AD PEPPER MEDIA INTERNATIONAL N.V., AMSTERDAM
THE NETHERLANDS

Annual Report 2006

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LETTER FROM THE MANAGEMENT BOARD

Dear shareholders,

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

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

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

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

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

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

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

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

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

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

Ulrich Schmidt Niels Nüssler Michael A. Carton Jens Körner

REPORT BY THE SUPERVISORY BOARD

Dear shareholders,

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

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

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

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

Innovative advertising forms and services based on best available technologies perfectly round off the company's core business.

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

During the year under review, the Management Board submitted to the Supervisory Board regular and comprehensive, written and verbal reports on business planning and business developments, the company's situation as well as major operative facts and events. During four ordinary meetings on 27 January, 11 May, 17 and 24 November 2006, the Supervisory Board examined in detail business developments and supervised the Management Board on the basis of the legal requirements and the company's articles of association. All measures subject to approval by the Supervisory Board were discussed in detail at the meetings of the Supervisory Board.

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

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

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

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

Nuremberg, 30 March 2007

On behalf of the Supervisory Board

Michael Oschmann, Chairman

BUSINESS ACTIVITIES

Central element in the marketing mix

More than 12 years ago, the US telecommunications group AT&T used the first advertising banner on the site of Internet magazine hotwired.com. This marked the birth of online advertising. What began in 1994 with a static banner has rapidly developed over the past decade. Classic banners were quickly supplemented by multimedia formats combining animation, moving pictures and audio. Furthermore, the ongoing broadband boom is opening up additional possibilities for combined rich-media formats.

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

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

Increasing volumes and prices

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

Why advertise online?

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

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

Online advertising as an international business

From the very beginning, ad pepper media focused on marketing advertising space on the Internet as its core business.
Since going into business, this international company has been flexible in addressing the needs of many different markets. The present organisation with ad pepper media International N.V. as the holding company heading the group has existed since August 1999. Today, ad pepper media is present with 19 branches in twelve European countries and with one branch each in the US and Australia. This far-reaching presence enables the company to organise campaigns on behalf of large international players beyond all borders and with a high degree of precision. In order to be prepared for these challenges, large, networked units will be needed with excellent technologies, the full bandwidth of online marketing combined with international presence and positioning power. ad pepper media has perfectly positioned itself on the market so that it can offer its customers the full range of efficient marketing tools and master growing user numbers world-wide as well as above-overproportionate growth in online media consumption.

In the **MEDIA**, **RESPONSE, E-MAIL** and **AFFILIATE** product groups, ad pepper media implements interactive and target-group-orientated marketing solutions for both advertisers and agencies in order to make their product and advertising strategies a success. As a one-stop shop, ad pepper media thereby covers all fields of efficient online advertising with comprehensive services ranging from effective branding solutions and business development to customer loyalty campaigns. The ad pepper media network covers around five billion exclusive advertising contacts per month. ad pepper media markets 1,000 premium websites world-wide, including leading websites, such as DasTelefonbuch and GelbeSeiten in Germany, Aftonbladed in Sweden, National Geographics in the UK along with another 100,000 national and international websites on specialist subjects and topics. Customers include blue chips as well as innovative brands and advertising customers who have discovered the Internet as an efficient advertising medium. The sales network includes websites with a regional, national or international online advertising presence and thus always offers customers the desired range. On the basis of a world-spanning network, the company's portfolio includes the full service, from campaign management to reporting, always using best available technologies. Here too, partnerships with leading technology firms enable ad pepper media to access state-of-the-art technology. This is why ad pepper media believes itself to be perfectly prepared to exploit the growth potential foreseeable in the coming years.

The **MEDIA** product group is primarily dedicated to the marketing of more or less known consumer products where a wide range is vital for the advertising message. The dominant means of advertising for such campaigns have always been mass media, such as cinema, magazines, radio and posters. However, even the most advanced media planning is unable to overcome one weakness in these advertising means, i.e. their enormous dispersion losses. Meanwhile the Internet has also reached the masses and achieves almost any range beyond all borders, however, with considerably less dispersion losses. Depending on the target group and aim of a campaign, i.e. awareness, branding or boosting traffic on the advertiser's website, ad pepper media can offer its customers different products or solutions for the targeted and efficient use of their advertising budgets.

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

ad pepper media and mediasquares are determined to give each customer the right tool to achieve the desired campaign goals. Concepts, solutions and technologies are always tailored to our customers' needs, irrespective of whether a broad audience is to be reached at low cost, whether maximum attention is to be generated with particularly catchy or innovative formats, or whether a campaign is to focus on boosting familiarity and strengthening recollection in conjunction with a brand. In order to support brand awareness, ad pepper media presents the advertiser and/or his advertising message exclusively on selected contents and/or at suitable events or activities.

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

Search, find, convince – soliciting customers online

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

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

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

When an advertiser is less interested in range volume and more interested in the time spent on his web pages, ad pepper media can offer the reasonably priced **iClick** instrument. With this product, the customer does not pay each time the advertisement is displayed, instead, he only pays for the clicks that have actually taken place on the advertisement. This kind of campaign is billed on an exclusively result-orientated basis. **iClick** is ad pepper media's performance-based marketing solution that was created in order to generate qualified visitors in a cost-efficient and measurable frame on the customer's website.

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

Valuable profiles

Besides consumer data mining for its customers, ad pepper media quickly started setting up its own e-mail database in the **MAIL** product group with qualified customer profiles using technologies developed by the company itself. By the end of the 2006 financial year, this database titled **mailpepper** contained more than 17 million profiles of potential customers, enabling far-reaching segmentation, for instance, according to location, age, profession or interests. **mailpepper** is hence one of the biggest pan-European databases. In view of the enormous growth potential of e-mail marketing and the good acceptance of the customer-orientated approach, ad pepper media will continue to invest in the expansion of this data base. The goal is to generate two million new qualified profiles by the end of 2007. ad pepper media thus offers advertisers a perfect way to directly and personally address their target customers per e-mail and to convince them of their product or service.

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

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

Range expanded considerably. With **webstats4U**, ad pepper media currently provides a technically mature software tool for its website partners. This tool monitors visitor numbers, site preferences as well as surfing and buying behaviour in realtime, thereby supplying the partners with valuable media data for their marketing. This global leader in web statistics is currently implemented on 1,000,000 websites, and is used free of charge by around 700,000 webmasters.

In return for this service, ad pepper media is given limited advertising space on these sites, so that the company can significantly expand the range of its network. This tool is being continuously enhanced and upgraded with additional attractive functions, so that larger and professional sites can also be addressed.

COMPANY REPORT

Basic economic conditions

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

Market and market environment

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

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

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

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

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

Due to the growing attractiveness of multi-media applications, Germans are spending more and more time online: On average, every adult spends 48 minutes a day (2005: 46 minutes) on the Internet.

A recent study by the Allensbach Institute for Demoscopy shows that in Germany private computers are being used more frequently and more diversely. Especially the number of people who use the computer daily or several times a week has grown significantly. Whilst PCs were used just a few years ago primarily for word processing, calculation, spreadsheets, computer games and e-mail correspondence, multi-media applications are now accounting for most of the new additions. Compared to just two years ago, PCs are now used more frequently to store, manage and edit photos, video and music files.

67 percent of 14 to 64 year olds (33.75 million) currently use the Internet according to the ACTA (Allensbach Computer and Technology Analysis). The growth of Internet use continues to be very dynamic, with almost two million new Internet users added over the past twelve months. Today, the Internet is boycotted by just one in five, compared to one in four two years ago.

Competitive environment

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

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

Business activities and business developments

During the past financial year, ad pepper media once again successfully implemented on the market and expanded its business model that covers the interactive marketing needs of companies on local, national and international level. ad pepper media was able to cover online markets better thanks to determined expansion of its branch network. The company now operates with 19 branches in 14 countries. The acquisition of Crystal Reference System Ltd. and Webgains Ltd. now means that ad pepper media has expanded its portfolio for customers and websites with a central element of successful online marketing, and meanwhile is able to offer almost the entire range of services for efficient online advertising.

