ad pepper

the e-advertising network

# Unaudited condensed interim consolidated financial report as of 30 September 2008

## Selected consolidated group figures

| | Q3 2008 kEUR | Q3 2007 kEUR | Change % | Q1-Q3 2008 kEUR | Q1-Q3 2007 kEUR | Change % |
|---|---|---|---|---|---|---|
| Net sales | 11,674 | 12,014 | -2.8 | 38,171 | 36,021 | 6.0 |
| Gross margin | 4,756 | 5,305 | -10.3 | 16,162 | 17,503 | -7.7 |
| EBIT | -1,751 | 1,198 | -246.1 | 1,846 | 2,812 | -34.4 |
| Net income for the period | -1,385 | 1,130 | -222.5 | 3,273 | 2,704 | 21.0 |
| Earnings per share (basic) | -0.12 | 0.10 | -224.8 | 0.30 | 0.24 | 25.0 |
| | | | | 30.09.2008 kEUR | 30.09.2007 kEUR | Change % |
| Liquid funds* | | | | 23,671 | 15,994 | 48.0 |
| Equity | | | | 58,665 | 56,774 | 3.3 |
| Total assets | | | | 69,442 | 69,484 | -0.1 |
| Employees | | | | 246 | 254 | -3.1 |

* including „available-for-sale“ securities at fair value and deposits with maturity over three months

# AGENDA

- Sales up by 6 percent against the previous year to EUR 38.2m
- Long-term co-operation secures strong position in the Moving image ad segment
- Successful presence at the online-marketing düsseldorf (OMD)
- Webgains successfully launched in the US

## INTERIM DIRECTORS' REPORT



## CONSOLIDATED INTERIM FINANCIAL STATEMENT



## OTHER INFORMATION

## Important events

***Long-term co-operation secures strong position in the moving-image ad segment***

Moving-image advertising is the focus of the online advertising industry and is one of the most important innovative forces in modern online marketing. Thanks to the growing number of broadband connections, consumers/Internet users are well-equipped for video content on the net. Online marketers, on the other hand, are seeing growing demand from advertising companies for so-called in-banner ads or pre-roll ads. The co-operation agreement signed on 29 September with US LongTail Video Inc., New York, now gives ad pepper media a strong position in the Moving image ad segment. LongTail Video will contribute the necessary technology so that online video ads can be booked by advertisers and media agencies and publishers can integrate online video ads into their sites.

***Successful presence at the online-marketing düsseldorf (OMD)***

The online-marketing düsseldorf is regarded as the leading trade fair for digital marketing in Europe. More than 20,000 business visitors (2007: 10,000) and 380 exhibitors (2007: 260) can find out about all segments and trends in online advertising. Customers and interested visitors discovered a unique one-stop media house at the ad pepper media booth: closely networked disciplines, strong brand websites, state-of-the-art technologies and global range.
At this year's OMD ad pepper media presented for the first time all areas of the ad pepper media Group under a single roof: branding, performance, e-mail marketing and affiliate marketing. This was supplemented by the ad pepper media units for search (ad agents), e-CRM (Globase) and ad serving (Emediate).

***Webgains successfully launched in the US***

After the opening of eight Webgains offices in Europe (Germany, the UK, France, Sweden, Denmark, Ireland, the Netherlands and Spain), the move to the US marked the next step in the international expansion course. This is our response to the fact that demand by advertisers for international campaigns continues to grow; this is particularly true in the Anglo-American area. The roll-out of Webgains in one of the world's biggest affiliate markets is a logical development step in our carefully planned course of expansion and supports our efforts to offer advertisers and affiliates a unique, uniform and international platform.

The affiliate network in the US is headed by a team of seasoned employees who, over the past four years, were involved in the successful establishment of Webgains UK.

## Basic economic conditions

### US/Europe/Germany

Whilst the economy in Germany and Europe was to a large extent stable in the first months of 2008, the mood in the third quarter of the current year has been significantly dampened by the mortgage and finance crisis. Spain and the UK are already on the verge - if not already in the middle - of a recession. The Organisation for Economic Co-operation and Development (OECD) has also forecast negative growth of 1.0 percent for Germany in the fourth quarter of 2008.

In the US, employment figures are falling, consumer spending is declining and ISM manufacturing in September fell dramatically to 43.5 percent; failure to reach the 45 percent threshold is generally regarded as an indication of a pending recession. It is believed to be very likely that in the months to come the mood, which has been significantly dampened by the above indicators, will lead to significantly lower growth rates for gross domestic product (GDP).

With a view to the year 2009, reputable economic institutes are also cautious, especially since the full impact of the threatening negative effects of the mortgage and finance crisis will not be felt until the coming twelve months. According to the OECD, global economic growth will fall by 0.3 percent whilst economic growth in the US is forecast to decline by 0.9 percent and in the euro zone by 0.3 percent.

