and to the other members of the Board of Directors about any conflict of interest or a potential conflict of interest that may be of material significance to the Company and/ or to him. Due to German privacy legislation this requirement is, in deviation of provision II.3.2. of the Code, restricted to members of the Board of Directors and does not see to information on any conflicts of interests concerning the spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree of the members of the Board of Directors. Decisions to enter into transactions under which a member of the Board of Directors would have any conflict of interest that are of material significance to the Company and/or the relevant member of the Board of Directors require the approval of the Supervisory Board.

A member of the Board of Directors shall not take part in any discussion or decision- making that involves a subject or transaction in relation to which he has a conflict of interest with the Company. All transactions in which there are conflicts of interest with a member of the Board of Directors shall be agreed on terms that are customary in the sector concerned.

Transactions during the financial year with a possible conflict of interest between the Company and a member of the Board of Directors are described in the annual report of the Company.

The representation authority of the Company, including with respect to the signing of documents, is vested in at least two directors B or a director B acting jointly with a director A. The CEO (who is a director A) has discretion to exercise representation authority and sign documents in his individual capacity.

Supervisory Board

The Supervisory Board is charged with supervising of the policies of the Board of Directors and the general course of affairs of the company and the business connected with it, as well as assisting the Board of Directors by providing advice. The Supervisory Board evaluates the main organizational structure and the control mechanisms established under the management of the Board of Directors. It is involved in the discussions about the operational and financial objectives of the company, the strategy designed to achieve the objectives and the parameters to be applied in relation to the strategy.

The responsibility for proper performance of duties is vested in the Supervisory Board as a whole. The Supervisory Board members may adopt an independent stance vis-à-vis the Board of Directors.

In performing its duties the Supervisory Board acts in accordance with the interests of the company and the business connected with it and, to that end, considers all appropriate interests associated with the company. The Supervisory Board members perform their duties without mandate and independent of any interest in the business of the company.

Under the criteria of the Dutch Corporate Governance Code, three of four ad pepper media's Supervisory Board members qualify as independent. Mr Michael Oschmann, who is ad pepper media´s Chairman of the Supervisory Board, is not independent as he is director of E.M.A. B.V., which is holding more than 10 percent of the company's share capital. However, the company wishes to keep open the possibility to offer a position at the Supervisory Board to persons who do not qualify as independent under the Code. This has to do with the present size of the company. Therefore the company may not at all times comply with provisions III.2.1 and III.2.2 of the Code.

The Supervisory Board is responsible for the quality of its own performance. In the course of 2005 the Supervisory Board has laid down the division of duties within the Supervisory Board and the procedure of the Supervisory Board in a set of regulations. Members of the Supervisory Board are appointed by the general meeting of shareholders. The Supervisory Board shall consist of not less than three persons, such number to be determined by the general meeting of shareholders. At present, ad pepper media's Supervisory Board has four members. The current articles of association of the company restrict the maximum period for appointment of four years and that a supervisory director can be immediately reappointed. In deviation of provision III.3.5 of the Code it will not be proposed to adopt the maximum of three four-year terms. The company wishes to keep open the possibility that a Supervisory Board member continues his position due to his great knowledge of the business and high level of involvement.

In 2005 the Supervisory Board prepared and adopted a profile of its size and composition, taking account of the nature of the business, its activities and the desired expertise and background of the Supervisory Board members. The Supervisory Board will evaluate the profile annually. At least one member of the Supervisory Board shall be a financial expert. New Supervisory Board members shall follow an induction program. The Supervisory Board shall conduct an annual review to identify any aspects with regard to which the Supervisory Board members require further training or education during their period of appointment.

In accordance with the Code it is the intention of the Supervisory Board that its members will not hold more than five memberships in Supervisory Boards of Dutch listed companies, including ad pepper media. In this connection a chairmanship counts twice. At present no Supervisory Board member holds more than five such board memberships.

The Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to provide in the company's articles of association a provision to achieve that the Supervisory Board is allowed to draw up a retirement schedule in order to avoid, as far as possible, a situation in which many Supervisory Board members retire at the same time. The proposal was adopted in this regard by the annual general meeting of shareholders.

The chairman of the Supervisory Board determines the agenda, chairs the Supervisory Board meetings, monitors the proper functioning of the Supervisory Board, arranges for the adequate provision of information to the members, ensures that there is sufficient time for making decisions, arranges for the induction and training program for the members, acts on behalf of the Supervisory Board as the main contact for the Board of Directors, initiates the evaluation of the functioning of the Supervisory Board and the Board of Directors and evaluates whether or not the Supervisory Board should install committees. The chairman of the Supervisory Board does not chair the general meeting of shareholders for the reason that the Supervisory Board is of the opinion that it is more appropriate to have the CEO to chair the general meeting of shareholders.

Due to the size of the company the chairman of the Supervisory Board is not assisted in his role by a company secretary. Therefore, the company does not comply with provision III.4.3 of the Code.

The Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to include in the articles of association a provision for the Supervisory Board to appoint one or more committees and to draw up a set of regulations for each committee once the Supervisory Board deems the installment of a committee necessary. The proposal was adopted in this regard by the annual general meeting of shareholders.

The remuneration of the Supervisory Board members, if any, is not dependent on the company's results. A Supervisory Board member may be granted shares and/or rights to shares by way of remuneration. The shares held by Supervisory Board members in the company are long-term investments.

Any conflict of interest or apparent conflict of interest between the company and Supervisory Board members shall be avoided. Transactions with a possible conflict of interest between ad pepper media and a member of the Supervisory Board are described in the annual report of the company. Transactions under which Supervisory Board members would have conflicts of interest that are of material significance to the company and/or to the relevant Supervisory Board are entered into at arm's length. The Supervisory Board is responsible for deciding on how to resolve conflicts of interest between the Board of Directors members, Supervisory Board members, major shareholders and the external auditor on the one hand and the company on the other.

The Board of Management deems that the company has complied with Best Practice Provisions III.6.1 to III.6.3 inclusive. No transactions have taken place in the financial year in which (potentially) conflicting interests of material substance related to Board members or Supervisory Board members have played a part. No transactions in the context of Best Practice Provision III.6.4 have taken place.

Auditor

The external auditor is appointed by the general meeting of shareholders. The Supervisory Board can nominate a candidate for this appointment for which purpose the Board of Directors advises the Supervisory Board. The remuneration of the external auditor, and instructions to the external auditor, to provide non-audit services, shall be approved by the Supervisory Board, after consultation with the Board of Directors. At least once every four years, the Supervisory Board shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the general meeting of shareholders.

The company does not have separate officers with the function of internal auditor, due to its size. The corporate controlling department covers also the function of internal audit issues. Controllers of the company are required to operate under the responsibility of the company's Board of Directors.

The external auditor is required to attend the meetings of the Supervisory Board at which the report of the auditor with respect to the audit of the annual accounts is discussed and at which the annual accounts are approved.

Internal risk management and control system

Based on our evaluation of the operation of our internal risk management and internal control systems, the Corporate Executive Board is of the opinion that the internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies. Also, the Corporate Executive Board is of the opinion that there are no indications that the internal risk management and internal control systems have not operated properly in the year under review or will not operate properly in the current year. This evaluation and the current status have been discussed with the external auditor and the full Supervisory Board.

As regards risks other than financial reporting risks, including operational/strategic and legislative/regulatory risks, reference is made to the most important risk factors inherent in our businesses and our objectives as listed in the "Risk Factors" section.

In view of the above the Management Board is of the opinion that it is in compliance with the requirements of provision II.1.4 of the Dutch Corporate Governance Code.

Whistleblower policy and code of conduct

The company will not establish any whistle blower guidelines. This is in deviation of provision II.1.6. of the Code. Due to the small size of the company there are short lines of communication, the Board of Directors is highly involved in the day-to-day business and employees already have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company without jeopardizing their legal position. Furthermore, in 2007 a Code of Conduct, including business principles for our employees and rules of conduct, was adopted.

Article 10 Takeover Directive Decree (Besluit artikel 10 overnamerichtlijn)

Introduction

In accordance with article 10 of the Takeover Directive (Dertiende Richtlijn), companies with securities that are admitted to trading on a regulated market are obligated to disclose certain information in their annual report. This obligation has been implemented in Dutch law through Article 10 Takeover Directive Decree.

ad pepper media must disclose certain information that might be relevant for companies considering making a public offer with respect to ad pepper media. Please find below the information which ad pepper media is required to disclose including a corresponding explanatory report.

Capital structure

On 31 December 2007, the total number of ad pepper media-shares carrying voting rights was 11,394,854 ordinary shares (including 192,896 shares held by the company that may not be voted on at general meetings of shareholders). The ordinary shares represent 100.0 percent of the total share capital i.e. no preferred shares have been issued.

Reduction of capital

The general meeting may resolve, upon the proposal of the Board of Directors, which proposal is subject to the approval of the Supervisory Board as well as the relevant provisions of Dutch law and the Articles of Association, to reduce the outstanding share capital by cancelling shares or reducing the nominal value of shares pursuant to an amendment of the Articles of Association. A resolution to reduce the issued share capital shall require a majority of at least two-third of the votes cast, if less than half the issue share capital is represented at the meeting.

Obligation of Shareholders to disclose holdings

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht) and the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions (Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen), the Financial Markets Authority has been notified about the following substantial shareholdings regarding ad pepper media International N.V.:

Notifications in the financial year 2007:
(as per 4 December 2007)
Amiral Gestion S.A. voting rights amount to 10.07 percent
(this corresponds to 1,145,000 voting rights).

Notifications in the financial year 2008:
(until 15 April 2008)
Amiral Gestion S.A. voting rights amount to 15.41 percent
(this corresponds to 1,756,008 voting rights).

Control mechanism of share participation plan

ad pepper media has some previous stock option plans under which no further options are granted.

Attendance

Each shareholder shall be entitled to attend general meetings of shareholders, either in person or through a written proxy, to address such meetings and to exercise voting rights in such meetings, subject to the provisions of the Articles of Association. In order to gain admission to a general meeting of shareholders, the holders of registered shares are required to notify the company in writing of their intention to attend the meeting or to have themselves represented at the meeting by a proxy holder, in each case not later than on the date mentioned in the convening notice for the relevant meeting.

Appointment and suspension of members of the Board of Directors

The managing directors shall be appointed from a binding nomination made by the Supervisory Board. In case no binding nomination has been made the general meeting shall be free in its choice. The general meeting may, at all times, by resolution passed with a two-thirds majority of the votes cast representing more than one-half of the issued capital, resolve that the list of candidates shall not be binding. If at least an absolute majority of the valid votes cast supports the resolution to render the nomination non-binding, but the required quorum of one-third of the issued capital is not being represented, this resolution could however be taken in a second meeting to be convened in which the resolution can be taken with at least an absolute majority of the valid votes cast, without any quorum requirement.

A member may be reappointed for a term of not more than four years at a time. The Supervisory Board appoints one of the members of the Board of Directors as Chairman of the Board of Directors.

The general meeting may at any time suspend or dismiss any director. The Supervisory Board shall have power to suspend each director. It shall immediately notify the director concerned of his suspension by means of a written statement giving the reason for the suspension and it shall have the obligation to call a general meeting, which shall either cancel the suspension or resolve upon dismissal of the suspended director.

Shareholders agreement on limitation of the exercise of voting rights

Each share issued by ad pepper entitles its shareholder to one vote. There are no restrictions on voting rights. As far as known to ad pepper media, there is no agreement involving a shareholder of ad pepper media that could lead to a restriction of the transferability of shares or of voting rights on shares.

Appointment and suspension of members of the Supervisory Board

The general meeting shall appoint the Supervisory Directors and shall at all times be empowered to suspend or dismiss each and any Supervisory Director. The Supervisory Board shall consist of not less than three members, including a Chairman, who will retire by rotation as laid down in writing by the Supervisory Board and, with due regard of the statutory provisions, may be reappointed, whereby the basic principle will be that as few Supervisory Directors as possible retire at the same time.

Amendment of the articles of association

The Articles of Association may only be amended by a resolution of the General Meeting at the proposal of the Board of Directors, made with the consent of the Supervisory Board. Such a resolution requires a majority of at least two-thirds of the validly cast votes.

Acquisition by the company of shares in its own capital

The company may acquire shares in its own share capital, subject to certain conditions according to Dutch law and the Articles of Association provided that (i) shareholders equity less the acquisition price is not less than the sum of the paid-up and called up part of the issued share capital and any reserves which must be retained by law or under the Articles of Association and (ii) the company and its subsidiaries would thereafter not hold or have pledged to them shares in the company with an aggregate nominal value exceeding one-tenth of the companys issued share capital.

Acquisitions by the company of shares in its own share capital may only take place if the General Meeting has granted the authority to effect such acquisitions to the Board of Directors. Such authority may be granted for a maximum period of 18 months and must specify the number of shares that may be acquired, the manner in which they may be acquired and the price limits within which they may be acquired.

On 7 May 2007, the Management Board decided to make use of the approval granted at the ordinary shareholders' meeting on 30 April 2007 to buy back up to 568,242 shares of the company on the stock exchange. This approval was valid until 30 October 2008. Bankers Sal. Oppenheim jr. & Cie were authorised to conduct the buyback. On 9 July 2007, ad pepper media International N.V. stopped the share buyback and had by this time bought back shares worth EUR 1.2210 million. In all, 169,200 shares were purchased at an average price of EUR 7.21 per ad pepper media-share. This corresponds to 1.49 percent of the company's capital stock.

Payments to employees on termination of employment in case of a public bid

Some employment agreements of the members of the Board of Directors provide a pre-determined compensation as a result of a change of control in the company.

Business activities

Internet use in the fast lane

For Europeans, the media world is increasingly taking place on the web. This is documented by "Mediascope Europe 2007", a survey conducted by EIAA, the association of pan-European online marketers. The Internet has taken over the role of television as the media most used, especially among young people, and advertising companies and media agencies have increasingly begun to develop new and innovative communication strategies for their online campaigns. The market for online advertising continues to grow.

The survey showed in Germany that 75 percent of the 16 to 24 year-olds polled use the Internet between five and seven days a week. Only 66 percent of them on the other hand regularly watch television. The average of all Germans polled showed regular television use on five to seven days a week, still ahead of Internet use, i.e. 79 percent as against 68 percent, however, there is also a trend visible here in favour of the Internet. For instance, regular TV consumption in Germany has stagnated over the past two years whilst the Internet recorded significant growth of more than 14 percent compared to 2005. This development can be seen in the EIAA survey for all of Europe: For the first time ever, European 16 to 24 year-olds are going online more frequently (82 percent) than they watch TV (77 percent). Irrespective of age, TV consumption on five to seven days a week is still first place among average Europeans (86 percent). But even in Europe, the Internet is catching up when compared to 2005 with growth of almost 11 percent, now totalling 75 percent. This clear trend is not least due to the rising number of broadband Internet connections throughout Europe which enable perfect moving images, also online, as film, IP-TV or video clips.

There are many reasons to use the Internet. The most important ones are clearly the additional options which, compared to traditional media forms, the web offers on an integrated platform, i.e. a combination of video, audio, e-mail and other interactive functions. For an even bigger number of users, the main attraction is fast access to information which traditional media are unable to offer or which they offer to a very limited extent only. According to an online survey by public-service television stations in Germany, fast access to information is the reason most frequently given for using the World Wide Web or for getting an online connection at home. Furthermore, information on the web is more up to date, and this is an important reason for many users to use the Internet in addition to classical media.

Buying power shifts to the web

E-commerce is one of the growth engines of the Internet industry. The number of online buyers has been growing for years at a remarkably steady rate. Whilst a computer and technology analysis conducted by the Allensbach Institute in 2003 found that around 41 percent of citizens had already made online purchases, this figure has now already reached 59 percent and is rising. It certainly comes as no surprise that people who surf regularly on the Internet make their decisions to buy dependent not only on the name and reputation of a brand, but also strongly on the result of their online searches. A survey published by GfK came to the conclusion that in the field of travel and when it comes to technical products, seven out of ten decisions by online users to buy were influenced by the Internet. A growing number of population groups are coming to recognise this medium as a shopping channel. Senior citizens, in particular, are catching up as a user group. Although this target group purchases only half as many items online as the average of all Internet users in Europe, this group, however, buys significantly more expensive products.

To the same extent as the number of Internet users is growing, so too must companies respond who hope to market their products and services online with new advertising and marketing concepts. This means that the Internet will become an even more important factor for buying decisions. Affiliate marketing, as a special form of online marketing, provides companies with the opportunity to address potential customers directly without using conventional, mostly expensive offline communication media. Since the costs which result for the e-commerce company are success-dependent in the case of affiliate marketing, ineffective measures and unnecessary costs are ruled out. This explains why affiliate marketing is on its way to becoming one of the most important tools of online marketing.

Every conceivable media strategy in online advertising

No other medium has been able to achieve such huge growth figures in such a short period of time like the Internet. It can be effectively used to draw the attention of Internet users to brands and to boost their familiarity. Companies know more today than ever before about their customers and can use the Internet to communicate locally and globally with their target groups. Compared to print advertising, Internet advertising offers other possibilities: Video, audio and animation effectively combine the multi-media options offered by the digital medium, boosting user attention. Innovative forms of online advertising strengthen the positive aspects of a brand image and brand popularity, clearly and uniquely communicating products and contents. Many companies and brands are particularly interested in generating a significant presence with a high recognition value on the online market and in addressing the targeted group with the right tool and with as little dispersion loss as possible. This is where ad pepper media's solutions, its services and its international network come into their own.

Our portfolio offers agencies and advertisers almost the entire range of products and technologies, enabling them to achieve their online advertising goals. Irrespective of whether our customers are aiming for considerable range or whether they wish to address specific groups, whether their main aim is to generate leads and traffic or to solicit new customers, ad pepper media's customers receive a full range of services, from campaign management to reporting – always based on the best available technology. ad pepper media is persistently expanding its portfolio within the individual product areas, continuously developing new services and solutions in order to be able to warrant both customers and website partners ever-better results.

In addition to this, the ad pepper media portfolio also offers website operators a comprehensive set of products and technologies to make their websites more attractive and to ultimately market them in a more profitable manner: With ad pepper media, website partners maximise the benefits of free advertising inventory, monetarise their e-mail databases, make use of our powerful ad serving and, as an affiliate partner, simply earn money with their websites.

