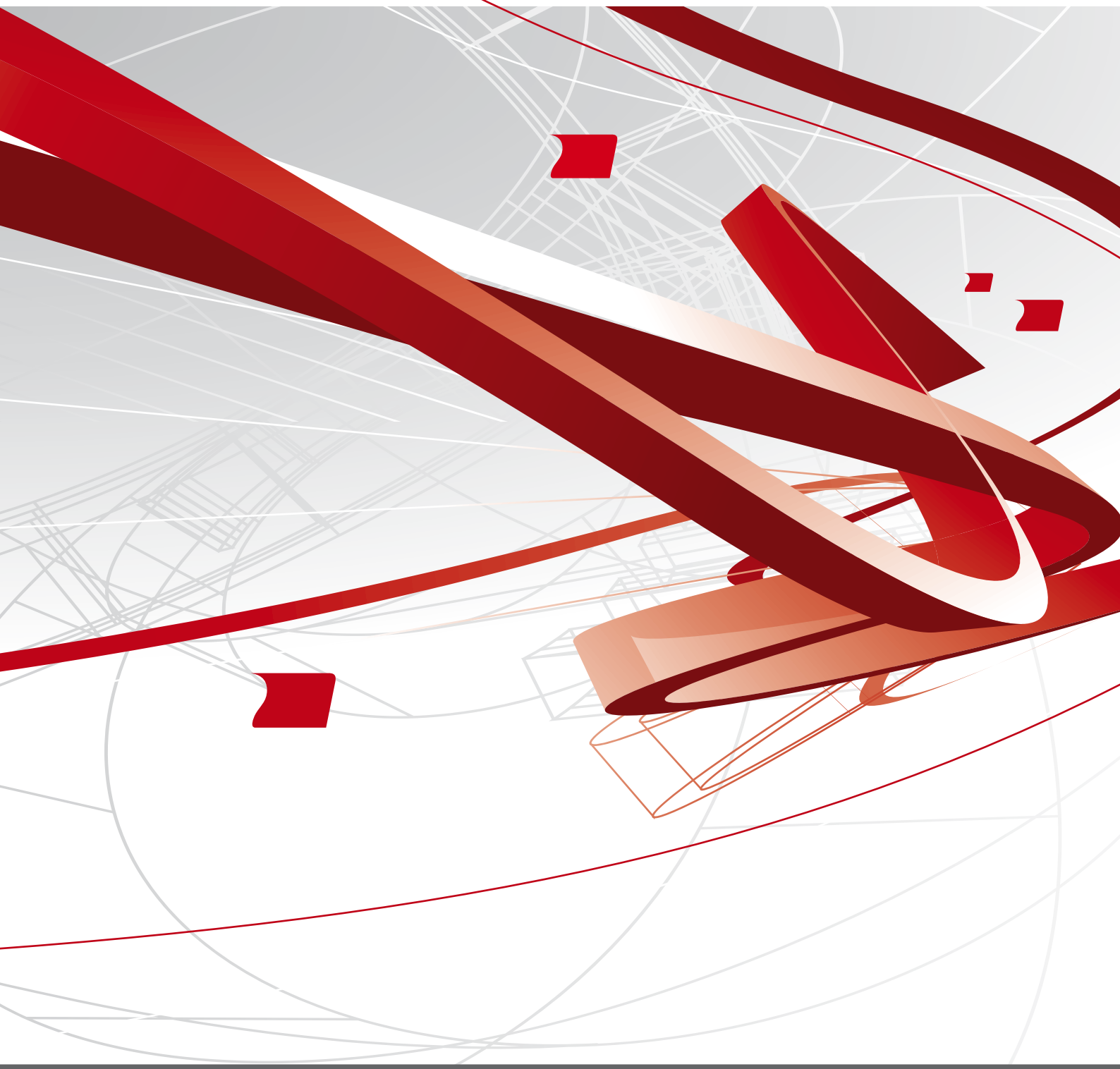
ad pepper

the e-advertising network



Annual report 2009

Overview of the main key figures

	2009	2008
Net sales, in EUR million	46.9	52.6
Gross margin, in EUR million	21.0	22.5
Gross margin, in percent	44.7	42.8
EBITDA (earnings before taxes, interest, depreciation and amortization), in EUR million	-29.8	7.2
EBIT (earnings before interest and taxes), in EUR million	-32.0	2.5
EBT (earnings before taxes), in EUR million	-33.8	3.7
Net income / loss, in EUR million	-34.3	2,6
Earnings / loss per share, in EUR (basic)	-1.61	0.12
Balance sheet total, in EUR million	32.8	67.1
Equity, in EUR million	21.3	55.7
Equity ratio, in percent	65.0	83.0
Liquid funds*, in EUR million	22.6	23.0
Employees (as per 31 December)	239	236

Net sales

EBITDA

Liquid funds*

* including securities at fair value and deposits with maturity over three months

AGENDA

The Managing Directors´ Report of ad pepper media International N.V. consists of pages 7 to 48.

Dear shareholders, dear friends and partners of our company,

A year ago, the world economy was already caught up in a deep financial and economic crisis, the repercussions and duration of which were difficult to assess. We would now like to take the opportunity to answer in this Annual Report some key questions which are important for everybody interested in ad pepper media against the background of the past, exceptional year:

- *How did ad pepper media tackle the 2009 recession year?*
- *Which action was taken?*
- *Where is ad pepper media today?*
- *What do we expect for the future?*

An overview of the 2009 financial year

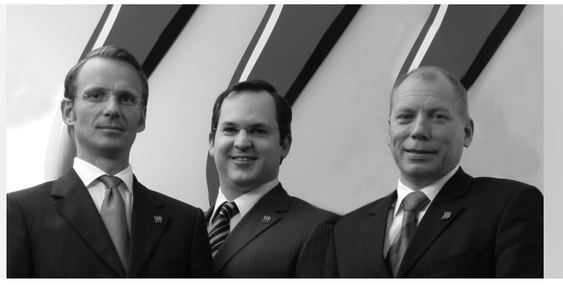
The global financial and economic crises hit ad pepper media to different degrees in different regions. Whilst excellent results were recorded in Germany, Spain and the UK, for instance, we saw sales sometimes drop significantly in France, the US and Denmark. We also decided to completely withdraw from the Italian market for the time being. Besides the economic downturn, other important burdens hence included extraordinary items in the form of restructuring costs as well as impairment cost. Looking at the individual segments, Webgains was almost completely unaffected by the financial and economic crisis, recording clearly double-digit growth and at the same time increased profitability. The ad pepper media segment, in contrast, was impacted by a drop in sales against the previous year. This is due to several factors, including the deliberate focus on pure performance marketing.

A comprehensive set of actions against the crisis

We do not intend to explore the causes of the financial and economic crises – these findings have long since been on the table. What started during the course of 2007 as a normal economic deceleration became the worst global recession since the 1930s due to the financial crisis.

Such a crisis forces every business to make major cuts. ad pepper media responded at an early stage with both operative and structural measures. First results were already seen during the fourth quarter:

- *An efficiency boosting program was introduced across the entire group in order to improve profit and liquidity and cut costs. Thanks to a whole set of measures, we already managed to reduce our cost basis significantly during the fourth quarter of 2009.*
  We attach great important to the sustainable impact of the measures taken - which means that they will bring savings in the financial year ahead and beyond.
- *Finally, we decided to shed operative units recording sustainable losses. During the third quarter of the past financial year, we hence decided, as already mentioned, to discontinue operative business in Italy with the result of corresponding, once-off closing costs.*
- *Net operative cash flow was positive for the whole year, for the first time since the 2006 financial year. Compared to the third quarter of 2009, we even managed to improve liquidity by around EUR 1.4m to EUR 22.6m. This is proof of the operative strength of our business model and also impressively marks the turnaround resulting from the measures described earlier.*



Jens Körner (CFO), Michael A. Carton (Director of the Board), Ulrich Schmidt (CEO)

ad pepper media today

We have made the group more resilient and competitive for the future. We will continue to do our utmost in order to implement our cost cutting and efficiency boosting programs.
At the product end, we began focusing on success-based advertising at an early stage, i.e. at the end of 2007 and hence even before the crisis. Success and performance based advertising means that advertisers pay for advertising on the Internet only if the desired success is achieved. At the end of the day, success in the sense of advertisers and hence for ad pepper media always means whether the Internet user can be motivated to complete a purchase. This will be successful if the visual appearance of the advertising medium is attractive and, above all, if it appears in a context which is relevant for the product to be sold. To this end, we use our award winning iSense and SiteScreen Network technologies which we developed ourselves. Furthermore, our Webgains affiliate business once again proved to be one of the major growth drivers in 2009. The financial year was similarly important for our ad agents' SEM/SEO business.

In order to render the operative development of our business activities even more transparent, we have broken down our financial reporting into three segments since the beginning of the past financial year: ad pepper media, Webgains and ad agents. We are thereby addressing both the increasing demands on the part of financial market players and internal requirements designed to enable an better measurement of performance in the individual areas.

During the past financial year, we managed to create a sound foundation that is enabling us to come out of the crisis stronger than before and to draw above-average benefits from the continued dynamic growth of the online advertising market as soon as the economic engine starts again.

Carefully optimistic outlook

It seems that the global economy has bottomed out so that slow economic recovery is expected for the current year. We have already done most of our homework. Several countries, including the US and France, are expecting to see a significant turnaround. With this in mind, we expect sales to at least stabilize in fiscal 2010. This Annual Report will tell you more about the repercussions of the financial and economic crisis on the advertising industry, about the development of business and the major events during the year under review, as well as our expectations for the future.

Ladies and gentlemen, as you can see, last year was a difficult one for ad pepper media and the coming year will be no less demanding. We are, however, confident that we will manage to master the challenges facing us in the near future. We are well on our way and our business partners are honoring our efforts. We hope that this report will convince you and the capital market.

Sincerely yours

The Management Board
ad pepper media International N.V.
23 March 2010

Ulrich Schmidt *Jens Körner* *Michael A. Carton*

Dear shareholders,

In the 2009 financial year, the Supervisory Board performed its duties pursuant to law and the Articles of Association. The Supervisory Board advised the Management Board on a regular basis. It monitored the Management Board in conducting business and was involved in decisions of key importance for the company and the group.

Comprehensively informed

In 2009, the Supervisory Board met for four ordinary meetings. In addition to the ordinary meetings, the Chairman and other members of the Supervisory Board maintained regular contact with the Chairman and other members of the Supervisory Board. None of the members of the Supervisory Board was absent from more than one meeting or telephone conference.

The Management Board kept the Supervisory Board informed on the implementation of the strategy for the year 2009 and beyond on an ongoing basis. Furthermore, the Supervisory Board approved the financial plan for 2009 and discussed (potential) take-overs and sales with the Management Board. Subjects discussed included the annual and intermediate results, the comprehensive restructuring and efficiency boosting measures, including impairments on intangible assets and financial assets resolved during the third quarter, technology developments, organization of sales and marketing, investor relations, remuneration, as well as personnel.

The Supervisory Board was informed about the general and financial risks of the business and the results of an evaluation of the internal risk management and control systems.

Pursuant to the provisions of the Dutch Corporate Governance Code, the work of the Supervisory Board and of the Management Board as well as the work of the individual members of both boards were discussed in the absence of the members of the Management Board.

Pursuant to the company's Articles of Association in their currently valid version, remuneration for the members of the Supervisory Board is fixed by the shareholders' meeting following submission of proposals by the Supervisory Board to this effect. The Management Board's remuneration is made up of a fixed and a variable component. The variable component includes annual success-based payments (bonus) as well as long-term incentives, such as stock options. The fixed remuneration component is regularly determined in January of each year with retroactive effect as of 01 January of the respective year. Increases in remuneration are generally orientated towards the inflation rate. The variable remuneration component is pegged to previously agreed and measurable targets which can be controlled. Budgeted, consolidated results of the following year are taken as targets. Members of the Management Board do not receive any guaranteed minimum bonus payments. Over the past five years, the bonus paid to the members of the Management Board totaled between 0 and 163 percent of the fixed pay. Variable bonuses are usually paid during the first quarter following publication of the consolidated profit for the year. In 2000, ad pepper media introduced a long-term incentive model in the form of stock option plans for employees in key positions, including members of the Management Board. Stock options of the company can be exercised if the price of the ad pepper media share exceeds certain, previously determined exercise thresholds, but not before the expiration of one year following issuance of the options. Tranches of option plans were granted to members of the Management Board in 2000, 2001, 2002, 2003 and 2008.

ad pepper media has no pension obligations to members of the Management Board.

The total sum and structure of remuneration for the members of the Management Board are designed to ensure that qualified executive staff can be recruited and kept. The remuneration structure, pension scheme payments and other financial obligations are designed to support the company's medium to long-term interests. The remuneration policy is expected to remain unchanged in 2010.

Members of the Supervisory Board

Michael Oschmann (1969; German national; male)
- *Chairman of the Supervisory Board throughout the entire financial year up until and including 31 December 2009*
- *Businessman, CEO of Telefonbuchverlag Hans Müller GmbH & Co., Nuremberg*
- *Since 10 January 2000, member of the Supervisory Board, current term ending in 2013*

Merrill Dean (1941; US national; male)
- *Member of the Supervisory Board throughout the entire financial year up until and including 31 December 2009*
- *Management consultant, CEO Director Interfilm Ltd.*
- *Since 10 January 2000, member of the Supervisory Board, current term ending in 2011*

Dr. Frank Schlaberg (1965; German national; male)
- *Member of the Supervisory Board throughout the entire financial year up until and including 31 December 2009*
- *Managing Director of UniCredit Markets & Investment Banking*
- *Since 27 May 2008, member of the Supervisory Board, current term ending 2012*

Jan Andersen (1967; Danish national; male)
- *Member of the Supervisory Board throughout the entire financial year up until and including 31 December 2009*
- *Businessman, Managing Director of Grabacap ApS*
- *Since 31 December 1999, member of the Supervisory Board, current term ending 2010*

Remuneration of the Supervisory Board	2009 EUR	2008 EUR
Michael Oschmann	0	0
Merrill Dean	0	0
Jan Andersen	0	0
Dr. Frank Schlaberg	0	0

Further information concerning the independence of the members of the Supervisory Board as well as other details are contained in the Corporate Governance Report which forms part of this Annual Report.

Michael Oschmann (Chairman)

Unqualified audit certificate for the Consolidated Annual Accounts

Auditors Deloitte Accountants B.V. audited the Consolidated Annual Accounts of ad pepper media International N.V. including the Directors' Report for the 2009 financial year and issued the unqualified audit certificate.
The Supervisory Board examined the Consolidated Annual Accounts and the Directors' Report as well as the auditor's report. Joint meetings were held with the auditor who presented key results of his audit and answered related questions. The Supervisory Board approved the result of the audit.
On 23 March 2010, the Supervisory Board approved the Annual Accounts for the year 2009 drawn up by the Management Board. The Annual Accounts for the 2009 financial year are thereby approved.

Corporate Governance

ad pepper media International N.V. is a company subject to Dutch law with subsidiaries in the Netherlands and abroad. All business activities were carried out in compliance with Dutch company and German capital market laws, in particular, the German Securities Trading Act (Wertpapierhandelsgesetz (WpHG)). The common shares are listed at the Frankfurt Stock Exchange for trading in the prime standard. The Supervisory Board feels committed to increasing shareholder value in the interest of all shareholders and has always been applying the most demanding standards for the company's corporate governance principles. Although the company according to its own guidelines generally applies the requirements laid down in the Dutch Corporate Governance Code, deviations may result from the legal requirements applicable to ad pepper media. In the "Corporate Governance" section, ad pepper media reports extensively on compliance with the Dutch Corporate Governance Code.

Thanks to the enormous and committed effort by the Management Board and all the staff of ad pepper media International N.V. and the companies in the individual European countries and the US, ad pepper media was able to master the challenges of the past financial year and is now perfectly positioned for the new financial year. 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, 23 March 2010
On behalf of the Supervisory Board
Michael Oschmann, Chairman

Corporate Governance

Corporate Governance: „Comply or Explain"

Introduction

In 2005 ad pepper media International N.V. took measures for the application of the Dutch Corporate Governance Code (the "Code"), which became effective on 1 January 2004.

In the context thereof ad pepper media adopted in 2005:

- regulations for the Board of Directors;
- regulations for the Supervisory Board;
- a profile for the Supervisory Board;
- regulations concerning ownership of and transactions in securities by the Board of Directors;
- an internal risk management and control system.

Except for the internal risk management and control system, copies of these documents are available on ad pepper media`s corporate website.

At the 2009 annual general meeting of shareholders, the corporate governance policy was discussed and the general meeting was requested to further improve the corporate governance structure and to vote for an amendment to the Company's articles of association, to further reflect the Company's compliance with the Code.

Each substantial change in the corporate governance structure of the Company and in the compliance of the Company with the Code was submitted to the general meeting of shareholders for discussion.

This chapter gives an outline of ad pepper media's corporate governance structure. Deviations from the Code are specifically discussed and explained herein.

Board of Directors

ad pepper media is managed by a Board of Directors which is responsible for the Company's aims, strategy and policy, and results (which is required to be initiated by the chief executive officer (the "CEO"). The Board of Directors is in charge of managing the day-to-day business and of the operational, tactical and strategic decisions of the Company. The responsibility for the management of the Company is vested in the Board of Directors as a whole.
ad pepper media's Board of Directors consists of one director A (the CEO) and two directors B.

The Board of Directors is responsible for complying with relevant legislation and regulations, for managing the risks associated with ad pepper media's activities and for it's financing.
The Board of Directors is required to report related developments to, and discuss the internal risk management and control system with the Company's Supervisory Board.

The Board of Directors performs its activities under the supervision of the Supervisory Board. In performing it's duties, the Board of Directors acts in accordance with the interests of the Company and the business connected with it and, to that end, is required to consider all appropriate interests associated with the Company. The Board of Directors shall provide the Supervisory Board in good time with all information necessary for the exercise of the duties of the Supervisory Board. The Board of Directors laid down regulations for the Board of Directors about the division of duties within the Board and the procedure of the Board.

Members of the Board of Directors shall be appointed by the general meeting of shareholders from a binding nomination prepared by the Supervisory Board. Under the present articles of association of the Company the general meeting of shareholders may resolve that the list of candidates shall not be binding upon a resolution passed with an absolute majority of the votes cast representing more than one third of the issued capital. ad pepper media thus complies with provision IV.1.1 of the Code.

Under the present articles of association of the Company, members of the Board of Directors are appointed for an indefinite period of time. As of 1 January 2008, new members of the Board of Directors shall enter, if possible, into a five-year employment contract. This is not completely in line with provision II.1.1 of the Code. Partly this can be explained by historical factors. The first members of the Board of Directors have been involved as founders of the Company and have a strong long lasting relationship with the Company. On the other hand it requires a lot of effort to attract qualified new members of the board of management that wish to operate in the dynamic environment of the new economy with a high risk profile.

The company will not establish any whistle blower guidelines. This is in deviation of provision II.1.7. of the Code. Due to the small size of the company there are short lines of communication, the Board of Directors is highly involved in the day-to-day business and employees already have the possibility of reporting alleged irregularities of a general, operational and informal nature in the company without jeopardizing their legal position. Furthermore, in 2007 a Code of Conduct, including business principles for our employees and rules of conduct, was adopted.

Due to the fact that ad pepper media`s major shareholder usually represents more than 90 percent of the capital present or represented at the General Meeting of Shareholdes, ad pepper media decided to not comply with provision II.1.9 of the Code.

We believe that the regulation of determining the level and structure of the remuneration of the Board of Directors members is not applicable due to the current size of the company.
ad pepper media thus does not comply with provisions II.2.1 through II.2.3, II.2.12 and II.2.13 of the Code.

We prefer not to apply provisions II.2.4, II.2.6, II.2.8 as well as II.2.10 and II.2.11, due to the fact – acknowledged by the Commission that drafted the Code – that existing contractual agreements between ad pepper media and individual members of the Managing Board cannot be set aside at will.
In particular, the vesting period of options granted to members of the Board of Directors is two years and not three years. Also, the issue price of the options is fixed at the average trading closing price over a period of 10 days not 5 days.
Furthermore, the remuneration in the event of dismissal may exceed one year`s salary. In the case of a termination of a Board of Director`s member employment agreement without serious cause as defined by the applicable law, ad pepper media would remain obliged to compensate such Board member for the remaining term of his employment agreement. Finally, the Supervisory Board has neither power to adjust the variable remuneration component conditionally awarded in a previous financial year downwards nor can it recover from the Board of directors any variable remuneration awarded on the basis of incorrect financial or other data.
When new Board of Directors will be appointed in the future, the Code will be taken into consideration, but in order to be able to attract top talent in a global market, it will also depend on factors such as market practice, nationality, and existing employment agreements, to which extent the company will comply in individual cases with these best practice provision.

ad pepper media has no outstanding loans to any member of the Board of Directors other than to Mr Michael A. Carton for which loan agreements are at arm's length and approved by the Supervisory Board. ad pepper media has not provided any guarantees for the benefit of any member of the Board of Directors. ad pepper media thus does not fully comply with provision II.2.9 of the Code.

In 2009 the Board of Directors decided to modify the exercise price and the number of options of all stock option plans in order to reflect the increased number of shares in the course of the share split, effective 27 May 2009. ad pepper media thus is of the opinion, that it complies with provision II.2.7 of the Code.

A member of the Board of Directors is required to report immediately and to provide all relevant information to the chairman of the Supervisory Board and to the other members of the Board of Directors about any conflict of interest or a potential conflict of interest that may be of material significance to the Company and/or to him. Due to German privacy legislation this requirement is, in deviation of provision II.3.2. of the Code, restricted to members of the Board of Directors and does not see to information on any conflicts of interests concerning the spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree of the members of the Board of Directors. Decisions to enter into transactions under which a member of the Board of Directors would have any conflict of interest that are of material significance to the Company and/or the relevant member of the Board of Directors require the approval of the Supervisory Board.

A member of the Board of Directors shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a conflict of interest with the Company. All transactions in which there are conflicts of interest with a member of the Board of Directors shall be agreed on terms that are customary in the sector concerned.

Transactions during the financial year with a possible conflict of interest between the Company and a member of the Board of Directors are described in the annual report of the Company.
Mr Ulrich Schmidt holds a minority interest in Brand Affinity Technologies of around 1.8 percent of the company's share capital.
The Supervisory Board of ad pepper media International N.V. approved the transaction. The Director of the Boards hereby declares that ad pepper media International N.V. complied with best practice provisions II.3.2.

The representation authority of the Company, including with respect to the signing of documents, is vested in at least two Directors B or a Director B acting jointly with a director A. The CEO (who is a Director A) has discretion to exercise representation authority and sign documents in his individual capacity.

Supervisory Board

The Supervisory Board is charged with supervising the policies of the Board of Directors and the general course of affairs of the company and the business connected with it, as well as assisting the Board of Directors by providing advice. The Supervisory Board evaluates the main organizational structure and the control mechanisms established under the management of the Board of Directors. It is involved in the discussions about the operational and financial objectives of the company, the strategy designed to achieve the objectives and the parameters to be applied in relation to the strategy. The responsibility for proper performance of duties is vested in the Supervisory Board as a whole. The Supervisory Board members may adopt an independent stance vis-à-vis the Board of Directors.

In performing its duties the Supervisory Board acts in accordance with the interests of the company and the business connected with it and, to that end, considers all appropriate interests associated with the company. The Supervisory Board members perform their duties without mandate and independent of any interest in he business of the company.

Under the criteria of the Dutch Corporate Governance Code, three of four ad pepper media's Supervisory Board members qualify as independent. Mr Michael Oschmann, who is ad pepper media's Chairman of the Supervisory Board, is not independent as he is director of E.M.A. B.V., which is holding more than 10 percent of the Company's share capital. However, the company wishes to keep open the possibility to offer a position at the Supervisory Board to persons who do not qualify as independent under the Code. This has to do with the present size of the company. Therefore the company may not at all times comply with provisions III.2.1 and III.2.2 of the Code.