### Advertising market

The Internet continues to be very important in the marketing mix. Both in the current year and in the year to come, advertising budgets for online advertising will grow despite the difficult economic setting. This was the conclusion reached in a recently published survey by the industry's European Interactive Advertising Association (EIAA).
At the Düsseldorf Online-Marketingmesse OMD in mid-September, Online-Vermarkterkreis (OVK) confirmed this trend. This year, the online sector in Germany thus already has a 13.5 percent market share in the overall media mix. Classic banners continue to account for the greater part of online advertising in Germany although compared to the previous year search-word marketing and affiliate networks have won additional shares. But the biggest growth was recorded with advertising videos on the Internet. Demand is rising rapidly even though Moving image advertising on the net is still in the launch phase. According to Nielsen Media Research, gross advertising sales recorded with video ads rose by 402 percent against the previous year.

With a view to advertising expenditure per online user, the UK and Norway come out tops. According to OVK, EUR 95 or EUR 93, respectively, is spent per Internet user per annum on advertising. Germany comes with EUR 65 per user and Austria with EUR 27.
However, considerable potential – albeit somewhat weaker - also existed, according to the BITKOM industry association, in countries such as China, India or Russia. Particularly strong growth is currently being recorded on the Chinese market. Sales here are forecast to rise by 46 percent.

The survey by the EIAA also showed that advertisers are now spending 11 percent of their online advertising budgets on international campaigns which are shown in two or more European countries.

## Results of operations, financial position and net assets

### Results of operations

In the first nine months of the year, ad pepper media increased its sales to kEUR 38,171. Compared to the same period of the previous year in which sales totalled kEUR 36,021, this corresponds to growth of 6 percent.

Whilst those ad pepper media regions or national companies whose focus is on performance-based price models at times recorded two-digit growth rates, we also had to record sales losses, above all in branding, i.e. CPM-based price models. With a view to the individual countries, growth remained below the previous year's level, especially in France, Germany and the US, and hence below the expectations of the Board.

Our Webgains affiliate network, with its classical, success-based advertising model, was once again a clear growth driver. This is why we decided to offer Webgains in Spain and the US too. The SEO/SEM agency ad agents, which belongs to the ad pepper media Group, was also able to benefit from the trend towards success-based advertising thanks to its clear focus on performance-based advertising. The growth rates recorded by Emediate were also good. The widespread consolidation of the ad serving market to a few players in 2007 gave Emediate a competitive edge over competitors thanks to its position as one of the few remaining independent ad-serving providers.

The gross margin for the first nine months totalled kEUR 16,162 compared to kEUR 17,503 for the same period of the previous year. This decline is, on the one hand, due to the countries already mentioned, i.e. Germany, France and the US, where we were confronted by declines in sales and hence in margins. On the other hand, the gross margin declined due to growing margin pressure, especially in the field of branding. Webgains and ad.agents were able to partially compensate for this decline in margin. However, due to the intrinsic margin structure of both of these areas, they were unable to completely compensate for the decline in gross margin in the above mentioned countries.

Operative costs fell in the first nine months of the current year against the previous year from kEUR 14,691 to kEUR 14,316. It must be noted here that this figure includes an amount of kEUR 9,621 as extraordinary gain in conjunction with the sale of investments (Q1-Q3 2007: kEUR 6,177). The increase in operative costs in the first nine months (excluding the gains on sale of investment) is primarily due to our active M&A policy which led to much higher amortisation costs in the current year. Operative costs also include an impairment of EUR 1.5m on intangible assets acquired in conjunction with the takeover of Crystal Reference Systems Ltd. and mediasquares GmbH. Furthermore, in the first nine months we have increased allowances for doubtful accounts by kEUR 549. Also, the first nine months were affected by non-recurring write-off´s of receivables in the amount of kEUR 677.

Earnings before interest and taxes (EBIT) to the amount of kEUR 1,846 were lower than the figure for the previous period (Q1-Q3 2007: kEUR 2,812), but were all the same clearly positive.
Earnings before taxes (EBT) were also good. Following a profit of kEUR 3,226 for the first nine months of 2007, an amount of kEUR 2,767 was recorded this year. The financial result of kEUR 921, which was clearly up against the previous year (Q1-Q3 2007: kEUR 414), is not only due to the higher, average level of liquid funds, but is also a response to the average increase in the interest rate level in the Euro zone and realized gains of kEUR 207 from the sale of securities.

The tax result included a tax benefit due to adjustments in defered tax liability balances following the impairment of intangible assets referred to above.
Accordingly, the (non-diluted) result per share of EUR 0.30 also rose within the first nine months (Q1-Q3 2007: EUR 0.24).