A seasoned marketer

Since the company was established in 1999, ad pepper media, as a seasoned and professional partner, has offered its customers solutions that are perfectly tailored to their personal needs and for all areas of online advertising.

The company is present today with 19 branches in twelve European countries and the US and currently conducts thousands of campaigns for national and international advertising customers in more than 50 countries around the globe. Thanks to a broad range of efficient marketing solutions, proprietary technical systems and a high international placement power for cross-border advertising campaigns, ad pepper media has successfully distinguished itself even further from competitors. Media agencies, advertisers and websites in the fields of branding, performance, e-mail, affiliate and search-engine marketing, as well as ad serving, receive targeted and efficient services which cover almost the entire spectrum of online advertising.

mediasquares is ad pepper media's branding unit, offering comprehensive solutions for Internet advertising in partnership with currently around 850 selected, exclusive websites and 120,000 specialist and topic-specific websites. Within the ad pepper media-Group, mediasquares places the campaign on individual websites and in the channels for these branding-orientated customers. Depending on the target group and the goal pursued by the campaign, either the long range of the websites or their bundled focus on topic-specific areas of interest ensure a high degree of attention and measurable success for our customers' campaigns.

Some examples of our unique portfolio in the field of branding are DasTelefonbuch, Gelbe-Seiten and shopping.com in Germany, Aftonbladed in Sweden, teen.com, which is the biggest website for teenagers in the US, and National Geographics in the Netherlands.

A trend towards success-based advertising

E-mail and the Internet provide dialogue marketing specialists with tools that open up unforeseen opportunities for dialogue management in order to support advertising customers during the generation of new leads (potential customer's address), soliciting new customers and maintaining and intensifying existing business relationships.

The demand for products of this kind is high because this form of performance marketing, unlike the field of branding, for instance, is purely orientated towards the measurable success of the advertising campaign. In other words, the advertising customer only pays if a lead is successfully generated. This makes it possible to calculate the cost of soliciting new customers. The most successful advertising forms used here are pop-unders and so-called stand-alone newsletters.

ad pepper media's interactive direct marketing solutions make use of the enormous range potential of the entire network in order to convert advertising contacts into customer data. Our iLead product from the ad pepper performance range is a form of so-called permission marketing that is used to generate qualified leads. The permission for a company to transmit information and advertising content is obtained via individual profiles filled in by the consumer using web formats, such as pop-ups, newsletters and opt-in e-mails. Based on the profiles or leads transmitted, the advertiser can then survey the information relevant to him and/or address the potentially new customer directly in conjunction with his products or services.

Advertising customers who use iLead benefit from success-based payment with this form of advertising, i.e. advertising money only flows when the respective leads have been generated.

A revolutionary semantic ad targeting technology

When it comes to successfully establishing customer relationships, it is particularly important to address target groups by positioning the respective advertising at precisely the right place and at the right time. In an unbending mechanism of delivering online advertising, advertisers are increasingly forced to compromise when it comes to communicating brand values and key statements. Low conversion rates (ratio between the total number of visitors to a website and the number of visitors that can be converted into paying customers) are generally accepted as being typical. Even context-relevant advertising, as an „innovative form" of online marketing, is not capable of identifying the true context of a website. This results in advertising being incorrectly placed, thus wasting advertising money and achieving poor results.

Last September, ad pepper media presented a solution to this problem: iSense, a semantic targeting technology. In contrast to contextual targeting and instead of searching according to key words, this method analyses in a fraction of seconds the entire text visible on a website, identifies the main topics contained therein and positions relevant campaigns - irrespective of whether these are any kind of display ads, text advertising or in-text ad bubbles. The analysis is carried out by the Sense-Engine™ which, depending on the language combines all words, word meanings, knowledge areas and idioms with linguistic expertise.

Similarly iSense prevents, if the customer wishes, advertising on websites related to alcohol, drugs, tobacco, sex, nudity, weapons or extreme political or religious views. Placement in the topical field of gambling and peer-to-peer can also be ruled out in order, for instance, to avoid advertising a music label in an area promoting music exchange platforms, or to specifically select this, of course, if this is the goal of the campaign.

This technology is the result of eight years of research and development under the leadership of Prof. Dr. David Crystal, one of the world's most recognised linguists. The goal pursued here successfully and permanently distinguishes this system from existing targeting systems, thus gaining a decisive lead over competitors.

Webgains is one of the fastest growing affiliate networks

According to the OVK report, affiliate marketing in Germany has grown more than twice as fast (by approx. 35 percent) as traditional online advertising (approx. 15 percent). Our Webgains affiliate network is one of the most dynamic platforms in this market. Around 700 merchants and around 40,000 websites in the UK, France, Germany, the Netherlands, Sweden and Denmark have already identified by Webgains as one of the leading affiliate networks.

Maximum range combined with success-based payment makes affiliate marketing very attractive for all participants. Using Webgains as the technology platform, advertisers (merchants) make advertising formats (banners, text links, etc.) available on the websites of website operators (affiliates). These formats can be used to advertise the merchants' products and services and, when successful, results in a purchase, subscription or similar transaction. This means that in a strict sense Webgains is an e-commerce platform and, in our opinion, one of the most efficient on the market because the technical platform is on the one hand persistently upgraded, in line with customer demands and on the one other supplemented by a service offering which is regarded as exemplary by the entire industry.

Achieving large ranges quickly with e-mail marketing

The main goals of e-mail marketing are to achieve large ranges quickly and effectively, or to send an advertising message to specific target groups without too much dispersion loss. Successful campaigns select their precise target groups in advance. The quality of the addresses depends on a number of factors. First of all, the databases must be identified which store thousands of e-mail addresses with the address holders' permission. In Germany alone, more than 40 million addresses are registered where permission has been granted to receive e-mail advertising (permission addresses). However, the quality of the individual data differs significantly and varies according to supplier. The more transparent the permission to receive advertising, the more successful the e-mail campaign. Anybody who consciously decides to receive advertising expects to receive post and will also read it. Another important factor is mailing frequency; after all, anybody who actively decides to receive advertising information per e-mail does not want to be inundated with it.

ad pepper media is one of the leading service providers in this field. As a full-service provider, the company's „mailpepper" experts offer all services related to e-mailing: from consultancy to the creative preparation of an advertising medium, right through to selecting the ideal mailing channel. The use of innovative technologies provides advertisers with the ultimate in transparency, delivering comprehensive results and analysis – of course in strict compliance with the laws in force in the respective countries. Prices for permission e-mail addresses depend on the supplier, the type of soliciting and the respective target group. The more detailed the requirement profile (sex, age, interests, etc.), the higher the costs which are billed in so-called TKPs – i.e. price per thousand contacts. E-mail addresses without the related user profiles, so-called rest addresses, naturally cost less. Irrespective of whether a broad image campaign is being planned or selected recipients are to be reached, ad pepper media can ensure reliable and smooth implementation in just a few hours. We can offer our customers access to 15 million exclusive e-mail profiles, depending on whether you wish to implement your campaign on a national or international level.

Professional search engine marketing

Although sales via search engine marketing and search en-gine optimisation have yet to reach the level of classical advertising, they are growing at an overproportionate rate. According to Forrester Research, the market in Europe is set to rise from USD 3.7 billion to USD 8.12 billion, in Germany from USD 1.3 billion to USD 3.9 billion, and in the US, from USD 7 billion to USD 16.2 billion.

With the acquisition of ad agents GmbH, in which we have held a 60 percent share since April, we are successfully represented on the German market and are also focusing increasingly on foreign customers, such as Neckermann in Switzerland. Trigema, Condor or Lufthansa City Center, for instance, all of whom, are customers of ad agents. All of these customers now have an established e-commerce strategy and sell goods and services via their websites or web shops. ad agents, a specialist agency for search engine marketing, search engine optimisation and performance marketing, helps its customers to transform their web presence into an efficient selling tool. This is carried out by improving range in combination with the best possible increase in advertising efficiency.

The strategies developed by ad agents on the basis of quality and security provide customers with sustainability in terms of clicks and sales and are supplemented by detailed reporting.

Independent, powerful ad serving

One of the most important milestones in the past financial year was the integration of the Scandinavian ad serving provider Emediate, acquired early in 2007, into the ad pepper media network. We have successfully implemented Emediate in all the countries in which we operate, replacing technologies from third-party suppliers. The goal was not only to cut costs in the short to medium term, but also to use proprietary ad serving technology and to adapt this to our individual needs without which it would not have been possible to delivery many of the new products developed by us, such as iSense.

Emediate is already the market leader in Scandinavia and its customers include top companies, such as wunderloop, a leading supplier of behavioral targeting services, dagbladet.no, one of Norway's biggest online daily newspapers, or the international online marketing network hi-media. Following AOL's takeover of Emediate competitor AdTech and the takeover of DoubleClick by Google, ad pepper media is now one of the few players on the market to boast independent and powerful ad serving and is hence even more attractive for our customers. Agencies, advertisers and websites will now increasingly avail of services and products from Emediate in order to implement with an independent partner a reliable and scalable software solution to efficiently plan, steer and analyse their campaigns.

Well-positioned for the future

One basic trend within the online industry must also be noted, i.e. that the paths to target groups are becoming narrower and more complicated and call for the use of flexible solution models. The ad pepper media portfolio described offers almost the entire product set in order to successfully operate online marketing in this industry. We are continuously working on improving and supplementing our portfolio, so that we can offer our customers tailored and innovative solutions in the quality they are accustomed to. We are convinced that with our products and technology, we will be able to generate additional growth impetus for ad pepper media again in 2008.

Chart-development ad pepper media-share 2007 in EUR (Xetra closing price)

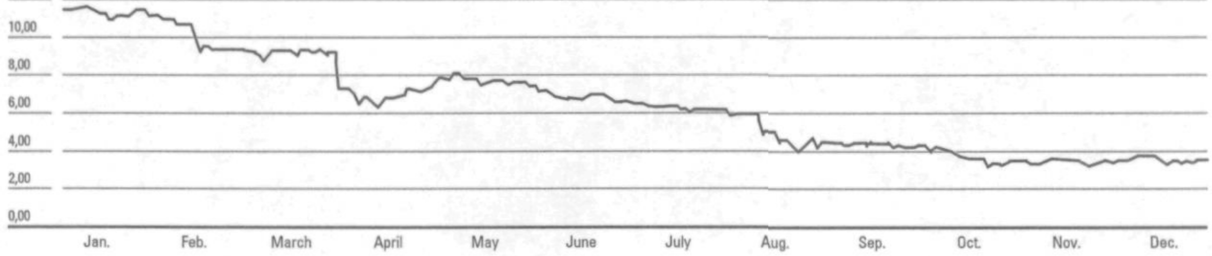
Following an at times sharp slump in price in the first half of 2007, the ad pepper media-share stabilised above the 3-euro mark towards the end of the period under review. The year's high of EUR 11.46 was recorded on 9 January, the lowest price of EUR 3.10 was reached on 20 November. As of the end of 2007, market capitalisation totalled EUR 37.96 million. The following diagram illustrates once again share price developments in 2007.

Since the share buyback began, ad pepper media International N.V. has been also covered by Sal. Oppenheim in addition to Equinet and Canaccord. This means that our company is being monitored by three banks who regularly publish research reports. In addition to this, the company's Management continuously supplies the capital market with comprehensive information. This flow of information comes in the form of quarterly and annual reports, as well as through analyst conferences and road shows with institutional investors in Germany, France, the UK and the US.

The shareholder structure of ad pepper media International N.V. as per 31 December 2007 is as follows: Free float (47.4 percent, pursuant to the definition by Deutsche Börse AG), EMA B.V. (42.5 percent) and Amiral Gestion (15.41 percent).

Sales and marketing

As a customer-orientated service company, ad pepper media considers sales and marketing to be a central task and ultimately part of its everyday business. The majority of new customers result from intensive contacts in the company's 19 branch offices. Blue chips are won through the activities of our international sales team, and through local and international test products which, following successful implementation, result in large-scale campaigns. Furthermore, through its presence at industry-specific events, ad pepper media was able to develop new customer contacts. The company was present, for example, at a „MD expo" direct marketing exhibition in Paris in spring 2007, the IAB Forum in Milan, or the most important trade exhibition for online marketing in Germany, the „online-marketing-düsseldorf" which recorded exceptionally high visitor numbers last year. The US branch office also successfully participated in the „ad:tech" in New York and San Francisco, the leading exhibitions for interactive marketing in the US. In Europe, ad pepper media was present at the „ad:tech" in London.



Company report

Business activities and environment

Basic economic conditions

The global economy was still growing strongly up until autumn of last year. But now, economic risks have risen, at times, significantly. The finance market problems triggered by the mortgage crisis in the US have resulted in the revaluation of loan risks. It is often feared that the sometimes sudden increases in company financing costs could also burden the real economy. Economies where private consumption strongly correlates with the prices prevailing on the respective real-estate sector could suffer more if the decline in prices persists. On the other hand, the dynamic global economy, which has remained at a high level for some time now, gives reason for optimism. In newly developed countries, the expansion, which was already very strong in 2007, has even accelerated, above all, in Asia and, in this case, in China particularly. On the other hand, production in industrialised nation has risen at a moderate rate only for some time. In the US, the economy had already slowed down significantly by mid-2006 due on a decline in construction. In the euro zone and in Japan, where GDP had continued to grow strongly right up into the current year, there was also a decline in the basic economic trend.

Positive market environment

The market for online advertising continues to develop at a dynamic pace. For instance, at the end of the first quarter of the past year, the forecast made just in March 2007 by Online-Vermarkterkreis (OVK) had to once again undergo an upward adjustment, just as in recent years. There has never been as much advertising on websites as in 2007. Whether banners, pop-ups, sponsored websites or short films – last year, sales with online advertising climbed to EUR 976 million in Germany. The figures published by Nielsen Media Research were even more optimistic with their forecast of sales of EUR 1.1 billion for 2007. Within the industry, it was especially providers of gambling games as well as online exchange services and portal operators who advertised their products and services. The telecommunications industry also spent heavily on online advertising, i.e. almost EUR 94 million. This was followed by finance service providers who invested EUR 81 million in online advertising and the e-commerce sector which invested EUR 62 million. Trade organisations invested EUR 59 million in their online advertising.

The German online market is hence following the global trend. Market researchers from Zenith Optimedia, for instance, believe that online advertising has the potential to reach an 11.5 percent share of the advertising market by 2010 – the third segment after television and newspaper advertising.

The market researchers at the UK company of group M are even more optimistic. They expect that online advertising in the UK will already have taken over the greater share of the advertising market by 2009, relegating TV advertising to second place. In the UK, however, the landscape is somewhat different: the number of advertisement-free pay-TV channels is higher and the number of advertising-financed free TV channels is lower than in Germany.

According to the EIAA survey titled „Mediascope Europe 2007", 57 percent of Europeans are already online – this corresponds to an increase of around six percent compared to 2006. The Internet is most widely used in the Netherlands (81 percent), followed by Norway (78 percent) and Sweden (74 percent). Around 61 percent of people in Germany now have an Internet connection. With an increase of 15 percent compared to 2006, the Internet is growing faster in Germany than anywhere else in Europe. This is largely due to people over the age of 55 and a growing share of women. Internet users in Europe go on the web an average of 5.5 days a week, spending 11.9 hours a week online.

One reason for the growing use of the Internet continues to be the increase in broadband Internet connections in Europe. European broadband penetration rose by 8 percent last year compared to 2006 to a total level of 81 percent. The leading „broadband nation" in Europe with almost nationwide coverage of 92 percent among Internet users is the UK, followed by France, Norway and Denmark (each with 89 percent).

Whilst in the past online marketers specialised in one or two online marketing segments only, such as portals on branding or online direct marketing providers on e-mail marketing, it will becoming increasingly important in future for marketers to be able to offer the optimum combination of various digital advertising forms. This is why more and more marketers are expanding their service offer, also with a view to being able to provide international range. There is, therefore, a trend towards the international full-service provider. In order to be able to survive on the market in the medium term, marketers will have to maintain international networks and be able to implement pan-European or global campaigns.

This development is very clearly seen in the rise in M&A activities within the industry: Whilst in recent years niche providers dominated online advertising, there is now a growing trend towards further consolidation and market correction. In addition to the previously mentioned acquisition of DoubleClick by Google, market activities were dominated by the purchase of aQuantive by Microsoft, Right Media by Yahoo, RealMedia by WPP and Zanox by Springer, to name but just the big transactions. Microsoft's planned acquisition of Yahoo marks the current peak in M&A activities which have picked up again just recently.

But size, however, is not always everything. Only a few marketers still offer the entire range of online marketing with their own technology and international placement power. Those companies who can respond in a quick and flexible manner to customer demands and for whom technology and size are not a means in itself will also be able to survive in the future in competition with major market players and even be able to win for themselves shares in a market that will continue to grow at a rapid pace. One fact that should not be underestimated is that regional advertising markets, especially in Europe, are still very *heterogeneous. The key to medium-term success here is local* expertise, familiarity with local decision-makers and individual market conditions. But ultimately, the decisive issues when granting advertising budgets to online marketers continue to be quality, reliability and personal service from a single source – and in this respect, the online advertising industry is no different than classical sectors.

Business activities and business developments

The Group around ad pepper media International N.V. is one of the leading independent marketing networks in online advertising. With 19 branches in twelve European countries and the US, ad pepper media conducts campaigns for thousands of national and international advertising customers in more than 50 countries world-wide. Branding, performance, e-mail, affiliate and search-engine marketing, as well as ad serving product groups cover the entire range of online advertising formats. The price models include range-orientated CPM (Cost per Mille) campaigns, click campaigns and purely success-based advertising campaigns on a CPA basis (Cost Per Action) in the field of performance and affiliate marketing (Webgains).

Many companies and brands are particularly interested in generating high visibility with a high recognition value on the online market and in addressing the targeted group with the right tool and with as little dispersion loss as possible. This is where ad pepper media's solutions, services and its international network come into their own.

Agencies and advertisers receive a full range of services, from campaign management to reporting – always based on the best available technology. ad pepper media is continually expanding its service portfolio within the individual product areas, developing new services and solutions in order to be *able to warrant both customers and website partners ever-*better results.

The ad pepper media portfolio offers website operators a comprehensive set of products and technologies, so that they can market their website more profitably and make them even more attractive for visitors: Irrespective of whether our website partners maximise the use of free advertising inventory, generate additional revenue with their e-mail databases, request powerful ad serving or simply want to earn money with their websites as affiliate partners.

