

ad pepper media International N.V.  
TransPolis Gebouw  
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**3-Months-Report**  
**1-2003**



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pepper

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The e-Advertising Network

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**Dear shareholder,**

So far, the year 2003 has featured the same trends that we are familiar with from last year. The political and overall business situation is influenced by the Iraq war, a business upturn is still not in sight and essential reforms are queuing up for implementation. The overall advertising market shows still only small growth impulses.

However, closer scrutiny shows that positive corporate news is again in the ascendant. Increasingly, companies are getting costs and turnover under control and can now more actively turn to new opportunities. New technology and products are being successfully launched on the market, showing which innovative business models can survive, even at times of crisis.

The online advertising market again succeeded in making clear progress. Growth rates in high double figures, something not seen in a long time, have now been noticeable for several quarters. The professionalism of advertisers and suppliers has constantly grown, due to consolidation, as is shown by the increasing number of sophisticated, cross-media, international campaigns.

The new year got off to a good start for ad pepper media, again. The media, data and technology divisions once again showed tangible growth, while our integrated product and service features could be established themselves further on the market with verifiable results for our clients. By all these presentable successes ad pepper media has gained a reputa-

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tion as a successful expert on international performance-based campaigns.

Business figures also reflect this, with 79% growth in turnover compared with the same quarter of last year, operational business continuing to make a profit, and a overall profit of € 283,000 in the first quarter, in spite of the usual muted start in January. All these make up a very clear picture with the promise of further positive trends for the year as a whole.

Our shares are now listed in the prime standard of the German stock exchange, pointing the way to the future as share price trends in recent months have underscored the potential of the shares.

However, even if overall developments have been encouraging, it is essential to keep our objectives firmly in mind by continuing to tackle our increasing tasks and challenges efficiently and competently. Our team have proved that they are able to do this and will continue to do so in future.

Thank you for your trust in us.

Hoofddorp, The Netherlands, May 20, 2003

The Managing Board

Ulrich Schmidt    Hermann Claus    Niels Nüssler

## Results – first quarter 2003

While the first quarter of the current fiscal year continues to show recessive advertising turnover for the overall market, online advertising is noticeably recovering. ad pepper media International N.V. pursued its path towards profitable growth, once more achieving tangible improvements in all relevant corporate figures related to the corresponding period last year.

In the first quarter of 2003, ad pepper media achieved a 79% growth in turnover to € 4.3 million, compared with the first quarter of 2002 (€ 2.4 million). At the same time, it increased its gross margin from 37% to 47%. The previous quarter's negative EBIT of over € 1 million was turned into a positive € 23,000. While the previous year's period still showed a loss of € 0.8 million, ad pepper media produced a stable profit of € 283,000 in the latest quarter.

Profits per share for the first quarter of the current fiscal year, on the basis of weighted outstanding capital stock, were € 0.03. In the same period last year, this was still € -0.07.

As well as the positive growth in results, operative cash flow has also developed very positively, to € 657,000 (Q1/2002: € -1,927,000). This even made it possible to finance payments for acquisitions and investments, while raising the stock of liquid resources. As of 31 March 2003, ad pepper media had liquid resources (including short term liquidisable securities) amounting to € 28.5 million.

## Company development

Over the past three years, ad pepper media has positioned itself as one of Europe's leading service providers for online marketing. With the expertise of its media, data and technology divisions in designing integrated products and services, the Company's clients can enjoy efficient solutions with tangible economic advantages, contributing to positive business development. Its stable market position and flexibility in adapting to market requirements will continue to have a clear, positive effect on business results in 2003.

To strengthen its presence on the French market, ad pepper media France acquired the French online marketer Macati S.A.R.L., as of 1 January, 2003, a supplier and designer of efficient direct marketing systems well-established in France. This step was a systematic expansion of ad pepper media's range of services. In organisational terms, integration of Macati was successfully completed in the first quarter of 2003.