### *Financial position*

The operative cash flow improved in the first nine months to kEUR -847 following kEUR -1,429 in the same period of the previous year. This was primarily due to improved working capital management. In the first nine months of 2008, net cash flow for investment activities totalled kEUR -4,025 (Q1-Q3 2007: kEUR -4,270). It must be noted here that in 2007 kEUR 4,752 was spent on acquiring Emediate ApS. In contrast the current year's amount reflects the investment of cash and cash equivalents in deposits with maturities over three months in order to profit from the attractive short-term interest rates at the beginning of the third quarter 2008.
Cash flow for investment activities fell against the first six months of 2007 by kEUR 1,282 to kEUR -196.
This was primarily due to the capital increase of kEUR 2,244 carried out in January 2007 in conjunction with the acquisition of Emediate ApS.
Liquid funds, cash equivalents and security holdings as well as deposits rose in the first nine months of 2008, compared to 31 December 2007, by kEUR 6,121 to kEUR 23,671.

### *Net assets*

The balance sheet total rose in total by kEUR 595 to kEUR 69,442 (31 December 2007: kEUR 68,847).
Long-term assets increased by EUR 1.6m especially as a result of the shareholding in Brand Affinity Technologies Inc. A contrary development was recorded for fixed-asset securities and intangible assets which declined, due to extraordinary deprecation, from kEUR 9,155 as per 31 December 2007 to kEUR 6,126 as per 30 September 2008.
Short-term assets rose within the first nine months of the financial year primarily due to the increase in current-asset securities and deposits as well as in cash and cash equivalents to kEUR 19,240 (31 December 2007: kEUR 15,419) whilst accounts receivable declined compared to the end of 2007 from kEUR 12,847 to kEUR 10,013 as per 30 September 2008 due to the above-mentioned optimisation measures in conjunction with receivables management. Total equity increased to kEUR 58,665 (31 December 2007: kEUR 56,466). As per 30 September 2008, the equity ratio totalled 84.5 percent (31 December 2007: 82.0 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.

## Report on opportunities and risks

Compared to the Consolidated Annual Accounts as per 31 December 2007, there have been no significant changes in the opportunity and risk situation of ad pepper media International N.V. We therefore refer to the presentation in the Management Report for fiscal 2007.

## Forecast report

The overall economic situation is becoming sluggish. All the same, we expect that the market for online advertising will be positive for the rest of this year and in the coming year. Our optimism is based on the fact that the penetration of the Internet and the duration of Internet use will continue to increase. We are also convinced that budgets in the field of success-based advertising are not only more immune to economic developments, but are also almost unlimited. We are determined to continue profiting from this.

However, it remains undisputed that the rate of growth in the industry in general and at ad pepper media in particular in the traditionally strong fourth quarter will once again serve as an indicator for developments far into the year 2009. We are convinced that just like last year, we will record a significantly positive EBITDA in the fourth quarter and we look towards 2009 with optimism.

## The share

In the period under review, the ad pepper media share moved within a small bandwidth of between EUR 2.50 and EUR 3.00.

The closing price on Xetra was noted on 30 September 2008 at EUR 2.55 and is hence only slightly above this year's all-time low of EUR 2.34, which was noted on 25 February. The highest price of EUR 3.70 was reached on 30 April 2008.

At the end of September, market capitalisation totalled around EUR 29m and was hence approx. EUR 5.3m above our liquid funds and cash equivalents (EUR 23.7m).

On 11 June 2008, we announced a share buyback programme which we will also continue to pursue in the fourth quarter. Since the launch of the share buyback, 107,804 shares worth around EUR 311,000 were bought back (average price: EUR 2.89 per share); this corresponds to approx. 1 percent of the capital stock of ad pepper media International N.V.

## Consolidated Income Statement (IFRS)

| | Q3 / 2008 kEUR | Q3 / 2007 kEUR | Q1-Q3 2008 kEUR | Q1-Q3 2007 kEUR |
|---|---|---|---|---|
| **Revenues** | **11,674** | **12,014** | **38,171** | **36,021** |
| Cost of sales | -6,918 | -6,709 | -22,009 | -18,518 |
| **Gross profit** | **4,756** | **5,305** | **16,162** | **17,503** |
| Selling and marketing expenses | -4,226 | -4,040 | -14,278 | -11,146 |
| General and administrative expenses | -2,437 | -3,600 | -8,438 | -8,974 |
| Other operating income | 1,193 | 71 | 1,873 | 136 |
| Other operating expenses | -1,037 | -745 | -3,094 | -884 |
| Gain of sales of shares in associates and other investments | 0 | 4,207 | 9,621 | 6,177 |
| **Earnings before interest and taxes** | **-1,751** | **1,198** | **1,846** | **2,812** |
| Financial income | 284 | 72 | 932 | 425 |
| Financial expenses | -1 | -2 | -11 | -11 |
| **Earnings before taxes** | **-1,467** | **1,268** | **2,767** | **3,226** |
| Income taxes | 82 | -138 | 506 | -522 |
| **Net income for the year** | **-1,385** | **1,130** | **3,273** | **2,704** |
| attributable to shareholders of the parent company | -1,362 | 1,094 | 3,300 | 2,683 |
| attributable to minority interest | -23 | 36 | -27 | 21 |
| Basic earnings per share on net income for the year attributable to shareholders of the parent company (EUR) | -0.12 | 0.10 | 0.30 | 0.24 |
| Diluted earnings per share on net income for the year attributable to shareholders of the parent company (EUR) | -0.12 | 0.09 | 0.29 | 0.23 |
| | **Q3 / 2008** | **Q3 / 2007** | **Q1-Q3 2008** | **Q1-Q3 2007** |
| **Weighted average number of shares outstanding (basic)** | **11,144,184,** | **11,172,328** | **11,182,172** | **11,141,979** |
| **Weighted average number of shares outstanding (diluted)** | **11,433,290** | **11,731,766** | **11,488,192** | **11,840,554** |

