ad pepper

The e-Advertising Network

Annual Report 2006

Contents

Strong into the future

Theme for the Annual Report of ad pepper media International N.V.

2006 was the most successful financial year in the history of ad pepper media. The increase in both sales and operating result clearly underpin our company's strength and strategic orientation. By continuously developing our products, services and technologies, we have clearly outperformed the growth seen on the overall market of classic online advertising and strengthened our national and international presence.

Our success continues to be based on the extraordinary efforts of our highly motivated and qualified staff who are consistently committed to targeted enhancement of the technology, products and services of ad pepper media. The company is hence perfectly positioned for the years to come in order to retain the lead in the national and international online market. With more than a dozen products and services for efficient online marketing which were expanded and adapted to market requirements and customer demands, we will draw overproportionate benefits from the user numbers growing world-wide and the increase in online media consumption.

Technologies and services which order and categorise the enormous volume of individual web contents, such as chat, communities, podcasting or blogs, along with securing quality and addressing the correct target group, are becoming more important in this field. Companies wishing to remain successful with their campaigns in the online medium under these aspects will have to take up this challenge. With the acquisition of Crystal Reference Systems Ltd. whose products offer precisely these functions, ad pepper media is now in an excellent position to participate in this dynamic growth on a lasting basis.

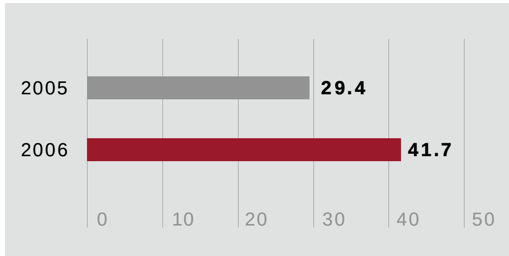
Furthermore, growing sales are expected in affiliate marketing in the years to come, so that this sector will be among the most dynamic in the entire online industry. The company believes that Webgains has brought in one of the best technology platforms currently on the market. By combining this technology with the distribution and selling capacity of ad pepper media International N.V., the company will not only participate in the growth of this market segment, but will also strengthen its development and positioning as a full-service provider.

Overview of key figures

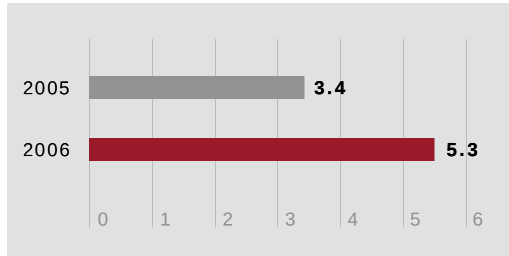
Overview of the main key figures

	2006	2005
Net sales, in EUR million	41.7	29.4
Gross profit, in EUR million	20.5	13.1
Gross margin	40 %	45 %
EBIT (earnings before interest and taxes), in EUR million	5.8	0.2
EBT (earnings before taxes), in EUR million	6.5	0.9
Net gain/loss, in EUR million	5.3	3.4
Earnings per share, in EUR	0.49	0.32
Noncurrent assets, in EUR million	34.0	27.3
Current assets, in EUR million	32.2	24.9
Equity ratio	77 %	84 %
Employees	205	136

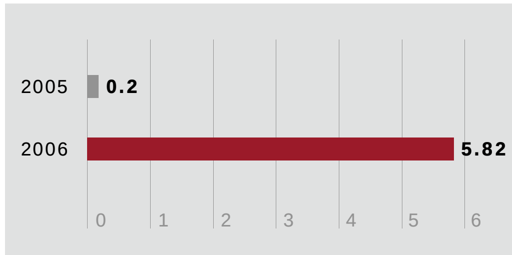
Net sales (in EUR million)



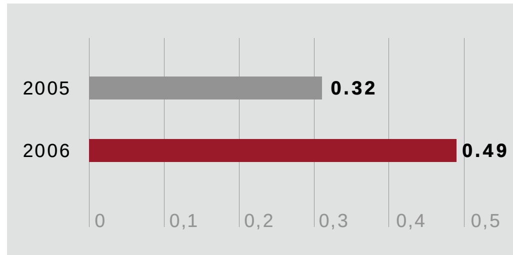
Consolidated net gain (in EUR million)



EBIT (in EUR million)



Net gain per share (in EUR)



Identify markets - exploit potential for growth

In March 2006, ad pepper media International N.V. acquired Crystal Reference Systems Ltd. with its Crystal Reference and Crystal Semantics divisions. The Textonomy semantics analysis tool developed by Crystal is capable of not only capturing the entire text of a website in realtime, but also of understanding its contents. This is carried out by a complete examination of all the word meanings of the website text and is hence clearly superior to all conventional analytical methods which subject individual key words only to statistical evaluation. Textonomy achieves a new level of contextual and semantic targeting which ad pepper media will soon integrate into its advertising formats. This optimization technology prevents online advertising from being delivered on websites with contents which are unfit, illegal or not desired for the brand advertised. “Textonomy SiteScreen” is a fully automated tool that can be directly integrated into all customary adserver systems. Controversial content categories, such as sex, extreme political or religious statements, alcohol, tobacco or gambling, can be identified and filtered out as required by the advertising customer. The launch of “SiteScreen” enables ad pepper media to directly control all the content environments of advertisements and thereby to reliably protect its customers‘ brands. As another aspect, this new product also boosts the relevance of advertising, i.e. a website content check ensures that the advertisements shown always match the content of the website. As a result, advertisers pay higher prices and ad pepper media‘s existing advertising stock can be marketed more efficiently.

In May 2006, ad pepper media International N.V. acquired Webgains Ltd. one of the fastest growing affiliate marketing networks in the UK. With this acquisition, ad pepper media has added a central element of successful online marketing to its portfolio for both customers and websites.

The affiliate market is one of the most dynamic sectors in the online industry. With Webgains, the company has acquired one of the best technology platforms currently on the market. By combining this technology with the distribution and selling capacity of ad pepper media International N.V., the company will not only participate in the growth of this market segment, but will also strengthen its development and positioning as a full-service provider. The acquisition is a milestone in terms of broadening the existing product and service portfolio for customers and website partners. It also means new, attractive business opportunities for ad pepper media with innovative affiliate offers not just in the UK, but also on other major European markets.

The trailblazing Webgains technology designed from the very beginning with a view to scalability and internationalisation, immediately provides ad pepper media with lasting know-how for the entire field of affiliate marketing developed over many years by the founder shareholders. The platform offers state-of-the-art functionalities, such as tracking without cookies, comprehensive transaction data management, protection against click fraud, and a sophisticated reporting system. The technology also tracks and records commercial transactions between traders and affiliate partners, giving both of them the possibility to manage their advertising campaigns and media contents seamlessly and efficiently. In November 2006, Webgains was successfully launched in Germany and France.

Company calendar

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

2007	
Results 2006	March 30, 2007
General Meeting of Shareholders'	April 30, 2007 (Amsterdam, NL)
Quarterly report I/ 2007	May 30, 2007
Quarterly report II/ 2007	August 23, 2007
Quarterly report III/ 2007	November 29, 2007
Analyst’s conference (German Equity Forum)	November 2007 (Frankfurt/ Main)

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(Management Board and Supervisory Board photo)

Disclaimer

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

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

Report by the Management Board

Ulrich Schmidt (CEO)

Jens Körner (CFO)

Niels Nüssler (CSO)

Michael A. Carton
(Director of the Board)

Dear shareholders,

2006 was an outstanding year for ad pepper media with a series of highlights. The best result in our company's history, many new customers and the strong start into the enormously important area of affiliate marketing - all this confirmed that we are on the right path and fully convinced the online advertising market as well as the capital market. We are pleased to report on your company's most successful ever financial year. The figures are impressive: more than 41.6 percent sales growth and a pre-tax profit of EUR 6.51 million. This corresponds to an increase of 588 percent. This is owed not just to the development of our operative core business, but also to a far-sighted M&A strategy. By selling our stakes in Falk and dMarc, we were able to significantly contribute towards the group's total profit and to fill our coffers for further investment in the future.

Last year, we once again expanded our product portfolio and technical systems and invested in new people. The strategic approach has remained unchanged, i.e. offering international solutions to advertisers, websites and media agencies within the **MEDIA**, **RESPONSE**, **E-MAIL** and **AFFILIATE** product groups that cover the full range of online advertising. With 19 branches in twelve European countries, the US and Australia, ad pepper media is handling campaigns for thousands of national and international advertising customers in currently more than 50 countries around the world. The company managed to successfully leave competitors behind thanks to a full range of efficient marketing solutions, proprietary technology and strong international placement power that enable the company to implement international advertising campaigns.

Each of our product groups boasts made-to-measure solutions and technologies. This creates the necessary degree of specialization whilst the one-stop combination of services and solutions enables a wealth of offers for websites and advertisers which no competitor is able to provide in this form.

Whilst the media and response business has been established for many years now and has been generating the bulk of sales, e-mail marketing also became an important pillar last year. With up to 100 million e-mails transmitted each month, ad pepper media is certainly one of Europe's leading suppliers in this area of online marketing. With more than five million qualified customer profiles, we offer advertisers not just range, but also the possibility to precisely address specific target groups.

The takeover of UK-based Webgains additionally enabled ad pepper media to position itself in the high-growth, albeit very competitive field of affiliate marketing. Since the acquisition, Webgains has been recording excellent results and has become an important player in the UK. The European roll-out through ad pepper media's structures already in place in many other countries is in full swing. First successful signs are already visible in Germany, France and the Netherlands. In the short to medium term, this means that Webgains will develop from a national to an international supplier and thereby support reputable international eCommerce companies as a partner in order to quickly achieve range on the Internet and at the same time to implement success-related advertising.

Another hot issue is the unique semantics technology which ad pepper media acquired with Crystal Semantics. This technology is now being scaled in combination with various product formats and is due to be launched world-wide in 2007 under the iSense product name. Contextual, i.e. semantic, targeting will hence significantly boost the efficiency and precision of campaigns and this will be directly reflected by higher prices and margins. iSense will enable ad pepper media to directly control all the content environments of advertisements and thereby to reliably protect its customers' brands.

It goes without saying that all these investments mean considerable expenditure. This is particularly evident from the fact that the workforce almost doubled in the year under review. However, we managed to increase our profitability not least thanks to the successful sale of shareholdings despite less dynamic profit developments at the end of the year due to the above-mentioned run-up costs in conjunction with the rollout of Crystal and Webgains. Profit drivers were the sale of the shareholdings in dMarc Broadcasting Inc. to Google and in Falk eSolutions AG to global adserving leader DoubleClick which generated profits of EUR 7.8 k. Against this backdrop, liquidity developed nicely despite investment in human capital as well as the acquisition of Crystal and Webgains and totalled EUR 22.7 million at the end of the year 2006, compared to EUR 17.5 k in the previous year.

Once again in 2007, we will continue to expand all our business areas and are planning to launch many new products, formats, services and tools. We are determined once again to outdo general market growth in 2007. We are confident that we will again increase our profitability despite this investment which should then also have a positive impact on our share price. The persistently good economic environment in the industry, positive signals from customers and ongoing improvement of our market position give us good reason to believe that the continuation of our strategy of creating value will ensure growing performance and convincing prospects for the future.

Dear shareholders, we would like to thank you, also on behalf of our employees, for your trust. We will do out utmost to justify this trust again in 2007.

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

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

Michael Oschmann,
Chairman of the Supervisory Board

Dear shareholders,

The strong trend towards online advertising in marketing departments is clearly evident not only in Germany, but throughout Europe. According to the EIAA Marketers´ Internet Ad Barometer 2006, almost three quarters of European decision-makers in marketing consider online advertising to be a key part of their advertising strategy. Polls in Europe consequently suggest that budgets for online advertising will increase by more than 65 percent by 2008. 80 percent of those polled also believe that as the number of broadband Internet connections grows, the Internet will become an even more efficient channel for brand communication. In Germany alone, broadband penetration in 2006 increased by 18 percent against the previous year and reached now in total 60 percent. Although Germany still lags far behind the European average of 75 percent, German users managed to record growth that was four percentage points above the European average rate of only 14 percent.

The Internet as a global medium is becoming increasingly important for centrally managed, international marketing strategies. The aim of such pan-European campaigns is to boost cost efficiency, range and interactive brand communications via the Internet even further within the scope of the given budget. In order to be prepared for these market developments, large, networked units will be needed with excellent technologies, the full bandwidth of online marketing combined with international presence and positioning power. ad pepper media believes that it is perfectly positioned to meet these challenges.