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

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

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

The customer structure with its traditionally strong diversification has become even more international. Today, US companies eBay, Dell or HP are customers of the company, as well as Asian companies Toshiba or Samsung or European global players such as Mercedes, Nokia or Deutsche Telekom.
The company is not dependent to a significant extent on individual customers and in no case does a single customer account for more than five percent of sales.

Sales development

With sales up by 41.6 percent to around EUR 41.7 million, ad pepper media was able to clearly surpass its own target and the considerable pace of growth in the industry. During the same period of the previous year, revenue totalled EUR 29 million.

Segment reporting for the company is broken down according to geographical regions and distinguishes between Central Europe (Germany, Netherlands, Slovak Republic), Northern Europe (Denmark, Sweden), Western Europe (UK, France, Spain, Italy) and others (US, Australia, Switzerland). With more than 42 percent of sales corresponding to EUR 17.6 million, Central Europe accounted for the largest share in sales (previous year: EUR 12 million), followed by Western Europe with 34.5 percent or EUR 14.4 million (previous year: EUR 10.6 million) and Northern Europe with 15.5 percent or EUR 6.5 million (previous year: EUR 5.5 million). The US was able to increase sales by more than 70 percent from around EUR 2 million in 2005 to more than EUR 3 million in the year under survey. This regionally widespread distribution of sales means additional security for business development.

Development of results

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

Balance sheet structure and liquidity

ad pepper media's balance sheet continues to be very sound. The equity ratio is still on a high level with 76.9 percent. There are no long-term liabilities to banks. Despite reinvestments, liquid funds increased from EUR 17.5 to EUR 22.7 million due the sale of shareholdings. This means that we will continue to be able to round off our technology portfolio by acquisitions of suitable candidates and/or to expand in countries where we are not yet present.

Sales and marketing

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

Management and employees

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

In line with the investment strategy already communicated during the course of 2006, manpower development focused on "technology" and "development". Most of ad pepper media's employees work in sales, i.e. 63 people. They are responsible for looking after existing and winning new customers world-wide.
Within the four-member Management Board team, chairman Ulrich Schmidt is responsible for business development, product development, marketing and technology. Jens Körner is responsible for finance, human resources and investor relations. Niels Nüssler is responsible for sales and media purchasing. Michael A. Carton is responsible for product development and technology development.

Events of significant importance

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

In the past financial year, ad pepper media continued its strategy of balanced internal and external growth. The company completed a number of acquisitions which supplement and round off decisive areas of its business model. This holds particularly true for Crystal Reference System Ltd. and its Crystal Reference and Crystal Semantics divisions which were acquired in March 2006.
Crystal Semantics has developed a new optimization technology as a major product. This optimization technology prevents online advertising from being delivered on websites with contents which are unfit, illegal or not desired for the brand advertised.
The purchase price for the acquisition totalled around EUR 2.8 million and consisted of payment in cash and shares as well as a success-related earn-out component that was linked to the achievement of certain results. All targets have been reached meanwhile, so that the full purchase price has been paid.
In May 2006, ad pepper media international N.V. acquired Webgains Ltd, one of the fastest growing affiliate marketing networks in the UK. With this acquisition, ad pepper media has added a central element of successful online marketing to its portfolio for both customers and websites. The affiliate market is one of the dynamic sectors in the online industry.

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

Events after the closing date of the balance sheet

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

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

MANAGEMENT REPORT

Company outlook

The trend towards more international campaigns and ever-more complex advertising formats and marketing methods, which has been observed in the past two to three years, will continue without doubt. The resultant opportunities on the online market can be fully exploited especially by those service providers who have a well-developed, world-wide network that combines state-of-the-art technology with competitive products. This was why ad pepper media went to great lengths last year to improve its position on the world market even further. This included the above-mentioned investments in technology and new markets, as well as the quantitative and qualitative expansion of the company's range through the acquisition of Crystal Reference System Ltd. and Webgains Ltd. The Management Board will hence pay special attention to sustainably improving the profitability of operative business.

Risk management

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

Risk factors and imponderabilities

Acceptance of online advertising and dependence on the Internet

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

Imperfect legal boundary conditions

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

Rapid technological change

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

Data protection

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

Financial risks

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

Dependence on staff in key positions

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

Risks from potential acquisitions

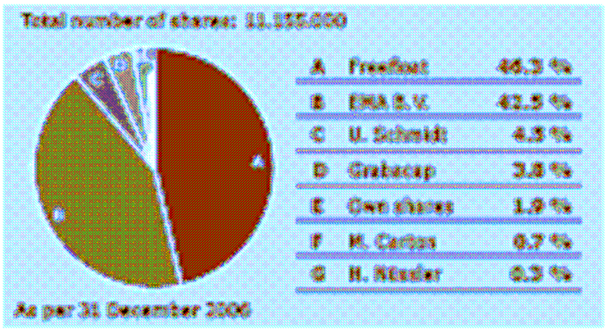
ad pepper media's international orientation not only requires a focus on internal growth, but also consideration of external growth in order to be able to grow faster in new markets or in order to acquire technologies which the company cannot develop quickly enough by itself. The acquisitions made in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

The ad pepper media share

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

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

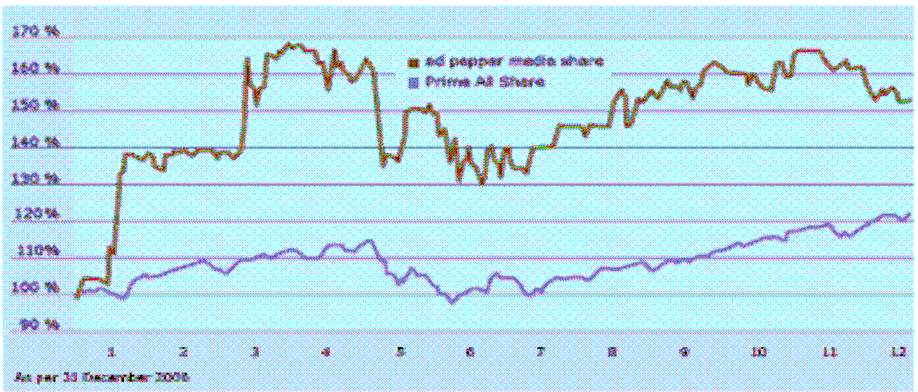
Shareholder structure



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

	Dec., 31, 2006 Shares	Dec., 31, 2006 Options	Dec., 31, 2005 Shares	Dec., 31, 2005 Options
Members of the Management Board				
Ulrich Schmidt	502,762	253,000	512,762	293,000
Michael A. Carton	73,703	214,000	-	-
Niels Nüssler	38,113	263,000	38,113	296,500
Hermann Claus (retired at 31 December 2006))	-	-	71,808	223,000
Members of the Supervisory Board				
Michael Oschmann	7,786	-	7,786	-
Dr. Günther Niethammer	1,112	20,000	1,112	20,000
Jan Andersen	-	-	-	-
Merrill Dean	-	-	-	-
Associated companies				
EMA B. V.	4,743,201	-	4,743,201	-
Euroserve	13,780	-	13,780	-
Viva Media Beteiligungsgesellschaft	100	-	5,100	-
Grabacap	424,000	-	464,000	-

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



CORPORATE GOVERNANCE

1 Introduction

1.1 2005 ad pepper media International N.V. took measures for the application of the Dutch Corporate Governance Code (the "Code"), issued on December 9, 2003. In the context thereof ad pepper media adopt 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. Copies of these documents will be available upon request. In deviation of the Code ad pepper media is of the opinion that its website is not suitable for posting these documents since the website is purely used for commercial and marketing purposes.

1.2 At the 2005 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.

1.3 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.

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

2 Board of Directors

2.1 Role

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 for the financial year 2005.

2.2 Appointment

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 a two third majority of the votes cast representing more than one half of the issued capital. The Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to incorporate provision IV.1.1 of the Code, due to which the binding nomination can be more easily declared non-binding. The proposal was adopted in this regard by the annual general meeting of shareholders.

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 January 1, 2005, new members of the Board of Directors shall enter, if possible, into a four-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. Depending on the market circumstances the Company may agree on the appointment of new members of the Board of Directors for a term of four years.

2.3 Remuneration

The Company's remuneration policy was adopted by the 2005 annual general meeting of shareholders.