## Consolidated Balance Sheet (IFRS)

| Assets | 30 September 2008 kEUR | 31 December 2007 kEUR |
|---|---|---|
| **Non-current assets** | | |
| Goodwill | 20,799 | 20,665 |
| Intangible assets | 6,126 | 9,155 |
| Property, plant and equipment | 953 | 1,100 |
| Securities | 4,431 | 2,131 |
| Other financial assets | 2,299 | 772 |
| Deferred tax assets | 3,268 | 2,979 |
| **Total non-current assets** | **37,874** | **36,802** |
| **Current assets** | | |
| Securities and deposits | 12,569 | 3,390 |
| Trade receivables | 10,013 | 12,847 |
| Income tax receivables | 1,389 | 1,151 |
| Prepaid expenses and other current assets | 574 | 738 |
| Other financial assets | 352 | 1,890 |
| Cash and cash equivalents | 6,671 | 12,029 |
| **Total current assets** | **31,568** | **32,045** |
| **Total assets** | **69,442** | **68,847** |

## Consolidated Balance Sheet (IFRS)

| Equity and liabilities | 30 September 2008 kEUR | 31 December 2007 kEUR |
|---|---|---|
| **Equity attributable to shareholders of the parent company** | | |
| Issued capital | 1,139 | 1,139 |
| Additional paid-in capital | 66,523 | 66,319 |
| Treasury shares | -1,580 | -1,269 |
| Accumulated deficit | -5,089 | -8,389 |
| Accumulated other comprehensive losses | -2,634 | -1,511 |
| **Total** | **58,359** | **56,289** |
| Minority interest | 306 | 177 |
| **Total equity** | **58,665** | **56,466** |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 394 | 907 |
| **Total non-current liabilities** | **394** | **907** |
| **Current liabilities** | | |
| Trade payables | 6,179 | 7,212 |
| Other current liabilities | 631 | 792 |
| Other financial liabilities | 3,339 | 3,102 |
| Income tax liabilities | 234 | 368 |
| **Total current liabilities** | **10,383** | **11,474** |
| **Total liabilities** | **10,777** | **12,381** |
| **Total equity and liabilities** | **69,442** | **68,847** |

## Statement of Cash Flows (IFRS)

| | Q1-Q3 2008 kEUR | Q1-Q3 2007 kEUR |
|---|---|---|
| **Net income for the period** | **3,273** | **2,704** |
| **Adjustments to reconcile net income for the year to net cash flow from operating activities** | | |
| Depreciation and amortization | 4,020 | 1,811 |
| Gain on sale of fixed assets | -2 | -19 |
| Gain on sale of securities | -207 | 0 |
| Share-based compensation | 204 | 450 |
| Other financial income and financial expenses | -714 | -414 |
| Income tax earnings | -506 | 522 |
| Gain on sale of shares in associates and other investments | -9,621 | -6,177 |
| Other non-cash expenses and income | 1,137 | 685 |
| **Gross cash flow** | **-2,416** | **-438** |
| Change in trade receivables | 1,822 | -401 |
| Change in other assets | 335 | 1,065 |
| Income taxes paid | -334 | -73 |
| Interest received | 823 | 271 |
| Change in trade payables | -1,142 | -923 |
| Interest paid | -11 | -11 |
| Change in other liabilities | 76 | -919 |
| **Net cash flow from operating activities** | **-847** | **-1,429** |

## Statement of Cash Flows (IFRS)

| | Q1-Q3 2008 kEUR | Q1-Q3 2007 kEUR |
|---|---|---|
| Additions to intangible assets and property, plant and equipment | -866 | -2,703 |
| Proceeds from sale of intangible assets and property, plant and equipment | 4 | 59 |
| Proceeds from sale of shares in associates and other investments | 10,845 | 2,148 |
| Security deposits / proceeds from repayment of security deposits | 0 | -90 |
| Acquisition of other investments | -1,621 | 0 |
| Acquisition of subsidiaries, net of cash acquired | -25 | -5,644 |
| Proceeds from sale of securities | 207 | 1,960 |
| Purchase of securities and investment in deposits | -12,569 | 0 |
| **Net cash flow from investing activities** | **-4,025** | **-4,270** |
| Increase in capital | 0 | 2,244 |
| Sale of treasury shares | 0 | 53 |
| Purchase of treasury shares | -311 | -1,231 |
| Repayment of loans granted | 115 | 20 |
| **Net cash flow from financing activities** | **-196** | **1,086** |
| Effect of exchange rates on cash and cash equivalents | -290 | -7 |
| Cash-effective decrease / increase in cash and cash equivalents | -5,068 | -4,613 |
| **Cash and cash equivalents at beginning of year** | **12,029** | **14,380** |
| **Cash and cash equivalents at end of period** | **6,671** | **9,760** |