The Supervisory Board is responsible for the quality of its own performance. In the course of 2005 the Supervisory Board has laid down the division of duties within the Supervisory Board and the procedure of the Supervisory Board in a set of regulations.
Members of the Supervisory Board are appointed by the general meeting of shareholders. The Supervisory Board shall consist of not less than three persons, such number to be determined by the general meeting of shareholders.

At present, ad pepper media's Supervisory Board has four members. The current articles of association of the company restrict the maximum period for appointment of four years and provide that a supervisory director can be immediately reappointed.

In deviation of provision III.3.5 of the Code it will not be proposed to adopt the maximum of three four-year terms. The company wishes to keep open the possibility that a Supervisory Board member continues his position due to his great knowledge of the business and high level of involvement. In 2005 the Supervisory Board prepared and adopted a profile of its size and composition, taking account of the nature of the business, its activities and the desired expertise and background of the Supervisory Board members. The Supervisory Board will evaluate the profile annually. At least one member of the Supervisory Board shall be a financial expert. New Supervisory Board members shall follow an induction program.

The Supervisory Board shall conduct an annual review to identify any aspects with regard to which the Supervisory Board members require further training or education during their period of appointment.

In accordance with the Code it is the intention of the Supervisory Board that its members will not hold more than five memberships in Supervisory Boards of Dutch listed companies, including ad pepper media. In this connection a chairmanship counts twice.
At present no Supervisory Board member holds more than five such board memberships.

The Supervisory Board has not established a formal retirement scheme for the Supervisory Board. In light of the limited number of members of the Supervisory Board we consider it unnecessary to establish a retirement scheme and, thus, the Company does not comply with provision III.3.6 of the Code.

According to the provision III.4.1 of the Code, the Chairman of the Supervisory Board shall see to it that a.) the Supervisory Board members follow their induction and education or training programme, f.) the Supervisory Board elects a Vice-Chairman and g.) the Supervisory Board has proper contact with the Executive Board and the Works Council (or Central Works Council).
ad pepper media does not apply with provision III.4.1 a.) and f.) due to the size of the Company and the limited number of members of the Supervisory Board. In addition, the Company does not apply with provision III.4.1 g.) due to the structure of the Group.

The chairman of the Supervisory Board does not chair the general meeting of shareholders for the reason that the Supervisory Board is of the opinion that it is more appropriate to have the CEO to chair the general meeting of shareholders.
Due to the size of the company the chairman of the Supervisory Board is not assisted in his role by a company secretary. Therefore, the company does not comply with provision III.4.3 of the Code.
Since 2005 the Company's articles of association contain a provision pursuant to which the Supervisory Board may, if it deems it necessary, establish one or more committees, in which case it has to draw up a set of regulations for each committee.

The remuneration of the Supervisory Board members, if any, is not dependent on the company's results. A Supervisory Board member may be granted shares and/or rights to shares by way of remuneration. The shares held by Supervisory Board members in the company are long-term investments.
Any conflict of interest or apparent conflict of interest between the company and Supervisory Board members shall be avoided. Transactions with a possible conflict of interest between ad pepper media and a member of the Supervisory Board are described in the annual report of the company. Transactions under which Supervisory Board members would have conflicts of interest that are of material significance to the company and/or to the relevant Supervisory Board are entered into at arm's length.

The Supervisory Board is responsible for deciding on how to resolve conflicts of interest between the Board of Directors members, Supervisory Board members, major shareholders and the external auditor on the one hand and the company on the other.
The Board of Management deems that the company has complied with Best Practice Provisions III.6.1 to III.6.3 inclusive. No transactions have taken place in the financial year in which (potentially) conflicting interests of material substance related to Supervisory Board members have played a part. No transactions in the context of Best Practice Provision III.6.4 have taken place.

According to the provision IV.3.10 of the Code, the report of the General Meeting of Shareholders shall be made available, on request, to shareholders no later than three months after the end of the meeting, after which the shareholders shall have the opportunity to react to the report in the following three months. The report shall then be adopted in the manner provided for in the Articles of Association. A notarial record is made of the proceedings of the meeting, as provided for in the Articles of Association. The notarial record will be available no later than three months after the meeting and made available upon request. Therefore this best practice provision is not fully being complied with.

With reference to best practice provision IV.3.11, the Company confirms that it has no antitakeover constructions, in the sense of constructions that are intended solely, or primarily, to block future hostile public offers for its shares. Nor does ad pepper media have any constructions whose specific purpose is to prevent a bidder, after acquiring 75 percent of the capital, from appointing or dismissing members of the Board and subsequently altering the Articles of Association. The acquisition through a public offer of a majority of the shares in a company does not under Dutch law preclude in all circumstances the continued right of the Board of the company to exercise its powers.

The chairman of the Supervisory Board determines the agenda, chairs the Supervisory Board meetings, monitors the proper functioning of the Supervisory Board, arranges for the adequate provision of information to the members, ensures that there is sufficient time for making decisions, arranges for the induction and training program for the members, acts on behalf of the Supervisory Board as the main contact for the Board of Directors, initiates the evaluation of the functioning of the Supervisory Board and the Board of Directors and evaluates whether or not the Supervisory Board should install committees. In 2009 ad pepper media did not have committees as set out in III.5 of the Code and thus did not fully comply with this provision. As a consequence, ad pepper media also does not comply with provision V.3.2 and V.3.3 of the Code. However, in the absence of an audit committee, the entire Supervisory Board forms the audit committee.

Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences are being announced in advance on the company's website. Due to their large number and overlap in information, however, some of the less important ones are not announced in advance, made accessible to everyone or put on our website. Also, due to the size of ad pepper, meetings and presentations are not being made available in real time. The Company, thus, does not fully comply with provision IV.3.1 of the code.

ad pepper media has not formulated a policy on bilateral contacts with shareholders due to the small number of outstanding shareholders. The Company, thus, does not comply with provision IV.3.13 of the code.

ad pepper media does not have an internal auditor function of its own which the Company believes is justified given the size and complexity of its business and the duties and involvement of its external auditors. ad pepper media does, thus, not comply with provisions V.3.1 through V.3.3.

Auditor

The external auditor is appointed by the general meeting of shareholders. The Supervisory Board can nominate a candidate for this appointment for which purpose the Board of Directors advises the Supervisory Board. The remuneration of the external auditor, and instructions to the external auditor, to provide non-audit services, shall be approved by the Supervisory Board, after consultation with the Board of Directors.

At least once every four years, the Supervisory Board shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the general meeting of shareholders.

The company does not have separate officers with the function of internal auditor, due to its size. The corporate controlling department covers also the function of internal audit issues. Controllers of the company are required to operate under the responsibility of the company's Board of Directors.

The external auditor is required to attend the meetings of the Supervisory Board at which the report of the auditor with respect to the audit of the annual accounts is discussed and at which the annual accounts are approved.

Internal risk management and control system

Based on our evaluation of the operation of our internal risk management and internal control systems, the Board of Directors is of the opinion that the internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies.

Also, the Board of Directors is of the opinion that there are no indications that the internal risk management and internal control systems have not operated properly in the year under review or will not operate properly in the current year. This evaluation and the current status have been discussed with the external auditor and the plenary Supervisory Board. As regards risks other than financial reporting risks, including operational/strategic and legislative/regulatory risks, reference is made to the most important risk factors inherent in our businesses and our objectives as listed in the "Risk Factors" section.

In view of the above the Management Board is of the opinion that it is in compliance with the requirements of provision II.1.4 of the Dutch Corporate Governance Code.

Article 10 Takeover Directive Decree (Besluit artikel 10 overnamerichtlijn)

Introduction

In accordance with article 10 of the Takeover Directive (Dertiende Richtlijn), companies with securities that are admitted to trading on a regulated market are obligated to disclose certain information in their annual report. This obligation has been implemented in Dutch law through Article 10 Takeover Directive Decree.
ad pepper media must disclose certain information that might be relevant for companies considering making a public offer with respect to ad pepper media. Please find below the information which ad pepper media is required to disclose including a corresponding explanatory report.

Capital structure

On 31 December 2009, the total number of ad pepper media shares carrying voting rights was 23,000,000 ordinary shares (including 2,267,792 shares held by the company that may not be voted on at general meetings of shareholders). The ordinary shares represent 100 percent of the total share capital i.e. no preferred shares have been issued.

Obligation of Shareholders to disclose holdings

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht) and the Decree on Disclosure of Major Holdings and Capital Interests in Securities-Issuing Institutions (Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen), the Financial Markets Authority has been notifed about the following substantial shareholdings regarding ad pepper media International N.V.
Notifications in the financial year 2009 and 2010 (until 23 March 2010):

- 19 August 2009: Amiral Gestion S.A. voting rights amount to 14.41 percent (this corresponds to 3,286,251 voting rights).
- 7 September 2009: Amiral Gestion S.A. voting rights amount to 9.85 percent (this corresponds to 2,243,879 voting rights).
- 8 March 2010: Amiral Gestion S.A. voting rights amount to 4.94 percent (this corresponds to 1,126,517 voting rights).

Appointment and suspension of members of the Board of Directors

The managing directors shall be appointed from a binding nomination made by the Supervisory Board. In case no binding nomination has been made the general meeting shall be free in its choice. The general meeting may, at all times, resolve that the list of candidates shall not be binding upon a resolution passed with an absolute majority of the votes cast representing more than one third of the issued capital. If at least an absolute majority of the valid votes cast supports the resolution to render the nomination non-binding, but the required quorum of one-third of the issued capital is not being represented, this resolution could however be taken in a second meeting to be convened in which the resolution can be taken with at least an absolute majority of the valid votes cast, without any quorum requirement. A member may be reappointed for a term of not more than five years at a time.
The Supervisory Board appoints one of the members of the Board of Directors as Chairman of the Board of Directors.

The general meeting may at any time suspend or dismiss any member of the Board of Directors. The Supervisory Board shall have power to suspend each Member of the Board of Directors. It shall immediately notify the member of the Board of Directors concerned of his suspension by means of a written statement giving the reason for the suspension and it shall have the obligation to call a General Meeting, which shall either cancel the suspension or resolve upon dismissal of the suspended director.

Shareholders agreement on limitation of the exercise of voting rights

Each share issued by ad pepper media entitles its shareholder to one vote. There are no restrictions on voting rights. As far as known to ad pepper media, there is no agreement involving a shareholder of ad pepper media that could lead to a restriction of the transferability of shares or of voting rights on shares.

Appointment and suspension of members of the Supervisory Board

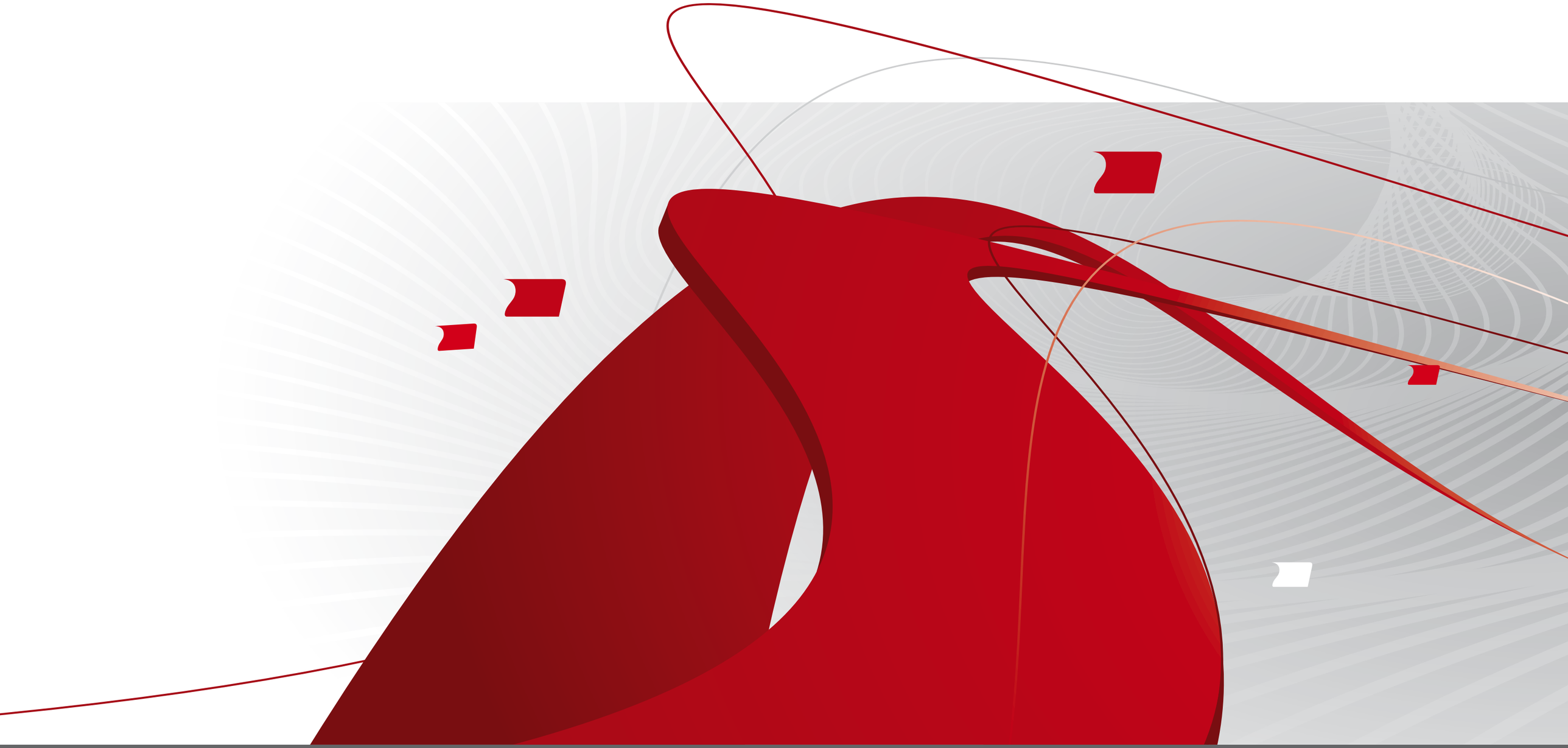
The general meeting appoints the Supervisory Directors and shall at all times be empowered to suspend or dismiss each and any Supervisory Director. The general meeting appoints, dismisses, suspends a member of the Supervisory Board by absolute majority. The Supervisory Board shall consist of not less than three members, including a Chairman, who will retire by rotation as laid down in writing by the Supervisory Board and, with due regard of the statutory provisions, may be reappointed, whereby the basic principle will be that as few Supervisory Directors as possible retire at the same time.

Amendment of the articles of association

The Articles of Association may only be amended by a resolution of the General Meeting at the proposal of the Board of Directors, made with the consent of the Supervisory Board.
If the Board of Directors has not made such a proposal any resolution to change the Articles of Association has to be taken with a majority of at least two-thirds of the validly cast votes.

Acquisition by the company of shares in its own capital

On 19 May 2009 the ordinary shareholders` meeting granted the management board the right to buy back up to 11,394,854 shares on the stock exchange. The approval is valid until November 2010. During 2009 ad pepper media international N.V. has bought back 1,512,474 shares at an average price of EUR 1.12 per ad pepper media-share.



The share

The ad pepper media International N.V. share

Shareholders' meeting

At the shareholders' meeting of ad pepper media International N.V. on 19 May 2009 in Amsterdam, all the resolutions proposed on the agenda were adopted unanimously and without abstention.

All in all, 52.33 percent of the then 11,394,854 voting rights were represented at the shareholders' meeting. Important items of the agenda included the presentation of the Annual Accounts for 2008, as well as the authorization to buy back company shares, a two-for-one share split (now 22,789,708 voting shares), the appointment of a new auditor as well as the appointment of the supervisory board. All the current members were re-appointed.

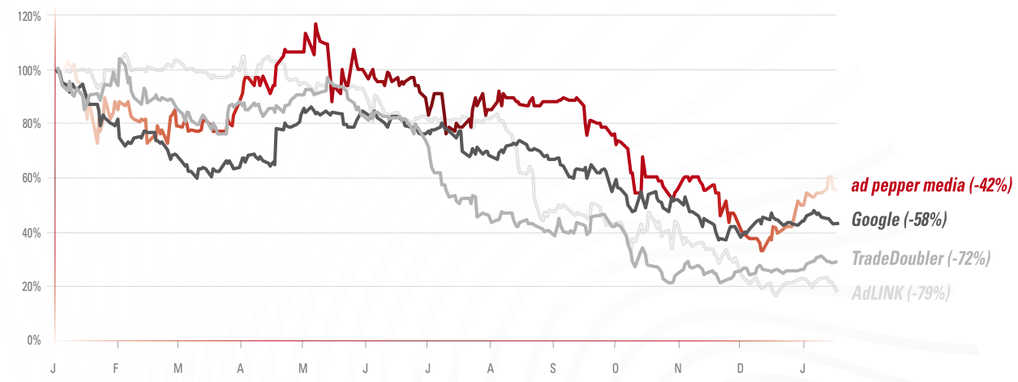
Share price development

	2009 EUR	2008* EUR
Market capitalization	26.9m	20m
Year end	1.18	0.88
Year high	1.50	1.85
Year low	0.72	0.56

In the first six months of the year, the price of the ad pepper media share oscillated between EUR 0.80 and EUR 1.00 (the prices in each case being adjusted to the share split on 27 May 2009). During the course of the third quarter, the EUR 1.00 mark was then exceeded and the up-to-now all-year highs of around EUR 1.40 were reached. The ad pepper media share once again came under pressure in the fourth quarter and returned to a level just slightly above the EUR 1.00 mark.

As per 31 December, the ad pepper media share closed at EUR 1.18 and (adjusted by the share split) was around 34 percent up against the previous year's closing price. As per the end of 2009, market capitalization totaled EUR 26.9m and was this just slightly above cash and/or cash equivalents. There are no loans and borrowings.

** adjusted for share split*



Business activities

Internet use has become part of everyday life

It is obvious that the Internet has gained even more ground in very different areas of life and online use has become the central element of communication, information and transactions. According to the "internet facts" study by AGOF (Arbeitsgemeinschaft Online Forschung – Working Group for Online Media Research), sending and receiving private e-mails come first, followed by search engine research. This is then followed by news of world events or regional news which shows that the Internet is attracting more and more users of daily papers, magazines, radio and TV.
The broad use of the Internet is also influencing the shopping behavior of many consumers. With 97.8 percent, almost all online users have already retrieved information about products or services on the Internet. Leading items of online research are books, holiday and last-minute travel, tickets, hotels for private and business travel, as well as music CDs. The share of online shoppers among Internet users totals 87.2 percent. One can generally say that online research has become a firmly established part of the orientation phase before a purchase is made, be it online or offline.

A look at the age structures in the different fields of interest shows that the focus of interest and hence user behavior change as a function of age and the related activities. Whilst users under the age of 29 are most likely to be found in communicative environments, users aged between 30 and 49 prefer offerings related to family and children. Users 50 years and over are particularly interested in subjects like "eat, drink and be merry".

Online advertising continues to win market shares

Although the rapid growth of the advertising market which we saw in the early days of the web is over, for most advertisers, online advertising is more important than ever, especially during difficult economic times since the sensible and efficient use of marketing budgets is a key issue. This is the only way to justify spending on advertising even during an economic downturn when cutting costs is part of the agenda of almost every enterprise. The advertising success of online advertising can be measured. This is the crucial advantage compared to all other conventional advertising forms and media. The crisis may even serve as an engine and catalyst for online advertising and accelerate the trend towards a shift in advertising budgets towards digital formats, which has been perceivable for some time already.

In this context, the UK is probably the first country where advertising spend on the Internet now exceeds TV advertising. According to a study by the Internet Advertising Bureau (IAB) and PricewaterhouseCoopers, online advertising accounted for a record EUR 1.9 billion and hence around one quarter of the total advertising market, whilst TV advertising was down to just EUR 1.8 billion. Print media ranked third with EUR 1.5 billion. In Germany too as one of the European core markets for digital marketing, the online advertising market recently developed much more robustly than TV advertising, for example. Expenditure on online advertising increased constantly here over the course of last year.

The right media mix in digital marketing

The Internet is the medium of choice for advertisers wishing to maximize the success of their advertising spend. Despite the current economic climate, a growing number of advertisers have come to understand the effect and positive influence of online advertising on brand awareness, purchasing decisions and customer loyalty. Companies know more today than ever before about their customers and can use the Internet to communicate regionally or even globally with their target groups. Compared to print advertising, Internet advertising offers more leeway: Video, audio and animation effectively combine the multi-media options offered by the digital medium, boosting user attention. Innovative online advertising platforms reinforce the positive aspect of brand image and brand popularity. They communicate products and contents in a clear, unmistakable and unique fashion.

Our portfolio offers agencies and advertisers almost the entire range of products and technologies, enabling them to achieve their online advertising goals. Irrespective of whether our customers are aiming for considerable range or whether they wish to address specific groups, whether their main aim is to generate leads (prospective customers) and traffic or to solicit new customers, ad pepper media's customers receive a full range of services, from campaign management to reporting – always based on the best available technology. ad pepper media is persistently expanding its portfolio within the individual product areas, continuously developing new services and solutions in order to be able to warrant both customers and website partners ever-better results. At the product end, the focus is on performance marketing. Performance marketing in digital media forms part of the media mix, making it possible to both win and keep customers. The use of the different advertising media is designed to generate measurable responses or transactions with the user. The online marketer's remuneration is solely success-based.

In addition to this, the ad pepper media portfolio also offers website operators a comprehensive set of products and technologies to make their websites more attractive and to ultimately market them in a more profitable manner: With ad pepper media, website partners can maximize the benefits of free advertising inventory, monetarise their e-mail databases, make use of our powerful ad serving and, as an affiliate partner, earn money as affiliate partners with their websites.

A seasoned marketer

Since the company was established in 1999, ad pepper media, as a seasoned and professional partner, has been offering its customers solutions perfectly tailored to their personal needs and for all areas of online advertising.
The company is present today with 15 branches in 9 European countries and the US and currently conducts thousands of campaigns for national and international advertising customers in more than 50 countries around the globe. Thanks to a broad range of efficient marketing solutions, proprietary technical systems and a high international placement power for cross-border advertising campaigns, ad pepper media has successfully distinguished itself even further from competitors. Media agencies, advertisers and websites in the fields of display, performance, e-mail, affiliate and search-engine marketing, as well as ad serving, are offered targeted and efficient services which cover almost the entire spectrum of online advertising.
As a one-stop shop for advertisers, ad pepper media offers a full range of services, from campaign management to reporting – always on the basis of the best available technology. ad pepper media is persistently expanding its service portfolio within the individual product areas, developing new services and solutions in order to be able to warrant both customers and website partners ever-better results. This is made possible by more than a dozen efficient marketing tools that are permanently expanded and adapted to meet with market requirements and customer needs.

Success-orientated advertising continues on the fast lane

Success-orientated online advertising can look back on a very successful year. Although lead generation and click campaigns have already been very popular in the past, sales with these advertising formats is currently growing even faster than before. E-mail and the Internet provide dialogue marketing specialists with tools that open up unforeseen opportunities for dialogue management in order to support advertising customers during the generation of new leads, soliciting new customers and maintaining and intensifying existing business relationships.

Performance marketing generally pursues two different strategies: It enables advertisers to optimize – in other words: cut – marketing spend compared to conventional advertising media because the flow of advertising money can be controlled better and is pegged to success. Furthermore, sales of products and/or services offered on the Internet can be boosted significantly. An attractive visual appearance of advertising and, even more importantly, its presentation in a relevant, i.e. context-related, environment make it possible to directly influence the conversion rate so that – ideally – a simple "click" becomes an action and/or a purchase. This is where Internet advertising offers another key competitive advantage over traditional advertising: success control. All advertising actions can be monitored and evaluated in real-time with a view to their intended advertising effect and, when necessary, modified even while a campaign is still actively underway.

Revolutionary and award-winning semantic Ad Targeting technology

With its "Sense Engine", ad pepper media owns the first technology world-wide which within fractions of a second analyses the complete text of a website, identifies its key subjects, and places the campaigns matching this website.