The World Wide Web continues to move. The further development of Internet technology and content to what is referred to as Web 2.0 is dramatically and irreversibly changing the lives and buying behaviour of large sections of the population. A growing number of users, bloggers and podcasters, developers and small businesses are searching for new ways of achieving more communication and interaction. One of the most recent and most familiar phenomena of this new web are weblogs, also known as blogs. Trend researcher Andreas Haderlein described the Web 2.0 services as a “new configuration of our social operating system”. Without prematurely shelving classic online advertising, marketing concepts must include integrated approaches for opening up markets and target groups. This, however, will require learning to understand the change in customers‘ communication behaviour in order to be prepared for the future of the new media world. With this development in mind, ad pepper media has embarked on a strategic course whereby it is one of the few companies to offer a service portfolio that ranges from premium portal to web 2.0 blog.

The past financial year of ad pepper media International N.V. was marked by dynamic sales growth that was higher than that of the overall market for classic online advertising. The company was once again able to benefit from growing user numbers world-wide, and, in particular, from the overproportionate increase in online media consumption. As a one-stop-shop for advertisers, ad pepper media has a good reputation on the market and has managed to successfully stand out against competitors thanks to a complete product range of efficient marketing solutions. Innovative advertising forms and services based on best available technologies perfectly round off the company‘s core business.

ad pepper media‘s growth strategy was pursued with similar determination. This also includes identifying markets with potential for growth. Since the opening of its sales office in Australia as a first foothold in the Asian-Pacific region, ad pepper media is now present in practically all important time zones around the globe. The acquisition of the UK companies Crystal Reference Systems and Webgains expanded ad pepper media‘s product range with innovative technical solutions for context-based search and advertising breaks and the affiliate marketing business field.

During the year under review, 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 four ordinary meetings on 27 January, 11 May, 17 and 24 November 2006, the Supervisory Board examined in detail business developments and supervised the Management Board on the basis of the legal requirements and the company‘s articles of association. All measures subject to approval by the Supervisory Board were discussed in detail at the meetings of the Supervisory Board.

There was one change in membership of the Management Board of ad pepper media International N.V. at the end of the last financial year. Mr. Hermann Claus, responsible for finance, human resources and investor relations, decided to retire on 31 December 2006 after seven years working for the company. We are very grateful to Hermann Claus for his commitment and successful work during the many years with ad pepper media, and we would like to wish him all the best for this retirement. The Supervisory Board appointed as new CFO Mr. Jens Körner who joined the company in November 2006 and who is at present responsible for finance at ad pepper media.

On 12 May 2006, the General Meeting appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Nuremberg, as the company‘s auditors for the 2006 financial year. Ernst & Young was commissioned with the audit and audited the Consolidated Annual Accounts prepared by ad pepper media International N.V. and issued its unqualified audit certificate. The consolidated accounts submitted were prepared according IFAS/IAS.

The Supervisory Board examined the Annual Accounts and the Directors‘ Report as well as the auditor‘s report. The Supervisory Board approved the result of the audit. On 29 March 2007, the Supervisory Board approved the 2006 annual accounts prepared by the Management Board. The annual accounts for the 2006 financial year are thereby approved.

Thanks to the enormous and committed effort by the Management Board and all the colleagues of ad pepper media International N.V. and the companies in the individual European countries, the US and Australia, 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 and the staff‘s extraordinary team spirit.

Nuremberg, 30 March 2007

On behalf of the Supervisory Board

Michael Oschmann, Chairman

The Internet as a global medium is becoming increasingly important for marketing decision-makers. Now with 19 branches in twelve European countries, the US and Australia, ad pepper media is handling campaigns for international companies and brands quickly and flexibly across 50 countries worldwide.

Central element in the marketing mix

More than twelve years ago, the US telecommunications group AT&T used the first advertising banner on the site of Internet magazine hotwired.com. This marked the birth of online advertising. What began in 1994 with a static banner has rapidly developed over the past decade. Classic banners were quickly supplemented by multimedia formats combining animation, moving pictures and audio. Furthermore, the ongoing broadband boom is opening up additional possibilities for combined rich-media formats.

It is no longer a matter of fundamental discussion whether online advertising is in fact vital as an integral part of a marketing strategy. The opposite is true: Whilst TV, radio and newspaper use stagnated in Europe in 2006 and magazines even recorded a decline of up to five percent, the Internet was the only medium to see use time increase. This development was also observed on the German market. On a European level, Italy with a 44 percent growth rate ranks first in terms of online use time. This is followed by the Netherlands with just 22 percent and Denmark and Norway each with 20 percent according to a survey by the European Interactive Association (EIAA). Germany recorded 14 percent growth.

The online advertising industry is benefiting from all kinds of developments. The most important factor for strong growth is without doubt the growing number of Internet users. In most European markets, more than 50 percent of the population is online. The UK and the Scandinavian countries take the lead here with values ranging from 50 to 75 percent. Another central aspect is that, in contrast to offline advertising, advertisers now have more and more effective tools at hand in order to perfectly plan, monitor and analyse in detail their campaigns.

Increasing volumes and prices

Search engine and affiliate marketing were the most dynamic growth sectors of the online advertising market. Affiliate marketing is benefiting in particular from the strong increase in the global share of electronic commerce and the fact that almost all players in this segment have understood that this channel must be opened up by professionals fur further market growth. Another very positive effect for affiliate marketing is the fragmentation of web contents. Millions of small websites enable advertisers to achieve higher performance at attractive rates. Slowly but surely, traditional portals and more or less static general-interest websites are becoming less important. Classic online advertising will continue to grow because both prices and the media share still provide ample leeway in an upward direction. The growth potential of online advertising becomes clear when comparing the share of online advertising in the overall advertising market with the online share in media use. OVK (association of online marketers) found that the advertising market share of 7.6 percent corresponds to only around half of the online share of the daily media use time of 14.6 percent. A survey by the Online Publishers Association suggests that companies should triple investment in online advertising in order to effectively reach consumers. The US study also found that Internet advertising boosts the success and range of all other media campaigns. In some cases, the Internet as a mass media even outdid the range and use time of classic media.

Why advertise online?

The Internet is an effective medium where advertisers can market their products. It can be perfectly used to draw the attention of Internet users to brands and to boost their familiarity. Companies know more today than ever before about consumers and can use the Internet to communicate locally and globally with their target groups.

Compared to print media, Internet advertising offers other possibilities: Video, audio and animation effectively combine the diverse possibilities offered by the digital medium, boosting user attention. Innovative forms of online advertising strengthen the positive aspects of a brand image and brand popularity, clearly and uniquely communicating products and contents. When it comes to special campaigns, the Internet can consider communication goals better than classic advertising media. Advertising is also more effective if other media are used in combination with the Internet. A study conducted by the NFO market research firm involving brand suppliers from the UK, France and Germany found that the range of TV campaigns increased from 41 to 63 percent when combined with online advertising. Supplemented by online advertising, unsupported recollection of TV campaigns rose from 27 to 45 percent. Brand perception is also influenced. Additional Internet advertising makes brands appear more “trendy”, “innovative” or “unique”. Furthermore, the intension to buy and remembrance recollection of advertising details increased.

Online advertising as an international business

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 heading the group has existed since August 1999. Today, ad pepper media is present with 19 branches in twelve European countries and with one branch each in the US and Australia. 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 precision. In order to be prepared for these challenges, large, networked units will be needed with excellent technologies, the full bandwidth of online marketing combined with international presence and positioning power. ad pepper media has perfectly positioned itself on the market so that it can offer its customers the full range of efficient marketing tools and master growing user numbers world-wide as well as above-overproportionate growth in online media consumption.

In the **MEDIA**, **RESPONSE**, **E-MAIL** and **AFFILIATE** product groups, 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 effective branding solutions and business development to customer loyalty campaigns. The ad pepper media network covers around five billion exclusive advertising contacts per month. ad pepper media markets 1,000 premium websites world-wide, including leading websites, such as DasTelefonbuch and GelbeSeiten in Germany, Aftonbladed in Sweden, National Geographics in the UK along with another 100,000 national and international websites on specialist subjects and topics. Customers include blue chips as well as 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 includes 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** product group is primarily dedicated to the marketing of more or less known consumer products where a wide range is vital for the advertising message. 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 its customers different products or solutions for the targeted and efficient use of their advertising budgets.

With the complete takeover of mediasquares GmbH in Düsseldorf in 2005, ad pepper media has been able to significantly expand premium marketing of long-range, vertical websites and to thus strengthen its market position in Germany considerably. The range of exclusively marketed online advertisers currently totals around 400 million page impressions per month. This unique portfolio currently focuses on the attention-grabbing areas of lifestyle, automotive, sports, travel and entertainment. The mediasquares GmbH portfolio features established brands, such as sport1.de, nba.de, maximonline.de, wetteronline.de or billiger.de. mediasquares GmbH will expand to the Netherlands and France in 2007 as the first step towards internationalisation.

ad pepper media and mediasquares are determined to give each customer the right tool to achieve the desired campaign goals. Concepts, solutions and technologies are always tailored to our customers' needs, reguardless a broad audience is to be reached at low cost, maximum attention is to be generated with particularly catchy or innovative formats, or a campaign is to focus on boosting familiarity and strengthening recollection in conjunction with a brand. 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.

As the use of broadband technologies, such as DSL, increases, moving pictures are playing an ever-more important role in online advertising. ad pepper media can also cover this format. The advertiser's latest TV spots or video clips can be integrated into banners, pop-ups, skyscrapers or e-mails. Furthermore, clickable buttons and so-called 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.

Search, find, convince – soliciting customers online

One central challenge facing most marketing departments is to use budgets as efficiently as possible. 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 addresses - 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 classic online advertising.

The second product group, **RESPONSE**, focuses mainly on 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.

In order to find and win interested customers, data is need 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 addressing. Given the interested user's permission, the user is then addressed in a second step with detailed product information, promotion offers and free trial samples.

When an advertiser is less interested in range volume 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. **iClick** is ad pepper media's performance-based marketing solution that was created in order to generate qualified visitors in a cost-efficient and measurable frame on the customer's website.

Advertisers benefit from **iClick** campaigns through the use of different, traditional forms of online advertising that can be placed on almost any website in the ad pepper media network. Permanent performance monitoring enables ongoing optimisation along with a continuously growing number of visitors.

Valuable profiles

Besides consumer data mining for its customers, ad pepper media quickly started setting up its own e-mail database in the **MAIL** product group with qualified customer profiles using technologies developed by the company itself. By the end of the 2006 financial year, this database titled **mailpepper** contained more than 17 million profiles of potential customers, enabling far-reaching segmentation, for instance, according to location, age, profession or interests. **mailpepper** is hence one of the biggest 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 goal is to generate two million new 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.

In its fourth product group, **AFFILIATE**, ad pepper media focuses on one of the most dynamic fields in the online industry. The company believes that the acquisition of Webgains brought in one of the best technology platforms currently on the market. By combining this technology with the distribution and selling capacity of ad pepper media International N.V., the company will not only participate in the growth of this market segment, but will also strengthen its development and positioning as a full-service provider.

The affiliate networks market is in a process of transformation. Second-generation networks with new technologies are now competing on this market. With its 2nd-generation Webgains platform already successful in the UK, ad pepper media is perfectly equipped to assume the lead in Germany, the Netherlands and France too. The company is determined to outperform competitors especially with regard to user-friendliness and functionalities. The network currently covers more than 6,000 advertisers and more than 20,000 websites world-wide, many of them with an international focus, with rapid growth expected. Webgains technology, designed from the very beginning with a view to scalability and internationalisation, will enrich ad pepper media with specialist know-how in affiliate marketing acquired over many years.

Range expanded considerably

With **webstats4U**, ad pepper media currently provides a technically mature software tool for its website partners. This tool monitors visitor numbers, site preferences as well as surfing and buying behaviour in realtime, thereby supplying the partners with valuable media data for their marketing. This global leader in web statistics is currently implemented on 1,000,000 websites, and is used free of charge by around 700,000 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. This tool is being continuously enhanced and upgraded with additional attractive functions, so that larger and professional sites can also be addressed.

Team spirit – achieving more together

Even though our company is about technology, ultimately it is the people who make the company and form the basis for the success of ad pepper media. Our mission is to work not just for our customers, but also with our customers. This is one of the reasons why we were able to expand our customer base further.