## Consolidated Statement of Changes in Equity

| | Equity attribut able to shareholders of the parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated other comprehensive losses | | | | |
| | Issued capital kEUR | Additional paid-in capital kEUR | Treasury shares kEUR | Accumu-lated deficit kEUR | Currency translation differences kEUR | Market valuation of „a-f-s" sec.* kEUR | Other kEUR | Minority interest kEUR | Total kEUR |
| **Balance at 1 January 2007** | **1,115** | **61,860** | **-340** | **-10,944** | **-140** | **-698** | | | **50,853** |
| Currency translation differences | | | | | -37 | | | | -37 |
| Unrealized gains / losses on securities | | | | | | -404 | | | -404 |
| **Total income and expense for the year recognized directly in equity** | | | | | **-37** | **-404** | | | **-441** |
| Net income for the year | | | | 2,683 | | | | 21 | 2,704 |
| **Total recognized income and expense for the year** | | | | **2,683** | **-37** | **-404** | | **21** | **2,263** |
| Stock-based compensation | | 450 | | | | | | | 450 |
| Increase in capital | 21 | 2,222 | | | | | | | 2,243 |
| Purchase of treasury shares | | | -1,231 | | | | | | -1,231 |
| Issuance of treasury shares | | 1,748 | 302 | | | | | | 2,050 |
| Acquired minority interest | | | | | | | | 146 | 146 |
| **Balance at 30 September 2007** | **1,136** | **66,280** | **-1,269** | **-8,261** | **-177** | **-1,102** | | **167** | **56,774** |
| **Balance at 1 January 2008** | **1,139** | **66,319** | **-1.269** | **-8.389** | **-111** | **-1.400** | | **177** | **56,466** |
| Currency translation differences | | | | | -293 | | | | -293 |
| Unrealized gains / losses on securities | | | | | | -747 | | | -747 |
| **Total income and expense for the year recognized directly in equity** | | | | | **-293** | **-747** | | | **-1,040** |
| Net income for the year | | | | 3,300 | | | | -27 | 3,273 |
| **Total recognized income and expense for the year** | | | | **3,300** | **-293** | **-747** | | **-27** | **2,233** |
| Stock-based compensation | | 204 | | | | | | | 204 |
| Purchase of treasury shares | | | -311 | | | | | | -311 |
| Sold minority interest | | | | | | | -106 | 156 | 50 |
| Other | | | | | | | 23 | | 23 |
| **Balance at 30 September 2008** | **1,139** | **66,523** | **-1,580** | **-5,089** | **-404** | **-2,147** | **-83** | **306** | **58,665** |

* „available-for-sale" securities

## Notes to the consolidated interim financial statements

### 1. Basis for the preparation of the interim financial statements

These condensed consolidated financial statements of ad pepper media International N.V. were prepared in EUR in accordance with the International Financial Reporting Standards (IFRS) valid on the closing date. The comparative figures from the previous year were determined according to the same principles and adjusted where necessary. The quarterly financial statements meet the requirements of IAS 34. The condensed consolidated interim financial statements do not include all the explanations and items of information prescribed for the end-of-year financial statements and should therefore be read together with the consolidated financial statements for the year ended 31 December 2007.

All subsidiaries are included in the consolidated interim financial statements. The following change have taken place in the consolidated group compared to the consolidated financial statements for the year ended 31 December 2007: a minority share of ten percent in the subsidiary ad pepper media Denmark A/S was sold to its managing director with the aim of encouraging long-term employee loyalty.
ad pepper media Denmark A/S holds the shares in Globase International ApS and Pentamind A/S, so that, here too, ten percent of the shares in these subsidiaries are now indirectly allocable to minorities. On the basis of IFRS 3 (revised) this transaction was accounted of for according to the so-called entity-method; as a transaction with a shareholder the effects are directly recognized in equity without affecting goodwill.
The companies Atlas Internet Associates s.r.o., Bratislava Slovak Republic, and ad pepper media Oy, Helsinki, Finland, which are not long operating, were wound up in mid-August 2008 and were subsequently deconsolidated. The present consolidated interim financial statements for the nine months ended 30 September 2008 were authorized for publication by the Board of Management on 5 November 2008.