On the German market, ad pepper media's co-operation with T-Com, the fixed network division of Deutsche Telekom AG, proved extremely successful. Since the beginning of the year, T-Com and ad pepper media have been working together on online direct marketing. ad pepper media took over the running of a campaign which lets Telekom customers change their monthly telephone billing online from a printed to an online basis. This campaign's forward-looking system gives the two companies a successful basis on which to expand their co-operation to other T-Com products, such as T-ISDN and T-DSL.

With 13 branches in 9 European countries, ad pepper media, at [www.adpepper.com](http://www.adpepper.com), currently markets some one billion advertising contacts per month on over 650 Websites. As a one-stop shop for advertisers and Websites, ad pepper media features full service on the basis of the best technology available for each case, with innovative forms of advertising and a wide range of efficient marketing solutions, from branding and opt-in Email to address generation, customer acquisition and customer relations models.

### Online advertising

The trend towards online advertising has continued in the first quarter of the new year. More and more advertisers want to benefit from professional online advertising by its targeted use within their media schedules. As a result, it has been evident for some time that online marketing has not only cast off the mood of crisis in the advertising sector, but that it is continuing to show two-figure growth rates at a time when the classic media are still struggling to cope with considerable loss of revenue.

While there are many reasons for this, they can be summarized under a number of headings: measurability, flexibility in coverage and choice of target group, real time reporting, optimisation, performance-based marketing, cost advantage and integration are only some of the factors resulting in success. The advantage of interaction, with its direct customer dialogue, is only possible online within a mass medium. This not only results in competitive and

price benefits, but successful business models, when properly handled. Online advertising cannot threaten or even replace printed advertising or TV commercials; nor is it intended to. It's more a case of needing complementary, integrated campaigns that select the appropriate medium for the best possible effect. This is a wide area to be covered with a lot of pioneering work to be done. However, it exposes the long-term, above-average growth potential of interactive advertising, whose key features are efficient links and integration.

Most international companies are not only expanding their online activities, but making them a central component of their overall communication and advertising strategy. This can be seen from the increasing level of integration and, in particular, from the number of international campaigns. The tasks to be handled here are complex and multi-layered. Planning, local adaptations, implementation, optimisation and unified billing go hand-in-hand and are creating an increasing demand for international organisations to handle them.

With its European structure and local and international competence teams, ad pepper media is well placed on the market and well prepared for any further increase in advertising budgets.

## Shares

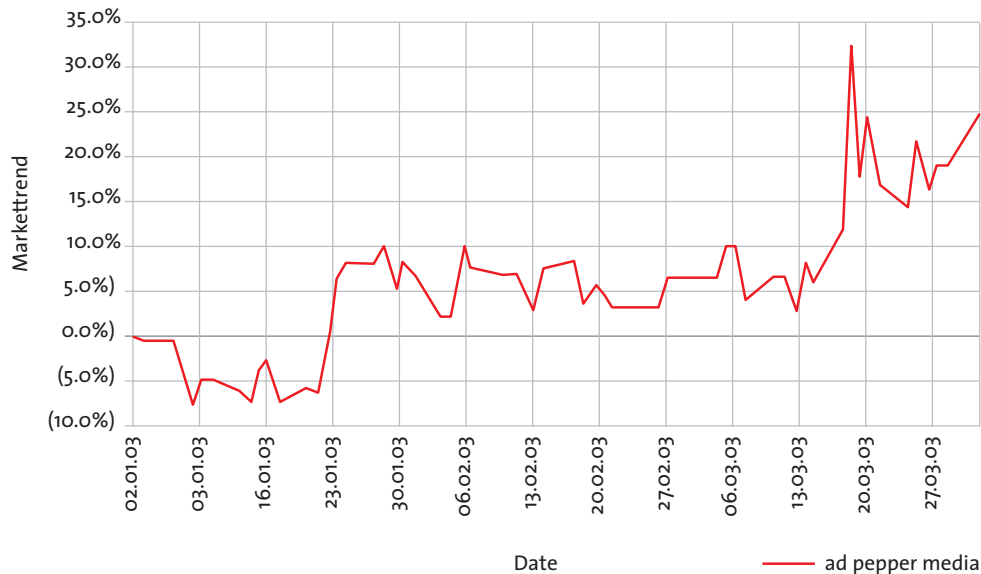
ad pepper media's declared objective is to increase the attractiveness of the ad pepper media share. The Company gained admittance to the prime standard of the German stock exchange as early as December, 2002.