Furthermore, the declared goal of securing the future by expanding the service portfolio was pursued further with determination. This was the case with the acquisition of Emedi-ate (ad serving) and ad agents (search-engine marketing). The takeover of the Scandinavian ad serving provider means that we are completely independent of third-party suppliers and have been able to make some significant savings.

The huge increase in the importance of search-engine marketing is undisputed. ad agents now gives us access to this lucrative market segment and this was already seen in the past financial year with considerable successes.

In addition to direct success monitoring, the targeted addressing of individual groups on the Internet, so-called targeting, is becoming increasingly important. At the ad:tech in London last September, ad pepper media presented its revolutionary semantic targeting technology iSense and also for the first time in its core market of Germany within the scope of the OMD in Düsseldorf. In contrast to conventional "contextual targeting", this technology does not search for key words on websites, which in the past often led to less than optimum advertising results. Instead, the entire text visible on a website is analysed in a fraction of seconds, the main topics contained are compiled and the matching campaigns are placed. The decisive word here is relevance, because Internet users only respond to Internet advertising when the advertising is relevant to the content of the website currently open. In this way, iSense prevents at the customer's request advertising on websites which are related to alcohol, drugs, tobacco, sex, nudity, weapons or extreme political or religious views. Placement in the topical field of gambling and illegal downloading offers can be ruled out in order to avoid advertising a music label, for instance, in an area promoting music exchange platforms, or to specifically select this, of course, if this is the goal of the campaign.

Presentation of the earnings position

Sales development

In the 2007 financial year, ad pepper media recorded a leap in sales of 21.4 percent to around EUR 50,624 k. This result was not only in line with the high rate of growth on the online advertising market, it even outdid it, reaching for the first time a sales level which is psychologically important for both customers and the capital market. During the same period of the previous year, revenue totalled EUR 41.7 million.

Segment reporting for the company is broken down according to geographical regions and distinguishes between Central Europe (Germany, Netherlands, Slovak Republic), Northern Europe (Denmark, Sweden), Western Europe (UK, France, Spain, Italy) and the US. With more than 43.1 percent of sales corresponding to EUR 21.8 million, Central Europe accounted for the largest share in sales (previous year: EUR 20.4 million), followed by Western Europe with 32.4 percent or EUR 16.4 million (previous year: EUR 15.2 million) and Northern Europe with 21.2 percent or EUR 10.8 million (previous year: EUR 8.6 million). Others recorded sales of around EUR 3.3 million compared to the previous year's EUR 3.1 million. This regionally widespread distribution of sales means additional security for business development.

A look at the fourth quarter shows that the ad pepper media-Group was able to grow strongly in a dynamic market, benefiting not only from the generally positive market trend but primarily from its outstanding positioning as an international supplier with almost the entire range of products for online advertising. This was why the result for the final quarter, which is traditionally the strongest quarter of a financial year, was so good: With sales of EUR 14,603 k (Q4 2006: EUR 11,504 k), ad pepper media recorded the highest sales in the company's history.

Gross margin

The gross margin totalled 47.7 percent (2006: 49.1 percent) and thus remained at a very high level; it rose to a total of EUR 24,169 k (2006: total of EUR 20,484 k). The slight percentage decline in the gross margin is particularly due to the fact that we have been achieving overproportionate growth with our Webgains (affiliate marketing) product and the margin in this area is below that of the other products. In addition to this, the acquisition of ad agents, which generates a lower margin due to its business model, also slightly diluted our gross margin. Both factors, together with other special factors, were responsible for overproportionate margin development in the fourth quarter. This totalled 45.6 percent (Q4 2006: 49.3 percent)

Development of operative costs

Compared to the previous year, operative costs rose significantly and totalled EUR 20.4 million (2006: 14.7 million). This was due, on the one hand, to the increase in the number of employees in conjunction with the acquisition of Emediate and ad agents in the first half of 2007. In addition to this, the writing off of intangible assets acquired within the scope of company acquisitions led to an overall increase in operative costs. During the course of 2007, depreciation expenditure increased from the previous year's EUR 2.0 million to EUR 2.6 million. This increase was due to an increase in the share of intangible assets that were acquired within the scope of the recent company take-overs. We assumed that our acquisition-related depreciation expenditure resulting from the most recent takeovers will increase further with future company takeovers.

Finally, we also invested a considerable amount in the international roll-out of Webgains and in technological product developments of iSense and Emediate. In addition to this, costs in conjunction with a cost-cutting and efficiency-boosting programe conducted in the third quarter of 2007 led to one-off expenditure totalling around EUR 1.5 million.

Discounts on accounts receivable also declined. Whilst expenditure for this item still totalled EUR 0.9 million in 2006, this amount was already much lower, totalling EUR 0.4 million, in the past financial year. This shows the first impact of significantly improved receivables management which also aims to achieve further optimisation in the current year.

EBIT and result before taxes

In the past financial year, earnings before interest and taxes (EBIT) totalled EUR 3.8 million (2006: EUR 5.8 million). This figure includes milestone payments in conjunction with the sale of the minority stake in dMarc Broadcasting and Falk eSolutions (Equity Income) totalling EUR 6.8 million. In the previous year, revenues from equity income totalled EUR 8.4 million.

In the 2007 financial year, interest income declined from EUR 0.7 million in the previous year to EUR 0.6 million. The decline in interest income in 2007 compared to 2006 is largely because the annual average for liquid funds and tradable securities was generally lower. The increase in interest had an opposite effect here. The result before taxes totalled EUR 4,369 k (2006: EUR 6,508 k).

It is quite obvious that without the further milestone payments, ad pepper media would have had to record a significant operative loss. The main reason for this was a cost basis that was too high compared to sales developments. This is why the company's Management decided to introduce a comprehensive cost-cutting and efficiency-boosting programme in the middle of last year. Even after conclusion of this measure, cost developments are still the focus of ongoing optimisation efforts, however, it must be remembered that ad pepper media operates in a strongly growing and highly competitive market environment which calls for ongoing investment in people and technology. The current year will also see costs under pressure by efforts to boost profitability, on the one hand, and further investment in markets and technologies, on the other.

Presentation of finance and assets situation

Cash flow

In the past financial year, cash flow from operating activities totalled EUR -1,822 k (2006: EUR 3,141 k). In the period under review, EUR 3,587 k was invested in intangible assets and property, plant and equipment, and EUR 4,598 k in the acquisition of goodwill. Both items were strongly influenced by the acquisition of Emediate ApS in January 2007. We also received EUR 5,606 k from the sales of the share in dMarc Broadcasting to Google and Falk eSolutions to DoubleClick. Total investment expenditure amounted to EUR 1,737 k. Major factors in cash flow from investment activities were, on the one hand, the cash capital increase (EUR 2,297 k) in conjunction with the acquisition of Emediate (EUR -4,832 k) and the share buyback which took place in the middle of last year (EUR -1,230 k) on the other.

Balance sheet structure

The balance sheet structure continues to be marked by a comparatively very high equity item of EUR 56,467 k compared to EUR 50,853 k as per 31 December 2006. The increase at this time, is primarily due to the cash capital increase of EUR 2,278 k in January during the acquisition of Emediate via the issuing of 209,854 new ad pepper media-shares and the profit recorded in the past year of EUR 2,587 k. At the end of the period under review, the equity ratio hence totalled 82.0 percent with a balance-sheet total of EUR 68,847 k (31 December 2006: 76.9 percent). As per the balance-sheet date, the ad pepper media-Group is financed from its own resources. There are no long-term liabilities to banks.

On the assets side, goodwill rose to EUR 20,664 k compared to EUR 16,066 k as per 31 December 2006. This is once again, primarily due to the acquisition of Emediate at the beginning of the year when goodwill to the amount of EUR 3,601 k was acquired, as well as a final milestone payment to the former shareholders of mediasquares GmbH to the amount of EUR 949 k. Trade receivables did not keep pace with growth, rising by EUR 1,656 k to EUR 12,846 k compared to the end of 2006.

Liquid funds, including funds which can be quickly converted to cash, totalled EUR 17,550 k and remained below the previous year's level (31 December 2006: EUR 22,678 k). The reasons for this were the acquisitions made in the past year, a milestone payment to be effected by ad pepper media in conjunction with the acquisition of mediasquares GmbH and the share buyback programme that was conducted in the middle of the year.

Management and employees

As per 31 December 2007, ad pepper media employed a permanent staff of 241 world-wide. This means that in the past financial year, an additional 36 employees were hired. In addition to the increase in staff in conjunction with the acquisition of Emediate and ad agents, the expansion of core business and the roll-out of Webgains and mediasquares in Germany, France, the Benelux countries and Scandinavia were also responsible for the increase in employee numbers. Employee development focussed on the fields of "Sales" and "Business Development". Most of ad pepper media's employees work in sales, i.e. 62 people. They are responsible for looking after existing and winning new customers world-wide.

Within the four-member Management Board team, chairman Ulrich Schmidt is responsible for business development, product development, marketing and technology. Jens Körner is responsible for finance, human resources and investor relations. Niels Nüssler is responsible for sales and media purchasing. Michael Alexander Carton is responsible for product development and technology development.

Shareholders' meeting

At the shareholders' meeting of ad pepper media International N.V. on 30 April 2007 in Amsterdam, all the resolutions proposed on the agenda were unanimously adopted without abstention. All in all, 50.81 percent of the 11,364,854 voting rights were represented at the shareholders' meeting.

Risk report:

Foreword

The German law on „Control and Transparency in Business" (KonTraG) as well as the Dutch Corporate Governance Code lay down the central rules and obligations regarding risk management and control systems. In compliance with these regulations in force in Germany and the Netherlands, ad pepper media operates a comprehensive and adequate risk management system. This requires that the Management Board ensures that the company complies with all applicable laws and regulations, and reports to the Supervisory Board regularly on the internal risk management and control systems. The risk management system of ad pepper media identifies significant risks which could have implications for the company. These risks are quantified and evaluated with a view to potential effects. Finally, suitable measures are identified in order to counteract the risks in question. Significant risks to which the company may be exposed are enumerated below.

Legal Risks:

Privacy concerns

Websites typically place small files of non-personalized (or "anonymous") information, commonly known as cookies, on an Internet user's browser. Cookies generally collect information about users on a non-personalized basis to enable websites to provide users with a more customized experience. Cookie information is passed to the website through an Internet user's browser software. We currently use cookies to track an Internet user's movement through our advertiser customer's websites and to monitor and prevent potentially fraudulent activity on our networks. Most currently available Internet browsers allow Internet users to modify their browser settings to prevent cookies from being stored on their hard drive, and some users currently do so. Internet users can also delete cookies from their hard drives at any time. Some Internet commentators and privacy advocates have suggested limiting or eliminating the use of cookies, and legislation has been introduced in some jurisdictions to regulate the use of cookie technology. The effectiveness of our technology could be limited by any reduction or limitation in the use of cookies. If the use or effectiveness of cookies were limited, we would have to switch to other technologies to gather demographic and behavioral information. While such technologies do currently exist, they are substantially less effective than cookies. We would also have to develop or acquire other technology to prevent fraud on our networks. Replacement of cookies could require significant reengineering time and resources, might not be completed in time to avoid losing customers or advertising inventory, and might not be commercially feasible. Our use of cookie technology or any other technologies designed to collect Internet usage information may subject us to litigation or investigations in the future.

Furthermore many jurisdictions regulate in detail both collecting personal data, and using such data for rolling out direct marketing campaigns. Although we strictly comply with the applicable legislations in the various jurisdictions, we cannot exclude that a change in such legislations may deeply impact our business models and revenues.

Any litigation or government action against us could be costly and time consuming, could require us to change our business practices and could divert management's attention.

Intellectual property rights

Our patents, trademarks, trade secrets, copyrights and other intellectual property rights are important assets for us. Various events outside of our control pose a threat to our intellectual property rights as well as to our products and services. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

In addition, as we grow, the possibility of intellectual property rights claims against us increases. Our products, services and technologies may not be able to withstand any third-party claims and regardless of the merits of the claim, any intellectual property claims could be time-consuming and expensive to litigate or settle. In addition, if any claims against us are successful, we may have to pay substantial monetary damages or discontinue any of our services or practices that are found to be in violation of another party's rights. We also may have to seek a license to continue such practices, which may significantly increase our operating expenses.

Market Risks

Competition from other advertising networks, web search providers and traditional advertising media

Our offer to advertisers and web publishers includes products and services that are based on a cost-per-action ("CPA"), cost-per-lead ("CPL"), cost-per-thousand-impressions ("CPM") or cost-per-click ("CPC") pricing model. We face significant competition in every aspect of our business, and particularly from other advertising and affiliate networks which provide similar online-services and -products. In addition to advertising networks and affiliate marketing companies, we face competition from web search providers such as Google and Yahoo!, or from huge ad serving platforms. We also compete with traditional advertising media, such as direct mail, television, radio, cable, and print, for a share of advertisers' total advertising budgets. Many current and potential competitors enjoy competitive advantages over us, such as longer operating histories, greater name recognition, larger customer bases, greater access to advertising space on high-traffic websites, and significantly greater financial, technical, sales, and marketing resources. They can use their experience and resources against us in a variety of competitive ways, including by making acquisitions, investing more aggressively in research and development and competing more aggressively for advertisers and websites. If some competitors are successful in providing similar or better services or more relevant advertisements we could experience a significant decline in the size of the ad pepper network. Any such decline could negatively affect our revenues.

There has been a trend towards industry consolidation among our competitors, and so smaller competitors may become larger competitors and large competitors may become even bigger in the future. If our competitors are more successful than we are at offering online marketing services and products our revenues may decline.

Pressure on margins and revenue growth

The Internet advertising markets are characterized by rapidly changing technologies, evolving industry standards, frequent new product and service introductions, and fast changing customer demands. The introduction of new products and services embodying new technologies and the emergence of new industry standards and practices could render our existing products and services obsolete and unmarketable or require unanticipated technology or other investments. Our failure to adapt successfully to these changes could harm our business, results of operations and financial condition.

In addition we expect that our revenue growth rate will decline over time and anticipate that there will be downward pressure on our operating margin. We believe our revenue growth rate will generally decline as a result of increasing competition and the inevitable decline in growth rates as our revenues increase to higher levels. We believe our operating margin will experience downward pressure as a result of increasing competition and increased expenditures for many aspects of our business. Additionally, the margin we earn on revenue generated from our media or affiliate network could decrease in the future if we pay an even larger percentage of advertising fees to our website and affiliate partners.

Financial Risks:

Low levels of profitability

The profitability achieved in 2007 was mainly due to income from disposal of investments. We face risks that could prevent us from achieving net income in future periods. These risks include, but are not limited to, our ability to:

> maintain high levels of income from the disposal of investments
> maintain and increase our inventory of advertising space on publisher websites and with email list owners and newsletter publishers
> maintain and increase the number of advertisers that use our products and services
> continue to expand the number of products and services we offer and the capacity of our systems
> adapt to changes in Web advertisers' promotional needs and policies, and the technologies used to generate Web advertisements
> respond to challenges presented by the large and increasing number of competitors in the industry
> adapt to changes in legislation or regulation regarding Internet usage, advertising and commerce
> ability to achieve revenue goals for partners to whom we guarantee minimum payments or pay distribution fees
> ability to generate revenue from services in which we have invested considerable time and resources, such as motigo, emediate and iSense.
> focus on long-term goals over short-term results
> adapt to changes in technology related to online advertising filtering software;
> adapt to changes in the competitive landscape, and
> obtain profitability and market recognition from our investments in new technologies and the related products/services we will be offering to the market.

If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations and financial condition could be materially and adversely affected.

Risks of our mergers & acquisition strategy

We have grown in part because of business combinations with other companies, and we expect to continue to evaluate and consider future acquisitions. Any of these acquisitions could be material to our financial condition and results of operations. In addition, the process of integrating an acquired company, business or technology may create unforeseen operating difficulties and expenditures and risks. The areas where we may face risks include:

> Implementation or remediation of controls, procedures and policies at the acquired company
> Diversion of management's attention from other business concerns
> Overvaluation of the acquired companies
> Acceptance of the acquired companies' products and services by our customers
> Cultural challenges associated with integrating employees from the acquired company into our organization
> Retention of employees from the businesses we acquire
> Integration of each company's accounting, management information, human resource and other administrative systems.

The integration of our acquired operations, products and personnel may place a significant burden on management and our internal resources. Particularly foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Because of the number of acquisitions we have completed in the past several years, the differences in the customer bases and functionality of acquired products, service offerings and technologies, and other matters, these acquisitions may present materially higher product, sales and marketing, customer support, research and development, facilities, information systems, accounting, personnel, and other integration challenges than those we have faced in connection with our prior acquisitions and may delay or jeopardize the complete integration of these acquired businesses.

Minimum payments to certain advertising network members

We are obligated under certain agreements to make non-cancellable guaranteed minimum revenue share payments to our network members. In these agreements, we promise to make these minimum payments to our network members for a pre-negotiated period of time. It is difficult to forecast with certainty the fees that we will earn under agreements with guarantees, and sometimes the fees we earn fall short of the guaranteed minimum revenue share payment amounts.

Currency risk

Since ad pepper media conducts a significant portion of its operations outside the euro currency zone, fluctuations in currency exchange rates can materially affect earnings. Currency risk from financial instruments exists with respect to receivables, payables, cash and cash equivalents that are not denominated in a company's functional currency. In the ad pepper media-Group this risk is particularly significant for the U.S. Dollar and British Pound.

Impairment of goodwill

As of 31 December 2007, we have total intangible assets, including goodwill, of EUR 29.8 million (thereof goodwill: EUR 20.7 million). We are required under accounting principles to review our amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of such assets may not be recoverable. We are also required to review goodwill for impairment on an annual basis, or between annual tests whenever events and circumstances indicate that the carrying value of goodwill may not be recoverable. Events and circumstances considered in determining whether the carrying value of amortizable intangible assets and goodwill may not be recoverable include, but are not limited to: significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in the Company's stock price for a sustained period of time; and changes in the Company's business strategy. We may be required to record a significant charge to earnings in a period in which any impairment of our goodwill or amortizable intangible assets is determined.

