The e-Advertising Network

Annual Report 2005

Dynamics

Theme for the Annual Report

The Internet – one of the most important mass media, with the web already accounting for ten percent of media use today – offers advertisers unlimited possibilities to implement their marketing strategies online. There are only a few companies like ad pepper media International N.V. who can offer their customers the entire spectrum of online marketing with their own technology, international presence and placement power.

The very fast spread and technological advancement of the Internet, in particular, are posing ever-more complex challenges when it comes to addressing consumers in a market-orientated and targeted manner and interactively communicating with consumers. In line with constantly changing and growing market requirements, ad pepper media International N.V. adapted and enhanced its corporate strategy and service portfolio in the 2005 financial year, thus once again proving the solidity and sustainable nature of its business model. Long-standing national and international customer relationships and new, global customers clearly bear witness to this.

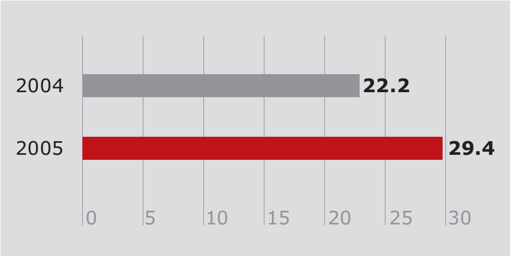
The success of ad pepper media International N.V. is not least guaranteed by a strong team of creative and experienced employees who focus on the needs of our customers and their environment. ad pepper media is hence perfectly positioned and determined to make the year 2006 another successful year for its investors, customers and business partners.

Overview of key figures

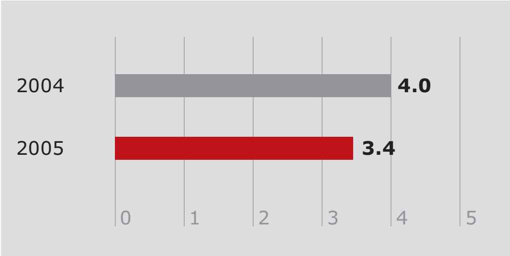
Overview of the main key figures

	2005	2004
Net sales, in EUR million	29.4	22.2
Gross profit, in EUR million	13.1	9.9
Gross margin	45 %	44 %
EBIT (earnings before interest and taxes), in EUR million	0.2	0.1
EBT (earnings before taxes), in EUR million	0.9	1.4
Net gain/loss, in EUR million	3.4	4.0
Earnings per share, in EUR	0.32	0.38
Noncurrent assets, in EUR million	27.3	13.9
Current assets, in EUR million	24.9	32.5
Equity ratio	84 %	86 %
Employees	136	117

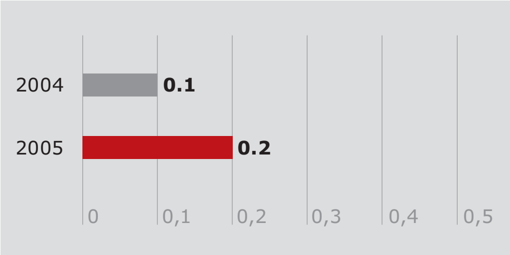
Net sales (in EUR million)



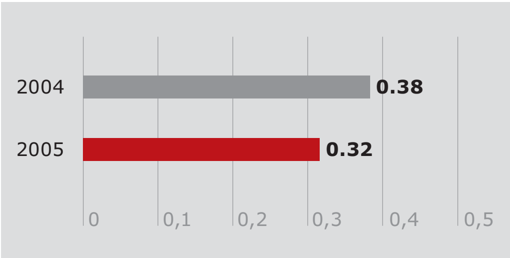
Consolidated net gain (in EUR million)



EBIT (in EUR million)



Net gain per share (in EUR)



Highlights of the financial year 2005

Strategic acquisitions

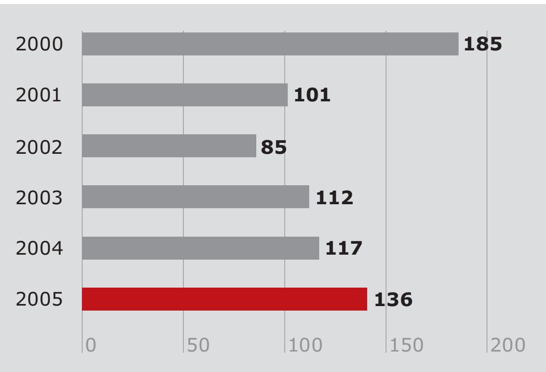
In February 2005, ad pepper media Benelux B.V. acquired the Dutch online marketer ResultOnline B.V. This acquisition strengthened ad pepper media's position in the segment of text-based online marketing and positioned the subsidiary company ad pepper media Benelux B.V. on top of Dutch providers of online marketing solutions.

Furthermore, ad pepper media acquired the free website analytics solution Nedstat Basic from Nedstat B.V., the European leader in website analytics. With this asset transaction, ad pepper media acquires all the respective rights associated with the world's most frequently used free website analytics solution. Nedstat Basic is an ASP based solution enabling webmasters to measure all the important indicators such as traffic, user behaviour, content and offer performance. Nedstat Basic is actively used by more than 600,000 webmasters on approximately 1 million websites around the world and has been continuously growing since its launch in 1996. On September 1st, 2005 Nedstat Basic was re-branded to **webstats4U**, the brand, ad pepper media is now using to promote and expand this product.

In the third quarter 2005, ad pepper media acquired mediasquares, one of the leading independent German online advertising sales houses, with an exclusively represented website portfolio containing such well-established brands as sport1.de, map24.de, maximonline.de and kino.de. The total portfolio currently has appr. 20 websites with some 400 million page impressions a month. The young company has positioned itself dynamically and successfully in recent years, producing steep, profitable growth with its high-quality conceptual campaigns and first-class service for both website partners and advertising partners. The acquisition of mediasquares reinforces ad pepper media's position in Germany, particularly in the marketing of premium vertical websites. mediasquares will continue to operate under its own name and the existing management structure remains in place. Client service and expansion of the agency business will be given strategic orientation, while mediasquares will enjoy full access to ad pepper media's products and technology.

These acquisitions highlight ad pepper media's continuing strategy to extend the range of revenue generating solutions it provides to its website partners, plus additional free services and solutions such as ad serving and website analytics which have become indispensable tools for professional websites.

Employees



The ad pepper media share

ad pepper media wants to achieve through a considerable information policy that the valuation of the company expresses the performance and the perspectives of the concern. In the fiscal year 2005 the Management Board and employees of ad pepper media once again faced the questions of the interested financial community. During numerous road shows at home and abroad intensive individual talks were conducted with fund managers and asset managers, which in many cases led to an engagement of the addressed investors. The active information policy is reflected in ad pepper media's market trend, which developed very positively. With a price advance from 4.11 EUR (2 January 2005) to 7.41 EUR (30 December 2005), the growth rate amounts to 80 percent.

Contents

Report by the Management Board

Ulrich Schmidt (CEO), Niels Nüssler (CSO) und Hermann Claus (CFO), ad pepper media International N.V.

Dear shareholders,

We are pleased to report on an exceptionally positive financial year. The Company was able to record progress in almost every respect and this is also clearly reflected by the share price. Strategically important acquisitions were finalized. Sales growth was once again significantly above the industry average, and the result for the group was improved considerably. The operating result was the only area where the profit margin was below expectations. This, however, was exclusively due to reorganization costs in the first half of the year. The second half of the year underpinned here the revenue-generating power of our business model. Efforts will now have to focus on this issue once again in the current financial year.

The conditions for achieving this goal could hardly be better. The online advertising market continues to boom. Double-digit growth rates are no exception. There is hardly any doubt whatsoever that this dynamic growth will continue. It is widely expected that the share of online advertising in the overall advertising market will almost double in the next two to three years – and this on the basis of a continuously higher level. ad pepper media sees itself in an excellent position to exploit the up and coming opportunities. First of all, however, the most important events of the past year in retrospect.

With an 32.4 percent leap in sales to 29.4 million euro and an excellent fourth quarter with growth of almost 50 percent, we were able to clearly surpass our own target and the considerable pace of growth in the industry that ranged between twelve and 15 percent. This was not least due to the successful integration of our ResultOnline B.V. and mediasquares GmbH acquisitions. Compared to the previous year, the earnings before interest and tax (EBIT) rose by as much as 58 percent. This result could have been even higher had it not been for our extensive expenditure and investment in staff and systems which were, however, vital in order to secure the company's future in the long run.

Another important step forward was taken with the acquisition of the Nedstat Basic website statistics product that has been continued and further developed since the middle of the year under the **webstats4U** name. This global leader in web statistics is currently implemented on a million websites of mostly regional importance, and is used free of charge by 600,000 webmasters. In return for this service, ad pepper media is given limited advertising space on these sites. In the fourth quarter of 2005, we were hence already able to once again expand the range of the network considerably and to increase sales. Medium-term plans foresee an increase of ten to 15 percent in Company sales through **webstats4U** alone and this will also be reflected by the profit margins in the years to come. Another factor not to be underestimated are the synergies from new website partners resulting from the strong expansion of our web services. Because this tool will come with attractive additional functions in order to specifically address even larger and professional sites.

Another step in this direction is the complete takeover of ResultOnline B.V., a Dutch specialist in text-based online advertising and search engine marketing, as well as Dusseldorf-based mediasquares GmbH. Thanks to the technology developed by ResultOnline, ad pepper media will be able to gain quicker access to the dynamic markets for personalised online advertising and search engine marketing in Europe. With mediasquares, ad pepper media can add further, established brands, such as sport1.de, map24.de, maximonline.de and kino.de, to its already well-stocked premium network.

We also invested in expanding the Company's own **mailpepper** database which now contains more than 4.4 million qualified customer profiles. Range is not the only important factor here – the possibility to precisely address certain target groups by direct marketing according to their needs is even more important. And since customer-orientated marketing is increasingly replacing traditional advertising formats, we will continue our efforts to substantially strengthen this valuable data base.

Despite investments in technology, staff and databases, there is still enough cash in our coffers. Liquid funds and short-term marketable securities declined slightly by 7.7 million to 17.5 million euro as a result of the previously mentioned acquisitions. Another two million euro was spent on increasing capital for US participation dMarc Broadcasting Inc. in which ad pepper media had already acquired a share in 2004.

This was money well spent as was found at the end of the period under survey because on 17 January 2006, US world leader in search engines, Google Inc., announced the takeover of dMarc Broadcasting for a preliminary purchase price of 102 million US dollar in cash. This means around 6.6 million euro for our 7.8 percent share in dMarc Broadcasting. Pursuant to the earn-out rules, further partial payments of the purchase price will have to be effected over the next three years depending on whether certain targets are reached in the fields of product integration, net sales and advertising inventories.

You as a shareholder can be more than satisfied with the around 80 percent increase in share price over the past financial year which, by the way, was second to none. All the more so since the share price once again skyrocketed to double-digit figures in response to the above transaction. It must also be noted that over the past twelve months some reputable names joined the shareholders of ad pepper media and this was not least the result of intensified efforts to achieve open and prompt communication with shareholders.

We have started the new financial year with optimism and good results and expect this year to be just as eventful as last year. The persistently good economic environment in our industry, positive signals from customers, and our even better position on the market make us certain that ad pepper media will once again perform better than the industry average in 2006.

The Management Board
ad pepper media International N.V.

Ulrich Schmidt   Niels Nüssler   Hermann Claus

Dear shareholders,

Europeans are spending more and more time on the Internet. The average European Internet user spends ten hours and 15 minutes a week online. This is the interesting outcome of a survey conducted in November 2005 by the European Interactive Advertising Association (EIAA) among 7,000 Internet users in Germany, the UK, France and five other European countries. The survey confirmed the trend already perceivable during the course of 2005, i.e. that Internet use time had increased by 17 percent compared to the eight hours and 45 minutes still recorded in 2004. Users are online for an average of five days a week.

The survey also shows that the number of intensive users has also grown. Almost a quarter (24 percent) of those surveyed spend more than 16 hours a week on the Internet. This share even increases of 31 percent in the case of Internet users with broadband access.

Whilst media use as a whole is increasing, Internet use time is growing faster than that of all other media. During the same period in which Internet use grew by 17 percent, TV recorded an increase of six percent, radio 14 and daily newspapers 13 percent. Even more impressive is the rapid increase of the Internet at the sentiment of the subjective importance of the user. It has reduplicated within the last years and is important or very important to over 60 percent of the population.

The past 2005 financial year once again was a challenge for ad pepper media International N.V. As the above-mentioned survey clearly confirms, the Internet has without doubt become an important mass medium that offers companies a host of creative advertising possibilities. Online advertising today forms an integral and inseparable part of media planning by advertisers. ad pepper media was able to profit from this development in the past financial year. Only a few companies are able to offer their customers the entire range of online marketing with their own technology, international presence and positioning power. In this respect, ad pepper media is perfectly positioned and recognized in the market and with growing sales was hence able to continue its success of recent years.

The Company's growth strategy was also pursued with the same determination, as can be seen with the acquisitions of ResultOnline B.V. and mediasquares GmbH as well as the takeover of the Nedstat Basic product which is today continued and developed further under the **webstats4U** name.

During the year under survey, the Management Board submitted to the Supervisory Board regular and comprehensive, written and verbal reports on business planning and business developments, the Company's situation as well as major operative facts and events. During five ordinary meetings on 28 January, 2 May, 10 June, 1 August and 14 November 2005, the Supervisory Board examined in detail business developments and supervised the Management Board on the basis of the latter's reports. All measures subject to approval by the Supervisory Board were discussed in detail at the meetings of the Supervisory Board.

On 2 May 2005, the General Meeting appointed Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Nuremberg, as the Company's auditors for the 2005 financial year. Ernst & Young was commissioned with the audit and audited the Consolidated Annual Accounts and the Directors' Report prepared by ad pepper media International N.V. and issued its unqualified audit certificate. The consolidated accounts submitted were prepared according to International Accounting Standards.

The Supervisory Board examined the Annual Accounts and the Directors' Report as well as the auditor's report. The Supervisory Board accordingly took cognizance of the result of the audit. On 30 March 2006, the Supervisory Board approved the 2005 annual accounts prepared by the Management Board. The annual accounts for the 2005 financial year are thereby approved.

Thanks to the enormous and committed effort by the Management Board and all the collegues of ad pepper media International N.V. and the companies in the individual European countries and the US, ad pepper media was able to master the challenges of the past financial year and can welcome the new financial year from a stronger starting point. All members of the Supervisory Board would like to express their very special thanks and recognition for the excellent work performed.

Nuremberg, 30 March 2006

On behalf of the Supervisory Board

Michael Oschmann, Chairman

One step ahead of competition

Securing the future by expanding our technological lead is the central strategic priority for ad pepper media. The Company has once again gone to great lengths to ensure this, above all, by investing in research and development, upgrading and modernising its IT system, and expanding **mailpepper**, the qualified customer database.

Both good and bad news, is how many an aphorism begins. First the bad news: Not only do Germans not want to pay for information from the web, they are increasingly rejecting traditional forms of advertising, such as simple banners, which operators of such platforms use as an alternative source of finance. Contrary to wide-spread opinion in the media industry, willingness to pay for information from the web is not increasing, but is in fact declining – this is at least what the Allensbach Institute for Demoscopy found in its annual ACTA 2005 survey. And media consultancy Booz Allen Hamilton found in a recent study that 70 percent of media users hold products that block advertising in high esteem. "When advertising appears, they immediately zap to the next channel", Adam Bird, CEO of Booz Allen Hamilton, explains refusal behaviour by users, "they ignore banner advertising and use pop-up blockers".

The good news from the industry expert: talk about pop-up blockers was quick to die down. Users considered personalised advertising and offers based on the evaluation of customer data to be very attractive. 55 percent of consumers were even willing to pay for this – one of several reasons why Booz Allen Hamilton is convinced that sales of Internet advertising and e-mail marketing will continue to grow strongly in the years to come. Advertising on the "Web 2.0", as the new generation of Internet technology is referred to in techspeak, goes far beyond traditional advertising formats and is moving more and more towards customer-orientated marketing. "It is becoming increasingly important to personally address the consumer", Nielsen Media Research also discovered.

The ACTA 2005 survey confirms the success of this strategy. According to this study, the number of online buyers rose another ten percent last year, so that around half of the population aged between 14 and 64 has now already shopped online. And even more important for eCommerce is that buying frequency is also increasing: 51 percent of online buyers are planning to use the Internet more to cover their consumption needs.

A trend welcomed not just on the German market, but also throughout Europe. According to surveys by the European Interactive Advertising Association (EIAA), Britons took the lead in online shopping clearly ahead of Scandinavians and Germans. This is largely in line with the spread of Internet use. Sweden with a 74 percent share of Internet users continues to rank first, followed by Denmark (70 percent), the Netherlands (66 percent) and Great Britain (60 percent). According to the ACTA 2005 survey, the World Wide Web has now reached 63.5 percent in Germany and even 80 percent among people aged between 14 and 49: the most important age group for the advertising industry.