The first quarter was again a very difficult one for all stock exchanges and thus for most shareholders. While the price of the ad pepper media share was subject to the downward trend generally prevailing on the stock exchanges at the beginning of the year, a sustained upward trend started as early as February. The price rose by 24% in the first three months of the fiscal year, from € 1.85 on 2 January 2003 to € 2.30

by the deadline of 31 March 2003. The shares reached their quarterly high point on 18 March 2003, with a price of € 2.45, an increase of 36%.

ad pepper media is confident that its shares will continue to increase clearly in value in the current fiscal year, in order to reflect the Company's true potential.

The IR column on the Internet at [www.adpepper.com](http://www.adpepper.com) lets interested parties find out all about ad pepper media shares in detail and add their names to the Company's Email distribution list for future news. Company reports, quarterly figures and press releases can also be downloaded.



## Prospects

The uninterrupted upwards trend and the now stable profit situation give ground for optimism. Even if reliable forecasts continue to be exceptionally difficult and business conditions in general show no signs of improvement, prospects for the rest of the year can basically be said to be hopeful.

However, watchfulness and commitment are essential, as on the one hand, the increasing professionalism and experience of all market participants continues to ensure a high level of competitive pressure, while on the other, the price squeeze is increasing, in the short term at least, because of companies that are struggling to survive.

The tendency to expand online advertising budgets is clear, with new advertisers being attracted by the success of their competitors. Organic market growth ought to exceed the displacement effect, as one may assume a continuing market consolidation among the suppliers of online advertising, with many companies' business models showing little chance of significant profitability.

ad pepper media's positioning, with its three business divisions, media, data and technology under one roof has proven itself to be the right decision, making for the professional handling of integrated, international campaigns.

We want to increase the net profits currently being achieved, as a sustained increase in profits is a basic prerequisite for further solid growth, which is then expressed in the shareholders' interest in the form of a continuously rising share price. Our objective is to show the potential of the market and of the Company in assessments based on performance indicators.



### Financial statement of operations

	Q1/2003 €	Q1/2002* €
Net Sales	4,295,869	2,402,977
Cost of Sales	-2,283,040	-1,513,494
Gross profit	2,012,829	889,483
Selling and marketing expenses	-1,076,714	-1,126,982
General and administrative expenses	-942,371	-958,197
Other operating income and expenses, net	11,461	164,858
Operating income/ loss	5,205	-1,030,838
Equity in earnings of affiliated companies	11,830	0
Foreign currency exchange gains and losses, net	6,131	-26,048
Interest income and expenses, net	257,076	275,019
Income/ loss before income taxes (and minority interest)	280,243	-781,867
Income taxes	0	0
Income/ loss before minority interest	280,243	-781,867
Minority interest	2,261	0
Net gain/ loss	282,504	-781,867
Net gain/ loss per share (basic)	0.03	-0.07
Net gain/ loss per share (diluted)	0.03	-0.07
	Q1/2003 shares	Q1/2002 shares
Weighted average shares outstanding (basic)	10,509,459	10,626,759
Weighted average shares outstanding (diluted)	10,675,792	10,626,759

\*prior year's presentation amended


**Balance Consolidated: Assets**

	March 31, 2003 €	December 31, 2002 €
<b>Current assets</b>		
Cash and cash equivalents	16,960,514	20,833,667
Marketable securities	4,137,205	4,137,205
Trade accounts receivable, net	4,734,532	5,403,525
Prepaid expenses and other current assets	1,339,714	1,061,853
<b>Total current assets</b>	<b>27,171,964</b>	<b>31,436,250</b>
<b>Noncurrent assets</b>		
Equipment, net	336,515	376,665
Intangible assets, net	716,774	753,601
Goodwill	2,221,888	2,026,041
Investments in affiliated companies	701,606	689,776
Marketable securities	7,423,750	3,508,000
Other assets	214,479	213,916
<b>Total noncurrent assets</b>	<b>11,615,011</b>	<b>7,567,998</b>
<b>Total assets</b>	<b>38,786,975</b>	<b>39,004,248</b>

