ad pepper group
digital pioneers since 1999

ANNUAL REPORT 2016

ad pepper

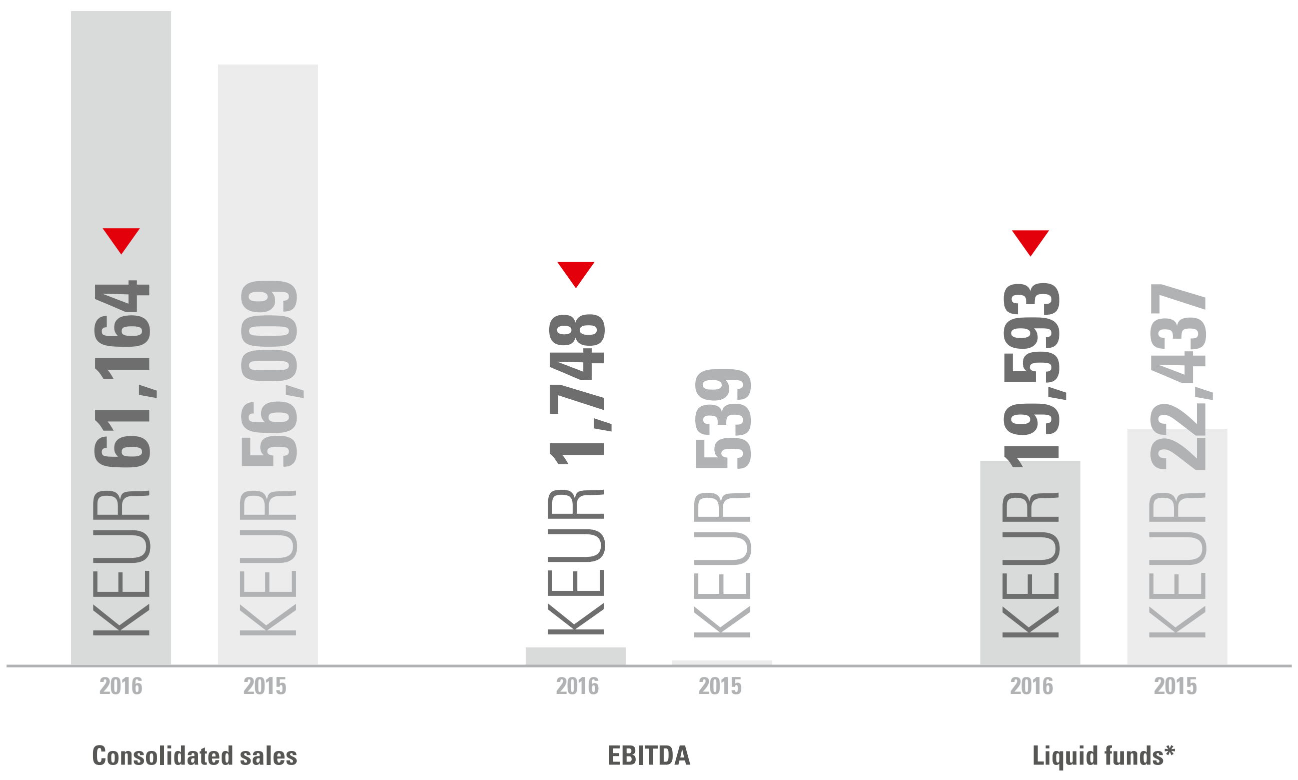
webgains

ad agents

CONTENT

KEY FIGURES AT A GLANCE

	2016	2015
Consolidated sales (kEUR)	61,164	56,009
Gross profit (kEUR)	16,088	15,844
Gross margin (Percent)	26.3	28.3
EBITDA (kEUR)	1,748	539
EBIT (kEUR)	1,608	244
EBT (kEUR)	1,691	443
Net earnings/loss (kEUR)	1,096	135
Earnings/loss per share (basic, EUR)	0.03	0
Total assets (kEUR)	31,378	34,040
Shareholders' equity (kEUR)	14,979	16,508
Equity ratio (Percent)	47.7	48.5
Liquid funds* (kEUR)	19,593	22,437
Number of employees (as of December 31)	171	162



*including securities measured at fair value

LETTER FROM BOARD OF DIRECTORS

01

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LETTER FROM BOARD OF DIRECTORS

DEAR SHAREHOLDERS, FRIENDS, AND PARTNERS OF OUR COMPANY,

we can look back on what was a very successful financial year. With record sales of EUR 61,164k and EBITDA of EUR 1,748k, 2016 was the most successful financial year in our company's history. Adjusted to exclude discontinued activities, our sales growth even came to 12.3 percent. Upon publication of the 2015 Annual Report, we forecast sales of EUR 60 million. We also exceeded this target. All three operating segments posted double-digit growth and contributed to these excellent results.

All operating segments with double-digit growth

Sales in the ad agents segment grew by 31.3 percent, or EUR 2,862k, to a total of EUR 12,007k, thus also clearly exceeding the EUR 10 million mark for the first time. With EBITDA of EUR 1,158k, ad agents posted its best results in the company's history. The Webgains segment also set new records. Sales here grew by 7.4 percent, or EUR 3,012k, to a new record figure of EUR 43,894k. This segment thus accounted for 71.8 percent of sales at the overall ad pepper media group. With EBITDA of EUR 1,532k, the Webgains segment also reported its best results ever. Following the refocusing process implemented in recent years, we also returned our third segment, ad pepper media, to a successful growth course. Adjusted sales here grew by 17.8 percent, or EUR 793k, to EUR 5,264k. EBITDA came to EUR 479k, showing that this segment has also regained its former strength and set a new record in the process.

We benefited without doubt from the overall trend in terms of the ongoing migration of budgets from offline media to online marketing. E-commerce is a fixed and rapidly growing component of our purchasing behavior. The digital distribution channel is finding its way into every industry and online shops are becoming ever more professional. Advertising success across all end appliances can now be measured ever more precisely from year to year. This way, budgets can be allocated in an even more targeted manner. Alongside this megatrend towards a further acceleration in the digitization of consumer behavior, we also succeeded once again in doing our own homework. On the one hand, we further optimized our internal processes and became even more efficient throughout the group. On the other hand, our strategies for new customers, innovations, and expanding our services are also taking effect.

Margin growth with high cost efficiency

This success is reflected not only in the gross profit we generated. Adjusted for discontinued activities, this showed a group-wide increase of EUR 1,506k, or 9.5 percent. Not only that, we even achieved a slight reduction in absolute terms in our operating expenses, which fell by EUR 1,506k, or 9.4 percent. Strict group-wide cost discipline accompanied by a marked increase in gross profit were thus the key factors driving the improvement in EBITDA by EUR 1,209k to EUR 1,748k. These represent the best operating earnings since ad pepper media International N.V. was founded in 1999.

Financially independent and with a strong balance sheet: Looking to the year ahead

In parallel to the increase in our profitability, our balance sheet also showed further improvements. Our cash reserves (incl. securities measured at fair value) amounted to EUR 19.6 million at the end of 2016. The company still does not have any liabilities to banks. Our equity ratio amounts to a comfortable 47.7 percent. This solid financial foundation provides us with the flexibility needed for the further development of our operating business in the financial year ahead as well. Here, we carefully review acquisitions and consider these more closely when they offer sufficiently great potential synergies. Disposals are only executed when a suitable opportunity arises. We are therefore positive with regard to the 2017 financial year and – despite a highly competitive overall climate and assuming the macroeconomic environment remains intact – expect to generate further strong sales growth.

In this Annual Report, we would like to offer you further insights into the figures of the ad pepper media group and answer key questions relevant to anyone interested in the ad pepper media group in view of the past financial year. For you – our shareholders – we will continue to make every effort to generate sustainable added value. We would like to thank you for your loyalty and would be delighted if you maintain your commitment to the ad pepper media group also in the future.

Yours faithfully,

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

Dr. Jens Körner, CFO

Amsterdam/Nuremberg, March 17, 2017

REPORT OF THE SUPERVISORY BOARD

02

DEAR SHAREHOLDERS,

In the 2016 financial year, the Supervisory Board performed its duties pursuant to the law and the articles of association. It advised the Board of Directors on a regular basis, monitored the Board of Directors in its management of the business, and was involved in decisions of key importance for the company and the group.

Comprehensively informed

The Supervisory Board held five meetings in 2016. In addition to the scheduled meetings, the chairman and other members of the Supervisory Board maintained regular contact with the CEO and CFO. None of the Supervisory Board members was absent from Supervisory Board for more than one meeting or conference call. The Board of Directors kept the Supervisory Board informed of the status of the discussions surrounding the development in and implementation of the strategy for 2016 and beyond. The Supervisory Board approved the financial plan for 2016 and discussed (potential) takeovers and disposals with the Board of Directors. Topics discussed included annual and interim results, the performance of securities, technological developments, the organization of sales and marketing activities, Corporate Governance, investor relations, compensation, and human resources. The Supervisory Board discussed the general and financial risks of the business and the findings of an assessment of the internal risk management and control systems. Consistent with the requirements of the Dutch Corporate Governance Code, the work of the Supervisory Board and of the Board of Directors, as well as the work of the individual members of both boards, were discussed in the absence of the members of the Board of Directors.

