

ad pepper media International N.V.
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6-Months-Report

2-2003



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The e-Advertising Network

ad pepper media ▶ global reach. local touch.

Dear Shareholder,

Developments in the second quarter were as expected. The economy is slow to recover, the backlog of reforms is being tackled hesitantly, the world political situation is uncertain and regulatory measures and systems are not having any effect. However, hopes for improvement and increasingly positive expectations can be felt on all sides. The financial markets have been showing an upward trend for some time and positive corporate news is on the increase.

Signs of growth are mainly being seen from established companies with sufficient resources to ride out the storm while putting their ship in order. In these cases, the crisis is increasingly being seen as an opportunity for new market share, products and systems.

As a forerunner, the advertising market is displaying a similar picture. While the market as a whole is stagnating and structural problems can no longer be papered over, new ideas and plans are gaining acceptance and securing above-average market share. The online advertising market is increasingly re-discovering itself and is going through a new stage of high growth. However, it would be wrong to speak of a renaissance or a phoenix rising from the ashes; it is more a case of the whole market growing into a further stage of maturity.

This can mainly be seen from the great changes in the range of service providers. Former market leaders are losing their significance or have dropped out of the market, while new or dynamic service providers are increasingly proving the efficiency of their business models.

Online advertising expenditure has shown clear increases, in two figures, in the first six months of 2003. ad pepper media succeeded in clearly exceeding its established growth rates. Its impressive 55% growth in turnover, after an already successful previous year, shows how the right concept and, in particular, the quality of its services and products is being acknowledged by our clients.

It is particularly pleasing to record above-average growth rates in international campaigns, in both the media and direct marketing sectors. ad pepper media's wide-ranging European organisation and the global scope of its network bring the company vital competitive advantages. When linked with the sophisticated technology and products developed by the company itself, this results in quality and coverage whose importance is honoured by our clients and website partners.

As a result, all our business indicators have continued to improve. Turnover, margin and, above all, profits are increasingly speaking for themselves and all information so far available points to this trend continuing in the second six months of the year. In the long term, our shares, which proved to be outperformers in recent months, will continue to profit from corporate advances. Due care and attention will continue to accompany our activities in future. Constant vigilance and flexibility are a must in our intensely competitive markets, for without them there can be no sustainable success.

Thank you for your trust in us.

The Board

ad pepper media International N.V.

Ulrich Schmidt Hermann Claus Niels Nüssler

Results – first six months of 2003 and second quarter of 2003

In the second quarter of the current fiscal year, ad pepper media International N.V. is once again showing growth, while continuing to expand its market position in online marketing.

In the current, 2003 financial year, ad pepper media has gained considerable growth in turnover and operational profitability. Compared with the previous year, turnover in the first six months rose by 55% to T€ 9,022 (1st six months 2002: T€ 5,803). Gross margin rose by 87% to T€ 4,343 (1st six months 2002: T€ 2,322). EBIT amount to a positive € 124,468 (1st six months 2002: T€ -1,809), with consolidated results rising to € 657,170 (1st six months 2002: T€ -1,284).

Operational cash-flow also improved tangibly on the previous year's period. In the first six months of 2003, an inflow of funds amounting to € 289,161 was achieved (1st six months 2002: outflow of funds amounting to T€ -2.707).

As of 30 June 2003, ad pepper media had liquid resources (including short-term liquidisable securities) amounting to T€ 28,010.

In the second quarter of 2003, consolidated turnover was T€ 4,727. This represents an increase of 39%, compared with the same quarter of the previous year (T€ 3,400). Gross margin rose to T€ 2,330 (Q2/2002: T€ 1,432), an improvement of 63%. EBIT also clearly increased to a positive € 101,303, over the comparative period in the previous year (T€ -753). Profits for the period amount to € 374,668 (Q2/2002: T€ -502).

The successful path towards increased profitability is thus being consistently followed.

Corporate development

As one of Europe's leading service providers for online marketing, ad pepper media succeeded in further consolidating and expanding its market position in the previous quarter. ad pepper media is rapidly developing into the leading centre of competence for online marketing. The power behind this growth comes from its media, data and technology divisions, with their integrated ranges of products and services. These give clients efficient solutions with clear business advantages, while also contributing to positive business development.