### 2. Accounting and valuation methods

The accounting and valuation methods applied to these quarterly financial statements do not differ materially from the principles used in drawing up the annual financial statements for the year ended 31 December 2007.

The securities posted under short-term assets on 31 December 2007 and 31 March 2008 are posted under long-term assets as since 30 June 2008. The reason for this is the relinquishment of the intention to sell on receiving the milestone payment for the shares in dMarc Broadcasting Inc. amounting to EUR 8.6m.

The short-term securities as per 30 September 2008 consist entirely of of fixed deposits and debenture loans with German banks which were invested in with terms of between four and twelve months in order to secure the attractive interest rate at the beginning of the third quarter.

The following standards and interpretations – which do not yet apply to these condensed interim financial statements – have been published since the date of release of the annual financial statements for the year ended 31 December 2007.

**Improvements to IFRSs**

The International Accounting Standards Board (IASB) published the Improvements to IFRSs on 22 May 2008, amending a number of International Financial Reporting Standards (IFRSs) under the first Annual Improvements Project. The final amendments are the result of the discussions held up to now with the aim of adapting the wording of individual IFRS to clarify the existing regulations. In addition, amendments were made that will affect accounting, valuation or assessment.

The standards affected are listed in the IASB's press release together with a brief description of each amendment. Contrary to the initial draft, amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards are no longer included. They are to be published in a separate document. Unless separately regulated in the respective standard, the amendments are to be applied to fiscal years commencing on or after 1 January 2009.

The expected improvements in IAS 36, IAS 38 and IAS 39 could result in changes to the ad pepper media-group's accounting and valuation methods. A final assessment of the effects is not possible at this stage.

**IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements**

On 22 May 2008 the International Accounting Standards Board (IASB) published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements. The amendments are summarized in a document entitled „Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate", and also include changes to IAS 18, IAS 21 and IAS 36. The amendments make it possible for companies, when using the International Financial Reporting Standards (IFRS) for the first time in their IFRS separate financial statements, to calculate either the current market value or the book value according to the previously used national accounting rules when determining the purchase cost of a holding. This rule applies to jointly controlled, associate and subsidiary companies.

This amendment took into account reservations that, when the IFRS are applied for the first time, in some cases the retroactive determination of the purchase cost according to IAS 27 is only possible at a disproportionately high cost or requires a disproportionate amount of work. The amendments also removed from IAS 27 the obligation to reduce purchase costs when distributing revenue reserves formed before the acquisition of the shares. Dividends from jointly controlled entities, associates companies and subsidiaries must in future be recorded in the Profit and Loss Account regardless of whether the money distributed stems from profits made before the acquisition date or not. An „impairment test" is to be carried out if the profit distributed in a year exceeds the total profits for this year. The amendments apply to fiscal years beginning on or after 1 January 2009.

The amendments made to IFRS 1 and IAS 27 currently have no impact on the ad pepper media-group's accounting.

**IFRIC 16 Hedges of a Net Investment in a Foreign Operation**

The International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 16 Hedges of a Net Investment in a Foreign Operation on 3 July 2008. The objective of the interpretation is to clarify two issues relating to two standards – IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement – in connection with posting hedges of foreign-currency risks within a company and its foreign operations. IFRIC 16 clarifies what is to be considered a risk in the hedge of a net investment in a foreign operation and where within the group the instrument for hedging this risk may be held. The interpretation is to be applied to fiscal years beginning on or after 1 October 2008. IFRIC 16 currently has no impact on the ad pepper media-group's accounting.

**IFRIC 15 Agreements for the Construction of Real Estate**

The International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 15 Agreements for the Construction of Real Estate on 3 July 2008. The interpretation aims to achieve uniform accounting by businesses that develop land and, in this capacity, sell units such as residential units or houses „off plan", i.e. before construction is completed. IFRIC 15 defines criteria according to which accounting must follow either IAS 11 Construction Contracts or IAS 18 Revenue. The interpretation applies to fiscal years beginning on or after 1 January 2009.

IFRIC 15 is not applicable to the ad pepper media-group's business activities.

**Amendments to IAS 39**

The International Accounting Standards Board (IASB) published amendments to IAS 39 Financial Instruments: Recognition and Measurement on 31 July 2008. The amendments are summarized in a document entitled „Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement". The point of departure is the existing regulations under which a company can incorporate the entire underlying transaction – or part of it, or certain risks of it – into a hedge. In order to simplify the application of the unchanged fundamental principles, additions were made to the application principles in the areas of designating inflation risks as an underlying transaction and designating a unilateral risk in an underlying transaction (e.g. with an option as the hedge). Regarding the designation of inflation risks as the underlying transaction, it is clarified that this risk cannot on principle be designated as a hedged risk. If, however, the inflation component is made up of contractually fixed parts of a financial instrument's cash flows, inflation may be hedged.