On the basis of the company's articles of association in their currently valid version, the compensation paid to members of the Board of Directors is determined by the Annual General Meeting following submission of corresponding proposals by the Supervisory Board. Board of Directors compensation consists of fixed and variable components. Variable compensation consists of annual performance-based payments (bonus), as well as of long-term incentives such as stock options. The fixed compensation component is regularly determined in January/February of each year with retrospective effect as of January 1 of the respective year. The variable compensation component is pegged to previously agreed and measurable targets which can be controlled. The consolidated earnings budgeted for the following year are taken as the target. Members of the Board of Directors do not receive any guaranteed minimum bonus payments. In the past five years, the bonus paid to members of the Board of Directors ranged between 0 percent and 111 percent of their annual fixed salaries. Variable bonuses are usually paid during the first quarter following publication of the consolidated annual results.

In 2000, ad pepper media group introduced a long-term incentive model in the form of stock option plans for employees in key positions, including members of the Board of Directors. company stock options become exercisable once ad pepper media's share price exceeds specified exercise hurdles determined in advance, but not before the expiry of one year following issue of the options. Option plan tranches were issued to members of the Board of Directors in 2000, 2001, 2002, 2003, 2008 and 2013. The ad pepper media group has no pension obligations towards members of the Board of Directors.

The total sum and structure of Board of Directors compensation are designed to enable the company to attract and retain suitably qualified executives. The compensation structure, pension scheme payments, and other financial obligations are designed to promote the company's medium to long-term interests. Compensation policy is expected to remain largely unchanged in 2017.

Composition of Supervisory Board

The number of Supervisory Board members is determined by the Annual General Meeting. Since the extraordinary shareholders' meeting held on March 20, 2013, the Supervisory Board comprised a total of four members:

- **Michael Oschmann** (born 1969; German citizen)
  Supervisory Board Chairman throughout the entire financial year up to and including December 31, 2016
  Graduate in business administration, Managing Director of Telefonbuchverlag Hans Müller GmbH & Co. KG, Nuremberg
  Supervisory Board member since January 10, 2000; appointed until Annual General Meeting 2017

- **Thomas Bauer** (born 1963; German citizen)
  Supervisory Board member throughout the entire financial year up to and including December 31, 2016
  CEO of Apotheker Walter Bouhon GmbH, Managing Director of Thomas Bauer GmbH, Nuremberg
  Supervisory Board member since March 20, 2013; appointed until Annual General Meeting 2019

- **Eun-Kyung Park** (born 1978; German citizen)
  Supervisory Board member throughout the entire financial year up to and including December 31, 2016
  Managing Director of ProSiebenSat.1 TV Deutschland GmbH
  Supervisory Board member since March 20, 2013; appointed until Annual General Meeting 2017

- **Dr. Stephan Roppel** (born 1964; German citizen)
  Supervisory Board member throughout the entire financial year up to and including December 31, 2016
  Director of Multichannel and Member of Management at H. Hugendubel GmbH & Co. KG, Munich
  Supervisory Board member since March 20, 2013; appointed until Annual General Meeting 2020

Supervisory Board compensation	2016	2015
	EUR	EUR
Michael Oschmann	6,000	6,000
Thomas Bauer	6,000	6,000
Eun-Kyung Park	6,000	6,000
Dr. Stephan Roppel	6,000	6,000

Further extensive information concerning the independence of the Supervisory Board members, and other details can be found in the Corporate Governance Report forming part of this Annual Report.

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REPORT OF THE SUPERVISORY BOARD

Unqualified audit opinion for consolidated financial statements

The auditor PricewaterhouseCoopers Accountants N.V. audited the financial statements of ad pepper media International N.V., including the management report, for the 2016 financial year and issued an unqualified audit opinion.

The financial statements, management report, and auditor's report were available to the Supervisory Board for its own review. Joint meetings were held with the auditors, who presented the key findings of their audit and answered related questions. The Supervisory Board acknowledged and approved the findings of the audit. The Supervisory Board acknowledged and approved the audit results.

On March 17, 2017, the Supervisory Board discussed and agreed with the annual financial statements prepared by the Board of Directors for the 2016 financial year.

Corporate Governance

ad pepper media International N.V. is a company under Dutch law with subsidiaries in various countries. All business activities are performed in accordance with Dutch company law and German capital market law, in particular the German Securities Trading Act (WpHG). Common shares are admitted for trading in the Prime Standard at the Frankfurt Stock Exchange. The Supervisory Board is committed to increasing shareholder value in the interests of all shareholders and has always set the highest standards for the company's Corporate Governance principles. Although, consistent with its proprietary guidelines, the company basically applies the requirements laid down in the Dutch Corporate Governance Code, deviations may nevertheless result on account of the legal requirements applicable to the ad pepper media group. In the "Corporate Governance Report" section of this annual report, ad pepper media reports in detail on compliance with the Dutch Corporate Governance Code.

Thanks to the dedicated efforts of the Board of Directors and all employees at ad pepper media International N.V., the ad pepper media group managed to master the challenges arising in the past financial year and sees itself as being well positioned for the requirements of the new financial year. For this, all members of the Supervisory Board would like to express their very special thanks and recognition for the excellent work performed by staff, and for their extraordinary team spirit.

For the Supervisory Board

Michael Oschmann,
Supervisory Board Chairman

Nuremberg, March 17, 2017

GOVERNANCE

03

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GOVERNANCE

OUR GOVERNANCE STRUCTURE

Corporate information

ad pepper media International N.V. is a 'Naamloze vennootschap' (N.V.), a Dutch limited liability company, and is the parent company of the ad pepper media group (the "group"). The companies registered office address is Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. Its registration number on the Amsterdam trade register is 27182121.

The company's Corporate Governance structure is based on the requirements of Dutch corporate law, the Dutch Act on Financial Supervision and Dutch Corporate Governance rules.

The company has a two-tier board structure consisting of a Board of Directors and a Supervisory Board. It is in the interest of the ad pepper media group and all of its stakeholders that there is a clear division of responsibilities between the Board of Directors, the Supervisory Board, the Annual General meeting of Shareholders (the "general meeting"), and the external auditor in a well-functioning system of checks and balances.

Board of Directors

The Board of Directors is entrusted with the management of the company, which means that, among other responsibilities, it defines the strategic direction, establishes the policies, and manages the company's day-to-day operations under the supervision of the Supervisory Board. The members of the Board of Directors collectively manage the company and are accountable to the Supervisory Board and to the annual meeting. In performing its duties, the Board of Directors is guided by the interest of the company. The Board of Directors follows its own rules determined in the profile of the Board of Directors, which defines responsibilities, competencies and decision-making processes.

The Board of Directors provides the Supervisory Board with timely information and, if necessary, consults with the Supervisory Board on important matters and submits certain important decisions to the Supervisory Board for approval.

Members of the Board of Directors are appointed by the annual meeting and subject to the right of the Supervisory Board to make a binding nomination to appoint a Board of Directors member in accordance with the relevant provisions of the Dutch Civil Code (the "Code"). Since March 20, 2013, the company's Board of Directors consists of two "A Directors" (CEO and CFO). The CEO and CFO have powers to represent the company. Both persons have discretion to exercise powers of representation and signing powers.

Supervisory Board

It is the duty of the Supervisory Board to exercise supervision over the Board of Director's conduct of affairs and over the general course of business in the company and the business enterprise connected with it. It offers advice to the Board of Directors. In discharging their duties the Supervisory Board has regard for the interests of the company and, the business enterprise connected with it. The Supervisory Board meets at least four times a year and whenever a majority of its board members or its chairman considers this to be necessary. Resolutions of the Supervisory Board may, instead of at a meeting, be passed in writing – including by telegram, facsimile or telex transmission, or in the form of a message transmitted by any accepted means of communication and received or capable of being produced in writing – provided that all Supervisory Board members are familiar with the resolution to be passed and none of them objects to this decision-making process. The Supervisory Board passes its resolutions, inside as well as outside meetings, with an absolute majority of the votes of all the supervisory directors in office. In the event of an equal division of votes, the chairman of the Supervisory Board has the casting vote.

The chairman of the Supervisory Board determines the agenda and chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board, arranges for the adequate provision of information to the members of the Supervisory Board, and acts on behalf of the Supervisory Board as the main contact for the Board of Directors. Important topics and upcoming decisions are also dealt with in regular discussions and meetings between the chairman of the Supervisory Board and the CEO. The chairman of the Supervisory Board informs the other members of the Supervisory Board regularly on the outcome of his discussions and meetings. He also initiates the evaluation of the functioning of the Supervisory Board and the Board of Directors.

The Supervisory Board did not form any committees. The company is of the opinion that forming committees does not lead to increased efficiency. The entire Supervisory Board is responsible for ensuring that tasks are performed responsibly.

Under the criteria set out in the Dutch Corporate Governance Code, three of the four current members of ad pepper media's Supervisory Board count as independent. Michael Oschmann, Supervisory Board chairman of the ad pepper media group, is not counted as independent in this respect as he is Managing Director of EMA Electronic Media Advertising International B.V. This company holds more than 10 percent of the company's share capital.

The company supports a well-balanced share of women and men in the Board of Directors and Supervisory Board. A Dutch regulation that took effect as of January 1, 2013 requires companies to ensure that at least 30 percent of the positions on their Supervisory Boards and Boards of Directors are held by women and at least 30 percent by men. We are convinced that the ad pepper media group is making good progress in implementing this regulation. With Dr. Ulrike Handel as a member of the Board of Directors and CEO, the company meets the required criteria in terms of gender diversity in the Board of Directors. Furthermore, Ms. Eun-Kyung Park is a member of the Supervisory Board. In this regard, we are aware that various other pragmatic considerations, other relevant selection criteria, and the availability of suitable candidates at the ad pepper media group may present an obstacle to fully achieving the required gender diversity. It can therefore be assumed that the ad pepper media group may not be able to fully comply with the regulation proposed under Dutch law in future as well.