The system analyses individual websites, identifies undesired contents, and prevents the delivery of advertising to unsuitable web pages. Undesired environments exist on both small websites and wide-reach brand websites alike, such as a report on an accident on a news website, a negative travel report, or a blog article. Subjects which can be blocked on individual websites include, for instance, alcohol, tobacco, drugs, file sharing, "shock news", nudity and erotic, violence, vulgar language, gambling, arms and extremism. SiteScreen Network, as the product underlying this technology, protects advertisers from placing a campaign in an environment with objectionable contents for the specific brand and the related consequences. Another product which is based on the "Sense Engine" enables the display of campaigns within a context that is relevant for the website, irrespective of format and medium. Ad Server analyses the content, determines the semantic context, the key issues contained, and places the ad only in the desired subject environment. All advertisers have to do is select their desired categories of subjects. ad pepper media provides around 3,000 categories in which successful advertising is possible.

The technology is the result of eight years of research and development under the leadership of Prof. Dr. David Crystal, one of the world's most recognized linguists. The goal pursued here successfully and permanently distinguishes this system from existing targeting systems, thus gaining a decisive lead over competitors.

Webgains – one of the fastest growing affiliate networks in Europe

Affiliate marketing has become an established overall strategy for distribution and marketing processes of suppliers and partners. Key requirements for achieving relevant sales with an affiliate program are the right strategy, professional partners, and good management of the relations with the partner network.
Our Webgains affiliate network is one of the most dynamic platforms on this market. Around 1,300 advertisers (merchants) and around 60,000 affiliates (websites) in the UK, France, Germany, the Netherlands, as well as Sweden, Denmark, Spain and the US are convinced of Webgains as one of the leading affiliate networks.

Maximum range combined with success-based payment makes affiliate marketing very attractive for all participants.
Using Webgains as the technology platform, advertisers (merchants) make advertising formats (banners, text links, etc.) available on the websites of website operators (affiliates). These formats can be used to advertise the merchants' products and services and, when successful, result in a purchase, subscription or similar transaction. This means that in a strict sense Webgains is an e-commerce platform and, in our opinion, one of the most efficient on the market because the technical platform is persistently upgraded, in line with customer demands, on the one hand, and is also supplemented by a service offering which is regarded as exemplary by the entire industry, on the other.

Achieving large ranges quickly with e-mail marketing

The main goals of e-mail marketing are to achieve large ranges quickly and effectively, or to send an advertising message to specific target groups without too much dispersion loss. Successful campaigns select their target groups very precisely in advance. The quality of the addresses depends on several factors. First of all, the databases must be identified which store thousands of e-mail addresses with the address holders' permission. In Germany alone, more than 40 million addresses are registered where permission has been granted to receive e-mail advertising (permission addresses). However, the quality of the individual data differs significantly and varies according to supplier. The more transparent the permission to receive advertising, the more successful the e-mail campaign. Anybody who consciously decides to receive advertising expects to receive post and will also read it. Another important factor is mailing frequency: After all, anybody who actively decides to receive advertising information per e-mail does not want to be inundated with it.

ad pepper media is one of the leading service providers in this field. As a full-service provider, the company's „mailpepper" experts offer all services related to e-mailing: from consultancy to the creative preparation of an advertising medium, right through to selecting the ideal mailing channel. The use of innovative technologies provides advertisers with the ultimate in transparency, delivering comprehensive results and analysis – of course in compliance with the laws in force in the respective countries.

Prices for permission e-mail addresses depend on the supplier, the type of soliciting and the respective target group. The more detailed the requirement profile (sex, age, interests, etc.), the higher the costs which are billed in so-called TKPs – i.e. price per thousand contacts. E-mail addresses without the related user profiles, so-called rest addresses, naturally cost less. Irrespective of whether a broad image campaign is being planned or selected recipients are to be reached, ad pepper media can ensure reliable and smooth delivery in just a few hours. We can offer our customers access to 15 million exclusive e-mail profiles, depending on whether you wish to implement your campaign on a national or international level.

Professional search engine marketing

Although sales with search engine marketing and search engine optimization have yet to reach the level of classical advertising, they are indeed one of drivers behind the growth of Internet advertising. With the acquisition of ad agents GmbH, in which we have held a 60 percent share since April 2007, we are successfully represented in this market segment and are also focusing increasingly on foreign customers, such as Neckermann in Germany and Switzerland, BON'A'PARTE in the Netherlands, Sweden, Denmark, Switzerland and Germany, as well as Elegance in France. Trigema, Runner's Point and Condor are also well-known customers of ad agents. All of these customers now have an established e-commerce strategy and sell goods and services via their websites or web shops. ad agents, a specialist agency for search engine marketing, search engine optimization and performance marketing, helps its customers to transform their web presence into a more efficient selling tool. This is achieved by improving range in combination with the best possible increase in advertising effectiveness.

The strategies developed by ad agents on the basis of quality and security provide customers with sustainability in terms of clicks and sales and are supplemented by detailed reporting.

Independent, powerful ad serving

One of the most important milestones in the past financial year was the integration of the Scandinavian ad serving provider Emediate, acquired early in 2007, into the ad pepper media network. We have successfully implemented Emediate in all the countries in which we operate, replacing technologies from third-party suppliers. The goal was not only to cut costs in the short to medium term, but also to use proprietary ad serving technology and to adapt this to our specific needs without which it would not have been possible to deliver many of the new products developed by us, such as our semantic targeting technology and its iSense and SiteScreen Network products.

Emediate is the market leader in Scandinavia and its customers include top companies, such as wunderloop, a leading supplier of behavioral targeting services, dagbladet.no, one of Norway's biggest online daily newspapers, or the international online marketing network hi-media.
Following AOL's takeover of Emediate competitor AdTech and the takeover of DoubleClick by Google, ad pepper media is now one of the few players on the market to boast independent and powerful ad serving and is hence even more attractive for our customers. Agencies, advertisers and websites will now increasingly avail of services and products from Emediate in order to implement with an independent partner a reliable and scalable software solution to efficiently plan, steer and analyze their campaigns.

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 15 branch offices. Blue chips are won through the activities of our international sales team, and through local and international test products which, following successful implementation, result in large-scale campaigns. Furthermore, through its presence at industry-specific events, ad pepper media was able to develop new customer contacts. The company was present, for instance, at the "Ecommerce Event" in Paris in the autumn of 2009, at the Affiliate Day in Amsterdam, Webvinkelvagdagen in Utrecht , the Emerce Day in Rotterdam or "dmexco" in Cologne, the most important industry show for online marketing in Germany which recorded extraordinarily high visitor numbers last year. Furthermore, the US branch participated with great success in the "iMedia Agency Summits" in Austin and Scottsdale. The company was also represented at "ad:tech" in New York and San Francisco, the leading exhibitions for interactive marketing in the US. Many contacts were made there and our iSense targeting technology was launched.
In Europe, ad pepper media was present at the „ad:tech" in London. In many European countries, ad pepper media also very successful made use of the possibility to position Prof. David Crystal, one of the most famous linguists world-wide and the mind behind iSense, as keynote speaker at many industry conferences and as a speaker at ad pepper media events for media agencies.

Economic development

Economic environment and products

Basic economic conditions

The International Monetary Fund (IMF) forecasts that global economic growth will be stronger in 2010 than originally expected. The IMF's current study for 2010 expects global economic growth of 3.9 percent compared to previous estimates of a 3.1 percent increase. The BRIC countries will be the main growth engine. China, for instance, will record ten percent growth after a previous nine percent, according to the IMF. Growth in the US is also expected to be significantly higher: Whilst previous forecasts saw a 1.2 percent increase, the IMF is now expecting growth of 2.7 percent for 2010.

The IMF increased its estimates for economic growth in the eurozone from 0.3 percent to 1.0 percent for the current year. Germany is expected to be the main driver behind recovery in the eurozone. Whilst recent forecasts still expected 1.3 percent (German Institute of Economic Research, DIW), growth expectations have now been increased to 2.1 percent. It must, however, be noted that the global economic recovery is still based on weak foundations. Furthermore, the expected upswing is perceived as too positive due to the basic effect. At the end of 2011, German economic performance would have once again reached the level it had in mid-2008. The reduction in inventories carried out in the first six months of 2009, which was now increasingly returning to normal, was another reason why development was being perceived more positive than it should be. Furthermore, the IMF notes that economic recovery in many countries is still backed by fiscal measures designed to boost the economy which will be phased out during the second half of 2010 at the latest. The consolidation of national budgets in Europe and the US will then increasingly become the focus again and the expected tax burdens will dampen private consumption. Unemployment, which continues to increase in many countries, will also slow down the economy. DIW expects unemployment in Germany to increase by a good 400,000 to 3.8 million in 2010 and by another 300,000 to 4.1 million in 2011. However, the DIW continues to be optimistic for the year 2011. It expects a consolidation of the growth trend with growth of 1.8 percent for Germany and 1.5 percent for the eurozone.

Decelerated growth of online advertising markets

We expect that the macroeconomic climate will trigger stronger growth of the market share of performance-based forms of advertising even in 2010. This trend is not new. Over the past five years, the market share of performance-based advertising has overtaken that of the CPM-based model. The shift towards performance-based advertising cannot but accelerate further because brands will find themselves forced to become even more return-orientated in view of the ongoing recession. This is also the reason why we restructured our Germany-based mediasquares business (branding) and adapted our product mix in favour of performance-based products (iLead, Webgains, ad agents, etc.) in 2007/2008. More than 85 percent of ad pepper media's business is now success-based.

Ever higher marketing budgets will move from traditional media to online media. This is confirmed by the EIAA (European Interactive Advertising Association) Marketers' Internet Ad barometer published at the end of last year. It forecasts a major shift in advertising money in the field of classical direct marketing and a sustainable move in TV budgets in favor of online advertising.

The same study forecasts that 94 percent of those polled will expand their online budgets further in 2010 throughout Europe. This figure will total 93 percent in 2011. More than 500 marketing decision-makers from leading European companies who advertising their products were polled within the framework of this Europe-wide survey. It suggests that online advertising budgets will record annual growth of 7.6 percent in Europe in 2010. Expenditure on online advertising is even expected to leap more than 15 percent in 2011.

Structure of the ad pepper media group

The ad pepper media group is one of the leading independent marketing networks in online advertising.
ad pepper media International N.V. with its headquarters in Amsterdam, the Netherlands, is the central management and holding company for the companies of the ad pepper media group. With 15 branches in nine European countries and the US, ad pepper media conducts campaigns for thousands of national and international advertising customers in more than 50 countries world-wide. We are active on the online advertising market with three business divisions: ad pepper media, Webgains and ad agents.

ad pepper media

ad pepper media offers a full range of products for successful display, performance and email marketing, as well as ad serving. The major products are iLead, Click Generation, mailpepper, iSense and Emediate.

iLead is the ideal partner for advertisers who want to implement successful measures in dialogue and direct marketing. The focus here is on obtaining addresses to win new customers through a success-based cost-per-lead price model.

Click generation is ad pepper media's success-based traffic-generating marketing solution that supplies advertisers in an efficient and measurable manner with qualified Internet users according to the cost-per-click price model.

mailpepper enables advertisers to achieve large ranges quickly and effectively through email or even to send advertising messages to specific target groups without significant dispersion losses.

iSense equips advertisers and publishers with a revolutionary semantic advertising technology which they can use to place advertising on a relevance basis and targeted for each website. iSense is centered around the patented Sense Engine™ technology and is the result of ten years of research and development. This technology was developed by Dr. David Crystal, one of the world's leading linguistics experts.

Emediate primarily provides ad serving technology solutions and services. Emediate is the market leader in Scandinavia and one of the few remaining players in the market with independent und powerful ad serving.

Webgains

Our Webgains affiliate network is one of the platforms in this market segment with the most dynamic development and is represented by offices in the UK, France, Germany, the Netherlands, the US, Spain, Sweden and Denmark. Maximum range combined with success-based payment makes affiliate marketing very attractive for all participants. Using Webgains as the technology platform, advertisers (merchants) make advertising formats (banners, text links, etc.) available on the websites of website operators (affiliates). These formats can be used to advertise the merchants' products and services and, when successful, result in a purchase, subscription or similar transaction. This means that in a strict sense Webgains is an e-commerce platform and, in our opinion, one of the most efficient on the market.

Not only is the technical platform persistently upgraded, in line with customer demands, we also offer a service portfolio that is considered to be exemplary throughout the industry.

ad agents

ad agents specializes in search-engine marketing (SEM), search-engine optimization (SEO) and performance marketing.

ad agents advises well-known companies from mail order business, the travel industry and many other sectors. There is one thing which all these customers have in common: They already have a mature e-commerce strategy in which they offer their goods and/or services via their websites or web shops. ad agents helps its customers to make their web presence even more efficient as a selling instrument. This is achieved by improving range in combination with the best possible increase in advertising effectiveness. The ad agents strategies, which are based on quality and security, offer customers sustainability in terms of clicks and sales, along with detailed reporting.

ad pepper media holds a 60 percent share in ad agents.

Presentation of the earnings position

Sales development

In the 2009 financial year, sales of ad pepper media fell to kEUR 46,899 (2008: kEUR 52,638), a decline of 10.9 percent against the previous year. The main reasons for this decline in sales can be found in the ad pepper media segment. Due to the economic situation in certain countries (UK) and a deliberate strategic change towards purely success-based advertising (Germany), sales for this segment declined at times significantly. A change in Management in France and Denmark also had a major role to play where sales remained clearly below expectations.

The Webgains segment, in contrast, recorded an increase in sales of 11.9 percent to kEUR 12,713 and hence very positive development despite marked reluctance on the part of British consumers and a related major weakening of the sterling (2008: kEUR 11,203). Spain and the US also accounted for first major contributions towards sales. These countries are the most recent new establishments of the Webgains segment. A total of around 40 percent of sales is at present already generated outside the UK.

The "ad agents" segment also recorded a slight improvement in sales to kEUR 5,390 (2008: kEUR 5,151).

Gross margin

In the year under review, gross margin totaled 44.7 percent (2008: 42.8 percent). In absolute figures, this was a decline of kEUR 1,550 to kEUR 20,979 (2008: kEUR 22,529). The decline in margin largely follows the sales trend described earlier, however, with one difference: The decline in margin was clearly disproportionate to the decline in sales. The gross margin in percentage terms was even increased against the previous year by 1.9 percentage points to 44.7 percent (2008: 42.8 percent). This positive trend is due to increasing sales of success-based advertising formats which feature a higher margin. The trend is also due to the optimization of internal processes and campaign management. ad pepper media also largely does without minimum guarantee payments to websites and this also reduced the risk of margin dilution significantly.

Development of operative costs

Operative costs were strongly influenced by impairment testing of goodwill carried out at the end of the third quarter of 2009 according to the provisions IAS 36. As a result of this impairment test, the book value of the cash generating units, i.e. "ad pepper media" and "Webgains" which are identical to the operative segments, in part substantially exceeded its recoverable value so that a corresponding value impairment was identified. The amount totals kEUR 20,795, which corresponds to almost the full goodwill valuation in the balance sheet of ad pepper media.

Furthermore, additional depreciation with no impact on liquidity from purchasing price allocations (PPA) totaling kEUR 1,171 was carried out. This amount also corresponds to the total residual book values in the balance sheet of ad pepper media. Provisions for reorganization measures in conjunction with the shut-down of ad pepper media Italy srl totaled kEUR 865. Furthermore, depreciation on other assets totaled an additional kEUR 1,915. The latter included, above all, depreciation on software developed within the company totaling kEUR 1,559 which had been capitalized before 2008 (since the 2008 financial year, no software for internal use has been created and capitalized by the company). Furthermore, additional allowance on accounts receivable were formed. For this purpose, ad pepper media will adjust values in future on the basis of significantly narrower maturity bands.

The total amount of these measures (including goodwill amortization) hence totals kEUR 24,746. Compared to the previous year, operative costs rose significantly by kEUR 32,875 to kEUR 52,930 (2008: kEUR 20,055).

As a result of the measures described earlier, operative costs for the 2009 financial year reached a significantly higher level.
Since previous year's operative costs include non-recurring gains in conjunction with the sale of shareholdings (kEUR 10,820) and value adjustments for intangible assets (kEUR 1,506), adjusted operative costs total kEUR 29,369.

After elimination of once-off effects with no impact on liquidity as well as the further measures implemented in 2009, operative costs total kEUR 28,184 on a comparable basis. Operative costs hence fell by 4.0 percent against the previous year.

EBIT and result before taxes

In the past financial year, earnings before interest and taxes (EBIT) totaled kEUR -31,951 (2008: kEUR 2,474). Following adjustment of this figure by the above-mentioned once-off effects, EBIT totals kEUR -7,205. Since the 2008 financial year – again as explained earlier – included non-recurring gains in conjunction with the sale of investments (kEUR 10,820) and impairment of intangible assets (kEUR 1,506), the previous year's EBIT totaled kEUR -6,840 in adjusted terms.

The financial result was adversely affected by impairments of financial instruments totaling kEUR 3,136. On a comparable basis, EBT hence totaled kEUR -5,888 after kEUR -5,587 in the 2008 financial year.

Due to the above-mentioned measures, net income for the period of kEUR -34,322 was much more negative than in the previous year (2008: kEUR 2,610). Eliminating all once-off effects, loss for the period would total kEUR -6,440 against – on a comparable basis – kEUR -6,704 for the same period of the previous year.

Presentation of financial position

Cash Flow

Despite the loss recorded and extensive restructuring measures due to an at times very difficult market environment along with further investment in new products and markets, we managed to close the 2009 financial year with a positive operative cash flow totaling kEUR 260 against kEUR -680 in the 2008 financial year. The operative cash flow was strongly influenced by comprehensive optimization of working capital, resulting in an effect of kEUR 2,078.

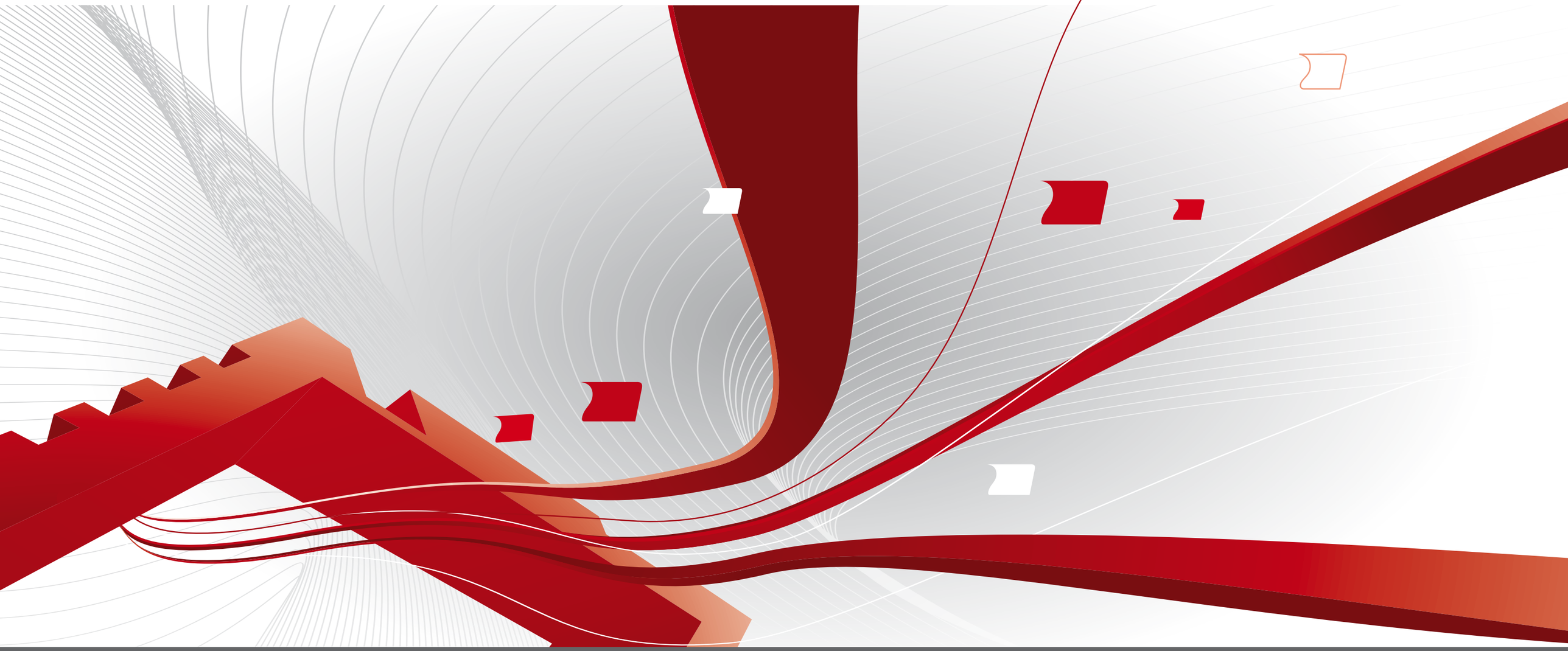
In the past financial year, net cash flow from investment activities totaled kEUR 8,900 (2008: kEUR -5,029). Cash flow from financing activities totaled kEUR -1,425 against kEUR -383 in the 2008 financial year.

Balance sheet structure

Due to the once-off effects described, total assets declined significantly by kEUR 36,286 to kEUR 32,804 (31 December 2008: kEUR 67,090). This development is essentially determined, on the one hand, by the above-mentioned amortization of almost the full goodwill totaling kEUR 20,795. Depreciation from the purchase price allocation (PPA) totaled kEUR 1,171. Furthermore, depreciation was carried out on software developed within the company (kEUR 1,559) and on other financial assets (kEUR 3,136).
Furthermore, additional discounts on accounts receivable were formed. For this purpose, ad pepper media will adjust values in future on the basis of significantly narrower maturity bands. As of the third quarter of 2009, accounts receivable, which are overdue by more than 120 days, will be value-adjusted by 50 percent, accounts receivable, which are overdue by more than 240 days, by 75 percent, and accounts receivable, which are overdue by more than 360 days, by 100 percent. As per 31 December 2009, allowances on accounts receivable totaled kEUR 1,335. The equity item was reduced significantly due to the loss shown for the period under review. The equity ratio as per 31 December 2009 nevertheless totaled an excellent 65 percent (31 December 2008: 83.0 percent).

As per the balance-sheet date, the ad pepper media group is financed from its own resources. As per the end of December 2009, liquid funds, including securities at fair value and time deposits with a maturity of more than three months, totaled kEUR 22,602 (31 December 2008: kEUR 23,047). Despite investment in new products and markets and a share buy-back carried out and completed in 2009, liquid funds thus remained almost unchanged.

There are no long-term liabilities to banks.



Risk report

Foreword

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.

Legal risks

Data and privacy protection

Websites usually install small files with non-personal (or "anonymous") information, also called "cookies", on the browser of an Internet user. Cookies usually collect non-personal information about users in order to enable websites to better supply website users with contents specifically adapted to their particular needs. The Internet user's browser software forwards the cookie information to the website. We currently use cookies in order to track the traffic of Internet users on the websites of our advertising customers and to monitor and prevent fraud in our networks. Most of the latest Internet browsers enable Internet users to change their browser settings in order to prevent the storage of cookies on their hard disk. Internet users can also remove cookies from their hard disk at any time. Some Internet commentators and privacy supporters have proposed a limitation of or even ban on the use of cookies. Some countries have passed laws which control the use of cookie technology. The effectiveness of our technology can be limited by reducing or restricting the use of cookies. If the use or effect of cookies were to be limited, we would have to switch to other technologies in order to collect geographic or behavior-related information. Although such technologies exist, they are far less effective than cookies. Furthermore, we would have to develop or buy new technologies in order to prevent fraud in our networks. Replacing cookies could become time-consuming and require considerable investment. It is conceivable that their development could turn out to be economically pointless or it may not be possible to implement them early enough in order to prevent the loss of customers or advertising space. Due to the use of cookie technology or a comparable technology to collect information about Internet use behavior, we may become involved in lawsuits or investigations in future. Furthermore, many jurisdictions contain detailed provisions concerning both the collection of personal data and the use of such data for direct marketing campaigns. Although we abide by the applicable laws in the different jurisdictions, we are unable to rule out that changes in legislation may have significant repercussions on our business models and revenues.

Any litigation or any governmental action against us could become costly and time-consuming or compel us to change our business practice and divert management's attention from other business fields.