Above-average growth can be expected with a view to Internet use, above all, in the group aged 50 and upwards who are also increasingly making use of the benefits the Internet has to offer. Certain saturation levels are also becoming apparent for use. According to the annual survey by the German ARD and ZDF television stations, for instance, the number of "occasional" online users only grew marginally in the past two years, reaching a notable level of 37.5 million Germans in 2005. The public-service television stations generrally confirm that for large parts of the population the Internet has become a "centre for information, communication and shopping".

High growth potential. Although the rapid spread of the Internet among consumers means that acceptance and time budgets are likely to reach their limits in the foreseeable future, its potential as a marketing instrument is far from exhausted. This is because expenditure on online advertising has just about reached two to three percent of the budget which companies earmark world-wide in order to introduce their brands and boost sales of their products and services. And if everything goes as planned by market researchers, such as Jupiter, Forrester etc., this market share will reach five to six percent in the next two years. According to Nielsen Media Research, online advertising in Germany accounted for 410 million euro in 2005. This corresponds to 1.8 percent of total gross advertising expenditure, including discounts and offsetting deals. Almost all market experts expect that this share will at least double over the next three years.

Advertising online. Fundamental issues are now no longer on the table. Marketing experts are no longer focusing on whether to accompany a conventional campaign online, instead, efforts now focus on how the offline and online worlds can be suitably combined. Online advertising has become an integral part of the marketing strategy pursued by many companies. Today it is vital that the many instruments of online marketing are integrated as central elements into long-term strategy. They are not seen to supplement the campaign, but as the core of a new form of interactive communication with consumers – of course always with the aim of boosting revenue.

Always international. From the very beginning, ad pepper media focused on marketing advertising space on the Internet as its core business. Since going into business, this international Company has been flexible in addressing the needs of many different markets. The present organisation with ad pepper media International N.V. as the holding Company has existed since August 1999. Today, ad pepper media is present with 16 branches in ten European countries and the US. This far-reaching presence enables the Company to organise campaigns on behalf of large international players beyond all borders and with a high degree of efficiency and precision. Nokia, for instance, had good reason to place several of its online campaigns for the new mobile phone generation in the capable hands of ad pepper media.

In the **Media**, **Direct Marketing** and **Technology** business areas, ad pepper media implements interactive and target-group-orientated marketing solutions for both advertisers and agencies in order to make their product and advertising strategies a success. As a one-stop shop, ad pepper media thereby covers all fields of efficient online advertising with comprehensive services ranging from low-cost mass products to various, effective branding solutions and business development and customer loyalty campaigns. The ad pepper media network covers around four billion exclusive advertising contacts per month, plus several billion advertising contacts in more than 40 countries via numerous international partnerships. In addition to this, ad pepper media possesses more than three billion advertising contacts through partners in America as well as one billion in Asia.

ad pepper media markets 750 websites worldwide, including leading websites, such as DasTelefonbuch and GelbeSeiten in Germany, Aftonbladet in Sweden, National Geographic in the UK, as well as national and international websites on specialist subjects and topics. Customers include blue chips as well as new, innovative brands and advertising customers who have discovered the Internet as an efficient advertising medium. The sales network includes websites with a regional, national or international online advertising presence and thus always offers customers the desired range. On the basis of a world-spanning network, the Company's portfolio features the full service, from campaign management to reporting, always using best available technologies. Here too, partnerships with leading technology firms enable ad pepper media to access state-of-the-art technology. This is why ad pepper media believes itself to be perfectly prepared to exploit the growth potential foreseeable in the coming years.

The **MEDIA** business area is primarily dedicated to the marketing of more or less known consumer products where a wide range is vital for the advertising message. The primary aim of these campaigns is to trigger a degree of awareness among many people, followed by the second aim which is to establish a brand on the broad market. The dominant means of advertising for such campaigns have always been mass media, such as cinema, magazines, radio and posters. However, even the most advanced media planning is unable to overcome one weakness in these advertising means, i.e. their enormous dispersion losses.

Meanwhile the Internet has also reached the masses and achieves almost any range beyond all borders, however, with considerably less dispersion losses. Depending on the target group and aim of a campaign, i.e. awareness, branding or boosting traffic on the advertiser's website, ad pepper media can offer different products, for instance, online advertising solutions, such as iBrand, iReach, iClick, iStream, iAttract or iSponsor. In this way, ad pepper media enables its customers to employ their media budgets in a targeted and efficient manner.

With the complete takeover of mediasquares GmbH in Düsseldorf, ad pepper media has been able to significantly expand premium marketing of vertical websites and to thus strengthen its market position in Germany considerably. With mediasquares, the Company's already well-stocked premium network is supplemented by additional, established brands, such as sport1.de, map24.de, maximonline.de and kino.de. mediasquares will continue to operate in 2006 under its own name and with the existing management.

Wide reach. iReach is used when a marketing campaign aims to reach a wide public at low cost. With this instrument, different advertising formats can be positioned on almost any website within the national or international network. Another advantage of this marketing solution is that country-specific elements can be used. Acceptance of an Europe-wide campaign can, for example, be increased through local motifs and this, in turn, reduces dispersion losses among users.

The **iAttract** marketing tool is designed to boost awareness through particularly conspicuous and innovative formats, such as eyecatchers or interrupting ads. **iBrand** focuses on establishing a brand, boosting its familiarity, and strengthening awareness in conjunction with a brand. This product is primarily designed for websites that convey related brand values. The relationship can be defined in terms of contents or of the socio-demographic characteristics of the users in question.

iSponsor is used by ad pepper media in order to transfer the image of a positively perceived advertising means to the customer. Possibilities here range from simple logo placement in special sections to customer-orientated website packages. In order to support brand awareness, ad pepper media presents the advertiser and/or his advertising message exclusively on selected contents and/or at suitable events or activities.

Online advertising becomes more intelligent. As broadband technologies, such as DSL, spread, moving pictures are playing an ever-more important role in online advertising. And this is where **iStream** comes into its own. The advertiser's latest TV spots or video clips can be integrated into banners, pop-ups, skyscrapers or e-mails. Furthermore, clickable buttons and hot spots can be featured in order to make the streaming video more interactive. It is a fact that moving pictures with interaction not only boost awareness of the message, but also trigger higher response and conversion rates during address generation. Another advantage of this technology is that no additional software (plugin) is required. The system automatically recognises the bandwidth used by the user to surf on the Internet, and thus guarantees top quality for the video clip delivered. What currently sometimes supplements TV campaigns will in future offer many new possibilities, such as affordable spot advertising for small and medium-sized enterprises or short, creative spots that users like to pass on in e-mails.

When an advertiser is less interested in volume in the range and more interested in the time spent on his web pages, ad pepper media can offer the reasonably priced **iClick** instrument. With this product, the customer does not pay each time the advertisement is displayed, instead, he only pays for the clicks that have actually taken place on the advertisement. This kind of campaign is billed on an exclusively result-orientated basis.

Search, find, convince – soliciting customers online. Using advertising budgets as efficiently as possible is one of the central challenges facing most companies. Because advertising funds are scarce and the fight to win the consumer's awareness, interest and money is tougher than ever before. This is why it is essential to send the right advertising or marketing message as directly as possible at the right time to the right addressee - and, of course, at a reasonable cost and with an above-average positive response rate. Different forms of direct marketing – in other words, direct mail advertising, discount or coupon campaigns – are tried-and-tested approaches to this end. However, modern online marketing can do much more than this and even more efficiently. Market researchers have good reason to forecast at least the same growth potential for this segment as for online advertising.

The second business area, **DIRECT MARKETING**, mainly focuses on those direct marketing solutions which address users personally and hence largely avoid dispersion losses. Depending on the customer's expectations, ad pepper media can supply products where all interaction with the user is subject to the user's explicit permission (permission marketing). **iLead**, above all, is a central instrument for generating target-group-specific addresses of potential customers in a quick and efficient manner. Placement of the most varied types of advertising provides advertisers with the contact data of users who voiced a concrete interest in the product or service offered. The data generated forms the basis for a highly qualified customer database which can be combined with other strategic direct marketing instruments, such as polls, trial samples or coupons, which help to establish permanent dialogue and customer loyalty via eCRM. The portfolio is rounded off by solutions for disseminating online advertising in newsletters via targeted so-called stand-alone-e-mails and mobile devices.

Addressing the customer. In order to find and win interested customers, data is needed to find the customer. **iLead** is qualified direct marketing offering concrete products and services that directly address interested users and hence potential customers. Tailored placement of advertising formats gives advertisers personal profiles completed by consumers (name, address, e-mail, areas of interest) as a basis for the subsequent direct approach. Given the interested user's permission, the user is then directly addressed in a second step with detailed product information, promotion offers and free trial samples.

Contrary to conventional direct marketing, a performance-based invoicing model here means that it is much less expensive for advertisers to win new customers. E-mail communication can be used at any time in order to ask users in more detail about their needs or the reasons for their reluctance. **iSurvey** is a particularly useful instrument in this case for performing online surveys quickly and at a reasonable cost. Surveys of this kind are often supplemented with questions concerning acceptance and positioning of the Company in general, about a new product, brand or a new market launch.

Valuable profiles. Besides consumer data mining for its customers, ad pepper media quickly started setting up its own e-mail database with qualified customer profiles using technologies developed by the Company itself. By the end of the 2005 financial year, this product, **mailpepper**, contained more than 4.4 million profiles of potential customers, enabling far-reaching segmentation, for instance, according to location, age, profession or interests.

In the 2005 financial year alone, **mailpepper** grew by almost 50 percent and hence ranks among the largest pan-European databases. In view of the enormous growth potential of e-mail marketing and the good acceptance of the customer-orientated approach, ad pepper media will continue to invest in the expansion of this data base. The aim is to generate six to seven million qualified profiles by the end of 2007. ad pepper media thus offers advertisers a perfect way to directly and personally address their target customers per e-mail and to convince them of their product or service.

Further interest. Once a user has been identified as a potential or actual customer and has expressed an interest in further information or offers, ad pepper media provides additional, efficient products to advertisers, so that they can better market their product and ultimately boost sales. **iSample** transforms the Internet into a channel for offering and shipping trial samples in order to motivate recipients to buy from the advertiser's online or offline shop. **iCoupon** can be used to quickly and very efficiently implement familiar and tried-and-tested direct marketing instruments online, such as trading stamps or coupons. Major brand producers, such as Procter & Gamble, have already successfully integrated this concept from ad pepper media several times into their marketing mix. **iGame** not only draws on the popularity of games by offering attractive and entertaining competitions or online games, the prime purpose of this product is to achieve a sustainable increase in awareness and sales of products offered online. Experience shows that users are more inclined to pay attention to products and services if this can be combined with brief entertainment. If a potential customer is interested in more product or market-specific information, **iNews** is used as an advertising tool in electronic newsletters. In this case too, users, addressed by an advertisement, must have expressed a specific interest and deliberately subscribed to the newsletter.

Direct communication. The **iOptin** tool enables direct e-mail communication with the user. Before offers and advertisements are mailed, specific user groups are subjected to strict selection. **iOptin** can, for example, be used to filter users according to socio-demographic criteria, such as sex, age, status, interests and lifestyle preferences.

In its third business area, **TECHNOLOGY**, ad pepper media focuses on customer loyalty and dialogue systems in conjunction with customer data based on the Company's own software developments. In contrast to the AdServing technologies which the Company generally outsources to external, efficient and innovative partners, such as Falk eSolutions AG, this customer data and the related value-added services are used by ad pepper media as its own customer loyalty instrument. Ongoing research and development is a precondition for identifying market trends on time and for developing and implementing new, customer-orientated marketing solutions in time. Advertisers using these solutions will quickly see how valuable and efficient electronic customer dialogue can be and how positive the effect this can have on customer satisfaction and orders. Customer loyalty is sustainably strengthened through permanent contact in the form of data analysis and dialogue.

Range expanded considerably. With **webstats4U**, ad pepper media made a technically mature software tool available to its website partners in the middle of the 2005 financial year. This tool monitors visitor numbers, site preferences as well as surfing and buying behaviour in real-time, thereby supplying the partners with valuable media data for their marketing. This global leader in web statistics is currently implemented on a million websites, and is used free of charge by around 600,000 webmasters. In return for this service, ad pepper media is given limited advertising space on these sites, so that the Company can significantly expand the range of its network. By the end of the 2006 financial year, all the accessible websites are to be examined in order to determine how suitable they are for advertising. This tool is also being continuously enhanced and upgraded with additional attractive functions, so that larger and professional sites can also be addressed.

Customer relations. The **iDialogue** dialogue marketing software maintains customer relations over any particular period of time. Advertisers can use this service package for both, existing and new customers. ad pepper media has been able to successfully convince medium-sized enterprises, in particular, of the benefits of this instrument who were quick to recognise just how valuable personal dialogue with satisfied customers can be. Advertisers can use the system to generate new leads, to track interest, and to address particular target groups through targeted e-mail campaigns. This system comprises a content management system that can be used to design templates for e-mail newsletters, a profile database and a statistics module. The aim is to continuously address customers with personalised offers tailored to their needs.

This is achieved by a learning system that is used to establish and intensify dialogue with customers per e-mail. The basis for this is the profile data previously generated with the customer's approval. In contrast to many other, complex and costly eCRM solutions available on the market, **iDialogue** is an easy-to-use system that can be implemented at a reasonable cost. Advertising customers receive a dialogue marketing tool tailored to their specific goals. When it comes to the smooth implementation, ongoing operation and integration of other ad pepper media solutions, a team boasting far-reaching online experience is at hand to assist and advise advertisers.

Keeping the ball rolling for customers

Online advertising is an international business marked by rapid development. Formats are becoming increasingly diverse and complex, as are the requirements customers have when it comes to spreading their messages. Close ties with advertisers, agencies and websites on local level hence continue to be an important unique selling point of ad pepper media.

Management Report

Basic economic conditions

Despite the unchecked rise in oil prices and a mostly strong euro, the economy in the euro zone greatly recovered last year. Fuelled by a booming economy in the US and the continued, growing demand for capital goods in the growth regions of the Far East, gross domestic product (GDP) in the euro region rose by 1.6 percent. Increasing economic activities by private and public players left their mark on the labour market for the first time. The unemployment rate fell over the course of the year from 8.8 percent to 8.4 percent.

Economic recovery in the second half of the year was once again driven by exports, however, this impetus was not strong enough to achieve a sustainable increase in consumption.

This also applies to the German economy, even though optimism among companies and consumers has improved perceivably since the new government was formed in autumn. This was also expressed by the consumer climate indicator determined by GfK, a German market research institute, which signalled a strongly improved spending climate in December. However, the brighter mood did not have any significant impact on economic growth in 2005. All the same, following several downward adjustments for forecasts, Germany's GDP is likely to have grown in total by one percent by the end of the year. A successive increase in investments was seen as company profits increased much stronger than expected.

Market and market environment

Luckily, this development also applied to expenditure on marketing and advertising. Business which was for many years rather sluggish in the advertising industry picked up substantially. For the first time since 2001, all advertisers benefited from the upswing and were able to record higher sales.

According to Nielsen Media Research, all media sectors of the industry reported gross revenues of 22.6 billion euro last year, up as much as 24.2 percent against the 18.2 billion euro recorded in 2004. However, the Central Association of the German Advertising Industry (ZAW), saw a more modest result. Media net revenues, i.e. after deduction of discounts and commissions, totalled just 19.8 billion euro, corresponding to an increase of around one percent.

By any measure, revenue in the online and direct marketing media sectors last year reached an all-time high and was once again significantly above the industry average. According to Nielsen Media Research, online advertising fared best, followed by direct marketing. Growth rate data varies strongly, depending on its source. Industry experts, such as the media specialist and consultancy firm Booz Allen Hamilton, realistically expect online advertising to grow annually by eleven to twelve percent. Some studies of the European market conducted by market researchers suggest much higher results. Forrester Research, for instance, shows revenue for online advertising in 2005 at a level of 3.2 billion euro after 2.1 billion euro in 2004.

Despite impressive growth rates, online advertising's share in the total advertising market in Germany and Europe is still very small at 1.5 to two percent. Because "the Internet has become the information, communication and shopping centre for large parts of the population", confirms the 2005 online survey conducted by the German ARD/ZDF television stations. According to this survey, 57.9 percent of Germans were online last year. The elusive 80 percent goal has long since been reached in the target group of 14 to 29 year olds which is extremely important for the advertising industry. According to this survey, Germans spent an average of 46 minutes a day online in 2005, compared to 17 minutes in 2000. A recent study by the European Interactive Advertising Association (EIAA) shows that Germans now even spend nine hours a week online which is still slightly below the European average of 10.3 hours. This means that the Internet's share in the total time budget which Germans allocate to media consumption has, however, clearly exceeded the ten percent mark.