General meeting of Shareholders

At least one general meeting shall be held each year, at the latest six months before the close of the financial year. The agenda and the explanatory notes to the agenda are published in advance and posted on the company's corporate website. The explanatory notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle. The general meeting reviews the Annual Report and decides on adoption of the financial statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Directors. The Board of Directors may add other items to the agenda of the general meeting.

The Board of Directors shall be obliged to convene a general meeting if one or more of the persons with meeting rights who alone or jointly represent(s) at least 10 percent of the issued share capital request(s) this in writing, stating the issues to be discussed. Extraordinary general meetings may be convened by the Supervisory Board or the Board of Directors if deemed necessary. Furthermore, general meetings shall be held in the event referred to in article 2:108a of the Civil Code and as often as a member of the Board of Directors or a Supervisory Board member considers it necessary.

Auditor

The external auditor is appointed by the general meeting. The Supervisory Board can nominate a candidate for this appointment, for which purpose the Board of Directors advises the Supervisory Board. The compensation of the external auditor and any commissioning of the external auditor to provide non-audit services must be approved by the Supervisory Board following consultation with the Board of Directors. The Supervisory Board must at least once every four years conduct a thorough assessment of the external auditor's work at the various entities and in the different capacities in which it acts. The main conclusions of this assessment are communicated to the general meeting. In view of its size, the ad pepper media group does not employ any internal auditors. The controlling department assumes the function of internal auditor. Controlling department employees are directly responsible to the company's Board of Directors.

The external auditor is required to attend the Supervisory Board meeting at which the auditor's report on its audit of the annual accounts is discussed and at which the annual accounts are discussed and agreed.

COMPLY OR EXPLAIN

Introduction

The corporate governance structure and compliance with the Dutch Corporate Governance Code (the "Code") is the joint responsibility of the Board of Directors and the Supervisory Board. They are accountable for this responsibility to the general meeting. We continue to seek ways to improve our Corporate Governance by measuring it against international best practice. The Code was last amended on December 10, 2008, and was installed on July 12, 2009 by the Minister of Finance, the Minister of Justice and the Minister of Economic Affairs. On 8 December 2016 the Dutch Corporate Governance Code Monitoring Committee published the revised Corporate Governance Code. The new Code will take effect on 1 January 2017. The code can be found at www.commissiecorporategovernance.nl.

Non-application of a specific best practice provision is not in itself considered objectionable by the Code and may well be justified because of particular circumstances relevant to a company. In accordance with Dutch law, we disclose in our Annual Report the application of the Code's principles and best practice provisions. To the extent that we do not apply certain principles and best practice provisions, we state the reasons. We take a positive view of the Code and apply most of the best practice provisions. However, we prefer not to apply some provisions due to the international character of our business as well as the fact – acknowledged by the Commission that drafted the Dutch Code – that existing contractual agreements between the ad pepper media group and individual members of the Board of Directors cannot be set aside at will. The following provides an overview of exceptions that we have identified:

II.1.1 The contracts for the members of the Board of Directors were renewed in November and September 2015 respectively, whereas the management board contract concluded with Dr. Handel was extended to February 28, 2019 and the term of the management board contract concluded with Dr. Körner was extended ahead of schedule to December 31, 2020. These contracts are therefore not fully compliant with this provision.

II.I.9 Due to the fact that ad pepper media's major shareholder usually represents more than 90 percent of the capital present or represented at the general meeting, the ad pepper media group decided to take no account of this provision.

II.1.7 The company has no plans to establish any "whistleblower" guidelines governing the reporting of misconduct by company employees. Given the company's small size, there are short lines of communication and the Board of Directors is highly involved in the day-to-day business. Moreover, employees and employees already have the possibility of reporting suspected irregularities at the company on a general, operational and informal level without jeopardizing their legal position. Furthermore, a Code of Conduct, setting out business principles for our employees and rules of conduct, was adopted in 2007.

II.2.2 Our view is that the regulation of determining the level and structure of Board of Directors compensation is not applicable due to the current size of the company.

II.2.4 Under the Stock Option Program 2013, a part of the options granted can already be exercised after one year. This is because these options lapse already after seven years. In addition, our view is that the "challenging target" has been set at the time of granting the options since the holder cannot realize any value from these options unless the price of our shares has risen above the exercise price.

II.2.6 The issue price of the options granted is fixed at the average trading closing price over a period of 10, not 5 days. Given the low trading volumes of our share, we deem this period more appropriate.

II.2.8 The compensation paid in the event of dismissal of Dr. Körner may exceed one year's salary. In the event of his employment being terminated without cause as defined by the applicable law, the ad pepper media group would remain obliged to compensate such member for the remaining term of his employment agreement. The company believes that the contractual arrangement is well justified due to the long tenure of this board member.

II.2.10 We do not incorporate the possibility to adjust variable components of remuneration in the employment contracts of Board of Directors in view of the relatively modest percentage of the variable remuneration.

II.2.11 The Supervisory Board does not have the power to claw back components of remuneration awarded on the basis of incorrect financial or other information in view of the relatively modest percentage of the variable remuneration.

II.2.12 This best practice provision (publication of remuneration data) is reflected in the Annual Report in accordance with the simple and straightforward structure of the remuneration; the remuneration report is not directly published on the company's website.

II.2.13 The company intends to report with respect to the current financial year in accordance with this present provision, insofar as the information to be provided is not stock-price sensitive and/or competition sensitive. In particular, the quantitative elements of the performance criteria can be sensitive in this respect; the parameters will be disclosed, but not the actual targets. All in all, the remuneration report of the Board of Directors does not fully comply with all terms of the Code relating to the remuneration report. The remuneration report is in line with market practice of companies comparable to the company. Our position is that it gives sufficient insight in the remuneration of the members of the Board of Directors.

II.2.14 The company has not and will not publish any information about key details of existing contracts with members of the Board of Directors to protect their privacy. The company regards this reason as sufficient to justify a deviation from the Code in this respect. This Annual Report nevertheless meets all of the relevant legal disclosure obligations.

wIII.1.1 Terms of reference for the Supervisory Board were not posted on the company's website. The company regards these documents as internal rules and does not wish to disclose them to the public.

III.3.1 The profile of the Supervisory Board was not posted on the company's website. Our opinion is that the Annual Report provides sufficient information in this respect.

III.3.5 The term of office of a Supervisory Board member is limited to four years. Members could be reappointed. The company has adopted the policy to keep open the possibility that a Supervisory Board member will be reappointed after the maximum term contained in this Provision due to his or her great knowledge of the company and high level of involvement.

III.3.6 Given the limited number of Supervisory Board members, the company does not deem it necessary to establish formal procedures governing the departure of Supervisory Board members. Instead, the Supervisory Board will retire by rotation and may be reappointed in line with the respective legal requirements. This is in order to ensure that the lowest possible number of Supervisory Board members should retire from the Board at the same time. This information is made available in the Annual Report.

III.4.1 Given the size of the company and the limited number of Supervisory Board members, the ad pepper media group does not comply with Provision III.4.1 a.) and f.). In addition, due to the structure of the group. the company does not comply with provision III.4.1 g.).

III.5 The company's articles of association contain a provision under which the Supervisory Board may, if it deems it necessary, establish one or more committees, in which case it has to draw up a set of regulations for each committee. However, the ad pepper media group is of the opinion that forming committees does not lead to increased efficiency and hence decided to not implement committees. The entire Supervisory Board is responsible for ensuring that tasks are performed responsibly. The company therefore does not comply with this provision including provisions III.5.2, III.5.3, III.5.6 and III.5.11.

IV.1.1 Our articles of association currently state that the general meeting shall be unrestricted in its choice if it renders the nomination non-binding by means of a resolution adopted by at least an absolute majority of the valid votes cast, representing more than one-third of the issued share capital. If at least an absolute majority of the valid votes cast supports the resolution to render the nomination non-binding, but the required quorum of one-third of the issued capital is not being represented, this resolution could however be taken in a second meeting to be convened in which the resolution can be taken with at least an absolute majority of the valid votes cast, without any quorum requirement.

IV.1.6 The company applies this best practice provision. Resolutions to discharge the members of the Board of Directors and Supervisory Board of liability have been voted on as separate items on the agenda of the general meeting for several years. Our articles of association have been amended accordingly.

IV.3.1 Analyst conferences, presentations to analysts, presentations to private and institutional investors, and press conferences are announced, generally in advance, on the company's website. Due to the large number of events, and the resultant overlap in information, some of the less important events are not announced in advance, made generally accessible, or published on our website. Given the size of the ad pepper media group, meetings and presentations are not communicated in real-time.

IV.3.3 Our investor relation activities aim for increasing awareness for the company and its share, adding research coverage (including so-called paid research), increasing daily trading volumes, and reducing volatility.

IV.3.10 Consistent with this provision, the report on the general meeting must be made available, on request, to shareholders no later than three months after the end of the meeting. Shareholders subsequently have the opportunity to react to the report in the following three months. The report is then adopted in the manner provided for in the articles of association. A notarial record is made of the proceedings of the meeting, as provided for in the articles of association. The notarial record will be available, upon request, no later than three months after the meeting. This best practice provision is thus not complied in full. Following adjustments to Dutch stock corporation legislation, the report should be made available within a shorter deadline.

IV.3.13 Due to the small number of shareholders, the ad pepper media group has not formulated a policy on bilateral contacts with shareholders. The company thus does not comply with this provision.