Company report

Basic economic conditions

For the third year running, the global economy recorded strong growth. Although the US economy slowed down, China and India with their huge populations once again demonstrated impressive dynamism. Furthermore, Eurozone and especially Germany saw their economies grow. For the first time since 2001, Eurozone's growth will exceed the two-percent mark. In 2006, the German economy recorded its strongest growth in six years. GDP increased by 2.5 percent in real terms, according to the German Federal Statistical Office. Experts believe that exports with double-digit growth of 12.4 percent in particular boosted the economy. Domestic developments were equally bright. Consumer spending rose for the first time in years by 0.6 percent – also in anticipation of the increase in VAT effective as of 1 January 2007. What's more, companies also invested more thanks to good profits. A plus of 7.3 percent was record- ed here.

Market and market environment

Expenditure on marketing and advertising increased once again. According to Nielsen Media Research, across all media sectors, gross revenue of EUR 23.9 billion was recorded against EUR 23.6 billion in 2005 for the industry. Online gross expenditure for all of 2006 totalled EUR 692.4 million corresponding to growth of more than EUR 274 million compared to the previous year. With an increase of 65.5 percent, the Internet recorded the strongest growth rate in the advertising market and thereby confirms its outstanding role in the media mix as a medium for sales and market communication. Investment has grown in 44 of the top 50 industries according to online advertising expenditure. Growth was particularly strong in telecommunications, up EUR 40 million to EUR 78.8 million. Advertising in the online market was also intensified in the field of online services (up EUR 34.1 million), e-commerce (up EUR 21.4 million) and financial services (up EUR 18.1 million).

The Internet is becoming increasingly important for the advertising budgets of German and European companies. This was found by the "Marketers" Internet Ad Barometer 2006 study commissioned by the European Interactive Advertising Association (EIAA). A pan-European study polled top marketing decision-makers in more than 170 leading companies in the fields of fast moving consumer goods, entertainment, automotive, travel and entertainment electronics. It hab been determined that more than half (58 percent) of German managers regarded the Internet as a central part of their advertising strategies. 88 percent of marketing decision-makers in Germany invest more than five percent of their total media budget in online advertising. This is more than twice as many as the European average (42 percent). Those polled expect that over the next two years expenditure on Internet advertising in Germany will grow by 34 percent. A 75 percent budget increase by the year 2008 is expected for Europe as a whole. It should, however, be noted that budgets in the rest of Europe are at present lower than in German companies.

No medium has spread as fast as the Internet: From 1997 to 2006, the share of Internet users in Germany rose from 6.5 to 59.5 percent. 38.6 million German adults are now online, according to the "ARD/ZDF-Online-Studie 2006". In 2006, 1.1 million "new" users joined (an increase of 57.9 percent compared to the previous year). The highest growth rate is found for those above 50 who also represent the greatest potential for future Internet growth: 60 percent of 50 to 59 year olds now use the Internet (2005: 56.5 percent). Already every fifth (20.3 percent) adult over the age of 60, the so-called "silver surfers", is now online.

According to a recent study by the Association of Online Marketers (OVK), those aged 50 and over offer attractive potential as an online target group. 23.2 percent of the 35.98 million Internet users in Germany, i.e. 8.36 million people, are so-called silver surfers. A comparison of the demographic structures of this age group with those of non-Internet users over the age of 50 clearly shows a number of significant differences. Silver surfers are more educated, mostly employed and with higher incomes. 34.8 percent have a gross income of EUR 3,000 and more. This is only 14.6 percent in the case of offliners. In contrast, silver surfers can hence be regarded as a very attractive target group with stronger buying power.

Multimedia offers, such as picture, audio, animation and video are becoming increasingly interesting for users. According to the “ARD/ZDF-online study”, every fourth Internet user (24 percent) already watches videos at least occasionally or watches TV live on the Internet. 40 percent have already opened audio files or listened to radio live on the Internet. However, podcasts are still less important among audio and video applications. Only six percent of German Internet users have already used audio podcasts, and only three percent video podcasts (“vodcasts”).

Due to the growing attractiveness of multi-media applications, Germans are spending more and more time online: On average, every adult spends 48 minutes a day (2005: 46 minutes) on the Internet. A recent study by the Allensbach Institute for Demoscopy shows that in Germany private computers are being used more frequently and more diversely. Especially the number of people who use the computer daily or several times a week has grown significantly. Whilst PCs were used just a few years ago primarily for word processing, calculation, spreadsheets, computer games and e-mail correspondence, multi-media applications are now accounting for most of the new additions. Compared to just two years ago, PCs are now used more frequently to store, manage and edit photos, video and music files.
67 percent of 14 to 64 year olds (33.75 million) currently use the Internet according to the ACTA (Allensbach Computer and Technology Analysis). The growth of Internet use continues to be very dynamic, with almost two million new Internet users added over the past twelve months. Today, the Internet is boycotted by just one in five, compared to one in four two years ago.

Competitive environment

Despite globally growing user numbers and dynamic growth in advertising expenditure, the market is still in a process of consolidation and streamlining. According to a study by the A.T. Kearney consultancy firm, the 20 largest web portals in Germany generated more than one quarter of the value generated on the Internet totalling EUR 8.7 billion. However, the study does question whether the portals will be able to keep their predominant position in view of the importance and rapid expansion of social networks and the possibilities offered by Web 2.0. The consultants expect that by 2015 around 70 percent of the population will use broadband Internet. Up to now, television was the prevailing medium. This is to be replaced by and/or merged with the Internet in future. The Internet currently accounts for around 20 percent of total media use by consumers. However, the share of advertising expenditure on the Internet totals just around seven percent of total advertising expenditure. This discrepancy is expected to disappear almost completely in the years to come.

Only a few companies offer the entire range of online marketing services with their own technology and international placement power. In many international companies and for many brands, online advertising has a firm place in the marketing mix thanks to flexible and precise campaign steering and the possibility to pinpoint efficiency. Central aspects in their online activities are quality, reliability and one-stop media service. They are willing to pay a higher price and this is one of the reasons why prices in the market for online advertising rose once again in 2006. Industry experts estimate this increase at ten percent.

Business activities and business developments

During the past financial year, ad pepper media 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 cover online markets better thanks to determined expansion of its branch network. The company now operates with 19 branches in 14 countries. The acquisition of Crystal Reference Systems Ltd. and Webgains Ltd. now means that ad pepper media has expanded its portfolio for customers and websites with a central element of successful online marketing, and meanwhile is able to offer almost the entire range of services for efficient online advertising.

Furthermore, the avowed strategy of securing the company‘s future by expanding the service portfolio and rounding off its software tools was pursued further with determination. The two abovementioned acquisitions should once again be mentioned in this respect because ad pepper media was able thereby to decisively expand its technologies and services in order to steer and categorise individualised traffic, to secure quality and address the right target group. These are vital preconditions for benefiting from Web 2.0 as an important driver of continued, strong growth of the Internet economy. Thanks to the acquisition of Webgains Ltd., ad pepper media now has an advanced affiliate marketing platform and access to the rapidly growing affiliate and e-commerce markets. The launch in Germany and France at the end of 2006 marked the beginning of the internationalisation process.

Many companies and brands are interested in generating a clearly perceived presence with a high recognition value on the online market and in addressing the targeted group with the right tool and with as little dispersion loss as possible. This is where ad pepper media‘s solutions, services and its international network come into their own. They guarantee advertisers that their messages actually reach the addressees. As a one-stop-shop for advertisers, ad pepper media offers a full range of services, from campaign management to reporting on the basis of best available technology.

The ability to position and adapt international marketing campaigns quickly and flexibly to local demands in different countries has once again proven to be an important USP of ad pepper media. The company‘s excellent European network, for instance, was the central criterion for British Airways to choose ad pepper media as a service provider.

The customer structure with its traditionally strong diversification has become even more international. Today, US companies eBay, Dell or HP are customers of the company, as well as Asian companies Toshiba or Samsung or European global players such as Mercedes, Nokia or Deutsche Telekom.

The company is not dependent to a significant extent on individual customers and in no case does a single customer account for more than five percent of sales.

Most successful financial year in ad pepper media's history

»The increase in both sales and operating result clearly underpin ad pepper media's strength and strategic orientation. Following a burgeoning share price in 2005 with growth of around 80 percent, the share once again recorded excellent growth of 46.9 percent in 2006. The closing price on 30 December 2005 totalled EUR 7.49 and EUR 11.00 at the beginning of 2006.

Sales development

With sales up by 41.6 percent to around EUR 41.7 million, ad pepper media was able to clearly surpass its own target and the considerable pace of growth in the industry. During the same period of the previous year, revenue totalled EUR 29.4 million.

Segment reporting for the company is broken down according to geographical regions and distinguishes between Central Europe (Germany, The Netherlands, Slovak Republic), Northern Europe (Denmark, Sweden), Western Europe (UK, France, Spain, Italy) and Others (US, Australia, Switzerland). With more than 42 percent of sales corresponding to EUR 17.6 million, Central Europe accounted for the largest share in sales (previous year: EUR 12 million), followed by Western Europe with 34.5 percent or EUR 14.4 million (previous year: EUR 10.6 million) and Northern Europe with 15.5 percent or EUR 6.5 million (previous year: EUR 5.0 million). The US was able to increase sales by more than 70 percent from around EUR 2 million in 2005 to more than EUR 3 million in the year under survey. This regionally widespread distribution of sales means addition security for business development.

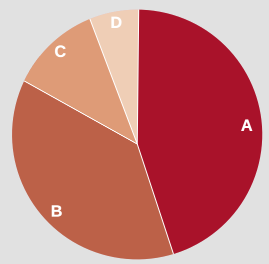
Development of results

With an EBIT of EUR 5.82 million, ad pepper media recorded the best year in its history. Major result drivers were the sale of the shareholdings in dMarc and Falk. At the same time, ad pepper media reinvested part of this revenue in future-orientated companies and their technologies and services for the field of online marketing, i.e. Crystal Reference Systems and Webgains. Both companies are based in the UK. In mid-2006, the Management Board decided to scale the know-how and products of these two companies in the future and to offer their respective portfolios in the short to medium term throughout Europe using the ad pepper media network. In the case of Webgains, this started at the end of 2006. The management of ad pepper media see the European roll-out of these technologies and products as the logical consequence of entering these future-orientated and strongest growing areas of online marketing. Furthermore, at the end of 2006 ad pepper media began to expand the business of mediasquares, that was already very successful in Germany, to other selected European countries. This also, however, burdened the operative result in the fourth quarter, especially in conjunction with the recruitment of qualified personnel. ad pepper media is, however, convinced that this investment in new manpower will pay off during the course of 2007. With regard to the past financial year, the company nevertheless achieved the above-mentioned record result despite the scheduled additional expenditure explained above.

Balance sheet structure and liquidity

ad pepper media's balance sheet continues to be very sound. The equity ratio is still on a high level with 76.9 percent. There are no long-term liabilities to banks. Despite reinvestments, liquid funds increased from 17.5 to EUR 22.7 million due the sale of shareholdings. This means that we will

Sales by regions



A	**Central Europe** (Germany, Netherlands, Slovakia)	**EUR 17.6 million**
B	**Western Europe** (UK, France, Spain, Italy)	**EUR 14.4 million**
C	**Northern Europe** (Denmark, Sweden)	**EUR 6.5 million**
D	**Others** (US, Australia, Switzerland)	**EUR 3.2 million**

As per 31 December 2006

continue to be able to round off our technology portfolio by acquisitions of suitable candidates and/or to expand in countries where we are not yet present.

Sales and marketing

As a customer-orientated service company, ad pepper media considers sales and marketing to be a central task and ultimately part of its everyday business. The majority of new customers result from intensive contacts in the company's 19 branch offices. Blue chips are won almost exclusively through test projects which, following successful implementation, lead to large-scale campaigns. Thanks to its presence at industry-specific events, ad pepper media was able to develop new customer contacts. The company was, for example, present at a number of events, including the direct marketing exhibition in Paris in spring 2006, the Internet Marketing Conference in Stockholm, or the most important trade exhibition for online marketing in Germany, the "omd" in Düsseldorf which recorded exceptionally high visitor numbers last year. The US branch office also successfully participated in the "ad:tech" in New York and San Francisco, the leading exhibitions for interactive marketing in the US. In Europe, ad pepper media was present at the "ad:tech" in London.

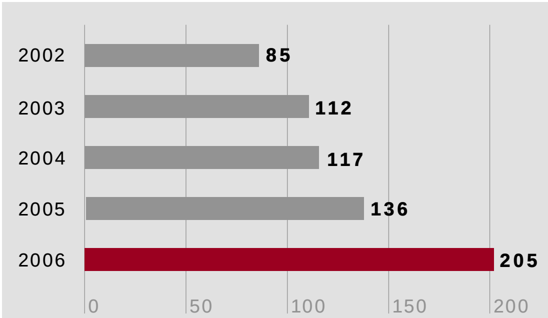
Management and employees

ad pepper media is continuing its course of expansion. This business strategy is also reflected by the dynamic development of staff numbers. This figure rose to 205 by the end of 2006, compared to 136 at the end of last year. However, part of this increase is due to the integration of Webgains Ltd. and Crystal Reference Systems Ltd. into the consolidated group. Moreover, at the end of 2006 ad pepper media began to transfer the highly successful business model of Webgains and mediasquares to selected European countries.