**Balance Consolidated: Liabilities and Shareholder's Equity**

<b>Current liabilities</b>		
Trade accounts payable	1,642,592	1,982,049
Accrued expenses	2,500,918	2,571,209
Other current liabilities	804,934	496,609
<b>Total current liabilities</b>	<b>4,948,444</b>	<b>5,049,868</b>
<b>Minority interest</b>	<b>37,567</b>	<b>39,828</b>
<b>Shareholder's equity</b>		
Share capital	1,115,500	1,115,500
Treasury stock	-81,157	-62,716
Additional paid-in capital	56,675,659	57,026,709
Accumulated deficit	-23,898,162	-24,180,665
Accumulated other comprehensive income / loss	-10,876	15,724
<b>Total shareholder's equity</b>	<b>33,800,964</b>	<b>33,914,552</b>
<b>Total liabilities and shareholder's equity</b>	<b>38,786,975</b>	<b>39,004,248</b>





## Statement of Cash Flows

	01.01.03-31.03.03 €	01.01.02-31.03.02* €
Net gain/ loss	282,504	-781,867
<b>Adjustments to reconcile net loss to cash used in operations:</b>		
Loss attributable to minority interests	-2,261	0
Depreciation and amortization	98,158	115,019
Gain/ loss on sale of equipment	6,273	-216
Other non-cash income and expenses	-17,512	5,947
<b>Gross-cash-flow</b>	<b>367,162</b>	<b>-661,117</b>
<b>Changes in operating assets and liabilities:</b>		
Increase/ decrease in trade accounts receivable	668,993	-358,707
Increase/ decrease in prepaid expenses and other assets	-277,861	-483,000
Increase/ decrease in trade accounts payable	-339,457	-630,408
Increase/ decrease in accrued expenses and other liabilities	238,033	205,820
<b>Net cash used in operating activities</b>	<b>656,871</b>	<b>-1,927,412</b>
Capital expenditures for intangible assets and equipment	-19,119	-26,402
Proceeds from sale of intangible assets and equipment	4,000	1,539
Capital expenditures in affiliated companies	0	-227
Security payments/ proceeds from repayment security deposits	-563	-51,026
Cash paid for acquisition of shares in consolidated companies	-202,500	0
Proceeds from matured marketable securities	-3,915,750	0
<b>Net cash used in investing activities</b>	<b>-4,133,932</b>	<b>-76,116</b>
Purchases treasury stock	-369,491	0
<b>Net cash used in/ provided by financing activities</b>	<b>-369,491</b>	<b>0</b>
Effect of exchange rate changes on cash and cash equivalents	-26,600	-56,546
Changes in cash and cash equivalents	-3,873,153	-2,060,074
Cash and cash equivalents at beginning of year	20,833,667	28,074,757
Cash and cash equivalents at end of quarter	16,960,514	26,014,683