This boom in online advertising was also due to a growing share of personalised advertising which is based on the evaluation of customer data and is hence not seen by addressees to be annoying, but attractive. This, in turn, stimulated acceptance of eShopping. According to ACTA 2005, for example, the annual survey conducted by the Allensbach Institute, the number of online buyers rose by ten percent last year, so that half the population aged between 14 and 64 has now already purchased online.

Finally, debate about pop-up blockers which was still a central topic last year with regard to the range of online campaigns has calmed down. On the one hand, experience has shown that only around half of users activated this function, and, on the other hand, the industry has learned to live with it. ad pepper media, for instance, managed to more than compensate for the range lost due to pop-up blockers by acquiring Nedstat Basic and mediasquares. By integrating ResultOnline B.V., a Dutch specialist in text-based online advertising and search engine marketing, ad pepper media will also gain faster access to the European market for direct and search engine marketing with its above-average growth.

Competitive environment

Even smaller suppliers and specialists are currently able to generate profits because the online advertising market continues to record dynamic growth and because margins are increasing. But the consolidation and structural adjustment process among online agencies and suppliers of online advertising is by no means completed. Besides a few large Internet portals, such as Google, AOL, T-Online, MSN or Yahoo, this market is shared by many small companies, frequently with a local focus or specialising in certain services. Only a few companies offer the entire range of online marketing services with their own technology and international placement power. From the perspective of a leading company like ad pepper media, the advantage of this market situation is that interesting acquisition possibilities can be identified time and again.

The reason for this is that international brand producers who still have the biggest advertising budgets also attach great importance to one-stop quality, efficiency, reliability and media service for their online activities. They are willing to pay a high price for quality and this is one of the reasons why prices in the market for online advertising picked up significantly. Industry experts estimate the price increase to be in the order of ten to 15 percent.

Business activities and business development. During the past financial year, ad pepper media International N.V. once again successfully implemented on the market and expanded its business model that covers the interactive marketing needs of companies on local, national and international level. ad pepper media was able to once again strengthen its international coverage of online markets through the acquisition of ResultOnline B.V. and Nedstat Basic, for instance, as well as through intensified expansion of its branches. The Company now operates with 16 branches in eleven countries.

Furthermore, the avowed strategy of securing the Company's future by expanding the technological basis and rounding off its software tools was pursued further with determination. Examples are once again the two above-mentioned acquisitions because ad pepper media's service portfolio has now been supplemented by important services, such as website statistics, text-based online advertising and search engine marketing.

ad pepper media generally addresses the needs of two customer groups. Advertisers are not only interested in spreading their messages in traditional media, but are increasingly turning to the Internet. As soon as a campaign is ready, a clear presence must be generated with a high recognition value on the online market, and/or the relevant customer group must be addressed directly with as little dispersion loss as possible. This is where ad pepper media's tools and international network come into their own. They guarantee advertisers that their messages reach recipients. Besides quantity, quality and direct addressing also matter depending on the campaign in question. ad pepper media covers the entire range of services, from media planning, placement, control to campaign billing. ad pepper media delivers around 1,200 campaigns a day and sends more than two billion advertising formats a month, thereby reaching around 90 million unique users.

Website operators – the second customer group – are interested in optimising their advertising turnover and not only require suitable media data concerning visitor numbers and user behaviour, but also have a keen interest in marketing their presence to attractive advertising customers and in perfect campaign handling. In this field too, ad pepper media operates as a one-stop shop, offering in addition to its services free use of the Company's own technology and extensive assistance when it comes to capturing and managing user profiles.

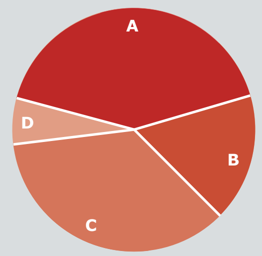
This complete portfolio combined with the ability to quickly and efficiently position and adapt international campaigns to national needs was again an important unique selling point for ad pepper media last year. Nokia, for instance, the Finnish world market leader, once again commissioned ad pepper media with the online marketing of its new mobile phone generation. On the whole, the share of foreign advertisers in the traditionally strongly diversified customer structure rose again.

Sales development

With sales up by almost 33 percent to 29.4 million euro, ad pepper media was able to clearly surpass its own target and the considerable pace of growth in the industry that ranged between twelve and 15 percent. During the same period of the previous year, revenue totalled 22.2 million euro. Whilst sales development was constant during the first nine months of the past financial year with quarterly sales of between 5.4 and 6.6 million euro, the traditionally strong fourth quarter saw sales leaping to 11 million euro. This was not least due to the successful integration of mediasquares GmbH.

With a view to segment reporting, the Company prefers to break down sales by geographical regions due to its international orientation, and therefore distinguishes between Central Europe (Germany, Netherlands, Slovakia), Northern Europe (Denmark, Sweden), Western Europe (UK, France, Spain, Italy) and the US. With 41 percent of sales corresponding to 12 million euro, Central Europe accounted for the largest share in sales (previous year: 7.8 million euro), followed by Western Europe with 36 percent or 10.6 mil-

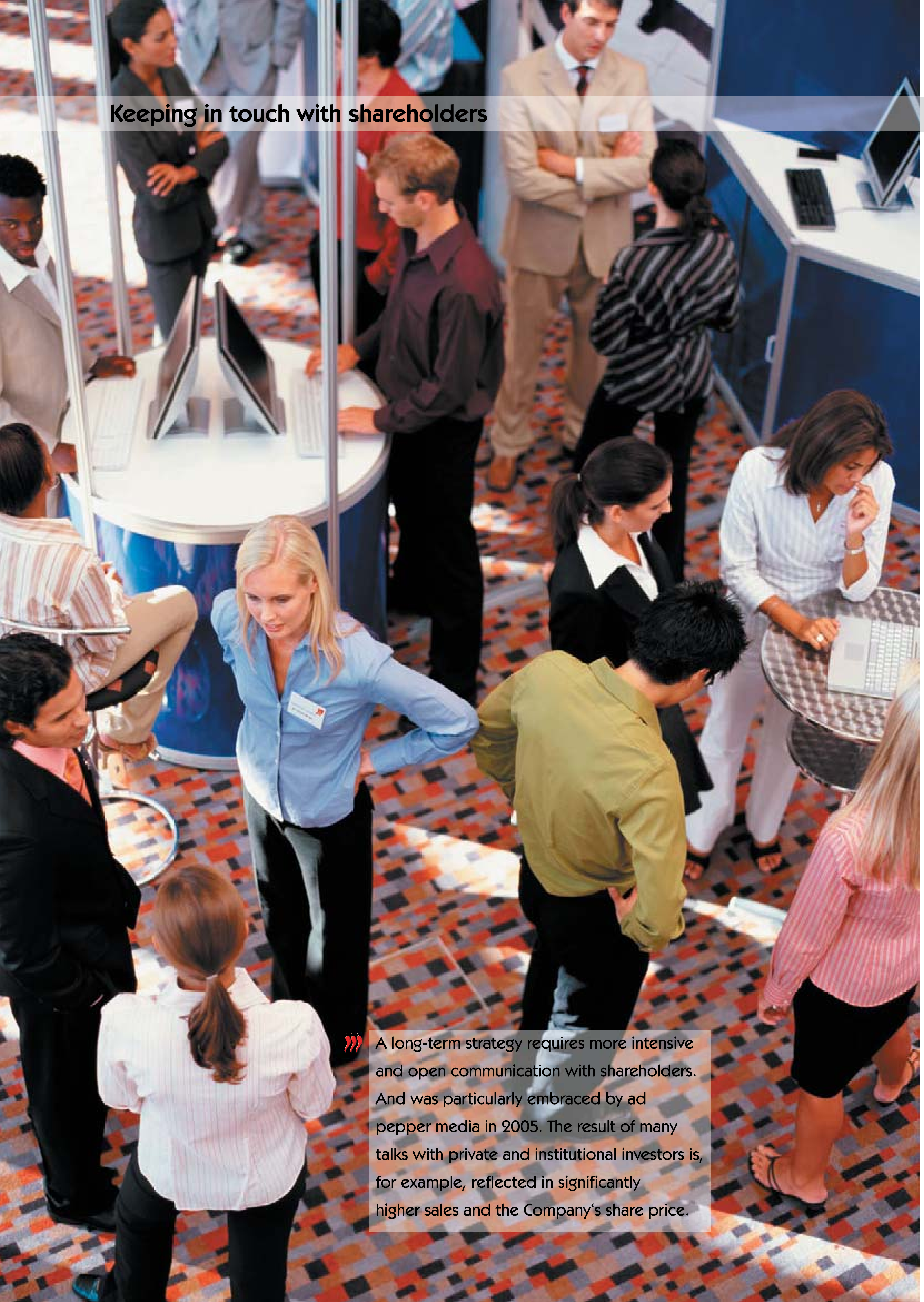
Sales by regions



A	**Central Europe** (Germany, Netherlands, Slovakia)	**12.0 million euro**
B	**Northern Europe** (Denmark, Sweden)	**5.0 million euro**
C	**Western Europe** (UK, France, Spain, Italy)	**10.6 million euro**
D	**US**	**1.8 million euro**

As per 31 December 2005

Keeping in touch with shareholders



A long-term strategy requires more intensive and open communication with shareholders. And was particularly embraced by ad pepper media in 2005. The result of many talks with private and institutional investors is, for example, reflected in significantly higher sales and the Company's share price.

lion euro (previous year: 8.8 million euro) and Northern Europe with 17 percent or five million euro (previous year: 4.7 million euro). The US was able to increase sales by six percent from 1.1 million euro in 2004 to 1.8 million euro in the year under survey. This widespread distribution of sales means additional security for business development.

Development of results

The earnings before interest and tax (EBIT) were unfortunately unable to keep pace with the dynamic upward trend in sales. Although the gross margin (net sales minus production costs) improved slightly with 45 percent, significantly higher cost of sales and other expenses burdened the EBIT recorded at 0.228 million euro. Although this marks a clear increase compared to the previous year's figure of 0.144 million euro, it still remains unsatisfactory. Substantially higher earnings from affiliated companies and an interest income that was higher even after liquidity was reduced led to an income before tax of 0.95 million euro, compared to 1.36 million euro the previous year. The consolidated gain for the year remained approximately constant at 3.39 million euro, compared to 3.95 million euro in the previous year.

This is largely due to investments which are designed to secure the Company's future and will pay off in the medium term. This specifically concerns investments in the technological platform and the **mailpepper** customer database. Furthermore, considerable funds went into setting up new business fields, such as website services (**webstats4U**) and the related reorganisation measures. Although the first positive results of acquisitions, such as ResultOnline and mediasquares, were already felt in the second half of the year, these acquisitions will not come into full effect until the current financial year.

Balance sheet structure and liquidity

Despite acquisition costs and investments in technologies, the balance sheet structure of ad pepper media International N.V. remained very sound. The equity ratio of 84 percent against the previous year's 86 percent remained at an extraordinarily high level compared to both the industry as a whole and other German companies. Due to acquisitions and investments, liquid funds[1] fell from last year's figure of 25.2 million euro to 17.5 million euro, however, this is still a very comfortable liquidity level. It should be noted that liquidity will be significantly restocked in the 1st quarter of the current financial year when the first instalment resulting from the sale of the dMarc shares to Google is received.

The assets side of the balance sheet structure changed considerably as a result of investments and acquisitions made in the 2005 financial year. This is particularly expressed in total noncurrent assets. This asset item almost doubled from 13.9 million euro to 27.3 million euro. This item also includes goodwill that increased by around 4 million euro, intangible assets that were around 2.7 million higher, as well as the portfolio of shareholdings which currently represents a balance sheet value of 4.6 million euro compared to 2.6 million euro in the previous year. On the whole, the balance sheet total rose from 46 million euro by eleven percent to 52 million euro.

Sales and marketing

As a customer-orientated service company, ad pepper media considers sales and marketing to be a central task and ultimately part of its everyday business. The majority of new customers result from intensive contacts in the Company's 16 branch offices. Blue chips are won almost exclusively through test projects which, following successful implementation, lead to large-scale campaigns. The Company was also able to win new customers at industry events, such as the direct marketing exhibition in Paris in spring 2005,

[1] Including short-term marketable securities as part of the company's fixed assets and funds subject to disposal restrictions.

the Internet Marketing Conference in Stockholm, or the most important trade exhibition for online marketing in Germany, the "omd" in Dusseldorf which recorded exceptionally high visitor numbers last year. In autumn 2005, the US branch office took part for the first time and with great success in the "ad:tech" in New York; this is the leading exhibition for interactive marketing in the US.

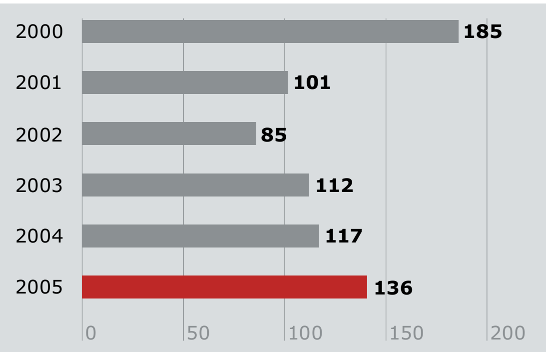
Management and employees

ad pepper media has completed its phase of consolidation and is now setting out on a course of expansion. The Company's changed business strategy is also reflected in the development of staff numbers. This figure rose to 136 by the end of 2005, compared to 117 at the end of last year. However, this increase is largely also due to the integration of ResultOnline B.V. and mediasquares GmbH into the consolidated group.

In line with the investment strategy already announced during 2005, the focus of staff development was on the "Technology" and "Development" business areas. The latter sector also included the further development of the **webstats4U** service package. ad pepper media's sales area employs the most staff, i.e. 94. These employees are in charge of new and existing customers around the globe. The US branch with its growing importance was strengthened further.

The Company's three management board members are responsible for the following areas: CEO Ulrich Schmidt for Business Development, Product Development, Marketing and Technology, Hermann Claus for Finance, Human Resources and Investor Relations, and Niels Nüssler for Sales and Media Purchasing.

Number of employees



Events of significant importance

In the past financial year, ad pepper media continued its strategy of balanced internal and external growth. The Company completed a number of acquisitions which supplement and round off decisive areas of its business model. This applies especially to the takeover of the website analysis product Nedstat Basic in July of the 2005 financial year from the Dutch company Nedstat B.V., Europe's leading supplier of website analysis solutions.

With this transaction, ad pepper media obtained all rights in Nedstat Basic, the world's most widely used, free website analysis tool that has now been integrated into the Company's product portfolio under the **webstats4U** name, strengthening the portfolio in the website services segment considerably. This technically mature software tool was last used by more than 600,000 webmasters on over one million websites in order to generate in realtime valuable media data, such as the number of visitors, their preferred site visits, or surf and buying behaviour.

In return for free use, ad pepper media is given limited advertising space on these websites, so that the Company can significantly expand the range of its network. By the end of the 2006 financial year, all the accessible websites are to be examined in order to determine how suitable they are for advertising. This tool is also being continuously enhanced and upgraded with additional attractive functions, so that sites with a greater range can also be specifically addressed.

The purchase price totalled three million euro plus a success-dependent earn-out component. Part of this price was already recovered during the second half of 2005.

With the acquisition of mediasquares GmbH in Dusseldorf at the end of October 2005, ad pepper media was particularly able to expand the range in the important premium segment. mediasquares boasts an excellent website portfolio with many familiar brands, such as sport1.de, map24.de, maximonline.de and kino.de. The entire portfolio currently includes around 20 websites with some 400 million page impressions. Within a relatively short period of time, this still young company was able to successfully position itself on the German online market and win attractive customers. The Company will continue to fully operate under its own name and with the existing management structure. Another advantage is that the excellence of mediasquares's sales team, especially in the brand area, will also benefit ad pepper media's existing website partners through additional marketing approaches. Technical integration went smoothly thanks to the technological platform already jointly used with Falk eSolutions AG in which ad pepper media holds an interest. Besides a cash element in the form of ad pepper media shares, the purchase price also included a success-dependent component for the 2005 financial year.

In spring 2005, ad pepper media already acquired ResultOnline B.V., the leading supplier of text-based advertising on the Dutch market, at a price of 1.6 million euro and thereby sustainably improved its strong position in the Benelux countries. ResultOnline also specialises in search engine marketing, the fastest growing online advertising segment in recent time. Both areas of excellence perfectly supplement ad pepper media's portfolio. On the one hand, the Dutch marketer possesses proprietary technology for efficient control of text-based campaigns which round off the functionalities so far offered by ad pepper media's online marketing solutions and technologies. On the other hand, this will make it possible to open up growth potentials in European search engine marketing much faster.