In line with the investment strategy already communicated during the course of 2006, manpower development focused on "technology" and "development". Most of ad pepper media's employees work in sales, i.e. 63 people. They are responsible for looking after existing and winning new customers world-wide.

Within the four-member Management Board Team, Chairman Ulrich Schmidt is responsible for Business Development, Product Development, Marketing and Technology. Jens Körner is responsible for Finance, Human Resources and Investor Relations. Niels Nüssler is responsible for Sales and Media Purchasing. Michael A. Carton is responsible for Product Development and Technology Development.

Number of employees



Events of significant importance

The beginning of the financial year was marked by two M&A transactions outside operative business. The sale of shareholdings in dMarc Broadcasting Inc. to Google and in Falk eSolutions AG to global adserving leader DoubleClick generated profits of EUR 8.4 million. One interesting aspect of these transactions is that leading US companies are buying technology from ad pepper media. This gives proof of how far our company has already developed as a marketing and technology company. It remains to be clearly stated that these sales will strengthen our technological position in the long term because this revenue will give us faster access to technologies which are not yet available today. By selling our shareholdings in Falk and dMarc, we were able to significantly contribute towards the group's total profit and to fill our coffers for further investment in the future.

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 holds particularly true for Crystal Reference System Ltd. and its Crystal Reference and Crystal Semantics divisions which were acquired in March 2006. Crystal Semantics has developed a new optimization technology as a major product. This optimization technology prevents online advertising from being delivered on websites with contents which are unfit, illegal or not desired for the brand advertised.

The purchase price for the acquisition totalled around EUR 2.8 million and consisted of payment in cash and shares as well as a success-related earn-out component that was linked to the achievement of certain results. All targets have been reached meanwhile, so that the full purchase price has been paid.

In May 2006, ad pepper media International N.V. acquired Webgains Ltd., one of the fastest growing affiliate marketing networks in the UK. With this acquisition, ad pepper media has added a central element of successful online marketing to its portfolio for both customers and websites. The affiliate market is one of the dynamic sectors in the online industry.

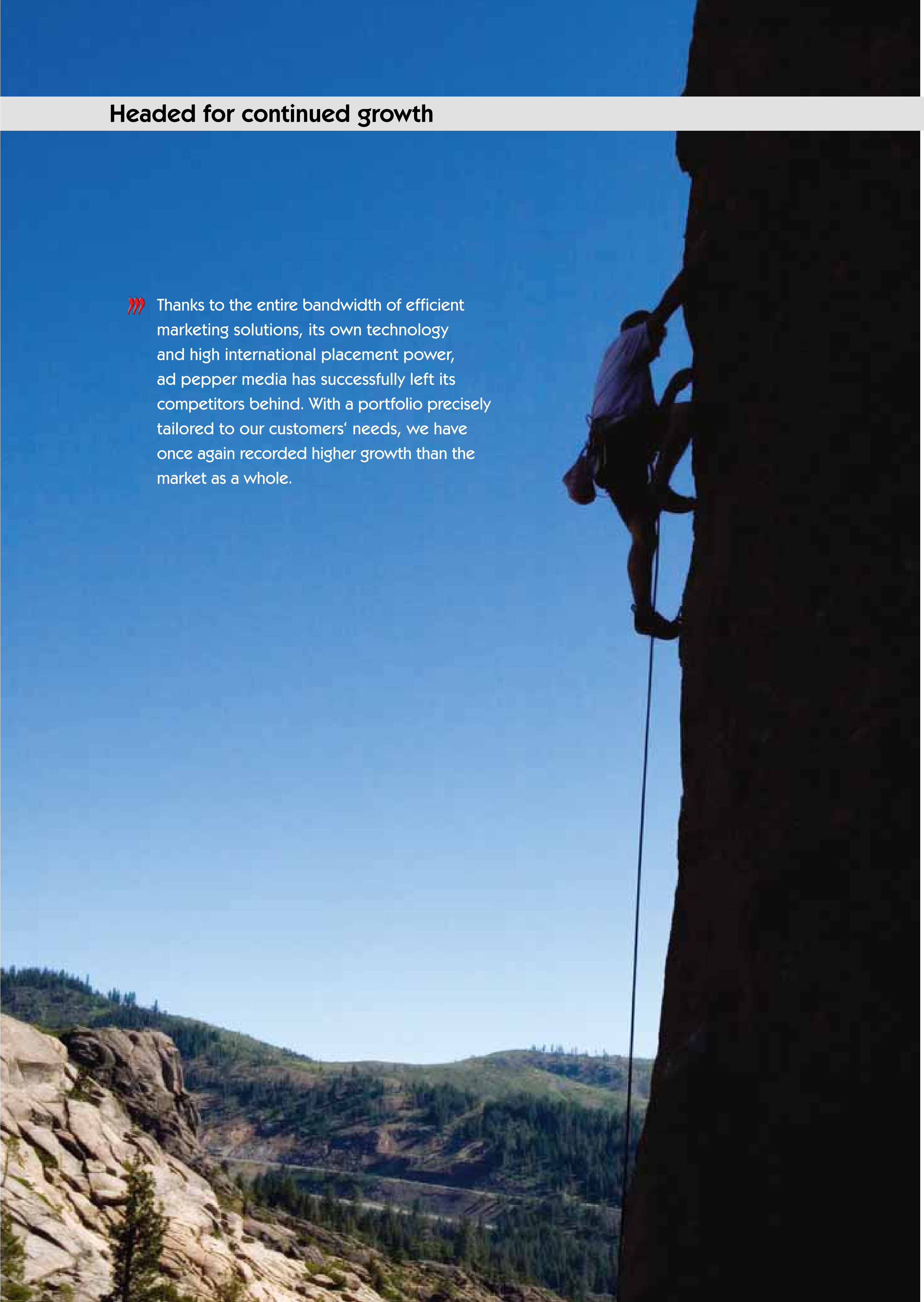
The purchase price for the acquisition totalled around EUR 4.3 million and consist of a down payment in cash and shares as well as a success-related earn-out component that was linked to the achievement of certain results.

Events after the closing date of the balance sheet

On 31 January 2006, ad pepper media announced the acquisition of 100 percent of the shares in Scandinavian adserving provider Emediate ApS. Emediate offers its technology for efficient delivery, management and analysis of online advertising campaigns especially for small, medium and large websites. Past sales were generated via a classical application service providing (ASP) model and through the licensing of Emediate software. Both of these revenue sources will also continue following the company's acquisition. ad pepper media is convinced that the roll-out of the software in countries where ad pepper media is already present will significantly boost Emediate's growth. Furthermore, ad pepper media will use Emediate's technology within the **webstats4U** webmaster network and in affiliate marketing. ad pepper media is convinced to be able to benefit from excellent synergies, especially in the micro publisher area. The successful strategic partnership between ad pepper media and DoubleClick will continue in its present form.

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

Headed for continued growth



Thanks to the entire bandwidth of efficient marketing solutions, its own technology and high international placement power, ad pepper media has successfully left its competitors behind. With a portfolio precisely tailored to our customers‘ needs, we have once again recorded higher growth than the market as a whole.

Management report

Company outlook

The trend towards more international campaigns and evermore complex advertising formats and marketing methods, which has been observed in the past two to three 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 competitive products. 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 Crystal Reference System Ltd. and Webgains Ltd. The Management Board will hence pay special attention to sustainably improving the profitability of operative business.

Risk management

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

Risk factors and imponderabilities

Acceptance of online advertising and dependence on the Internet
ad pepper media‘s business activities are based on the use of electronic advertising media, in particular, the Internet, along with e-mail communications and other online media. Slower growth or even a decline in Internet use would affect the attractiveness of websites as a medium for online advertising and this would have considerable, negative implications for ad pepper media‘s business, finance and profit situation.

Imperfect legal boundary conditions
The company is faced with several changing and/or increasing legal regulations applicable to the Internet and other electronic media. These sometimes inhomogeneous legal boundary conditions could generate significant legal risks for the ad pepper media group which could adversely affect the company.

Rapid technological change
The market for products and services offered by ad pepper media is marked by short innovation cycles and rapid technological change. Furthermore, this environment sees frequent announcements of new services and products as well as changing customer requirements. ad pepper media must hence regularly adapt its products and services to changing technological requirements and customer needs. This task of having to cope with permanently changing technological requirements and customer needs means considerable investment and significant expenditure on personnel. Correctly assessing market developments and responding thereto are hence among the biggest challenges facing ad pepper media‘s management.

Data protection
Data processing forms part of ad pepper media‘s business activities. This involves strict adherence to data protection laws. Under German and European law, the data captured in the field of the new tele and media services is subject to strict legal terms of usage. Furthermore, it is at present difficult to assess whether even more restrictive data protection laws may be imposed in

future. Compliance with different data protection laws may require significant effort, also in financial terms, and could also adversely affect future revenue prospects. New laws and – albeit inadvertent – non-compliance with applicable data protection law could restrict the company from exercising its business activities.

Financial risks
Due to the international nature of its business, the ad pepper media group typically bills its services in the respective national currency. Business outside the territory of the European Monetary Union exposes the company to currency fluctuation risks. ad pepper media also generates revenue in the form of payments made by advertisers and/or advertising agencies to the company. ad pepper media passes on part of these payments to the website owners. ad pepper media hence bears the risk of default on the part of advertisers and/or agencies. The company considers this risk, for example, in the form of regular creditworthiness checks. Finally, ad pepper media may be faced with risks related to the development of financial instruments, i.e. mainly cash and cash equivalents. Most of these are managed by financial institutions.

Dependence on staff in key positions
Due to the innovative nature of the business model and its international orientation with many branches and subsidiaries, ad pepper media must rely on a high number of qualified employees who bear a high degree of responsibility, especially within the scope of sales activities. Retaining existing and recruiting new, highly qualified staff is a central success factor for the company. The consequences of failure to win the loyalty of employees or to find new qualified staff could have an adverse effect on the company's growth.

Risks from potential acquisitions
ad pepper media's international orientation not only requires a focus on internal growth, but also consideration of external growth in order to be able to grow faster in new markets or in order to acquire technologies which the company cannot develop quickly enough by itself. The acquisitions made in 2006 impressively bear witness to this. However, it is not possible to forecast with certainty whether ad pepper media will be able even in future to successfully perform the acquisitions planned and to optimally integrated the companies acquired into the company's structure. If this should not be possible, this could then generate negative consequences for the company's development.

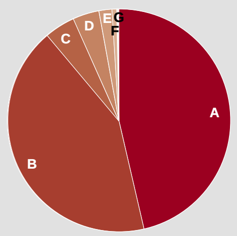
The ad pepper media share

Once again in the 2006 financial year, the Management Board of ad pepper media maintained ongoing dialogue with the international financial community. With its active information policy, ad pepper media is determine to ensure that the valuation of the company reflects its performance and prospects. On numerous roadshows in Germany, Europe and the US, extensive talks were held with fund and asset managers which frequently resulted in commitment by the investors contacted.

This active information policy is also reflected by the price of the ad pepper media share: Following a burgeoning share price in 2005 with growth of around 80 percent, the share once again recorded excellent growth of 46.9 percent in 2006. The closing price on 30 December 2005 totalled EUR 7.49 and EUR 11.00 at the end of 2006. The year's high of EUR 12.35 was reached in April 2006.