V.3 Given the size and complexity of its business model and the engagement of the external auditors, the ad pepper media group does not have an internal auditor function of its own. Nevertheless, the Board of Directors and the Supervisory Board have implemented internal audits on a case-by-case decision using internal and external resources. The ad pepper media group thus does not comply with provisions V.3.1, V.3.2 and V.3.3 of the Code.

03
GOVERNANCE

ARTICLE 10 TAKEOVER DIRECTIVE DECREE (BESLUIT ARTIKEL 10 OVERNAMERICHTLIJN)

Introduction

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

In respect of best practice provision IV.3.11, the company confirms that it has no anti-takeover constructions, in the sense of constructions that are intended solely, or primarily, to block future hostile public offers for its shares. The ad pepper media group also does not have any constructions whose specific purpose is to prevent a bidder, after acquiring 75 percent of the capital in the company, from appointing or dismissing members of the Board of Directors subsequently amending the articles of association. Under Dutch law, the acquisition through a public offer of a majority of the shares in a company does not directly preclude the ongoing right of the Board of Directors to exercise its rights and adopt resolutions.

Capital structure

On December 31, 2016, the ad pepper media group had a total of 23,000,000 ordinary shares with voting rights (including 2,119,292 shares held by the company and not entitled to voting rights at the general meetings). The company only has ordinary shares.

Obligation of shareholders to disclose share ownership

The financial services supervisory authority has to be notified of major shareholdings in respect of ad pepper media International N.V. in accordance with the Financial Market Supervision Act (Wet op het financieel toezicht), and the ordinance to disclose major shareholdings and capital investments in institutions issuing securities (Besluit melding zeggenschap en kapitaalbelang in uitgevende instellingen). In 2016, we were not informed of any new material shareholdings.

Appointment and dismissal of members of the Board of Directors

The members of the Board of Directors are appointed on the basis of binding nomination made by the Supervisory Board. Where no binding nominations have been made, the general meeting is free in its selection. The general meeting may at any time resolve that the list of candidates is not binding by adopting a resolution passed with an absolute majority of the votes cast, representing more than one-third of the issued capital. If at least an absolute majority of the valid votes cast supports the resolution to render the nomination non-binding, but the required quorum of one-third of the issued capital is not represented, then this resolution may nevertheless be adopted at a second meeting to be convened. At such meeting, the resolution may then be adopted with at least an absolute majority of the valid votes cast, but without any quorum requirement. A member may only be reappointed for a term not exceeding five years at a time. The Supervisory Board appoints one of the members of the Board of Directors as chairman of the Board of Directors. The general meeting may at any time suspend or dismiss any member of the Board of Directors. The Supervisory Board is entitled to suspend each member of the Board of Directors, and is obliged to notify the respective member of the Board of Directors in writing and without delay of his suspension, stating the reasons for such move. Furthermore, the Supervisory Board is then obliged to convene a general meeting to pass resolution either on lifting the suspension of the respective member of the Board of Directors or on his dismissal.

Shareholders' agreement on limitations on exercising of voting rights

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

Appointment and suspension of Supervisory Board members

The general meeting appoints Supervisory Board members and is entitled at any time to suspend or dismiss any Supervisory Board member. The appointment, dismissal, or suspension of a Supervisory Board member is decided by the general meeting by way of an absolute majority of votes cast. The Supervisory Board consists of no fewer than three members, including a chairman, who will retire by rotation as laid down in writing by the Supervisory Board and may be reappointed in line with the respective legal requirements. In principle, the lowest possible number of Supervisory Board members should retire from the Board at the same time.

Amendments to Articles of Association

The Articles of Association may only be amended by a resolution of the Annual General Meeting in response to a proposal submitted by the Board of Directors with the approval of the Supervisory Board. Where the Board of Directors has not submitted any such proposal, any resolution to amend the Articles of Association may only be adopted with a majority of at least two-thirds of the votes validly cast.

Buyback of treasury stock by the company

On May 10, 2016, the general meeting authorized the Board of Directors for a period of 18 months to buy back treasury stock shares up to a maximum amount of 50 percent of the share capital outstanding at that time. The purchase price per share must amount to no less than 80 percent and no more than 120 percent of the opening share price on the date of the respective buyback. The ad pepper media group bought back a total of 690,000 shares during the 2016 financial year.

Payments to employees on termination of employment in connection with a public takeover bid

In the event of a change of control, there is the option of extraordinary termination for Dr. Körner 12 months after the change of control takes effect. In the event of extraordinary termination of his contract, Dr. Körner is entitled to receive payment of compensation amounting to his respective annual target income through to the end of the contractually agreed term, amounting to a minimum of 150 percent of his current annual target income. A change of control in this respect arises when a shareholder gains control over the company as defined by § 29 of the German Securities Acquisition and Takeover Act (WpÜG), i.e. acquires at least 30 percent of the voting rights in ad pepper media International N.V.

THE SHARE

04

04
THE SHARE

THE SHARE OF AD PEPPER MEDIA INTERNATIONAL N.V.

Annual General Meeting

All of the resolutions proposed in the agenda were adopted unanimously at the Annual General Meeting of ad pepper media International N.V. held in Amsterdam on May 10, 2016. In all, 9,923,365 voting rights, or 46.98 percent of all shares with voting rights were represented at the Annual General Meeting.

Alongside the presentation of the annual financial statements for the 2015 financial year, key agenda items also included the authorization to buy back treasury stock and the re-election of Dr. Stephan Roppel as member of the Supervisory Board.

Share price performance

Key share figures	2016	2015
	EUR	EUR
Market capitalization	55.2 m	29.9 m
Year-end	2.40	1.30
Annual high	2.79	1.38
Annual low	1.20	0.73

ad pepper media's share price benefited from the pleasing news flow as well as the share repurchase performed in the first half of the year. In the wake of the announcement of the results of the first quarter, ad pepper media's shares reached their annual high at EUR 2.79 and remained close to this for the rest of the year. The shares ultimately concluded the year at a price of EUR 2.40, equivalent to an increase of 85 percent on the previous year's closing price.

Shareholders structure as of December 31, 2016

	Shares	Shares
	Pieces	Percent
EMA B.V.	9,486,402	41.24
Treasury stock	2,189,292	9.52
Axxion S.A.	1,163,501	5.06
Dieter Koppitz	699,338	3.04
Euro Serve Media GmbH	436,963	1.90
Subtotal	**13,975,496**	**60.76**
Freefloat	9,024,504	39.24
Total	**23,000,000**	**100.0**

Share price performance in past 12 months (Xetra)

BUSINESS ACTIVITY

THE AD PEPPER MEDIA GROUP

ad pepper media International N.V. is the holding company of one of the leading international performance marketing groups. It was founded in 1999 and, thus, is one of the pioneers in the business of online marketing. Its stock market launch followed in the year 2000 in the Prime Standard segment of the Frankfurt Stock Exchange (WKN: 940883). With seven offices in four European countries and the U.S., the ad pepper media group globally develops performance marketing solutions for customers such as Samsung, Nike, ERGO (Direkt) or Opel.

The group combines its business into three reporting segments that work in close cooperation with the holding company and operate independently on the market: **ad pepper media** (lead generation and semantic targeting), **ad agents** (performance marketing), and **Webgains** (affiliate marketing). In the course of the central overall governance of the group, the holding (admin) takes responsibility for the know-how transfer between the segments, the strategic focus, as well as financing and liquidity. A total of 171 employees work in the three business units and the group's holding company.

SEGMENTS OF THE AD PEPPER MEDIA GROUP

ad pepper media

The ad pepper media segment was founded in 1999 and, thus, constitutes the beginning of the company's success story. Today, the business unit is active in two European core markets: Germany and Spain. As a leading performance marketing agency, it specializes in lead generation, in other words the acquisition of customers that already have shown interest in a product or service. Using our proprietary technology platform iLead, the business unit realises customised campaigns in a minimum of time in order to acquire subscribers through test runs, trade samples, catalogue orders, user registrations, or competitions.

Webgains

Webgains belongs to the group since 2006. As one of the leading international affiliate networks, it offers efficient solutions covering all areas of affiliate management. The network uses state-of-the-art technology and offers first-class support for merchants and affiliates. Webgains operates offices in Great Britain, Germany, France, Spain as well as the U.S. and is also present in Ireland, Italy, the Netherlands, Sweden, Denmark, Australia and Poland. Webgains successfully implements international and regional online campaigns for a large number of its customers. Thanks to their long-standing expertise in global affiliate marketing, Webgains makes it possible for customers to expand on a world-wide scale – both with regard to the supervision of specific programs as well as the number of provided languages, currencies, and payment methods. Webgains has more than 250,000 publishers in its portfolio who work together with more than 1,800 customers – from global fashion brands to medium-sized commercial enterprises. What makes affiliate marketing so attractive for advertisers as well as websites is, on the one hand, the opportunity to reach a massive audience via a wide variety of websites, on the other hand, the performance-based payment. Affiliate marketing is a commission-based advertising model in which website operators (publishers, affiliates) direct Internet traffic to the sites of advertisers (retailers, merchants) and receive in return a percentage of the sales turnover generated there.

ad agents

The ad agents were founded 2006 and belong to the ad pepper media group for 10 years. Today, they are one of the most successful performance agencies in Germany. They design, control, and optimize results-oriented marketing and sales solutions in all digital channels on all screens and devices. ad agents specialize in search engine marketing, search engine optimization, affiliate management, social media advertising, performance display, and product data management. The business unit also advises wellknown German and international companies operating in all industries (for example: finance, trade, fashion, pharmaceuticals, and technology). Among their customers are renowned corporations such as CHRIST, ERGO (Direkt), Saturn and Thalia. At the location Herrenberg (in the region of Stuttgart), more than 70 international online experts deliver quality, transparency, and excellent results to fill long-time customers with enthusiasm.Recently, the ad agents were awarded the Quality Certificate SEA 2017 by the Federal Association for Digital Economy (Bundesverband Digitale Wirtschaft, BVDW) and they are, of course, also certified Google partners.