Events after the closing date of the balance sheet

On 17 January 2006, Google Inc., the US-based world market leader in search engines announced the takeover of dMarc Broadcasting Inc. in which ad pepper media had already acquired a 7.8 percent interest in the 2004 financial year. dMarc, a developer of digital advertising technology for the radio industry based in Newport Beach, California, connects advertisers directly to radio stations via its automated advertising platform. This platform simplifies advertising sales, planning, delivery and reporting and thereby enables advertisers to position and track their campaigns more efficiently. To radio stations, dMarc's technology means automated planning and placement of advertising, higher sales, as well as reduced costs for broadcasting ads.

Pursuant to the takeover agreement, Google will acquire all shares in dMarc, a privately owned company, at a preliminary purchase price of 102 million US dollar in cash. In addition to this, Google will pay further instalments over the next three years depending on certain targets related to product integration, net sales and advertising inventory. The highest possible success-dependent purchase price payments can amount to 1.136 billion US dollars over the next three years. The takeover is subject to customary contracting conditions. Google expects the deal to be struck within the first quarter of 2006.

On 16 March 2006, ad pepper media made public the acquisition of Crystal Reference System Ltd. the parent company of Crystal Reference, the leading provider of reference content, and Crystal Semantics an innovative leader in contextual search and advertising technology and the developers of Textonomy, the worlds first Sense Engine technology, patented in both the United States and the United Kingdom.

Unlike current search technologies, which are based solely on statistical algorithms, Textonomy uses techniques from linguistic science to determine the semantic relationships between words and the contexts in which they occur. The Textonomy solutions have been proven to dramatically enhance search results and significantly increase advertising relevance through contextual targeting.

The acquisition will significantly enhance ad pepper media´s contextual search and advertising solutions for its Website Publisher partners and Advertising clients as well as for Search Engines, SEOs, Ad Networks and Adserving Providers.

ad pepper media will immediately deploy the Textonomy contextual advertising solution across its global advertising network including its **webstats4U** advertising network of over 1,000,000 websites worldwide.

As a result of the acquisition, Crystal Reference Systems Ltd. will become a wholly owned subsidiary of ad pepper media. Founders Ian Saunders and David Crystal will respectively continue to lead the company´s business and Research and Development initiatives. Both Ian and David will work closely with ad pepper media to integrate into existing product and service offerings and to jointly explore new business opportunities in the online advertising and search markets internationally.

The total purchase price ranges between 1,5 and 2,0 million GBP and consists of an initial payment in cash and shares and an additional earn-out component depending on achievement of various objectives.

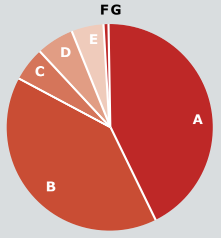
Further, ad pepper media announced on 17 March 2006 the sale of its share in Falk eSolutions AG, a global provider of online advertising delivery and marketing management solutions. The transaction is expected to close prior to March 31st, 2006. In 2002, ad pepper media invested 25,1 percent on a long-term partnership in Falk eSolutions AG.

The successful strategic partnership of ad pepper media and Falk eSolutions AG will continue unchanged. ad pepper media is among the first to commit to migrate to the integrated product “DART for Publishers”

ad pepper media receives a purchase price of appr. 8 million USD, which is subject to additional earn-out-components.

Shareholder structure

Total number of shares: 11,155,000



A	EMA B.V.	42.5%
B	Freefloat	43.6%
C	U. Schmidt	4.6%
D	Own shares	4.1%
E	Grabacap	4.9%
F	H. Claus	0.6%
G	N. Nüssler	0.3%

As per 31 December 2005

Share and investor relations

Communicating with satisfied shareholders is admittedly easier than with unhappy shareholders. All the same, it was not always easy in the last financial year to convince shareholders of the necessity to take a broader look and focus on the medium to long-term prospects for the success of an acquisition or investment in technology and manpower. The Management Board of ad pepper media International N.V. was apparently able in 2005 to sell the long-term business strategy to investors. This is expressed not only in the extremely satisfactory share price development – which almost doubled over the course of the year from its starting price of 4.11 euro – but also by the significant increase in share liquidity on all German stock exchanges.

In terms of quantity, sales volume almost returned to the 2002 level. Partly due to the higher share price, the value of the total volume almost doubled against the previous year and even quadrupled against 2002. During the year, most shares were traded in the autumn months. This was due to the generally positive mood on the stock exchange and also to the many road shows and talks with investors which the Management Board of ad pepper media International N.V. conducted following the acquisition of Nedstat Basic.

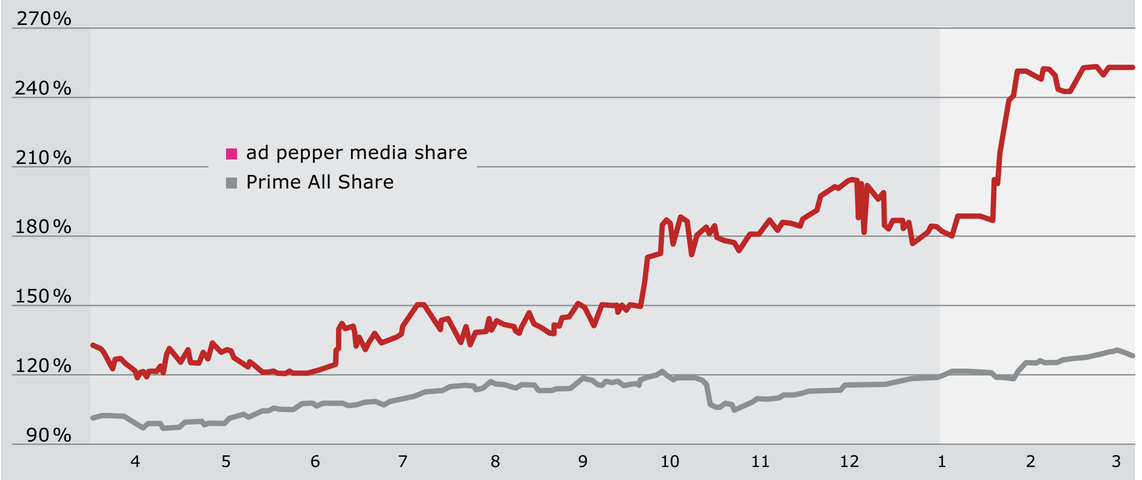
In 2005, the road shows in London, New York and San Francisco were particularly successful in triggering the interest of many Anglo-Saxon institutions. They found the ad pepper media share to be heavily undervalued, particularly when compared to US companies with a similar structure.

Furthermore, the Management Board very successfully presented the Company at the German Equity Forum in autumn 2005 in Frankfurt am Main where several talks with individual analysts and investors were conducted in this setting.

Directors‘ holdings – shares and options held by members of ad pepper media‘s executive bodies

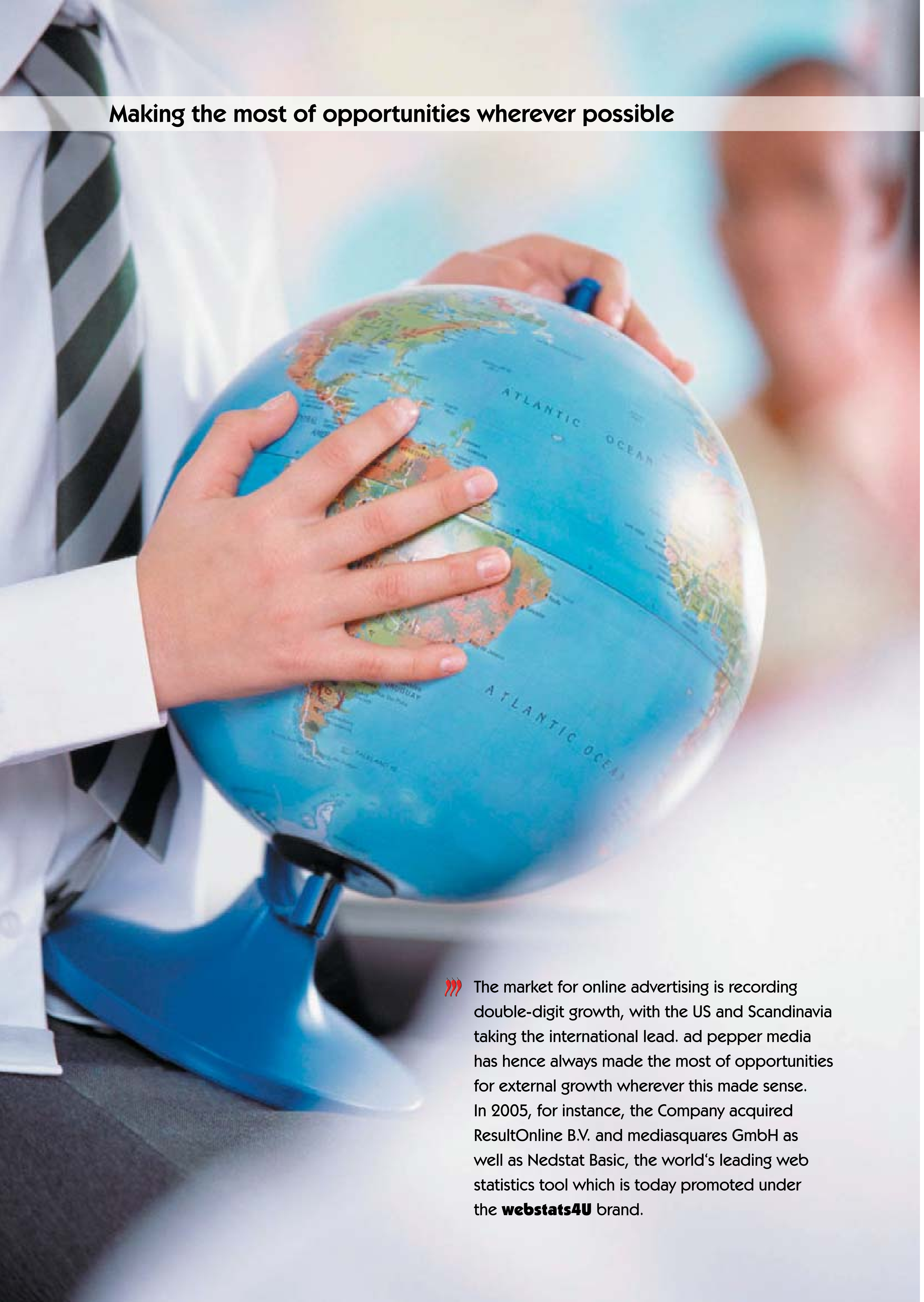
	31 December 2005 Shares	31 December 2005 Options	31 December 2004 Shares	31 December 2004 Options
Members of the Management Board				
Ulrich Schmidt	512,762	293,000	612,762	368,000
Hermann Claus	71,808	223,000	51,808	243,000
Niels Nüssler	38,113	296,500	38,113	296,500
Members of the Supervisory Board				
Michael Oschmann	7,786	–	7,786	–
Dr. Günther Niethammer	1,112	20,000	1,112	20,000
Jan Andersen	–	–	–	–
Merrill Dean	–	–	–	–
Associated companies				
EMA B. V.	4,743,201	–	4,743,201	–
Euroserve	13,780	–	13,780	–
Viva Media Beteiligungsgesellschaft	5,100	–	5,100	–
Grabacap	464,000	–	549,600	–

ad pepper media share price development versus “Prime All Share”



As per 11 March 2006

Making the most of opportunities wherever possible



The market for online advertising is recording double-digit growth, with the US and Scandinavia taking the international lead. ad pepper media has hence always made the most of opportunities for external growth wherever this made sense. In 2005, for instance, the Company acquired ResultOnline B.V. and mediasquares GmbH as well as Nedstat Basic, the world's leading web statistics tool which is today promoted under the **webstats4U** brand.

Outlook

Basic economic conditions
In view of the buoyant forces that were already perceivable at the end of 2005 in the euro zone, most experts expect economic growth to pick up significantly. The real surprise in the forecasts for spring 2006: more than one economist believes that Germany, after many years of lagging behind Europe's economy, can now once again become a driving force.

Advertising market
Optimism is also flourishing on the advertising market. For the year 2006, ZAW, the Central Association of the German Advertising Industry, at least expects growth of around two percent following growth of one percent last year. Nielsen Media Research is much more optimistic and expects gross revenues to grow by seven to eight percent in traditional media. The market for online advertising and direct marketing on the Internet will definitely exceed these figures; forecasts by industry experts and market researchers range somewhere between twelve and 15 percent. Forrester Research, one of the world's opinion leaders in the media market, even forecasts a 35 percent increase for Europe. In 2007, however, this growth rate is expected to even out at close to 16 percent.

The demand for online marketing is particularly fuelled by the increasing use of the Internet, more intelligent advertising formats, a growing trend towards a more personalised way of addressing consumers, and the continued wide gap between the intensive use of the Internet and the share which advertisers and online advertising agencies are willing to spend here. A recent survey (2005) by the European Interactive Advertising Association (EIAA) shows that Germans now surf nine hours a week on the Internet, compared to the European average of 10.3 hours. Today, Europeans already earmark eleven percent of their media time budget for the Internet which automatically means that the World Wide Web will have to be given greater consideration in advertising budgets.

Company outlook
The trend towards more international campaigns and ever-more complex (intelligent) advertising formats and marketing methods, which has been observed for the past one or two years, will continue without doubt. The resultant opportunities on the online market can be fully exploited especially by those service providers who have a well-developed, world-wide network that combines state-of-the-art technology with perfect organisation.

This was why ad pepper media went to great lengths last year to improve its position on the world market even further. This included the above-mentioned investments in technology and new markets, as well as the quantitative and qualitative expansion of the Company's range through the acquisition of mediasquares and Nedstat Basic. The Company expects that revenues will grow faster than the online advertising market during the current financial year too. The Management Board will hence pay special attention to a sustainable improvement in profitability.

Concentration of risks and uncertainties

Acceptance of online advertising, dependence on the Internet
ad pepper media's business activities are based on the use of electronic advertising media, i.e. in particular the Internet, as well as e-mail communication and other online media. Any slowdown in growth, or even a decline in Internet use, would make websites less attractive as vehicles for online advertising, which in turn would materially adversely affect the financial position and results of operations of ad pepper media.

Flawed legal environment
The Company is confronted by a raft of changing and/or increasing legal regulations concerning the Internet and other electronic media. This partially inconsistent and/or heterogeneous legal environment may pose not inconsiderable risks for the ad pepper media Group that could adversely affect the Company's financial position and results of operations.

Rapid technological change
The market for the products and services offered by ad pepper media is characterized by short innovation cycles and rapid change due to the lack

of uniform standards. In addition, the environment is marked by frequent announcements of new services and products and by changes in client requirements. ad pepper media thus faces the challenge of having to continually adapt its products and services to the changing technical requirements and customer demand. The obligation to ensure permanent further development of the products and services so that they comply with the new technologies will result in considerable capital requirements and not insubstantial human resources costs for the ad pepper media Group. Any errors of judgment by ad pepper media as regards the further development of its product and services expertise, and as regards new technologies and technical standards, could materially adversely affect the Company's financial position and jeopardize its business success.

Data protection
Data processing is one of ad pepper media's business activities, and the provisions of data protection regulations must be strictly observed. According to German and European legal interpretation, data collected in the area of the new tele and media services is subject to strict statutory determination of purpose. In addition to the legal uncertainty that exists in national law, the Company is also faced with the difficult task of having to comply with the data protection regulations of differing legal systems when it comes to online advertising campaigns to be launched internationally. A further factor is that it is currently very difficult to predict whether data protection regulations might be further tightened in future. Compliance with a variety of data protection regulations may require not inconsiderable resources, including financial resources, and may also impair future earnings opportunities. New legal regulations or non-compliance – even unintentionally – with current data protection law may limit the Company's ability to perform its business activities, which could adversely affect its business, financial position and results of operations.