The French company Macati S.A.R.L., acquired in January 2003, has been successfully integrated within the group. With the acquisition of Macati, ad pepper media has been able to expand further on the French market and gain interesting new clients.

To reinforce its position on the Swiss market, ad pepper media and Ambition AG entered on a cooperation agreement in July 2003. Ambition AG will operate as a reseller of ad pepper media online direct marketing solutions on the Swiss market. In pole position is "iLead", which has been successfully used in over 500 campaigns. In Switzerland, the first campaigns for clients in the telecommunication sector (telephoning and ADSL) to acquire new customers have been successfully launched. Ambition AG also features all further steps to follow up the sales process. By working together with call



centres, sign-up percentages in two figures have been achieved, even at the initial stage.

For ad pepper media, local representation is a logical step in the further development of its European network. As Switzerland is included when many international campaigns are booked, a tangible increase in demand for interactive direct marketing solutions is also to be noted on the local market.

With 13 offices in 9 European countries, ad pepper media currently markets around one billion advertising contacts per month on over 650 websites, via www.adpepper.com. As a one-stop-shop for advertisers and websites, ad pepper media features complete service on the basis of the best available technology in 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 systems. The proven European marketing and service model is going international, with modifications made before use in local markets. ad pepper media markets such leading worldwide websites as Yellow Pages and the Telephone Book in Germany, Aftonbladet in Sweden, Marktplaats in The Netherlands, Krak in Denmark, Interhotel in Spain and such specific theme sites as Monster and many others.

Online advertising

The market for online advertising continued to show a positive trend in the second quarter of the year. Online advertising is by now a constituent part of any serious media plan. The proportion of the budget spent online is constantly growing. This is not because it is fashionable; it springs from a precise analysis of requirements and findings, efficient workflow and effective results.

It is now possible to design suitable types of campaign individually for all types of campaign objectives. That goes for the media area, which increasingly features high-quality rich media formats, but applies particularly to the performance and direct marketing area, which can use integrated and inter-platform promotions for amazing results.

Increasingly, advertisers are focussing their budgets on fewer and fewer providers. For good reasons: complex campaigns demand professional handling. Systems and tools must comply with the state of the art. Fortunately, the biggest differentiating factor has become the quality of the products and the systems. Cut-price solutions can no longer keep up with the standard required and are increasingly being sifted out. The market players know exactly what they want and need and therefore recognise the value of the constituent parts of their campaigns.

The increasing centralisation of international budgets also shows advertisers' increased relevance and competence. The growth in international online campaigns emphasises their significance for the whole communication and advertising strategy of



international groups. Moreover, small and medium-sized enterprises and regional marketers are discovering the advantages of interactive communication, so that B2B and E-Commerce in particular will be major growth areas in the near future.

The tasks to be dealt with are complex and involved. Planning, localisation, implementation, optimisation and centralised billing go hand in hand and increasingly, can only be mastered by organisations with international and technological experience.

With its European structure and its local and international competence teams, ad pepper media is ideally positioned on the market and well prepared for any further rise in advertising expenditure.

Shares

The sluggish state of the economy continues to be reflected on the stock markets, which reported a difficult first six months.

In spite of the subdued economy, ad pepper media shares continued to perform positively in the first six months of the current fiscal year, increasing by some 44.3% from €1.85 on 2 January, 2003 to €2.67 on the closing day, 30 June, 2003. The shares reached their high point for the year on 18 June, 2003, with a rate of €2.75, an increase of 48.6%.





ad pepper media is confident that the proof of interesting net profits and its orientation to the target of sustainable profit increases will continue to cast a positive light on ad pepper media shares in the current fiscal year. Its declared objective is to make further increases in the liquidity and the stock quotation of its shares.

Interested parties can download detailed information on ad pepper media shares, business reports, quarterly figures and press releases from www.adpepper.com (Investor Relations), or add their names to our mailing list for future E-Mails on corporate news.

Prospects

Even if it is still very difficult to make reliable forecasts, with general business conditions showing no sign of picking up, prospects for the remainder of the year are generally hopeful for forward progress. The unchanging upwards trend and the now stable profits situation give ground for optimism.