A unilateral risk is when a company exclusively designates changes in the cash flows or in the current market value of an under lying transaction above or below a fixed price or another variable. The addition clarifies that only the intrinsic value of the option – but not the full value of the option consisting of intrinsic value and current market value – can be designated. If the full value of the option were desig-nated as the hedging instrument for an unilateral risk of a future transaction, this would represent hedge ineffectiveness, since only the hedging instrument contains a component of current market value.

The amendments are applicable to fiscal years beginning on or after 1 July 2009. Earlier application is permitted. The amendments have not yet been incorporated into European law.

These amendments currently have no impact on the ad pepper media-group's accounting.

**Amendments to IAS 39 and IFRS 7**

On 13 October 2008, the IASB adopted amendments to the applicable IAS 39.50 as well as IFRS 7.12 and .12A which are final without any further IASB processes. The amendments made address, with a view to the crisis on the financial market, the need to reduce differences between IFRS and US-GAAP and to eliminate potential competition advantages of US banks. These amendments now allow companies to reclassify some non-derivate financial instruments from the category titled: „financial assets at fair value through profit or loss", in as far as such financial instruments were not originally assigned to this category through the exercising of the fair value option, and from the category titled „available-for-sale financial assets". This concerns particularly those financial instruments which, had there been no intention to trade and/or no designation as „available for sale" would have originally fulfilled the definition of „loans and receivables".

The changes regarding reclassification may be used with effect as of 1 July 2008. IFRS 7 was amended accordingly. In Commission Regulation (EC) No. 1004/2008, the Commission of the European Communities included these amendments to IAS 39 Financial instruments (recognition and measurement) and to IFRS 7 Financial instruments (disclosures). The regulation came into effect at the time of publication on 16 October 2008 in the Official Journal of the European Union L 275/37.

Due to the high equity ratio, ad pepper media decided not to make use of this right, but instead to continue to value the existing securities categorized as „available for sale" at fair value.

### *3. Notes to the Interim Financial Statements*

Essentially we refer to the explanations regarding results of operations, financial position and net assets in the Interim Directors´ Report.
Due to business developments per 30 June 2008 there was an impairment to a residual book value of zero of intangible assets with a definite useful economic life in the context of the acquisitions of mediasquares GmbH and Crystal Reference Ltd. Thereof the Central Europe segment accounted for EUR 0.4m, the Western Europe segment for EUR 1.1m. The total amount of kEUR 1,506 is included in the consolidated income statement under „Selling and marketing expenses".
The increase in goodwill shown per 30 June 2008 on the balance sheet of kEUR 109 is a result of the release of an escrow account that was set up for the acquisition of Webgains Ltd.
The further increase in goodwill shown in the balance sheet by kEUR 25 as per 30 September 2008 results from an asset deal made by ad pepper media Italy s.r.l.in August 2008. Neither funds nor liabilities were acquired here. This goodwill comprises revenue prospects. A final purchase price distribution has yet to be carried out. The final purchase price is dependent on earn-out components and will total kEUR 100 max.

### 4. Segment reporting

There are no significant differences between ad pepper media's various products and services in terms of risk and rate of return. Internal financial reporting and the management structure are mainly geared towards geographical regions. Accordingly, primary reporting is based on the segments summarized below:

- Central Europe comprises Germany, the Netherlands and Slovakia
- Northern Europe comprises Denmark and Sweden
- Western Europe comprises UK, France, Spain and Italy
- Others comprise the US, Australia and Switzerland

| Q1-Q3 2008 | Central Europe kEUR | Northern Europe kEUR | Western Europe kEUR | Others kEUR | Consolidation kEUR | Group kEUR |
|---|---|---|---|---|---|---|
| **Total revenues** | **15,815** | **7,214** | **13,859** | **2,590** | **-1,307** | **38,171** |
| *thereof external* | 14,926 | 7,134 | 13,522 | 2,589 | 0 | 38,171 |
| *thereof intercompany* | 889 | 80 | 337 | 1 | -1,307 | 0 |
| **Expenses and other income** | 9,131 | 8,107 | 17,565 | 3,093 | -1,571 | 36,325 |
| **EBIT** | **6,684** | **-893** | **-3,706** | **-503** | **264** | **1,846** |
| **Financial result** | | | | | | **921** |
| **Income taxes** | | | | | | **506** |
| **Consolidated result** | | | | | | **3,273** |
| **Q1-Q3 2007** | **Central Europe kEUR** | **Northern Europe kEUR** | **Western Europe kEUR** | **Others kEUR** | **Consolidation kEUR** | **Group kEUR** |
| **Total revenues** | **15,248** | **6,779** | **12,330** | **2,843** | **-1,179** | **36,021** |
| *thereof external* | 14,539 | 6,708 | 11,931 | 2,843 | 0 | 36,021 |
| *thereof intercompany* | 709 | 71 | 399 | 0 | -1,179 | 0 |
| **Expenses and other income** | **9,773** | **7,594** | **14,372** | **3,003** | **-1,533** | **33,209** |
| **EBIT** | **5,475** | **-815** | **-2,042** | **-160** | **354** | **2,812** |
| **Financial result** | | | | | | **414** |
| **Income taxes** | | | | | | **-522** |
| **Consolidated result** | | | | | | **2,704** |