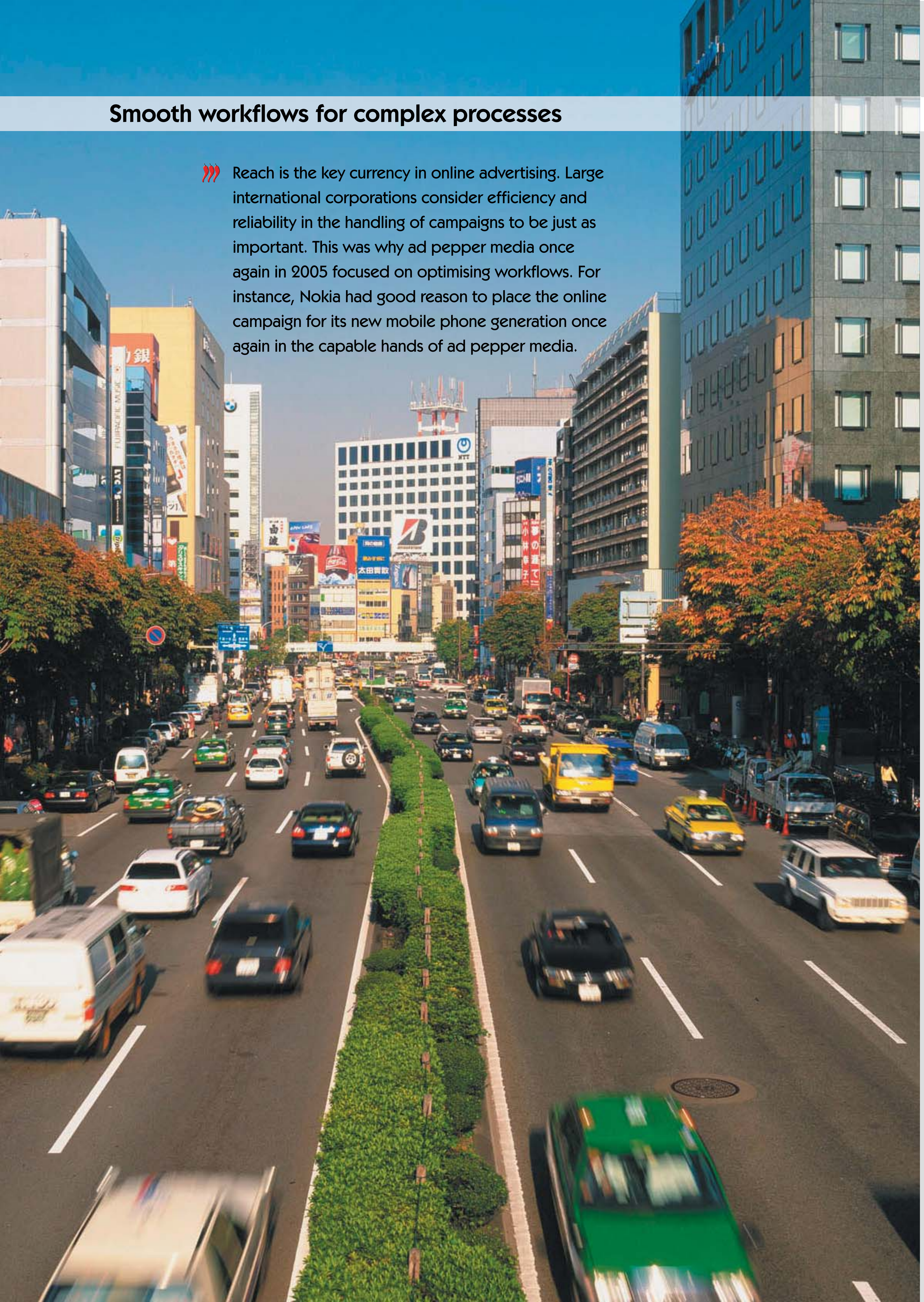
Bad debt risk
ad pepper media generates its revenues from the fees paid by advertisers and advertising agencies to the Company. ad pepper media then remits a portion of these fees to the website owners. ad pepper media therefore carries the bad debt risk from receivables from the advertisers and agencies. It cannot be assumed with any certainty that considerable bad debts may not occur in the future. Such bad debt losses may materially adversely affect the financial position and results of operations of the ad pepper media Group.

Dependence on employees in key position
Due to its decentralized structure and international orientation with many branches and subsidiaries, ad pepper media depends on a high number of qualified employees who must act on their own initiative to a significant extent, especially in the case of sales activities. At present, the Group employs a good thirty people in key positions. Retaining its existing employees and recruiting highly qualified new staff is a critical success factor for the Company. The inability of the Company to retain or recruit qualified staff may adversely affect its planned growth.

Risks from acquisitions
To be able to successfully implement a strategy of establishing and expanding a global network, ad pepper media intends relying not only on encouraging organic growth, but also plans keeping open the external growth option so that it can gain access to new markets as quickly as possible. No assurance can be given that ad pepper media will always be able to implement planned acquisitions successfully and to achieve the optimum integration of the companies acquired into its corporate structure. Any inability to do this could adversely affect the development of the Company.

Protection of intellectual property
ad pepper media currently holds proprietary rights only for the registered figurative mark with words "ad pepper media" with the pepper symbol. Both the term "pepper" and the figurative mark (the pepper symbol) are frequently used by other companies. In some cases, similar marks or symbols have been registered prior to ad pepper media and thus enjoy priority in the event of conflict. Even though the Company is not currently aware of any other company exercising the same or comparable business activities and using marks or company names capable of being confused, no assurance can be given that there will not be cases of trademark conflict in the future or that third parties may not assert claims for alleged breach of proprietary rights against ad pepper media. Such a development could impair the market awareness and thus the impact of ad pepper media and adversely affect the Company's business, financial position and results of operations.

Currency risks
Due to their international business activities, the companies of the ad pepper media Group normally bill their services in the local currency. The Company is exposed to exchange rate risks on transactions outside the geographical scope of European Monetary Union (eurozone). Exchange rate changes for non-EMU currencies may result in exchange rate losses that could adversely affect the financial position and results of operations of the Company. ad pepper media is also exposed to currency risks in view of the structure of the ad pepper media Group, with its many dependent foreign subsidiaries and the associated requirement to report the operating results and assets of the individual subsidiaries in the corresponding foreign currencies.



Smooth workflows for complex processes

Reach is the key currency in online advertising. Large international corporations consider efficiency and reliability in the handling of campaigns to be just as important. This was why ad pepper media once again in 2005 focused on optimising workflows. For instance, Nokia had good reason to place the online campaign for its new mobile phone generation once again in the capable hands of ad pepper media.

Annual consolidated financial statements

Consolidated statements of operations (IFRS)

	Notes	2005 EUR	2004 EUR
Net sales		29,439,510	22,242,907
Cost of sales	[7]	-16,301,119	-12,367,905
Gross profit		**13,138,391**	**9,875,002**
Selling and marketing expenses	[8]	-7,446,231	-5,654,423
General and administrative expenses		-4,705,479	-4,512,538
Other operating income	[10]	327,771	597,655
Other operating expense	[11]	-1,382,153	-301,700
Equity in earnings of affiliated companies		295,654	139,903
Earnings before interest and tax		**227,953**	**143,899**
Financial gains	[12]	717,926	1,219,750
Income before income taxes		**945,879**	**1,363,649**
Income taxes	[13]	2,447,747	2,585,532
Consolidated net gain		**3,393,626**	**3,949,181**
Net gain per share (basic)	[14]	0.32	0.38
Net gain per share (deluted)	[14]	0.30	0.35
		Q1–Q4/2005 Shares	Q1–Q4/2004 Shares
Weighted average shares outstanding (basic)		10,525,761	10,410,160
Weighted average shares outstanding (deluted)		11,326,955	11,312,810

See accompanying notes to consolidated financial statements

Consolidated balance sheets (IFRS)

	Notes	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
Assets			
Noncurrent assets			
Goodwill	[15]	6,781,488	2,819,971
Intangible assets	[16]	4,215,551	1,547,946
Equipment	[17]	449,219	418,231
Investment in affiliated companies	[18]	1,208,486	912,832
Restricted cash	[19]	650,000	650,000
Marketable securities	[20]	4,258,500	2,513,250
Other financial assets	[21]	4,157,705	2,336,500
Deferred tax assets	[13]	5,590,230	2,735,157
Noncurrent assets, total		**27,311,179**	**13,933,887**
Current assets			
Marketable securities	[22]	5,599,802	6,113,003
Trade accounts receivable	[23]	10,457,259	9,165,577
Prepaid expenses and other current assets	[24]	1,798,300	1,264,569
Cash and cash equivalents	[25]	7,027,645	15,921,047
Current assets, total		**24,883,006**	**32,464,196**
Assets, total		**52,194,185**	**46,398,083**

See accompanying notes to consolidated financial statements

Consolidated balance sheets (IFRS)

	Notes	Dec. 31, 2005 EUR	Dec. 31, 2004 EUR
Liabilities and shareholders' equity			
Shareholders' equity			
Share capital	[26]	1,115,500	1,115,500
Additional paid-in capital	[27]	59,942,263	59,727,358
Treasury stock	[28]	-421,578	-1,062,920
Accumulated deficit		-16,257,118	-19,650,744
Accumulated other comprehensive loss	[30]	-438.269	-78.175
Equity of the shareholders of the parent company		43,940,798	40,051,019
Minority interest	[31]	0	35,695
Shareholders' equity, total		**43,940,798**	**40,086,714**
Noncurrent liabilities			
Deferred tax liabilities	[13]	407,158	0
Noncurrent liabilities, total		**407,158**	**0**
Current liabilities			
Trade accounts payable	[32]	4,309,571	3,052,630
Other current liabilities		869,302	632,882
Income tax liabilities		110,597	0
Accrued expenses		2,556,759	2,625,857
Current liabilities, total	[33]	**7,846,229**	**6,311,369**
Liabilities, total		**8,253,387**	**6,311,369**
Liabilities and shareholders' equity, total		**52,194,185**	**46,398,083**

See accompanying notes to consolidated financial statements

Statement of cash flows (IFRS)

	2005 EUR	2004 EUR
Net gain	3,393,626	3,949,181
Adjustments to reconcile net gain to cash provided by operations:		
Depreciation and amortization	984,940	590,324
Gain/loss on sale of equipment	-1,598	-12,131
Gain/loss on sale of securities	0	-213,992
Change of revaluation surplus	27,600	0
Stock option expenses	214,905	392,707
Interest income and expenses	-717,926	-1,219,750
Income tax expense	-2,433,150	132,314
Other non-cash income and expenses	1,024,043	-2,754,673
Gross cash flow	**2,492,440**	**863,980**
Increase in trade accounts receivable	-2,293,182	-717,834
Increase in prepaid expenses and other assets	-442,333	-237,056
Income taxes paid	-28,596	-41,338
Interest income received	551,962	1,133,314
Increase in trade accounts payable	871,241	205,758
Interest expenses paid	-4,033	-4,540
Decrease in accrued expenses and other liabilities	-681,678	-1,108,807
Net cash provided by operating activities	**465,821**	**93,477**
Capital expenditures for intangible assets and equipment	-898,261	-1,025,256
Proceeds from sale of intangible assets and equipment	9,226	17,643
Capital expenditures in affiliated companies	-1,709,245	-1,731,584
Security payments/proceeds from repayment security deposits	-148,353	-35,073
Acquisition of subsidiary, net of cash acquired	-1,797,100	0
Cash paid for acquisition of shares in consolidated companies	-2,810,305	0
Sales of marketable securities	1,024,000	8,478,400
Purchase of marketable securities	-3,000,000	-7,314,280
Net cash used in financing activities	**-9,330,038**	**-1,610,150**

See accompanying notes to consolidated financial statements

Statement of cash flows (IFRS)

	2005 EUR	2004 EUR
Sale of treasury stock	375,729	183,917
Purchases treasury stock	-449,250	0
Net cash used in/provided by financing activities	**-73,521**	**183,917**
Effect of exchange rate changes on cash and cash equivalents	44,336	-28,173
Changes in cash and cash equivalents	-8,893,402	-1,360,929
Cash and cash equivalents at beginning of year	15,921,047	17,281,976
Cash and cash equivalents at end of period	7,027,645	15,921,047

See accompanying notes to consolidated financial statements

Statement of shareholder's equity								
	Equity of the shareholders of the parent company							
					Accumulated other comprehensive income/loss			
	Share capital	Additional paid-in capital	Treasury stock	Accumulated deficit	Currency conversion	Market valuation availabel-for-sale securities	Minority interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance at January 01, 2004	**1,115,500**	**59,334,652**	**-1,284,338**	**-23,599,925**	**-26,955**	**118,841**	**35,695**	**35,693,470**
Issuance of treasury shares			221,418					221,418
Net gain for the period				3,949,181				3,949,181
Stock option plans		392,706						392,706
Differences from currency conversion					-28,172			-28,172
Unrealized gain/loss on securities						-141,889		-141,889
Comprehensive income/loss, total								**4,171,826**
Balance at December 31, 2004	**1,115,500**	**59,727,358**	**-1,062,920**	**-19,650,744**	**-55,127**	**-23,048**	**35,695**	**40,086,714**
Balance at January 01, 2005	**1,115,500**	**59,727,358**	**-1,062,920**	**-19,650,744**	**-55,127**	**-23,048**	**35,695**	**40,086,714**
Issuance from treasury shares			641,342					641,342
Net gain for the period				3,393,626				3,393,626
Acquired minority interest							-35,695	-35,695
Stock option plans		214,905						214,905
Differences from currency conversion					48,226			48,226
Unrealized gain/loss on securities						-408,320		-408,320
Comprehensive income/loss, total								**3,248,437**
Balance at December 31, 2005	**1,115,500**	**59,942,263**	**-421,578**	**-16,257,118**	**-6,901**	**-431,368**	**0**	**43,940,798**

See accompanying notes to consolidated financial statements

Statement of changes in noncurrent assets

Fiscal year 2004	Historical cost brought forward					Accumulated depreciation/Amortization/Impairment					Book value	
	Balance at Jan. 01, 2004	Additions	Additions through business combinations	Disposals	Balance at Dec. 31, 2004	Balance at Jan. 01, 2004	Depreciation/ Amortization of fiscal year	Disposals	Differences from currency convertion	Balance at Dec. 31, 2004	Dec. 31, 2004	Dec. 31, 2003
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Goodwill	**4,557,304**	**0**	**0**	**103,000**	**4,454,304**	**1,634,334**	**0**	**0**	**0**	**1,634,334**	**2,819,971**	**2,922,971**
Intangible assets												
Software	973,568	851,493	0	0	1,825,061	329,482	317,179	0	-364	647,025	1,178,036	644,086
Proprietary rights and customer base	739,794	0	0	0	739,794	276,217	93,667	0	0	369,884	369,910	463,577
Total	**1,713,362**	**851,493**	**0**	**0**	**2,564,855**	**605,699**	**410,846**	**0**	**-364**	**1,016,909**	**1,547,946**	**1,107,663**
Equipment	1,303,604	174,178	0	40,286	1,437,496	874,925	179,478	33,914	1,224	1,019,265	418,231	428,679
Total	**7,574,270**	**1,025,671**	**0**	**143,286**	**8,456,655**	**3,114,958**	**590,324**	**33,914**	**860**	**3,670,508**	**4,786,148**	**4,459,313**

Fiscal year 2005	Historical cost brought forward					Accumulated depreciation/Amortization/Impairment					Book value	
	Balance at Jan. 01, 2005	Additions	Additions through business combinations	Disposals	Balance at Dec. 31, 2005	Balance at Jan. 01, 2005	Depreciation/ Amortization of fiscal year	Disposals	Differences from currency convertion	Balance at Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Goodwill	**4,454,304**	**0**	**3,961,517**	**0**	**8,415,821**	**1,634,334**	**0**	**0**	**0**	**1,634,334**	**6,781,488**	**2,819,971**
Intangible assets												
Software	1,825,061	860,678	50,227	0	2,735,966	647,025	718,824	0	0	1,365,849	1,370,117	1,178,036
Proprietary rights and customer base	739,794	125,953	2,415,824	0	3,281,571	369,884	65,370	0	-883	436,137	2,845,434	369,910
Total	**2,564,855**	**986,631**	**2,466,051**	**0**	**6,017,537**	**1,016,909**	**784,194**	**0**	**-883**	**1,801,986**	**4,215,551**	**1,547,946**
Equipment	1,437,496	145,588	92,891	9,516	1,666,459	1,019,265	200,746	7,643	-4,872	1,217,240	449,219	418,231
Total	**8,456,655**	**1,132,219**	**6,520,459**	**9,516**	**16,099,817**	**3,670,508**	**984,940**	**7,643**	**-5,755**	**4,653,560**	**11,446,258**	**4,786,148**

See accompanying notes to consolidated financial statements

Notes to the consolidated financial statements of ad pepper media International N.V. as of December 31, 2005

The Company [1]

The business activities of ad pepper media International N.V. involve holding investments in other entities whose objective is to market advertising space on the internet, and providing services for the subsidiaries. Since its founding, ad pepper media has been geared towards acting flexibly to meet the requirements of a whole range of different markets as an international company.

ad pepper media is an international provider of interactive products and services for websites and advertisers. The Company currently markets campaigns and websites in more than 40 countries and operates from 16 branches in 10 European countries and the USA. ad pepper media uses state-of-the-art technology to link thousands of small, medium and large websites to a top-quality advertising network with global reach and an exact focus on its target group.