Due to the business environment in which ad pepper media is operating it is hard to have the variable part of the remuneration of the Board of Directors be linked to previously-determined, measurable long-term targets that can also be influenced. Therefore the variable part of the remuneration of the Board of Directors is mostly linked to short-term targets and principle II.2 of the Code can not be applied in its entirety.

In deviation of principle II.2. of the Code the maximum remuneration in the event of dismissal of present and future members of the Board of Directors may not be limited to a one year's salary. For future contracts it may hinder the recruitment of highly qualified people in the Company's branch of business. Existing contracts continue unaltered. They contain a change of control provision.

Ad pepper media has no outstanding loans to any member of the Board of Directors other than to Mr Hermann Claus which loan agreements are at arm's length. Ad pepper media has not provided any guarantees for the benefit of any member of the Board of Directors.

In the year 2003 the general meeting of shareholders has adopted the Executive Stock Option Program which was meant to be kept in place for a long term. In 2005 the Board of Directors submitted to the annual general meeting of shareholders a proposal to slightly amend this program. The proposal was adopted by the annual general meeting. Although it is not in all respects in line with provisions II.2.1 through II.2.5 of the Code, there is no intention to further change this program since the Company wishes to continue with the long term policy introduced upon its adoption.

The Supervisory Board shall determine the remuneration of the individual members of the Board of Directors within the scope of the remuneration policy adopted by the general meeting of shareholders. The Supervisory Board shall report on the remuneration of the Board of Directors which shall include the principal points of the remuneration report of the Supervisory Board concerning the remuneration policy of the Company. This remuneration report shall contain an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the remuneration policy planned by the Supervisory Board for the next financial year. Such overview will not comply to its fullest extent with provision II.2.10 of the Code. It is for instance difficult to determine the peer group. If there is a peer group these would be United States companies which have a remuneration system which is not comparable to the Central European system.

2.4 Regulations concerning ownership of and transactions in securities by the Board of Directors

The Supervisory Board will draw up regulations concerning ownership of and transactions in securities by the Board of Directors, other than securities issued by ad pepper media. These regulations will allow members of the Board of Directors to invest in any listed company. Investments in non-listed competitive companies will not be allowed without approval of the Supervisory Board. The present agreements with the members of the Board of Directors contain regulations as described above. The Company does not comply with provision II.2.6 of the Code which requires members of the Board of Directors to give periodic notice of any changes in his holding of securities in Dutch listed companies to the chairman of the Supervisory Board for the reason that this is not in line with German privacy legislation.
The shares held by the members of the Board of Directors in the Company are long-term investments.

2.5 Conflicts of interest

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 if it concurs a member of that board 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 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.

2.6 Representation authority

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.

2.7 Members of the Board of Directors

Ulrich Schmidt, Chief Executive Officer (CEO).
Hermann Claus, Chief Financial Officer (CFO). until December 31,2006
Michael A. Carton, Director of the Board since May 12, 2006
Niels Nüssler, Chief Sales Officer (CSO).

The profiles of the members of the Board of Directors have been posted on the Company's website, www.adpepper.com.

3 Supervisory Board

3.1 Role

The Supervisory Board is charged with supervising of 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 the business of the Company.
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.

3.2 Appointment

Members of the Supervisory Board are appointed by the general meeting of shareholders. The Supervisory Board shall consist of not less than three natural 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 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.
Due to the history of the Company not all members of the Supervisory Board are independent within the meaning of the Code. At present the Supervisory Board is, in line with the Code with exception of not more than one member, composed of independent members. 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.

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 Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to provide in the Company's articles of association a provision to achieve that the Supervisory Board is allowed to draw up a retirement schedule in order to avoid, as far as possible, a situation in which many Supervisory Board members retire at the same time. The proposal was adopted in this regard by the annual general meeting of shareholders.

3.3 Chairman of the Supervisory Board and company secretary

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.
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.

3.4 Committees

The Supervisory Board presently consists of four members.

The Board of Directors and the Supervisory Board submitted to the 2005 annual general meeting of shareholders a proposal to include in the articles of association a provision for the Supervisory Board to appoint one or more committees and to draw up a set of regulations for each committee once the Supervisory Board deems the installment of a committee necessary. The proposal was adopted in this regard by the annual general meeting of shareholders.

3.5 Remuneration

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.

3.6 Conflicts of interest

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.

4 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.

5 Internal risk management and control system

In the course of ad pepper media International's global activities and due to progressing technology, the business of ad pepper media is naturally subject to a number of risks that are inseparably linked to the business activities.

Risks such as regional market developments and changes in the political climate as well as risks through the implementation of new technologies. To improve risk management a risk management system was set up in 2005. The system is based on the Dutch Corporate Governance Code (the “Code”) and is discussed and confirmed by the supervisory board.

Additional country and market specific risks, which result out of managing an internationally active group, are assessed. ad pepper media's policy on acquisitions emphasizes a timely integration of new companies. Specific risks of the sales markets are assessed on a regular basis by the management board in close collaborations with the management directors of the subsidiaries and will be adjusted through appropriate actions if necessary. The foreign currency risk of the group is controlled and covered by the international financial department.

In the year under review there were no risks present that could endanger the continued existence of the enterprise.

6 Whistle blower

The Company will not establish any whistle blower guidelines. This is in deviation of provision II.1.6. 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 financial nature in the Company without jeopardizing their legal position.

Amsterdam, April 13, 2007

Ulrich Schmidt, Nuremberg, Germany, CEO (chairman)

Michael A. Carton, Director of the Board, Nuremberg, Germany

Niels Nüssler, Nuremberg, Germany, CSO

1 CONSOLIDATED STATEMENT OF OPERATIONS (IFRS)

For the year ended December 31

(in thousands of EUR)	**2006**	2005
Net sales	41.692	29.440
Cost of sales [10.1]	(21.208)	(16.302)
Gross profit	**20.484**	**13.138**
Selling and marketing expenses [10.2 / 10.4]	(12.198)	(7.446)
General and administrative expenses [10.3]	(9.838)	(4.705)
Other operating income [10.5]	930	328
Other operating expenses [10.6]	(2.023)	(1.382)
Equity in earnings of affiliated companies	35	295
Earnings from sale of shares in affiliated companies and of other investments [10.7]	8.431	-
Earnings before interest and tax	**5.821**	**228**
Financial gains [10.8]	688	718
Income before income taxes	6.509	946
Income taxes [10.9]	(1.196)	2.448
Consolidated net gain	5.313	3.394
Earnings per share (basic) [10.10]	0.49	0.32
Earnings per share (diluted) [10.10]	0.45	0.30

	Q1-Q4/2006 Shares	Q1-Q4/2005 Shares
Weighted average shares outstanding (basic)	10.817.317	10.525.761
Weighted average shares outstanding (diluted)	11.771.977	11.326.955

See accompanying notes to consolidated financial statements

2 CONSOLIDATED BALANCE SHEET (IFRS)

As at December 31

A s s e t s

(in thousands of EUR)	**2006**	2005
Non-current assets		
Goodwill [11.1]	16.066	6.781
Intangible assets [11.2]	7.174	4.216
Equipment [11.3]	885	449
Investment in affiliated company [11.4]	-	1.208
Restricted cash [11.5]	-	650
Marketable securities [11.6]	4.360	4.259
Other financial assets [11.7]	727	4.158
Deferred tax assets [10.9]	4.747	5.590
Non-current assets, total	**33.959**	**27.311**
Current assets		
Marketable securities [11.6]	3.938	5.600
Trade accounts receivable [11.8]	11.190	10.457
Income tax receivables [11.10]	662	337
Prepaid expenses and other current assets [11.9]	2.001	1.461
Cash and cash equivalents [11.11]	14.380	7.028
Current assets, total	**32.171**	**24.883**
Assets, total	**66.130**	**52.194**