We may have exposure to greater than anticipated tax liabilities

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities or by changes in tax laws, regulations, accounting principles or interpretations thereof. Our determination of our tax liability is always subject to review by applicable tax authorities. Any adverse outcome of such a review could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

New accounting standards
From time to time, the International Accounting Standards Board (IASB) and other regulatory bodies may issue new and revised standards, interpretations and other guidance that International Financial Reporting Standards (IFRS). The effects of such changes may include prescribing an accounting method where none had been previously specified, prescribing a single acceptable method of accounting from among several acceptable methods that currently exist, or revoking the acceptability of a current method and replacing it with an entirely different method, among others. Such changes to IFRS could impact our results of operations, financial condition and other financial measures.

Liquidity and Cash Flow Risk
Substantially all of the Company`s cash and cash equivalents are managed by financial institutions. On the basis of our business development, the liquidity of ad pepper media International N.V. can be regarded as secure at present and is sufficient to be able to meet all future payments obligations despite further investments in new companies, a negative cash flow from oper-ating activities, and a share repurchase program conducted during the first half of 2007. A further decrease of cash and cash equivalents is anticipated as additional investments need to be made in the future. Additionally, the Company is exposed to the payment behaviour of its customers. Accounts receivables are typically unsecured and are derived from revenues earned from customers primarily located in Europe. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses.

For further information on financial risks please refer to the disclosure note on financial instruments.

Technologies and IT-Risks:

Threats arising from new technologies
Technologies may be developed that can block the display of our ads. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of ads on web pages. As a result, ad-blocking technology could, in the future, adversely affect our operating results.

Rapidly changing technologies
The Internet advertising market is characterized by rapidly changing technologies, evolving industry standards, frequent new product and service introductions, and changing customer demands. The introduction of new products and services embodying new technologies and the emergence of new industry standards and practices can render existing products and services obsolete and unmarketable or require unanticipated technology investments. Our success will depend on our ability to adapt to rapidly changing technologies, to enhance existing solutions and to develop and introduce a variety of new solutions to address our customers' and web publisher partners' changing demands. For example, advertisers are increasingly requiring Internet advertising networks to have the ability to deliver advertisements utilizing new formats that surpass stationary images and incorporate rich media, such as video and audio, interactivity, and more precise consumer targeting techniques. Our systems do not support some types of advertising formats and some of the website publishers in our networks do not accept all types of advertising formats we support. In addition, an increase in the bandwidth of Internet access resulting in faster data delivery may provide new products and services that will take advantage of this expansion in delivery capability. If we fail to adapt successfully to such developments, we could lose customers or advertising inventory. We purchase most of the software used in our business. We intend to continue to acquire technologies from third-parties necessary for us to conduct our business from third-parties. We cannot assure you that, in the future, these technologies will be available on commercially reasonable terms, or at all. We may also experience difficulties that could delay or prevent the successful design, development, introduction or marketing of new solutions. Any new solution or enhancement that we develop will need to meet the requirements of our current and prospective customers and may not

achieve significant market acceptance. If we fail to keep pace with technological developments and the introduction of new industry and technology standards on a cost-effective basis, our expenses could increase, and we could lose customers and advertising inventory.

IT architecture/ infrastructure

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. We have spent and expect to continue to spend substantial amounts on the purchase and lease of data centers and equipment and the upgrade of our technology and network infrastructure to handle increased traffic and to roll out new products and services. This expansion is expensive and complex and could result in inefficiencies or operational failures. If we do not expand successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and our users' experience could decline. This could damage our reputation and lead us to lose current and potential users, advertisers and advertising network members. Cost increases, loss of traffic of our advertising network partners or failure to accommodate new technologies or changing business requirements could harm our operating results and financial condition.

In addition we rely on vendors, including data center and bandwidth providers. Any disruption in the network access or co-location services provided by these providers or any failure of these providers to handle current or higher volumes of use could significantly harm our business. Any financial or other difficulties our providers face may have negative effects on our business. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. Any errors, failures, interruptions or delays in connection with these technologies and information services could harm our relationship with users, adversely affect our brand and expose us to liabilities.

Finally our systems are also heavily reliant on the availability of electricity. If we were to experience a major power outage, we would have to rely on back-up generators. These back-up generators may not operate properly and their fuel supply could be inadequate during a major power outage. This could result in a disruption of our business.

Internet access

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers have stated that they may take measures that could degrade, disrupt or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. This could result in a loss of advertising network members and advertisers, increased costs, and impair our ability to attract new users and advertisers, thereby harming our revenue and growth.

Interruption of IT and communications systems

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could result in interruptions in our service, which could reduce our revenues and profits, and damage our brand. Our systems are vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures, computer viruses, terrorist attacks, computer denial of service attacks or other attempts to harm our systems. Our data centers are also subject to break-ins, sabotage and intentional acts of vandalism, and to potential disruptions if the operators of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using without adequate notice for financial reasons or other unanticipated problems at our data centers could result in lengthy interruptions in our service.

Growth of Internet usage and maintenance of Internet infrastructure

Our business and financial results will depend on continued growth in the use of the Internet. Internet usage may be inhibited for a number of reasons, such as: inadequate network infrastructure; security concerns; inconsistent quality of service; and, unavailability of cost-effective, high-speed service. If Internet usage grows, our infrastructure may not be able to support the demands placed on it and our performance and reliability may decline. In addition, websites have experienced interruptions in their service as a result of outages and other delays occurring throughout the Internet network infrastructure, and as a result of sabotage, such as electronic attacks designed to interrupt service on many websites. The Internet could lose its viability as a commercial medium due to delays in the development or adoption of new technologies required to accommodate increased levels of Internet activity. If use of the Internet does not continue to grow, or if the Internet infrastructure does not effectively support our growth, our revenue and results of operations could be materially and adversely affected.

Increased use of non-PC devices

The number of people who access the Internet through devices other than personal computers, including mobile telephones, hand-held calendaring and email assistants, and television set-top devices, has increased dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of our products and services through such devices more difficult. If we are unable to attract and retain a substantial number of alternative device users to our web search services or if we are slow to develop products and technologies that are more compatible with non-PC communications devices, we will fail to capture a significant share of an increasingly important portion of the market for online services.

Risks Related to Ownership of our Common Stock:

Volatility of our share price

The trading price of our stock has been volatile since our initial public offering and will likely continue to be volatile. The trading price of our stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

> Quarterly variations in our results of operations or those of our competitors.
> Announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments.
> Recommendations by securities analysts or changes in earnings estimates.
> Announcements about our earnings that are not in line with analyst expectations, the risk of which is enhanced because it is our policy not to give guidance on earnings.
> Announcements by our competitors of their earnings that are not in line with analyst expectations.
> The volume of shares available for public sale.
> Sales of stock by us or by our stockholders.
> Short sales, hedging and other derivative transactions on shares.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our Class A common stock, regardless of our actual operating performance. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

No dividends payments

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future.

Limited influence of shareholders

Our common stock has one vote per share. As of 31 December 2007, one of the founding shareholders, EMA B.V., owned shares representing approximately 42 percent of the voting power of our outstanding capital stock. EMA B.V. therefore has significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets, for the foreseeable future. This concentrated control limits our stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of common stock could be adversely affected.

Assessment of the overall risk situation

Compared to the previous year, the overall risk situation did not change significantly in the reporting period. The overall risk assessment is based on a consolidated view of all significant individual risks. At present, no potential risks have been identified that either individually or in combination could endanger the continued existence of ad pepper media-Group.

Chances and forecast

The BITKOM industry association expects growth for the online advertising market again in 2008. Major forecasting institutes are expecting around 15 percent whilst three significant events are likely to ensure additional drive: the summer Olympics in Beijing, the US presidential election and the European Cup in Austria and Switzerland.

With our successful position as an international supplier, providing almost the entire product range of online marketing, we feel that we are well prepared for the current year. Even if it is not possible to continue the record results of the fourth quarter, we are expecting dynamic growth to continue in 2008.

Just as in 2006 and 2007, further milestone payments from the sale of the minority share in dMarc Broadcasting are possible. Since it is uncertain how high these payments will be and when they will be effective, we will concentrate more than ever before on our operative earning power in the year to come. Thanks to the cost-cutting and efficiency-optimization programme conducted in the third quarter, we are starting out in 2008 with a reduced cost basis. Additional efforts will have to be made here now in order to keep the cost basis at a reasonable level. This, combined with future dynamic development of the online market, makes us confident that in 2008 we will again be able to participate in the general boom in online advertising to a greater degree.

Annual consolidated financial statements

Consolidated income statement (IFRS)

	Note	01.01.-31.12.2007 EUR	01.01.-31.12.2006 EUR
Revenues		**50,624,013**	**41,691,836**
Cost of sales	[7]	-26,455,450	-21,207,518
Gross profit		**24,168,564**	**20,484,318**
Selling and marketing expenses	[8]	-15,317,759	-12,198,083
General and administrative expenses	[9]	-10,920,811	-9,838,115
Other operating income	[10]	589,426	930,252
Other operating expenses	[11]	-1,573,855	-2,023,134
Share of earnings from associates		0	35,000
Gain on sale of shares in associates and other investments	[12]	6,829,191	8,430,514
Earnings before interest and taxes		**3,774,756**	**5,820,752**
Financial income	[13]	644,788	704,232
Financial expenses	[13]	-50,903	-16,549
Earnings before taxes		**4,368,641**	**6,508,435**
Income taxes	[14]	-1,782,086	-1,195,577
Net income for the year		**2,586,555**	**5,312,858**
Attributable to shareholders of the parent company		2,555,163	5,312,858
Attributable to minority interest		31,392	0
Basic earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.23	0.49
Diluted earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.22	0.45

	Q1-Q4 2007 Number of shares	Q1-Q4 2006 Number of shares
Weighted average number of shares outstanding (basic)	11,149,810	10,817,317
Weighted average number of shares outstanding (diluted)	11,679,362	11,771,977

Consolidated balance sheet (IFRS)

Assets	Note	31.12.2007 EUR	31.12.2006 EUR
Non-current assets			
Goodwill	[16]	20,664,473	16,066,134
Intangible assets	[17]	9,155,150	7,174,216
Property, plant and equipment	[18]	1,100,382	885,026
Securities	[19]	2,130,900	4,360,000
Other financial assets	[20]	771,684	726,804
Deferred tax assets	[14]	2,979,364	4,746,613
Total non-current assets		**36,801,953**	**33,958,793**
Current assets			
Securities	[21]	3,390,000	3,937,800
Trade receivables	[22]	12,846,963	11,190,794
Income tax receivables	[23]	1,151,105	661,815
Prepaid expenses and other current assets	[24]	737,792	773,582*
Other financial assets	[24a]	1,889,814	1,227,217*
Cash and cash equivalents	[25]	12,029,454	14,380,214
Total current assets		**32,045,128**	**32,171,422**
Total assets		**68,847,081**	**66,130,215**

Consolidated balance sheet (IFRS)

Equity and liabilities	Note	31.12.2007 EUR	31.12.2006 EUR
Equity attributable to shareholders of the parent company			
Issued capital	[26]	1,139,485	1,115,500
Additional paid-in capital	[27]	66,319,233	61,859,464
Treasury shares	[28]	-1,268,704	-340,352
Accumulated deficit		-8,389,097	-10,944,260
Accumulated other comprehensive losses	[30]	-1,511,244	-837,451
Total		**56,289,673**	**50,852,901**
Minority interest	[31]	177,117	0
Total equity		**56,466,790**	**50,852,901**
Non-current liabilities			
Deferred tax liabilities	[14]	906,724	821,539
Total non-current liabilities		**906,724**	**821,539**
Current liabilities			
Trade payables	[32]	7,211,526	7,597,822*
Other current liabilities		792,411	496,436*
Other financial liabilities	[33]	3,101,910	5,983,059*
Income tax liabilities		367,720	378,458
Total current liabilities		**11,473,567**	**14,455,775**
Total liabilities		**12,380,291**	**15,277,314**
Total equity and liabilities		**68,847,081**	**66,130,215**

* adjusted

Statement of cash flows (IFRS)

	Note	01.01.-31.12.2007 EUR	01.01.-31.12.2006 EUR
Net income for the year		2,586,555	5,312,858
Adjustments to reconcile net income for the year to net cash flow used in/ provided by operating activities:			
Depreciation and amortisation	[6]	2,573,082	1,979,128
Gain on sale of fixed assets		-16,819	-49,755
Loss on sale of securities	[19], [21]	30,400	0
Share-based compensation	[39]	438,036	999,655
Other financial income and financial expenses	[13]	-624,285	-687,683
Income tax expense	[14]	1,782,086	1,195,577
Gain on sale of shares in associates and other investments	[12]	-6,829,191	-8,430,514
Other non-cash expenses and income		508,024	1,251,546
Gross cash flow		**447,888**	**1,570,812**
Increase in trade receivables	[22]	-2,321,581	-1,753,395
Decrease/ increase in other assets		1,239,388	-62,882
Income taxes paid		-289,484	-49,696
Interest received		457,000	491,530
Decrease/ increase in trade payables	[32]	-386,296	1,154,170
Interest paid	[13]	-20,503	-16,542
Increase/ decrease in other liabilities		-948,807	1,806,791
Net cash flow used in/ provided by operating activities		**-1,822,395**	**3,140,788**
Additions to intangible assets and property, plant and equipment	[17], [18]	-3,587,039	-2,514,337
Proceeds from sale of intangible assets and property, plant and equipment		420,132	168,492
Proceeds from sale of shares in associates and other investments	[12], [24]	5,605,523	12,459,703
Security deposits/ proceeds from repayment of security deposits		0	-34,234
Repayment of restricted cash		0	650,000
Loans granted	[20]	0	-300,000
Acquisition of subsidiaries, net of cash acquired	[4],[17]	-5,993,601	-7,395,584
Proceeds from sale of securities	[19], [21]	3,317,615	3,100,500
Purchase of securities	[19], [21]	-1,500,000	-1,990,440
Net cash flow used in/ provided by investing activities		**-1,737,370**	**4,144,100**

Statement of cash flows (IFRS)

	Note	01.01.-31.12.2007 EUR	01.01.-31.12.2006 EUR
Increase in capital	[26], [27]	2,297,139	0
Sale of treasury shares	[28]	52,589	735,773
Purchase of treasury shares	[28]	-1,230,084	-402,000
Repayment of loan liabilities		0	-493,339
Repayment of loans granted	[20]	20,000	360,000
Net cash flow provided by financing activities		**1,139,644**	**200,434**
Effect of exchange rates on cash and cash equivalents		69,361	-132,753
Cash-effective decrease/ increase in cash and cash equivalents		-2,350,760	7,352,569
Cash and cash equivalents at beginning of year		**14,380,214**	**7,027,645**
Cash and cash equivalents at end of year		**12,029,454**	**14,380,214**

Consolidated statement of changes in equity

	Note	Issued capital EUR	Additional paid-in capital EUR
Balance at 01 January 2006		**1,115,500**	**59,942,263**
Currency translation differences	[31]		
Unrealised gaines/losses on securities	[31]		
Total income and expense for the year recognised directly in equity		0	0
Net income for the year			
Total recognised income and expense for the year		0	0
Stock-based compensation	[40]		999,655
Issuance of treasury shares	[29]		917,546
Balance at 31 December 2006		**1,115,500**	**61,859,464**
Balance at 01 January 2007		**1,115,500**	**61,859,464**
Currency translation differences	[30]	0	0
Unrealised gaines/losses on securities	[30]	0	0
Total income and expense for the year recognised directly in equity		0	0
Net income for the year	[31]	0	0
Total recognised income and expense for the year		0	0
Stock-based compensation	[39]	0	438,036
Increase in capital	[26], [27]	23,985	2,273,154
Purchase of treasury shares	[28]	0	0
Issuance of treasury shares	[28]	0	1,748,579
Acquired minority interest	[31]	0	0
Balance at 31 December 2007		**1,139,485**	**66,319,233**

Equity of the shareholders of the parent company					
		Accumulated other comprehensive losses			
Treasury shares	Accumulated deficit	Currency translation differences	Market valuation of available-for-sale securities	Minority interest	Total
EUR	EUR	EUR	EUR	EUR	EUR
-421,578	**-16,257,118**	**-6,901**	**-431,368**	**0**	**43,940,798**
		-132,753			-132,753
			-266,429		-266,429
0	0	-132,753	-266,429	0	-399,182
	5,312,858				5,312,858
0	5,312,858	-132,753	-266,429	0	4,913,676
					999,655
81,226					998,772
-340,352	**-10,944,260**	**-139,654**	**-697,797**	**0**	**50,852,901**
-340,352	**-10,944,260**	**-139,654**	**-697,797**	**0**	**50,852,901**
0	0	28,080			28,080
0	0	0	-701,873	0	-701,873
0	0	28,080	-701,873	0	-673,793
0	2,555,163	0	0	31,392	2,586,555
0	2,555,163	28,080	-701,873	31,392	1,912,762
0	0	0	0	0	438,036
0	0	0	0	0	2,297,139
-1,230,084	0	0	0	0	-1,230,084
301,732	0	0	0	0	2,050,311
0	0	0	0	145,725	145,725
-1,268,704	**-8,389,097**	**-111,574**	**-1,399,670**	**177,117**	**56,466,790**

Development of consolidated fixed assets

Business year 2006			**Historical cost**		
	Balance at 01.01.2006	Additions	Additions through business combinations	Disposals	Balance at 31.12.2006
	EUR	EUR	EUR	EUR	EUR
Goodwill	**8,415,821**	**0**	**9,284,646**	**0**	**17,700,467**
Intangible assets					
Software	2,735,966	1,725,715	2,713,200	79,800	7,095,081
Brands and customer base	3,281,571	1,838	234,800	3,063	3,515,146
Total	**6,017,537**	**1,727,553**	**2,948,000**	**82,863**	**10,610,227**
Property, plant and equipment					
Other equipment, operational and office equipment	1,666,459	734,029	33,000	252,402	2,181,086
Total	**16,099,817**	**2,461,582**	**12,265,646**	**335,265**	**30,491,780**

Business year 2007			**Historical cost**		
	Balance at 01.01.2007	Additions	Additions through business combinations	Disposals	Balance at 31.12.2007
	EUR	EUR	EUR	EUR	EUR
Goodwill	**17,700,467**	**0**	**4,598,339**	**0**	**22,298,806**
Intangible assets					
Software	7,095,081	2,876,713	576,503	2,296,173	8,252,124
Brands and customer base	3,515,146	0	935,400	1,838	4,448,708
Total	**10,610,227**	**2,876,713**	**1,511,903**	**2,298,011**	**12,700,832**
Property, plant and equipment					
Other equipment, operational and office equipment	2,181,086	710,326	73,743	1,433,880	1,531,275
Total	**30,491,780**	**3,587,039**	**6,183,985**	**3,731,891**	**36,530,913**