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

Consolidated Group [2]

All subsidiaries under the legal or de facto control of ad pepper media International N.V. are included in the consolidated financial statements. The entities included are as follows:

Entity	Share
ad pepper media GmbH, Nuremberg, Germany	100%
ad pepper media in Austria GesmbH, Salzburg, Austria	100%
ad pepper media Benelux B.V. Amsterdam, Netherlands	100%
ad pepper media Sweden AB, Stockholm, Sweden	100%
ad pepper media Denmark A/S, Copenhagen, Denmark	100%
Mediasense ApS, Copenhagen, Denmark	100%
Pentamind A/S, Copenhagen, Denmark	100%
ad pepper media Oy, Helsinki, Finland	100%
ad pepper media UK Ltd., London, United Kingdom	100%
ad pepper media France S.A.R.L., Paris, France	100%
ad pepper media Spain S.A., Barcelona, Spain	100%
ad pepper media USA LLC, Delaware, USA	100%
ad pepper media Italy srl., Milan, Italy	100%
ad pepper media Interactive Marketing Services srl., Milan, Italy	100%
Borsa Del Banner srl., Cagliari, Italy	51%
Regio ad Beteiligungs- und Verwaltungsgesellschaft mbH, Nuremberg, Germany	100%
Atlas Internet Associates s.r.o, Bratislava, Slovakia	100%
ResultOnline B. V., Amsterdam, Netherlands	100%
Web Measurement Services B.V., Amsterdam, Netherlands	100%
mediasquares GmbH, Dusseldorf, Germany	100%

Information on the Company
The consolidated financial statements of ad pepper media International N.V. for the financial year from January 1 to December 31, 2005 were authorized to issue by the board on March 24, 2006. ad pepper media International N. V. is a publicly traded limited liability company incorporated in the Netherlands with its registered offices in Amsterdam, the Netherlands.

Accounting principles [3]

Basis of presentation
The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale securities, that have been measured at fair value.

The accounting policies used in these financial statements do not deviate materially from the principles according to which the financial statements as of December 31, 2004 in accordance with US-GAAP were prepared.

Differences are explained under "Conversion to International Financial Reporting Standards".

Presentation currency
The consolidated financial statements are presented in thousand EURO (EURk) except when otherwise indicated.

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

Note on conversion of accounting to IFRS
Pursuant to Article 4 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the adoption of international accounting standards (OJ L 243 page 1), ad pepper media International N.V. is obliged to prepare consolidated financial statements in accordance with International Financial Reporting Standards for the first time for the financial year 2005. The IFRS consolidated opening balance sheet was prepared as of January 1, 2004 (date of conversion to IFRS pursuant to IFRS 1). ad pepper media International N.V. applies the IFRS as adopted by the European Commission for application in the EU for the first time in its consolidated financial statements for the financial year ending December 31, 2005, which also include the comparative financial statements for the financial years as of December 31, 2004. According to IFRS 1, in its first set of IFRS consolidated financial statements an entity must apply recognition and measurement policies based on the standards and the relevant interpretations that apply on the balance sheet date of the first set of IFRS consolidated financial statements. These accounting policies are applicable on the date of conversion to IFRS and for all periods presented in the first set of IFRS consolidated financial statements. In accordance with IFRS 1, the assets and liabilities are recognized and measured according to those IFRS that are obligatory as of December 31, 2005. The resulting differences between the carrying amounts of the assets and liabilities under IFRS and the carrying amounts of the assets and liabilities in the US-GAAP consolidated balance sheet as of January 1, 2004 are posted directly to equity on the date of conversion to IFRS.

Explanation of material accounting policies deviating from US-GAAP
Due to the restatements of prior-year figures, the first-time adoption of International Financial Reporting Standards leads to differences between the group equity and group profit for the comparative periods pursuant to IFRS and the US-GAAP figures disclosed for these periods.

In accordance with IFRS 1 (First Time Adoption of International Financial Reporting Standards), group equity under US-GAAP is reconciled with group equity under IFRS as follows:

	Note	US-GAAP 01.01.2004 EUR	Reconciliation EUR	IFRS 01.01.2004 EUR
Issued capital		1,115,500	0	1,115,500
Capital reserve	a,b	56,584,792	2,749,860	59,334,652
Treasury shares	b	-79,973	-1,204,365	-1,284,338
Accumulated loss	a	-22,054,430	-1,545,495	-23,599,925
Accumulated other comprehensive income		91,886	0	91,886
Adjustment entry for minority interests	c	0	35,695	35,695
Equity		**35,657,775**	**35,695**	**35,693,470**

	Note	US-GAAP 31.12.2004 EUR	Reconciliation EUR	IFRS 31.12.2004 EUR
Issued capital		1,115,500	0	1,115,500
Capital reserve	a,b	56,795,173	2,932,185	59,727,358
Treasury shares	b	-68,937	-993,983	-1,062,920
Accumulated loss	a	-17,712,542	-1,938,202	-19,650,744
Accumulated other comprehensive income		-78,175	0	-78,175
Adjustment entry for minority interests	c	0	35,695	35,695
Equity		**40,051,019**	**35,695**	**40,086,714**

The effects of the IFRS adjustments on the group profit are shown in the following table:

	Note	01.01.-31.12.2004 EUR
Profit under US-GAAP		4,341,888
Employee stock option plan	a	-392,707
Profit under IFRS		**3,949,181**

Notes:

a) In accordance with APB25, the Company did not report any personnel expenses for stock options granted to employees in the US-GAAP financial statements. By contrast, IFRS 2 provides for such remuneration components to be recognized in profit or loss. This result in the reconciliation differences reported in profit and in the accumulated loss and the capital reserve.

b) Treasury stock was reported at nominal value in the US-GAAP statements. The difference between cost and nominal value was offset against the additional paid-in capital (capital reserve). In the IFRS statements, treasury shares have been reported at cost.

c) Adjustment items for minority interests were stated as a separate balance sheet item between equity and liabilities in the US-GAAP statements. Under IFRS, these items are reported as part of equity.

Consolidation principles and cut-off date

The consolidated financial statements comprise ad pepper media International N.V. and all subsidiaries in which a majority is held. Capital consolidation is based on the purchase accounting method, offsetting acquisition costs of the shares purchased against the equity accruing to the parent company at the time of acquisition. The assets acquired and liabilities assumed are recorded at their fair value in the consolidated balance sheet. Any amount by which the acquisition cost exceeds the fair value of the net assets attributable to the Group is capitalized as goodwill. All significant intercompany transactions and accounts are eliminated in the consolidation of income and expenses and of intercompany balances. Investments in associates are included in the consolidated financial statements using the equity method.

The financial statements of the subsidiaries are prepared using the same uniform accounting policies and as of the same balance sheet date as the financial statements of the parent.

The acquisition of ResultOnline B.V. on March 1, 2005 and of mediasquares GmbH as of October 1, 2005 was recognized using the purchase method.

Web Measurement Services B.V. was set up in financial 2005 as a wholly owned subsidiary of ad pepper media International N.V.

Currency translation

The consolidated financial statements are prepared in EURO, which is both the functional currency of the parent company and the presentation currency of the Group. The items contained in the financial statements of a group entity are measured using that functional currency. Foreign currency transactions are initially translated at the spot rate applicable between the functional currency and the foreign currency on the date of the transaction. Non-monetary items denominated in a foreign currency measured at historical cost are reported using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are reported using the exchange rate at the date when the fair value was determined.

As of the balance sheet date, the assets and liabilities of the subsidiaries whose functional currency is not the EURO are translated to the presentation currency of ad pepper International N.V. (EURO) using the closing rate. Income and expenses are translated at the weighted average exchange rate in the financial year. The resulting translation differences are recognized separately in equity. If foreign operations are sold, the cumulative amount recognized in equity for these foreign operations is released to profit and loss.

Use of estimates and discretionary decisions
To a certain extent, the consolidated financial statements in accordance with IFRS contain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent amounts at the balance sheet date and reported amounts of income and expenses during the reporting period. Actual amounts may differ from the estimates.

The recognition of property, plant and equipment and intangible assets involves estimates to determine the fair value on the acquisition date. This applies in particular to assets acquired as part of a business combination. In addition, the expected useful life of the assets is estimated. Determining the fair values of assets and liabilities and the useful lives of assets is based on assessments by management.

The Group tests goodwill for impairment at least once a year. This involves an estimate of the value in use of the cash-generating units (CGUs) to which the goodwill is allocated. In order to estimate the value in use, the Group has to estimate the expected future cash flows of the CGU and then determine an appropriate discount rate to calculate the present value of these cash flows.

Revenue recognition
The Company generates its revenues by marketing internet advertising space. Advertising customers book units (ad impressions, ad clicks, registrations) via the Company – these are supplied over a period defined by the customer. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price of the transaction is fixed and determinable, and collectibility is reasonably assured. In cases in which a campaign starts before the balance sheet date and lasts beyond this date, revenue is deferred proportionately according to the units supplied or to the period, depending on the contract. Sales are reported net of discounts and rebates.

Leases
All of the leases are operating leases. Lease payments are recorded as an expense in the income statement on a straight-line basis over the term of the lease.

Interest income
Revenue is recognized as the interest accrues.

Income taxes

Current tax assets and liabilities
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred taxes
Deferred taxes are recognized using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes as of the balance sheet date.

Deferred tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

- No deferred tax liabilities may be recognized from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit.

- No deferred tax liabilities may be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures if the entity controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. The following exceptions apply:

- No deferred tax assets may be recognized from deductible temporary differences arising on initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit or loss.

- Deferred tax assets may only be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

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

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

Income taxes relating to items posted directly to equity are recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Goodwill
Goodwill arising from a business combination is initially measured at cost, which is the excess of the cost of the business combination over the Group’s interest in the fair values of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least once a year or whenever facts or changes in circumstances indicate that the carrying amount could be impaired.

Up to and including 2001, goodwill was amortized over a period of five years. According to SFAS 142, goodwill was no longer amortized as from financial year 2002. Similarly, IAS 36 does not allow any systematic amortization of goodwill. Instead, like under US-GAAP, goodwill is tested for impairment at least once a year.

The impairment test for goodwill involves comparing the carrying amount of cash-generating units, including goodwill, with the recoverable amount. The recoverable amount of a cash-generating unit is determined based on its fair value less costs to sell. The fair value less costs to sell is generally calculated using the discounted cash flow (DCF) method. These DCF calculations are based on forecasts linked to the finance plans approved by management, which are also used for internal purposes. If the recoverable amount exceeds the carrying amount, the asset is not impaired. If the recoverable amount falls below the carrying amount of the cash-generating unit, an impairment loss must be recorded for the difference between the two amounts. The impairment is offset completely against goodwill. If this does not cover the amount, the remaining difference is distributed over the other assets in proportion to the carrying amounts.

Intangible assets
Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination corresponds to its fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Except for capitalized development costs, internally generated intangible assets are not capitalized. Related costs are recognized in profit or loss in the period in which they are incurred.

In the case of intangible assets, the first step is to determine whether they have a finite or indefinite useful life. Intangible assets with a finite useful life are amortized over the economic useful life and tested for possible impairment whenever there is an indication that the intangible asset could be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. If there has been a change in the expected useful life of the asset or the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization period or method is changed.

Write-downs on intangible assets with finite useful lives are recognized in the income statement under the category of expenses that corresponds to the function of the intangible asset.

Research and development expenses
Research expenses are recognized as an expense in the period in which they are incurred. An intangible asset resulting from development in the course of an individual project is only recognized if the Group can provide evidence of the technical feasibility of completing the intangible asset so that it will be available for internal use and the intention to complete the intangible asset and use it. In addition, the Group must substantiate the creation of a future economic benefit by the asset, the availability of resources to complete the asset and the ability to determine reliably the expenses allocable to the intangible asset during its development. After initial recognition, development costs are measured using the cost model, according to which the asset is recognized at cost less accumulated amortization and accumulated impairments. The capitalized amounts are written off over the period in which the revenue from the respective project is expected.

The capitalized amount of development costs is tested for impairment once a year if the asset is not yet in use or if there is any indication of impairment during the year.

Property, plant and equipment
Property, plant and equipment are measured at cost less depreciation. Systematic depreciation is recorded using the straight-line method over a period of three to ten years.

Maintenance costs that do not increase the value of the assets or that do not prolong their useful life are treated as expenses. An item of property, plant and equipment is either derecognized on disposal or when no further economic benefit is expected from the further use or sale of the asset. Gains or losses on the disposal of non-current assets are stated in other operating income and expenses

Investments in associates
Investments in associates are recognized using the equity method. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

In accordance with the equity method, investments in associates are recognized in the balance sheet at cost plus any changes arising after the acquisition in the Group’s share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not subject to systematic amortization. The Group determines on a case-by-case basis whether or not an impairment loss is necessary. The income statement contains the Group’s share in the profit of the associate. Changes recorded directly in the equity of the associate are also recorded directly in equity by the Group in proportion to its share and – where appropriate – included in the statement of changes in shareholders’ equity.

The balance sheet date and the accounting policies used for similar transactions and events are the same for the associate and the Group.

Impairment of non-current assets
Non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its estimated discounted future cash flows, an impairment charge is recognized at the amount by which the carrying amount exceeds the expected future cash flow.

Available-for-sale financial assets
Available-for-sale financial assets, included in the balance sheet items “marketable securities” in current respectively non-current assets, depending on their remaining term, are those non-derivative financial assets that are classified as available for sale. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value, and any gain or loss is recognized in a separate item under equity. On derecognition of the investment or identification of impairment, any cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

The fair value of investments traded on regulated markets is determined by reference to the bid rate on the stock exchange as of the balance sheet date. The fair value of investments for which there is no active market is estimated using measurement models. Such methods are based on recent regular way transactions or on the current market value of another instrument which is essentially the same instrument or an analysis of the discounted cash flows.

Trade receivables and other receivables
Trade receivables, which generally have a term to maturity of 30-90 days, are recognized at the original amount of the invoice less a bad debt allowance. A bad debt allowance is recognized if there is material objective evidence that the Group will not be able to collect the receivables. Receivables are derecognized as soon as they become uncollectible.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, bank balances and short-term deposits with a remaining term of three months or less at the time of acquisition.

Treasury shares
If the Group purchases treasury shares, these are deducted from equity. The purchase, sale, issuance or cancellation of treasury shares is not recognized in profit or loss.

Provisions
Other provisions are recorded when there is a legal or constructive obligation to third parties, utilization is probable and the probable amount of the necessary provision can be reliably estimated. The expense relating to a provision is presented in the income statement. If the time factor of money is significant, provisions are discounted before taxes using an interest rate that reflects the specific risks for the obligation. Where discounting applies, the increase in the provision due to the passage of time is recognized as an interest expense.

Stock option plans
Employees (including executives) at the Group are paid share-based compensation whereby the employees receive remuneration in the form of equity instruments.

The expenses incurred due to equity-settled share-based transactions are measured at the fair value of the equity instruments granted on the grant date. The fair value is calculated by an external expert. When measuring equity-settled share-based transactions, no performance-related vesting conditions other than any linked to the share price of ad pepper International N.V. (market conditions) are taken into account. Expenses incurred due to equity-settled share-based transactions are recorded over the period in which the service and/or service conditions are fulfilled with a corresponding increase in equity at the same time. This period ends on the date on which the entitlement of the employee in question becomes vested ('vesting date'). The accumulated expenses for equity-settled share-based transactions reflect at each reporting date up until the vesting date the percentage of the vesting period that has already lapsed as well as the number of equity instruments that will become vested based on the best estimate of the Group. The amount charged or credited to the income statement reflects the development of the accumulated expenses recognized at the beginning and the end of the reporting period.

No expense is recognized for remuneration rights that are not vested. This does not include remuneration rights where certain market conditions have to be fulfilled in order for them to become vested. Regardless of whether or not the market conditions are fulfilled, these are classified as vested provided that all other conditions are fulfilled. The dilutive effect of the outstanding share options is taken into account as additional dilution when calculating the earnings per share.

Cash flow statement [4]

In accordance with IAS 7 "Cash Flows Statements", the cash flow statement separates cash flows into operating, investing and financing activities.

Business combinations [5]

ResultOnline B.V.
On March 1, 2005, ad pepper media Benelux B.V. acquired a 100% interest in the Dutch online marketing agency ResultOnline B.V. ResultOnline was founded in 1999 and is a leader in text-based online marketing in the Netherlands. ResultOnline has a solid customer base and website partners, offering primarily performance-linked marketing using its own technology, and has been operating profitably since 2001. ad pepper's leading solutions for lead generation and its growing opt-in e-mail database combined with ResultOnline's text-based marketing experience and its broad customer and website base will make the two companies the Netherlands' leading supplier of online data marketing solutions. Synergies will also contribute to long-term profitability.

The provisional purchase price is EUR 1,774,365 EUR 164,864 of which is being paid in the form of 30,678 shares in ad pepper media International N.V. The value per share of EUR 5.374 corresponds to the average closing price of the last ten trading days prior to concluding the agreement.