See accompanying notes to consolidated financial statements

Liabilities and Shareholders' equity

(in thousands of EUR)	**2006**	2005
Shareholders' equity		
Share capital [11.12]	1.116	1.116
Additional paid-in capital [11.13]	61.859	59.942
Treasury stock [11.14]	(341)	(422)
Accumulated deficit	(10.944)	(16.257)
Accumulated other comprehensive loss [11.16]	(837)	(438)
Shareholders' equity, total	**50.853**	**43.941**
Non-current liabilities		
Deferred tax liabilities [10.9]	822	407
Non-current liabilities, total	**822**	**407**
Current liabilities		
Trade accounts payable [11.17]	5.003	4.310
Other current liabilities [11.18]	3.425	869
Income tax liabilities [10.9]	378	111
Accrued expenses [11.19]	5.649	2.556
Non-current liabilities, total	**14.455**	**7.846**
Liabilities, total	**15.277**	**8.253**
Liabilities and shareholders' equity, total	**66.130**	**52.194**

See accompanying notes to consolidated financial statements

3 STATEMENT OF CASH FLOWS (IFRS)

As at December 31

(in thousand of EUR)	**2006**		2005	
Net gain		5.313		3.394
Adjustments to reconcile net gain to cash provided by operations:				
Depreciation and amortization	1.979		985	
Gain on sale of equipment	(50)		(2)	
Change of revaluation surplus	-		28	
Stock option expenses	1.000		215	
Interest income and expenses	(688)		(718)	
Income tax expenses	1.196		(2.433)	
Income from sale of investments	(8.431)		-	
Other non-cash income and expenses	1.252		1.024	
Gross cash flow		**1.571**		**2.493**
Increase in trade accounts receivable	(1.753)		(2.293)	
Increase in prepaid expenses and other assets	(63)		(442)	
Income taxes paid	(50)		(29)	
Interest income received	492		552	
Increase in trade accounts payable	608		871	
Interest expenses paid	(17)		(4)	
Increase/Decrease in accrued expenses and other liabilities	2.353		(682)	
Net cash used in / provided by operating activities		**3.141**		**466**
Capital expenditures for intangibles assets and equipment	(2.514)		(898)	
Proceeds from sale of intangible assets and equipment	168		9	
Capital expenditures in affiliated companies	-		(1.709)	
Proceeds from sale of shares in affiliated Companies an of other investments	12.460		-	
Security payments/proceeds from repayment security deposits	(34)		(148)	
Repayment of restricted cash	650		-	
Granted loans	(300)		-	
Acquisition of subsidiary, net of cash acquired	(1.616)		(1.797)	

Cash paid for acquisition of shares in consolidated companies	(5.780)		(2.810)	
Sales of marketable securities	3.100		1.024	
Purchase of marketable securities	(1.990)		(3.000)	
Net cash used in / provided by investing activities		4.144		(9.329)
Sale of treasury stock	736		-	
Purchases treasury stock	(402)		376	
Repayment of loan liabilities	(493)		(450)	
Repayment of granted loans	360		-	
Net cash used in / provided by financing activities		201		(74)
Effect of exchange rate changes on cash and cash equivalents		(133)		44
Changes in cash and cash equivalents		7.353		(8.893)
Cash and cash equivalents at beginning of year		7.028		15.921
Cash and cash equivalents at end of the period		14.380		7.028

See accompanying notes to consolidated financial statements

4 STATEMENT OF SHAREHOLDERS' EQUITY

	Equity of the shareholders of the parent company							
					Accumulated other comprehensive income/loss			
(in thousands of EUR)	Share capital	Additional paid-in capital	Treasury stock	Accumulated deficit	Currency conversion	Market valuation acailable-for-sale securoties	Minority interest	Total
Balance at January 01, 2005	1.116	59.727	1.063-	19.651-	55-	23-	36	40.087
Issuance of treasury shares			641					641
Net gain for the period				3.394				3.394
Acquired minority interest							36-	36-
Stock based compensation		215						215
Differences from currency conversion					48			48
Unrealized gain/loss on securities						408-		408-
Comprehensive income/loss, total								**3.249**
Balance at December 31, 2005	**1.116**	**59.942**	**422-**	**16.257-**	**7-**	**431-**	**-**	**43.941**
Balance at January 01, 2006	**1.116**	**59.942**	**422-**	**16.257-**	**7-**	**431-**	**-**	**43.941**
Issuance of treasury shares		917	81					998
Net gain for the period				5.313				5.313
Acquired minority interest								-
Stock based compensation		1.000						1.000
Differences from currency conversion					133-			133-
Unrealized gain/loss on securities						266-		266-
Total comprehensive income/loss								**5.914**
Balance at December 31, 2006	**1.116**	**61.859**	**341-**	**10.944-**	**140-**	**697-**	**-**	**50.853**

See accompanying notes to consolidated financial statements

5 STATEMENT OF CHANGES IN NON-CURRENT ASSETS

Business year 2005	Historical cost brought forward					Accumulated depreciation/Amortization/ Impairment					Book value	
(in thousands of EUR)	Balance at Jan. 01, 2005	Additions	Additions through business combinations	Disposals	Balance at Dec. 31, 2005	Balance at Jan. 01, 2005	Depreciation/ Amortization of fiscal year	Disposals	Differences from currency conversion	Balance at Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
Goodwill	**4.453**	**-**	**3.962**	**-**	**8.415**	**1.634**	**-**	**-**	**-**	**1.634**	**6.781**	**2.819**
Intangible assets												
Software	1.825	861	50	-	2.736	647	719	-	-	1.366	1.370	1.178
Proprietary rights and customer base	740	126	2.416	-	3.282	370	65	-	1-	436	2.846	370
Total	**2.565**	**987**	**2.466**	**-**	**6.018**	**1.017**	**784**	**-**	**1-**	**1.802**	**4.216**	**1.548**
Equipment	1.437	146	93	10	1.666	1.019	201	8	5-	1.217	449	418
Total	**8.455**	**1.133**	**6.521**	**10**	**16.099**	**3.670**	**985**	**8**	**6-**	**4.653**	**11.446**	**4.785**

Business year 2006	Historical cost brought forward					Accumulated depreciation/Amortization/ Impairment					Book value	
(in thousands of EUR)	Balance at Jan. 01, 2006	Additions	Additions through business combinations	Disposals	Balance at Dec. 31, 2006	Balance at Jan. 01, 2006	Depreciation/ Amortization of fiscal year	Disposals	Differences from currency conversion	Balance at Dec. 31, 2006	Dec. 31, 2006	Dec. 31, 2005
Goodwill	**8.415**	**-**	**9.285**	**-**	**17.700**	**1.634**	**-**	**-**	**-**	**1.634**	**16.066**	**6.781**
Intangible assets												
Software	2.736	1.726	2.713	80	7.095	1.366	946	69	-	2.243	4.852	1.370
Proprietary rights and customer base	3.282	1	235	3	3.515	436	760	3	-	1.193	2.322	2.846
Total	**6.018**	**1.727**	**2.948**	**83**	**10.610**	**1.802**	**1.706**	**72**	**-**	**3.436**	**7.174**	**4.216**
Equipment	1.666	734	33	252	2.181	1.217	273	194	-	1.296	885	449
Total	**16.099**	**2.461**	**12.266**	**335**	**30.491**	**4.653**	**1.979**	**266**	**-**	**6.366**	**24.125**	**11.446**

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

6 General

6.1 Corporate Information

The consolidated financial statements of ad pepper media International N.V. (the „Company“) for the year ended 31 December 2006 were authorized in accordance with a resolution of the directors on 28 March 2007. ad pepper media International N.V. is a limited liability company incorporated in the Netherlands, domiciled in Amsterdam, the Netherlands. The shares of the Company are publicly traded under WKN 940883 (ISIN NL0000238145) on the Prime Standard of the Frankfurt stock exchange.

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

ad pepper media is an international provider of interactive products and services for websites and advertisers. The company currently markets campaigns and websites in more than 50 countries and operates from 19 branches in 12 European countries, the USA and Australia. ad pepper media uses state-of-the-art technology to link thousands of small, medium and large websites to a top-quality advertising network with global reach and an exact focus on its target group.

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

7 Accounting principles

7.1 Basis of preparation

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

7.2 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).