Accumulated depreciation/ Amortisation/ Impairment				Book value	
Balance at 01.01.2006 EUR	Depreciation/ Amortisation/ Impairment 2006 EUR	Disposals EUR	Balance at 31.12.2006 EUR	Business year 31.12.2006 EUR	Previous year 31.12.2005 EUR
1,634,334	**0**	**0**	**1,634,334**	**16,066,134**	**6,781,488**
1,365,849	946,055	68,800	2,243,104	4,851,977	1,370,117
436,137	759,833	3,063	1,192,907	2,322,239	2,845,434
1,801,986	**1,705,888**	**71,863**	**3,436,011**	**7,174,216**	**4,215,551**
1,217,240	273,240	194,420	1,296,060	885,026	449,219
4,653,560	**1,979,128**	**266,283**	**6,366,405**	**24,125,376**	**11,446,258**

Accumulated depreciation/ Amortisation/ Impairment				Book value	
Balance at 01.01.2007 EUR	Depreciation/ Amortisation/ Impairment 2007 EUR	Disposals EUR	Balance at 31.12.2007 EUR	Business year 31.12.2007 EUR	Previous year 31.12.2005 EUR
1,634,334	**0**	**0**	**1,634,334**	**20,664,473**	**16,066,134**
2,243,104	1,137,627	2,008,661	1,372,070	6,880,054	4,851,977
1,192,907	987,688	6,983	2,173,612	2,275,096	2,322,239
3,436,011	**2,125,315**	**2,015,644**	**3,545,682**	**9,155,150**	**7,174,216**
1,296,060	447,767	1,312,934	430,893	1,100,382	885,026
6,366,405	**2,573,082**	**3,328,578**	**5,610,909**	**30,920,005**	**24,125,376**

Notes to the consolidated financial statements

Corporate information [1]

The consolidated financial statements of ad pepper media International N.V. (the "company") for the year ended 31 December 2007 were authorised for issue by the board of directors on 15 April 2008. ad pepper media International N.V. is a limited liability company incorporated in the Netherlands, domiciled at Hogehilweg 15, 1101 CB Amsterdam, the Netherlands. The Head Office is domiciled at Frankenstraße 150C, 90461 Nuremberg, Germany. The company's shares are publicly traded under WKN 940883 (ISIN NL0000238145) on the Prime Standard of the Frankfurt Stock Exchange. The business activities of ad pepper media International N.V. involve holding investments in other entities whose objective is to market advertising space on the internet, and providing services for the subsidiaries. Since its formation, ad pepper media has been geared towards acting flexibly to meet the requirements of a whole range of different markets as an international group.

ad pepper media is an international provider of interactive products and services for websites and advertisers. The company currently markets campaigns and websites in more than 50 countries and operates from 19 branches in twelve European countries, the USA and Australia. ad pepper media uses state-of-the-art technology to link thousands of small, medium and large websites to a top-quality advertising network with global reach and an exact focus on its target group.

In addition to a regional, national and international marketing presence, website partners receive a large number of other important products and services such as ad serving, traffic analysis and performance optimisation, provided by ad pepper media and its affiliated entities in a localised form.

Accounting principles [2]

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value. The consolidated financial statements are presented in euros. All values are rounded to the nearest euro (EUR) or thousand euros (EURk) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of ad pepper media International N.V. and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

Basis of consolidation

The consolidated financial statements comprise the financial statements of ad pepper media International N.V. and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

All business combinations are accounted for under the purchase method. In accordance with this method, the purchase price has been allocated to the fair value of the interest held in the net assets of the consolidated subsidiaries at the time of acquisition. In doing so, all identifiable assets, liabilities and contingent liabilities are recognised at fair value and measured accordingly in the consolidated balance sheet. Following adjustments to the fair values of assets acquired and liabilities assumed, any resulting positive difference is capitalised in the balance sheet as goodwill. Situations in which the fair value of net assets is greater than the purchase price paid result in a negative difference. In the event that such difference remains following reassessment of the allocation of the purchase price or determining the fair value of acquired assets, liabilities and contingent liabilities, this is recognised as income immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to minority interest is also recognised at fair value. Goodwill is however reported only to the extent that it applies to the group and is not extrapolated to minority interest.

Consolidated group

The entities included in consolidation are as follows:

Entity	Share
ad pepper media GmbH, Nuremberg, Germany	100 %
ad pepper media Austria GesmbH, Salzburg, Austria	100 %
ad pepper media Benelux B.V., Amsterdam, the Netherlands	100 %
ad pepper media Sweden AB, Stockholm, Sweden	100 %
ad pepper media Denmark A/S, Copenhagen, Denmark	100 %
Pentamind A/S, Copenhagen, Denmark	100 %
ad pepper media Oy, Helsinki, Finland	100 %
ad pepper media UK Ltd., London, United Kingdom	100 %
ad pepper media France S.A.R.L., Paris, France	100 %
ad pepper media Spain S.A., Barcelona, Spain	100 %
ad pepper media USA LLC, Delaware, USA	100 %
ad pepper media Italy srl., Milan, Italy	100 %
Atlas Internet Associates s.r.o, Bratislava, Slovakia	100 %
Web Measurement Services B.V., Amsterdam, the Netherlands	100 %
Crystal Reference Systems Ltd., Holyhead, United Kingdom	100 %
Webgains Ltd., London, United Kingdom	100 %
ad pepper media Australia Ltd., Melbourne, Australia	100 %
ad pepper media SA, Lugano, Switzerland	100 %
Globase International ApS, Copenhagen, Denmark	100 %
Emediate ApS, Kongens Lyngby, Denmark	100 %
EMSEAS TEKNIK AB, Stockholm, Sweden	100 %
ad agents GmbH, Herrenberg, Germany	60 %

Changes in consolidated group

EMSEAS TEKNIK AB is a 100 percent subsidiary of Emediate ApS, which was established in 2007.

mediasquares GmbH and Regio ad Beteiligungs- und Verwaltungsgesellschaft mbH were merged with ad pepper media GmbH with effect from 1 January 2007.

ResultOnline B.V. was merged with ad pepper media Benelux B.V. with effect from 1 January 2007.

The no longer operationally active companies, ad pepper media Interactive Marketing Service s.r.l. and Borsa del Banner s.r.l., were liquidated as of 31 December 2007. The operative business is being continued by ad pepper media Italy s.r.l. The no longer operationally active company, Mediasense ApS, was liquidated as of 30 November 2007. The companies did not own any assets and liabilities at the time of liquidation.

Since the business activities of the merged entities are being continued by the respective transferee company, any goodwill that existed has been transferred to the respective transferee company (please refer to the note on goodwill).

Further comments are provided in the note on business combinations.

Changes in accounting policies

The accounting policies adopted are fundamentally consistent with those of the previous financial year with the exception of the following reclassification:

The amount of EUR 5,649 k reported in the previous year under the accrued liabilities was reclassified, on account of its liability character, to trade payables (EUR 2,595 k) or other current liabilities (EUR 3,054 k). The corresponding amounts for 2007 are EUR 3,377 k and EUR 2,132 k. The presentation in the cash flow statement has been adjusted accordingly.

The item reported in the previous year called "prepaid expenses and other current assets" has been reclassified to the captions, "financial assets" and "other current assets".

The item reported in the previous year called "other current liabilities" has been reclassified to the captions, "financial liabilities" and "other current liabilities".

New standards

Changes in accounting principles result from adoption of the following new and amended standards:

IAS 1 Presentation of Financial Statements

This amendment requires the group to make new disclosures to enable users of the financial statements to evaluate the group's objectives, policies and processes for managing capital. The amended provisions are applied in the consolidated financial statements.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 requires entities to provide disclosures about financial instruments in their financial statements. This IFRS supersedes IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" as well as the disclosure requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". According to IFRS 7, an entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance as well as nature and extent of risks arising from such financial instruments. The application of this IFRS has resulted in a significant extension of the disclosures regarding financial instruments.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

This Interpretation provides guidance on how to apply the requirements of **IAS 29** in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. The interpretation did not have any impact on the consolidated financial statements.

IFRIC 8 Scope of IFRS 2

The interpretation did not have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 deals with characteristics when accounting for embedded derivatives according to IAS 39. An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract. The interpretation did not have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment

The Interpretation addresses the apparent conflict between the requirements of IAS 34 "Interim Financial Reporting" and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. IFRIC 10 states that any such impairment losses recognised in an interim financial statement shall not be reversed in subsequent interim or annual financial statements. IFRIC 10 did not have any impact on the consolidated financial statements.

The group has not early adopted the following standards and interpretations which have been released but are not yet to be adopted. The group generally intends to adopt all standards as of the required first time adoption date.

IFRS and IFRIC Interpretations endorsed by the European Community which are not yet to be adopted:

IFRS 8 Operating segments

IFRS 8 supersedes IAS 14 "Segment reporting" and converges the standards of the IASB with the requirements of the Statement of Financial Accounting Standards (SFAS) 131. The IFRS requires an entity to report financial and descriptive information about its reportable segments.

Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity, on which separate financial information is available, that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. The standard shall be applied for annual periods beginning on or after 1 January 2009. Earlier application is permitted. The group had not yet finally analysed the effects of these changes as of closing date.

IFRIC 11 Group and Treasury Share Transactions

IFRIC 11 addresses the question how IFRS 2 "Share-based Payment" is to be applied in cases where an entity grants to its employees rights to equity instruments of the same or another entity. IFRIC shall be applied for annual periods beginning on or after 1 March 2007. Earlier application is permitted. IFRIC 11 will probably have no impact on ad pepper media's annual report.

IFRS and IFRIC interpretations in force but not yet endorsed by the European Community:

IAS 1 revised – Presentation of Financial Statements

IAS 1 revised was issued in September 2007 and is applicable for financial years beginning on or after 1 January 2009. IAS 1 revised will result (among other things) in additional disclosures regarding equity. IAS 1 revised will result in additional disclosures in the consolidated financial statements.

IAS 23 Borrowing costs (revised 2007)

IAS 23 Borrowing costs (revised 2007) was issued in March 2007 and is applicable for financial years beginning on or after 1 January 2009. The standard requires capitalisation of borrowing costs that can be allocated to a qualifying asset. According to its transitional provisions, the standard shall be applied prospectively from the date of application. IAS 23 Borrowing costs (revised 2007) is not expected to apply to ad pepper media.

IFRIC 12 Service concession arrangements

IFRIC 12 is limited to accounting for arrangements whereby a government contracts for the supply of public services (such as roads or hospitals) to private operators from the perspective of the licensee. IFRIC 12 shall be applied for annual periods beginning on or after 1 January 2008. This interpretation is not relevant for the business of the group.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 was issued in June 2007 and is applicable for financial years beginning on or after 1 July 2008. This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. IFRIC 13 Customer Loyalty Programmes will probably have no impact on the consolidated financial accounts.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 was issued in July 2007 and is applicable for financial years beginning on or after 1 January 2008. The interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. IFRIC Interpretation 14 will probably have no impact on the consolidated financial accounts.

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

This amendment to **IFRS 2** Share-based Payment was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The group had not yet finally analysed the effects of these changes as of the closing date.

IFRS 3 Business Combinations

The revised **IFRS 3** was published in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. The Standard was comprehensively revised in conjunction with the IASB/FASB convergence project. The main changes comprise in particular the introduction of an option for the measurement of minority interests between the recording of the identifiable net assets ("purchased goodwill method") and the full goodwill method, under which the full goodwill of the acquired entity, also including the portion attributable to the minority interest, shall be recognised. Furthermore, special mention should be made of the revaluation of existing interests, recognising gains or losses in profit or loss, when control is obtained for the first time (successive business acquisition), the mandatory reflection of consideration that is linked to the occurrence of future events at the acquisition date and the recognition of transaction costs. The transitional regulations provide for the prospective application of the new Standard. No changes ensue for assets and liabilities that result from business combinations before the first-time application of the new Standard. The group had not yet finally analysed the effects of these changes as of the closing date.

IAS 27 Consolidated and Separate Financial Statements

The revised **IAS 27** was published in January 2008. The amendments that have been made shall be applied for the first time for financial years beginning on or after 1 July 2009. The amendments result from the joint project between the IASB and the FASB on the revision of the accounting regulations applicable to business combinations. The amendments relate primarily to accounting for interests without a control character (minority interests), which will participate in future in full in the losses of the group, and transactions that result in the loss of control over a subsidiary, the effects of which shall be recognised in profit or loss. The effects of disposals of interests that do not result in the loss of control shall on the other hand however be recognised in equity. The transitional regulations, which fundamentally foresee the retrospective application of the amendments, provide for the prospective application of the above-mentioned matters. No changes ensure for assets and liabilities that result from such transactions before the first-time application of the new Standard. The group had not yet finally analysed the effects of these changes as of the closing date. On the basis of the existing situation, the amended IAS 27 will not have any significant impact.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 presentation of Financial Statements:

The amendments to **IAS 32** and **IAS 1** were published in February 2008 and shall be applied for the first time for financial years beginning on or after 1 January 2009. The amendments relate to the classification of puttable shareholder contributions as an equity instrument or as a financial liability. Under the existing rules, entities were in some cases forced, on account of redemption rights on the part of the shareholder that were foreseen by law, to report the capital as financial liabilities.

In future, these shareholder contributions will generally be classified as equity, if compensation at fair value is agreed and the contributions made represent the most subordinate claims on the company's net assets. On the basis of the existing situation, the amended IAS 32 will not have any significant impact.

Significant accounting judgments, estimates and assumptions

Judgments

In the process of applying the group's accounting policies, management has to make judgments, which have a significant effect on the amounts recognised in the financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Development Costs

Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. Further information is presented in the note on "Intangible assets".

Impairment of Goodwill

The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. Estimating an amount for the recoverable amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further information is presented in the note on "Goodwill".

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. Further information is presented in the note on "Income taxes".

Assets acquired as part of a business combination

The recognition of property, plant and equipment and intangible assets involves estimations to determine the fair value on the acquisition date. This applies in particular to assets acquired as part of a business combination. The determination of the fair values of assets and liabilities and the useful lives of assets is based on assessments by management. Further information is presented in the note on "Business combinations".

Impairment of available-for-sale financial assets

The group classifies certain assets as available-for-sale and recognises changes in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. No impairment losses have been recognised for available-for-sale assets at 31 December 2007 (2006: nil). Further information is presented in the note on "Current and non-current marketable securities".

Summary of significant accounting policies [3]

Foreign currency translation

The consolidated financial statements are presented in euros, which is the company's functional and presentation currency. Each entity in the group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

As at the reporting date, the assets and liabilities of those subsidiaries that have a functional currency other than the euro are translated into the presentation currency of ad pepper media International N.V. (the euro) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

The significant foreign currency exchange rates have developed as follows:

Property, plant and equipment

Plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets. The estimated useful lives of the assets are between three and ten years.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Business combinations and goodwill

Business combinations are accounted for applying the purchase method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose

Foreign currency per 1 EUR	Closing rate 31.12.2007	Closing rate 31.12.2006	Average rate 2007	Average rate 2006
US dollar	1.4674	1.3148	1.4733	1.2539
British pound	0.7333	0.6694	0.7122	0.6803
Swedish krone	9.4253	9.0192	9.3416	9.2391
Danish krone	7.4377	7.4359	7.4373	7.4391

of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

> represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
> is not larger than a segment based on either the group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognised in the income statement.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Research and development costs
Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period in which the asset is not yet in use, it is tested for impairment annually.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value of the asset or cash-generating unit less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. The valuation model is based on a discounted cash flow method.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increased amount shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised on the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised for goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses recognised for goodwill shall not be reversed in future periods. The group performs its annual impairment test of goodwill as at 31 December.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the settlement date, being the date on which the group clears the purchase or sale of a financial asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in the preceding category.

Available-for-sale financial assets, classified as current or non-current marketable securities depending on their maturity, are non-derivative financial assets that are designated as available-for-sale. They are recognised on initial measurement at fair value. After initial measurement, available-for-sale financial assets are measured at fair value, recognising unrealised gains or losses directly in equity in the net unrealised gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost
Loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets
The group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the recognition of impairment, the impairment loss previously recognised is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial investments
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the group's own equity instruments.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less. Shares in money market funds are also included in cash equivalents.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Share-based payment transactions

Employees (including senior executives) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

In situations in which some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model, further details of which are given in subsequent notes.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

A voluntary waiver of the counterparties of granted stock options after the grant date is treated as a cancellation of the plan resulting in an accelerated vesting of the granted stock options.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are provided in Note [15]).

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Only operating lease agreements exist. Payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other turnover taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

The company generates its revenues mainly by marketing internet advertising space. Advertising customers book units (Ad Impressions, Ad Clicks, Registrations, Mail send-outs, Transactions) via the company – these are supplied over a period defined by the customer. Revenue is recognised when persuasive evidence of an arrangement exists, delivery has occurred, the price of the transaction is fixed and determinable, and recoverability is reasonably assured.

In cases in which the campaign starts before the balance sheet date and lasts beyond this date, revenue is deferred proportionately according to the units supplied or to the period, depending on the contract.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable and deductible temporary differences, except:

> where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

> in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

> where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
> in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

> where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
> receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Earnings per share

Earnings per share is determined pursuant to IAS 33 "Earnings per Share". Basic earnings per share is the consolidated net income divided by the weighted average number of shares of ordinary shares outstanding. Diluted earnings per share is the consolidated net income divided by the total of the weighted average number of shares of ordinary shares outstanding and all dilutive effects of potential ordinary shares.

Cash flow statement

The cash flow statement according to IAS 7 "Cash Flows Statements" is classified by operating, investing and financing activities.

Business combinations [4]

Emediate

On 31 January 2007, ad pepper media announced the acquisition of 100 percent of the shares in the Scandinavian adserving provider, Emediate ApS, Kongens Lyngby/Denmark. Emediate offers its technology for efficient delivery, management and analysis of online adverting campaigns to small, medium and large websites. Past revenues were generated via a classical application service providing (ASP) model and through the licensing of Emediate software. Both of these revenue sources will continue following the acquisition by ad pepper media. As a result of the rollout of the software in those countries in which ad pepper media is already present, we are convinced that we will be able to considerably boost Emediate's growth. In addition, we will use Emediate's technology within the proprietary webstats4U network and in affiliate marketing, because we are convinced that we will be able to benefit from excellent synergies, especially in the micro-publisher segment.