Cash outflow on acquisition	EURk
Net cash acquired with the subsidiary	358.9
Cash paid	-1,609.5
Net cash outflows	**-1,250.6**

The purchase price is EUR 1,113 k higher than the carrying amounts of the net assets recognized on acquisition shown below.

Carrying amounts of assets and liabilities on the aquisition date	Recognized on aquisition EURk	Carrying value EURk
Intangible assets	494.0	0.0
Property, plant and equiptment, net	12.1	12.1
Taxes	3.5	3.5
Non current assets, total	*509.6*	*15.6*
Trade receivables	56.8	56.8
Prepaid expenses and other current assets	34.7	34.7
Cash and cash equivalents	358.9	358.9
Current assets, total	*450.4*	*450.4*
Assets, total	**960.0**	**466.0**
Trade payables	63.2	63.2
Other current liabilities	27.4	27.4
Provisions	37.2	27.2
Deferred Taxes	170.4	0.0
Liabilities, total	**298.2**	**117.8**
Net assets	**661.8**	**348.2**

ResultOnline contributed EUR 108,815 to the Group's result.

If the date of acquisition had been at the beginning of the current financial year, pro forma revenue would have amounted to EUR 29,552 k, with pro forma net profit for the year of EUR 3,404 k.

Nedstat Basic
As of July 1, 2005, ad pepper media took over the free website analysis product Nedstat Basic from Nedstat B.V., the leading European provider of website analysis solutions.

As part of this asset deal, ad pepper media received all rights to the world's most frequently used free website analysis tool. Nedstat Basic is a software application that allows webmasters to measure in real time all important characteristics such as traffic, user behavior, performance of content and offers. Nedstat Basic is currently used by more than 600,000 webmasters worldwide, who use the product on approximately 1 million websites. The product has experienced steep and steady growth since its market launch in 1996.

The preliminary purchase price for the acquisition amounts to EUR 3,103,407 plus a performance-linked earn-out component. The transaction was carried out by the subsidiary Web Measurement Services B.V. with its registered offices in Amsterdam, Netherlands, which was founded for this purpose.

Cash outflow on acquisition	EURk
Net cash acquired with the subsidiary	0.0
Cash paid	3,103.4
Net cash outflow	**3,103.4**

The preliminary purchase price is EUR 1,477 k higher than the value of the net assets acquired shown below. Goodwill was allocated to the cash-generating units on the basis of the nationality of the users (webmasters) of the website analysis tool.

Carrying amounts of assets on the aquisition date	Recognized on acquisition EURk
Intangible assets	1,575.9
Equipment, net	50.0
Non-current assets	**1,625.9**

Web Measurement Services B.V. is an entity that operates within the Group and does not generate on its own revenues with third parties. The share in the Group's result therefore cannot be determined directly, as this component of sales is allocated to other cash-generating units.

mediasquares GmbH
ad pepper media International N.V. acquired a 100 percent interest in the German online marketing agency mediasquares with effect as of October 1, 2005. mediasquares is one of the leading independent German online marketing agencies and has an exclusive website portfolio with established brands. The overall portfolio includes around 20 websites with approximately 400 million page impressions. Thanks to the skills of the mediasquares sales team, in particular with respect to brands, existing website partners of ad pepper media will also benefit from additional marketing approaches. Due to the existing jointly used ad serving platform Adsolution from the ad pepper media investee Falk eSolutions, technical integration is expected to be smooth and further synergies are likely to ensue.

The provisional purchase price is EUR 1,439,329, EUR 550,000 of which is being paid in the form of 75,238 shares in ad pepper media International N.V. The value per share of EUR 7.31 corresponds to the average closing price of the last ten trading days prior to concluding the agreement. The purchase price increases depending on certain earnings targets for the financial year 2005.

Cash outflow on acquisition		EURk
Net cash acquired with the subsidiary		615.1
Cash paid		-889.0
Net cash outflow		**-273.9**

The purchase price is EUR 1,127 k higher than the amounts of the net assets recognized on acquisition shown below.

Carrying amounts of assets and liabilities on the aquisition date	Recognized on aquisition EURk	Carrying value EURk
Intangible assets	626.6	0.0
Property, plant and equipment, net	30.8	30.8
Non-current assets, total	*657.4*	*30.8*
Trade receivables	91.4	91.4
Prepaid expenses and other current assets	56.0	56.0
Cash and cash equivalents	615.1	615.1
Current assets, total	*762.5*	*762.5*
Assets, total	**1,419.9**	**793.3**
Trade payables	322.5	322.5
Other current liabilities	116.9	116.9
Provisions	398.5	398.5
Deferred taxes	269.0	0.0
Liabilities, total	**1,106.9**	**837.9**
Net assets	**313.0**	**-44.6**

mediasquares contributed EUR 226,773 to the Group’s result.

If the date of acquisition of mediasquares had been at the beginning of the current financial year, pro forma revenue would have amounted to EUR 32,031 k, with pro forma net profit for the year of EUR 3,321 k.

Business combinations finalized in the financial year

Macati S.A.R.L.
With effect as of January 1, 2003, ad pepper media France S.A.R.L. acquired a 100 percent interest in the French online marketing agency Macati S.A.R.L. Macati merged with ad pepper media France as of June 20, 2003. The provisional purchase price of EUR 407,821 stated in the financial statements for 2003 was confirmed as the final purchase price in the financial year. There were no subsequent adjustments to the purchase price.

ad pepper media Interactive Marketing Services srl.
In October 2003, ad pepper media Italy srl. acquired a 100 percent interest in ad pepper media Interactive Marketing Services srl., which had acquired the online operations of Clickit srl. by purchasing some of its assets. The operations include a 51 percent interest in Borsa del Banner srl. The preliminary purchase price amounted to EUR 408,088. The purchase price increased by EUR 67,505 as certain earnings targets were reached in 2004. The subsequent purchase price increase was credited to the goodwill of ad pepper media Interactive Marketing Services srl. Goodwill thus increases to EUR 463,977. No final purchase price has been set to date.

Segment reporting [6]

There are no material differences between the different products and services of ad pepper media in terms of risk and earnings. The management accounting and management structure is mainly based on geographical regions. Primary reporting is thus broken down into the following combined segments:

- Central Europe includes Germany, Netherlands and Slovakia
- Northern Europe includes Denmark and Sweden
- Western Europe includes the UK, France, Spain and Italy
- USA

Financial year 2005	Central Europe EURk	Northern Europe EURk	Western Europe EURk	USA EURk	Consoli-dation EURk	Group EURk
Total sales	**12,921**	**6,210**	**11,692**	**1,766**	**-3,149**	**29,440**
thereof external	12,051	5,035	10,598	1,756	0	29,440
thereof intercompany	870	1,175	1,094	10	-3,149	0
Expenses and other income	**10,014**	**5,794**	**11,862**	**1,434**	**-3,058**	**26,046**
thereof amortization and depreciation	833	56	122	4	-30	985
thereof other non-cash expenses	437	12	568	132	0	1,149
Results	**2,907**	**416**	**-170**	**332**	**-91**	**3,394**
Assets	**50,721**	**3,221**	**11,021**	**1,505**	**-14,274**	**52,194**
thereof investments in property, plant and equipment in the financial year*	169,5	29	29	11	0	238,5
thereof investments in intangible assets in the financial year*	3,425.4	0	133.2	0	-105.9	3,452.7
Liabilities	**9,842**	**4,257**	**12,840**	**818**	**-19,504**	**8,253**

Financial year 2004	Central Europe EURk	Northern Europe EURk	Western Europe EURk	USA EURk	Consoli-dation EURk	Group EURk
Total sales	**8,282**	**5,848**	**9,810**	**1,085**	**-2,782**	**22,243**
thereof external	7,639	4,713	8,806	1,085	0	22,243
thereof intercompany	643	1,135	1,004	0	-2,782	0
Expenses and other income	**7,050**	**4,567**	**9,184**	**330**	**-2,837**	**18,294**
thereof amortization and depreciation	494	56	88	0	-48	590
thereof other non-cash expenses	-97	123	61	3	-200	-110
Result	**1,232**	**1,281**	**626**	**755**	**55**	**3,949**
Assets	**32,917**	**2,572**	**8,708**	**815**	**-8,614**	**36,398**
thereof investments in property, plant and equipment in the financial year*	81	58	32	4	0	175
thereof investments in intangible assets in the financial year*	970.6	1	0	0	-120.1	851.5
Liabilities	**4,896**	**4,019**	**10,349**	**453**	**-13,406**	**6,311**

* To comply with the requirements of IAS 14.57, the Group has included the cost of segment assets acquired by way of business combination.

Notes to the income statement

The income statement has been prepared using the function of expense method. The expenses contain personnel expenses of EUR 8,943,018 (2004: EUR 7,791,060) and systematic depreciation and amortization of EUR 984,940 (2004: EUR 590,324).

Cost of sales [7]

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

Selling expenses [8]

This item comprises all costs associated with attracting customers and orders. Advertising costs of EUR 146,934 (2004: EUR 81,142) were expensed in the financial year 2005.

Research and development expenses [9]

Expenses of EUR 190,720 (2004: EUR 173,211) were recognized in profit and loss in the financial year 2005.

Other operating income [10]

The litigation pending in the prior year involving ad pepper media Spain S.A. and a competitor due to various infringements had been resolved by the balance sheet date. ad pepper media Spain S.A. agreed on an out-of-court settlement of EUR 180,000 with the counterparty. This is recognized in the consolidated financial statements under other operating income.

Other operating expenses [11]

This item primarily includes additions to the bad debt allowances of EUR 987,890 (2004: reversal of EUR 303,706).

Financial income [12]

Financial income solely comprises interest income of EUR 717,926 (2004: EUR 1,219,750).

Income taxes [13]

Income taxes break down as follows:

	2005 EUR	2004 EUR
Current income tax	-124,596	-41,338
Deferred taxes	2,572,343	2,626,870
Income tax	**2,447,747**	**2,585,532**

The current income taxes reported relate to the taxes paid by individual local entities. The calculation of the deferred taxes was based on the country-specific tax rates.

Due to the existing unused tax losses, deferred tax assets of EUR 7,179 k (2004: EUR 7,727 k) were calculated on the basis of the unused tax losses of EUR 18,644 k (2004: EUR 19,934 k).

Allowances of EUR 1,496 k (2004: EUR 4,683 k) were made on non-current deferred tax assets from unused tax losses which are not likely to be utilized within a foreseeable planning period.

The unused tax losses can be carried forward in full and indefinitely.

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

	2005 EUR	2004 EUR
Software	55,523	64,597
Securities	11,658	230,685
Goodwill	38,158	12,375
Website-/Customer base	394,699	0
Total	**500,038**	**307,657**

Deferred tax assets and liabilities with the same maturities were netted if they related to the same tax authorities and the same taxable entity. As a result current deferred tax assets of EUR 5,590 k (2004: EUR 2,735 k) and non-current deferred tax liabilities of EUR 407 k (2004: EUR 0) have been recognized in the balance sheet.

ad pepper media International N.V. has its tax domicile in Germany. Reported income taxes reconcile to anticipated tax expenses based on the German statutory (combined corporate income tax and income tax) tax rate of 43 percent as follows:

	2005 EURk	2004 EURk
Anticipated tax expense	-407	-755
Foreign tax difference	-13	168
Of unused tax losses	385	454
Reversal of allowance on deferred tax assets	2,470	2,730
Tax effect on earnings of investments measured at equity	127	60
Non-tax-decuctible expenses and miscellaneous	-114	-71
Reported tax income	**2,448**	**2,586**

Earnings per share [14]

The following table shows the calculation of earnings per share:

	2005	2004
Net income for the year in EUR	3,393,626	3,949,181
Number at the beginning of the period	10,465,628	10,355,272
Number at the end of the period	10,692,744	10,465,628
Weighted number of shares outstanding (basic)	10,525,761	10,410,160
Earnings per share (basics) in EUR	**0.32**	**0.38**
Weighted number of shares outstanding (diluted)	11,326,955	11,312,810
Earnings per share (diluted) in EUR	**0.30**	**0.35**

The weighted number of shares outstanding in 2005 was calculated on a daily basis. In 2005, the options granted resulted in dilution of an average of 801,194 shares (2004: 902,650).

There were no transactions with ordinary shares or potential ordinary shares in the period from balance sheet date to preparation of the consolidated financial statements.

Notes to the consolidated balance sheet

Non-current assets

Goodwill [15]

In accordance with the provisions of IAS 36, goodwill was tested for impairment in the fourth quarter of 2005 on the basis of future cash flows. The recoverable amount of each cash-generating unit, which is identical to the local entities, was determined on the basis of the calculation of a value in use using cash flow forecasts based on the financial plans for the next three financial years. The discount rate used for the cash flow forecast is 9.25 percent. Cash flows after the three-year forecast period were calculated without using a constant growth rate, as it is not currently possible to calculate a long-term average growth rate for this young industry. This did not lead to any impairments.

Total goodwill amounted to EUR 6,781,487 (2004: EUR 2,819,971) at the end of the financial year. The allocation to the cash-generating units is as follows:

	2005 EURk	2004 EURk
ad pepper media Benelux B.V.	751	0
ad pepper media Denmark A/S	440	263
ad pepper media Sweden AB	1,059	1,010
ad pepper media Spain S.A.	425	248
ad pepper media GmbH	618	386
Pentamind A/S	151	151
Borsa del Banner srl.	15	15
ad pepper media Interactive Marketing Services srl.	464	396
ad pepper media France S.A.R.L.	392	351
ad pepper media UK Ltd.	52	0
ad pepper media USA LLC	175	0
ResultOnline B.V.	1,112	0
mediasquares GmbH	1,127	0
Total	**6,781**	**2,820**

In the last quarter of 2005, ad pepper media International N.V. increased its investment in ad pepper media Denmark A/S to 100 percent by purchasing the minority interests. The goodwill purchased in the course of the acquisition amounts to EUR 177 k.

Subsequent acquisition costs for the purchase of ad pepper media Interactive Marketing Services srl. led to an increase in goodwill of EUR 68 k.

The goodwill acquired during the acquisition of Nedstat Basic has been allocated to the cash-generating units on the basis of the nationality of the users (webmasters) of the website analysis tool.

The development of intangible assets including goodwill is presented in the consolidated statement of changes in non-current assets.

Intangible assets [16]

The intangible assets break down as follows:

Software:
Software mainly comprises IT solutions developed in-house for the Company's own use and is capitalized at cost. In addition, other software components were acquired in the course of business combinations. Software is amortized over a useful life of three years.

Brands and customer base:
On August 30, 1999, ad pepper media purchased the “ad pepper” brand for EUR 613,550. This brand is written off over a period of ten years on a straight-line basis. The residual carrying amount as of December 31, 2005 totals EUR 224,961 (2004: EUR 286,316). In April 2003, the “Regio ad” brand was acquired for an amount of EUR 48,181 including incidental acquisition costs. The amortization period is also ten years. The residual carrying amount as of December 31, 2005 totals EUR 35,022 (2004: EUR 39,840).

This item also includes the customer base acquired in the acquisition of Clickit’s online operations at a cost of EUR 75,000, which is being amortized over a three-year period. The residual carrying amount as of December 31, 2005 totals EUR 18,750 (2004: EUR 43,750).

The customer base acquired in connection with the acquisition of ResultOnline at a cost of EUR 443,800 is being amortized over a useful life of seven years. The residual carrying amount as of December 31, 2005 totals EUR 390,966.

The portfolio of websites acquired in the course of the acquisition of the online marketing agency mediasquares in the financial year 2005 with a cost of EUR 626,600 is being amortized over a useful life of seven years. The residual carrying amount as of December 31, 2005 totals EUR 604,221.

Property, plant and equipment [17]

The development of property, plant and equipment including cost and accumulated depreciation is presented in the consolidated statement of changes in non-current assets.

Investments in associates [18]

The Company holds a 25.1 percent investment in Falk eSolutions AG, Moers. The investment is measured at equity.

Falk eSolutions AG is not a publicly traded entity. The following table contains condensed financial information concerning the investment.

	2005 EURk	2004 EURk
Total assets	7,297	2,423
Total liabilities	5,278	733
Total operating performance	11,599	6,504
Net income for the year	436	159

Restricted cash [19]

This item contains cash in an escrow account securing contingent liabilities.

Current and non-current marketable securities [20, 22]

The securities as of December 31, 2005 solely contain available-for-sale securities.

Current securities exclusively include securities with a remaining term of less than one year. Non-current securities have a remaining term of more than one year.

In the reporting year, available-for-sale securities were acquired for EUR 3,000,000 and sold for a total of EUR 1,024,000. The losses incurred in the financial year amount to EUR 27,600, including losses of EUR 27,600 from the release of other comprehensive income to profit or loss.