Intellectual property rights

Our patents, trademarks, business secrets, copyrights and other intellectual property rights constitute important assets for us. Various events beyond our control constitute a potential risk for our intellectual property rights. The same applies to our products and services. Effective protection of intellectual property may not be available in every country where our products and services are distributed or offered via the Internet. Furthermore, the efforts which we have made to protect our property rights may be insufficient or ineffective. Any significant impairment of our intellectual property rights can adversely affect our business or our competitiveness. Furthermore, the protection of our intellectual property rights is costly and time-consuming. Any increase in the non-permitted use of our intellectual property can lead to increased administrative costs and work and adversely affect our results. Although it is our aim to obtain patent protection for our innovations, it is conceivable that we may not be able to adequately protect some of these innovations. Moreover, in view of the at times considerable costs of patent protection, we may refrain from protecting certain innovations which could prove to be important at a later point in time. It is also possible that the range of patent protection turns out to be insufficient or that a previously granted patent is deemed to be invalid or non-enforceable. Furthermore, as our company grows, there is a growing probability that lawsuits related to intellectual property issues will be filed against us. Our products, services and technologies may fail to fulfill the demands of third parties, and irrespective of the validity of the claim, it may be time-consuming and costly to ward off such claims both in or out of court. Furthermore, in the event that claims against us are successfully upheld, it may happen that we may have to pay at times significant damages or discontinue services or practices which could prove to be violations of third party rights. It may also happen that we will have to obtain a license in order to continue our existing business operations which could also involve at times considerable additional costs.

Market risks

Competition from other advertising networks, providers of search engines, and traditional advertising media

Our offering for advertisers and web publishers on the Internet covers products and services where pricing is based on Cost Per Action (CPA), Cost Per Lead (CPL), Cost Per Thousand Impressions (CPM) or Cost Per Click (CPC) systems. Every field of our business is exposed to strong competition, above all, from other advertising and affiliate networks offering similar online services and products. Besides online marketing networks and companies specializing in affiliate marketing, we compete with search engine providers, such as Google and Yahoo! as well as large ad serving platforms. Apart from this, we also compete with traditional advertising channels, such as direct marketing, TV, radio, cable and print media which are all striving to win a share in the total advertising budget for themselves. Many existing and potential advertisers have competitive advantages over our company due, for instance, to a longer company history, a higher degree of popularity, a larger customer base, better access to much-frequented websites and at times significantly larger resources in terms of finance, equipment, sales and marketing. These companies use their experience and resources against us in different ways, for instance, by pursuing a more active M&A strategy, investing more in research and development, or competing more aggressively for advertising customers and websites.
If our competitors succeed in offering similar or better services or more relevant advertising, this could lead to a significant loss of websites and hence adversely affect our revenues.

Strong competition / pressure on margins and revenue growth

The advertising markets on the Internet are characterized by quick technological change, the establishment of new industry standards, regular launch of new products and services, and quickly changing customer requirements. The introduction of new products and services based on innovative technologies and the resultant establishment of new industry standards could mean that our existing products and services become obsolete and impossible to sell, thus forcing us to make unforeseen and unplanned investments. Insufficient flexibility to cope with these changes can have adverse effects on our revenue, finance, and asset position.
We expect that our sales growth will decline over the course of time as a result of the basic effect and the increase in competition. We also expect increasing pressure on our operative margins as a consequence of stronger competition and generally increasing expenditure in other areas of our business. Furthermore, the margin could fall as a result of our company having to pay a higher share of our advertising revenue to our website partners within our website portfolio and/or affiliate network.

Financial risks

Low profitability

We are exposed to risks that could prevent us from generating net profits even in the future. These risks depend on several factors, including our ability to:

- maintain and expand our existing advertising space on websites of publishers, owners of e-mail lists and newsletter publishers
- maintain and increase the number of advertising customers who use our products and services
- increase the number of our products and services offered
- adjust to changes in needs and habits of online advertising customers, also with a view to the technology demanded by the market
- respond to challenges which result from the large and growing number of competitors in the industry
- adapt to legal or regulatory changes with a view to the Internet in as far as these concern use, advertising and trade
- achieve sales targets for partners with whom we have agreed to minimum guarantees
- generate revenue from services in which we have invested significant time and resources, such as Webgains, motigo, Emediate and iSense
- give priority to long-term goals over short-term results, when necessary
- adapt to technological changes with regard to programs designed to suppress Internet advertising
- adapt to changes in the competition environment
- achieve sufficient profitability and reputation in the market on the basis of our investment in new technologies and the related products/services

Should we fail to successfully handle these risks and uncertainties, this could trigger some very negative consequences for our revenue, asset, and finance position.

Risks of our M&A strategy

Part of our company's growth results from mergers and acquisitions and we will continue to consider acquisitions even in future. Every acquisition can have material consequences for our revenue and finance position. Furthermore, the integration of an acquired business or technology can cause unforeseen operational problems, expenditure, and risks. Areas in which we may be faced with risks in this context include:

- implementation or modification of controls, processes and strategies of the business acquired
- the diversion of management attention from other business matters
- overvaluation of the business acquired
- acceptance of the acquired business's products and services by our customers
- cultural problems in conjunction with the integration of the acquired business's staff into our group
- continuation of employment of staff of the companies which we acquire
- integration of the accounting, management, information systems, of the human resources administration and other administration systems of every business acquired

The integration of businesses, products, and workforce acquired can constitute a considerable burden on management and our internal resources. Acquisitions of foreign companies, in particular, are subject to further risks in addition to those discussed earlier. These include risks in conjunction with the integration of companies with different cultures and languages, exchange rate risks and other country-specific economic, political and legal risks.

In view of the number of acquisitions which we have completed in past years, the different customers and technological functionalities of the products and service offerings acquired, future acquisitions may pose significantly bigger challenges than our previous acquisitions with a view to products, sales, marketing, customer support, research and development, buildings, information systems, accounting, human resources and other integration aspects, and may delay or threaten the complete integration of the businesses acquired.

Minimum payments to certain members of the advertising network

We are obliged under certain agreements to effect guaranteed minimum payments of revenue shares to the members of our network without the possibility to terminate these obligations. Under these agreements, we undertake to effect such minimum payments to the members of our network for an agreed term. It is diffiult to forecast withcertainty those sales which we, for our part, will generate within the scope of these agreements with guaranteed sums, and our revenues occasionally remain below the guaranteed minimum payment of revenue shares.

Currency risks

Since ad pepper media conducts a significant share of its business outside the eurozone, exchange rate fluctuations can have a significant impact on result. Currency risks from financial instruments exist in conjunction with accounts receivable, accounts payable, as well as cash and cash equivalents in a currency other than the functional currency of a company. The currency risk from financial instruments is relevant for ad pepper media especially for the US dollar and the British pound.

Tax risks

Our future income tax payments can be adversely affected by future, lower than expected profits in jurisdictions with lower tax rates and higher than expected profits in jurisdictions with higher tax rates. If the valuation of our latent tax receivables and payables changes, or if tax laws, regulations, accounting standards or their interpretation change, this could also mean additional tax expenditure. Our tax liability forecast can be examined by the responsible tax authorities at any time. Any negative outcome of such an examination can have an adverse effect on our finance, revenue, and asset situation. Furthermore, the determination of the amount of our tax provisions and other tax liabilities world-wide is a very complex process, and many transactions and calculations exist where the determination of the final amount of tax to be paid is uncertain. Although we consider our estimates to be realistic, the actual tax result can differ from the amounts shown in our financial statements and significantly influence our financial results in the period or period(s) to which such tax assessment applies.

New accounting standards

The International Accounting Standards Board (IASB) or other organizations may from time to time publish new and revised directives, interpretations and other guidelines which can influence the International Financial Reporting Standards (IFRS). As a result, it may happen that an accounting rule is adopted for which no rules previously existed, or that an accounting rule is declared to be generally valid which was previously open for interpretation. It is also conceivable that the acceptability of a valid method be revoked in favor of a completely new one.
Such changes concerning IFRS can have a significant impact on our finance, revenue, and asset position.

Liquidity and cash-flow risks

All of the company's liquid funds and short-term marketable securities are essentially managed by finance institutes. Based on the development of our business, the liquidity of ad pepper media International N.V. can at present be considered to be secure and, despite future investment in new companies and the only slightly positive operative cash-flow, sufficient to meet all future payment obligations. Liquid funds are expected to decline further because further investments will be necessary in the future. Furthermore, the company is dependent upon its customers' payment discipline. Our receivables are typically unsecured and result from sales which are for the by far largest part generated with customers based in Europe. The company checks its customers' creditworthiness on an ongoing basis and has made provisions for potential cases of default.

Technologies and IT-risks

Risks due to new technologies

It is conceivable that technologies will be developed which block or suppress the display of our advertising on the Internet. Most of our revenues are generated in such a manner that advertising customers pay for their advertising appearing on websites. Technologies designed to block or suppress Internet advertising could hence have an adverse effect on our operating results.

Fast technological change

The market for Internet advertising is characterized by fast technological change, developing industry standards, frequent introduction of new products and services, as well as changing customer behavior. The introduction of new products and services and the emergence of new industry standards can render existing products and services obsolete and impossible to sell, or require unexpected investment in new technology. Our success will depend on our ability to adapt to fast technological changes, to improve existing solutions, and to develop and launch a host of new solutions in order to meet with our customers' and partners' continuously changing demands. Advertising customers, for instance, are increasingly demanding online advertising networks and advertising that goes beyond pure stills, integrating "rich media", such as audio and video, interactivity and methods for more accurately targeted consumer contacts. Our systems do not support all types of advertising formats. Furthermore, certain publishers within our network do not accept all of the advertising formats offered by us. Moreover, a further increase in the number of fast and powerful Internet accesses can generate new products and services which only become possible with increasing bandwidth. If we fail to successfully adapt to such developments, there is a risk that we could lose customers and/or parts of the advertising space marketed by us. We buy most of the software used at our company and we plan to continue buying technologies from third suppliers even in future. We are unable to definitely say that such technologies will continue to be available in future either at all or at commercially reasonable terms. We can also encounter problems which delay or prevent the successful design, development, introduction or marketing of new solutions. Any solution or improvements newly developed by us will have to fulfill the requirements of our present customers and prospective clients, and there is a risk that these will not meet with the acceptance hoped for on the market. If we fail to keep pace with technological developments and the launch of new industry standards at a reasonable cost, there is a risk that our expenditure will increase and that we will lose customers and advertising space.

IT architecture / infrastructure

In order to be successful, the infrastructure of our networks must be efficient and reliable. The higher the user frequency and the complexity of our products and services, the more CPU performance will we need. We have invested heavily in acquiring and leasing data centers, equipment and updating our technology and the infrastructure of our network in order to cope with growing traffic and launch new products and services, and we expect to continue doing so. These investments are costly and complex and can lead to efficiency losses or downtime. If we fail to expand successfully or if efficiency losses or downtime occur, the quality of our products and services as well as customer satisfaction could suffer. This could damage our reputation and result in a loss of existing and potential customers, advertising clients and members of our network. Cost increases, a lower frequency of use on the part of our partners in the advertising network, failure to adapt to new technologies or changed business requirements could adversely affect our revenue and finance power.
We additionally resort to IT suppliers, including data centers and broadband providers. Any disturbance in network access or collocation services by these providers or their inability to process the current or larger data volumes could seriously damage our business. Furthermore, financial or other difficulties on the part of our providers could have an adverse impact on our business. We have witnessed interruptions and delays of the described services and of the availability of IT infrastructure and expect these in the future too. Faults, interruptions or delays in conjunction with these technologies and information services could harm our relations with users, adversely affect our brand, and expose us to liability risks.
Finally, our systems are extremely dependent upon power supply. In the case of major power outage, we would have to resort to emergency power units. It may happen that such emergency power units do not work correctly and that fuel is insufficient in the case of a major power outage. This could lead to an interruption of our business activity.

Internet access

Our products and services are dependent upon our users having access to the Internet on the one hand and also require sometimes substantial bandwidth. This access is at present made available by companies which have important and growing influence on the market for broadband and Internet access, such as telephone companies, cable companies and mobile communication providers. Some of these providers could start adopting measures to interrupt or impair user access to certain products, or they could increase the costs of user access to such products by limiting or forbidding the use of their infrastructure for our offerings, or they could charge us or our users higher fees.
This could lead to a loss of members in our advertising network as well as advertising customers and ultimately to increasing costs, and it could impair our ability to win new users and advertising customers and thereby adversely affect our revenues and our growth.

Interruption of IT and communication systems

The availability of our products and services is dependent upon the uninterrupted operation of our IT and communication systems. Any damage to or failure of our systems could interrupt our services and this could reduce our revenues and profits and damage our brand. Our systems could be damaged by flood, fire, power outage, telecommunication failure, computer viruses, terrorist attack, attack preventing computers from accessing services, and other forms of attack on our systems. Our data centers could become the target of intrusion, sabotage or willful vandalism or they could be affected by faults occurring as a result of financial difficulties on the part of operators of data centers. Not all our systems are fully redundant and our recovery plans after natural disasters, if any, cannot consider all conceivable cases. Natural disasters of this kind or the decision on the part of operators for financial reasons to close down a facility used by us without reasonable notice and/or other unexpected problems at our data centers could lead to long-lasting disturbances of our services.

Increasing use of PC-independent services

The number of people accessing the Internet using devices other than a PC, including mobile phones, PDAs and email assistants as well as TV receivers, has grown dramatically in recent years. The still low definition and functionality and the limited memory of such devices make using our products and services on these devices more difficult. However, if we do not succeed in the future to win a relevant number of users of alternative devices and to win the loyalty of these users for our products and services, or if we are too slow in developing products and technologies which are compatible with communication devices other than PCs, we will miss out on an important part of an ever-more important share of the market for online services.

Risks in conjunction with ownership of our share

Share price fluctuations

The price of our share has been subject to at times considerable fluctuations since its first-time listing and will continue to be volatile even in the future. The share price can be highly volatile in response to several influence factors some of which are beyond our control. These factors include:

- fluctuation of our quarterly results or of the results of our competitors
- announcements of takeovers, new products, important contracts, business relations or capital provision
- recommendations by security analysts or changed profit expectations
- publication of profits which do not correspond to the expectations of analysts; this risk can be considerable because as part of our investor relations strategy we do not communicate any profit outlook
- number of shares outstanding
- share sales by us or our shareholders
- short selling, hedging or other derivative transactions with shares

Furthermore, the stock market in general and the market for technology companies in particular have witnessed extreme share price and trading volume fluctuations which were often unrelated to the operative performance of these companies or which were disproportionate. These general market and industry factors can seriously damage the price of our share irrespective of our actual development. In the past, lawsuits have been filed against such companies after times of high price fluctuations of the overall market and of individual shares.
In the event that such lawsuits are filed against us, this could lead to significant costs and distract management time and resources.

No dividend payments

We have neither resolved nor paid cash dividends on our ordinary shares. We are currently planning to retain future profits and do not expect to pay dividends within the foreseeable future.

Limited influence of shareholders

Each of our shares represents one vote. As per 31 December 2009, one of the founder shareholders, EMA B.V., owned shares representing around 42 percent of the voting rights of our shares outstanding. EMA B.V. will hence for the foreseeable future have significant influence on management and all matters requiring approval by the shareholders, including, for instance, the election of board members, important company transactions, such as mergers or the sale of the company as a whole or in parts.
This concentration of control limits our shareholders' lever to influence company matters, and we can hence implement measures which our shareholders do not consider to be useful against this background. This can lead to a lasting negative impact on share price.

Overall assessment of risks

Compared to the previous year, the risk environment of ad pepper media did not change significantly during the period under review. The assessment of the overall risk situation is the result of the consolidated analysis of all major individual risks.
From today's perspective, no risks are foreseeable which, even in conjunction with other risks, could threaten the continued existence of ad pepper media.

Chances and forecast

It seems that the global economy has bottomed out so that slow economic recovery is expected for the current year. During the past financial year, we managed to create a sound foundation that is enabling us to come out of the crisis stronger than before and to draw above-average benefits from the continued dynamic growth of the online advertising market as soon as the economic engine starts again. We have already done most of our homework. Several countries, including the US and France, are expecting to see a significant turnaround.

The fundamental growth trends in the online marketing industry remain unbroken: Internet penetration continues to increase world-wide and the average time spent on the Internet is increasing as well. In addition to this, Internet advertising is becoming more important when compared to classical forms of advertising, such as print, radio or TV. We expect that the pending economic downturn will accelerate this trend even more. Finally, the greater part of advertising formats shown on the Internet today is already only billed when successful, i.e. advertisers only pay when Internet users respond to their adverts. Today, ad pepper media's product portfolio already largely comprises web formats that are billed on a success basis. This is due to the fact that we were quick to recognize these so-called performance-based forms of advertising like iSense, iLead, Webgains, ad agents, etc.

As a consequence, we think that we are well prepared for the business year. In addition to that, we are starting out in 2010 with a reduced cost basis thanks to a cost-cutting and efficiency-optimization program conducted in the course of 2009. This makes us confident that in 2010 we will be able to at least stabilize sales and improve profits to significantly.

Responsibility statement

Responsibility statement

To the best of our knowledge, and in accordance with the applicable accounting principles (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

The Management Board
ad pepper media International N.V.

Ulrich Schmidt Jens Körner Michael A. Carton

Annual consolidated financial statements

Consolidated income statement (IFRS)

	Note	Q1-Q4 2009 kEUR	Q1-Q4 2008 kEUR
Revenues		**46,899**	**52,638**
Cost of sales	[7]	-25,920	-30,109
Gross profit		**20,979**	**22,529**
Selling and marketing expenses	[8]	-16,301	-16,779
General and administrative expenses	[9]	-10,477	-11,610
Other operating income	[10]	1,210	2,442
Other operating expenses*	[11]	-3,481	-3,422
Impairment of goodwill and other intangible assets*	[11a]	-23,881	-1,506
Gain on sale of shares in associates and other investments	[12]	0	10,820
Earnings / loss before interest and taxes		**-31,951**	**2,474**
Financial income	[13]	1,592	1,265
Financial expenses	[13]	-275	-12
Impairment of securities and other financial assets	[13]	-3,136	0
Earnings / loss before taxes		**-33,770**	**3,727**
Income taxes	[14]	-552	-1,117
Net income / loss		**-34,322**	**2,610**
attributable to shareholders of the parent company		-34,307	2,620
attributable to minority interest		-15	-10
Basic earnings / loss per share on net income for the year attributable to shareholders of the parent company	[15]	-1.61	0.12
Diluted earnings / loss per share on net income for the year attributable to shareholders of the parent company	[15]	-1.61	0.12
Weighted average number of shares outstanding (basic)**	[15]	**21,348,732**	**22,296,100**
Weighted average number of shares outstanding (diluted)**	[15]	**21,348,732**	**22,639,098**

* previous year adjusted for kEUR 1,506 impairment of intangible asset
** adjusted for share-split of 1 to 2 on 27 May 2009

Consolidated statements of income and expense recognized in equity (IFRS)

	Q1-Q4 2009 kEUR	Q1-Q4 2008 kEUR
Net income / loss	**-34,322**	**2,610**
Currency translation differences	108	-1,366
Revaluation of available-for-sale financial assets	1,189	-1,953
Income tax recognized directly in equity	0	0
Total income and expense recognized directly in equity, net of tax	**1,297**	**-3,319**
Total income and expense recognized in equity	**-33,025**	**-709**
attributable to minority interest	-15	-10
attributable to shareholders of ad pepper media International N.V.	-33,010	-699

Disclosures on total income and expense recognized directly in equity

The total income and expense recognized directly in equity and the corresponding income taxes are as follows:

Q1-Q4 2009	before income taxes	income taxes	after income taxes
Currency translation differences (incl. minority interest)	108	0	108
Revaluation of available-for-sale financial assets	1,189	0	1,189
Total income and expense recognized directly in equity	**1,297**	**0**	**1,297**

Q1-Q4 2008	before income taxes	income taxes	after income taxes
Currency translation differences (incl. minority interest)	-1,366	0	-1,366
Revaluation of available-for-sale financial assets	-1,953	0	-1,953
Total income and expense recognized directly in equity	**-3,319**	**0**	**-3,319**

Consolidated balance sheet (IFRS)

Assets	Note	31 December 2009 kEUR	31 December 2008 kEUR	1 January 2008 kEUR
Non-current assets				
Goodwill	[16]	24	20,814	20,665
Intangible assets	[17]	816	5,258	9,155
Property, plant and equipment	[18]	563	819	1,100
Securities at fair value through profit and loss	[19]	3,265	1,590	0
Securities available for sale	[19]	4,423	4,155	2,131
Other financial assets	[20]	727	2,671	772
Deferred tax assets	[14]	308	740	2,979
Total non-current assets		**10,126**	**36,047**	**36,802**
Current assets				
Securities and deposits with maturity over three months	[21]	1,400	11,469	3,390
Trade receivables	[22]	6,390	10,317	12,847
Income tax receivables	[23]	607	1,159	1,151
Prepaid expenses and other current assets	[24]	463	401	738
Other financial assets	[24a]	304	1,864	1,890
Cash and cash equivalents	[25]	13,514	5,833	12,029
Total current assets		**22,678**	**31,043**	**32,045**
Total assets		**32,804**	**67,090**	**68,847**

Equity and liabilities	Note	31 December 2009 kEUR	31 December 2008 kEUR	1 January 2008 kEUR
Equity attributable to shareholders of the parent company				
Issued capital*	[26]	1,150	1,139	1,139
Additional paid-in capital	[27]	67,102	66,747	66,319
Treasury shares	[28]	-3,410	-1,732	-1,269
Accumulated deficit		-40,076	-5,769	-8,389
Accumulated other comprehensive losses	[30]	-3,533	-4,830	-1,511
Total		**21,233**	**55,555**	**56,289**
Minority interest	[31]	105	120	177
Total equity		**21,338**	**55,675**	**56,466**
Non-current liabilities				
Deferred tax liabilities	[14]	21	377	907
Total non-current liabilities		**21**	**377**	**907**
Current liabilities				
Trade payables	[32]	6,619	7,356	7,619
Other current liabilities		749	960	792
Other financial liabilities	[33]	3,693	2,616	2,695
Income tax liabilities		384	106	368
Total current liabilities		**11,445**	**11,038**	**11,474**
Total liabilities		**11,466**	**11,415**	**12,381**
Total equity and liabilities		**32,804**	**67,090**	**68,847**

* The Issued Capital consists of shares with a nominal value of EUR 0.05 each. The authorized capital amounts to 23,429,708 shares, of which 23,000,000 are issued and 20,732,708 shares were floating at 31 December 2009 (31 December 2008: 22,024,682).