The tendency to boost online advertising budgets continues to be apparent and new advertisers will be attracted to the market by their competitors' success. Organic market growth will continue to

dominate ad pepper media's course in future, as it is hardly likely that the necessary expertise or scaling-up potential for leaps in market growth will be available. However, we will continue to keep our eyes out for complementary partners and structures which might be able to supplement or stabilise our value chain.

Commitment and attention to detail are constituent parts of our daily operations, as competitiveness can be lost over night, especially in a market where technology and growth are so dominant. The increasing professionalism and experience of all market participants will ensure a constantly high competitive pressure, while preventing any significant rise in prices.

The correct positioning of ad pepper media, with its three business areas – media, data and technology – under one roof, makes for the professional handling of integrated, international campaigns and will also make it possible for us to improve our competitive position in the long term and promote the development of our company.

One of our main duties is therefore to portray market and company potential in any corporate assessment, to the benefit of our shareholders.



Financial statement of operations

	Q2/2003 €	Q2/2002* €	Q1-Q2/2003 €	Q1-Q2/2002* €
Net Sales	4,726,551	3,400,458	9,022,420	5,803,435
Cost of Sales	-2,396,285	-1,968,025	-4,679,325	-3,481,520
Gross profit	2,330,266	1,432,433	4,343,095	2,321,915
Selling and marketing expenses	-1,222,612	-992,146	-2,299,326	-2,119,127
General and administrative expenses	-1,018,430	-1,168,462	-1,960,801	-2,126,659
Other operating income and expenses, net	-8,430	39,349	3,030	152,111
Operating income/loss	80,794	-688,826	85,998	-1,771,760
Equity in earnings of affiliated companies	16,348	0	28,178	0
Foreign currency exchange gains and losses, net	4,161	-63,831	10,292	-37,783
Interest income and expenses, net	281,126	284,145	538,202	559,164
Income/loss before income taxes (and minority interest)	382,429	-468,512	662,670	-1,250,379
Income taxes	0	-287	0	-287
Income/loss before minority interest	382,429	-468,799	662,670	-1,250,666
Minority interest	-7,761	-33,232	-5,500	-33,232
Net gain/loss	374,668	-502,031	657,170	-1,283,898
Net gain/loss per share (basic)	0.04	-0.05	0.06	-0.12
Net gain/loss per share (diluted)	0.03	-0.05	0.06	-0.12
	Q2/2003 Shares	Q2/2002 Shares	Q1-Q2/2003 Shares	Q1-Q2/2002 Shares
Weighted average shares outstanding (basic)	10,458,446	10,627,838	10,483,552	10,627,305
Weighted average shares outstanding (diluted)	10,913,955	10,627,838	10,825,334	10,627,305

*prior year's presentation amended

**Balance Consolidated: Assets**

	June 30, 2003 €	December 31, 2002* €
Current assets		
Cash and cash equivalents	14,441,027	20,833,667
Marketable securities	6,145,205	4,137,205
Trade accounts receivable, net	5,214,434	5,403,525
Prepaid expenses and other current assets	1,698,908	1,340,070
Total current assets	27,499,574	31,714,467
Noncurrent assets		
Equipment, net	364,917	376,665
Intangible assets, net	891,719	753,601
Goodwill	2,280,333	2,026,041
Investments in affiliated companies	717,954	689,776
Marketable securities	7,423,750	3,508,000
Other assets	216,609	213,916
Total noncurrent assets	11,895,282	7,567,999
Total assets	39,394,856	39,282,466

Balance Consolidated: Liabilities and Shareholder's Equity

Current liabilities		
Trade accounts payable	1,269,098	1,982,049
Accrued expenses	2,957,532	2,571,209
Other current liabilities	874,612	774,827
Total current liabilities	5,101,242	5,328,085
Minority interest	45,328	39,829
Shareholder's equity		
Share capital	1,115,500	1,115,500
Treasury stock	-78,110	-62,716
Additional paid-in capital	56,746,286	57,026,709
Accumulated deficit	-23,523,495	-24,180,665
Accumulated other comprehensive income/loss	-11,895	15,724
Total shareholder's equity	34,248,286	33,914,552
Total liabilities and shareholder's equity	39,394,856	39,282,466