Richard Dennys
Chief Executive Officer
Webgains

Iñigo Abrisqueta
Chief Executive Officer
ad pepper media Spain

Susanne Pilz
Country Manager DACH
ad pepper media Germany

Dirk Lajosbanyai
Managing Director
ad agents

Wolfgang Schilling
Managing Director
ad agents

ECONOMIC DEVELOPMENT

06

MACROECONOMIC FRAMEWORK

Germany/UK/Europe

Germany: Economy braves global unrest

Despite uncertainties in the international arena, economic researchers at the Kiel Institute for the World Economy (IfW) have upheld their German GDP growth forecast of 1.7 percent for 2017. This follows on from 1.9 percent in the past year. This extended period of growth in the German economy continues to be driven by domestic factors. The economic momentum will also lead to a more marked rise in consumer prices. The researchers now expect inflation to increase to 1.8 percent over the next two years. Given higher inflation, private consumer spending will no longer grow at its previous rate. However, investments are set to play a greater role, particularly in the housing construction sector, benefiting not least from ongoing favorable financing terms. The long-term implications of the presidential elections in the United States and the constitutional referendum in Italy are currently difficult to foresee. In the short term, however, they are only expected to have a limited impact. Against this backdrop, exports are set to rise further in the forecast period and thus support the economic upturn. Based on their current assessment, the IfW researchers also do not expect the German economy to be adversely affected to any noticeable extent by the Brexit vote in the UK.

UK: Short-term negative impact of Brexit decision clearly less marked than expected, but substantial long-term uncertainties remain

Following the vote to exit the EU, the UK economy has so far proved surprisingly robust. Confidence indicators, which fell sharply in the immediate wake of the referendum, have since recovered, a development presumably also due to looser monetary policy and the prospect of a temporary departure from the previous policy of fiscal consolidation. Output has also benefited, with domestic producers able to boost their price competitiveness as a result of the sharp devaluation in GBP. Having said this, manufacturing output was most recently still significantly down. Companies have also become more cautious about hiring new staff, with a marked reduction in the rate of employment growth in the months since the Brexit decision. The future structure of the country's economic relationship with the EU (and thus its freedom to structure relationships with the rest of the world) is still unclear. In view of this, the IfW expects GDP growth in the UK to slow from 1.6 percent in 2016 to 1.2 percent in 2017.

Euro area: Moderate recovery continues

The euro area is set to maintain its moderate rate of expansion, with growth of 1.7 percent forecast for both 2017 and 2018. The outlook continues to be held back by unresolved structural problems in parts of the currency area. In Italy, for example, the rejection of constitutional reform and formation of an interim government have reduced the prospects for further reforms aimed at overcoming the country's longstanding growth weakness. Given the high level of public debt and the banking sector crisis, the macroeconomic outlook remains subdued. As parliamentary elections are expected to be held in 2017 in four of the five largest euro area states (Germany, France, Italy, Netherlands), the uncertainties surrounding the future direction of economic policy are considerable. Notwithstanding all these factors, the IfW expects the moderate rate of growth to continue overall. Domestic absorption should remain the driving force in this respect. Private consumer spending will be stimulated by ongoing improvements in labor markets. The unemployment rate is expected to fall gradually from 10.1 percent in the current year to 8.8 percent in 2018. However, real-term disposable incomes will no longer be boosted by lower energy prices, as a result of which private consumer spending is not expected to receive any additional momentum from this factor.

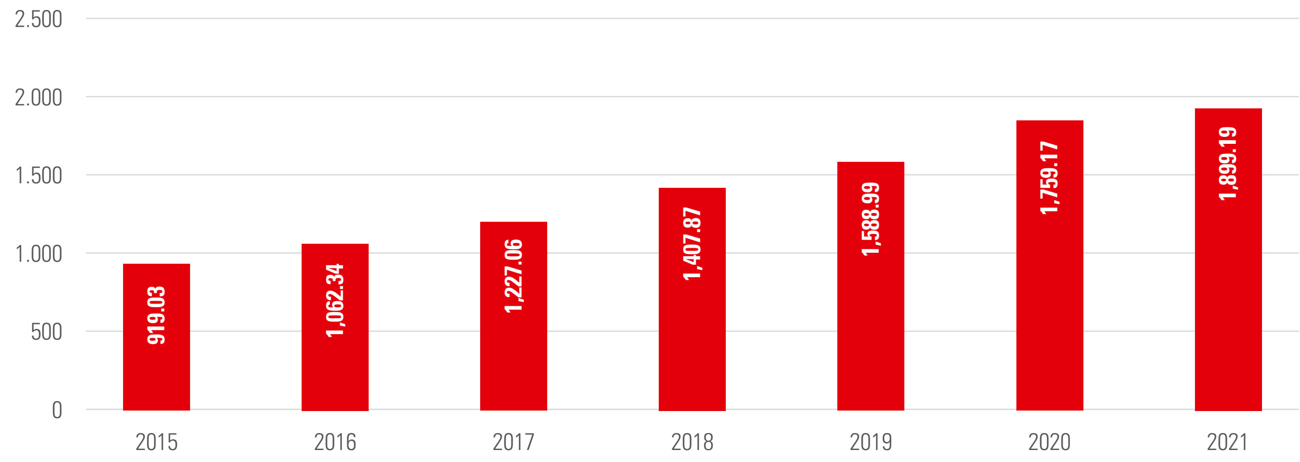
Online advertising market

By 2018, online advertising will account for 38.4 percent of global advertising spending. That is the finding of a current forecast issued by Zenith Optimedia. Mobile advertising is set to overtake desktop appliance advertising in 2017 already. In two years' time, television will only be in second place with a 33.6 percent share of advertising budgets. At more than 200 USD billion, the US will remain the largest advertising market in 2018 as well. The investment volume for Germany in 2018 is estimated at around USD 23 billion.

Forecast global e-commerce revenues from 2015 to 2021

E-commerce had around 1.47 billion users worldwide in 2015. According to PwC's Digital Market Outlook, the number of online consumers will rise to 2.34 billion by 2021. A forecast compiled by Statista shows that global e-commerce revenues should amount to EUR 1,899.19 billion in 2021 (see chart). According to this forecast, the "Fashion" segment will account for the largest share, with revenues of EUR 579.75 billion.

Forecast global e-commerce revenues in billion EUR © statista



PRESENTATION OF EARNINGS POSITION

Development in sales and gross profit

The ad pepper media group increased its sales to EUR 61,164k in the 2016 financial year (2015: EUR 56,009k), equivalent to year-on-year growth of 9.2 percent and also the highest sales in the company's history. On a like-for-like basis, i.e. excluding activities sold or discontinued in 2015, sales even grew by 12.3 percent. Gross profit – alongside sales our second most important key figure – showed slight group-wide growth to EUR 16,088k (2015: EUR 15,844k). On a like-for-like basis, gross profit rose by 9.5 percent.

The key growth driver was once again the Webgains segment, which increased its sales by 7.4 percent to EUR 43,894k (2015: EUR 40,882k). With a 71.8 percent share of the group's total sales, Webgains remains by far the most important segment in terms of sales, and that even though its pace of growth declined in the course of 2016. This was chiefly due to the sustained weakness of the GBP in the wake of the Brexit referendum, which even led fourth-quarter sales to fall year-on-year by 4 percent. Excluding this currency effect, year-on-year sales growth would have amounted to a solid 17.1 percent.

For Webgains, the past financial year was also successful in terms of its gross profit. This came to EUR 9,224k in the past financial year (2015: EUR 8,989k), equivalent to growth of 2.6 percent. Excluding the aforementioned currency effect, gross profit growth would have turned out significantly higher at 11.2 percent. The gross margin, i.e. gross profit as a percentage of sales, eased slightly to 21.0 percent, as against 22.0 percent in the previous year. This was due to disproportionate growth in high-volume programs.

The ad agents segment reported the highest sales growth in percentage terms. Sales here rose by EUR 2,862k, or 31.3 percent, to EUR 12,007k (2015: EUR 9,145k). This figure is also the highest achieved in the company's history. As a broad-based performance marketing agency, in its "search engine optimization" (SEO) activities ad agents in some cases reports sales that are merely media services performed in connection with Google searches. When assessing the operating strength of ad agents, reference to gross profit is therefore more meaningful. Growth rates here rose quarter by quarter as the financial year progressed. In the final quarter alone, gross profit grew by EUR 262k, or 24.7 percent, to EUR 1.323k (Q4 2015: EUR 1,061k), enabling the segment to post record gross profit of EUR 4,285k for the 2016 financial year as a whole. This corresponds to an increase of 19.2 percent compared with the previous year (2015: EUR 3,593k). The gross margin, i.e. gross profit as a percentage of sales, came to 35.7 percent for the 2016 financial year as a whole, as against 39.3 percent in the previous year. This slight decline in the gross margin was due to the substantial rise in media services performed in connection with Google searches.

The ad pepper media segment also performed very strongly. Excluding activities sold or discontinued in 2015, sales growth here amounted to EUR 793k, or 17.8 percent (2015: EUR 4,465k). In parallel to the rise in sales, gross profit – calculated on a like-for-like basis – rose to EUR 2,329k (2015: EUR 1,897k). With a gross margin corresponding to 44.3 percent of sales, the ad pepper media segment is the group leader in this respect (2015: 42.5 percent).