Consolidated statement of cash flows (IFRS)

	Note	Q1-Q4 2009 kEUR	Q1-Q4 2008 kEUR
Net income / loss		**-34,322**	**2,610**
Adjustments to reconcile net income for the year to net cash flow used in/provided by operating activities:			
Depreciation and amortisation*	[6]	2,195	3,193
Gain/loss on sale of fixed assets		0	5
Share-based compensation	[39]	179	428
Gain/loss on sale of securities	[19], [21]	-580	-207
Other financial income and financial expenses	[13]	-741	-1,253
Income taxes	[14]	552	1,116
Gain on sale of shares in associates and other investments	[12]	0	-10,820
Other non-cash expenses and income*		29,607	2,246
Gross cash flow		**-3,110**	**-2,682**
Change in trade receivables	[22]	2,364	1,076
Change in other assets		354	412
Change in trade payables	[32]	-778	-76
Change in other liabilities		138	53
Income taxes received		732	0
Income taxes paid		-378	-363
Interest received		938	912
Interest paid	[13]	0	-12
Net cash flow from operating activities		**260**	**-680**

	Note	Q1-Q4 2009 kEUR	Q1-Q4 2008 kEUR
Additions to intangible assets and property, plant and equipment	[17], [18]	-502	-1,196
Proceeds from sale of intangible assets and property, plant and equipment		0	28
Proceeds from sale of shares in associates and other investments	[12], [24]	1,200	10,845
Loans granted		-751	0
Acquisition of investments		0	-1,814
Acquisition of subsidiaries, net of cash acquired	[4], [17]	0	-40
Proceeds from sale/maturity of securities and maturity of fixed-term deposits	[19], [21]	16,566	207
Purchase of securities	[19], [21]	-7,613	-13,059
Net cash flow from investing activities		**8,900**	**-5,029**
Increase in capital	[26], [27]	187	0
Dividends paid to minorities		0	-47
Sale of treasury shares	[28]	9	0
Purchase of treasury shares	[28]	-1,687	-463
Repayment of loans granted	[20]	66	127
Net cash flow from financing activities		**-1,425**	**-383**
Effect of exchange rates on cash and cash equivalents		-54	-104
Cash-effective decrease/increase in cash and cash equivalents		7,681	-6,092
Cash and cash equivalents at beginning of period		**5,833**	**12,029**
Cash and cash equivalents at end of period		**13,514**	**5,833**

* Previous year adjusted for kEUR 1,506 impairment of intangible assets

Consolidated statement of changes in equity (IFRS)

	Note	Balance at 01-01-08	Total income and expense recognized in equity	Share-based payment	Purchase of treasury shares	Dividends paid to minorities	Balance at 31-12-08
Issued capital	[26]						
Number of shares		22,789,708					22,789,708
Issued capital (kEUR)		1,139					1,139
Additional paid-in capital	[27]						
for employee stock option plans (kEUR)		1,652		428			2,080
from contributions of shareholders of ad pepper media International N.V. (kEUR)		64,667					64,667
Treasury shares	[28]						
Number of shares		385,792			379,234		765,026
Treasury shares at cost (kEUR)		-1,269			-463		-1,732
Accumulated deficit (kEUR)		**-8,389**	**2,620**				**-5,769**
Accumulated other comprehensive losses	[30]						
Currency translation differences (kEUR)		-111	-1,366				-1,477
Revaluation available-for-sale securities (kEUR)		-1,400	-1,953				-3,353
Equity attributable to shareholders of ad pepper media International N.V. (kEUR)		**56,289**	**-699**	**428**	**-463**	**0**	**55,555**
Minority interest (kEUR)	[31]	177	-10			-47	120
Total equity (kEUR)		**56,466**	**-709**	**428**	**-463**	**-47**	**55,675**

	Note	Balance at 01-01-09	Total income and expense recognized in equity	Share-based payment	Purchase of treasury shares	Issuance of shares	Balance at 31-12-09
Issued capital	[26]						
Number of shares		22,789,708				210,292	23,000,000
Issued capital (kEUR)		1,139				11	1,150
Additional paid-in capital	[27]						
for employee stock option plans (kEUR)		2,080		179			2,259
from contributions of shareholders of ad pepper media International N.V. (kEUR)		64,667				176	64,843
Treasury shares	[28]						
Number of shares		765,026			1,512,474	-9,708	2,267,792
Treasury shares at cost (kEUR)		-1,732			-1,687	9	-3,410
Accumulated deficit (kEUR)		**-5,769**	**-34,307**				**-40,076**
Accumulated other comprehensive losses	[30]						
Currency translation differences (kEUR)		-1,477	108				-1,369
Revaluation available-for-sale securities (kEUR)		-3,353	1,189				-2,164
Equity attributable to shareholders of ad pepper media International N.V. (kEUR)		**55,555**	**-33,010**	**179**	**-1,687**	**196**	**21,233**
Minority interest (kEUR)	[31]	120	-15				105
Total equity (kEUR)		**55,675**	**-33,025**	**179**	**-1,687**	**196**	**21,338**

Development of consolidated fixed assets

Financial year 2008	Historical cost						Accumulated depreciation / amortisation / impairment						Book value	
	Balance at 01-01-08 kEUR	Additions kEUR	Additions through business combinations kEUR	Disposals kEUR	Exchange differences kEUR	Balance at 31-12-08 kEUR	Balance at 01-01-08 kEUR	Depreciation/ Amortisation kEUR	Impairment kEUR	Disposals kEUR	Exchange differences kEUR	Balance at 31-12-08 kEUR	Financial year 31-12-08 kEUR	Previous year 31-12-07 kEUR
Goodwill	22,299	0	149	0	0	22,448	1,634	0	0	0	0	1,634	20,814	20,665
Intangible assets														
Software	8,252	655	0	0	-414	8,493	1,372	1,905	1,080	0	-6	4,351	4,142	6,880
Brands and customer bases	4,449	244	0	0	-215	4,478	2,174	803	426	0	-41	3,362	1,116	2,275
Total	12,701	899	0	0	-629	12,971	3,546	2,708	1,506	0	-47	7,713	5,258	9,155
Property, plant and equipment														
Other equipment, operational and office equipment	1,531	297	0	55	18	1,791	431	485	0	22	78	972	819	1,100
Total	36,531	1,196	149	55	-611	37,210	5,611	3,193	1,506	22	31	10,319	26,891	30,920

Financial year 2009	Historical cost						Accumulated depreciation / amortisation / impairment						Book value	
	Balance at 01-01-09 kEUR	Additions kEUR	Additions through business combinations kEUR	Disposals kEUR	Exchange differences kEUR	Balance at 31-12-09 EUR	Balance at 01-01-09 kEUR	Depreciation/ Amortisation kEUR	Impairment kEUR	Disposals kEUR	Exchange differences kEUR	Balance at 31-12-09 kEUR	Financial year 31-12-09 kEUR	Previous year 31-12-08 kEUR
Goodwill	22,448	5	0	22,429	0	24	1,634	0	20,795	22,429	0	0	24	20,814
Intangible assets														
Software	8,493	43	0	6,954	138	1,720	4,351	739	2,730	6,954	54	920	800	4,142
Brands and customer bases	4,478	271	0	4,090	-21	637	3,362	1,007	356	4,090	-14	621	16	1,116
Total	12,971	314	0	11,044	117	2,357	7,713	1,746	3,086	11,044	40	1,541	816	5,258
Property, plant and equipment														
Other equipment, operational and office equipment	1,791	183	0	232	55	1,797	972	449	0	232	45	1,234	563	819
Total	37,210	502	0	33,705	172	4,178	10,319	2,195	23,881	33,705	85	2,775	1,403	26,891

Notes to the 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 2009 were authorized for issue by the board of directors on 23 March 2010. ad pepper media International N.V. is a limited liability company incorporated in the Netherlands, domiciled at Hogehilweg 15, 1101 CB Amsterdam, the Netherlands. The Head Office is domiciled at Frankenstraße 150C, 90461 Nuremberg, Germany. The company's shares 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 formation, ad pepper media has been geared towards acting flexibly to meet the requirements of a whole range of different markets as an international group.

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 15 branches in nine European countries and the USA. ad pepper media uses state-of-the-art technology to link thousands of small, medium and large websites to a top-quality advertising network with global reach and an exact focus on its target group.

In 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]

The annual accounts as per Dutch law consist of the company only financial statements which have been issued separately and the consolidated financial statements which are now presented in this annual report.

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 through equity and for investments designated as at fair value through profit and loss. The consolidated financial statements are presented in euro. All values are rounded to the nearest thousand euro (kEUR) or million euro (EUR m) except when indicated otherwise.

In conformity with article 402, Book 2 of the Netherlands Civil Code, a condensed Statement of income is included in the ad pepper media International N.V. company accounts. There financial statements should therefore be read on conjunction with the consolidated financial statements presented herein.

Statement of compliance

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

The company financial statements of ad pepper media International N.V. have been prepared in accordance with Dutch law.

Basis of consolidation

The consolidated financial statements comprise the financial statements of ad pepper media International N.V. and its 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 intra-group transactions that are recognized 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. In accordance with 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 recognized at fair value and measured accordingly in the consolidated balance sheet. Following adjustments to the fair values of assets acquired and liabilities assumed, any resulting positive difference is capitalized 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 recognized as income immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to minority interest is also recognized at fair value.
Goodwill is however reported only to the extent that it applies to the group and is not extrapolated to minority interest.

Consolidated group

The entities included in consolidation are as follows:

Entity	Share in percent
ad pepper media GmbH, Nuremberg, Germany	100
ad pepper media 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
Pentamind A/S, Copenhagen, Denmark	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., Madrid, Spain	100
ad pepper media USA LLC, New York, USA	100
ad pepper media Italy srl., Milan, Italy	100
Web Measurement Services B.V., Amsterdam, the Netherlands	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, Küssnacht am Rigi, Switzerland	100
Globase International ApS, Copenhagen, Denmark	100
Emediate ApS, Copenhagen, Denmark	100
EMSEAS TEKNIK AB, Stockholm, Sweden	100
ad agents GmbH, Herrenberg, Germany	60

Changes in consolidated group

ad pepper media Austria GesmbH and ad pepper media Italy srl. were in the process of liquidation on the balance sheet date.
ad pepper media Australia Ltd. is dormant.
Emediate ApS and Pentamind A/S are merged with effective date 1 January 2010.
Further comments are provided in the note on business combinations, if applicable.

Changes in accounting policies and estimates

The accounting policies and estimates adopted are fundamentally consistent with those of the previous financial year with the exception of the following voluntary changes in accounting estimates and voluntary reclassification:

The following changes of accounting estimates according to IAS 8 had material effect:
The useful life of customer bases acquired has been estimated anew with a maximum of one year (recently: three years) according to IAS 38. Hereof impairments resulted to the amount of kEUR 356 relating completely to the segment "ad pepper media".

Furthermore the rules for providing bad debt allowances for aging receivables was tightened with effect of 30 September 2009. Now, a bad debt allowance of 50 percent is set up after 120 days overdue, after 240 days overdue of 75 percent and after 360 days of 100 percent.
Up to then receivables were allowed for with 50 percent after 180 days overdue and 100 percent after 360 days overdue

The following reclassification incurred:
As at 30 June 2008, impairment of intangible assets (kEUR 1,506) were presented as "Selling expenses". For better comparability the prior year was adjusted for a reclassification to "Other operating expenses" in the Group consolidated statements as per 31 December 2008. As a separate line for the material impairment expenses in 2009 was inserted in the profit and loss statement, this amount is now again for reasons of better comparability presented in the line „Impairment of goodwill and other intangible assets".

New standards

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

IAS 1 revised – Presentation of Financial Statements
IAS 1 revised was issued in September 2007 and is applicable for financial years beginning on or after 1 January 2009. IAS 1 revised has resulted (among other things) in additional disclosures in the statement of changes in equity, balance sheet and the statement of recognized income and expenses. In the financial statements presented the requirements of IAS1 resulted in a „Third Balance Sheet" and the choice of a two-page disclosure of both profit and loss statement and statement of recognized income and expenses.

IAS 23 Borrowing costs (revised 2007)
IAS 23 Borrowing costs (revised 2007) was issued in March 2007 and is applicable for financial years beginning on or after 1 January 2009. The standard requires capitalization of borrowing costs that can be allocated to a qualifying asset.
According to its transitional provisions, the standard shall be applied prospectively. IAS 23 Borrowing costs (revised 2007) does not apply to ad pepper media.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 presentation of Financial Statements:
The amendments to IAS 32 and IAS 1 Puttable instruments and obligations arising on liquidation were published in February 2008 and shall be applied for the first time for financial years beginning on or after 1 January 2009. The amendments relate to the classification of puttable shareholder contributions as an equity instrument or as a financial liability. Under the existing rules, entities were in some cases forced, on account of redemption rights on the part of the shareholder that were foreseen by law, to report the capital as financial liabilities.
In future, these shareholder contributions will generally be classified as equity, if compensation at fair value is agreed and the contributions made represent the most subordinate claims on the company's net assets. On the basis of the existing situation, the amended IAS 32 had no impact on ad pepper media.

Improvements to IFRSs
The International Accounting Standards Board (IASB) published the Improvements to IFRSs on 22 May 2008, amending a number of International Financial Reporting Standards (IFRSs) under the first Annual Improvements Project. The final amendments are the result of the discussions held up to now with the aim of adapting the wording of individual IFRS to clarify the existing regulations. In addition, amendments were made that will affect accounting, valuation or assessment.
The standards affected are listed in the IASB's press release together with a brief description of each amendment. Contrary to the initial draft, amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards are no longer included. They are to be published in a separate document. Unless separately regulated in the respective standard, the amendments are to be applied to fiscal years commencing on or after 1 January 2009.
No effects on the financial statements occurred from these improvements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassifications of financial assets
The amendments to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) categories in very limited circumstances.

Such reclassifications are permitted from 1 July 2008. Reclassifications of financial assets made after 1 November 2008 take effect only from the date when the reclassification is made.
Due to its high equity ratio ad pepper media decided to not make use of this right but instead to continue to value the existing securities at fair value.

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

This amendment took into account reservations that, when the IFRS are applied for the first time, in some cases the retroactive determination of the purchase cost according to IAS 27 is only possible at a disproportionately high cost or requires a disproportionate amount of work. The amendments also removed from IAS 27 the obligation to reduce purchase costs when distributing revenue reserves formed before the acquisition of the shares. Dividends from jointly controlled entities, associates companies and subsidiaries must in future be recorded in the Profit and Loss Account regardless of whether the money distributed stems from profits made before the acquisition date or not. An „impairment test" is to be carried out if the profit distributed in a year exceeds the total profits for this year. The amendments apply to fiscal years beginning on or after 1 January 2009.
The amendments made to IFRS 1 and IAS 27 have no impact on the ad pepper media-group's accounting.

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
This amendment to IFRS 2 Share-based Payment was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services.
Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted.
In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.
This amendment to IFRS 2 Share-based Payment had no impact on the consolidated financial accounts.

Amendment to IFRS 7: Improving Disclosures about Financial Instruments
On 5 March 2009 the IASB has issued Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendments require enhanced disclosures about fair value measurements and liquidity risk.
Among other things, the new disclosures:

- clarify that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument
- add disclosure of any change in the method for determining fair value and the reasons for the change
- establish a three-level hierarchy for making fair value measurements:
- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).
- add disclosure, for each fair value measurement in the statement of financial position, of which level in the hierarchy was used and any transfers between levels, with additional disclosures whenever level 3 is used including a measure of sensitivity to a change in input data
- clarify that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts
- add disclosure of a maturity analysis for derivative financial liabilities

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2009, with earlier application permitted. However, an entity will not be required to provide comparative disclosures in the first year of application. The amendment to IFRS 7 had not material impact on the consolidated financial statements.

Amendments to IFRIC 9 and IAS 39 Embedded Derivatives
On 12 March 2009 the IASB has published amendments to IFRIC 9 and IAS 39 to clarify the accounting treatment of embedded derivatives for entities that make use of the Reclassification Amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out of the ‚fair value through profit or loss' category in specific circumstances. These amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the ‚fair value through profit or loss' category, all embedded derivatives in the reclassified instrument have to be assessed and, if necessary, separately accounted for in financial statements. The amendments apply retrospectively and are effective for annual periods ending on or after 30 June 2009.
As ad pepper media decided not to make use of the Reclassification Amendment these amendments have no impact on the consolidated financial accounts.

IFRIC 13 Customer Loyalty Programs
IFRIC 13 was issued in June 2007 and is applicable for financial years beginning on or after 1 July 2008. This Interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted.
IFRIC 13 Customer Loyalty Programs had no impact on the consolidated financial accounts.

IFRIC 14 / IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 14 was issued in July 2007 and is applicable for financial years beginning on or after 1 January 2009. The interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits.
IFRIC Interpretation 14 had no impact on the consolidated financial accounts.

IFRS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN COMMUNITY WHICH ARE NOT YET TO BE ADOPTED:

IAS 27 Consolidated and Separate Financial Statements
The revised IAS 27 was published in January 2008. The amendments that have been made shall be applied for the first time for financial years beginning on or after 1 July 2009. The amendments result from the joint project between the IASB and the FASB on the revision of the accounting regulations applicable to business combinations. The amendments relate primarily to accounting for interests without a control character (minority interests), which will participate in future in full in the losses of the group, and transactions that result in the loss of control over a subsidiary, the effects of which shall be recognized in profit or loss. The effects of disposals of interests that do not result in the loss of control shall on the other hand however be recognized in equity. The transitional regulations, which fundamentally foresee the retrospective application of the amendments, provide for the prospective application of the above-mentioned matters. No changes ensure for assets and liabilities that result from such transactions before the first time application of the new Standard. The group had not yet finally analyzed the effects of these changes as of the closing date. On the basis of the existing situation, the amended IAS 27 will not have any significant impact.

IFRS 1 First-time Adoption of International Financial Reporting Standards (revised 2008)
In November 2008 the IASB has released a restructured version of IFRS 1 First-time Adoption of International Financial Reporting Standards. IFRS 1 was first issued in June 2003, and since then it has been amended frequently. As a result, the IFRS became more complex and less clear. In 2007, therefore, the Board proposed, as part of its annual improvements project, to change IFRS 1 to make it easier for the reader to understand and to design it to better accommodate future changes. The new version of IFRS 1 just issued retains the substance of the previous version, but within a changed structure.
It replaces the previous version and is effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 July 2009. Earlier application is permitted. IFRS 1 is not applicable to ad pepper media.

IFRS 3 Business Combinations
The revised IFRS 3 was published in January 2008 and becomes effective for financial years beginning on or after 1 July 2009. The Standard was comprehensively revised in conjunction with the IASB/FASB convergence project. The main changes comprise in particular the introduction of an option for the measurement of minority interests between the recording of the identifiable net assets ("purchased goodwill method") and the full goodwill method, under which the full goodwill of the acquired entity, also including the

portion attributable to the minority interest, shall be recognized. Furthermore, special mention should be made of the revaluation of existing interests, recognizing gains or losses in profit or loss, when control is obtained for the first time (successive business acquisition), the mandatory reflection of consideration that is linked to the occurrence of future events at the acquisition date and the recognition of transaction costs. The transitional regulations provide for the prospective application of the new Standard. No changes ensue for assets and liabilities that result from business combinations before the first-time application of the new Standard.
Based on the prevailing situation IFRS 3 revised has no impact on the consolidated financial accounts.

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 shall be applied for annual periods beginning on or after 1 January 2010. This interpretation is not relevant for the business of the ad pepper media-Group.

IFRIC 15 Agreements for the Construction of Real Estate
The International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 15 Agreements for the Construction of Real Estate on 3 July 2008. The interpretation aims to achieve uniform accounting by businesses that develop land and, in this capacity, sell units such as residential units or houses „off plan", i.e. before construction is completed. IFRIC 15 defines criteria according to which accounting must follow either IAS 11 Construction Contracts or IAS 18 Revenue. The interpretation applies to fiscal years beginning after 31 December 2009.
IFRIC 15 is not applicable to the ad pepper media-group's business activities.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation
The International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 16 Hedges of a Net Investment in a Foreign Operation on 3 July 2008. The objective of the interpretation is to clarify two issues relating to two standards – IAS 21 The Effects of Changes in Foreign Exchange Rates and IAS 39 Financial Instruments: Recognition and Measurement – in connection with posting hedges of foreign-currency risks within a company and its foreign operations. IFRIC 16 clarifies what is to be considered a risk in the hedge of a net investment in a foreign operation and where within the group the instrument for hedging this risk may be held. The interpretation is to be applied to fiscal years beginning on or after 30 June 2009. IFRIC 16 currently has no impact on the ad pepper media-group's accounting.

IFRIC 17 Distributions of Non-cash Assets to Owners.
The International Financial Reporting Interpretations Committee has issued IFRIC 17 Distributions of Non-cash Assets to Owners in November 2008. IFRIC 17 Distributions of Non-cash Assets to Owners clarifies that:

- a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity.
- an entity should measure the dividend payable at the fair value of the net assets to be distributed.
- an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.
- an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17:

- applies to pro rata distributions of non-cash assets except for common control transactions.
- is to be applied prospectively.
- is effective for annual periods beginning on or after 1 July 2009. Earlier application is permitted.

Based on the prevailing situation IFRIC 17 has no impact on the consolidated financial accounts.

IFRIC 18 Transfers of Assets from Customers
The IASB has published IFRIC 18 Transfers of Assets from Customers in January 2009. This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of PP&E (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to the network or to provide ongoing access to supply of goods/services.

The Interpretation clarifies:

- When the definition of an asset is met
- Recognition and measurement of the asset
- Identification of separately identifiable services
- Recognition of revenue
- Accounting for cash transfers from customers

The Interpretation is effective prospectively for transfers occurring on or after 1 July 2009. Earlier application is permitted if the necessary valuation and other information to apply IFRIC 18 were obtained at the time of the transfer. Based on the prevailing situation IFRIC 18 has no impact on the consolidated financial accounts.

Amendments to IAS 32 for rights issues in foreign currencies
The International Accounting Standards Board (IASB) issued on 8 October 2009 an amendment to IAS 32 Financial Instruments: Presentation. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. Entities are required to apply the amendment for annual periods beginning on or after 1 February 2010, but earlier application is permitted.
Based on the prevailing situation the amendments to IAS 32 have no impact on the consolidated financial accounts.

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

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

The amendments are applicable to fiscal years beginning on or after 1 July 2009. Earlier application is permitted. The amendments have not yet been incorporated into European law.
These amendments currently have no impact on the ad pepper media-group's accounting.

IFRS AND IFRIC INTERPRETATIONS IN FORCE BUT NOT YET ENDORSED BY THE EUROPEAN COMMUNITY:

IAS 24 Related Party Disclosures
The International Accounting Standards Board (IASB) issued on 4 November 2009 a revised version of IAS 24 Related Party Disclosures that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party. The IASB has revised IAS 24 in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by:

- Providing a partial exemption for government-related entities

Until now, if a government controlled, or significantly influenced, an entity, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. It achieves this balance by requiring disclosure about these transactions only if they are individually or collectively significant.

- Providing a revised definition of a related party

The IASB has simplified the definition and removed inconsistencies.
The revised standard is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.
Based on the prevailing situation IAS 24 is not expected to have significant impact on the consolidated financial accounts.

Annual Improvements 2007 – 2009
On 16 April 2009 the IASB has issued Improvements to IFRSs – a collection of amendments to ten International Financial Reporting Standards and two IFRICs – as part of its program of annual improvements to its standards. The IASB uses the annual improvements project to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRSs published in October 2007, August 2008, and January 2009.
During its deliberations of comments received on the exposure draft of Proposed Improvements to IFRSs published in August 2008, the IASB decided to postpone reconsideration of two IAS 39 issues (relating to the fair value option and bifurcation of an

embedded foreign currency derivative) until more analysis could be completed. Consequently all the other issues included in the three exposure drafts have been finalized or removed from the IASB's agenda.
Most of the amendments are effective for annual periods beginning on or after 1 January 2010, although entities are permitted to adopt them earlier. Based on the prevailing situation the annual improvements 2007-2009 are not expected to have significant impact on the consolidated financial accounts.

Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
The International Accounting Standards Board (IASB) has amended IFRS 1 First-time Adoption of International Financial Reporting Standards to exempt first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The amendment gives first-time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. The amendment is effective on 1 July 2010, with earlier application permitted.
As ad pepper media is no first-time adopter of IFRS the amendment to IFRS 1 will have no impact on the consolidated financial accounts.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards
The International Accounting Standards Board (IASB) issued on 23 July 2009 amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. The amendments:

- exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets.
- exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result.

As ad pepper media is no first-time adopter of IFRS the amendment to IFRS 1 will have no impact on the consolidated financial accounts.

Amendment to IFRS 2 Share-based Payment: Group cash-settled share-based payment transactions
The International Accounting Standards Board (IASB) on 18 June 2009 issued amendments to IFRS 2 Share-based Payment that clarify the accounting for group cash-settled share-based payment transactions. The amendments respond to requests the IASB received to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers.

The amendments issued clarify:

- An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.
- The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsid-iaries.

The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2-Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. These amendments are effective for reporting periods beginning on or after 1 January 2010. They have to be applied retrospectively. Earlier application is permitted.
This amendment to IFRS 2 will have no impact on the consolidated financial accounts.