The acquisition of Emediate cost a total of EUR 4.8 million in cash, which became payable immediately on finalisation of the transaction. At the same time, the Emediate's existing shareholders undertook to subscribe new ad pepper media shares resulting from an increase in capital for an amount of EUR 2.3 million. On the basis of a subscription price of EUR 10.96 per ad pepper media share, 209,854 shares were transferred to the sellers.

Emediate contributed a profit of EUR 510 k to the earnings for the period.

The company's revenues amounted to EUR 1,680 k. The pro-forma revenues and the pro-forma earnings for the period on the assumption that the acquisition had taken place at the beginning of the past business year do not vary materially from the amounts reported in the consolidated interest financial statements.

Net cash paid	EURk
Cash acquired with the subsidiary	80
Cash paid	-4,800
Costs directly attributable to the transaction	-32
Net cash paid	**-4,752**

The fair value of the identifiable assets and liabilities at the acquisition date and the corresponding carrying amounts are as follows:

Foreign currency per 1 EUR	Recognised on acquisition	Carrying amounts
	EURk	EURk
Intangible assets	1,510	
Property, plant and equipment	43	43
Total non-current assets	**1,553**	**43**
Trade receivables	183	183
Prepaid expenses and other current assets	16	16
Cash	80	80
Total current assets	**279**	**279**
Total assets	***1,832***	***322***
Deferred taxes	423	
Trade payables	43	43
Other current liabilities	72	72
Income tax liabilities	63	63
Total liabilities	**601**	**178**
Net assets	**1,231**	**14**
Goodwill on acquisition	**3,601**	
Total purchase price	**4,832**	

The goodwill of EUR 3,601 k comprises the above-mentioned synergies expected from the business combination.

ad agents

Furthermore, ad pepper media acquired a majority investment in ad agents GmbH, Herrenberg as of 1 April 2007. The company conceives and realises services in the field of search engine marketing. The core business of ad agents is search engine optimisation (SEO) and search engine marketing (SEM). In addition, the company advises large numbers of customers on the online-media segment, for instance on looking after campaigns for affiliate networks, on the marketing of online advertising space and on online cooperation. ad pepper media has taken up a 60 percent interest in ad agents GmbH in conjunction with an increase in capital for cash, and is underlining its strategic objective of establishing itself faster in new markets through external growth, products, formats, services and tools. The purchase price including ancillary acquisition costs amounted to EUR 243 k in cash.

ad agents GmbH contributed a profit of EUR 78 k to the earnings for the period. The company's revenues amounted to EUR 3,131,500. On the assumption that the acquisition had taken place at the beginning of the past business year, the pro-forma revenues would have amounted to EUR 51,498,177 and the pro-forma earnings for the period to EUR 2,610,350.

The fair value of the identifiable assets and liabilities of ad agents at the acquisition date, which corresponded with the carrying amounts immediately prior to the acquisition, were as follows:

Net inflow of cash	EURk
Cash acquired with the subsidiary	73
Costs directly attributable to the acquisition	-3
Actual net inflow of cash	**70**

Recognised on acquisition	EURk
Intangible assets	8
Property, plant and equipment	19
Total non-current assets	**27**
Trade receivables	388
Prepaid expenses and other current assets	173
Cash	73
Total current assets	**634**
Total assets	**661**
Trade payables	228
Other current liabilities	226
Provisions	82
Deferred tax liabilities	0
Total liabilities	**536**
Minority interest in increase in capital for cash	50
Net assets	**125**
Increase in capital for cash after minority interest	**144**
Goodwill on business combination	**24**
Total purchase price	**243**

The goodwill of EUR 24 k comprises the above-mentioned synergies expected from the business combination.

mediasquares

An amount of EUR 948,606 was paid in cash in June 2007 as an additional earnings-based purchase price instalment in connection with the acquisition of mediasquares GmbH in October 2005.

The amount was added to goodwill.

Business combinations - finalised business combinations

Crystal Reference Systems Ltd.

With effect from 31 March 2006, ad pepper media International N.V. acquired a 100 percent interest in Crystal Reference System Ltd. The provider of reference content and knowledge databases, which is based in Holyhead, Great Britain, also brought its innovative contextual search and advertising technology into the business. The semantic analysis tool is considered to be the first method based on linguistic science. The Textonomy solutions have been proven to significantly enhance search results and contextual advertising.

The purchase price as of 31 December 2006 amounted to about EUR 2,772,926, of which EUR 664,999 was paid in form of 65,336 shares in the company. The value per share of EUR 10.178 represents the fair value as of the exchange date. The additional purchase price instalment, which became due on the achievement of certain performance targets, was paid In January 2007. An amount of EUR 332,341 was therefore recognised in other current liabilities. The liability was settled in cash in 2007.

Webgains Ltd.

On 9 May 2006, ad pepper media acquired a 100 percent interest in Webgains Ltd. in London. Founded in 2004, the company has focused on providing merchants and affiliates with a unique mix of proprietary state of the art affiliate marketing technology and world-class customer service. The Webgains technology, which was designed as a highly scalable platform and ready for international expansion, brings to ad pepper media the fruits of many years of experience in the affiliate marketing industry.

The purchase price as of 31 December 2006 amounted to EUR 4,270,853, of which EUR 264,827 was paid in January 2007 in the form of 24,658 shares of the company. This amount was reported as of 31 December 2006 in other current liabilities. The value per share of EUR 10.74 represents the fair value as of the exchange date. In addition, the share purchase agreement included an earn-out component depending on the achievement of various objectives. Since the performance criteria were met as of the reporting date, an amount of EUR 1,997,722 was included in other current liabilities. The liability was settled in treasury shares in 2007.

Segment reporting [5]

The various products and services of ad pepper media do not differ materially as regards risk and income. Internal financial reporting and the management structure primarily focus on geographical regions. Primary reporting is therefore provided for the following summarised segments:

> Central Europe including Germany, the Netherlands and Slovakia
> Northern Europe including Denmark and Sweden
> Western Europe including the UK, France, Spain and Italy
> Others (US, Australia, Switzerland)

Financial year 2007

	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others EURk	Consolidation EURk	Group EURk
Total revenues	**21,819**	**10,757**	**16,388**	**3,350**	**-1,690**	**50,624**
thereof external	20,813	9,490	16,523	3,798	0	50,624
thereof intercompany	1,006	1,267	-135	-448	-1,690	0
Expenses and other income	**16,194**	**10,528**	**18,252**	**3,597**	**-1,722**	**46,849**
thereof amortisation and depreciation	1,412	376	479	13	293	2,573
thereof other non-cash expenses	802	130	781	133	-150	1,696
EBIT	**5,625**	**229**	**-1,864**	**-247**	**32**	**3,775**
Financial income, net						**594**
Income taxes						**-1,782**
Net income for the year						**2,587**

	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others EURk	Consolidation EURk	Group EURk
Assets	**18,580**	**10,755**	**15,969**	**1,170**	**-64**	**46,410**
Unallocated assets						**22,437**
Total assets						**68,847**
thereof investments in property, plant and equipment in the financial year*	329	330	95	30	0	784
thereof investments in intangible assets in the financial year*	1,301	1,510	1,578	0	0	4,389
Liabilities	**4,417**	**1,975**	**4,352**	**406**	**-134**	**11,016**
Unallocated liabilities						**1,364**
Total liabilities						**12,380**

* To comply with IAS 14.57, the group has included the cost of segment assets acquired by way of business combinations.

Financial year 2006

	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others EURk	Consolidation EURk	Group EURk
Total revenues	**20,361**	**8,552**	**15,234**	**3,144**	**-5,599**	**41,692**
thereof external	17,629	6,469	14,426	3,168	0	41,692
thereof intercompany	2,732	2,083	808	-24	-5,599	0
Expenses and other income	**14,266**	**7,543**	**16,702**	**2,650**	**-5,290**	**35,871**
thereof amortisation and depreciation	1,473	122	414	5	-35	1,979
thereof other non-cash expenses	669	3	563	17	0	1,252
EBIT	**6,095**	**1,009**	**-1,468**	**494**	**-309**	**5,821**
Financial income, net						**688**
Income taxes						**-1,196**
Net income for the year						**5,313**

	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others EURk	Consolidation EURk	Group EURk
Assets	**15,720**	**5,450**	**15,784**	**1,039**	**17**	**38,010**
Unallocated assets						**28,120**
Total assets						**66,130**
thereof investments in property, plant and equipment in the financial year*	346	168	248	5	0	767
thereof investments in intangible assets in the financial year*	1,298	367	3,011	0	0	4,676
Liabilities	**7,590**	**1,477**	**4,616**	**3,590**	**0**	**14,042**
Unallocated liabilities						**1,235**
Total liabilities						**15,277**

* To comply with *IAS 14.57*, the group has included the cost of segment assets acquired by way of business combinations.

Notes to the income statement [6]

The income statement has been prepared using the function of expense method. The expenses contain personnel expenses of EUR 18,794 k (2006: EUR 16,385 k) and systematic depreciation and amortisation of EUR 2,573 k (2006: EUR 1,979 k).

Cost of sales [7]

Cost of sales mainly comprises expenses for internet advertising space and for server technology used, including the associated personnel costs.

Selling and marketing expenses [8]

This item comprises all costs associated with attracting customers and orders. Advertising costs of EUR 526 k (2006: EUR 484 k) were expensed in 2007.

General and administrative expenses [9]

This item includes costs of EUR 578 k in connection with the sale of investments in dMarc Broadcasting Inc. and Falk eSolutions.

Other operating income [10]

This item primarily includes foreign exchange gains of EUR 317 k (2006: EUR 545 k).

Other operating expenses [11]

This item primarily includes foreign exchange losses of EUR 768 k (2006: EUR 240 k) and additions to the bad debt allowances as well as write-off of receivables of EUR 665 k (2006: EUR 1.020 k).

Gain on sale of shares in associates and other investments [12]

During the financial year 2006, the 25.1 percent interest in Falk eSolutions AG was sold to DoubleClick. Gains of EUR 0.4 million were recognised in 2007 from earn-out components of the selling price, which were dependent on meeting defined milestones.
Also in the first quarter of 2006, Google took over dMarc Broadcasting, in which ad pepper media held a stake of 8.2 percent. Gains of EUR 6.4 million were recognised in 2007 from earn-out components of the selling price, which were depend-ent on meeting defined milestones.

Financial income, net [13]

The amount for the past business year includes net interest of EUR 624 k (2006: EUR 653 k) and realised losses of EUR 30 k on the disposal of available-for-sale securities.

In the previous year, financial income, net, furthermore included income of EUR 35 k from investments accounted for at equity. Interest income calculated using the effective interest method (IFRS 7.20 b) corresponds with the interest income of EUR 644 k (2006: EUR 704 k), because no premiums or discounts have to be allocated. Interest expense on financial liabilities that are not at fair value though profit or loss amounts to EUR 21 k (2006: EUR 17 k).

Income taxes [14]

Income taxes break down	2007 EURk	2006 EURk
Current income tax	-279	-301
Deferred tax	-1,503	-895
Income tax	**-1,782**	**-1,196**

The current income taxes reported relate to the taxes paid or payable by individual local entities. The calculation of the deferred taxes was based on the country-specific tax rates. Due to the existing unused tax losses, deferred tax assets of EUR 4,854 k (2006: EUR 7,058k) were calculated on the basis of the unused tax losses of EUR 17,036 k (2006: EUR 18,978 k). Allowances of EUR 2,391 k (2006: EUR 2,679 k) were recorded on non-current deferred tax assets from unused tax losses which are unlikely to be utilised within a foreseeable planning period. The unused tax losses can be carried forward in full and indefinitely.

In addition to the unused tax losses, the following significant deferred tax assets and liabilities result from temporary differences.

Deferred tax liabilities	2007 EURk	2006 EURk
Software	680	458
Securities	0	12
Goodwill	144	134
Website/customer base	227	354
Total	**1,051**	**958**

Deferred tax assets	2007 EURk	2006 EURk
Tax losses brought forward	2,463	4,379
Securities	647	494
Others	13	10
Total	**3,123**	**4,883**

Changes in deferred tax liabilities on temporary differences recognised in profit or loss amount to EUR 330 k. The change in deferred tax assets on temporary differences is recognised in the case of the reported securities, which are allocated to the available-for-sale category, directly in equity, and otherwise in profit or loss.

Deferred tax assets and liabilities are netted if the company has the legally enforceable right to set off current tax assets against current tax liabilities and if they relate to the same tax authorities and the same taxable entity. As a result, deferred tax assets of EUR 2,979 k (2006: EUR 4,747 k) and deferred tax liabilities of EUR 907 k (2006: EUR 822 k) were recognised in the balance sheet.

Deferred tax assets of EUR 907 k on tax losses are recognised for national companies with a history of losses, because group management assumes that it has created the basis for the forecast development of the earnings through the steps taken to improve the profitability.

The tax rates in several European countries in which ad pepper media is active, such as Germany, Denmark, Italy and Spain, have been reduced with effect from 2008. This is affected in particular by the reduction of the combined German rate for corporate income tax and trade tax on income from 39.82 percent to 31.47 percent in the measurement of deferred tax captions in the consolidated balance sheet.

No deferred tax liabilities were recognised as of 31 December 2007 (2006: EUR 0) for taxes on non-distributed profits of subsidiaries, because the group has decided that the profits of its subsidiaries that have not been distributed will not be distributed in the foreseeable future. If deferred taxes were to be recognised for these temporary differences, only the source tax rates applicable in each case, where appropriate taking into account the German tax of 5 percent of the distributed dividends, would have to be applied for the computation. The calculation of these deferred taxes, which have been ignored, would be associated with unreasonable cost and effort.

ad pepper media International N.V. has its tax domicile in Germany. The reconciliation between expected income tax expense and actual income tax expense based on the German statutory tax rate (combined corporate income tax and trade tax on income) of 39.82 percent (2006: 43 percent) is as follows:

	2007 EURk	2006 EURk
Expected income tax expense	-1,740	-2,799
Foreign tax rate differential	-436	37
Effect from tax-free gains	2,638	3,484
Prior year income tax	-532	0
Deferred tax expense due to change in tax rates	-434	0
Increase of allowance on deferred tax assets	-1,038	-1,183
Tax effect on earnings from investments measured at equity	0	15
Non-deductible stock option expenses	-174	-315
Non-tax-deductible expenses and other	-66	-435
Actual tax expense	**-1,782**	**-1,196**

Earnings per share [15]

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The income and share data used in the computations of basic and diluted earnings per share are as follows:

	2007	2006
Net income attributable to shareholders of the parent company in EUR	2,555,163	5,312,858
Number of shares at the beginning of the period	10,942,280	10,692,744
Number of shares at the end of the period	11,201,958	10,942,280
Weighted average number of shares outstanding (basic)	11,149,810	10,817,317
Basic earnings per share in EUR	**0.23**	**0.49**
Weighted average number of shares outstanding (diluted)	11,679,362	11,771,977
Diluted earnings per share in EUR	**0.22**	**0.45**

The weighted average number of shares outstanding in 2007 was calculated on a daily basis. In 2007, the options granted resulted in dilution of an average of 529,552 shares (2006: 954,660 shares).

On 9 February 2007, 209,854 new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange.

A further 30,000 new shares in ad pepper media International N.V. were admitted for trading on 21 December 2007.

The company has carried out a share repurchase programme, in the course of which 169,200 shares were acquired at an average price of EUR 7.27.

Notes to the consolidated balance sheet

Non-current assets

Goodwill [16]

In accordance with the provisions of IAS 36, goodwill was tested for impairment in the fourth quarter of 2007 on the basis of future cash flows. The recoverable amount of each cash-generating unit (CGU), which is identical to the local entities, was determined on the basis of the calculation of a fair value less costs to sell (2006: value in use) using cash flow forecasts based on the financial plans for the next five financial years. Individual growth rates were defined for the companies in the individual countries. Overall, an average CAGR (compound annual growth rate) of 15 percent on revenues was assumed for the group, which is in line with market expectations on the basis of current studies in the industry. The discount rate (weighted average cost of capital) used for the cash flow forecast is between 6.78 percent and 9.83 percent (2006: pre-tax discount rates between 9.3 percent and 11.4 percent). Cash flows after the five-year forecast period were calculated without using a constant growth rate, as it is not currently possible to calculate a long-term average growth rate for this young industry.

The underlying assumptions for the most material CGUs are as follows:

Cash generating units	Goodwill in EURk	Discount rate in %	CAGR in %
ad pepper media GmbH	4,454	7.80	11.1
Emediate ApS	3,625	7.80	14.0
ad pepper media Benelux B.V.	3,272	7.80	12.6
ad pepper media UK Ltd.	1,774	7.96	16.9
Webgains Ltd.	1,724	7.96	19.0
ad pepper media Italy srl.	1,344	8.17	13.0
ad pepper media Sweden AB	1,323	7.80	19.3

This did not lead to any impairments.

Sensitivity to changes in assumptions

With regard to the assessment of the recoverable amount of the CGUs, Emediate and ad pepper Benelux B.V., management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values of the units to materially exceed their recoverable amounts.

For the CGUs, ad pepper media GmbH, ad pepper media UK, ad pepper media Sweden and ad pepper media Italy srl., reasonably possible changes in key assumptions could arise, which could cause the carrying values of the units to exceed their recoverable amounts. The actual recoverable amount for these CGUs exceeds their carrying amount by the following amounts:

Company	EURk
ad pepper media GmbH	310
ad pepper media UK	54
ad pepper media Sweden AB	0
ad pepper media Italy srl.	62

The implications of the key assumptions on the recoverable amount are discussed below:

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to impact adversely on forecasts included in the budget, but could yield a reasonably possible alternative to the estimated growth rate. On the following reduced growth rates, the recoverable amount of the CGU would be reduced to its carrying amount:

Company	in %
ad pepper media GmbH	9.9
ad pepper media UK	16.5
ad pepper media Sweden AB	n/a
ad pepper media Italy srl.	12.2

Total goodwill at the end of the financial year amounted to EUR 20,664 k (2006: EUR 16,066 k). The allocation to the cash-generating units is as follows:

	31.12.2007 EURk	31.12.2006 EURk
ad pepper media Benelux B.V.	3,272	3,253
ad pepper media Denmark A/S	780	759
Globase International ApS	440	440
ad pepper media Sweden AB	1,323	1,317
ad pepper media Spain S.A.	705	696
ad pepper media GmbH	4,454	1,963
Pentamind A/S	0	151
Borsa del Banner srl.	0	15
ad pepper media Interactive Marketing Services srl.	0	1,322
ad pepper media Italy srl.	1,344	0
ad pepper media France S.A.R.L.	702	687
ad pepper media UK Ltd.	1,774	1,759
Webgains Ltd.	1,724	1,724
ad pepper media USA LLC	451	440
ad pepper media Australia Ltd.	46	46
mediasquares GmbH	0	1,494
Emediate ApS	3,625	0
ad agents GmbH	24	0
Total	**20,664**	**16,066**

As a result of a change in its business activities, Pentamind A/S no longer generates any largely independent cash flows. Accordingly, the goodwill attributable to Pentamind A/S has been allocated to the CGUs with the largest synergies, i.e. the countries that benefit most from the activities of Pentamind A/S.