Development in operating expenses

Operating expenses at the ad pepper media group fell significantly by 9.4 percent to EUR 14,480k (2015: EUR 15,986k). Alongside ongoing group-wide cost discipline, one major reason for this reduction are activities discontinued or sold in 2015. Not only that, the aforementioned development in the GBP/EUR exchange rate led to a more favorable overall cost structure in the Webgains segment and thus at the ad pepper media group as a whole.

EBIT, EBITDA, and EBT

The group's earnings before interest and taxes (EBIT) amounted to EUR 1,608k in the past financial year (2015: EUR 244k). Earnings before interest, taxes, depreciation and amortization (EBITDA) at the group came to EUR 1,748k in the past financial year (2015: EUR 539k). This is the best operating earnings figure in the company's history. In terms of individual segments, Webgains generated EBITDA of EUR 1,532k and improved its earnings on the previous year (2015: EUR 1,352k). ad agents also reported substantial EBITDA growth. Having increased its EBITDA by EUR 890k to EUR 1,158k (2015: EUR 268k), ad agents GmbH also reported the best earnings in its history. The third operating segment, ad pepper media, also concluded the 2016 financial year on a clearly positive note with EBITDA of EUR 479k (2015: TEUR -497). This means that for the first time all three operating segments reported positive EBITDA figures. Net income for the period amounted to EUR 1,096k (2015: EUR 135k). The figures for the 2015 financial year included non-recurring items of EUR 386k from the sale of investments. Against this backdrop, the key profitability figures achieved in 2016 reflect a financial year that was very successful in operating terms.

PRESENTATION OF FINANCIAL AND NET ASSET POSITION

Cash flow

The gross cash flow amounted to EUR 1,233k (2015: EUR -955k) while a figure of EUR 23k (2015: EUR 1,627k) was reported for cash flow from operations. The significantly higher gross inflow of funds, mainly resulting from the increase in net income for the period, was offset by the net outflow of funds for operating activities. Key factors driving the operational outflow of cash were the reductions in accrued liabilities for affiliate credits not yet disbursed in the Webgains segment, as well as in other trade payables. The net cash flow from investing activities came to EUR 3,568k in the past financial year (2015: EUR 3,194k). Main reason for the increase is the disposal of non-current securities. The cash flow from financing activities amounted to EUR -2,497k, as against EUR 176k in the 2015 financial year. It mainly included outgoing cash of EUR 1,437k (2015: EUR 0k) in conjuction with the share repurchase program, and of EUR 889k for cash settlements for fully vested stock options. Further cash outflow of EUR 280k (2015: EUR 0k) occurred for dividends paid to non-controlling parties.

Balance sheet structure

Total assets decreased by EUR 2,662k to EUR 31,378k (December 31, 2015: EUR 34,040k). While non-current assets decreased significantly by EUR 3,608k to EUR 2,706k (December 31, 2015: EUR 6,314k), current assets increased slightly by EUR 945k to EUR 28,672k (December 31, 2015: EUR 27,726k). Cash and cash equivalents rose by EUR 927k to EUR 17,859k (December 31, 2015: EUR 16,932k). The reduction in funds was chiefly due to the share buyback program recently underway, in which an amount of EUR 1,437k was expended to buy back a total of 690,000 shares. Securities reduced by EUR 3,771k to EUR 1,734k (December 31, 2015: EUR 5,505k). Trade receivables increased by EUR 133k to EUR 10,116k (December 31, 2015: EUR 9,983k). On the equity and liabilities side, the company's equity showed a slight decrease of EUR 1,529k to EUR 14,979k (December 31, 2015: EUR 16,508k), which is mainly due to the share repurchase program. The equity ratio as of December 31, 2016 is on a still good level at 47.7 percent (December 31, 2015: 48.5 percent). Trade payables decreased by EUR 1,262k to EUR 12,357k (December 31, 2015: EUR 13,618k). The ad pepper media group was internally financed as of the balance sheet date. Its liquid funds (including securities measured at fair value) totaled EUR 19,593k at the end of December 2016 (December 31, 2015: EUR 22,437k). The company still has no non-current liabilities to banks.

RISK REPORT

07

FOREWORD

The German Corporate Sector Supervision and Transparency Act and the Dutch Corporate Governance Code lay down key requirements and obligations regarding risk management and control systems. In line with these requirements applicable in Germany and the Netherlands, the ad pepper media group operates a comprehensive and adequate risk management system. The regulations require the Board of Directors to ensure that the company complies with all applicable laws and requirements, and to report to the Supervisory Board regularly on the internal risk management and control systems. The risk management system at the ad pepper media group identifies significant risks which could have implications for the company. These risks are quantified and evaluated in terms of their potential implications. Finally, suitable measures are identified in order to counteract the risks in question.

Internal risk management and control system

The ad pepper media group is managed by a Board of Directors and Supervisory Board appointed by the general meeting. One of the Board of Director's responsibilities is the oversight of the risk management system. The Board of Directors has developed and implemented strategies, controls and mitigation measures to identify current and developing risks as part of the risk management system. Risk management policies and procedures are embodied in our Corporate Governance, code of conduct, and financial reporting controls and procedures. A variety of functional experts evaluate these business risks, attempting to mitigate and manage these risks on an ongoing basis.

Identified risks are divided into four types:

- Catastrophic (loss of ability to achieve business objectives, e.g. worst-case scenario)
- Major (reduce ability to achieve business objectives)
- Moderate (disruption to normal planning with a limited effect on achievement of business strategy and objectives)
- Minor (no material impact on the achievement of business strategy and objectives)

The probability of occurrence within planning horizon is divided into the following categories:

- Very high (60-100 percent probability)
- High (40-60 percent probability)
- Medium (20-40 percent probability)
- Low (5-20 percent probability)

All identified risks are evaluated based on their likelihood of occurring and their potential impact (estimated in monetary terms) in disrupting our progress in achieving our business objectives. The overall risk management goal is to identify risks that could significantly threaten our success and to allow management on a timely basis the opportunity to successfully implement mitigation actions. The results of the risk assessment and any updates are reported to the Supervisory Board on a regular basis. A detailed review of all underlying business risks is completed every year. At least once on an annual basis, the Supervisory Board discusses the corporate strategy and business risks as well as the results of an assessment by the Board of Directors of the structure and operations of the internal risk management and control systems, including any significant changes.

In addition to the dedicated risk management system outlined above, the following elements also serve to identify risks within the group:

- Operational planning, including updated intra-year forecasts
- Quarterly financial statements
- Monthly and quarterly reporting by subsidiaries (comparing target and actual results) to the group

Based on our evaluation of the design and operating effectiveness of our internal risk management and internal control system, the Board of Directors is of the opinion that the internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and the internal risk management and internal control system regarding financial reporting risks worked properly in the year under report. This evaluation and the current status have been discussed with the external auditor and the Supervisory Board. In respect of risks other than financial reporting risks, including operational/strategic, financial and legislative/regulatory risks, reference is made to the most important risks inherent in our business and our objectives. These are listed in the "Risk Factors" section. In view of the above information, the Board of Directors is of the opinion that the company complies with the requirements of provision II.1.4 and II.1.5 of the Dutch Corporate Governance Code. The sections below outline a number of significant risks to which the company is exposed. The order in which the risks are listed is not intended to imply an assessment as to the likelihood of their materialization or the extent of any resulting damages.

Governance risks

Besides operational and fiscal risks, a wide range of legal risks arises from our business activity. The results of legal disputes and other proceedings may cause considerable damage to our business, our reputation or our brands, and entail high costs. We are subject to a variety of laws and regulations, many of which are not yet firmly established or still developing. These include also partly very effective fields of law regarding consumer protection, data protection, e-commerce, and competition. Antitrust and competition claims or investigations may also require changes in our business operation. Any risks resulting out of this are counteracted by internal and external law experts by a thorough examination of all contractual and regulatory matters. Our endeavor is to fulfill all our obligations by continual supervision and to avoid conflicts arising from the violation of third parties rights or breach of regulatory provisions. No substantial litigation risks currently exist within the ad pepper media group.

Data and privacy protection

Websites usually install small files with non-personal (or "anonymous") information, generally referred to as "cookies", on Internet users' browsers. Cookies usually collect non-personal information about users in order to enable websites to better supply website users with contents specifically adapted to their particular needs. The Internet user's browser software forwards the cookie information to the website. We currently use cookies in order to track the traffic of Internet users on the websites of our advertising customers, and to monitor and prevent fraud in our networks. Most of the latest Internet browsers enable Internet users to change their browser settings to prevent the storage of cookies on their hard disks. Internet users can also remove cookies from their hard disks at any time.

Some Internet experts and privacy advocates proposed a general limitation of the use of cookies and also an explicit consent of Internet users for receiving cookies, and in this connection some countries adopted regulations limiting the use of cookies. Therefore, the effectiveness of our technology may be impaired by regulations limiting or prohibiting the use of cookies. Furthermore, on the basis of the requirements set up by data privacy regulators, software houses shall provide new Internet browsers bearing default settings where cookies are not accepted and the user has to actively change such settings to accept cookies („privacy by default"). If the use or effect of cookies were to be limited, we would have to switch to other technologies in order to collect geographic or behavior-related information. Although such technologies exist, they are far less effective than cookies. Furthermore, we would have to develop or buy new technologies in order to prevent fraud in our networks. Replacing cookies could become time-consuming and requires considerable investment. It is conceivable that their development could turn out to be economically pointless or it may not be possible to implement them early enough in order to prevent the loss of customers or advertising space. The use of cookie technology or a comparable technology to collect information about Internet usage patterns may lead to lawsuits or investigations in future. Furthermore, many jurisdictions contain detailed provisions concerning both the collection of personal data and the use of such data for direct marketing campaigns.