\* prior year's presentation amended



## Statement of shareholder's equity

	Capital Stock €	Treasury shares €	Additional paid-in capital €	Loss carried forwards €	Currency translation differences €	Total €
<b>Balance at January 01, 2002</b>	<b>1,115,500</b>	<b>-53,316</b>	<b>57,146,956</b>	<b>-23,475,682</b>	<b>-243,812</b>	<b>34,489,646</b>
Acquisition of treasury shares	0	0	0	0	0	0
Disposal from treasury shares	0	600	6,660	0	0	7,260
Net loss for the period	0	0	0	-781,867	0	-781,867
Cumulated other comprehensive income/loss	0	0	0	0	-56,546	-56,546
Total comprehensive income/loss	0	0	0	0	0	-838,413
<b>Balance at March 31, 2002</b>	<b>1,115,500</b>	<b>-52,716</b>	<b>57,153,616</b>	<b>-24,257,549</b>	<b>-300,358</b>	<b>33,658,493</b>
<b>Balance at April 01, 2002</b>	<b>1,115,500</b>	<b>-52,716</b>	<b>57,153,616</b>	<b>-24,257,549</b>	<b>-300,358</b>	<b>33,658,493</b>
Acquisition of treasury shares	0	-10,000	-126,907	0	0	-136,907
Disposal from treasury shares	0	0	0	0	0	0
Net loss for the period	0	0	0	76,884	0	76,884
Cumulated other comprehensive income/loss	0	0	0	0	316,082	316,082
Total comprehensive income/loss	0	0	0	0	0	392,966
<b>Balance at December 31, 2002</b>	<b>1,115,500</b>	<b>-62,716</b>	<b>57,026,709</b>	<b>-24,180,665</b>	<b>15,724</b>	<b>33,914,552</b>
<b>Balance at January 01, 2003</b>	<b>1,115,500</b>	<b>-62,716</b>	<b>57,026,709</b>	<b>-24,180,665</b>	<b>15,724</b>	<b>33,914,552</b>
Acquisition of treasury shares	0	-18,541	-352,281	0	0	-370,822
Disposal from treasury shares	0	100	1,230	0	0	1,330
Net loss for the period	0	0	0	282,504	0	282,504
Cumulated other comprehensive income/loss	0	0	0	0	-26,600	-26,600
Total comprehensive income/loss	0	0	0	0	0	255,904
<b>Balance at March 31, 2003</b>	<b>1,115,500</b>	<b>-81,157</b>	<b>56,675,658</b>	<b>-23,898,161</b>	<b>-10,876</b>	<b>33,800,964</b>



### Business combinations

ad pepper media France S.A.R.L. acquired a 100% interest in the French online marketer Macati S.A.R.L. effective January 1, 2003. Macati is an established provider and developer on the French market for efficient direct marketing concepts. The excellent reach of the existing Macati Website network means that Macati's advertising customers can implement their direct marketing campaigns rapidly, and directly online. Macati has a network of more than 650 Websites in the B2B and B2C sectors, which can reach millions of unique users every day. Macati's activities focus on customer loyalty and acquisition programs, in which users specifically and consciously chose the offered products and services. Since the Company was formed it has generated more than 1.3 million qualified user profiles for well-known French and international companies such as Nokia, Microsoft, Consodata, Apple Computers, Claritas, Banque AGF and EGG. Macati S.A.R.L. was formed in June 2000 and already recorded a profit in both of the last two years with its interactive marketing solutions.

The preliminary purchase price totaled € 312,500. Of this amount € 87,500 was paid for in the form of shares of ad pepper media International N.V. Of the total purchase price, € 75,000 are contingent based on targets being reached, of this amount € 37,500 payable in shares of the Company. The number of these shares is calculated using the average price of the last ten trading days after the 2003 financial

statements have been adopted. 25,331 shares will be transferred for the first tranche of shares totaling € 50,000 based on the 10-day average price prior to the contract being signed.

The preliminary purchase price exceeds the net assets by € 255,855. The goodwill is not tax deductible. The purchase price allocation has not been determined.

Including Macati's operating results of prior year, the consolidated pro forma sales amounts to € 2,537,186 and the consolidated pro forma net loss is € 749,645, resulting in a pro forma loss per share of € 0.07 for the first quarter 2002.

### Income Tax

Due to sufficient tax loss carry forwards, no tax expense was recognized in the reporting period.



### Stock based compensation

In line with the intrinsic value method no expenses for the employee stock options plans were reported. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123:

		Q1/2003 €	Q1/2002 €
<b>Net income/ loss</b>	as reported	282,504	-781,867
	pro forma expense	57,352	45,070
<b>Net income/ loss</b>	pro forma	225,152	-826,937
<b>Earnings per share (basic)</b>	as reported	0.03	-0.07
	pro forma	0.02	-0.08
<b>Earnings per share (diluted)</b>	as reported	0.03	-0.07
	pro forma	0.02	-0.08

### Comprehensive Income

The accumulated other comprehensive income exclusively includes accumulated currency translation differences.