Further details about changes in goodwill are disclosed under "Business Combinations" and "Changes in consolidated group".

The development of intangible assets including goodwill is presented in the consolidated fixed assets schedule.

Intangible assets [17]

The intangible assets break down as follows:

Software

In 2007, software IT solutions developed in-house for the company's own use were capitalised at cost in the amount of EUR 1,586 k. Amortisation of solutions developed in-house for the company's own use amounts to EUR 536 k, and the carrying amount at 31 December 2007 to EUR 3,296 k.

In 2006, software IT solutions developed in-house for the company's own use were capitalised at cost in the amount of EUR 1,588 k.

In addition, other software components were acquired in the course of business combinations. Software is amortised over a useful life of three to five years.

Software not yet in use it has been tested for impairment as of 31 December 2007. This did not lead to any impairments.

Brands and customer base

The most material items included are as follows:

On 30 August 1999, ad pepper media purchased the "ad pepper" brand for EUR 614 k. This brand is being written off over a period of ten years on a straight-line basis. The residual carrying amount as of 31 December 2007 is EUR 102 k (2006: EUR 164 k). In April 2003, the "Regio Ad" brand was acquired for EUR 48 k, including incidental acquisition costs. The amortisation period is also ten years. The residual carrying amount as of 31 December 2007 is EUR 25 k (2006: EUR 30 k).

The customer base acquired in connection with the acquisition of ResultOnline at a cost of EUR 444 k is being amortised over a useful life of seven years. The residual carrying amount as of 31 December 2007 is EUR 275 k (2006: EUR 328 k).

The customer base acquired in connection with the acquisition of Nedstat Basic in 2005 at a cost of EUR 1,331 k is being amortised over a useful life of three years. The residual carrying amount as of 31 December 2007 is EUR 335 k (2006: EUR 779 k).

The portfolio of websites acquired in the course of the acquisition of the mediasquares online marketing agency in the financial year 2005 at a cost of EUR 627 k is being amortised over a useful life of seven years. The residual carrying amount as of 31 December 2007 is EUR 425 k (2006: EUR 515 k).

The customer base acquired in connection with the acquisition of the Webgains affiliate platform in 2006 at a cost of EUR 235 k is being amortised over a useful life of three years. The residual carrying amount as of 31 December 2007 is EUR 104 k (2006: EUR 183 k).

The customer bases of publisher clients and agency clients acquired in connection with the acquisition of Emediate at a cost of EUR 811 k and EUR 125 k respectively are being amortised over useful lives of five and three years respectively. The residual carrying amounts as of 31 December 2007 are EUR 662 k and EUR 87 k respectively.

Property, plant and equipment [18]

The development of property, plant and equipment including cost and accumulated depreciation is presented in the development of consolidated fixed assets.

Non-current and current securities [19, 21]

The securities as of 31 December 2007 consist entirely of available-for-sale securities.

Current securities consist exclusively of securities with a remaining term of less than one year. Non-current securities have a remaining term of more than one year, to the extent that their disposal within one year is not planned.

In the reporting year, available-for-sale securities were acquired for EUR 1,500 k (2006: EUR 1,990 k) and sold for a total of EUR 3,460 k (2006: EUR 3,101 k). The losses incurred in the past financial year amount to EUR 30 k (2006: EUR 15 k), including losses of EUR 30 k (2006: EUR 15 k) from the release of other comprehensive income to profit or loss.

In the reporting period, unrealised losses of EUR 805 k (2006: EUR 438 k) were recognised directly in other comprehensive income and loss.

The maturities of the available-for-sale securities as of the end of the period are as follows:

Market value	31.12.2007 EURk	31.12.2006 EURk
Due within one year	3,390	3,938
Due between one and five years	0	1,987
Due in more than five years	2,131	2,373
Total	**5,521**	**8,298**

Other financial assets [20]

This item contains rent and similar deposits, carried at their nominal amount. Furthermore, the item includes non-current loan receivables from a board member and shareholder of EUR 280 k (2006: EUR 300 k) at an interest rate of 3.9 percent and with a remaining period of up to seven years.

Current assets

Trade receivables [22]

Trade receivables are recognised at their nominal value less valuation allowances. The valuation allowances as of 31 December 2007 amount to EUR 2,009 k (2006: EUR 2,975 k). The allowances are calculated on the basis of all information available to the company and include all probable bad debts on receivables as of 31 December 2007.

Income tax receivables [23]

The item includes capital gains tax of EUR 541 k (2006: EUR 364 k) paid in advance, which is to be reimbursed by the tax authorities, as well as prepaid taxes.

Prepaid expenses and other current assets [24]

Other current assets are generally recognised at their nominal value. In addition to payments in advance and prepaid expenses, this item also includes value added tax receivables of EUR 258 k (2006: EUR 317 k).

Other financial assets [24a]

The item comprises loan receivables to a shareholder. The loan bears interest at 4.0 percent p.a. and matures in one year or less. Also included are receivables from a pending purchase price payment of EUR 466 k (2006: EUR 619 k) and from a earn-out-component of EUR 758 k in connection with the sale of the investment in dMarc Broadcasting Inc.. Loan receivables of EUR 137 k have been written off in full (2006: EUR 137 k).

Cash and cash equivalents [25]

The item includes bank balances, cash in hand and day-to-day investments in money market funds whose amortised cost corresponds with their market value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand of EUR 8,651 k (2006: EUR 6,405 k) as well as shares in money market funds of EUR 3,378 k (2006: 7,975 k).

Issued capital [26]

The issued capital of ad pepper media International N.V. comprises 11,394,854 (2006: 11,155,000) bearer shares each with a nominal value of EUR 0.10.

On 9 February 2007, the Frankfurt Stock Exchange admitted for trading 209,854 new shares in ad pepper media International N.V. from the increase in capital in connection with the acquisition of Emediate ApS.

On 21 December 2007, a further 30,000 new shares in ad pepper media International N.V. were admitted for trading in connection with the exercise of stock options by a member of the Management Board.

Additional paid-in capital [27]

Proceeds from the issuance of shares increased the additional paid-in capital by the amount by which they exceeded the par value of the shares.

The costs (EUR 56 k) from the increase in capital in connection with the acquisition of Emediate ApS were deducted from the additional paid-in capital.

Treasury shares [28]

By resolution of the annual general meeting on 30 April 2007, the management board was authorised to purchase treasury shares of up to 10 percent of the share capital. Altogether 169,200 treasury shares were purchased in 2007. ad pepper media International N.V. held 192,896 treasury shares as of 31 December 2007 (2006: 212,720 treasury shares).

Sale of treasury shares

In the reporting year, 5,600 (2006: 2,800) treasury shares were sold at an exercise price of EUR 1.33, 5,400 (2006: 12,600) at a price of EUR 2.73, 3,500 (2006: 61,700) at a price of EUR 1.78 and 4,750 (2006: 54,600) shares at a price of EUR 4.45 under the employee stock option plans. In 2006, a further 52,500 shares were sold at a price of EUR 5.32 under the employee stock option plans.

In addition, 167,674 treasury shares were sold in the reporting year to settle purchase price liabilities resulting from the acquisition of Webgains Ltd. In 2006, 65,336 treasury shares were sold to settle purchase price liabilities resulting from the acquisition of Crystal Semantics.

Number of shares outstanding

The number of shares issued and outstanding as of 31 December 2007 totalled 11,201,958 (2006: 10,942,280). Each share has a nominal value of EUR 0.10.

Authorised unissued capital [29]

The authorised unissued capital totals EUR 32,000 and comprises 320,000 shares (2006: 0 shares).

Accumulated other comprehensive losses [30]

Accumulated other comprehensive losses include losses on available-for-sale securities of EUR 1,400 k (2006: EUR 847 k), taking into account deferred taxes of EUR 647 k (2006: EUR 494 k), and accumulated exchange differences of EUR -111 k (2005: EUR -140 k) from the translation of the financial statements of foreign subsidiaries.

Minority interest [31]

The minority interest results from the acquisition of 60 percent of the shares in ad agents GmbH and the result for the period of ad agents GmbH allocated proportionately to the minority interest.

Current liabilities

Trade payables [32]

Trade payables are recognised at the settlement amount. This item also includes accrued liabilities for outstanding invoices.

Other financial liabilities [33]

This balance sheet item mainly comprises liabilities for bonuses and commissions, and employee flexitime credits.

Other financial obligations [36]

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 186 k in financial year 2007 (2006: EUR 187 k). Rental expense amounted to EUR 1,181 k (2006: EUR 651 k). The future minimum payment obligations resulting from the contracts in place as of 31 December 2007 are as follows:

Financial year	2008 EURk	2009 EURk	2010 EURk	2011 EURk	2012 EURk	Thereafter EURk	Total EURk
Office rent	1,027	922	723	391	391	337	3,791
Guarantees	1,029	445	0	0	0	0	1,474
Car leases	98	36	12	0	0	0	146
Others	148	0	0	0	0	0	148
Total	**2,302**	**1,403**	**735**	**391**	**391**	**337**	**5,559**

Related party disclosures [34]

Persons in key positions in the group
The loan receivables described in the note on the balance sheet item "other financial assets" are owed by a member of the Management Board. Please refer with regard to other business relationships with this group of persons to Note [40].

Entities controlled by the ultimate parent company
ad pepper media GmbH also markets the internet pages of Gelbe Seiten Marketing and Funkhaus Nürnberg at standard market terms. Remuneration to such website operators amounted in 2007 to EUR 76 k (2006: EUR 25 k). The liabilities as of 31 December 2007 amounted to EUR 0 k (2006: EUR 3 k).

Litigation and claims [35]

Neither the ultimate parent nor any of its subsidiaries are involved in any material litigation with third parties.

Guarantees [37]

Guarantees relate to agreed minimum delivery volumes for certain websites. If the minimum delivery volume is not reached, ad pepper media is obliged to compensate the contractual partner for some of the income from the website. A material shortfall compared with the minimum delivery volumes is deemed unlikely.

Additional cash flow information [38]

The following information is provided to supplement the statement of cash flows:

"Other non-cash expenses and income" mainly comprise accrued interest income and expenses for allocation to and income from the release of valuation allowances on trade receivables, and expenses from writing down receivables. The item in the cash flow statement for repurchase of treasury shares includes stock options exercised that were settled in cash by ad pepper media International N.V. as well as buy-backs of treasury shares settled in cash.

Stock option programme [39]

Prior to the company's IPO in 2000, the extraordinary general meeting of ad pepper media International N.V. adopted a pre-IPO stock option plan for all of the employees of the company or its subsidiaries at the time of the IPO. The options issued in 2000 under this plan may be exercised ten years after the IPO with no conditions imposed, or before this date in four equal tranches if the respective performance targets have been met (25 percent after the first year if the market price during this period exceeds EUR 19.55 on one occasion, 25 percent after two years if the market price during this period exceeds EUR 22.10 on one occasion, 25 percent after three years if the market price during this period exceeds EUR 23.80 on one occasion, 25 percent after four years if the market price during this period exceeds EUR 25.50 on one occasion). The options expire if an employee terminates his or her employment contract or if the employer terminates the employment for good cause.

At each of the annual general meetings on 26 April 2001, 25 April 2002, 5 May 2003, 7 May 2004, 2 May 2005, 12 May 2006 and 30 April 2007, the Management Board was authorised to repurchase up to 10 percent of the share capital as treasury shares within an 18-month period. The treasury shares thus repurchased are available for acquisitions and employee stock options.

Options granted under the "Ongoing Stock Option Plan" are subject to the following provisions:

The options are granted to employees of the ad pepper media group. Altogether 500,000 shares have been reserved for the "Ongoing Stock Option Plan". The subscription ratio is one share per option right. The subscription price is based on the average share price on the Xetra exchange during the first ten trading days of May 2001 for the 2001 plan, or the first ten trading days in January for subsequent plans.

Options can first be exercised when the share price has risen at least ten percent above the subscription price, but no sooner than one year after the option has been granted. Options may be exercised in whole or in part in the three-week period after publication of the company's quarterly reports. As a rule, the stock options granted do not expire. However, the options expire if an employee terminates his or her employment contract or if the company terminates the employment for good cause.

In January 2003, the "Ongoing Stock Option Plan" for executives was replaced by the "Executive Stock Option Plan", the aim of which is to encourage executives to remain with the company. Under this plan, a nonrecurring issue of options was granted to executives; the exercise price for these options is also based on the average share price during the first ten trading days in January. Ten percent of the options may be exercised in each of the following ten years.

Pursuant to the resolution of the general meeting dated 2 May 2005, exercise of the executive stock options can in particular cases also be settled in cash at the request of ad pepper media.

In the years 2005 and 2006 option plans to tie employees in key positions to the company were issued. These options may be exercised over a period of four years at 25 percent each year. *Similar to the other plans, the exercise prices for these options* are based on the average share price during the first ten trading days before grant date. The option plans do not include an exercise hurdle, but can be exercised at the earliest one year after being granted.

The following table shows the changes in the options during the financial year 2007:

	2007 Number	2006 Number	Subscription price EUR
Options at the beginning of the fiscal year (Pre-IPO)	112,750	117,650	13.50
Options at the beginning of the fiscal year (Ongoing SOP 2001)	43,400	71,000	2.73
Options at the beginning of the fiscal year (Ongoing SOP 2002)	15,800	37,100	1.33
Options at the beginning of the fiscal year (Ongoing SOP 2003)	4,100	17,800	1.78
Options at the beginning of the fiscal year (Executive SOP 2003)	820,000	958,000	1.78
Options at the beginning of the fiscal year (Ongoing SOP 2004)	48,900	103,500	4.45
Options at the beginning of the fiscal year (Exec SOP 2005)	80,000	190,000	5.32
Options at the beginning of the fiscal year (Exec SOP 2006)	618,750	-	7.59
Options granted (Executive SOP 2005)	-	30,000	5.32
Options granted (Executive SOP 2006)	-	675,000	7.59
Options forfeited (Pre-IPO)	-	-4,900	13.50
Options forfeited (Ongoing SOP 2001)	-	-	2.73
Options forfeited (Ongoing SOP 2002)	-	-	1.33
Options forfeited (Ongoing SOP 2003)	-600	-	1.78
Options forfeited (Ongoing SOP 2004)	-1,600	-	4.45
Options forfeited (Executive SOP 2003)	-	-90,000	1.78
Options forfeited (Executive SOP 2005)	-	-87,500	5.32
Options forfeited (Executive SOP 2006)	-130,000	-56,250	7.59
Options cancelled (Executive SOP 2006)	-388,500	-	7.59
Options exercised (Ongoing SOP 2001)	-5,400	-27,600	2.73
Options exercised (Ongoing SOP 2002)	-5,600	-21,300	1.33
Options exercised (Ongoing SOP 2003)	-3,500	-13,700	1.78
Options exercised (Ongoing SOP 2004)	-4,750	-54,600	4.45
Options exercised (Executive SOP 2003)	-30,000	-48,000	1.78
Options exercised (Exec SOP 2005)	-	-52,500	5.32
Options exercised (Exec SOP 2006)	-	-	7.59
Options at the end of the fiscal year	1,173,750	1,743,700	
Weighted subscription price in EUR	3.77	4.86	
Exercisable options as of 31 December 2007	**379,500**	**247,700**	
Weighted subscription price in EUR	**3.08**	**2.48**	

No stock options were granted in 2007.

The average share price during 2007 was EUR 4.88 (2006: EUR 10.27).

The personnel expenses recorded in the past financial year in connection with stock option programs granted on the basis of equity instruments amount to EUR 438 k (2006: EUR 1,000 k).

The fair value of the stock options was calculated applying the Black-Scholes-Model, based on the following assumptions:

	Pre-IPO	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Executive SOP 2003	Ongoing SOP 2004	Executive SOP 2005	Executive SOP 2006
Share price when granted	13.50 EUR	2.60 EUR	1.30 EUR	1.78 EUR	1.78 EUR	4.44 EUR	5.00 EUR	7.60 EUR
Date of grant	31.05.00	18.05.01	15.01.02	15.01.03	15.01.03	16.01.04	15.04.05	16.01.06
Strike price	19.55 EUR	2.73 EUR	1.33 EUR	1.78 EUR	1.78 EUR	4.45 EUR	5.32 EUR	7.59 EUR
Risk-free interest rate	4.8 %	4.0 %	3.8 %	3.5 %	4.5 %	2.75 %	3.65 %	3.48%
Estimated term	7 years	4 years	1 year	1 year	10 years	1 year	4 years	4 years
Future dividend	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Estimated volatility	20 %	93 %	68 %	73 %	53 %	40%	58 %	56 %

The development in the price of the ad pepper media share in the period from 1 January 2003 to 28 April 2006 was used as a basis to determine volatility for the option plan issued in 2006. Prior figures would have distorted the volatility figure.

Total remuneration of management in key positions [40]

	2007 EURk	2006 EURk
Short-term employee benefits	1,120	1,831
Post-employment benefits (pensions and medical supply)	26	26
Share-based payments	272	191
Total remuneration of the Management Board	**1,418**	**2,048**

Options to purchase shares of the company held by the members of the Management Board have the following expiration dates and exercise prices:

Expiration		Exercise price	Number 31.12.2007	Number 31.12.2006
2000	-	19.55	59,000	87,000
2001	-	2.73	10,000	25,000
2003	-	1.78	556,000	676,000
2006	-	7.59	0	75,000

Events after the balance sheet date [41]

ad pepper media International N.V. was informed end of March 2008 about the conclusion of the negotiations on a settlement agreement relating to the purchase price payments for Falk eSolutions. In accordance therewith, the company is entitled to a final payment of USD 1.56 million from the sale of its investment, which will be recognised in profit or loss in the first quarter of 2008.