7.3 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. According to this method, the purchase price has been allocated to the fair value of the interest held in the net assets of the consolidated subsidiaries at the time of acquisition. In doing so, all identifiable assets, liabilities and contingent liabilities are adopted at fair value and recognized accordingly in the consolidated balance sheet. After adjustments to the fair values of assets acquired and liabilities assumed are made, 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 are also adopted at fair value. Yet goodwill is reported only to the extent that it applies to the group and is not extrapolated to minority interest.

7.4 Consolidated Group

The entities included are as follows:

Entity	Share
ad pepper media GmbH, Nuremberg, Germany	100%
ad pepper media in Austria GesmbH, Salzburg, Austria	100%
ad pepper media Benelux B.V. Amsterdam, the Netherlands	100%

ad pepper media Sweden AB, Stockholm, Sweden	100%
ad pepper media Denmark A/S, Copenhagen, Denmark	100%
Mediasense ApS, Copenhagen, Denmark	100%
Pentamind A/S, Copenhagen, Denmark	100%
ad pepper media Oy, Helsinki, Finland	100%
ad pepper media UK Ltd., London, United Kingdom	100%
ad pepper media France S.A.R.L., Paris, France	100%
ad pepper media Spain S.A., Barcelona, Spain	100%
ad pepper media USA LLC, Delaware, USA	100%
ad pepper media Italy srl., Milano, Italy	100%
ad pepper media Interactive Marketing Services srl., Mailand, Italy	100%
Borsa Del Banner srl., Cagliari, Italy	51%
Regio ad Beteiligungs- und Verwaltungsgesellschaft mbH, Nuremberg, Germany	100%
Atlas Internet Associates s.r.o, Bratislava, Slovakia	100%
ResultOnline B. V., Amsterdam, the Netherlands	100%
Web Measurement Services B.V., Amsterdam, the Netherlands	100%
mediasquares GmbH, Düsseldorf, Germany	100%
Crystal Reference Systems Ltd., Holyhead, United Kingdom	100%
Webgains Ltd., London, United Kingdom	100%
ad pepper media Australia Ltd., Melbourne, Australia	100%
ad pepper media SA, Lugano, Switzerland	100%
Globase International Aps, Copenhagen, Denmark	100%

7.5 Changes in accounting policies

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

7.5.1 *New standards*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.6 Significant accounting judgments, estimates and assumptions

7.6.1 *Judgments*

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

7.6.2 *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.

7.6.3 *Impairment of Goodwill*

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

7.6.4 *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 upon the likely timing and level of future taxable profits together with future tax planning strategies.

7.6.5 *Assets acquired as part of a business combination*

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

7.7 Summary of significant accounting policies

7.7.1 *Foreign currency translation*

The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are 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 another functional currency than the Euro, are translated into the presentation currency of ad pepper media International N.V. (euro) at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount 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 1EUR	Closing rate		Average rate	
	31.12.2006	31.12.2005	2006	2005
US Dollar	1.3148	1.1805	1.2539	1.2464
British Pound	0.6694	0.6851	0.6803	0.6847
Swedish Crown	9.0192	9.3679	9.2391	9.2730
Danish Crown	7.4359	7.4404	7.4391	7.4483

7.7.2 *Property, plant and equipment*

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

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

An item of property, plant and equipment is derecognized upon 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.

7.7.3 *Business Combinations and Goodwill*

Business combinations are accounted for using the acquisition accounting 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 acquiree’s identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

7.7.4 *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 assessed to be either finite or indefinite.
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 is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the 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.

7.7.5 *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 of which the assets 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.

7.7.6 *Impairment of non-financial assets*

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously 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 that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

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

7.7.7 *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 relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

7.7.8 *Available-for-sale financial investments*

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

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.

7.7.9 *Impairment of financial assets*

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

7.7.10 *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 (i.e. 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss 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.

7.7.11 *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 impairment loss was recognized in the income statement.

7.7.12 *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.

7.7.13 *Cash and cash equivalents*

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.
For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

7.7.14 *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.

7.7.15 *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.

7.7.16 *Share-based payment transactions*

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

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

7.7.17 *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 valuator 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.

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

7.7.18 *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the 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.

7.7.19 *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 sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

7.7.20 *Rendering of services*

The company generates its revenues mainly by marketing internet advertising space. Advertising customers book units (AdImpressions, AdClicks, Registrations, Mail send-outs, Transaktions) via the company – these are supplied over a period defined by the customer. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price of the transaction is fixed and determinable, and collectibility is reasonably assured. In cases in which the campaign starts before the balance sheet date and lasts beyond this date, revenue is deferred proportionately according to the units supplied or to the period, depending on the contract.

7.7.21 *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).

7.7.22 *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 equity is recognized in equity and not in the income statement.

7.7.23 *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 and deductible 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 equity is recognized in equity and not in the income statement.

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

7.7.24 *Sales tax*

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is 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 sales tax included.

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

7.7.25 *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.

7.7.26 *Cash flow statement*

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

8 Business Combinations

8.1 Crystal Reference Systems Ltd.

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

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

Cash paid

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

The carrying amounts of identifiable assets and liabilities of Crystal Reference Systems Ltd. As of acquisition date are reported as follows:

Carrying amounts of assets and liabilities on the acquisition date	Recognized on aquisition EURk	Carrying value EURk
Intangible assets	1,663	397
Property, plant and equipment, net	19	19
Non-current assets, total	**1,682**	**416**
Trade receivables	11	11
Prepaid expenses and other current assets	11	11
Cash and cash equivalents	87	87
Current assets, total	**109**	**109**
Assets, total	**1,791**	**525**
Loan liabilities	940	94
Trade payables	9	9
Other current liabilities	83	83
Provisions	18	18
Deferred Taxes	241	0
Liabilities, total	**1,291**	**1,050**
Net Assets	**500**	**- 525**
Goodwill	**2,273**	
Purchase price, total	**2,773**	

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

Crystal reference contributed to the consolidated income with a loss of EUR 233,111, and to the consolidated revenue with EUR 106,716. Assuming that the acquisition had been effective at beginning of the reporting period the proforma revenues would have been EUR 41,741,836 and the proforma net income EUR 4,369,217.

8.2 Webgains Ltd.

On May 9, 2006 ad pepper media announced the acquisition of Webgains Ltd in London. Founded in 2004, the company has focused on providing merchants and affiliates a unique mix of proprietary state of the art Affiliate Marketing technology and world-class customer service. The Webgains technology – which was designed as a highly scalable platform and ready for international expansion – brings to ad pepper media the fruits of over 5 years experience in the affiliate marketing industry.

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

Cash paid

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

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

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

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

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

8.3 Globase

ad pepper media as of January 1st, 2006 acquired through its Danish subsidiary 100% interest in GlobaseSolutions AS, Copenhagen, Denmark, which offers permission and multichannel-marketing solutions.

The purchase price amounts to EUR 550,241.

Cash paid

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

The carrying amounts of identifiable assets and liabilities of Globase as of acquisition date are reported as follows:

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

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

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

8.4 Business combinations finalized in the financial year

Result Online B.V.

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

Nedstat Basic

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

Mediasquares

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

ad pepper media Interactive Marketing Services

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

9 Segment reporting

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

- Central Europe including Germany, the Netherlands and Slovakia
- Northern Europe including Denmark and Sweden
- Western Europe including Great Britain, France, Spain and Italy
- Others (USA, Australia, Switzerland)

Financial year 2006

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

Financial year 2005

	Central Europe	Northern Europe	Western Europe	Others	Consoli-dation	Group
	EURk	**EURk**	**EURk**	**EURk**	**EURk**	**EURk**
Total sales	**12,921**	**6,210**	**11,692**	**1,766**	**-3,149**	**29,440**
thereof external	12,051	5,035	10,598	1,756	0	29,440
thereof intercompany	870	1,175	1,094	10	-3,149	0
Expenses and other income	**10,014**	**5,794**	**11,862**	**1,434**	**-3,058**	**26,046**
thereof amortization and depreciation	833	56	122	4	-30	985
thereof other non-cash expenses	437	12	568	132	0	1,149
EBIT	**-245**	**550**	**5**	**10**	**-92**	**228**
Financial Gains						**718**
Income taxes						**2,448**
Consolidtaed net gain						**3,394**
Assets	**17,788**	**2,588**	**9,042**	**469**	**-14,274**	**15,613**
Unallocated asets						**36,581**
Total assets						**52,194**
thereof investments in property, plant and equipment in the financial year *	169.5	29	29	11	0	238.5
thereof investments in intangible assets in the financial year *	3,425.4	0	133,2	0	-105.9	3,452.7
Liabilities	**3,467**	**2,274**	**6,685**	**818**	**-19,502**	**-6,258**
Unallocated liabilities						**14,511**
Total liabilities						**8,253**

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

10 Notes to the income statement

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

10.1 Cost of Sales

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

10.2 Selling Expenses

This item comprises all costs associated with attracting customers and orders. Advertising costs of EUR 484,432 (2005: EUR 146,934) were expensed in the financial year 2006.