To date, the above data processing activity has not yet obtained an explicit clearance due to uncertain legal provisions, so we cannot exclude that local data privacy regulators take unilateral decisions which may restrict our business activity. Namely, the upcoming European regulations suggest the prohibition to make a general profile of users and such data processing shall be allowed only upon user's specific authorization. If adopted, such regulations would have a thorough impact on our business model.

In addition, it is difficult for us to currently assess the risk arising from the negative consequences entailed by the elimination of EU-safe harbor within the international data transfer. Following in-depth examination of all signifcant IT-services contracts and, coupled with this, of the application of EU-standardized clauses recommended by the EU commission, we consider this risk as tolerable at present. Although we abide by the applicable laws in the different jurisdictions, we cannot rule out the possibility that changes in legislation may have significant repercussions on our business models and revenues. Any litigation or any governmental action against us could become costly and time-consuming, or compel us to change our business practice and divert management attention away from other business fields.

Moreover, the regulatory environment in Europe is about to change profoundly. The European Union has adopted a General Data Protection Regulation (GDPR), which will come into force on May 25, 2018, that will impose significant new obligations on industry and its handling of personal data. The GDPR, which also significantly increases the level of fines, imposes a potential risk that Internet users will be reluctant to accept processing of personal data in certain countries, leading to a weaker competitive position and thus financial results of the group in its respective markets.

Intellectual property rights

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

Violations of other legal requirements

The aim of compliance is to ensure an irreproachable conduct of business at any time and in all respects. Any failure to fulfill legal requirements and report obligations, any violation of the Corporate Governance codex or insufficient management transparency may pose a risk to the required compliance. For this reason, the ad pepper media group established a group-wide code of conduct as well as Insider Trading Policy which provides for the employees' safety and support in various professional situations. Despite comprehensive measures taken within the realignment of the compliance program and our compliance organization, it is however actually impossible for us to protect us against all risks.

PERSONNEL RISKS

Highly qualified employees and management staff form the basis of any company's long-term economic success. Retaining employees at the company on a long-term basis is a factor of the utmost importance for the ad pepper media group, as is attracting new, highly qualified employees. Any departure of large numbers of these employees over a short period and subsequent inability to find adequate replacements may inhibit the company's business performance. Specifically, the company cannot guarantee that it will be able to retain key top performers in the event of any further intensification in the competition for highly qualified employees, especially in the IT and Internet sectors.

MARKET RISKS

Competition from other advertising networks, search engine providers, and traditional advertising media

Our offering for advertisers and web publishers on the Internet covers products and services where pricing is based on Cost Per Action (CPA), Cost Per Lead (CPL), Cost Per Thousand Impressions (CPM), or Cost Per Click (CPC) systems. Every field of our business is exposed to strong competition, mainly from other advertising and affiliate networks offering similar online services and products. Besides online marketing networks and companies specializing in affiliate marketing, we compete with search engine providers, such as Google and Yahoo!, as well as large ad exchanges, i.e. marketplaces in which advertising space is auctioned in real-time by analogy with other market exchanges. Apart from this, we also compete with traditional advertising channels, such as direct marketing, TV, radio, cable, and print media, which are all striving to win a share of the total advertising budget for themselves.

Many existing and potential advertisers have competitive advantages over our company due, for instance, to longer company histories, higher public awareness levels, larger customer bases, better access to much-frequented websites, and at times significantly larger resources in terms of finance, equipment, sales, and marketing. These companies use their experience and resources against us in different ways, for instance, by pursuing more active M&A strategies, investing more in research and development, or competing more aggressively for advertising customers and websites. If our competitors succeed in offering similar or better services or more relevant advertising, this could lead to a significant loss of websites and hence adversely affect our revenues. Also, many Internet users turn above all to search engines such as the market leader Google when they are looking for news, products, etc. Search engines are based on complex and confidential algorithms. Search engine providers regularly make wide-ranging changes to their search algorithms. Hence, there is always a potential risk that the search engine rankings of our client's websites may fall temporarily or even permanently. This would mean a serious reduction in traffic that could significantly affect the revenue and earnings situation of those websites as well as the ad pepper media group and its segments. Finally, the possibility of in-house handling of advertising network functions can represent a possible risk for the ad pepper media group both at the level of the attractiveness of its offering vis-à-vis advertisers as well as to its negotiating power vis-à-vis the providers of online advertising inventory.

STRONG COMPETITION/PRESSURE ON MARGINS AND REVENUE GROWTH

Online advertising markets are characterized by rapid technological change, the establishment of new industry standards, regular launches of new products and services, and rapidly changing customer requirements. The introduction of new products and services based on innovative technologies and the resultant establishment of new industry standards could mean that our existing products and services become obsolete and unsellable, thus forcing us to make unforeseen and unplanned investments. Insufficient flexibility to adapt to these changes can have adverse effects on our revenue, finance, and asset position.

We expect our sales growth to decline over the course of time as a result of base effects and increasingly tough competition. We also expect growing pressure on our operative margins as a result of increasingly tough competition and generally increasing expenditure in other areas of our business. Furthermore, the margin could fall as a result of our company having to pay a higher share of our advertising revenue to our website partners within our website portfolio and/or affiliate network.

FINANCIAL RISKS

Low profitability

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

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

Should we fail to successfully handle these risks and uncertainties, this could have significantly adverse consequences for our revenue as well as our asset and finance position.

Risks of our M&A strategy

Historically, part of our company's growth results from mergers and acquisitions, and we will continue to consider acquisitions in future as well. Furthermore, we will continually review our portfolio of shareholdings to assess whether company acquisitions might be appropriate. Every acquisition or sale can have material consequences for our revenue and financial position. Furthermore, the integration of an acquired business or technology can cause unforeseen operational problems, expenditure, and risks. Areas in which we may face risks in this context include:

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

The integration of companies, products, and workforce acquired can constitute a considerable burden to our management and our internal resources. Acquisitions of foreign companies, in particular, are subject to further risks over and above the risks listed above. These include risks in connection with integrating companies with different cultures and languages, exchange rate risks, and other country-specific economic, political, and legal risks. In view of the number of acquisitions which we have completed in past years, the different customers and technological functionalities of the products and service offerings acquired, future acquisitions may pose significantly bigger challenges than our previous acquisitions with a view to products, sales, marketing, customer support, research and development, buildings, information systems, accounting, human resources and other integration aspects, and may delay or threaten the complete integration of the businesses acquired.

Minimum payments to certain members of the advertising network

We are obliged under certain agreements to effect guaranteed minimum payments of revenue shares to the members of our network without the possibility to terminate these obligations. Under these agreements, we undertake to effect such minimum payments to members of our network for an agreed term.

It is difficult to forecast with certainty those sales which we, for our part, will generate within the scope of these agreements with guaranteed sums, and our revenues occasionally fall short of the guaranteed minimum payment of revenue shares.

Dependency risk

The ad pepper media group and its segments have significant customer concentration, both on the advertiser as well as on the publisher (owner of a website) front, so that economic difficulties or changes in the purchasing policies or patterns of its key customers could have a significant impact on ad pepper media's business and operating results. This is in particular the case for two clients. While one customer represents more than 10 percent of group revenue, the other contributes with more than 10 percent to the gross margin. While the concentration of our business with a relatively small number of customers may provide certain benefits to us, such as potentially more efficient handling cost/decreased costs of sales, this concentration may expose the ad pepper media group to a material adverse effect if one or more of our large customers were to significantly reduce its business relation with us for any reason, favor competitors or new entrants. Customers make no binding long-term commitments to the ad pepper media group regarding booking volumes and could seek to materially change the terms of the business relationship at any time. Any such change could significantly harm ad pepper media's business and operating results.

Currency risks

Since the ad pepper media group conducts a significant share of its business outside the euro area, exchange rate fluctuations can have a significant impact on results. Currency risks from financial instruments exist in conjunction with accounts receivable, accounts payable, as well as cash and cash equivalents in a currency other than the functional currency of a company. For the ad pepper media group, the currency risk from financial instruments is particularly relevant for the GBP and USD.

Brexit uncertainty

The group has operations within and outside the Eurozone. The UK's referendum decision to leave the EU ("Brexit") has increased uncertainty, particularly in relation to foreign exchange rates, interest rates, EU data privacy law post Brexit, and the short to medium term outlook for the UK economy. There is a risk that this uncertainty could reduce demand in the group's UK market, in other markets where there is currently a significant trade relationship with the UK, and could adversely impact the financial performance of the group. There is also a risk that any continuing and sustained weakening of GBP will impact the group's translation of its GBP earnings with consequential impacts on the reported performance and results of the group. The Management Board is monitoring the potential impacts of the UK's referendum decision to leave the EU on all of the group's operations. Any potential developments, including new information and policy indications from the UK Government and the EU, will be reviewed on an ongoing basis with a view to taking appropriate actions targeted at managing and, where possible, mitigating the consequences of Brexit.

Tax risks

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

New accounting standards

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

Liquidity and cash flow risks

All of the company's liquid funds and short-term marketable securities are essentially managed by financial institutions. Based on the development of our business, the liquidity of ad pepper media International N.V. can at present be considered to be secure and, despite future investment in new companies, sufficient to meet all future payment obligations. A further moderate decline in liquid funds might arise if further investments should be necessary in the future. Furthermore, the company is dependent upon its customers' payment discipline. Our receivables are typically unsecured and result from sales which are predominantly generated with customers based in Europe. The company checks its customers' creditworthiness on an ongoing basis and has made provisions for potential cases of default. Finally, negative developments on the capital markets can restrict our ability to obtain financing. The past economic and financial crisis led to certain restrictions on the availability of corporate finance and created a scenario such as that outlined above. Looking ahead, it is not possible to completely exclude future restrictions on our liquidity situation, especially in the case of a return to a scenario described above.