Shareholder structure

Total number of shares: 11.155.000



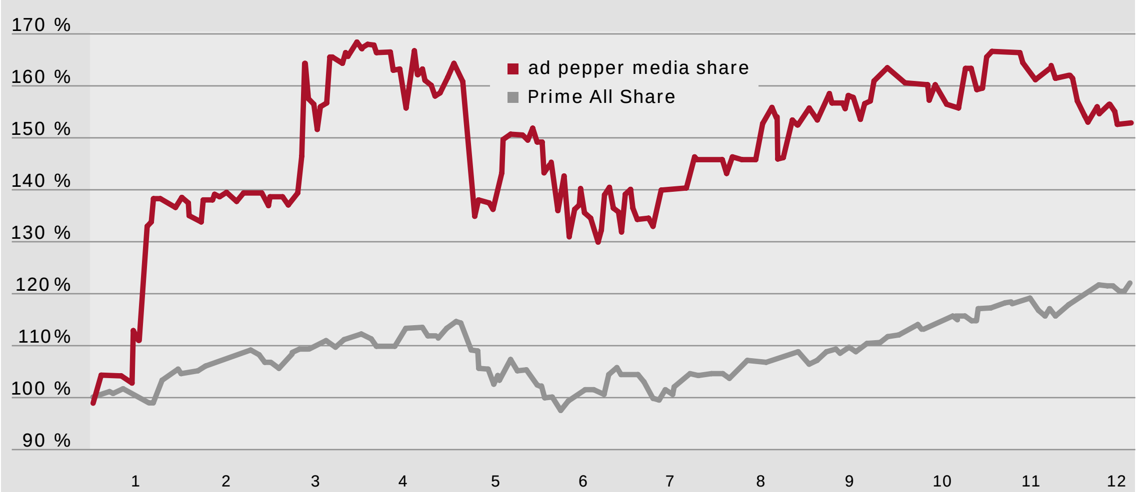
A	Freefloat	46.3 %
B	EMA B.V.	42.5 %
C	U. Schmidt	4.5 %
D	Grabacap	3.8 %
E	Own shares	1.9 %
F	M. Carton	0.7 %
G	N. Nüssler	0.3 %

As per 31 December 2006

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

	Dec., 31, 2006 Shares	Dec., 31, 2006 Options	Dec., 31, 2005 Shares	Dec., 31, 2005 Options
Members of the Management Board				
Ulrich Schmidt	502,762	253,000	512,762	293,000
Michael A. Carton	73,703	214,000	–	–
Niels Nüssler	38,113	263,000	38,113	296,500
Hermann Claus (retired at 31 December 2006))	-	-	71,808	223,000
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	100	-	5,100	–
Grabacap	424,000	-	464,000	–

ad pepper media share price development versus "Prime All Share"



As per 31 December 2006

A show of strength and a pacemaker role

Under the Web 2.0 buzzword, a growing number of users are searching for new forms of communication and interaction. The focus will be on technologies and services that structure and categorise the enormous volume of individual web contents along with securing quality and addressing the correct target group. We are in an excellent position to compete, so that together with our customers we will gain an overproportionate share in this dynamic growth.

Annual consolidated financial statements

Consolidated statements of operations (IFRS)

	Notes	2006 EUR	2005 EUR
Net sales		41,691,836	29,439,510
Cost of sales	[7]	-21,207,518	-16,301,119
Gross profit		**20,484,318**	**13,138,391**
Selling and marketing expenses	[8], [10]	-12,198,083	-7,446,231
General and administrative expenses	[9]	-9,838,115	-4,705,479
Other operating income	[11]	930,252	327,771
Other operating expense	[12]	-2,023,134	-1,382,153
Equity in earnings of affiliated companies		35,000	295,654
Earnings from sale of shares in affiliated companies and of other investments	[13]	8,430,514	0
Earnings before interest and tax		**5,820,752**	**227,953**
Financial gains	[14]	687,683	717,926
Income before income taxes		**6,508,435**	**945,879**
Income taxes	[15]	-1,195,577	2,447,747
Consolidated net gain		**5,312,858**	**3,393,626**
Earnings per share (basic)	[16]	0.49	0.32
Earnings per share (deluted)	[16]	0.45	0.30

	Q1–Q4/ 2006 Shares	Q1–Q4/ 2005 Shares
Weighted average shares outstanding (basic)	10,817,317	10,525,761
Weighted average shares outstanding (deluted)	11,771,977	11,326,955

See accompanying notes to consolidated financial statements

Consolidated balance sheets (IFRS)	Notes	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Assets			
Noncurrent assets			
Goodwill	[17]	16,066,134	6,781,488
Intangible assets	[18]	7,174,216	4,215,551
Equipment	[19]	885,026	449,219
Investment in affiliated company	[20]	0	1,208,486
Restricted cash	[21]	0	650,000
Marketable securities	[22]	4,360,000	4,258,500
Other financial assets	[23]	726,804	4,157,705
Deferred tax assets	[15]	4,746,613	5,590,230
Noncurrent assets, total		**33,958,793**	**27,311,179**
Current assets			
Marketable securities	[22]	3,937,800	5,599,802
Trade accounts receivable	[24]	11,190,794	10,457,259
Income tax receivables	[25a]	661,815	336,930
Prepaid expenses and other current assets	[25]	2,000,799	1,461,370
Cash and cash equivalents	[26]	14,380,214	7,027,645
Current assets, total		**32,171,422**	**24,883,006**
Assets, total		**66,130,215**	**52,194,185**

Consolidated balance sheets (IFRS)	Notes	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Liabilities and shareholders‘ equity			
Shareholders‘ equity			
Share capital	[27]	1,115,500	1,115,500
Additional paid-in capital	[28]	61,859,464	59,942,263
Treasury stock	[29]	-340,352	-421,578
Accumulated deficit		-10,944,260	-16,257,118
Accumulated other comprehensive loss	[31]	-837,451	-438,269
Shareholders‘ equity, total		**50,852,901**	**43,940,798**
Noncurrent liabilities			
Deferred tax liabilities	[15]	821,539	407,158
Noncurrent liabilities, total		**821,539**	**407,158**
Current liabilities			
Trade accounts payable	[33]	5,003,251	4,309,571
Other current liabilities		3,425,440	869,302
Income tax liabilities		378,458	110,597
Accrued expenses	[34]	5,648,626	2,556,759
Current liabilities, total		**14,455,775**	**7,846,229**
Liabilities, total		**15,277,314**	**8,253,387**
Liabilities and shareholders‘ equity, total		**66,130,215**	**52,194,185**

See accompanying notes to consolidated financial statements

Statement of cash flows (IFRS)

	2006 EUR	2005 EUR
Net gain	5,312,858	3,393,626
Adjustments to reconcile net gain to cash provided by operations:		
Depreciation and amortization	1,979,128	984,940
Gain on sale of equipment	-49,755	-1,598
Change of revaluation surplus	0	27,600
Stock option expenses	999,655	214,905
Imterest income and expenses	-687,683	-717,926
Income tax expense	1,195,577	-2,433,150
Income from sale of investments	-8,430,514	0
Other non-cash income and expenses	1,251,546	1,024,043
Gross cash flow	**1,570,812**	**2,492,440**
Increase in trade accounts receivable	-1,753,395	-2,293,182
Increase in prepaid expenses and other assets	-62,882	-442,333
Income taxes paid	-49,696	-28,596
Interest income received	491,530	551,962
Increase in trade accounts payable	607,680	871,241
Interest expenses paid	-16,542	-4,033
Increase/decrease in accrued expenses and other liabilities	2,353,281	-681,678
Net cash used in / provided by operating activities	**3,140,788**	**465,821**
Capital expenditures for intangible assets and equipment	-2,514,337	-898,261
Proceeds from sale of intangible assets and equipment	168,492	9,226
Capital expenditures in affiliated companies	0	-1,709,245
Proceeds from sale of shares in affiliated companies and of other investments	12,459,703	0
Security payments/proceeds from repayment security deposits	-34,234	-148,353
Repayment of restricted cash	650,000	0
Granted loans	-300,000	0
Acquisition of subsidiary, net of cash acquired	-1,616,000	-1,797,100
Cash paid for acquisition of shares in consolidated companies	-5,779,584	-2,810,305
Sales of marketable securities	3,100,500	1,024,000
Purchase of marketable securities	-1,990,440	-3,000,000
Net cash used in / provided by investing activities	**4,144,100**	**-9,330,038**

See accompanying notes to consolidated financial statements

Statement of cash flows (IFRS)

	2006 EUR	2005 EUR
Sale of treasury stock	735,773	375,729
Purchases treasury stock	-402,000	-449,250
Repayment of loan liabilities	-493,339	0
Repayment of granted loans	360,000	0
Net cash used in / provided by financing activities	**200,434**	**-73,521**
Effect of exchange rate changes on cash and cash equivalents	-132,753	44,336
Changes in cash and cash equivalents	7,352,569	-8,893,402
Cash and cash equivalents at beginning of year	**7,027,645**	**15,921,047**
Cash and cash equivalents at end of period	**14,380,214**	**7,027,645**

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, 2005	**1,115,500**	**59,727,358**	**-1,062,920**	**-19,650,744**	**-55,127**	**-23,048**	**35,695**	**40,086,714**
Issuance of 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 based compensation		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**
Balance at January 01, 2006	**1,115,500**	**59,942,263**	**-421,578**	**-16,257,118**	**-6,901**	**-431,368**	**0**	**43,940,798**
Issuance of treasury shares		917,546	81,226					998,772
Net gain for the period				5,312,858				5,312,858
Acquired minority interest								0
Stock based compensation		999,655						999,655
Differences from currency conversion					-132,753			-132,753
Unrealized gain/ loss on securities						-266,429		-266,429
Total comprehensive income/ loss								**5,913,331**
Balance at December 31, 2006	**1,115,500**	**61,859,464**	**-340,352**	**-10,944,260**	**-139,654**	**-697,797**	**0**	**50,852,901**

See accompanying notes to consolidated financial statements

Statement of changes in noncurrent assets

Business year 2005	Historical cost brought forward					Accumulated depreciation/ Amortization/ Impairment					Book value	
	Balance at Jan. 01, 2005 EUR	Additions EUR	Additions through business combinations	Disposals EUR	Balance at Dec. 31, 2005 EUR	Balance at Jan. 01, 2005 EUR	Depreciation/ Amortization of fiscal year EUR	Disposals EUR	Differences from currency convertion EUR	Balance at Dec. 31, 2005 EUR	Dec. 31, 2005 EUR	Dec. 31, 2004 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**

Business year 2006	Historical cost brought forward					Accumulated depreciation/ Amortization/ Impairment					Book value	
	Balance at Jan. 01, 2006 EUR	Additions EUR	Additions through business combinations	Disposals EUR	Balance at Dec. 31, 2006 EUR	Balance at Jan. 01, 2006 EUR	Depreciation/ Amortization of fiscal year EUR	Disposals EUR	Differences from currency convertion EUR	Balance at Dec. 31, 2006 EUR	Dec. 31, 2006 EUR	Dec. 31, 2005 EUR
Goodwill	**8,415,821**	**0**	**9,284,646**	**0**	**17,700,467**	**1,634,334**	**0**	**0**	**0**	**1,634,334**	**16,066,134**	**6,781,488**
Intangible assets												
Software	2,735,966	1,725,715	2,713,200	79,800	7,095,081	1,365,849	946,055	68,800	0	2,243,104	4,851,977	1,370,117
Proprietary rights and customer base	3,281,571	1,838	234,800	3,063	3,515,146	436,137	759,833	3,063	0	1,192,907	2,322,239	2,845,434
Total	**6,017,537**	**1,727,553**	**2,948,000**	**82,863**	**10,610,227**	**1,801,986**	**1,705,888**	**71,863**	**0**	**3,436,011**	**7,174,216**	**4,215,551**
Equipment	1,666,459	734,029	33,000	252,402	2,181,086	1,217,240	273,240	194,420	0	1,296,060	885,026	449,219
Total	**16,099,817**	**2,461,582**	**12,265,646**	**335,265**	**30,491,780**	**4,653,560**	**1,979,128**	**266,283**	**0**	**6,366,405**	**24,125,376**	**11,446,258**

See accompanying notes to consolidated financial statements

Corporate information [1]

The consolidated financial statements of ad pepper media International N.V. (the “company”) for the year ended 31 December 2006 were authorised to issue by the board of directors on 28 March 2007. ad pepper media International N.V. is a limited liability company incorporated in the Netherlands, domiciled in Amsterdam, the Netherlands. The shares of the company are publicly traded under WKN 940883 (ISIN NL0000238145) on the Prime Standard of the Frankfurt Stock Exchange.

The business activities of ad pepper media International N.V. involve holding investments in other entities whose objective is to market advertising space on the internet, and providing services for the subsidiaries. Since its 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 50 countries and operates from 19 branches in twelve European countries, the USA and Australia. ad pepper media uses state-of-the-art technology to link thousands of small, medium and large websites to a top-quality advertising network with global reach and an exact focus on its target group.

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

Accounting principles [2]

Basis of preparation

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

Statement of compliance

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

Basis of consolidation

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

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

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

All business combinations are accounted for under the purchase method. According to this method, the purchase price has been allocated to the fair value of the interest held in the net assets of the consolidated subsidiaries at the time of acquisition. In doing so, all identifiable assets, liabilities and contingent liabilities are adopted at fair value and recognised accordingly in the consolidated balance sheet. After adjustments to the fair values of assets acquired and liabilties assumed are made, any resulting positive difference is capitalised in the balance sheet as goodwill.