10.3 General and administrative expenses

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

10.4 Research and Development Expenses

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

10.5 Other Operating Income

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

10.6 Other Operating Expenses

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

10.7 Gain from sale of shares in affiliated companies and of other investments

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

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

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

10.8 Financial Income

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

10.9 Income Taxes

Income taxes break down as follows:

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

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

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

Allowances of EUR 2,679k (2005: EUR 1,496k) were made on non-current deferred tax assets from unused tax losses which are not likely to be utilized within a foreseeable planning period. The unused tax losses can be carried forward in full and indefinitely.

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

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

Deferred tax assets	2006 EURk	2005 EURk
Tax Losses brought forward	4.379	5.351
Securities	494	332
Other	10	0
Total	**4.883**	**5.683**

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

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

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

10.10 Earnings per Share

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

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

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

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

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

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

11 Notes to the consolidated balance sheet

Non-current assets

11.1 Goodwill

In accordance with the provisions of IAS 36, goodwill was tested for impairment in the fourth quarter of 2005 on the basis of future cash flows. The recoverable amount of each cash-generating unit, which is identical to the local entities, was determined on the basis of the calculation of a value in use using cash flow forecasts based on the financial plans for the next five financial years underlying a CAGR (Compound annual growth rate) of 29% in revenues and 26% in costs. The discount rate used for the cash flow forecast is between 9.3% and 11.4% (2005: average 9.25%). Cash flows after the five-year forecast period were calculated without using a constant growth rate, as it is not currently possible to calculate a long-term average growth rate for this young industry. This did not lead to any impairments.

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

	2006 EURk	2005 EURk
ad pepper media Benelux B.V.	3,253	1,863
ad pepper media Denmark A/S	759	440
Globase	440	0
ad pepper media Sweden AB	1,317	1,059
ad pepper media Spain S.A.	696	425
ad pepper media GmbH	1,963	618
Pentamind A/S	151	151
Borsa del Banner srl.	15	15
ad pepper media Interactive Marketing Services srl.	1,322	464
ad pepper media France S.A.R.L.	687	392
ad pepper media UK Ltd.	1,759	52
Webgains	1,724	0
ad pepper media USA LLC	440	175
ad pepper media Australia Ltd.	46	0
mediasquares GmbH	1,494	1,127
Total	16,066	6,781

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

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

11.2 Intangible assets

The intangible break down as follows:

Software

Software mainly comprises IT solutions developed in-house for the Company’s own use and is capitalized at cost for a value of EUR 1,588k (2005: EUR 303k). In addition, other software components were acquired in the course of business combinations. Software is amortized over a useful life of three to five years.

Proprietary rights

On August 30, 1999, ad pepper media purchased the “ad pepper” brand for EUR 613,550. This brand is written off over a period of ten years on a straight-line basis. The residual carrying amount as of December 31, 2006 totals EUR 163,606 (2005: EUR 224,961). In April 2003, the “Regio Ad” brand was acquired for an amount of EUR 48,181 including incidental acquisition costs. The amortization period is also ten years. The residual carrying amount as of December 31, 2006 totals EUR 30,190 (2005: EUR 35,022).

This item also includes the customer base acquired in the acquisition of Clickit’s online operations at a cost of EUR 75,000, which is being amortized over a three-year period. The residual carrying amount as of December 31, 2006 totals EUR 0 (2005: EUR 18,750).

The customer base acquired in connection with the acquisition of ResultOnline at a cost of EUR 443,800 is being amortized over a useful life of seven years. The residual carrying amount as of December 31, 2006 totals EUR 327,566 (2005: EUR 390,966).

The customer base acquired in connection with the acquisition of ResultOnline at a cost of EUR 443,800 is being amortized over a useful life of seven years. The residual carrying amount as of December 31, 2006 totals EUR 327,566 (2005: EUR 390,966).

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

The portfolio of websites acquired in the course of the acquisition of the online marketing agency mediasquares in the financial year 2005 with a cost of EUR 626,600 is being amortized over a useful life of seven years. The residual carrying amount as of December 31, 2006 totals EUR 514,701 (2005: EUR 604.221).

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

11.3 Property, plant and equipment

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

11.4 Investment in affiliated company

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

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

	2005 EURk
Assets, total	7.297
Liabilities, total	5.278
Operating performance, total	11.599
Net income for the year	436

11.5 Restricted cash

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

11.6 Current and non-current marketable securities

The securities as of December 31, 2006 solely contain available-for-sale securities.

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

In the reporting year, available-for-sale securities were acquired for EUR 1,990,440 and sold for a total of EUR 3,100,500. The losses incurred in the financial year amount to EUR 15,192, including losses of EUR 15,192 from the release of other comprehensive income to profit or loss.

The maturities of the available-for-sale securities are as follows:

(in thousands of EUR)	**2006**	2005
Due within one year	3.938	5.600
Due between one and five years	1.987	1.466
Due in more than five years	2.373	2.793
Total	8.298	9.859

11.7 Other Financial Assets

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

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

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

Current assets

11.8 Trade receivables

Trade receivables are recognized at their nominal value less valuation allowances. The valuation allowances as of December 31, 2006 total EUR 2,976,843 (2005: EUR 2,149,445). The allowances are calculated on the basis of all information available to the Company and include all probable bad debts on receivables as of December 31, 2006.

11.9 Prepaid expenses and other current assets

(in thousands of EUR)	**2006**	2005
Receivable from shareholders	197	189
Other debtors	1.347	884
Prepaid expenses	457	388
	2.001	1.461

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

Other receivables include VAT receivables of EUR 316,525 (2005: EUR 411,374) as well as a pending purchase price payment for an amount of EUR 619,432 in connection to the sale of the investment in dMarc Broadcasting Inc. being in escrow. Loan receivables of EUR 13,931 were written off in full (2005: EUR 136,931).

11.10 Income tax receivable

The item contains capital gains tax to be reimbursed by the tax authorities for a total of EUR 364,729 (2005: EUR 183,031).

11.11 Cash and Short-Term Deposits

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

11.12 Issued Capital

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

11.13 Capital Reserve

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

11.14 Treasury Shares

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

Sale of Treasury Shares

In the reporting year, 2,800 treasury shares were sold at an exercise price of EUR 1.33, 12,600 were sold at a price of EUR 2.73, 61,700 were sold at a price of EUR 1.78, 54,600 shares were sold at a price of EUR 4.45 and 52,500 shares were sold at a price of EUR 5.32 under the employee stock option plans.
In addition, 65,336 treasury shares were sold in the reporting year to settle purchase price liabilities resulting from the acquisition of Crystal Semantics.

Number of Shares Outstanding

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

11.15 Authorized Capital

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

11.16 Other Comprehensive Income

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

Current liabilities

11.17 Trade payables

Trade payables are recognized at the amount repayable.

11.18 Other current liabilities

(in thousands of EUR)	**2006**	2005
Value added tax	496	509
Other payroll related liabilities	503	177
Other creditors	2.426	183
	3.425	869

11.19 Provisions

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

Short-term provisions	31.12.2005	Utilization	Reversal	Addition	31.12.2006
	EURk	EURk	EURk	EURk	EURk
Outstanding website invoices	1.461	1.461	-	1.196	1.196
Other outstanding invoices	316	240	-	407	483
Bonus/commission	208	208	-	2.390	2.390
Vacation provisions	301	301	-	664	664
Miscellaneous	270	229	117	992	916
Total	**2.556**	**2.439**	**117**	**5.649**	**5.649**

11.20 Related party disclosures

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

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

ad pepper media GmbH markets internet sites for companies including Sharelook, Waslos.de, Gelbe Seiten Marketing and Funkhaus Nürnberg at standard market terms. Payments to these website operators totaled EUR 25,369 in 2006 (2005: EUR 43,232). As of December 31, the liabilities came to EUR 2,555 (2005: EUR 13,542). ad pepper media GmbH also rented offices in Düsseldorf from Schwann KG. The related rent expenses in 2005 totaled EUR 3,828. The rent agreement was terminated as of July 31, 2005.