IFRS 9 Financial Instruments
On 12 November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets. Those requirements must be applied starting 1 January 2013, with earlier adoption permitted including for 2009. The IASB intends to expand IFRS 9 during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment, and hedge accounting. By the end of 2010, IFRS 9 will be a complete replacement for IAS 39 - mandatory for 2013 and optional in earlier years.
IFRS 9 in its current form would exert material impact on ad pepper media's consolidated accounts:
The securities classified as "available for sale" do not show only basic loan features. Thus, the amount of kEUR 2,164 recognized in the balance sheet caption "Accumulated other comprehensive losses" would need to be recycled through the profit and loss statement as "Financial expenses".
ad pepper media has chosen the equity instrument cost exemption of IAS 39 in case of not reliable measurement. IFRS 9 in its current form removes this exemption and prescribes measurement at fair value either through other comprehensive income or through profit and loss.

Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
On 26 November 2009, the IASB issued Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) which corrects an unintended consequence of IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum funding Requirements and their interaction. Without the amendments, in some circumstances entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011, with earlier application permitted. The amendments must be applied retrospectively to the earliest comparative period presented.
Based on the prevailing situation the amendment to IFRIC 14 is not expected to have impact on the consolidated financial accounts.

IFRIC 19 Extinguishing Liabilities with Equity Instruments
On 26 November 2009, the IASB issued IFRIC Interpretation 19 Extinguishing Liabilities with Equity Instruments. IFRIC 19 applies when a debtor extinguishes a liability fully or partly by issuing equity instruments to the creditor. IFRIC 19 must be applied in annual periods beginning on or after 1 July 2010. Earlier application is permitted. It would be applied retrospectively from the beginning of the earliest comparative period presented.
Based on the prevailing situation IFRIC 19 is not expected to have significant impact on the consolidated financial accounts.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, which are described below in note [3], the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A) Judgments

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

Impairment of available-for-sale financial assets
ad pepper media assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. As the debts instruments have considerably decreased in its fair value, ad pepper media has thoroughly assessed the need for impairment. In making this judgment, ad pepper media evaluates among other factors, the normal volatility in stock-market prices as well as the impact of a lack of liquidity in trading in prevailing market conditions. However, a debt instrument classified as available-for-sale is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the debt instrument and that the loss event has impact on the estimated future cash flows of the debt instruments. Evidence of impairment may include indications that the issuer of the debt instrument is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the issuer is facing bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears. Impairment deemed appropriate when there is convincing doubt about the creditability of the issuer or there is strong indications that the redemption of the debt instruments or the interest payments are at risk. Considering the facts that for one of the debt instruments interest payments are received from the issuer's parent company voluntarily (partly delayed) and that the issuing bank has been granted state aid, Directors of the Board after due consideration are of the opinion that there is evidence that this available for sale financial asset is

impaired. Impairment losses of kEUR 780 have been recognized for available-for-sale assets at 31 December 2009 (2008: nil). Further information is presented in the note on "Current and non-current marketable securities".

B) 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.

Useful lives of intangible assets
As described above, the Group reviews the estimated useful lives of intangible assets at the end of each annual reporting period. During the financial year, the directors determined that the useful lives of customer databases should be shortened from three to one years. This resulted in an impairment of kEUR 356.

Impairment of Goodwill and intangible assets
The group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. Estimating an amount for the recoverable 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.
The carrying amount of goodwill at the end of the reporting period was kEUR 24 after an impairment loss of EUR 20.8m was recognized during 2009.
Furthermore, an impairment loss of EUR 2.7m resulting from the impairment testing according to IAS 36 was allocated to intangible assets. These assets consisted of self-developed software and intangible assets identified in purchase price allocations.

Further information is presented in the notes on "Goodwill" and „Intangible assets".

Impairment of other financial assets
ad pepper media assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A minority stake in form of an unquoted equity instrument was impaired as the business is still not profitable and budget forecasts were repeatedly and continuously not met. Based on the assumption that no short-term turnaround will occur impairment losses of kEUR 1,621 have been recognized at 31 December 2009 (2008: nil). Further information is presented in the note on "Non-current other financial assets". This situation will be closely monitored, and adjustments made in future periods if future business development indicates that an increase in value and valuation at fair value would be appropriate.

Valuation of other financial assets
A minority stake in form of an equity instrument could not be reliably measured is thus recognized at cost (kEUR 194) and not revalued with its fair value in accordance with IAS 39.
The business continues to progress in a very satisfactory manner, and business development has reconfirmed the directors' previous estimates of anticipated revenues. However, the business is still at an early stage and uncertainty in forecasts still high. This situation will be closely monitored, and adjustments made in future periods if future business development indicates that valuation at fair value would be appropriate.

Deferred Tax Assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. Further information is presented in the note on "Income taxes".

The financial effects on non-current other financial assets and deferred tax assets from changes in assumptions and estimates cannot be determined in a practicable way. However, ad pepper media cannot exclude the possibility that the carrying amount of these items changes materially within the next financial year.

Summary of significant accounting policies [3]

Foreign currency translation

The consolidated financial statements are presented in Euro, 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 recognized 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 a functional currency other 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 other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

The significant foreign currency exchange rates have developed as follows:

Foreign currency per 1 EUR	Closing rate 31-12-09	Closing rate 31-12-08	Average rate 2009	Average rate 2008
US dollar	1.4406	1.3917	1.4252	1.4788
British pound	0.8881	0.9525	0.8938	0.7845
Swedish krone	10.252	10.870	10.6776	9.5612
Danish krone	7.4418	7.4506	7.4464	7.4544

Property, plant and equipment

Plant and equipment are 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. The estimated useful lives of the assets are between three and ten years. An item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing 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 derecognized.

Business combinations and goodwill

Business combinations are accounted for applying the purchase method. This involves recognizing identifiable assets (including previously unrecognized 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 acquirer'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 allocated, from the acquisition date, 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 secondary reporting format determined in accordance with IFRS 8 Operating Segments.

Where goodwill forms part of a cash-generating unit or 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 unamortized goodwill is recognized 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 amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.
The useful lives of intangible assets are finite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.
The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized 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 recognized 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 amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales. During the period in which the asset is not yet in use, it is tested for impairment annually.
Gains or losses arising from derecognizing of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

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 the fair value of the asset or cash-generating unit 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. The valuation model is based on a discounted cash flow method.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount. A previously recognized 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 recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increased amount shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized on the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount,in which case the reversal is treated as a revaluation increase. Impairment losses recognized for goodwill are not reversed for subsequent increases in its recoverable amount.

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 recognized.
Impairment losses recognized for goodwill shall not be reversed in future periods. The group performs its annual impairment test of goodwill as at 31 December.
For more detailed information please refer to Note [16].

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.
The group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.
All regular way purchases and sales of financial assets are recognized on the settlement date, being the date on which the group clears the purchase or sale of a financial asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.
Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in profit or loss.
The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in the preceding category.
Available-for-sale financial assets, classified as current or non-current marketable securities depending on their maturity, are non-derivative financial assets that are designated as available-for-sale. They are recognized on initial measurement at fair value. After initial measurement, available-for-sale financial assets are measured at fair value, recognizing unrealized gains or losses directly in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement.

Fair value

The fair value of investments that are actively traded in organized 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.
If the fair value of an unquoted equity instrument cannot be measured reliably it is carried at cost.

Amortized cost

Loans and receivables are measured at amortized cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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 amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized 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 (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 recognized in profit or loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the recognition of impairment, the impairment loss previously recognized is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized 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 derecognized 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 amortization) and its current fair value, less any impairment loss previously recognized 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 recognized 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 recognition of the impairment loss in the income statement.

Treasury shares

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less. Shares in money market funds are also included in cash equivalents.

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 recognized 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 amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Provisions

Provisions are recognized 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 recognized 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 recognized 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 in which 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 value using an appropriate pricing model, further details of which are given in subsequent notes.

The cost of equity-settled transactions is recognized, 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 recognized 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 recognized as at the beginning and end of that period.

No expense is recognized 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 recognized is the expense if the terms had not been modified. An additional expense is recognized 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.

A voluntary waiver of the counterparties of granted stock options after the grant date is treated as a cancellation of the plan resulting in an accelerated vesting of the granted stock options.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are provided in Note [15]).

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment 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 recognized as an expense in the income statement on a straight line basis over the lease term.

Revenue recognition

Revenue is recognized 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 turnover taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

The company generates its revenues mainly by marketing internet advertising space. Advertising customers book units (Ad Impressions, Ad Clicks, Registrations, Mail send-outs, Transactions) 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 recoverability 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.

Revenue recognized leads to the recognition of unbilled receivables as long as an invoice is not send out to the client.

Interest income

Revenue is recognized 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).

Income taxes

Revenue is recognized 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 recognized directly in other comprehensive income is recognized in other comprehensive income 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 recognized for all taxable 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 temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized 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 utilized 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 recognized 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 utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized 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 realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in other comprehensive income is recognized in other comprehensive income 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.

Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognized 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 value added tax included. The net amount of value added 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 pursuant to IAS 33 "Earnings per Share". Basic earnings per share is the consolidated net income divided by the weighted average number of shares of ordinary shares outstanding. Diluted earnings per share is the consolidated net income divided by the total of the weighted average number of shares of ordinary shares outstanding and all dilutive effects of potential ordinary shares.

Cash flow statement

The cash flow statement according to IAS 7 "Cash Flows Statements" is classified by operating, investing and financing activities.

Business combinations [4]

No business combinations occurred in the financial year 2009.

Segment reporting [5]

IFRS 8 supersedes IAS 14 "Segment reporting" and converges 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, on 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. Financial information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focused on the category of service delivered.
Hence, the group is disclosing segment information for the operating segments "ad pepper media" (Lead, Mail, Banner, Ad serving), "Webgains" (Affiliate-Marketing) and "ad agents" (SEM/SEO) as well as the non-operating segment "Admin" (Administration). The accounting policies of the reportable segments are the same as the Group's accounting policies described in note [2]. Segment profit represents the EBIT respectively EBITDA earned by each segment without any differences to IFRS. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The basis of accounting for inter-segment transactions is the "dealing at arm's length"-principle.

Financial year 2009	ad pepper media	Webgains	ad agents	Admin	Consolidation	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenues	29,244	13,078	5,404	2,041	-2,868	46,899
thereof external	28,781	12,713	5,390	15	0	46,899
thereof intersegment	463	365	14	2,026	-2,868	0
Expenses and other income	-51,126	-17,725	-5,436	-6,601	2,038	-78,850
thereof amortization and depreciation	-1,056	-224	-21	-895	1	-2,195
thereof other non-cash expenses*	-20,972	-4,440	-82	-1,662	0	-27,156
EBITDA	-20,925	-4,423	-11	-3,665	-831	-29,756
EBIT	-21,882	-4,647	-32	-4,560	-830	-31,951
Financial income	125	0	3	1,631	-167	1,592
Financial expenses	-123	-6	-1	-312	167	-275
Impairments**	0	0	0	-3,136	0	-3,136
Income taxes						-552
Net income for the year						-34,322

* includes one-off effects, mainly from impairments to the amount of kEUR 25,070. An amount of kEUR 19,763 relates to the segment „ad pepper media", of kEUR 4,271 to the segment „Webgains" and of kEUR 1,036 to the segment „Admin".
** Please refer to note [13].

Financial year 2008	ad pepper media	Webgains	ad agents	Admin	Consolidation	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenues	37,625	11,477	5,154	2,602	-4,220	52,638
thereof external	36,243	11,203	5,151	41	0	52,638
thereof intersegment	1,382	274	3	2,561	-4,220	0
Expenses and other income***	-41,828	-10,784	-5,145	5,029*	2,564	-50,164
thereof amortization and depreciation	-1,227**	-350	-42	-1,576	2	-3,193
thereof other non-cash expenses*	-2,484	-85	-22	-434	-11	-3,036
EBITDA	-1,470	1,043	51	9,207	-1,658	7,173
EBIT	-4,203	693	9	7,631	-1,656	2,474
Financial income	151	9	11	1,366	-272	1,265
Financial expenses	-274	-8	-1	-1	272	-12
Income taxes						-1,117
Net income for the year						2,610

* thereof kEUR 10,820 gains from the sale of minority investments
** for reasons of better comparability adjusted by kEUR 1,506 impairments of intangible assets from purchase price allocations
*** due to a more detailed management reporting kEUR 4,463 from loss transfer agreements and write-offs of intercompany loans were reclassified between the segments „ad pepper media" and „Admin"

Neither segment assets nor segment liabilities are reported to the chief operating decision maker.
The following presentation of segment assets is shown to fulfill the reporting requirements of IFRS 8.22. For the named purpose, all assets are allocated to reportable segments except other financial assets and tax assets. Goodwill is allocated only to reportable segment "ad agents". There acquired ERP-Software is the only asset which is used jointly by reportable segments. It is fully allocated to the segment "Admin".

Financial year 2009	ad pepper media	Webgains	ad agents	Admin	Un-allocated	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Segment assets	13,247	3,197	1,200	13,214	1,946	32,804

Financial year 2008	ad pepper media	Webgains	ad agents	Admin	Un-allocated	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Segment assets	26,203	6,803	944	26,705	6,435	67,090

Geographical information

The Group operates in four principal geographical areas – The Netherlands (country of domicile), Germany, Scandinavia and United Kingdom.
The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below whereby non-current assets are excluding financial instruments and deferred tax assets.

	Revenue from external customers		Non-current assets	
	Year ended 31-12-09	Year ended 31-12-08	31-12-09	31-12-08
	kEUR	kEUR	kEUR	kEUR
The Netherlands	3,152	4,245	24	3,503
Germany	14,460	16,563	905	7,167
Scandinavia	7,773	9,599	339	7,775
United Kingdom	11,867	11,157	96	5,011
Other	9,647	11,074	39	3,435
	46,899	**52,638**	**1,403**	**26,891**

Disclosure information according to IFRS 8.34 is not relevant as there is no dependency on major customers within the ad pepper media-Group.

Notes to the income statement [6]

The revenues of ad pepper media are derived from the rendering of online-marketing services; e.g. display, affiliate, SEM/SEO and ad serving-solutions.

The income statement has been prepared using the function of expense method. The expenses contain personnel expenses of kEUR 18,697 (2008: kEUR 19,219) as well as depreciation and amortization of kEUR 2,195 (2008: kEUR 3,193).

The personnel expenses include the employer's share to state pension schemes amounting to kEUR 919 (2008: kEUR 806) which have to be disclosed as employer´s contribution to a defined contribution plan.

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 and marketing expenses [8]

This item comprises all costs associated with attracting customers and orders. Advertising costs of kEUR 610 (2008: kEUR 567) were expensed in 2009.

General and administrative expenses [9]

This item includes costs of kEUR 531 (2008: kEUR 546) in connection with the sale of investments in dMarc Broadcasting Inc. and Falk eSolutions.

Other operating income [10]

This item primarily includes foreign exchange gains of kEUR 436 (2008: kEUR 1,114) as well as income from the release of accrued liabilities and write-off of payables from prior years.

Other operating expenses [11]

This item includes foreign exchange losses of kEUR 259 (2008: kEUR 593) and changes in the bad debt allowances as well as write-off of receivables totaling kEUR 1,683 (2008: kEUR 973).

Impairment of goodwill and other intangible assets [11a]

ad pepper media International N.V. reviews goodwill and other intangible assets as soon as there is an indication of impairment and for goodwill latest annually at year-end.
The impairment testing was carried out in accordance to the methodology described in note [16] and resulted in allocable impairment losses of kEUR 23,525. Thereof, goodwill impairment losses amounted to kEUR 20,795. Hereof kEUR 17,016 relate to the segment "ad pepper media" and kEUR 3,779 to the segment "Webgains".
Additional impairment losses of kEUR 2,730 were on the one hand allocated to intangible assets from purchase price allocations of Emediate, ResultOnline and Webgains totaling kEUR 1,171. Hereof kEUR 946 relate to the segment "ad pepper media" and kEUR 225 to the segment "Webgains".
On the other hand, the remaining impairment losses of kEUR 1,559 were allocated to self-developed software. Hereof kEUR 461 relate to the segment "ad pepper media", kEUR 250 to the segment "Webgains" and kEUR 848 to the segment "Admin". Further impairments on other intangible assets amounted to kEUR 356 resulting from the changes in accounting estimates described above which fully relate to the segment „ad pepper media".

As at 30 June 2008, impairment of intangible assets (kEUR 1,506) were presented as "Selling expenses".
For better comparability the prior year was adjusted for a reclassification to "Other operating expenses" in the Group consolidated statements as per 31 December 2008. Again, for reasons of better comparability this amount is now presented in the line "Impairment of goodwill and other intangible assets".

Gain on sale of shares in associates and other investments [12]

During the financial year 2006, the 25.1 percent interest in Falk eSolutions AG was sold to DoubleClick. No gains were recognized in 2009 (2008: EUR 1.0m) from earn-out components of the selling price, which were dependent on meeting defined milestones.
Also in the first quarter of 2006, Google took over dMarc Broadcasting, in which ad pepper media held a stake of 8.2 percent. No gains were recognized in 2009 (2008: EUR 9.8m) from earn-out components of the selling price, which were dependent on meeting defined milestones.

Financial income, net [13]

The amount for the past business year includes net interest of kEUR 903 (2008: kEUR 1,046) and realized gains of kEUR 689 (2008: kEUR 207) from the trade of securities. Fees for the trade of securities amounted to kEUR 109 while unrealized revaluation losses of securities at fair value through profit and loss amounted to kEUR 162. Interest income on financial assets that are at fair value though profit or loss amounts to kEUR 103 (2008: kEUR 0).
Interest income on financial assets that are not at fair value though profit or loss calculated using the effective interest method amounts to kEUR 800 (2008: kEUR 1,046), because no premiums or discounts have to be allocated. Interest expense on financial liabilities that are not at fair value though profit or loss amounts to kEUR 0 (2008: kEUR 11).

On 2 May 2008 ad pepper media acquired 4.5 percent share of the capital stock in Brand Affinity Technology Inc. ("BAT"). This company (founder of dMarc Broadcasting Inc.), which was established by brothers Chad and Ryan Steelberg, refers to itself as a "Partnership marketing and branded advertising network". Using its patented software platform, the aim of BAT is to bring together celebrities (e.g. from the worlds of sports, movies and entertainment) and advertisers in order to strike up sponsor and marketing agreements. The purchase price totaled USD 2.5m (EUR 1.6m). In March 2009 ad pepper media granted a bridge financing loan of USD 1.0m (EUR 0.7m). ad pepper media impaired both investments to a book value of zero as BAT is still not profitable and its budget projections were not met resulting in expenses of kEUR 2,356.

Also included is an impairment of a debt instrument in form of a hybrid bond due to the worsening of the creditworthiness of the lender. This impairment down to the bid-rate on 30 September 2009 amounts to kEUR 780. The bid-rate on 31 December 2009 was unchanged. This security is classified as "available for sale". Accordingly, fair value changes were recognized directly in equity. Thus, the impairment resulted in a release of the other comprehensive losses through the profit and loss statement.

Income taxes [14]

Income taxes break down	2009 kEUR	2008 kEUR
Current income tax	-476	-93
Deferred tax	-76	-1,024
Total	**-552**	**-1,117**

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 kEUR 13,256 (2008: kEUR 7,315) were calculated on the basis of the unused tax losses of kEUR 44,144 (2008: kEUR 24,777).
Deferred tax assets from unused tax losses were recorded to the extent that it is probable that future taxable profit is available against which they can be utilized within a foreseeable planning period. Thus, an amount of deferred tax assets of kEUR 317 (2008: kEUR 951) has been recognized for the tax loss carry forwards. The majority of the available tax loss carry forwards is non-expiring.
In addition to the unused tax losses, the following significant deferred tax assets and liabilities result from temporary differences.

Deferred tax liabilities	2009 kEUR	2008 kEUR
Software	21	173
Goodwill	-	211
Website/customer base	-	204
Securities	25	-
Total	**46**	**588**

Deferred tax assets	2009 kEUR	2008 kEUR
Tax losses brought forward	317	951
Other	16	-
Total	**333**	**951**

Changes in deferred tax liabilities on temporary differences recognized in profit or loss amount to kEUR 542 (2008: kEUR 463). The change in deferred tax assets on temporary differences is recognized in other comprehensive income in the case of the reported securities which are allocated to the available-for-sale category to the extent that future taxable income is available, and otherwise in profit or loss.
Deferred tax assets and liabilities are netted if the company has the legally enforceable right to set off current tax assets against current tax liabilities and if they relate to the same tax authorities and the same taxable entity. As a result, deferred tax assets of kEUR 308 (2008: kEUR 740) and deferred tax liabilities of kEUR 21 (2008: kEUR 377) were recognized in the balance sheet.
Deferred tax assets of kEUR 292 (2008: kEUR 513) on tax losses are recognized for companies with a history of losses because the unused tax losses can also be used by other profitable group companies under the joint taxation regime in Denmark.

No deferred tax liabilities were recognized as of 31 December 2009 (2008: nil) for taxes on non-distributed profits of subsidiaries, because the group has decided that the profits of its subsidiaries that have not been distributed will not be distributed in the foreseeable future. If deferred taxes were to be recognized for these temporary differences, only the source tax rates applicable in each case, where appropriate taking into account the German tax of 5 percent of the distributed dividends, would have to be applied for the computation. The calculation of these deferred taxes, which have been ignored, would be associated with unreasonable cost and effort.

ad pepper media International N.V. has its tax domicile in Germany. The reconciliation between expected income tax expense and actual income tax expense based on the German statutory tax rate (combined corporate income tax and trade tax on income) of 31.47 percent (2008: 31.47 percent) is as follows:

	2009 kEUR	2008 kEUR
Expected income tax	10,623	-1,176
Foreign tax rate differential	-240	142
Effect from tax-free gains	0	3,304
Prior year income tax	-86	57
Deferred tax expense due to change in tax rates	-15	-98
Increase of allowance on deferred tax assets	-6,384	-2,411
Non-deductible stock option expenses	-56	-134
Non-tax-deductible expenses and other	-4,394	-801
Actual tax expense	**-552**	**-1,117**

Non-tax-deductible expenses mainly consist of non-deductible goodwill impairment losses.
The increase of allowances on deferred tax assets includes kEUR 740 (2008: kEUR 1,677) on deferred tax assets reported in prior years.

Earnings per share [15]

Basic earnings per share 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 are calculated by dividing the net profit attributable to ordinary equity holders of the parent 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.

By doubling the number of shares and halving the price as well as the earnings per share all prior year disclosures have been adjusted for the share split on 27 May 2009 with the ratio 1:2.

The income and share data used in the computations of basic and diluted earnings per share are as follows:

	2009 kEUR	2008 kEUR
Net income attributable to shareholders of the parent company	-34,307	2,620
Number of shares at the beginning of the period	22,024,682	22,403,916
Number of shares at the end of the period	20,732,208	22,024,682
Weighted average number of shares outstanding (basic)	21,348,732	22,296,100
Basic earnings per share in EUR	**-1.61**	**0.12**
Weighted average number of shares outstanding (diluted)	21,348,732	22,639,098
Diluted earnings per share in EUR	**-1.61**	**0.12**

The weighted average number of shares outstanding in 2009 was calculated on a daily basis. In 2009, the options granted resulted in dilution of an average of 0 shares (2008: 342,998 shares) as they would have been anti-diluting.
210,292 new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2009 (2008: 0 shares).
The company has carried out a share repurchase program, in the course of which 1,512,474 shares (2008: 379,234 shares) were acquired at an average price of EUR 1.12 (2008: EUR 1.22).

A total of 9,708 treasury shares (2008: no shares) were sold in connection with the exercise of employee stock options.

NON-CURRENT ASSETS

Goodwill [16]

Goodwill is monitored on operating segment-level. In accordance with the provisions of IAS 36, goodwill was tested for impairment in the third quarter of 2009 as the decline in revenue and operating losses were considered triggering events (2008: annual testing in the fourth quarter) on the basis of future cash flows. For the reaming goodwill an annual impairment test has been performed. The recoverable amount of each cash-generating unit (CGU), which is identical to the operating segments under IFRS 8, was determined on the basis of the calculation of a fair value less costs to sell using cash flow forecasts based on the financial plans for the next five financial years. Individual growth rates were defined for each operating segment considering average growth rates of peer group. Overall, an average CAGR (compound annual growth rate) of 3.4 percent (2008: 13 percent) on revenues was assumed for the group, which is in line with market expectations on the basis of current studies in the industry.