Situations in which the fair value of net assets is greater than the purchase price paid result in a negative difference. In the event that such difference remains following reassessment of the allocation of the purchase price or determining the fair value of acquired assets, liabilities and contingent liabilities, this is recognised as income immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to minority interest are also adopted at fair value. Yet goodwill is reported only to the extent that it applies to the group and is not extrapolated to minority interest.

Consolidated group

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, the 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., Milano, Italy	100 %
ad pepper media Interactive Marketing Services srl., Mailand, 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, the Netherlands	100 %
Web Measurement Services B.V., Amsterdam, the Netherlands	100 %
mediasquares GmbH, Dusseldorf, Germany	100 %
Crystal Reference Systems Ltd., Holyhead, United Kingdom	100 %
Webgains Ltd., London, United Kingdom	100 %
ad pepper media Australia Ltd., Melbourne, Australia	100 %
ad pepper media SA, Lugano, Switzerland	100 %
Globase International ApS, Copenhagen, Denmark	100 %

Changes in accounting policies
The accounting policies adopted basically are consistent with those of the previous financial year.

New standards

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

According to amendments to IAS 19, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. The amendments to IAS 19 did not have an effect on the consolidated accounts as of 31 December 2006.

IAS 21 The Effects of Changes in Foreign Exchange Rates
As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. The company reporting such an item in the form of an open receivable or liability, can be a consolidated entity. This change has had no significant impact as at 31 December 2006.

IAS 39 Finanial Instruments: Fair Value Option and Cash Flow Hedge Accounting
During 2005, three amendments of IAS 39 were released, which were to be adopted for fiscal years beginning on or after 1 January 2006. The changes effect financial guarantees (financial guarantee contracts, after amendments of IAS 39 and IFRS 4, fall exclusively under the terms of IAS 39), intragroup forecast transaction to qualify as the hedged item in a cash flow hedge and the use of the so-called fair value option. These amendments did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease
IFRIC Interpretation 4 provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. Contracts falling under the criteria of IFRIC 4 are to be accounted for as lease agreements according to IAS 17. This change in accounting policy has not had a significant impact on the Group as at 31 December 2006.

IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” as well as IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment” are not relevant for the business of ad pepper media and have therefore not been applied.

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

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

IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group’s objectives, policies and processes for managing capital. The amended provisions are to adopted for fiscal years beginning on or after 1 January 2007.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 requires entities to provide disclosures about financial instruments in their financial statements. This IFRS supersedes IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” as well as the disclosure requirements of IAS 32 “Financial Instruments: Disclosure and Presentation”. According to IFRS 7, an entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance as well as nature and extent of risks arising from such financial instruments. An entity shall apply this IFRS for annual periods beginning on or after 1 January 2007. Adoption if this standard will result in a remarkable extension of disclosures about financial instruments.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in hyperinflationary Economies.
This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with IAS 29. An entity shall apply this Interpretation for annual periods beginning on or after 1 March 2006. The interpretation is not expected to apply for ad pepper media.

IFRIC 8 Scope of IFRS 2
An entity shall apply this Interpretation for annual periods beginning on or after 1 May 2006.

The interpretation is not expected to apply for ad pepper media.

IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 9 deals with characteristics when accounting for embedded derivatives according to IAS 39.
An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract. An entity shall apply this Interpretation for annual periods beginning on or after 1 June 2006. Earlier application is encouraged. IFRIC 9 is not expected to have significant influence on ad pepper media's annual accounts.

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

IFRS 8 Operating segments
IFRS 8 supersedes IAS 14 “Segment reporting” and aligns the standards of the IASB with the requirements of the Statement of Financial Accounting Standards (SFAS) 131. The IFRS requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

The standard is to be applied for annual periods beginning on or after 1 January 2009. Early adoption is allowed. The group has not yet finally analyzed the effects of these changes as of closing date.

IFRIC 10 Interim Financial Reporting and Impairment
The Interpretation addresses the apparent conflict between the requirements of IAS 34 "Interim Financial Reporting" and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. IFRIC 10 states that any such impairment losses recognised in an interim financial statement must not be reversed in subsequent interim or annual financial statements. The interpretation is to be applied for annual periods beginning on or after 1 November 2006. Early adoption is encouraged. IFRIC 10 is unlikely to have an impact on ad pepper media's annual accounts.

IFRIC 11 Group and Treasury Share Transactions
IFRIC 11 addresses the question how IFRS 2 "share-based payment" is to be applied on cases where an entity grants to its employees rights to equity instruments of the same or another entity. IFRIC 11 is to be applied for annual periods beginning on or after 1 March 2007. Early application is allowed. IFRIC 11 will presumably not have an impact on ad pepper media's annual report.

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

Significant accounting judgments, estimates and assumptions

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

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

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

Deferred Tax Assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Assets acquired as part of a business combination
The recognition of property, plant and equipment and intangible assets involves estimations to determine the fair value on the acquisition date. This applies in particular to assets acquired as part of a business combination. Determining the fair values of assets and liabities and the useful lives of assets is based on assessements by management. The purchase price allocations of acquisitions made during 2006 are preliminary.

Summary of significant accounting policies [3]

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

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

The significant foreign currency exchange rates have developed as follow:

Foreign currency per 1 EUR	Closing rate Dec. 31, 2006	Closing rate Dec. 31, 2005	Average rate 2006	Average rate 2005
US Dollar	1.3148	1.1805	1.2539	1.2464
British Pound	0.6694	0.6851	0.6803	0.6847
Swedish Crown	9.0192	9.3679	9.2391	9.2730
Danish Crown	7.4359	7.4404	7.4391	7.4483

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

Depreciation is calculated on a straight line basis over the useful life of the assets.

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

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

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

The useful lives of intangible assets are assessed to be either finite or indefinite.
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

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

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

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

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

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

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

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

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

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

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

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

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

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

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

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

Cash and cash equivalents
Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

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

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

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

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

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in subsequent notes).

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

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

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services
The company generates ist revenues mainly by marketing internet advertising space. Advertising customers book units (AdImpressions, AdClicks, Registrations, Mail send-outs, Transaktions) 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 the campaign starts before the balance sheet date and lasts beyond this date, revenue is deferred proportionately according to the units supplied or to the period, depending on the contract.

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

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

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

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

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

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

Sales tax
Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

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

Earnings per share
Earnings per share is determined pusuant to IAS 33 “Earnings per Share”. Basic earnings per share is the consolidated net income devided 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 delutive effects of potential ordinary shares.

Cash flow statement
The cash flow statement according to IAS 7 “Cash Flows Statements” is structured into operating, investing and financing activities.

Business combinations [4]

Crystal Reference Systems Ltd.
With effect of 31 March 2006, ad pepper media International N.V. acquired a hundred percent interest in Crystal Reference System Ltd. The provider of reference content and knowledge databases, who is based in Hollyhead, Great Britain also brings its innovative contextual search and advertising technolo-gy into the business. The semantic analysis tool is considered to be the first method based on linguis-tic science. The Textonomy solutions have been proven to significantly enhance search results and contextual advertising.

The purchase price as of 31 December 2006 amounts to about EUR 2,772,926, of which EUR 664,999 were paid in form of 65,336 shares of the company. The value per share of EUR 10.178 equals the fair value as of exchange date. In January 2007, the additional purchase price rate, falling due with achive-ment of certain performance targets, has been paid. Therefore EUR 332,341 were recognized in other current liabilities.

Cash paid	EURk
Cash acquired with the subsidiary	87
Cash paid for the acquisition	-1,679
Expenses directly connected to the acquisition	-96
Net cash paid in 2006	**-1,688**

The fair value of the identifiable assets and liabilities at the date of acquisition and the corresponding carrying amounts of Crystal Reference Systems Ltd. are reported as follow:

Carrying amounts of assets and liabilities on the acquisition date	Recognized on acquisition EURk	Carrying value EURk
Intangible assets	1,663	397
Property, plant and equipment, net	19	19
Non current assets, total	*1,682*	*416*
Trade receivables	11	11
Prepaid expenses and other current assets	11	11
Cash and cash equivalents	87	87
Current assets, total	*109*	*109*
Assets, total	**1,791**	**525**
Loan liabilities	940	940
Trade payables	9	9
Other current liabilities	83	83
Provisions	18	18
Deferred taxes	241	-
Liabilities, total	**1,291**	**1,050**
Net assets	**500**	**-525**
Goodwill	**2,273**	
Purchase price, total	**2,273**	

The goodwill of EUR 2,273 k comprises the fair value of expected synergies arising from the acquisition.

Crystal Reference Systems Ltd. contributed to the consolidated income with a loss of EUR 231,111, and to the consolidated revenue with EUR 106,716. Assuming that the acquisition had been effective at beginning of the reporting period the proforma revenues would have been EUR 41,741,836 and the proforma net income EUR 4,369,217.

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

The purchase price as of 31 December 2006 amounts to EUR 4,270,853, of which EUR 264,827 were paid in January 2007 in form of 24,827 shares of the company. As of 31 December 2006, this amount is reported within the other current liabilities. The value per share of EUR 10.74 equals the fair value as of exchange date. In addition, the share purchase agreement includes an earn-out component depending on achievement of various objectives. Since the performance criteria are met as of reporting date, an amount of EUR 1,997,722 is included in the other current liabilities.

Cash paid	EURk
Cash acquired with the subsidiary	-12
Cash paid for the acquisition	-2,136
Expenses directly connected to the acquisition	-137
Net cash paid	**-2,285**

The fair value of the identifiable assets and liabilities at the date of acquisition and the corresponding carrying amounts of Webgains Ltd. are reported as follow:

Carrying amounts of assets and liabilities on the acquisition date	Recognized on acquisition EURk	Carrying value EURk
Intangible assets	944	0
Property, plant and equipment, net	14	14
Non current assets, total	*958*	*14*
Trade receivables	117	117
Prepaid expenses and other current assets	11	11
Cash and cash equivalents	-12	-12
Current assets, total	*116*	*116*
Assets, total	**1,074**	**130**
Loan liabilities	206	206
Trade payables	30	30
Other current liabilities	54	54
Provisions	1	1
Deferrred taxes	179	0
Liabilities, total	**470**	**291**
Net assets	**604**	**-161**
Goodwill	**3,667**	
Purchase price, total	**4,271**	

The goodwill of EUR 3,667 k comprises the fair value of expected synergies arising from the acquisition.

Webgains Ltd. contributed with a profit of EUR 113,343 to the consolidated income. Revenue of the entity amounted to EUR 1,951,040. Assuming that the acquisition had been effective at beginning of the reporting period the proforma revenues would have been EUR 42,198,390 and the proforma net income EUR 5,534,047.

Globase
ad pepper media as of 1 January 2006 acquired through its Danish subsidiary 100 percent interest in Globase International ApS, Copenhagen, Denmark, which offers permission and multichannel-marketing solutions.

The purchase price amounts to EUR 550,241.

Cash paid	EURk
Cash acquired with the subsidiary	30
Cash paid for the acquisition	-523
Expenses directly connected to the acquisition	-27
Net cash paid	**-520**

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

Carrying amounts of assets and liabilities on the acquisition date	Recognized on acquisition EURk	Carrying value EURk
Intangible assets	341	20
Non current assets, total	*341*	*20*
Trade receivables	7	7
Prepaid expenses and other current assets	25	25
Cash and cash equivalents	30	30
Current assets, total	*62*	*62*
Assets, total	**403**	**82**
Trade payables	47	47
Other current liabilities	117	117
Provisions	39	39
Deferred taxes	90	0
Liabilities, total	**293**	**203**
Net assets	**110**	**-121**
Goodwill	**440**	
Purchase price, total	**550**	

The goodwill of EUR 440 k comprises the fair value of expected synergies arising from the acquisition.

Globase contributed with a profit of EUR 45,651 to the consolidated income. Revenue of the entity amounted to 553,698 EUR.

Business combinations finalized business combinations

Result Online B.V.
In March 2005 ad pepper media Benelux B.V. acquired 100 percent interest in the Dutch online marketing agency Result Online B.V. The share purchase agreement provided for an earn-out payment if certain targets were achieved. When the annual accounts 2005 were prepared, those targets were regarded to be likely to be reached and thus earn-out amounts have been included in the preliminary purchase price as of 31 December 2005. In May 2006, the additional purchase price was finally calculated and the amount turned out to be EUR 43,000 below the preliminarily recognized amount. Also, in the frame of warranties, an amount of EUR 17,109 was refunded from former shareholders of ResultOnline for non-deductable VAT amounts. The total decrease of the purchase price of EUR 60,109 was allocated to goodwill.