### Segment reporting

ad pepper media's entire business activities are regarded as a single segment. Internal reporting to the management is currently primarily focused on regional sales growth.

The following tables show the sales, cost of sales and the gross earnings in the individual regions:

Sales	Q1/2003 €	Q1/2002 €
Central Europe (Germany, Austria)	1,709,716	807,057
Northern Europe (Denmark, Sweden, Finland, Norway)	825,555	529,300
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	1,760,598	1,066,620
<b>Total sales</b>	<b>4,295,869</b>	<b>2,402,977</b>

Cost of sales	Q1/2003 €	Q1/2002 €
Central Europe (Germany, Austria)	939,598	586,689
Northern Europe (Denmark, Sweden, Finland, Norway)	527,664	376,255
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	815,778	550,550
<b>Total cost of sales</b>	<b>2,283,040</b>	<b>1,513,494</b>

Gross profit	Q1/2003 €	Q1/2002 €
Central Europe (Germany, Austria)	770,118	220,368
Northern Europe (Denmark, Sweden, Finland, Norway)	297,891	153,045
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	944,820	516,070
<b>Gross profit</b>	<b>2,012,829</b>	<b>889,483</b>



### Own shares

ad pepper media International N.V. is authorized to acquire up to 1,115,500 own shares. As of March 31, 2003, the Company held 811,570 treasury shares at a nominal value of 0.10 € each which equals 7.28% of the share capital. According to a shareholder resolution those shares can be used for acquisitions and stock option plans.

During the first quarter 2003, the Company acquired 185,408 own shares, representing €18,441 in nominal value or 1.65 % of the share capital, for a total purchase price of €352,281.

Furthermore, 1,000 own shares have been used for the execution of employee stock options with an exercise price of €1.33 per share.

### Stock option rights and share holdings

As of March 31, 2003, 1,716,950 stock options exist within the framework of pre-IPO as well as ongoing stock option plans. The exchange ratio for each of the options is one share per option. The exercise prices are in a range of €1.33 to €13.50.

The following table lists the individual holdings of shares and option rights of the members of the Supervisory and Managing Boards and employees.

Managing Board	shareholdings as of March 31, 2003	options as of March 31, 2003
Ulrich Schmidt	627,197	378,000
Hermann Claus	36,808	263,000
Niels Nüssler	38,113	296,500

### Supervisory Board

Michael Oschmann	112	0
Dr. Günther Niethammer	1,112	15,000
Bernd Sexauer	292	0
Jan Andersen	607,600	0
Merrill Dean	0	0

### Related Companies

EMA B.V.	4,743,201	0
VIVA Beteiligungsgesellschaft	19,413	0

<b>Employees</b>		<b>764,450</b>
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### Number of employees

As of end of the first quarter 2003, ad pepper media engaged 93 employees (March 31, 2002: 88 employees) in 9 European countries, substantially contributing to the Company's success.

### Order book

ad pepper media is pleased to experience an increase of orders, both in respect of number and volume, which proves that the integrated products and services have created a strong profile for ad pepper media through verifiable results for its clients. With its expertise and competence, ad pepper media well qualifies for the increasing demand of more complex, cross-medial and international performance-based campaigns.

### Company key data

	Q1/2003 000 €	Q1/2002 000 €	change in %
Net sales	4,296	2,403	79
Gross margin	2,013	889	126
Operating costs	2,008	1,920	5
EBIT	5	-1,031	
Net income	283	-782	
Liquidity resources			
(including short term liquidisable securities)	28,521	28,479	
Equity	33,801	33,915	
Total assets	38,787	39,004	
Earnings per Share (basic)			
		Q1/2003 €	Q1/2002 €
		0.03	-0.07
Employees at end of period			
		Q1/2003	Q1/2002
		93	88



### 2002 annual report and the 3-Month-Report 2003

We will gladly send you our 2002 annual report and our 3-Month-Report 2003 in German or in English. These reports are also available for immediate download as PDF files (Acrobat) at [www.adpepper.com](http://www.adpepper.com) – under Investor Relations “Service Downloads”.



### Investor Relations

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