The discount rate (weighted average cost of capital) used for the cash flow forecast is between 7.55 percent and 10.50 percent (2008: discount rates between 7.15 percent and 7.26 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.

The underlying assumptions for the CGUs were as follows:

Cash generating units 2009	Goodwill in kEUR	Discount rate in percent	CAGR in percent
ad pepper media	17,011	7.55	0.0
ad agents	24	7.55	7.1
Webgains	3,779	10.50	9.0

Cash generating units 2008	Goodwill in kEUR	Discount rate in percent	CAGR in percent
ad pepper media	17,011	7.15	4.1
ad agents	24	7.15	31.1
Webgains	3,779	7.26	25.3

This resulted in an allocable impairment loss of kEUR 23,525 (2008: nil). Hereof, goodwill impairment losses of kEUR 17,016 relate to the segment "ad pepper media" and of kEUR 3,779 to the segment "Webgains" (2008: this did not lead to any impairments).
Additional impairment losses of kEUR 2,730 were allocated to intangible assets as described in the following note [17].

Hence, total goodwill at the end of the financial year amounted to kEUR 24 (2008: kEUR 20,814). Goodwill at cost was EUR 22.4m (2008: EUR 22.4m) whereas accumulated impairment losses amounted to EUR 22.4m (2008: EUR 1.6m). The goodwill impaired is presented as a disposal in the development of consolidated fixed assets resulting in a net book value of kEUR 24 (2008: kEUR 20,814).

The allocation to the cash generating units is as follows:

CGU	31-12-09 kEUR	31-12-08 kEUR
ad pepper media	-	17,011
ad agents	24	24
Webgains	-	3,779
Total	**24**	**20,814**

Further details about changes in goodwill are disclosed under "Business Combinations" and "Changes in consolidated group" to the extent such events have occurred.
The development of intangible assets including goodwill is presented in the consolidated fixed assets schedule.

Sensitivity to changes in assumptions

With regard to the assessment of the recoverable amount of the CGU ad agents, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying values of the unit to materially exceed its recoverable amounts.

A sensitivity analysis for the CGUs ad pepper media and Webgains cannot be conducted in a reasonable way as the allocated goodwill has been written off in full as per 30 September 2009. Management believes that no further assets have to be impaired besides the intangible assets described in the following note [17].

Intangible assets [17]

Impairment

Impairments from the allocation of impairment losses as described in note [16] to a residual book value of zero applied to other intangible assets from the purchase price allocations of Emediate, ResultOnline and Webgains totaling kEUR 1,171. Hereof kEUR 946 relate to the segment "ad pepper media" and kEUR 225 to the segment "Webgains". In addition, the remaining impairment losses of kEUR 1,559 were allocated to software developed within the Group. Hereof kEUR 461 relate to the segment "ad pepper media", kEUR 250 to the segment "Webgains" and kEUR 848 to the segment „Admin".

As described above under Changes in accounting policies and estimates, further impairments on other intangible assets amounted to kEUR 356 as the useful life of intangible assets has been estimated anew with a maximum of one year (recently: three years) according to IAS 38. Hereof impairments resulted to the amount of kEUR 356 relating completely to the segment "ad pepper media".

All impaired intangible assets are shown as disposals in the development of consolidated fixed assets.

Per 30 June 2008 there was an impairment to a residual book value of zero of intangible assets with a definite useful economic life in the context of the acquisitions of mediasquares GmbH (customer database) and Crystal Reference Ltd. (software) reflecting lower expectations for cash flows from these assets. Thereof the segment "ad pepper media" accounted for EUR 1.5m.
As at 30 June 2008, this impairment of intangible assets (kEUR 1,506) was presented as "Selling expenses". For better comparability the prior year was adjusted for a reclassification to "Other operating expenses" in the Group consolidated statements as per 31 December 2008. Again, for reasons of better comparability this amount is now presented in the line "Impairment of goodwill and other intangible assets".

The intangible assets break down as follows:

Software

In regard to software expenses there were no material research and development expenses but expenses for software maintenance.

In 2009 as in 2008, no software IT solutions were developed in-house for the company's own use and thus none were capitalized. Amortization and impairments of solutions developed in-house for the company's own use amounts to kEUR 2,237 (2008: kEUR 925), and the carrying amount at 31 December 2009 to kEUR 0 including exchange rate differences (2008: kEUR 2,237).

Software is amortized over a useful life of three to five years.

There was no software not yet in use as of 31 December 2009 and hence no testing for impairment.

Brands and customer bases

The most material items included are as follows:
On 30 August 1999, ad pepper media purchased the "ad pepper media" brand for kEUR 614. This brand is being written off over a period of ten years on a straight-line basis. The residual carrying amount as of 31 December 2009 is kEUR 0 (2008: kEUR 41). In April 2003, the "Regio Ad" brand was acquired for kEUR 48, including incidental acquisition costs. The amortization period is also ten years. The residual carrying amount as of 31 December 2009 is kEUR 16 (2008: kEUR 20).

The customer base acquired in connection with the acquisition of ResultOnline at a cost of kEUR 444 is being amortized over a useful life of seven years. The residual carrying amount as of 31 December 2009 is kEUR 0 (2008: kEUR 201) due to the goodwill impairment testing described in Note [16]. The asset is shown as a disposal in the development of consolidated fixed assets.

The customer base acquired in connection with the acquisition of the Webgains affiliate platform in 2006 at a cost of kEUR 235 is being amortized over a useful life of three years. The residual carrying amount as of 31 December 2009 is kEUR 0 (2008: kEUR 26). The asset is shown as a disposal in the development of consolidated fixed assets.

The customer bases of publisher clients and agency clients acquired in connection with the acquisition of Emediate in 2007 at a cost of kEUR 811 and kEUR 125 respectively are being amortized over useful lives of five and three years respectively. The residual carrying amounts as of 31 December 2009 are kEUR 0 (2008: kEUR 568) and kEUR 0 (2008: kEUR 62) respectively due to the goodwill impairment testing described in Note [16]. The assets are shown as disposals in the development of consolidated fixed assets.

Property, plant and equipment [18]

The development of property, plant and equipment including cost and accumulated depreciation is presented in the development of consolidated fixed assets.

Non-current and current securities [19, 21]

As at 31 December all securities are non-current. Recognized as current in the balance sheet are only fixed-term deposits of kEUR 1,400 with a maturity of more than three months after purchase date. (2008: fixed-term deposits of kEUR 11,469).

The securities as of 31 December 2009 as in 2008 consist of available-for-sale securities and of securities at fair value through profit and loss.

Non-current securities have a remaining term of more than one year or if shorter then their disposal within one year is not planned.

Available-for-sale securities

In the reporting year, available-for-sale securities were acquired for kEUR 0 (2008: kEUR 0) and sold for a total of kEUR 129 (2008: kEUR 0). The losses incurred in the financial year amount to kEUR 780 (2008: kEUR 0), including losses of kEUR 780 (2008: kEUR 0) from the release of other comprehensive income to profit or loss.

In the reporting period, unrealized gains of kEUR 409 (2008: unrealized losses of kEUR 1,953) were recognized directly in other comprehensive income and loss. Additionally, the impairment of one of the available-for-sale securities of kEUR 780 resulted in a release of the other comprehensive losses through the profit and loss statement in 2009.
The maturities of the available-for-sale securities as of the end of the period are as follows:

Fair value	31-12-09 kEUR	31-12-08 kEUR
Due within one year	591	720
Due between one and five years	1,455	1,050
Due in more than five years	2,377	2,385
Total	4,423	**4,155**

Securities at fair value through profit and loss

In the reporting year, securities at fair value through profit and loss were acquired for kEUR 3,427 (2008: 1,590) and sold for a total of kEUR 1,590 (2008: 0). The unrealized revaluation losses incurred in the financial year amount to kEUR 162 (2008: 0).
IAS 39.AG33A states that when an entity becomes a party to a hybrid (combined) instrument that contains one or more embedded derivatives, paragraph 11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through profit or loss. For that reason this Standard permits the entire instrument to be designated as at fair value through profit or loss.
ad pepper media has chosen this „fair value option" for such securities as the securities acquired includes embedded derivates.

The maturities of the securities at fair value through profit and loss as of the end of the period are as follows:

Fair value	31-12-09 kEUR	31-12-08 kEUR
Due within one year	0	0
Due between one and five years	0	0
Due in more than five years	3,265	1,590
Total	3,265	**1,590**

Other financial assets [20]

ad pepper media impaired an investment to a book value of zero as Brand Affinity Technology Inc. is still not profitable and its budget projections were not met resulting in expenses of kEUR 1,621. Additionally, this item contains rent and similar deposits, carried at their nominal amount of kEUR 421 (2008: kEUR 487). Furthermore, the item includes non-current loan receivables from a board member and shareholder of kEUR 105 (2008: kEUR 153) at an interest rate of 3.9 percent and with a remaining period of up to three years.

CURRENT ASSETS

Trade receivables [22]

Trade receivables are recognized at their nominal value less valuation allowances. The valuation allowances as of 31 December 2009 amount to kEUR 1,335 (2008: kEUR 895). The allowances are calculated on the basis of all information available to the company and include all probable bad debts on receivables as of 31 December 2009.

Income tax receivables [23]

The item includes capital gains tax of kEUR 438 (2008: kEUR 794) paid in advance, which is to be reimbursed by the tax authorities, as well as prepaid income taxes.

Prepaid expenses and other current assets [24]

Other current assets are generally recognized at their nominal value. In addition to payments in advance and prepaid expenses, this item also includes value added tax receivables of kEUR 108 (2008: kEUR 129).

Other financial assets [24a]

In 2008 this caption included receivables from a earn out-component of kEUR 1,200 in connection with the sale of the investment in dMarc Broadcasting Inc.
In March 2009 ad pepper media granted a bridge financing loan of USD 1.0m (EUR 0.7m) to Brand Affinity Technology Inc.. This loan has been impaired to a book value of zero as Brand Affinity Technology Inc. is still not profitable and its budget projections were repeatedly not met.

Cash and cash equivalents [25]

The item includes bank balances, cash in hand , day-today investments in money market funds whose amortized cost corresponds with their market value as well as fixed-term deposits with an original maturity of up to three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand of kEUR 13,514 (2008: kEUR 5,833).

EQUITY

Issued capital [26]

ad pepper media International N.V. conducted a share split with the ratio 1:2 on 27 May 2009. Hence, all disclosures in regard to shares are adjusted accordingly.

210,292 new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2009 (2008: 0 shares) in connection with the exercise of employee stock options in December 2009.

The issued capital of ad pepper media International N.V. comprises 23,000,000 (2008: 22,789,708) bearer shares each with a nominal value of EUR 0.05.

Additional paid-in capital [27]

Proceeds from the issuance of shares increased the additional paid-in capital by the amount by which they exceeded the par value of the shares.

No costs incurred for the capital increase in connection with the exercise of employee stock options in December 2009.

Treasury shares [28]

Purchase of treasury shares

By shareholders resolution of 19 May 2009, ad pepper media was authorized to repurchase treasury stock of up to 50 percent of the issued capital within the next 18 months.
The board of directors made a resolution on 2 June 2009 to make use of this authorization and to acquire 10 percent of the issued capital amounting to up to 2,279,708 own shares. The company has carried out a share repurchase program, in the course of which 1,512,474 shares (2008: 379,234 shares) were acquired at an average price of EUR 1.12 (2008: EUR 1.22).
As of 31 December 2009 the company held 2,267,792 treasury shares (2008: 765,026 treasury shares) at a nominal value of 0.05 EUR each which equals 9.86 percent (2008: 3.36 percent) of the share capital. According to a shareholders resolution those shares can be used for acquisitions or stock option plans.

Sale of treasury shares

By doubling the number and halving the strike price the existing stock options programs have been adjusted for the share split on 27 May 2009:
In the reporting year, no (2008: 0) treasury shares were sold at an exercise price of EUR 0.665, none (2008: 0) at a price of EUR 1.365 (2008: 0), 9,708 at a price of EUR 0.89 and none (2008: 0) shares at a price of EUR 2.225 under the employee stock option plans.

A total of 9,708 treasury shares were sold in the reporting year (2008: 0).

Number of shares outstanding

The number of shares issued and outstanding as of 31 December 2009 totaled 20,732,208 (2008: 22,024,682). Each share has a nominal value of EUR 0.05.

Authorized unissued capital [29]

The authorized unissued capital totals EUR 21,485.40 (2008: EUR 32,000) and comprises 429,708 shares (2008: 640,000 shares).

Accumulated other comprehensive losses [30]

Accumulated other comprehensive losses include losses on available-for-sale securities of kEUR -2,164 (2008: kEUR -3,353), taking into account deferred taxes of kEUR 0 (2008: kEUR 0), and accumulated exchange differences of kEUR -1,369 (2008: kEUR -1,477) from the translation of the financial statements of foreign subsidiaries.

In 2009, a security classified as „available for sale“ was impaired. Accordingly, the fair value changes recognized directly in other comprehensive losses were recycled through profit and loss. Thus, the impairment of kEUR 780 resulted in a release of the other comprehensive losses through the profit and loss statement.

Minority interest [31]

The minority interest results from the acquisition of 60 percent of the shares in ad agents GmbH.
Hence the result for the period of ad agents GmbH is allocated proportionately to the minority interest.

CURRENT LIABILITIES

Trade payables [32]

Trade payables are recognized at the settlement amount. This item also includes accrued liabilities for outstanding invoices.

Other financial liabilities [33]

This balance sheet item mainly comprises liabilities for bonuses and commissions, and employee flexi time credits.

Related party disclosures [34]

Persons in key positions in the group

The loan receivables described in the note on the balance sheet item "other financial assets [20]" are owed by a member of the Management Board. Please refer with regard to other business relationships with this group of persons to Note [40].

No directors' dealings (§15a WpHG) were reported to ad pepper media in 2009.

Group companies

The terms and conditions of intercompany transactions like loans, license fee, adserving and other services are compliant to the "dealing-at-arm's-length"-principle.

Litigation and claims [35]

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

Other financial obligations [36]

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to kEUR 178 in financial year 2009 (2008: kEUR 257). Rental expense amounted to kEUR 1,194 (2008: kEUR 1,410). The future minimum payment obligations resulting from the contracts in place as of 31 December 2009 are as follows:

Financial year	2010 kEUR	2011 kEUR	2012 kEUR	2013 kEUR	2014 kEUR	Thereafter kEUR	Total kEUR
Office rent	923	897	633	282	161	61	2,957
Guarantees	67	0	0	0	0	0	67
Car leases	115	68	36	0	0	0	219
Others	225	2	0	0	0	0	227
Total	**1,330**	**967**	**669**	**282**	**161**	**61**	**3,470**

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. A material shortfall compared with the minimum delivery volumes is deemed unlikely.

Seasonal influences [37]

ad pepper media is engaged in the field of online advertising in the broadest sense. Due to the seasonal character of the advertising industry, with its traditional focus on expenditure in the fourth quarter of each calendar year, revenue and thus operating profit are generally higher in this period.

Additional cash flow information [38]

The following information is provided to supplement the statement of cash flows: "Other non-cash expenses and income" mainly comprise accrued interest income and expenses for allocation to and income from the release of valuation allowances on trade receivables, and expenses from writing down receivables. Additionally, the impairment charges on goodwill and intangible assets (kEUR 23,881) as well as from the impairment of financial assets (kEUR 3,136) are presented in this line.

The item in the cash flow statement for re-/purchase of treasury shares includes stock options exercised that were settled in cash by ad pepper media International N.V. as well as buy-backs of treasury shares settled in cash.

Stock option programs [39]

By doubling the number of options and halving the exercise price all stock options programs mentioned below have been adjusted for the share split on 27 May 2009.
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 9.775 on one occasion, 25 percent after two years if the market price during this period exceeds EUR 11.05 on one occasion, 25 percent after three years if the market price during this period exceeds EUR 11.90 on one occasion, 25 percent after four years if the market price during this period exceeds EUR 12.75 on one occasion). The options expire if an employee terminates his or her employment contract or if the employer terminates the employment for good cause.
At each of the annual general meetings on 26 April 2001, 25 April 2002, 5 May 2003, 7 May 2004, 2 May 2005, 12 May 2006, 30 April 2007 and 27 May 2008 the Management Board was authorized to repurchase up to 10 percent of the share capital as treasury shares within an 18-month period. By shareholders resolution of 19 May 2009, the Management Board of ad pepper media was authorized to repurchase treasury stock of up to 50 percent of the issued capital within the next 18 months. The board of directors made a resolution on 2 June 2009 to make use of this authorization and to acquire 10 percent of the issued capital amounting to up to 2,279,708 own shares. 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. Altogether 1,000,000 shares have been reserved for the "Ongoing Stock Option Plan". The subscription ratio is one share per option right. 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 the employment 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 nonrecurring issue of options was granted to executives; the exercise price for these options is also based on the average share price during the first ten trading days in January. Ten percent of the options may be exercised in each of the following ten years.

Pursuant to the resolution of the general meeting dated 2 May 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 at 25 percent each year. Similar to 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 can be exercised at the earliest one year after being granted.

No stock options were granted in 2007.

An employee equity-participation program involving 1,220,000 options was launched for executive employees on 15 May 2008.
The valuation was carried out by simulation (Monte-Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 January 2003 and 30 April 2008. Earlier values would have distorted the estimate of volatility. One quarter of the option rights can be exercised one year after they were granted at the earliest, another quarter another year after they were granted, and so on. The fair values of the individual tranches at the time of granting are between EUR 0.282 and EUR 0.5145 per issued option. The maximum cost of the program over the entire period is EUR 0.5m.

An employee equity-participation program involving 280,000 options was launched for executive employees on 6 March 2009.
The valuation was carried out by simulation (Monte-Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 January 2003 and 28 February 2009. Earlier values would have distorted the estimate of volatility.
One quarter of the option rights can be exercised one year after they were granted at the earliest, another quarter another year after they were granted, and so on.
The fair values of the individual tranches at the time of granting are between EUR 0.1925 and EUR 0.3085 per issued option. The maximum cost of the program over the entire period is EUR 0.1m.

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

	Pre-IPO	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Ongoing SOP 2004
Share price when granted, in EUR	6.75	1.30	0.65	0.89	2.22
Date of grant	31-05-00	18-05-01	15-01-02	15-01-03	16-01-04
Exercise price, in EUR	6.75	1.365	0.665	0.89	2.225
Risk-free interest rate, in percent	4.80	4.00	3.80	3.50	2.75
Estimated term, in years	7	4	1	1	1
Future dividend, in EUR	0	0	0	0	0
Estimated volatility, in percent	20	93	68	73	40

	Executive SOP 2003	Executive SOP 2005	Executive SOP 2006	Executive SOP 2008	Executive SOP 2009
Share price when granted, in EUR	0.89	2.50	3.80	1.40	0.85
Date of grant	15-01-03	15-04-05	16-01-06	15-05-08	06-03-09
Exercise price, in EUR	0.89	2.66	3.795	1.50	0.915
Risk-free interest rate, in percent	4.50	3.65	3.48	4.15	2.71
Estimated term, in years	10	4	4	10	7
Future dividend, in EUR	0	0	0	0.04 to 0.06	0.04 to 0.06
Estimated volatility, in percent	53	58	56	50	53.62

The development in the price of the ad pepper media share in the period from 1 January 2003 to 28 April 2006, 30 April 2008 respectively 28 February 2009.was used as a basis to determine volatility for the option plans issued in 2006, 2008 respectively 2009. Prior figures would have distorted the volatility figure.
The average share price during 2009 was EUR 1.12 (2008: EUR 1.285).

The personnel expenses recorded in the past financial year in connection with stock option programs granted on the basis of equity instruments amount to kEUR 179 (2008: kEUR 428).

The following table shows the changes in the options during the financial year 2009:

	2009 Number	2008 Number	Exercise price EUR
Options at the beginning of the fiscal year (Pre-IPO)	225,500	225,500	6.750
Options at the beginning of the fiscal year (Ongoing SOP 2001)	76,000	76,000	1.365
Options at the beginning of the fiscal year (Ongoing SOP 2002)	20,400	20,400	0.665
Options at the beginning of the fiscal year (Executive SOP 2003)	1,080,000	1,580,000	0.890
Options at the beginning of the fiscal year (Ongoing SOP 2004)	85,100	85,100	2.225
Options at the beginning of the fiscal year (Executive SOP 2005)	160,000	160,000	2.660
Options at the beginning of the fiscal year (Executive SOP 2006)	158,000	200,500	3.795
Options at the beginning of the fiscal year (Executive SOP 2008)	1,000,000	1,220,000	1.500
Options granted (Executive SOP 2009)	280,000	-	0.915
Options forfeited (Executive SOP 2003)	-	-500,000	0.890
Options forfeited (Executive SOP 2005)	-60,000	-	2.660
Options forfeited (Executive SOP 2006)	-	-42,500	3.795
Options forfeited (Executive SOP 2008)	-100,000	-220,000	1.500
Options forfeited (Executive SOP 2009)	-60,000	-	0.915
Options exercised (Executive SOP 2003)	-180,000	-	0.890
Options at the end of the fiscal year	**2,685,000**	**2,805,000**	**0.665 to 6.750**
Weighted exercise price in EUR	1.880	1.895	
Exercisable options as of 31 December	392,400	601,500	
Weighted exercise price in EUR	0.878	2.180	

The weighted exercise price of stock options exercised during 2009 is EUR 0.890.

Total remuneration of management in key positions [40]

	31-12-09 kEUR	31-12-08 kEUR
Short-term employee benefits	1,116	1,141
Post-employment benefits (pensions and medical supply)	27	26
Share-based payments	53	80
Total remuneration of the Management Board	**1,196**	**1,247**

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

	Expiration	Exercise price in EUR	Number 31-12-09	Number 31-12-08
2000	-	6.750	92,000	92,000
2001	-	1.365	20,000	20,000
2003	-	0.890	612,000	612,000
2008	15-05-18	1.500	310,000	310,000

Events after the balance sheet date [41]

Up until the day of authorization for issuance no events took place which would have exerted substantial influence on the net assets, financial position or result of operations as per 31 December 2009.

Financial instruments [42]

The classes of financial instruments within the meaning of IFRS 7.6 are defined in accordance with the categories of financial instruments in IAS 39. A distinction is accordingly made between financial instruments that are measured at amortized cost or at cost and those measured at fair value.

1. Capital risk management

The Group manages its capital with the aim of optimizing the income from investments in business entities by optimizing the debt equity ratio and maximizing its shareholder value by maintaining a high credit standing rating and a good equity ratio. At the same time, it is ensured that group entities can operate under the going concern assumption.
The capital structure of the Group consists of liabilities, whereby these do not include any new borrowings, cash and cash equivalents, available-for-sale securities, and the equity attributable to the parent company's shareholders. This consists of issued shares in circulation, the capital reserve, retained earnings brought forward and other equity captions.

Net indebtedness
The Group manages its capital structure and makes adjustments to this, taking into account changes in the general economic environment.
In order to maintain or adjust the capital structure, the Group can make dividend payments or pay back capital to the shareholders, issue new shares or buy back its own shares.
No changes in the objectives, guidelines and procedures were made as at 31 December 2009 compared to 31 December 2008. Negative net indebtedness means that the Company is debt-free.

Net indebtedness at the end of the year was as follows:

	31-12-09 kEUR	31-12-08 kEUR
Current and non-current financial liabilities	10,312	9,972
Cash and cash equivalents	-13,514	-5,833
Securities and fixed-term deposits	-9,088	-17,214
Net liabilities	**-12,290**	**-13,075**
Equity per balance sheet including minority interest	21,338	55,675
Net indebtedness, in percent	**-58**	**-23**

2. Significant accounting policies

IAS 39.AG33A states that when an entity becomes a party to a hybrid (combined) instrument that contains one or more embedded derivatives, paragraph 11 requires the entity to identify any such embedded derivative, assess whether it is required to be separated from the host contract and, for those that are required to be separated, measure the derivatives at fair value at initial recognition and subsequently. These requirements can be more complex, or result in less reliable measures, than measuring the entire instrument at fair value through profit or loss. For that reason this Standard permits the entire instrument to be designated as at fair value through profit or loss. Please refer to section [19,21] on non-current securities at fair value through profit and loss.
No re-designation of financial assets has taken place that has resulted in a change in the measurement method. The Group has not transferred any financial assets in such a way that the assets would not have had to be derecognized.
The Group has provided a part of EUR 0 (2008:EUR 1.0m) of its securities as collateral for credit facilities of EUR 0 (2008: EUR 1.0m). The Group does not hold any collateral for credit facilities.
Detailed information on the main accounting policies applied, including the recognition criteria, the measurement bases and the bases for the recognition of income and expenses, are presented separately for each category of financial assets, financial liabilities and equity instruments in Section [3].