Nedstat Basic
In July 2005, ad pepper media took over the free website analysis product Nedstat Basic through an asset transaction that was carried out by Web Measurement Services B.V – a subsidiary which was founded for this purpose. In September 2006, the additional performance based purchase price of EUR 1,737,333 was paid. The amount has been allocated to goodwill.

mediasquares
In October 2005, ad pepper media acquired 100 percent interest in the German online marketing agency mediasquares. The share purchase agreement provided for a performance-based earn-out payment. In October 2006, ad pepper media agreed with the former shareholders of mediasquares on the additional payment that was allocated to goodwill. Goodwill thus increased by EUR 367,124.

ad pepper media Interactive Marketing Services
In June 2006, the additional purchase price payment at the amount of EUR 857,500 in the frame of the acquisition of the online operations of Clickit srl. was paid. The amount was allocated to goodwill.

Segment reporting [5]

The various products and services of ad pepper media do not materially differ with regards to risk and income. Internal financial reporting as well as the management structure primarily focus on geographical regions. Accordingly, primary reporting is provided for the following summarized segments:

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

Financial year 2006	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others EURk	Consoli-dation EURk	Group EURk
Total sales	**20,361**	**8,552**	**15,234**	**3,144**	**-5,599**	**41,692**
thereof external	17,629	6,469	14,426	3,168	0	41,692
thereof intercompany	2,732	2,083	808	-24	-5,599	0
Expenses and other income	**14,266**	**7,543**	**16,702**	**2,650**	**-5,290**	**35,871**
thereof amortization and depreciation	1,473	122	414	5	-35	1,979
thereof other non-cash expenses	669	3	563	17	0	1,252
EBIT	**6,095**	**1,009**	**-1,468**	**494**	**-309**	**5,821**
Financial gains						**688**
Income taxes						**-1,196**
Consolidated net gain						**5,313**
Assets	**13,946**	**2,614**	**8,037**	**586**	**-3,222**	**21,961**
Unallocated assets						**44,169**
Total assets						**66,130**
thereof investments in property, plant and equipment in the financial year*	346	168	248	5	0	767
thereof investments in intangible assets in the financial year*	1,298	367	3,011	0	0	4,676
Liabilities	**6,312**	**1,968**	**6,615**	**733**	**-17,917**	**-2,289**
Unallocated liabilities						**17,566**
Total liabilities						**15,277**

Financial year 2005	Central Europe EURk	Northern Europe EURk	Western Europe EURk	Others 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**	**29,212**
thereof amortization and depreciation	833	56	122	4	-30	985
thereof other non-cash expenses	437	12	568	132	0	1,149
EBIT	**-245**	**550**	**5**	**10**	**-92**	**228**
Financial gains						**718**
Income taxes						**2,448**
Consolidated net gain						**3,394**
Assets	**17,788**	**2,588**	**9,042**	**469**	**-14,274**	**15,613**
Unallocated assets						**36,581**
Total assets						**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	**3,467**	**2,274**	**6,685**	**818**	**-19,502**	**-6,258**
Unallocated liabilities						**14,511**
Total liabilities						**8,253**

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

Notes to the income statement [6]

The income statement has been prepared using the function of expense method. The expenses contain personnel expenses of EUR 16,384,988 (2005: EUR 8,943,018) and systematic depreciation and amortization of EUR 1,979,128 (2005: EUR 984,940).

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 484,432 (2005: EUR 146,934) were expensed in the financial year 2006.

General and administrative expenses [9]

This item comprises around EUR 1.5 million non-recurring expenses in connection with the sale of the investments in dMarc and Falk.

Research and development expenses [10]

Expenses of EUR 312,384 (2005: EUR 190,720) were recognized in profit and loss in the financial year 2006.

Other operating income [11]

During the financial year 2006, EUR 400,000 other operating income as compensation for premature dissolution of a longterm lease contract could be realized. In addition, the position comprises around EUR 300,000 exchange rate gains, which arised mainly from the sale of the investment in dMarc – the sale was processed in US-Dollars (2005: EUR 0).

Other operating expenses [12]

This item primarily includes additions to the bad debt allowances of EUR 917,430 (2005: reversal of EUR 987,890).

Gain from sale of shares in affiliated companies and of other investements [13]

During the reporting period, the 25.1 percent interest in Falk eSolutions AG were sold to DoubleClick. ad pepper media achieved proceeds of around EUR 6.4 million through this transaction. Said amount exceeds the book value of the investment as of the transaction date by roughly EUR 5.2 million.

Also in the first quarter of 2006, Google took over dMarc Broadcasting, in which ad pepper media held a stake of 8.2 percent. In the frame of this transaction the reporting company received a cash inflow of EUR 6.1 million. The gain from the sale of the investment amounts to EUR 3.2 million.

Both deals also contain so-called "earn-out" components, which may, depending on the achievement of certain targets, result in significantly higher gains.

Financial income [14]

Financial income mainly comprises interest income of EUR 687,683 (2005: EUR 717,926).

Income taxes [15]

Income taxes break down as follows:

	2006 EUR	2005 EUR
Current incom tax	-300,631	-124,596
Deferred tax	-894,946	2,572,343
Income tax	**-1,195,577**	**2,447,747**

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

Due to the existing unused tax losses, deferred tax assets of EUR 7,058 k (2005: EUR 6,847 k) were calculated on the basis of the unused tax losses of EUR 18,978 k (2005: EUR 18,644 k).

Allowances of EUR 2,679 k (2005: EUR 1,496 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 assets and liabilities result from temporary accounting differences.

Deferred tax liabilities	2006 EURk	2005 EURk
Software	458	56
Securities	12	12
Goodwill	134	38
Website-/ customer base	354	395
Total	**958**	**501**

Deferred tax assets	2006 EURk	2005 EURk
Tax losses brouhgt forward	4,379	5,351
Securities	494	332
Others	10	
Total	**4,883**	**5,683**

Deferred tax assets and liabilities were netted if the company has the legally enforceable right to set off current tax assets against current tax liabilities and if they related to the same tax authorities and the same taxable entity. As a result deferred tax assets of EUR 4,747 k (2005: EUR 5,590 k) and deferred tax liabilities of EUR 822 k (2005: EUR 407 k) 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:

	2006 EURk	2005 EURk
Anticipated tax expense	-2,799	-407
Foreign tax difference	37	-13
Effect from taxfree gains	3,484	0
Usage of tax losses	0	385
Reversal of allowance on deferred tax assets	-1,183	2,470
Tax effect on earnings of investments measured at equity	15	127
Non-deductable stock option expenses	-315	-92
Non-tax-decuctible expenses and miscellaneous	-435	-22
Reported tax income / -expense	**-1,196**	**2,448**

Earnings per share [16]

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2006	2005
Net income for the year in EUR	5,312,858	3,393,626
Numbers at the beginning of the period	10,692,744	10,465,628
Numbers at the end of the period	10,942,280	10,692,744
Weighted number of share outstanding (basic)	10,817,317	10,525,761
Earnings per share (basics) in EUR	**0.49**	**0.32**
Weighted numbers of shares outstanding (diluted) in EUR	11,771,977	11,326,955
Earnings per share (diluted) in EUR	**0.45**	**0.30**

The weighted number of shares outstanding in 2006 was calculated on a daily basis. In 2006, the options granted resulted in dilution of an average of 954,660 shares (2005: 801,194).

On 31 January 2007 the board of the company, with admission of the Supervisory Board, resolved a capital increase against cash deposit from authorised stock. The issue price per share amounted to EUR 10.86. On 9 February 2007 209,854 new shares of ad pepper media International N.V. have been allowed for trading by the Frankfurt Stock Exchange. The share capital of the company thus increased by EUR 20,985.40 and the additional paid-in capital increased, after taking costs of EUR 13,428 for the capital increase into account, by EUR 2,265,586.

Notes to the consolidated balance sheet

Non-current assets

Goodwill [17]

In accordance with the provisions of IAS 36, goodwill was tested for impairment in the fourth quarter of 2006 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 five financial years underlying a CAGR (Compound annual growth rate) of 29 percent in revenues and 26 percent in costs. The discount rate used for the cash flow forecast is between 9.3 percent and 11.4 percent (2005: average 9.25 percent). Cash flows after the five-year forecast period were calculated without using a constant growth rate, as it is not currently possible to calculate a long-term average growth rate for this young industry. This did not lead to any impairments.

Total goodwill amounted to EUR 16,066,134 (2005: EUR 6,781,487) at the end of the financial year. The allocation to the cash-generating units is as follows:

	2006 EURk	2005 EURk
ad pepper media Benelux B.V.	3,253	1,862
ad pepper media Denmark A/S	759	440
Globase International ApS	440	0
ad pepper media Sweden AB	1,317	1,059
ad pepper media Spain S.A.	696	425
ad pepper media GmbH	1,963	618
Pentamind A/S	151	151
Borsa del Banner srl.	15	15
ad pepper media Interactive Marketing Services srl.	1,322	464
ad pepper media France S.A.R.L.	687	392
ad pepper media UK Ltd.	1,759	52
Webgains Ltd.	1,724	0
ad pepper media USA LLC	440	175
ad pepper media Australia Ltd.	46	0
mediasquares GmbH	1,494	1,127
Total	**16,066**	**6,781**

Further details about changes in the goodwill are disclosed under "Business Combinations".

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

Intangible assets [18]

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 for a value of EUR 1,588 k (2005: EUR 303 k). In addition, other software components were acquired in the course of business combinations. Software is amortized over a useful life of three to five years.

Software not yet in use it has been tested for impairment as of 31 December 2006. This did not lead to any impairments.

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, 2006 totals EUR 163,606 (2005: EUR 224,961). 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, 2006 totals EUR 30,190 (2005: EUR 35,022).

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, 2006 totals EUR 0 (2005: EUR 18,750).

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, 2006 totals EUR 327,566 (2005: EUR 390,966).

The customer base acquired in connection with the acquisition of Nedstat Basic in 2005 at a cost of EUR 1,330,767 is being amortized over a useful life of three years. The residual carrying amount as of December 31, 2006 totals EUR 778,616 (2005: EUR 1,223,539).

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, 2006 totals EUR 514,701 (2005: EUR 604,221).

The customer base acquired in connection with the acquisition of the affiliate platform Webgains in 2006 at a cost of EUR 234,800 is being amortized over a useful life of three years. The residual carrying amount as of December 31, 2006 totals EUR 182,622.

Property, plant and equipment [19]

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 [20]

The company holds no interest in associated companies as of 31 December 2006.

The investment of 25.1 percent in Falk eSolutions AG, Moers was sold in 2006. In 2005, the investment was measured at equity. Falk eSolutions AG is not a publicly traded entity. The following table contains condensed financial information concerning the investment in 2005.

	2005 EURk
Assets, total	7,297
Liabilities, total	5,278
Operating performance, total	11,599
Net income for the year	436

Restricted cash [21]

In 2005, this item contained cash in an escrow account securing contingent liabilities. The escrow has been released during 2006.

Current and non-current marketable securities [22]

The securities as of December 31, 2006 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 1,990,440 and sold for a total of EUR 3,100,500. The losses incurred in the financial year amount to EUR 15,192, including losses of EUR 15,192 from the release of other comprehensive income to profit or loss.

The maturities of the available-for-sale securities as of December 31, 2006 are as follows:

Market value	2006 EURk	2005 EURk
Due within one year	3,938	5,600
Due between one and five years	1,987	1,466
Due in more than five years	2,373	2,793
Total	**8,298**	**9,859**

Other financial assets [23]

This item contains rent and similar deposits, carried at their nominal amount.

The item also contains non-current loan receivables granted to an executive and shareholder of EUR 300,000 – bearing interest of 3.9 percent and a maturity of up to seven years.

In 2005, the other financial assets contained further loan receivables of EUR 360,000 which were paid back pre-maturity during 2006. Also, the investment in dMarc Broadcasting Inc., which was included in this item at cost, was sold during 2006.

Current assets

Trade receivables [24]

Trade receivables are recognized at their nominal value less valuation allowances. The valuation allowances as of December 31, 2006 total EUR 2,975,843 (2005: EUR 2,149,445). 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, 2006.

Prepaid expenses and other current assets [25]

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

	2006 EUR	2005 EUR
Receivables from shareholders	196,554	188,694
Other receivables	1,347,188	884,481
Prepaid expenses	457,057	388,195
Prepaid expenses and other current assets	**2,000,799**	**1,461,370**

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

Other receivables include VAT receivables of EUR 316,525 (2005: EUR 411,374) as well as a pending purchase price payment for an amount of EUR 619,432 in connection to the sale of the investment in dMarc Broadcasting Inc. being in escrow. Loan receivables of EUR 136,931 were written off in full (2005: EUR 136,931).