* prior year's presentation amended



Statement of Cash Flows

	01.01.03-30.06.03 €	01.01.02-30.06.02* €
Net gain/loss	657,170	-1,283,898
Adjustments to reconcile net gain/loss to cash used in operations:		
Loss attributable to minority interests	5,500	33,232
Depreciation and amortization	208,446	228,204
Gain/loss on sale of equipment	6,267	-1,299
Other non-cash income and expenses	-191,632	8,570
Gross-cash-flow	685,751	-1,015,191
Changes in operating assets and liabilities:		
Increase/decrease in trade accounts receivable	189,091	-1,157,726
Increase/decrease in prepaid expenses and other assets	-358,838	-474,166
Increase/decrease in trade accounts payable	-712,951	-325,933
Increase/decrease in accrued expenses and other liabilities	486,108	265,603
Net cash used in/provided by operating activities	289,161	-2,707,413
Capital expenditures for intangible assets and equipment	-166,919	-78,471
Proceeds from sale of intangible assets and equipment	6,197	2,918
Capital expenditures in affiliated companies	0	-244
Security payments/proceeds from repayment security deposits	-2,693	-48,158
Cash paid for acquisition of shares in consolidated companies	-271,200	0
Purchase of marketable securities	-5,923,750	-4,005,000
Net cash used in investing activities	-6,358,365	-4,128,955
Purchases treasury stock	-295,817	0
Net cash used in financing activities	-295,817	0
Effect of exchange rate changes on cash and cash equivalents	-27,619	-1,884
Changes in cash and cash equivalents	-6,392,640	-6,838,252
Cash and cash equivalents at beginning of year	20,833,667	28,074,757
Cash and cash equivalents at end of 2nd quarter	14,441,027	21,236,505

* prior year's presentation amended



Statement of shareholder's equity

	Share Capital €	Treasury stock €	Additional paid-in capital €	Accumulated deficit €	Accumulated other comprehensive income/loss €	Total €
Balance at January 01, 2002	1,115,500	-53,316	57,146,956	-23,475,682	-243,812	34,489,646
Acquisition of treasury shares	0	-10,000	-126,907	0	0	-136,907
Disposal from treasury shares	0	600	6,660	0	0	7,260
Net loss for the period	0	0	0	-704,983	0	-704,983
Cumulated other comprehensive income/loss	0	0	0	0	259,536	259,536
Total comprehensive income/loss	0	0	0	0	0	-445,447
thereof January 01, 2002 - June 30, 2002	0	0	0	0	0	-1,285,783
thereof April 01, 2002 - June 30, 2002	0	0	0	0	0	-447,370
Balance at December 31, 2002	1,115,500	-62,716	57,026,709	-24,180,665	15,724	33,914,552
Balance at January 01, 2003	1,115,500	-62,716	57,026,709	-24,180,665	15,724	33,914,552
Acquisition of treasury shares	0	-18,541	-352,281	0	0	-370,822
Disposal from treasury shares	0	3,147	71,858	0	0	75,005
Net loss for the period	0	0	0	657,170	0	657,170
Cumulated other comprehensive income/loss	0	0	0	0	-27,619	-27,619
Total comprehensive income/loss	0	0	0	0	0	629,551
thereof April 01, 2003 - June 30, 2003	0	0	0	0	0	373,647
Balance at June 30, 2003	1,115,500	-78,110	56,746,286	-23,523,495	-11,895	34,248,286



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's results have been included in the Group Accounts since January 1st, 2003. Macati is an established provider and developer on the French market for efficient direct marketing concepts. The excellent reach of the existing Macati Web site network means that Macati's advertising customers can implement their direct marketing campaigns rapidly, and directly online. Macati has a network of more than 500 Web sites 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 costs totaled € 385,945. 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 € 329,300. 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 € 3,553,075 and the consolidated pro forma net loss is € 467,858, resulting in a pro forma loss per share of € 0.04 for the second quarter 2002. The pro forma figures regarding the first six months of 2002 amount to net sales of € 6,090,261, a net loss of € 1,217,503 and loss per share of € 0.11.