3. Categories of financial instruments

Carrying amount per category of financial instruments

Financial assets	31-12-09 kEUR	31-12-08 kEUR
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	3,265	1,590
Held-to-maturity financial investments	0	0
Loans and receivables (including cash and cash equivalents)	22,141	30,338
Available-for-sale financial assets	4,617	5,970
Total	**30,023**	**37,898**

Financial liabilities	31-12-09 kEUR	31-12-08 kEUR
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	0	0
Other financial liabilities measured at amortized cost	10,312	9,972
Total	**10,312**	**9,972**

The carrying amount for all categories of financial instruments represents the fair value, because they are either current financial instruments or a fair value measurement is carried out (in the case of available-for-sale financial assets or assets designated as at fair value through profit or loss). The respective fair value is determined by referring to quoted market prices in active markets (Level 1). No significant concentrations of credit risks existed on loans and receivables designated as at fair value through profit or loss as of the reporting date.
The reported carrying amount of zero reflects the maximum credit risk of the Group for such loans and receivables. There have been no (accumulated) changes in the fair value due to changes in the credit risk during the reporting period. Credit derivates to hedge loans and receivables designated as at fair value through profit or loss have not existed and do not exist. Two unquoted equity instruments are not measured with their fair value as there is no active market and the businesses are in a early stage. Hence, uncertainty about the development and valuation parameters is high and a reliable measurement of the fair value is not possible. Thus, those financial assets are carried at cost. In accordance with IAS 39.66 these assets are now categorized as available-for-sale with a book value of kEUR 194 (2008: kEUR 1,815). One of these assets has been impaired with kEUR 1,621 in 2009.

Net gains and losses per category of financial instruments (IFRS 7.20 (a))

Financial assets	31-12-09 kEUR	31-12-08 kEUR
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	-162	0
Held-to-maturity financial investments	0	0
Loans and receivables (including cash and cash equivalents)	0	0
Available-for-sale financial assets		
through profit and loss	-200	207
through other comprehensive income	1,189	-1,953
Total	**827**	**-1,746**

Financial liabilities	31-12-09 kEUR	31-12-08 kEUR
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	0	0
Other financial liabilities measured at amortized cost	0	0
Total	**0**	**0**

Interest income and expenses per category of financial instruments (IFRS 7.20 (b))

Financial assets	31-12-09 kEUR	31-12-08 kEUR
At fair value through profit and loss		
Held for trading	0	0
Designated as at fair value through profit or loss	103	0
Not at fair value through profit and loss	800	1,046
Total	**903**	**1,046**

Financial liabilities	31-12-09 kEUR	31-12-08 kEUR
Not at fair value through profit and loss	0	-11

Impairment expenses per class of financial assets (IFRS 7.20 (e))

Financial assets	31-12-09 kEUR	31-12-08 kEUR
At fair value	780	0
At cost	1,621	0
At amortized cost	1,794	261
Total	**4,195**	**261**

4. Objectives of financial risk managements

The main financial liabilities used by the Group comprise trade payables. The primary purpose of these financial liabilities is to finance the Group's business activities. The Group has available various financial assets, such as trade receivables, cash and short-term deposits, which result directly from its business activities, as well as available-for-sale securities. Group management monitors and manages the financial risks of the Group. These risks include the market risk (including exchange rate risks, interest rate-induced fair value risks and price risks), the credit risk, the liquidity risk and interest rate induced cash flow risks. In addition, management decides on the utilization of derivative and non-derivative financial transactions and the deposit of surplus liquidity. The Group does not enter into any contracts with or deal in financial instruments, including derivative financial instruments, for speculative purposes.

5. Market risk

The Group's activities expose it primarily to financial risks from changes in exchange rates (see 6. below) and interest rates (see 7. below). Market risk positions are determined by means of a sensitivity analysis.
No changes occurred either in the market risk expositions of the Group or in the nature and means of risk management and assessment.

6. Exchange rate risk management

Certain transactions in the Group are denominated in foreign currency. Risks from fluctuations in exchange rates can result from these.The carrying amounts of the monetary assets and liabilities of the Group denominated in foreign currencies are as follows:

Financial assets	31-12-09 kEUR	31-12-08 kEUR
US dollar	753	316
British pound	4,101	2,941
Swedish krone	406	656
Danish krone	3,013	3,032
Total	**8,273**	**6,945**

Financial liabilities	31-12-09 kEUR	31-12-08 kEUR
US dollar	242	149
British pound	1,894	1,744
Swedish krone	310	281
Danish krone	1,353	1,132
Total	**3,799**	**3,306**

Foreign currency sensitivity analysis
Because the exchange rate of the Danish krone scarcely fluctuates in relation to the EUR, the Group is primarily exposed to the exchange rate risk from the currencies USD and GBP. The following table shows the sensitivity from the point of view of the Group of a 10 percent rise or fall in the euro compared with the respective foreign currency. The 10 percent shift represents management's assessment with regard to a reasonable possible change in the exchange rate. The sensitivity analysis only includes outstanding monetary positions denominated in foreign currency and adjusts their translation at the end of the period to a 10 percent change in the exchange rates. A negative figure below indicates a decrease in the annual earnings and equity if the euro strengthens by 10 percent compared with the respective currency. If the euro falls by 10 percent compared with the respective currency, this will have a similar influence in the opposite direction on the annual earnings and equity; the figure below would then be positive.

	Effect of USD 31-12-09 kEUR	Effect of USD 31-12-08 kEUR	Effect of GBP 31-12-09 kEUR	Effect of GBP 31-12-08 kEUR	Total 31-12-09 kEUR	Total 31-12-08 kEUR
Net income for the year	-28	-106	11	55	-17	-51
Equity	0	0	0	0	0	0

The exchange rate risk sensitivity of the Group decreased during the past accounting period due to the reduction of business denominated in GBP and USD by means of Intercompany-settlement.

7. Interest rate risk management

The Group is exposed to interest rate risks, because the group parent company invests funds at fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate relationship between floating and fixed investments of funds.
The interest rate risk on financial assets and financial liabilities is discussed in detail in the section on control of the liquidity risk.

Interest rate sensitivity analysis
The sensitivity analyses described below were determined on the basis of the interest rate risk exposure on non-derivative financial instruments at the balance sheet date. For investments of funds at floating interest rates, the analysis is prepared on the assumption that the funds invested at the balance sheet date were invested throughout the year. An increase or decrease in the interest rate by 50 basis points is assumed for the interest rate risk. This represents management's assessment with regard to a justified, possible change in the level of interest rates.
If the interest rate had been 50 basis points higher (lower) and all other variable had remained constant:

- the net income for the year ended 31 December 2009 would have decreased/increased by kEUR 155/kEUR 171 (2008: decreased/increased by kEUR 47/kEUR 49). This is due to interest rate risks from investments at floating rates and to the change in the fair value of securities at fair value through profit and loss.
- the equity of the Group would have decreased/increased by kEUR 127/kEUR 130 (2008: decreased/increased by kEUR 107/kEUR 74). This is due to changes in the fair value of available-for-sale financial assets.

The interest rate sensitivity of the Group increased during the past reporting period, mainly because of higher investments of which the interest rates relate to the steepness of the interest rate curve.

8. Credit risk management

Credit risk is the risk of a loss for the Group if a contractual party does not comply with its contractual obligations. Business relationships are only entered into with creditworthy contractual parties, and, as appropriate, obtaining collateral, to reduce the risk of a loss through the non-fulfillment of obligations. The Group only enters into business relationships with entities that are rated with or better than "investment grade". This information is provided by independent rating agencies. If such information is not available, the Group makes use of other available financial information and its own trading records, in order to evaluate its major customers. The risk exposure of the Group and the credit ratings are continuously monitored.
Trade receivables exist with a large number of customers spread over various sectors and geographical territories. Continuous credit assessments are carried out with regard to the financial condition of the receivables. The Group is not exposed to any significant credit risks relating to a single contractual party or a group of contractual parties with similar characteristics. The Group defines contractual parties as those with similar characteristics if they are related parties. The concentration of credit risk from customer relationships did not exceed 3 percent of the financial gross asset values at any time during the reporting period. The credit risk on liquid funds securities which are not impaired is low because the contractual parties are banks and their subsidiaries, with good to excellent credit ratings on issuance date.
As two of the available-for-sale debt instruments have considerably decreased in their fair value, ad pepper media has thoroughly assessed the need for impairment. In making this judgment, ad pepper media evaluates among other factors, the normal volatility in stock-market prices as well as the impact of a lack of liquidity in trading in prevailing market conditions. However, a debt instrument classified as available-for-sale is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the debt instrument and that the loss event has impact on the estimated future cash flows of the debt instruments. Evidence of impairment may include indications that the issuer of the debt instrument is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the issuer is facing bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears. Impairment deemed appropriate when there is convincing doubt about the creditability of the issuer or there is strong indications that the redemption of the debt instruments or the interest payments are at risk. Considering the facts that the one of the debt instruments is covered by a support agreement, guaranteeing the full redemption of the instruments, that so far all interest payments have been received in time and that there is no material deterioration of the financial fundamentals of issuers, Directors of the Board after due consideration are of the opinion that there is no evidence that this available for sale financial asset is impaired. Considering the facts that for one of the debt instruments interest payments are received from the issuer's parent company of the issuer (partly delayed) and that the issuing bank has been granted state aid, Directors of the Board after due consideration are of the opinion that there is evidence that this available for sale financial asset is impaired. Impairment losses of kEUR 780 have been recognized for available-for-sale assets at 31 December 2009 (2008: nil).

The carrying amount of the financial assets included in the consolidated financial statements less any impairment losses represents the Group's maximum credit risk. Any collateral possibly held is ignored.
An account for specific allowances is only maintained for the class of "loans and receivables" for the trade receivables and loans granted that are included therein.

The reconciliation of changes required by IFRS 7.16 is as follows:

	31-12-09 kEUR	31-12-08 kEUR
Specific allowances		
Balance at beginning of year	895	2,146
Allowances in the period		
Additions	1,764	261
Reversals	-195	-623
Consumption	-193	-889
Balance at end of period	**2,271**	**895**

The analysis of overdue but unimpaired gross financial assets for the relevant class of "loans and receivables" in the form of trade receivables is as follows:

	Total kEUR	Not overdue kEUR	Up to 120 days overdue but not yet impaired kEUR
2009	6,301	2,714	3,587
2008	9,119	3,484	5,635

The total shown above does not include unbilled receivables of kEUR 0 (2008: kEUR 573).
The analysis of impaired financial assets for the relevant class of "loans and receivables" shows that allowances were set up on a gross receivables amount of kEUR 2,406 (2008: kEUR 1,250).
In 2009, a bad debt allowance on trade receivables applied with 50 percent after 120 days overdue, 75 percent after 240 days overdue and 100 percent after one year overdue.
In 2008, a bad debt allowance on trade receivables applied with 50 percent after 180 days overdue and 100 percent after one year overdue. The prior year disclosure of overdue but unimpaired gross financial assets was adjusted accordingly.

9. Liquidity risk management

The Group monitors the risk of a shortage of liquidity on a continuous basis with the help of a liquidity planning tool. This tool takes into account the maturities of the financial investments and the financial assets (e.g. receivables, other financial assets) and the expected cash flows from operating activities. The Group's aim is to maintain a balance between the continuous coverage of the funding requirement and the necessity for flexibility.
The maturities of the financial liabilities of the Group as at 31 December 2009 are presented below. The information is based on contractual, undiscounted payments.

Financial liabilities 31-12-09	< 1 mo. kEUR	> 1 mo. < 3 mo. kEUR	3 mo. to 1 year kEUR	Total kEUR
Trade payables	6,327	292	0	6,619
Other financial liabilities measured at amortized cost	2,186	869	638	3,693
Total	**8,513**	**1,161**	**638**	**10,312**

Financial liabilities 31-12-08	< 1 mo. kEUR	> 1 mo. < 3 mo. kEUR	3 mo. to 1 year kEUR	Total kEUR
Trade payables	6,763	379	214	7,356
Other financial liabilities measured at amortized cost	870	1,075	671	2,616
Total	**7,633**	**1,454**	**885**	**9,972**

Nuremberg, 23 March 2010

The Management Board of ad pepper media International N.V. comprised the following members in the financial year 2009:

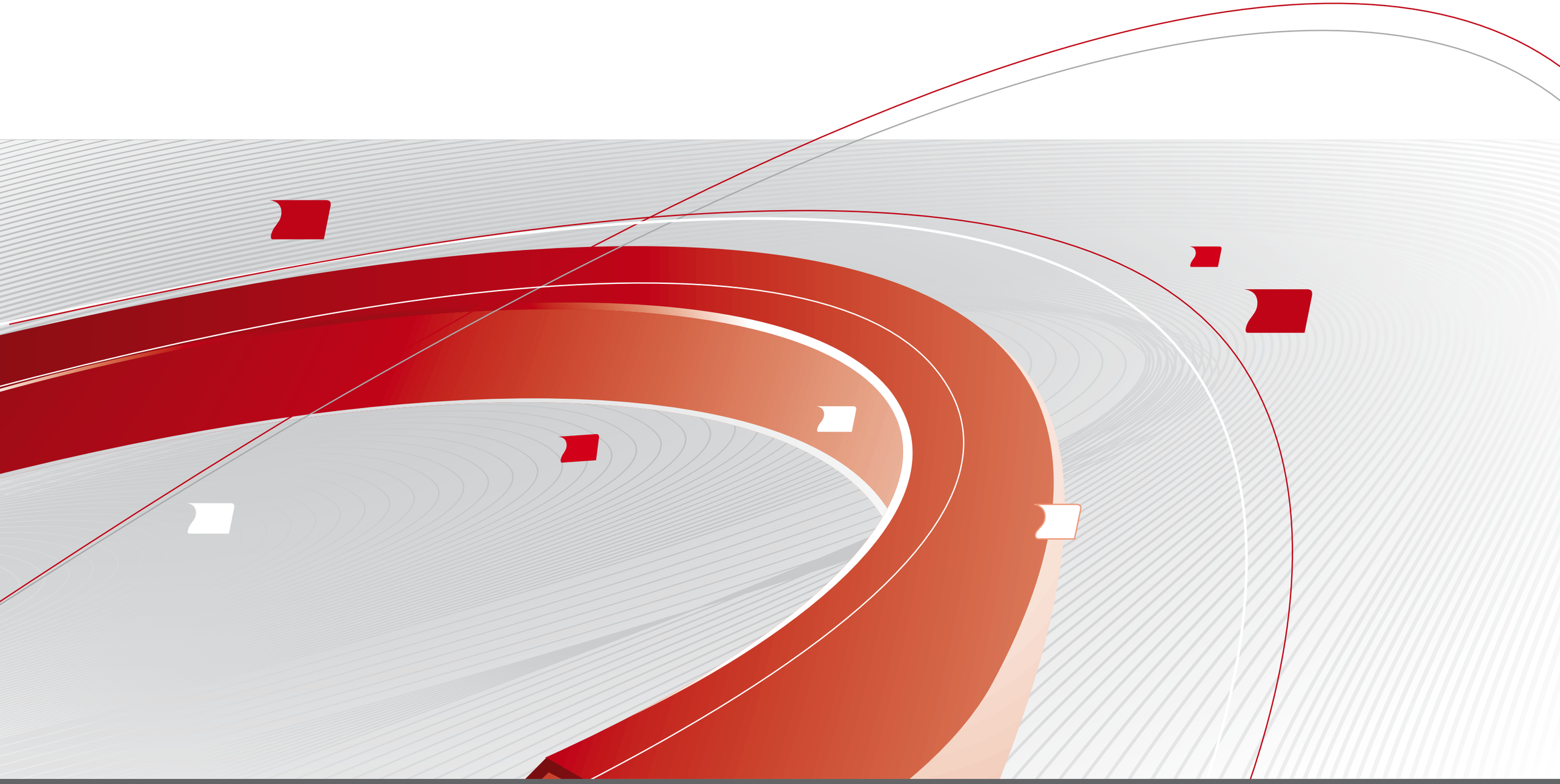
- Ulrich Schmidt, CEO (Chairman)
  Nuremberg, Germany

- Michael A. Carton, Director of the Board
  London, United Kingdom
- Jens Körner, CFO
  Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in fiscal year 2009 consisted of:

- Michael Oschmann, (Chairman)
  Nuremberg, Germany
  Managing Director

- Dr. Frank Schlaberg
  Munich, Germany
  Managing Director
- Jan Andersen
  Copenhagen, Denmark
  Managing Director
- Merrill Dean
  Scottsdale, USA
  Managing Director



Independent auditor´s report

To the Supervisory Board and/or Shareholders of ad pepper media International N.V.

Auditor's report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2009 which are part of the financial statements of ad pepper media International N.V., Amsterdam, which comprise the consolidated balance sheet as at December 31, 2009, income statement, the statements of income and expense recognized in equity, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management director's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2009, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management director's report is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.

already signed: J. Penon
Amsterdam, March 23, 2010

Additional information

Glossary

Ad
Abbreviation for advertising banners ("ad" is an English abbreviation for "advertisement").

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.

Advertiser
Used primarily by offerers from the USA, the word "advertiser" is synonymous with "merchant". Via the affiliate system, dealers make available the products and services that they offer online. Dealers allow linked distributing partners to market the merchandise via their websites. For each mediated sale, the dealer pays a predetermined commission based on a percentage of the sale's volume.

Affiliate
A distributing participant in the partner program who is linked in his websites, newsletter or Ad-Words campaign in order to profit from the commissions (advertising medium).

Affiliate marketing
Online distribution channel and special discipline within performance marketing. Success-based payments are made via partner programs for all services mediated by affiliates. Affiliate network Providers of technological and/or other services who take over tracking and invoicing on behalf of affiliates and merchants. Also frequently known as "affiliate platform."

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, clickthrough rate does not take into account other key criteria for advertising effectiveness, such as awareness, image, communicative performance and likeability.

Cookie
A small text file which a website can automatically place in the memory of the computer of a user who visited that website, thus enabling the website to subsequently identify the user. Sales and leads are assigned to the affiliates via cookies.

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 lead (CPL)
Fee per dataset. Also known as "PPL" (pay per lead).

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).

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").

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.

Lead
A mediated dataset, e.g. the postal address of a person, his email address, or both.

Merchant
The advertiser and the operator of the partner program.

One-stop shopping
Centralized handling of worldwide advertising campaigns by a marketer. Booking, guidance and invoicing occur via an interface.

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.

Performance marketing
Measures to acquire customers and encourage their loyalty, with the goal of generating quantifiable responses and/or transactions.

Publisher
Another term for "affiliate".

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.

Targeting
Target-group-oriented use of advertising banners and other forms of advertising in the Internet. Users are assigned to a particular target group after they have responded by indicating a special area of interest at a website, after they have gone into the Internet with a particular browser, or after they have logged in from a particular country of origin.

Tracking
An ongoing technical process to record and document the success of specific affiliates and merchants. Well-functioning tracking is a precondition for the successful operation of a partner program.

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

Addresses

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Company calendar

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

Annual report 2009	*31 March 2010*
Quarterly report I / 2010	*12 May 2010*
General Meeting of Shareholders´ (Amsterdam, The Netherlands)	*18 May 2010*
Quarterly report II / 2010	*12 August 2010*
Quarterly report III / 2010	*11 November 2010*
Analysts´ conference: German Equity Forum (Frankfurt / Main)	*November 2010*

We will gladly send you our 2009 Annual Report as well as the interim financial reports for 2009 in German or English. These reports are also published as PDF files at www.adpepper.com under: *Investor Relations/News & publications/Reports and presentations.*

Contact

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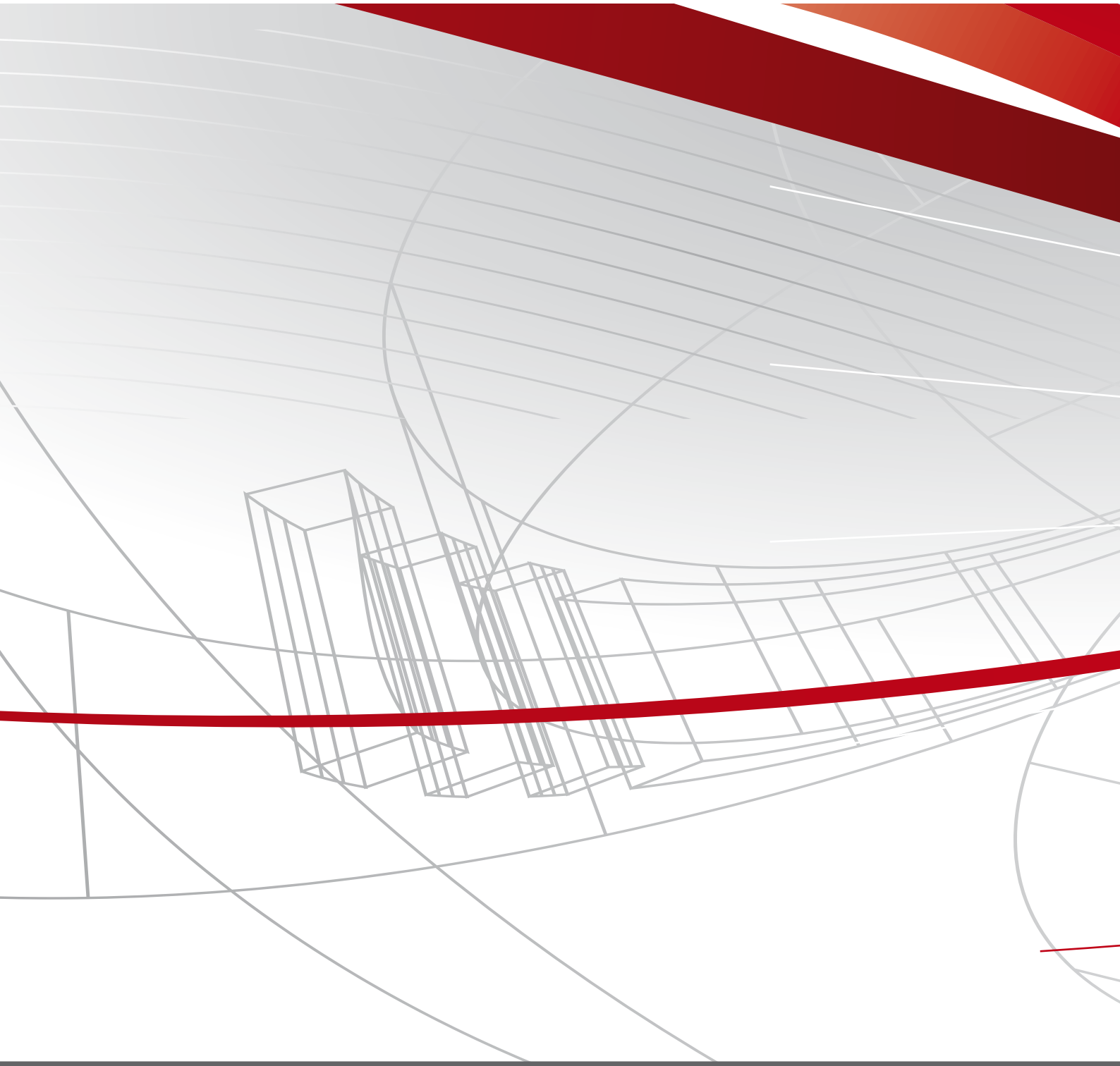
HRA Nürnberg 17591
VAT-ID No.: DE 210757424

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

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 materialize. 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.



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