As part of an office-sharing agreement with porta mundi, rent payments and operating costs of shared office fittings were offset against each other for the value of around EUR 75,000 (2005: EUR 75,000).

11.21 Litigation and claims

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

11.22 Other financial obligations

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

Financial year	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**
	EURk	EURk	EURk	EURk	EURk	EURk	EURk
Office Rent	737	683	626	511	346	542	3.445
Guarantees	2.485	-	-	-	-	-	2.485
Car lease	116	73	21	-	-	-	210
Others	149	-	-	-	-	-	149
Total	**3.487**	**756**	**647**	**511**	**346**	**542**	**6.289**

11.23 Guarantees

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

11.24 Additional Cash Flow Information

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

Non-cash expenses and income comprises deferred income from investments measured at equity of EUR 35,000 (2005: EUR 295,654).

The item in the cash flow statement for repurchase of treasury shares solely includes stock options exercised that were settled in cash by ad pepper media International N.V

11.25 Stock Option Program

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% after the first year if the market price during this period exceeds EUR 19.55 on one occasion, 25% after two years if the market price during this period exceeds EUR 22.10 on one occasion, 25% after three years if the market price during this period exceeds EUR 23.80 on one occasion, 25% after four years if the market price during this period exceeds EUR 25.50 on one occasion). The options expire if an employee terminates his or her employment contract or if the employer terminates for good cause.

At each of the annual general meetings on April 26, 2001, April 25, 2002, May 5, 2003, and May 7, 2004, the management board was authorized to repurchase up to 10% of the share capital as treasury shares within an 18-month period. The treasury shares thus repurchased are available for acquisitions and employee stock options.

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

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

Options can first be exercised when the share price has risen at least 10% above the subscription price, but no sooner than one year after the option has been granted. Options may be exercised in whole or in part in the three-week period after publication of the Company's quarterly reports. As a rule, the stock options granted do not expire. However, the options expire if an employee terminates his or her employment contract or if the Company terminates for good cause.

In January 2003, the 'Ongoing Stock Option Plan' for executives was replaced by the 'Executive Stock Option Plan', the aim of which is to encourage executives to remain with the Company. Under this plan, a once-only issue of options was granted to executives; the exercise price for these options is also based on the average share price during the first ten trading days in January. 10% of the options may be exercised in each of the following ten years.

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

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

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

	No.	Subscription price EUR
Options at the beginning of the fiscal year (Pre-IPO)	117,650	13.50
Options at the beginning of the fiscal year (Ongoing SOP 2001)	71,00	2.73
Options at the beginning of the fiscal year (Ongoing SOP 2002)	37,100	1.33
Options at the beginning of the fiscal year (Ongoing SOP 2003)	17,800	1.78
Options at the beginning of the fiscal year (Executive SOP)	958,000	1.78
Options at the beginning of the fiscal year (Ongoing SOP 2004)	103,500	4.45
Options at the beginning of the fiscal year (Exec SOP 2005)	190,000	5.32
Options granted (Exec SOP 2005)	30,000	5.32
Options granted (Exec SOP 2006)	675,000	7.59
Options lapsed (Pre-IPO)	-4,900	13.50
Options lapsed (Ongoing SOP 2001)	-	2.73
Options lapsed (Ongoing SOP 2002)	-	1.33
Options lapsed (Ongoing SOP 2003)	-	1.78
Options lapsed(Ongoing SOP 2004)	-	4.45
Options lapsed (Executive SOP)	-90,000	1.78
Options lapsed(Executive SOP 2005)	-87,500	5.32
Options lapsed (Executive SOP 2006)	-56,250	7.59
Options exercised (Ongoing SOP 2001)	-27,600	2.73
Options exercised(Ongoing SOP 2002)	-21,300	1.33
Options exercised (Ongoing SOP 2003)	-13,700	1.78
Options exercised (Ongoing SOP 2004)	-54,600	4.45
Options exercised (Executive SOP)	-48,000	1.78
Options exercised (Exec SOP 2005)	-52,500	5.32
Options at the end of the fiscal year	1,743,700	
Weighted subscription price		1.92
Exercisable options as of December 31, 2006	**247,700**	**2.48**

The average share price in the financial year 2006 was EUR 10.27 (2005: EUR 5.99).

The personnel expenses recorded in the financial year in connection with stock option programs granted on the basis of equity instruments amount to EUR 999,654 (2005: EUR 214,904).

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

	Pre-IPO	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Executive SOP 2003	Ongoing SOP 2004	Executive SOP 2005	Executive SOP 2006
Share price when granted	13,50 EUR	2,60 EUR	1,30 EUR	1,78 EUR	1,78 EUR	4,44 EUR	5,00 EUR	7,60 EUR
Date of grant	31-05-00	18-05-01	15-01-02	15-01-03	15-01-03	16-01-04	15-04-05	16-01-06
Strike price	19,55 EUR	2,73 EUR	1,40 EUR	1,78 EUR	1,78 EUR	4,45 EUR	5,32 EUR	7,59 EUR
Risk-free interest rate	4,8%	4,0%	3,8%	3,5%	4,5%	2,75%	3,65%	3,48%
Estimated term	7 years	4 years	1 year	1 year	10 years	1 year	4 years	4 years
Future dividend	0%	0%	0%	0%	0%	0%	0%	0%
Estimated volatility	20%	93%	68%	73%	53%	40%	58%	56%

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

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

11.26 Total remuneration of management in key positions

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

Remuneration of the management board				
2006 (in EUR)		**Salary**	**Bonus**	**Total**
U. Schmidt	CEO	206.534	45.000	251.534
H. Claus	CFO (until 31 Dec 2006)	146.500	30.000	176.500
N. Nüssler	CSO	155.142	30.000	185.142
M.A. Carton	Dircetor of the board (since 12 May 2006)	103.051	0	103.051
Total		611.227	105.000	716.227
Remuneration of the supervisory board				
2006 (in EUR)				
Dr. G. Niethammer	Member of the Supervisory board	5.000	0	5.000
Remuneration of the management board				
2005 (in EUR)		**Salary**	**Bonus**	**Total**
U. Schmidt	CEO	199.550	117.000	316.550
H. Claus	CFO	141.546	81.000	222.546
N. Nüssler	CSO	149.896	86.000	235.896
Total		490.992	284.000	774.992
Remuneration of the supervisory board				
2005 (in EUR)				
Dr. G. Niethammer	Member of the Supervisory board	5.000	0	5.000

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

	Expiration	Exercise price	Number 31.12.06	Number 31.12.05
		EUR		
2000	-	19.55	59.000	74.000
2001	-	2.73	10.000	25.000
2002	-	1.33	-	18.500
2003	-	1.78	586.000	670.000
2006	-	7.59	75.000	-

11.27 Subsequent Events

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

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

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

The carrying amounts of identifiable assets and liabilities eMediate as of acquisition date are reported as follows:

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

11.28 Risk management

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

11.29 Risk factors and imponderabilities

Acceptance of online advertising and dependence on the Internet

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

Imperfect legal boundary conditions

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

Rapid technological change

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

Data protection

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

Financial risks

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

Dependence on staff in key positions

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

Risks from potential acquisitions

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

12 DUTCH GAAP COMPANY ONLY BALANCE SHEET

December 31, 2006
(Before proposed appropriation of profit)
(in thousands of EUR)