The maturities of the available-for-sale securities as of December 31, 2005 are as follows:

Market value	2005 EURk	2004 EURk
Due within one year	5,600	2,997
Due between one and five years	1,466	5,629
Due in more than five years	2,793	0
Total	**9,859**	**8,626**

Other financial assets [21]

This item primarily contains the investment in dMarc Broadcasting Inc., Newport Beach, USA. In December 2004, ad pepper media International N.V. acquired a 7.48 percent investment in dMarc Broadcasting Inc., Newport Beach, USA. The investment is measured at cost. The purchase price including incidental costs of purchase totaled EUR 1,731,584 and was paid in cash. The investment in dMarc Broadcasting Inc. was increased to EUR 3,405,134 in the course of a capital increase in the financial year 2005. The investment now amounts to 7.8 percent. One of the main reasons for the investment in dMarc Broadcasting Inc. was the agreement between dMarc Broadcasting and ad pepper media to found a new European joint venture for marketing dMarc’s leading radio automation and digital media technologies in Europe.

dMarc Broadcasting Inc. is also not a publicly traded entity. Financial information concerning the investment was not available when preparing the notes to the consolidated financial statements.

In addition to the investment, other financial assets include rent and similar deposits, carried at their nominal amount. The item also contains non-current loan receivables of EUR 360,000.

Current assets

Trade receivables [23]

Trade receivables are recognized at their nominal value less valuation allowances. The valuation allowances as of December 31, 2005 total EUR 2,149,445 (2004: EUR 1,170,778). The allowances are calculated on the basis of all information available to the Company and include all probable bad debts on receivables as of December 31, 2005.

Prepaid expenses and other current assets [24]

Other current assets are generally carried at their nominal value. This item breaks down as follows:

	2005 EUR	2004 EUR
Receivables from shareholders	188,694	180,835
Advance tax payments	336,930	335,466
Other receivables	884,481	413,933
Prepaid expenses	388,195	334,335
Prepaid expenses and other current assets	**1,798,300**	**1,264,569**

Receivables from shareholders consist of loans to executives who are also shareholders. The loans bear interest at 5.5 percent p.a. and mature in one year or less.

Advance tax payments relate to paid capital gains tax to be reimbursed by the tax authorities.

Loan receivables of EUR 136,931 were written off in full (2004: EUR 136,931).

Other receivables include in particular VAT receivables of EUR 411,374 (2004: EUR 120,127). In addition, the out-of-court settlement of EUR 180,000 from litigation initiated by ad pepper media Spain S.A. against a competitor due to various infringements is reported under other receivables.

Cash and short-term deposits [25]

The item includes bank balances, cash in hand and day-to-day investments in money market funds whose amortized cost is equal to their market value.

Issued capital [26]

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

Capital reserve [27]

Proceeds from the issuance of shares increased the reserve by the amount by which they exceeded the par value of the shares.

Treasury shares [28]

By resolution of the annual general meeting on May 2, 2005, the management board was authorized to repurchase treasury shares of up to ten percent of the share capital. No treasury shares were purchased in the financial year 2005.

Sale of treasury shares
In the reporting year, 11,800 treasury shares were sold at an exercise price of EUR 1.33, 3,000 were sold at a price of EUR 2.73, 92,500 were sold at a price of EUR 1.78, and 13,900 shares were sold at a price of EUR 4.45 under the employee stock option plans.

In addition, 30,678 treasury shares were sold in the reporting year to settle purchase price liabilities resulting from the acquisition of ResultOnline B.V. and 75,238 were sold to settle purchase price liabilities resulting from the acquisition of mediasquares GmbH.

Number of shares outstanding
As of December 31, 2005, the number of shares issued and outstanding totaled 10,692,744 (2004: 10,465,628). Each share has a face value of EUR 0.10.

Authorized capital [29]

The authorized capital totals EUR 4,000,000 and comprises 40,000,000 shares.

Other comprehensive income [30]

Other comprehensive income contains unrealized exchange rate losses from available-for-sale securities of EUR 431,368, taking into account the effect of deferred taxes of EUR 332,478 (2004: unrealized exchange rate losses of EUR 23,048) accumulated exchange differences of EUR –6,901 (2004: EUR –55,127) from the translation of the financial statements of foreign subsidiaries.

Minority interests [31]

In the last quarter of 2005, ad pepper media International N.V. increased its investment in ad pepper media Denmark A/S to 100 percent by purchasing the minority interests. The purchase price for the shares outstanding amounted to EUR 213,000. After offsetting against the adjustment item for minority interests, EUR 177,305 was recognized as an increase in the goodwill of ad pepper media Denmark A/S.

Current liabilities

Trade payables [32]

Trade payables are recognized at the amount repayable.

Provisions [33]

Provisions account for all recognizable obligations to third parties. The item also includes amounts not yet invoiced on the balance sheet date that are due to the owners of internet advertising space (websites). These provisions are recognized matching revenue recognition. The change in provisions during the financial year is shown in the following table:

Short-term provisions	31.12.2004 EURk	Utilization EURk	Reversal EURk	Addition EURk	31.12.2005 EURk
Outstanding website invoices	1,079	1,079	0	1,462	1,462
Other outstanding invoices	418	305	113	316	316
Bonus/commission	688	688	0	208	208
Vacation provisions	330	330	0	301	301
Miscellaneous	111	97	14	270	270
Total	**2,626**	**2,499**	**127**	**2,557**	**2,557**

Other notes

Related party disclosures [34]

In the reporting year, ad pepper media International N.V. purchased ad serving technology from Falk eSolutions AG for a total of EUR 784,733 (2004: EUR 692,924). As of December 31, 2005, the related liabilities amount to EUR 139,872 (2004: EUR 83,138).

Under a business development and subsidy agreement, Falk eSolutions AG used ad pepper media's London offices including fittings and furniture in the offices. A total of EUR 44,543 was charged for this in 2004. The agreement was not used in financial 2005.

The Company has business with other entities controlled by ad pepper media shareholders. These transactions are summarized below.

ad pepper media GmbH markets internet sites for companies including Sharelook, Waslos.de, Gelbe Seiten Marketing and Funkhaus Nürnberg at standard market terms. Payments to these website operators totaled EUR 43,232 in 2005 (2004: EUR 27,113). As of December 31, the liabilities came to EUR 13,542 (2004: EUR 5,778). ad pepper media GmbH also rented offices in Dusseldorf from Schwann KG. The related rent expenses totaled EUR 3,828 in 2005 (2004: EUR 6,562). The rent agreement was terminated as of July 31, 2005.

As part of an office-sharing agreement with porta mundi, rent payments and operating costs of shared office fittings were offset against each other.

In addition, ad pepper media International N.V. uses the consulting services of Interfilm Ltd.

Litigation and claims [35]

The litigation pending in the prior year involving ad pepper media Spain S.A. and a competitor due to various infringements had been resolved by the balance sheet date. ad pepper media Spain S.A. agreed on an out-of-court settlement of EUR 180,000 with the counterparty.

With this exception, neither the ultimate parent nor any of its subsidiaries are involved in any material litigation with third parties.

Other financial obligations [36]

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 165,686 in financial year 2005 (2004: EUR 128,025). The future minimum payment obligations resulting from the contracts in place as of December 31, 2005 are as follows:

Financial year	2006 EURk	2007 EURk	2008 EURk	2009 EURk	2010 EURk	Thereafter EURk	Total EURk
Office rent	316	139	117	94	2	0	668
Guarantees	2,097	253	0	0	0	0	2,350
Car leases	127	82	41	3	0	0	253
Other	216	73	14	13	3	0	319
Total	**2,756**	**547**	**172**	**110**	**5**	**0**	**3,590**

Guarantees [37]

Guarantees relate to agreed minimum delivery volumes for certain websites. If the minimum delivery volume is not reached, ad pepper media is obliged to compensate the contractual partner for some of the income from the website. It is unlikely that the minimum delivery volume will not be met.

Additional cash flow information [38]

The following information is provided to supplement the cash flow statement:

Non-cash expenses and income comprises deferred income from investments measured at equity of EUR 295,654 (2004: EUR 139,903).

The item in the cash flow statement for repurchase of treasury shares solely includes stock options exercised that were settled in cash by ad pepper media International N.V., recorded notionally as a sale with simultaneous repurchase.

Stock option program [39]

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

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

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

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

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

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

The following table shows the change in the options during the financial year 2005:

	No.	Subscription price EUR
Options at the beginning of the fiscal year (Pre-IPO)	119,350	13.50
Options at the beginning of the fiscal year (Ongoing SOP 2001)	74,400	2.73
Options at the beginning of the fiscal year (Ongoing SOP 2002)	69,900	1.33
Options at the beginning of the fiscal year (Ongoing SOP 2003)	33,300	1.78
Options at the beginning of the fiscal year (Executive SOP)	1,227,000	1.78
Options at the beginning of the fiscal year (Ongoing SOP 2004)	122,000	4.45
Options granted (Executive SOP 2005)	190,000	5.32
Options lapsed (Pre-IPO)	-1,700	13.50
Options lapsed (Ongoing SOP 2001)	-400	2.73
Options lapsed (Ongoing SOP 2002)	-6,000	1.33
Options lapsed (Ongoing SOP 2003)	-2,000	1.78
Options lapsed (Ongoing SOP 2004)	-4,600	4.45
Options lapsed (Executive SOP)	-130,000	1.78
Options exercised (Ongoing SOP 2001)	-3,000	2.73
Options exercised (Ongoing SOP 2002)	-26,800	1.33
Options exercised (Ongoing SOP 2003)	-13,500	1.78
Options exercised (Ongoing SOP 2004)	-13,900	4.45
Options exercised (Executive SOP)	-139,000	1.78
Options at the end of the fiscal year	1,495,050	
Weighted subscription price		2.69
Exercisable options as of December 31, 2005	**299,400**	**2.28**

The average share price in the financial year 2005 was EUR 5.99.

The personnel expenses recorded in the financial year in connection with stock option programs granted on the basis of equity instruments amount to EUR 214,904 (2004: EUR 392,707).

The fair value of the stock options was calculated using the Black-Scholes pricing model, based on the following assumptions:

	Pre-IPO	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Executive SOP 2003	Ongoing SOP 2004	Executive SOP 2005
Share price when granted	13.50 EUR	2.60 EUR	1.30 EUR	1.78 EUR	1.78 EUR	4.44 EUR	5.00 EUR
Date of grant	31.05.00	18.05.01	15.01.02	15.01.03	15.01.03	16.01.04	15.04.05
Strike price	19.55 EUR	2.73 EUR	1.40 EUR	1.78 EUR	1.78 EUR	4.45 EUR	5.32 EUR
Risk-free interest rate	4.8%	4.0%	3.8%	3.5%	4.5%	2.75%	3.65%
Estimated term	7 years	4 years	1 year	1 year	10 years	1 year	4 years
Future dividend	0%	0%	0%	0%	0%	0%	0%
Estimated volatility	20%	93%	68%	73%	53%	40%	58%

For the option plan issued in 2005, the development in the price of the ad pepper media share in the period from January 1, 2003 to September 30, 2005 was used as a basis to determine volatility. Prior figures would have distorted the volatility figure.

Financial risks [40]

The main financial instruments for which there may be concentrations of credit risks are cash and cash equivalents, current and non-current financial assets.

Investments are made in top-rated interest papers. Custody accounts are maintained at banks with an impeccable credit rating. Investments and ratings are monitored regularly.

Total remuneration of management in key positions [41]

Remuneration for the management in key positions in the reporting year came to EUR 775 k (2004: EUR 964 k). In addition, management participates in stock option plans. Stock based compensation expense amounted to EUR 117 k (2004: EUR 151 k).

Management Board members	2005 Options	2004 Options
Ulrich Schmidt	293,000	368,000
Hermann Claus	223,000	243,000
Niels Nüssler	296,500	296,500
Shares held by Management Board members	**812,500**	**907,500**

Subsequent events [42]

dMarc Broadcasting Inc.
On January 17, 2006, Google Inc. announced that it had agreed to take over dMarc Broadcasting, a developer of digital advertising technology for the radio industry headquartered in Newport Beach, California, USA.

According to the takeover agreement, Google will acquire all shares in dMarc, a privately owned company, for a preliminary purchase price of USD 102 million in cash. In addition, Google will pay additional purchase price installments over the next three years based on the attainment of certain targets relating to product integration, net sales and advertising inventories.

The highest possible amount of performance-based purchase price installments is USD 1,136 billion within the next three years. As these payments depend on the attainment of certain targets, the amounts actually payable may be considerably lower. The business acquisition is subject to the usual contractual conditions. All payments are essentially treated as part of the purchase price.

ad pepper media invested at an early stage in dMarc Broadcasting Inc. and currently holds 7.8 percent to total equity that will be part of the announced transaction.

Crystal reference systems Ltd.
On March 16, 2006, ad pepper media announced the takeover of Crystal Reference System Ltd. and its divisions Crystal Reference and Crystal Semantics. Crystal Reference is a leading provider of themed reference works and knowledge databases, and Crystal Semantics offers innovative technical solutions for context-based search and advertising pop-ups. With the semantic analysis tool “Textonomy”, Crystal Semantics has developed the world’s first “Sense Engine Technology” and had this patented in the United States and in the United Kingdom.

Unlike customary search machine technologies, which are mainly based on mathematical algorithms, Textonomy uses linguistic methods in order to determine the semantic connection between words and the context in which they occur. With the help of textonomy solutions, search results can be dramatically improved and the relevance of advertising pop-ups substantially improved by means of context-based targeting.

The acquisition will significantly improve the performance and margin of ad pepper media’s own advertising offerings and also offers access to the attractive search market. At the same time the advantages of textonomy will be offered both to partner websites and advertising customers as well as search engines, search engine optimizers, advertising networks and ad serving providers. ad pepper media will use textonomy immediately for its exclusive global advertising network, including its **webstats4U** network that is made up of more than 1,000,000 websites worldwide (www.webstats4U.com).

Crystal Reference Systems Ltd. will become a full subsidiary of ad pepper media upon takeover. The founders Ian Saunders and David Crystal will continue to manage the company and be responsible for research and development. The whole team will work closely with ad pepper media in the product integration and product development areas in order to implement new business ideas, also on an international stage.

The agreed purchase price is between GBP 1.5 and 2.0 million and consists of a cash payment and shares as well as a performance-based earn-out component which is tied to the achievement of certain targets.

Falk eSolutions AG
On March 17, 2006, ad pepper media announced the sale of its shares in Falk eSolutions AG to DoubleClick. The transaction is scheduled before March 31, 2006. In 2002, ad pepper media acquired a 25.1 percent interest in Falk eSolutions AG as the basis for a long-term partnership.

The strategic partnership between ad pepper media and Falk eSolutions AG/DoubleClick will continue as before. ad pepper will be one of the first customers to change to the integrated product “DART for Publishers”.

For its shares, ad pepper media will receive a purchase price of approx. USD 8 million plus any additional earn-out components.

Independant auditor’s report

To ad pepper media International N.V., Amsterdam, The Netherlands

“We have audited the accompanying consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, statement of changes in shareholders’ equity, consolidated cash flow statement and the notes to the consolidated financial statements of ad pepper media International N.V., Amsterdam, The Netherlands as of December 31, 2005 and for the year then ended. The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU is the responsibility of the Company’s management board. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the consolidated financial statements in accordance with the applicable financial reporting framework are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates by the management board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards (IFRS) as adopted by the EU and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements.”

Nuremberg, March 24, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Hegenbarth
German Public Auditor

See
German Public Auditor

Executive bodies of the Company

The Management Board of ad pepper media International N.V. comprised the following members in the financial year 2005:

Ulrich Schmidt, CEO (Chairman), Nuremberg, Germany

Hermann Claus, CFO, Celle, Germany

Niels Nüssler, CSO, Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in fiscal year 2005 consisted of:

Michael Oschmann, Chairman, Nuremberg, Germany
Managing Director

Dr. Günther Niethammer, Nuremberg, Germany
Partner

Bernd Sexauer, Frankfurt am Main, Germany
Company Director
Resigned May 2nd, 2005

Jan Andersen, Copenhagen, Denmark
Managing Director

Merrill Dean, Scottsdale, USA
Managing Director

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

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

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

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

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

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

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

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

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

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

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

Interstitial
Ad loaded in between two websites.

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

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

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

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

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

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

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

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

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

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Company calendar/Publisher's notes

Company calendar

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

2006

Results 2005	March 31, 2006
Analyst's conference	March 29, 2006
General Meeting of Shareholders'	May 12, 2006 (Amsterdam, NL)
Quarterly report I/2006	May 24, 2006
Quarterly report II/2006	August 23, 2006
Quarterly report III/2006	November 27, 2006
Analyst's conference (German Equity Forum)	November 27, 2006 (Frankfurt/Main)

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