### *5. Treasury shares*

The Board of Management of ad pepper media International N.V. has decided to make use of the authorization granted by the Annual General Meeting held on 27 May 2008 to acquire up to 5 percent of the share capital via the stock market. To this purpose, on 11 June 2008 it announced a share buy-back program limited in time until November 2009. The shares purchased in this context will be used solely to serve employee stock-option programs. On the closing date 30 September 2008 the company held 300,700 treasury shares, each with a nominal value of EUR 0.10, representing 2.6 percent of the share capital.

### *6. Seasonal influences on business operations*

ad pepper media is engaged in the field of online advertising in the broad-est sense. Due to the seasonal character of the advertising industry, with its traditional focus on expenditure in 4th quarter, revenue and thus operating profit generally higher in this quarter. Irrespective of the more adverse economic climate at present, this is also expected for the fourth quarter of 2008.

### *7. Events after the balance sheet date*

Up until the day of release for publication, no events took place which exerted substantial influence on the net assets, financial position and result of operations as per 30 September 2008.

### *8. Shares and share-based compensation*

As per 30 September 2008 a total of 1,657,500 options had been issued under option programs. The subscription ratio is one share per option right.

The subscription price is between EUR 1.33 and EUR 13.50. An employee equity-participation program involving 610,000 options was launched for executive employees on 15 May 2008. The valuation was carried out by simulation (Monte-Carlo method). It was based on the following assumptions:

| | *Executive SOP 2008* |
|---|---:|
| *Share price at time of granting (EUR)* | *2.80* |
| *Date of granting* | *15 May 2008* |
| *Exercise price (EUR)* | *3.00* |
| *Risk-free interest rate (%)* | *4.15* |
| *Term (years)* | *10* |
| *Future dividend p.a. (EUR)* | *0.08 to 0.12* |
| *Expected volatility (%)* | *50* |

The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 January 2003 and 30 April 2008. Earlier values would have led to a false estimate of volatility.

One quarter of the option rights can be exercised one year after they were granted at the earliest, another quarter another year after they were granted, and so on. The fair values of the individual tranches at the time of granting are between EUR 0.564 and EUR 1.029 per issued option. The maximum cost of the program over the entire period is EUR 0.5m.

The following table shows the number of shares and subscription rights held (directly and indirectly) by members of the Board of Directors, the Supervisory Board and employees:

| | Shares as of 30.09.2008 | Options as of 30.09.2009 |
|---|---|---|
| **Board of Directors** | | |
| Ulrich Schmidt | 502,762 | 223,000 |
| Michael A. Carton | 123,703 | 214,000 |
| Niels Nüssler | 38,113 | 263,000 |
| Jens Körner | 0 | 80,000 |
| **Supervisory Board** | | |
| Michael Oschmann | 0 | 0 |
| Dr. Frank Schlaberg | 0 | 0 |
| Jan Andersen | 0 | 0 |
| Merrill Dean | 0 | 0 |
| **Controlled companies** | | |
| EMA B.V. | 4,743,201 | 0 |
| Viva Media Beteiligungsgesellschaft | 35,650 | 0 |
| Euroserve | 79,566 | 0 |
| Grabacap ApS | 424,000 | 0 |
| **Employees** | | **877,500** |

As Director's Dealing the following transaction which is subject to § 15a WphG was brought to our attention on 3 April 2008:
Purchase of 50,000 shares at EUR 3.30 (Volume: EUR 165,000)
Stock exchange: Frankfurt
Director: Michael A. Carton
Date: 2 April 2008

## 9. Number of employees

At the end of the 3rd quarter 2008, the ad pepper media group employed 246 members of staff (30 September 2007: 254 employees).

## 10. Report on major transactions with related companies and persons

Transactions with related companies and persons did not change significantly compared to 2007.
Within the Executive SOP 2008 75,000 resp. 80,000 options were granted to two members of the board of directors, Michael A. Carton and Jens Körner, under the terms described in paragraph 8.

Nuremberg, 5 November 2008

Ulrich Schmidt Jens Körner Niels Nüssler Michael A. Carton

## Company calendar

All financial and press data relevant for the capital market at a glance:

| | |
|---|---|
| *Annual report 2008* | *14 April 2009* |

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Executive management:
Ulrich Schmidt, Chairman
Jens Körner, Finance
Niels Nüssler, Sales
Michael Carton, Director of the Board

We will gladly send you our 2007 Annual Report as well as the interim financial reports for 2008 in German or English.

These reports are also published as PDF files at www.adpepper.com under Investor Relations/Annual reports and Presentations.

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