Net indebtedness

The Group manages its capital structure and makes adjustments to this, taking into account changes in the general economic environment. In order to maintain or adjust the capital structure, the Group can make dividend payments or pay back capital to the shareholders, issue new shares or buy back its own shares. No changes in the objectives, guidelines and procedures were made as at 31 December 2007 or 31 December 2006. Negative net indebtedness means that the Company is debt-free.

Net indebtedness at the end of the year was as follows:

	31.12.2007 EURk	31.12.2006 EURk
Current and non-current financial liabilities	10,313	13,581
Cash and cash equivalents	-12,029	-14,380
Available-for-sale securities	-5,521	-8,298
Net liabilities	**-7,237**	**-9,097**
Equity per balance sheet including minority interest	56,467	50,853
Net indebtedness	**-13%**	**-18%**

Financial instruments [42]

The classes of financial instruments within the meaning of IFRS 7.6 are defined in accordance with the categories of financial instruments in IAS 39. A distinction is accordingly made between financial instruments that are measured at amortised cost and those measured at fair value.

1. Capital risk management

The Group manages its capital with the aim of optimising the income from investments in business entities by optimising the debt equity ratio and maximising its shareholder value by maintaining a high credit standing rating and a good equity ratio. At the same time, it is ensured that group entities can operate under the going concern assumption.

The capital structure of the Group consists of liabilities, whereby these do not include any new borrowings, cash and cash equivalents, available-for-sale securities, and the equity attributable to the parent company's shareholders. This consists of issued shares in circulation, the capital reserve, unappropriated earnings brought forward and other equity captions.

2. Significant accounting policies

The Group makes no use of the opportunity to designate financial assets or financial liabilities as at fair value through profit or loss.

No re-designation of financial assets has taken place that has resulted in a change in the measurement method.

The Group has not transferred any financial assets in such a way that the assets would not have had to be derecognised.

The Group has not provided any financial assets as collateral for credit facilities. The Group does not hold any collateral for credit facilities.

Detailed information on the main accounting policies applied, including the recognition criteria, the measurement bases and the bases for the recognition of income and expenses, are presented separately for each category of financial assets, financial liabilities and equity instruments in Section [3].

3. Categories of financial instruments

Carrying amount per category of financial instruments **Financial assets**	31.12.2007 EURk	31.12.2006 EURk
At fair value through profit and loss		
Held for trading	*0*	*0*
Designated as at fair value through profit or loss	0	0
Held-to-maturity financial investments	0	0
Loans and receivables (including cash and cash equivalents)	27,538	27,525
Available-for-sale financial assets	5,521	8,298
Total	**33,059**	**35,823**
Financial liabilities		
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	0	0
Other financial liabilities measured at amortised cost	10,313	13,581
Total	**10,313**	**13,581**

The carrying amount for all categories of financial instruments represents the fair value, because they are either current financial instruments or a fair value measurement is carried out (in the case of available-for-sale financial assets). The respective fair value is determined by referring to quoted market prices in active markets. No significant concentrations of credit risks existed on loans and receivables designated as at fair value through profit or loss as of the reporting date. The reported carrying amount of zero reflects the maximum credit risk of the Group for such loans and receivables. There have been no (accumulated) changes in the fair value due to changes in the credit risk during the reporting period. Credit derivates to hedge loans and receivables designated as at fair value through profit or loss have not existed and do not exist.

4. Objectives of financial risk managements

The main financial liabilities used by the Group comprise trade payables. The primary purpose of these financial liabilities is to finance the Group's business activities. The Group has available various financial assets, such as trade receivables, cash and short-term deposits, which result directly from its business activities, as well as available-for-sale securities. Group management monitors and manages the financial risks of the Group. These risks include the market risk (including exchange rate risks, interest rate-induced fair value risks and price risks), the credit risk, the liquidity risk and interest rate-induced cash flow risks. In addition, management decides on the utilisation of derivative and non-derivative financial transactions and the deposit of surplus liquidity. The Group does not enter into any contracts with or deal in financial instruments, including derivative financial instruments, for speculative purposes.

5. Market risk

The Group's activities expose it primarily to financial risks from changes in exchange rates (see 6. below) and interest rates (see 7. below).

Market risk positions are determined by means of a sensitivity analysis.

No changes occurred either in the market risk expositions of the Group or in the nature and means of risk management and assessment.

6. Exchange rate risk management

Certain transactions in the Group are denominated in foreign currency. Risks from fluctuations in exchange rates can result from these.

The carrying amounts of the monetary assets and liabilities of the Group denominated in foreign currencies are as follows:

Financial assets	31.12.2007 EURk	31.12.2006 EURk
US dollar	1,071	1,073
British pound	2,934	2,694
Swedish krone	564	548
Danish krone	2,692	2,149
Financial liabilities		
US dollar	431	315
British pound	1,481	1,222
Swedish krone	281	96
Danish krone	1,542	1,203

Foreign currency sensitivity analysis

Because the exchange rate of the Danish krone scarcely fluctuates in relation to the EUR, the Group is primarily exposed to the exchange rate risk from the currencies, USD and GBP.

The following table shows the sensitivity from the point of view of the Group of a 10 percent rise or fall in the euro compared with the respective foreign currency. The 10 percent shift represents management's assessment with regard to a reasonable possible change in the exchange rate. The sensitivity analysis only includes outstanding monetary positions denominated in foreign currency and adjusts their translation at the end of the period to a 10 percent change in the exchange rates. A negative figure below indicates a decrease in the annual earnings and equity if the euro strengthens by 10 percent compared with the respective currency. If the euro falls by 10 percent compared with the respective currency, this will have a similar influence in the opposite direction on the annual earnings and equity; the figure below would then be positive.

	Effect of USD 31.12.2007 EURk	Effect of USD 31.12.2006 EURk	Effect of GBP 31.12.2007 EURk	Effect of GBP 31.12.2006 EURk	Total 31.12.2007 EURk	Total 31.12.2006 EURk
Annual earnings	-149	-101	-215	-145	-364	-246
Equity	0	0	0	0	0	0

The exchange rate risk sensitivity of the Group increased during the past accounting period due to the extension of business denominated in GBP and USD.

7. Interest rate risk management

The Group is exposed to interest rate risks, because the group parent company invests funds at fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate relationship between floating and fixed investments of funds.

The interest rate risk on financial assets and financial liabilities is discussed in detail in the section on control of the liquidity risk.

Interest rate sensitivity analysis

The sensitivity analyses described below were determined on the basis of the interest rate risk exposure on non-derivative financial instruments at the balance sheet date. For investments of funds at floating interest rates, the analysis is prepared on the assumption that the funds invested at the balance sheet date were invested throughout the year. An increase or decrease in the interest rate by 50 basis points is assumed for the interest rate risk. This represents management's assessment with regard to a justified, possible change in the level of interest rates.

If the interest rate had been 50 basis points higher (lower) and all other variable had remained constant:

> the annual earnings for the year ended 31 December 2007 would have increased (decreased) by EUR 34 k (2006: increase (decrease) of EUR 62 k). This is due to interest rate risks from the investment of funds by the Group at floating rates.
> the equity of the Group would have fallen by EUR 142 k (increased by EUR 134 k) (2006: decrease of EUR 97 k (increase of EUR 160 k)). This is due to changes in the fair value of available-for-sale financial assets.

The Group assumes with regard to interests in money market funds that no significant change in the fair value would result from a change in the interest rate.

The interest rate sensitivity of the Group declined during the past reporting period, mainly because of the reduction in the balance of funds invested at floating interest rates.

8. Credit risk management

Credit risk is the risk of a loss for the Group if a contractual party does not comply with its contractual obligations. Business relationships are only entered into with creditworthy contractual parties, and, as appropriate, obtaining collateral, to reduce the risk of a loss through the non-fulfilment of obligations. The Group only enters into business relationships with entities that are rated with or better than "investment grade". This information is provided by independent rating agencies. If such information is not available, the Group makes use of other available financial information and its own trading records, in order to evaluate its major customers. The risk exposure of the Group and the credit ratings are continuously monitored.

Trade receivables exist with a large number of customers spread over various sectors and geographical territories. Continuous credit assessments are carried out with regard to the financial condition of the receivables.

The Group is not exposed to any significant credit risks relating to a single contractual party or a group of contractual parties with similar characteristics. The Group defines contractual parties as those with similar characteristics if they are related parties. The concentration of credit risk from customer relationships did not exceed 3 percent of the financial gross asset values at any time during the reporting period. The credit risk on liquid funds and available-for-sale securities is low because the contractual parties are banks and their subsidiaries, with good to excellent credit ratings from international rating agencies.

The carrying amount of the financial assets included in the consolidated financial statements less any impairment losses represents the Group's maximum credit risk. Any collateral possibly held is ignored.

An account for specific allowances is only maintained for the class of "loans and receivables" for the trade receivables and loans granted that are included therein.

The reconciliation of changes required by IFRS 7.16 is as follows:

	31.12.2007 EURk	31.12.2006 EURk
Specific allowances		
Balance at beginning of year	3,113	2,287
Impairment losses in the period		
Allocations	649	1,137
Reversals	-270	-220
Amount derecognised	-1,346	-91
Balance at end of year	**2,146**	**3,113**

The analysis of overdue but unimpaired gross financial assets for the relevant class of "loans and receivables" is as follows:

	Total EURk	Not overdue EURk	Up to 180 days overdue but not yet impaired EURk
2007	12,175	10,959	1,216

The analysis of impaired financial assets for the relevant class of "loans and receivables" shows that allowances were set up on a gross receivables amount of EUR 2,818 k.

A uniform group calculation method has been applied since 1 January 2007 for the calculation of allowances on trade receivables.

9. Liquidity risk management

The Group monitors the risk of a shortage of liquidity on a continuous basis with the help of a liquidity planning tool. This tool takes into account the maturities of the financial investments and the financial assets (e.g. receivables, other financial assets) and the expected cash flows from operating activities.

The Group's aim is to maintain a balance between the continuous coverage of the funding requirement and the necessity for flexibility.

The maturities of the financial liabilities of the Group as at 31 December 2007 are presented below. The information is based on contractual, undiscounted payments.

	< 1 month EURk	< 3 months EURk	3 months to 1 year EURk	Total EURk
Financial liabilities 31.12.2007				
Trade payables	7,026	139	47	7,212
Other financial liabilities measured at amortised cost	969	0	2,132	3,101
Total	**7,995**	**139**	**2,179**	**10,313**
Financial liabilities 31.12.2006				
Trade payables	7.355	181	62	7,598
Other financial liabilities measured at amortised cost	931	0	5,052	5,983
Total	**8,286**	**181**	**5,114**	**13,581**

Nuremberg, 15 April 2008

The Management Board of ad pepper media International N.V. comprised the following members in the financial year 2007:

> Ulrich Schmidt, CEO (Chairman)
Nuremberg, Germany

> Niels Nüssler, CSO
Nuremberg, Germany

> Michael A. Carton, Director of the Board
London, United Kingdom

> Jens Körner, CFO
Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in fiscal year 2007 consisted of:

> Michael Oschmann, (Chairman)
Nuremberg, Germany
Managing Director

> Dr. Günther Niethammer
Nuremberg, Germany
Partner

> Jan Andersen
Copenhagen, Denmark
Managing Director

> Merrill Dean
Scottsdale, USA
Managing Director

Independent auditor´s report

To Management Board of ad pepper media International N.V.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements for the year ended 31 December 2007 (as set out on page 36 to 84) which are part of the financial statements of ad pepper media International N.V., Amsterdam, which comprise the consolidated balance sheet as at 31 December 2007, the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ad pepper media International N.V. as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, 15 April 2008

for Ernst & Young Accountants

signed by M. de Kimpe

Representation from the legal representatives of the group

Representation from the legal representatives of the group

To the best of our knowledge we affirm that: pursuant to the applicable accounting rules for financial reporting, the consolidated accounts present an accurate picture of the company's net worth, financial position and income situation; the group Directors Report presents an accurate picture of the development of business including the business results and the group's situation; it also accurately describes the main opportunities and risks attending the group's expected development during the rest of the financial year.

The Management Board
ad pepper media International N.V.

Ulrich Schmidt Jens Körner Niels Nüssler Michael A. Carton

Glossary

Ad
Abbreviation for advertising banners ("ad" is an English abbreviation for "advertisement").

Ad impression
Standard unit adopted by DMMV, GWA, VDZ, BDZV and VPRT industry associations at the end of 1998 as the binding unit to be used in future for measuring the performance of advertising media. In contrast to page impressions, this standard measures the number of times an advertising banner itself, rather than the page on which it is positioned is actually viewed.

Ad server
A central server that delivers banners to the website's advertising space independently of the web server for the site. Ad servers enable efficient banner management and uniform campaign management across different websites.

Advertiser
Used primarily by offerers from the USA, the word "advertiser" is synonymous with "merchant". Via the affiliate system, dealers make available the products and services that they offer online. Dealers allow linked distributing partners to market the merchandise via their websites. For each mediated sale, the dealer pays a predetermined commission based on a percentage of the sale's volume.

Affiliate
A distributing participant in the partner program who is linked in his websites, newsletter or AdWords campaign in order to profit from the commissions (advertising medium).

Affiliate marketing
Online distribution channel and special discipline within performance marketing. Success-based payments are made via partner programs for all services mediated by affiliates.

Affiliate network
Providers of technological and/or other services who take over tracking and invoicing on behalf of affiliates and merchants. Also frequently known as "affiliate platform."

Banner
Ads displayed on a website. The commonest data formats until now are image files in GIF or JPEG format. Innovative banner types (see "Rich media") are gaining in importance, however. Banners contain hyperlinks to the advertiser's website.

Banner burnout
Describes the decline in a banner's advertising effectiveness, especially when expressed in falling click-through rates.

Click-through
A click on an advert hyperlink (e.g. a banner) that leads to the advertiser's website.

Click-through rate
Ratio of click-throughs to ad impressions or ad views. Important benchmark for the efficiency of online advertising. However, clickthrough rate does not take into account other key criteria for advertising effectiveness, such as awareness, image, communicative performance and likeability.

Cookie
A small text file which a website can automatically place in the memory of the computer of a user who visited that website, thus enabling the website to subsequently identify the user. Sales and leads are assigned to the affiliates via cookies.

Cost per click (CPC)
Billing unit for online advertising. What is billed is the number of click-throughs, i.e. how often users click on a banner and are taken to the advertiser's website.

Cost per lead (CPL)
Fee per dataset. Also known as "PPL" (pay per lead).

Cost per objective (CPO)
Billing unit for online advertising that depends on whether the advertiser has achieved certain targets (generating address material - cost per lead, sales - cost per sale).

Cost per thousand impressions (CPM)
Billing unit for online advertising, analogous to the Thousand-Contacts-Price (TCP). What is billed is the number of viewing contacts with a banner (see "Ad impression").

eCRM
A customer relationship is managed by addressing customers directly via electronic advertising and products.

Frequency
Refers to how often a user is supposed to see a particular banner. One of the potential targeting criteria for countering banner burnout.

Interstitial
Ad loaded in between two websites.

Lead
A mediated dataset, e.g. the postal address of a person, his email address, or both.

Merchant
The advertiser and the operator of the partner program.

One-stop shopping
Centralized handling of worldwide advertising campaigns by a marketer. Booking, guidance and invoicing occur via an interface.

Page impression
Number of viewing contacts with a particular HTML page that could potentially carry ads within an online offering. Unlike "hits", the respective page is counted as a separate unit, regardless of how many different elements it contains (graphics, etc.). See also "Page view".

Page view
Outdated parameter for determining the coverage of an online offering. Provides information of little relevance compared to page impressions, because each frame in a particular online page generates a page view. Sites loaded from cache are not counted.

Performance marketing
Measures to acquire customers and encourage their loyalty, with the goal of generating quantifiable responses and/or transactions.

Publisher
Another term for "affiliate".

Rate card
The media data for a website, detailing booking options, access figures and prices.

Rich media
Refers to a variety of technologies, such as Emblaze, Enliven, InterVu and Java, for creating innovative banner types. The efficiency of a banner is considerably enhanced by rich media due to the greater scope for creativity and the integration of interactive components.

Run of network (RON)
By booking several websites, the coverage of a campaign is increased. State-of-the-art ad serving technologies enable specific target groups to be targeted.

Run of site (ROS)
Campaign booking for a website, without specific sections of it being selected.

Site promotion
Advertising for websites on other websites, or in classical media.

Sponsoring
Alternative advertising option in addition to banner placement. Websites are linked exclusively to an advertiser's messages and display the latter's logo.

Targeting
Target-group-oriented use of advertising banners and other forms of advertising in the Internet. Users are assigned to a particular target group after they have responded by indicating a special area of interest at a website, after they have gone into the Internet with a particular browser, or after they have logged in from a particular country of origin.

Tracking
An ongoing technical process to record and document the success of specific affiliates and merchants. Well-functioning tracking is a precondition for the successful operation of a partner program.

Traffic
Number of users visiting a website. There are various ways of measuring this parameter.

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Company calendar/ Publisher's notes

Company calendar 2008

All financial and press data, which are relevant for the capital market, on a view.

Results 2007	18 April 2008
General Meeting of Shareholders'	27 May 2008 (Amsterdam, NL)
Quarterly report I/ 2008	29 May 2008
Quarterly report II/ 2008	29 August 2008
Quarterly report III/ 2008	28 November 2008
Analysts´ conference (German Equity Forum)	November 2008 (Frankfurt/ Main)

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Disclaimer

This Annual Report contains future-related statements which are based on current assumptions and assessments by the management of ad pepper media International N.V. These statements are not to be understood as a guarantee that such expectations will in fact materialise. Future developments and the results actually achieved by ad pepper media International N.V. and its affiliated companies are dependent upon a number of risks and uncertainties and can hence deviate significantly from the future-related statements. Several of these factors are beyond ad pepper media's control and cannot be precisely estimated in advance, such as the future economic environment and the actions of competitors and other market players. There are no plans to update the future-related statements nor does ad pepper media International N.V. undertake any separate obligation to do so.

The Annual Report is also available in German. An online version can be downloaded from **www.adpepper.com**.

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