	2006		2005	
A s s e t s				
Non-current assets				
Intangible assets [14.2]	17.606		9.320	
Equipment [14.3]	283		113	
Financial assets [14.4]	13.608		16.784	
Other financial assets [14.5]	300		-	
Marketable securities [11.6]	4.360		4.259	
Total non-current assets		36.157		30.476
Current assets				
Trade accounts receivable	33		43	
Group companies [14.6]	4.820		3.488	
Prepaid expenses and other current assets [14.7]	1.516		1.262	
Marketable securities [11.6]	3.938		5.600	
Cash and cash equivalents [14.8]	8.807		3.763	
Total current assets		19.114		14.156
Total assets		55.271		44.632

	2006		2005	
Shareholder's equity and liabilities				
Shareholder's equity				
Share capital [11.12]	1.116		1.116	
Additional paid-in capital [11.13]	61.859		59.942	
Treasury stock [11.14]	(341)		(422)	
Accumulated deficit	(16.257)		(19.651)	
Accumulated other comprehensive loss [11.16]	(837)		(438)	
Net income	5.313		3.394	
		50.853		43.941
Non-current liabilities				
Provisions for deferred taxes		137		59
Total non-current liabilities		137		59
Current liabilities				
Other current liabilities [14.10]	4.123		513	
Accrued expenses	158		119	
Total non-current liabilities		4.281		632
Total shareholder's equity and liabilities		55.271		44.632

13 DUTCH GAAP COMPANY ONLY STATEMENT OF OPERATIONS

Year ended December 31, 2006
(in thousands of EUR)

	2006	2005
Income from participations in group companies after taxes	645	592
Other income after taxes	4.668	2.802
Net income	5.313	3.394

14 Notes to the Dutch GAAP company only financial statements

14.1 Basis of preparation

Unless stated otherwise, all amounts are in thousands of Euro.

The company-only financial statements are prepared in accordance with accounting principles generally accepted in the Netherlands (Dutch GAAP).

The accounting policies used are almost the same as those used in the consolidated financial statements in accordance with article 362-8 of Book 2 of the Dutch Civil Code. Investments in subsidiaries are accounted for at net assets value in accordance with the equity method.

In conformity with article 402, Book 2 of the Dutch Civil Code, a condensed statement of income is included in the ad pepper media International N.V. accounts.

A list of participations is disclosed in the consolidated financial accounts on page 40.

14.2 Intangible assets

The changes in the intangible assets are:

(in thousands of EUR)	Goodwill	Trademark	Software	Total
Balance at January 1, 2005	2.819	286	765	3.870
Additions	3.662	-	2.396	6.058
Disposals	-	-	-	-
Amortization	-	-61	-547	-608
Balance at December 31, 2005	6.481	225	2.614	9.320
Additions	9.285	-	79	9.364
Disposals	-	-	-	-
Amortization	-	-61	-1.017	-1.078
Balance at December31, 2006	15.766	164	1.676	17.606

14.3 Equipment

The changes in equipment (tangible fixed assets) are:

(in thousands of EUR)	**2006**	2005
Balance at January 1	113	79
Additions	253	92
Disposals	-1	-
Depreciation	-82	-58
Balance at December 31	283	113

14.4 Financial assets

The movements during the year are as follows:

	Subsidiary companies		Participating interests		
(in thousands of EUR)	Investments	Loans	Investments	Deferred tax assets	Total
Balance at December 31, 2004	(3.739)	11.083	2.645	1.179	11.168
Additions	591	3.020	1.970	2.398	7.979
Share of net profit	592	-	-	-	592
Investments in subsidiaries	(2.948)	-	-	-	(2.948)
Translations adjustments	(7)	-	-	-	(7)
Balance at December 31, 2005	(5.511)	14.103	4.615	3.577	16.784
Additions	(744)	2.641	-	-	1.897
Disposals	-	-	(4.615)	(1.143)	(5.758)
Share of net profit	645	-	-	-	645
Investments in subsidiaries	178	-	-	-	178
Translations adjustments	(138)	-	-	-	(138)
Balance at December 31, 2006	(5.570)	16.744	-	2.434	13.608

14.5 Other Financial Assets

The Other financial assets comprise of a long term loan receivables from senior employees who are also shareholders. These loans bear interest of 3.9 percent and a maturity of up to seven years.

14.6 Group companies

The receivables from group companies mature within one year.

14.7 Prepaid expenses and other current assets

(in thousands of EUR)	**2006**	2005
Other current assets	1.060	869
Prepaid expenses	456	393
	1.516	1.262

Other debtors include EUR 197k from loans to shareholders. These loans bear interest of 5.5 p.a. and have terms of up to one year from the balance sheet date. Also an amount of EUR 619k to be received from an escrow account in connection with the sale of the investment in dMarc is included in other debtors.

14.8 Cash and cash equivalents

No restrictions to cash exist at balance sheet date

14.9 Shareholder's equity

For details on movements in the shareholder's equity refer to note 11.12 to 11.16.

14.10 Other current liabilities

The other current liabilities comprise mainly of bonus accruals.

14.11 Stock option program

See note 11.25 for details on the stock option program.

14.12 Employee information

The company employed at the end of 2006 14 people (2005: 22).

Employee information (consolidated)

(in thousands of EUR)	**2006**	2005
Wages and salaries	14.628	7.521
Social security costs	1.470	1.140
Voluntary employment expenses	262	153
	16.360	8.814

These costs are included in the cost of sales, selling expenses and general and administrative expenses. The average number of personnel employed during the year was:

	2006	2005
Production	94	58
Sales	63	47
Administration	48	31
	205	136

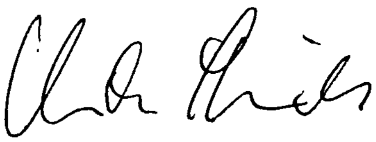
14.13 Remuneration of the Managing and Supervisory Directors

Remuneration (including pension costs) of current and former Managing and Supervisory Directors amounted to:

(in thousands of EUR)	**2006**	2005
Managing Directors	716	775
Supervisory directors	5	5
	721	780

Remuneration of the management board				
2006 (in EUR)		**Salary**	**Bonus**	**Total**
U. Schmidt	CEO	206.534	45.000	251.534
H. Claus	CFO (until 31 Dec 2006)	146.500	30.000	176.500
N. Nüssler	CSO	155.142	30.000	185.142
M.A. Carton	Dircetor of the board (since 12 May 2006)	103.051	0	103.051
Total		611.227	105.000	716.227
Remuneration of the supervisory board				
2006 (in EUR)				
Dr. G. Niethammer	Member of the Supervisory board	5.000	0	5.000
Remuneration of the management board				
2005 (in EUR)		**Salary**	**Bonus**	**Total**
U. Schmidt	CEO	199.550	117.000	316.550
H. Claus	CFO	141.546	81.000	222.546
N. Nüssler	CSO	149.896	86.000	235.896
Total		490.992	284.000	774.992
Remuneration of the supervisory board				
2005 (in EUR)				
Dr. G. Niethammer	Member of the Supervisory board	5.000	0	5.000

Nuremberg, April 13, 2007



The Managing Board members are:

Ulrich Schmidt, Chief Executive Officer (CEO).
Hermann Claus, Chief Financial Officer (CFO). until December 31,2006
Michael A. Carton, Director of the Board since May 12, 2006
Niels Nüssler, Chief Sales Officer (CSO).

The Supervisory Board members are:

Michael Oschmann, Nuremberg, Germany, Managing Director (Chairman)
Merrill Dean, Scottsdale, US, Managing Director
Jan Andersen, Copenhagen, Denmark, Managing Director
Dr. Günther Niethammer, Nuremberg, Germany, Managing Board Member

To: the Management Board of ad pepper media International N.V.

AUDITOR'S REPORT

Report on the financial statements

We have audited the financial statements 2006 of ad pepper media International N.V., Amsterdam, the Netherlands as set out on pages 32 to 92. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements
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, 2006, 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.

Opinion with respect to the company financial statements
In our opinion, the company financial statements give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2006, and of its result for the year then ended in accordance 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 e of the Netherlands Civil Code, we report, to the extent of our competence, that the Management Report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

The Hague, the Netherlands, April 13, 2007

for Ernst & Young Accountants

/s/ H. Hollander

Appropriation of net result

According to Article 15 of the Company's articles of association, the annual meeting of shareholders determines the appropriation of the Company's net result for the year and the previous year.

The Managing Directors propose that the balance is added to retained earnings.