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 option 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:

		Q2/2003	Q2/2002	Q1-Q2/2003	Q1-Q2/2002
		€	€	€	€
Net income/loss	as reported	374,668	-502,031	657,170	-1,283,898
	pro forma				
	expense	59,412	45,070	116,764	90,140
Net income/loss	pro forma	315,256	-547,101	540,406	-1,374,038
Earnings per share	as reported	0.04	-0.05	0.06	-0.12
(basic)	pro forma	0.03	-0.05	0.05	-0.13
Earnings per share	as reported	0.03	-0.05	0.06	-0.12
(diluted)	pro forma	0.03	-0.05	0.05	-0.13

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:



	Q2/2003	Q2/2002	Q1-Q2/2003	Q1-Q2/2002
	€	€	€	€
Sales				
Central Europe (Germany, Austria)	1,566,185	1,348,103	3,275,901	2,155,160
Northern Europe (Denmark, Sweden, Finland, Norway)	1,098,014	827,305	1,923,568	1,356,605
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	2,062,352	1,225,050	3,822,951	2,291,670
Total sales	4,726,551	3,400,458	9,022,420	5,803,435
Cost of sales				
Central Europe (Germany, Austria)	885,924	921,897	1,825,522	1,537,407
Northern Europe (Denmark, Sweden, Finland, Norway)	453,302	484,215	980,966	852,983
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	1,057,059	561,913	1,872,837	1,091,130
Total cost of sales	2,396,285	1,968,025	4,679,325	3,481,520
Gross profit				
Central Europe (Germany, Austria)	680,261	426,206	1,450,379	617,753
Northern Europe (Denmark, Sweden, Finland, Norway)	644,712	343,090	942,602	503,622
Western Europe (United Kingdom, France, Spain, The Netherlands, Italy)	1,005,293	663,137	1,950,114	1,200,540
Gross profit	2,330,266	1,432,433	4,343,095	2,321,915



Own shares

ad pepper media International N.V. is authorized to acquire up to 1,115,500 own shares. As of June 30, 2003, the company held 781,104 treasury shares at a nominal value of € 0.10 each which equals 7% of the share capital. According to a shareholder resolution those shares can be used for acquisitions and stock option plans.

During the first six months 2003, the company acquired 185,408 own shares, representing € 18,541 in nominal value or 1.66 % of the share capital, for a total purchase price of € 370,822. Of the treasury stock, 18,800 own shares have been used during the first 6 months 2003 for the execution of employee stock options with an exercise price of € 1.33 per share. Furthermore, 12,666 own shares were transferred as part of the purchase price of Macati S.A.R.L. in the reporting period.

Stock option rights and share holdings

As of June 30, 2003, 1,695,950 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 June 30, 2003	Options as of June 30, 2003
Ulrich Schmidt	628,197	373,000
Niels Nüssler	41,808	258,000
Hermann Claus	38,113	296,500

Supervisory Board

Michael Oschmann	5,112	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	10,000	0

Employees		753,450
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Number of employees

As of end of the second quarter 2003, ad pepper media engaged 96 employees (June 30, 2002: 84 employees) in 9 European countries, substantially contributing to the company's success.

Order book

The positive trend of the first three months of the current fiscal year in respect of number and volume of orders also continued in the second quarter and ad pepper media keeps on participating in the looming recovery of the online advertising market.

Due to its regional presence and its mature products and services, ad pepper media is well positioned to continue to grow above average.

Company key data

	Q2/03	Q2/02	change	Q1-Q2/ 2003	Q1-Q2/ 2002	change
	T€	T€	in %	T€	T€	in %
Net sales	4,727	3,400	39	9,022	5,803	55
Gross margin	2,330	1,432	63	4,343	2,322	87
Operating costs	2,229	2,185	2	4,219	4,131	2
EBIT	101	-753		124	-1,809	
Period profit/loss	375	-502		657	-1,284	

	June 30, 2003	December 31, 2002
	T€	T€
Liquid resources*	28,010	28,479
Equity	34,248	33,915
Total assets	39,395	39,282

*including short-term liquidisable securities

	Q2/ 2003	Q2/ 2002	Q1-Q2/ 2003	Q1-Q2/ 2002
	€	€	€	€
Earnings per share (basic)	0.04	-0.05	0.06	-0.12

	June 30, 2003	June 30, 2002
Employees	96	84



2002 annual report and the quarterly reports 2003

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



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