Income tax receivables [25a]

The item contains capital gains tax to be reimbursed by the tax authorities for a total of EUR 363,729 (2005: EUR 183,031).

Cash and short-term deposits [26]

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 [27]

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 [28]

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

Treasury shares [29]

By resolution of the annual general meeting on May 12, 2006, the management board was authorized to repurchase treasury shares of up to 10 percent of the share capital. No treasury shares were purchased in the financial year 2006.

Sale of treasury shares
In the reporting year, 2,800 treasury shares were sold at an exercise price of EUR 1.33, 12,600 were sold at a price of EUR 2.73, 61,700 were sold at a price of EUR 1.78, 54,600 shares were sold at a price of EUR 4.45 and 52,500 shares were sold at a price of EUR 5.32 under the employee stock option plans.

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

Number of shares outstanding
As of December 31, 2006, the number of shares issued and outstanding totaled 10,942,280 (2005: 10,692,744). Each share has a face value of EUR 0.10.

Authorized capital [30]

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

Other comprehensive income [31]

Other comprehensive income contains unrealized exchange rate losses from available-for-sale securities of EUR 847,218 (2005: EUR 431,368), taking into account the effect of deferred taxes of EUR 494,237 (2005: EUR 332,847) accumulated exchange differences of EUR –139,668 (2005: EUR –6,901) from the translation of the financial statements of foreign subsidiaries.

Current liabilities [32]

Trade payables [33]

Trade payables are recognized at the amount repayable.

Provisions [34]

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	31.12.2005 EURk	Utilization EURk	Reversal EURk	Addition EURk	31.12.2006 EURk
Outstanding website invoices	1,462	1,462		1,196	1,196
Other outstanding invoices	316	240		407	483
Bonus/ commission	208	208		2,390	2,390
Vacation provisions	301	301		664	664
Miscellaneous	270	229	117	992	916
Total	**2,557**	**2,440**	**117**	**5,649**	**5,649**

Related party disclosures [35]

In the reporting year, ad pepper media International N.V. purchased ad serving technology from Falk eSolutions AG for a total of EUR 224,385 (2005: EUR 784,733). As of December 31, 2006, no related liabilities exist (2005: EUR 139,872).

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 25,369 in 2006 (2005: EUR 43,232). As of December 31, the liabilities came to EUR 2,555 (2005: EUR 13,542). ad pepper media GmbH also rented offices in Dusseldorf from Schwann KG. The related rent expenses in 2005 totaled EUR 3,828. 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 for the value of around EUR 75,000 (2005: EUR 75,000).

Litigation and claims [36]

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

Other financial obligations [37]

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 186,902 in financial year 2006 (2005: EUR 165,686). The future minimum payment obligations resulting from the contracts in place as of December 31, 2006 are as follows:

Financial year	2007 EURk	2008 EURk	2009 EURk	2010 EURk	2011 EURk	Thereafter EURk	Total EURk
Office rent	737	683	626	511	346	542	3,445
Guarantees	2,485	0	0	0	0	0	2,485
Car leases	116	73	21	0	0	0	210
Others	149	0	0	0	0	0	149
Total	**3,487**	**756**	**647**	**511**	**346**	**542**	**6,289**

Guarantees [38]

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 [39]

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 35,000 (2005: EUR 295,654).

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.

Stock option program [40]

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, and May 7, 2004, the management board was authorized to repurchase up to 10 percent of the share capital as treasury shares within an 18-month period. The treasury shares thus repurchased are available for acquisitions and employee stock options.

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

The options are granted to employees of the ad pepper media group. 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. 10 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 in particular cases also be settled in cash at the request of ad pepper media.

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

The following table shows the change in the options during the financial year 2006:

	No.	Subscription price
Options at the beginning of the fiscal year (Pre-IPO)	117,650	13.50
Options at the beginning of the fiscal year (Ongoing SOP 2001)	71,000	2.73
Options at the beginning of the fiscal year (Ongoing SOP 2002)	37,100	1.33
Options at the beginning of the fiscal year (Ongoing SOP 2003)	17,800	1.78
Options at the beginning of the fiscal year (Executive SOP)	958,000	1.78
Options at the beginning of the fiscal year (Ongoing SOP 2004)	103,500	4.45
Options at the beginning of the fiscal year (Exec SOP 2005)	190,000	5.32
Options granted (Exec SOP 2005)	30,000	5.32
Options granted (Exec SOP 2006)	675,000	7.59
Options lapsed (Pre-IPO)	-4,900	13.50
Options lapsed (Ongoing SOP 2001)	-	2.73
Options lapsed (Ongoing SOP 2002)	-	1.33
Options lapsed (Ongoing SOP 2003)	-	1.78
Options lapsed(Ongoing SOP 2004)	-	4.45
Options lapsed (Executive SOP)	-90,000	1.78
Options lapsed(Executive SOP 2005)	-87,500	5.32
Options lapsed (Executive SOP 2006)	-56,250	7.59
Options exercised (Ongoing SOP 2001)	-27,600	2.73
Options exercised(Ongoing SOP 2002)	-21,300	1.33
Options exercised (Ongoing SOP 2003)	-13,700	1.78
Options exercised (Ongoing SOP 2004)	-54,600	4.45
Options exercised (Executive SOP)	-48,000	1.78
Options exercised (Exec SOP 2005)	-52,500	5.32
Options at the end of the fiscal year	1,743,700	
Weighted subscription price		1.92
Exercisable options as of December 31, 2006	**247,700**	**2.48**

The average share price in the financial year 2006 was EUR 10.27 (2005: 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 999,654 (2005: EUR 214,904).

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

	Pre-IPO	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Executive SOP 2003	Ongoing SOP 2004	Executive SOP 2005	Executive SOP 2006
Share price when granted	13.50 EUR	2.60 EUR	1.30 EUR	1.78 EUR	1.78 EUR	4.44 EUR	5.00 EUR	7.60 EUR
Date of grant	31.05.00	18.05.01	15.01.02	15.01.03	15.01.03	16.01.04	15.04.05	16.01.06
Strike price	19.55 EUR	2.73 EUR	1.40 EUR	1.78 EUR	1.78 EUR	4.45 EUR	5.32 EUR	7.59 EUR
Risk-free interest rate	4.8 %	4.0 %	3.8 %	3.5 %	4.5 %	2.75 %	3.65 %	3.48%
Estimated term	7 years	4 years	1 year	1 year	10 years	1 year	4 years	4 years
Future dividend	0 %	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Estimated volatility	20 %	93 %	68 %	73 %	53 %	40%	58 %	56 %

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

The weighted average fair value of options granted during the financial year 2006 was EUR 2.97 (2005: EUR 1.90).

Total remuneration of management in key positions [41]

	2006 EURk	2005 EURk
Current remuneration	716	775
Post-employment remuneration (Pensions and medical supply)	26	20
Share based remuneration	191	117
Total remuneration of the Board of Directors	**933**	**912**

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

	Expiration	Exercise price	Number 31.12.2006	Number 31.12.2005
2000	-	19.55	59,000	74,000
2001		2.73	10,000	25,000
2002	-	1.33	0	18,500
2003	-	1.78	586,000	670,000
2006	-	7.59	75,000	0

Subsequent events [42]

On 31 January 2007 ad pepper media announced its 100 percent takeover of eMediate ApS. The Scandinavian adserving provider offers online marketing technologies for the efficient dissemination, management and analysis of online advertising campaigns, thus providing individually tailored adserving and tracking technology for small, medium-sized and large websites.

Revenues have been generated through a classical Application Service Providing Model (ASP) as well as licensing of the eMediate software. Both income streams will remain after the acquisition by ad pepper media. By rolling out the software in those countries where ad pepper media is already present, we are convinced to be able to remarkably speed up eMediate's growth. In addition, ad pepper media will use the technology within the proprietary network Webstats4U as well as within the affiliate marketing. ad pepper media is convinced to be able to monetize synergies especially in the field of micro-pubishers. The successful strategic partnership between ad pepper media and DoubleClick will continue unchanged.

The purchase price for eMediate totals EUR 4.8 million in cash, which were due with closing. At the same time, former shareholders of eMediate have committed to buying new shares of ad pepper media, which were issued by capital increase. On the basis of a share price of EUR 10.96 per share, 209,854 shares were transferred to the sellers. The purchase price allocation is still pending.

	EURk
Property, plant and equipment, net	43
Non current assets, total	*43*
Trade receivables	183
Prepaid expenses and other current assets	16
Cash and cash equivalents	80
Current assets, total	*279*
Assets, total	**322**
Trade payables	43
Other current assets	72
Tax liabilities	63
Liabilities, total	**178**
Net assets	**144**

Risk management [43]

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

Risk factors and imponderabilities

Acceptance of online advertising and dependence on the internet
ad pepper media's business activities are based on the use of electronic advertising media, in particular, the Internet, along with e-mail communications and other online media. Slower growth or even a decline in Internet use would affect the attractiveness of websites as a medium for online advertising and this would have considerable, negative implications for ad pepper media's business, finance and profit situation.

Imperfect legal boundary conditions
The company is faced with several changing and/or increasing legal regulations applicable to the Internet and other electronic media. These sometimes inhomogeneous legal boundary conditions could generate significant legal risks for the ad pepper media group which could adversely affect the company.

Rapid technological change
The market for products and services offered by ad pepper media is marked by short innovation cycles and rapid technological change. Furthermore, this environment sees frequent announcements of new services and products as well as changing customer requirements. ad pepper media must hence regularly adapt its products and services to changing technological requirements and customer needs. This task of having to cope with permanently changing technological requirements and customer needs means considerable investment and significant expenditure on personnel. Correctly assessing market developments and responding thereto are hence among the biggest challenges facing ad pepper media's management.

Data protection
Data processing forms part of ad pepper media's business activities. This involves strict adherence to data protection laws. Under German and European law, the data captured in the field of the new tele and media services is subject to strict legal terms of usage. Furthermore, it is at present difficult to assess whether even more restrictive data protection laws may be imposed in future. Compliance with different data protection laws may require significant effort, also in financial terms, and could also adversely affect future revenue prospects. New laws and – albeit inadvertent – non-compliance with applicable data protection law could restrict the company from exercising its business activities.

Financial risks
Due to the international nature of its business, the ad pepper media group typically bills its services in the respective national currency. Business outside the territory of the European Monetary Union exposes the company to currency fluctuation risks. ad pepper media also generates revenue in the form of payments made by advertisers and/or advertising agencies to the company. ad pepper media passes on part of these payments to the website owners. ad pepper media hence bears the risk of default on the part of advertisers and/or agencies. The company considers this risk, for example, in the form of regular creditworthiness checks. Finally, ad pepper media may be faced with risks related to the development of financial instruments, i.e. mainly cash and cash equivalents. Most of these are managed by financial institutions.

Dependence on staff in key positions
Due to the innovative nature of the business model and its international orientation with many branches and subsidiaries, ad pepper media must rely on a high number of qualified employees who bear a high degree of responsibility, especially within the scope of sales activities. Retaining existing and recruiting new, highly qualified staff is a central success factor for the company. The consequences of failure to win the loyalty of employees or to find new qualified staff could have an adverse effect on the company's growth.

Risks from potential acquisitions
ad pepper media's international orientation not only requires a focus on internal growth, but also consideration of external growth in order to be able to grow faster in new markets or in order to acquire technologies which the company cannot develop quickly enough by itself. The acquisitions made in 2006 impressively bear witness to this. However, it is not possible to forecast with certainty whether ad pepper media will be able even in future to successfully perform the acquisitions planned and to optimally integrated the companies acquired into the company's structure. If this should not be possible, this could then generate negative consequences for the company's development.

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 31 December 2006 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, 29 March 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Hegenbarth	See
German Public Auditor	German Public Auditor

The Management Board of ad pepper media International N.V. comprised the following members in the financial year 2006:

Ulrich Schmidt, CEO (Chairman), Nuremberg, Germany

Niels Nüssler, CSO, Nuremberg, Germany

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

Hermann Claus, CFO, Celle, Germany (retired at 31 December 2006)

The Supervisory Board of ad pepper media International N.V. in fiscal year 2006 consisted of:

Michael Oschmann, Chairman, Nuremberg, Germany
Managing Director

Dr. Günther Niethammer, Nuremberg, Germany
Partner

Jan Andersen, Copenhagen, Denmark
Managing Director

Merrill Dean, Scottsdale, USA
Managing Director

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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