TECHNOLOGIES AND IT RISKS

Risks due to new technologies

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

Rapid technological change

The market for Internet advertising is characterized by rapid technological change, developing industry standards, frequent introductions of new products and services, and changing customer behavior. The introduction of new products and services, and the emergence of new industry standards can render existing products and services obsolete and impossible to sell, or require unexpected investment in new technology. Our success will depend on our ability to adapt to rapid technological changes, to improve existing solutions, and to develop and launch a host of new solutions in order to meet our customers' and partners' continuously changing demands. Advertising customers, for instance, are increasingly demanding online advertising networks and advertising that go beyond pure stills, integrating "rich media", such as audio and video, interactivity and methods for more accurately targeted consumer contacts.

Our systems do not support all types of advertising formats. Equally, certain website operators within our network do not accept all of the advertising formats offered by us. Moreover, a further increase in the number of fast and powerful Internet accesses can generate new products and services which only become possible with increasing bandwidth. If we fail to successfully adapt to such developments, there is a risk that we could lose customers and/or parts of the advertising space marketed by us. We procure most of the software used at our company externally and we plan to continue buying technologies from third suppliers in future as well. We cannot definitely say whether such technologies will continue to be available in future either at all or on commercially reasonable terms. It is also possible that the trend towards marketing online advertising space via automated marketplaces, so-called ad exchanges, will intensify further. By establishing and optimizing demand side platforms (DSPs) and/or supply side platforms (SSPs), online networks such as the ad pepper media group may in future lose further significance or even lose the basis of their business operations. We may also encounter problems which delay or prevent the successful design, development, introduction, or marketing of new solutions. Any solutions or improvements newly developed by us will have to fulfill the requirements of our present customers and prospective clients, and there is a risk that these will not meet with the acceptance hoped for on the market. If we fail to keep pace with technological developments and the launch of new industry standards at a reasonable cost, there is a risk that our expenditure will increase and that we will lose customers and advertising space.

IT architecture/infrastructure

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

Internet access

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

Interruption of IT and communication systems

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

Increasing use of PC-independent services

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

RISKS IN CONNECTION WITH OWNERSHIP OF OUR SHARE

Share price fluctuations

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

- fluctuations in our quarterly results or in the results of our competitors
- announcements of company sales and takeovers, new products, major contracts, business relationships or provision of capital
- recommendations by equity analysts or changed profit expectations
- publication of profits inconsistent with analysts' expectations; this risk can be considerable because as part of our investor relations strategy we do not communicate any profit outlook
- number of shares outstanding
- share sales by us or our shareholders
- short-selling, hedging or other derivative transactions with shares

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

No dividend payments

We intend to retain future profits and do not expect to pay dividends in the foreseeable future.

Limited influence of shareholder

Each share entitles its holder to one vote. As of December 31, 2016, EMA B.V., one of the companies' founding shareholders, owned shares representing around 41 percent of the share capital and regularly corresponding to more than 80 percent of the voting rights represented at the Annual General Meeting. For the foreseeable future, EMA B.V. will therefore continue to have significant influence on the management and on all matters requiring approval by the shareholders, including the election of Board Members, important company transactions, such as mergers or the sale of the company as a whole or in parts. This concentration of control limits our shareholders' ability to influence company matters. In view of this, we can implement measures that our shareholders do not deem expedient. This in turn may have a lasting negative impact on our share price.

RISK APPETITE

The risk appetite statement highlights those risks that the group is willing to take, as well as those which are unacceptable. The risk appetite statement includes a series of risk assertions which are aligned to our strategy, together with the risk parameters within which we expect to work.

Risk appetite statement

The group operates in markets with high growth potential which are subject to volatility and high competition. We will pursue ambitious growth targets and we are willing to accept certain levels of risk to increase the likelihood of achieving or exceeding our strategic objectives, subject to the parameters below.

Risk appetite varies depending on the risk type

The Board's appetite for risk varies depending on the risk type. The group measures risk by estimating the potential for loss of profit, staff turnover and reputational damage. The Board has a low tolerance for compliance related risk. Conversely, it has a higher tolerance for operational and strategic risk.

Risk category	Risk	Risk parameter	Risk appetite Low/Moderate/High
Operational Risk	We will manage/avoid situations or actions that might adversely impact the group's ability to provide a premium service level to our clients and to protect the assets of the company	The costs of control systems must be commensurate with the benefits achieved	Moderate
Strategic Risk	We will not pursue growth at all costs and expect sufficient margins	We will pursue organic growth strategies to meet our growth objectives. We aim for sufficient operating margins whilst protecting the long-term viability of the group	Moderate
Financial Risk	We will manage/avoid situations or actions that might adversely impact the integrity of financial reporting	It is a critical requirement that financial reporting complies with relevant accounting standards and is fair, balanced and understandable	Low
Compliance	We will ensure we comply with all legal requirements and manage/avoidsituations or actions that could have a negative impact on our reputationor brand	No tolerance for breaches of: • Legislative/statutory requirements • Group and divisional policies	Low

OVERALL RISK ASSESSMENT

Compared to the previous year, the risk environment of the ad pepper media group did not change significantly during the period under report. The assessment of the overall risk situation is the result of aggregate analysis of all major individual risks. From a current perspective, no risks are foreseeable which, even in conjunction with other risks, could threaten the continued existence of the ad pepper media group. Please also refer to the disclosure 42 of the consolidated financial statements.

OPPORTUNITIES AND OUTLOOK

We publish our sales and financial targets for the group each year and update these where necessary in the course of the financial year. In 2016, the ad pepper media group achieved superb business results. Driven by double-digit sales growth in all segments, we generated consolidated sales of EUR 61,164 and EBITDA of 1,748. The ongoing migration from offline to online advertising budgets, the increasing digitization of consumer behavior, and the widespread growth in consumer spending – all these factors impacted positively on our sales performance. Despite ongoing unfavorable development in exchange rates, the ad pepper media group thus exceeded the sales target of EUR 60 million published at the beginning of the financial year. In the past financial year, currency-adjusted sales even grew by 9.2 percent. As a result, our currency-adjusted sales growth was significantly ahead of our original forecast.

In 2017, we will be pursuing our growth opportunities in a targeted manner. We will be stepping up our investments to boost our products, and concentrating on lucrative customer groups, as well as on broadening and diversifying these customer groups while keeping focus on the bottom line. The Webgains segment, where the greatest share of our investments in personnel and technology is expected in the current financial year, will be the key focus of our efforts in this respect. Assuming there is no significant deterioration in the global economy, we are confident we will be able to generate further strong growth with a revenue target of at least EUR 65 million for the ad pepper media group in 2017. However, continuing uncertainty surrounding the economic outlook and consumer sentiment as well as the ongoing high level of exchange rate volatility may present a risk to the achievement of this target.

RESPONSIBILITY STATEMENT

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RESPONSIBILITY STATEMENT

RESPONSIBILITY STATEMENT

In conjunction with the EU Transparency Directive, as incorporated in chapter 5.1A of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht), the Board of Directors declares that, to the best of its knowledge:

- The annual financial statements for the year ended December 31, 2016 give a true and fair view of the assets, liabilities, financial position and profit or loss of ad pepper media International N.V. and its consolidated companies.
- The annual management report gives a true and ad fair view of the position as of the balance sheet date and the state of affairs during the 2016 financial year of ad pepper media International N.V. and its affiliated companies of which the data has been included in the consolidated financial statements.
- The annual management report describes the principal risks that ad pepper media International N.V. faces.

Board of Directors
ad pepper media International N.V.

Dr. Jens Körner, CFO

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

	Note	1/1 - 12/31/16 kEUR	1/1 - 12/31/15 kEUR
Revenue	[5]	**61,164**	**56,009**
Cost of sales	[7]	-45,076	-40,165
Gross profit		**16,088**	**15,844**
Selling and marketing expenses	[8]	-9,055	-10,575
General and administrative expenses	[9]	-6,155	-6,382
Other operating income	[10]	1,059	1,406
Other operating expenses	[11]	-329	-435
Gain on sale of shares in subsidiaries and other investments	[12]	0	386
Operating profit		**1,608**	**244**
Financial income	[13]	148	251
Financial expenses	[13]	-66	-51
Income/loss before taxes		**1,690**	**443**
Income taxes	[14]	-594	-308
Net income/loss		**1,096**	**135**
attributable to shareholders of the parent company		629	-33
attributable to non-controlling interests		467	168
Basic earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.03	0.00
Diluted earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.03	0.00
		No.	No.
Weighted average number of shares outstanding (basic)	[15]	**21,012,849**	**21,317,201**
Weighted average number of shares outstanding (diluted)	[15]	**21,194,339**	**21,459,381**

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [29]

	1/1 - 12/31/16 kEUR	1/1 - 12/31/15 kEUR
Net income/loss	**1,096**	**135**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	-277	8
Revaluation of available-for-sale securities	136	-176
Realized gains/losses from available-for-sale securities	-10	0
Revaluation of investments in equity instruments available-for-sale	0	0
Income tax recognized on other comprehensive income	-8	12
Other comprehensive income, net of tax	**-158**	**-156**
Total comprehensive income	**937**	**-21**
attributable to non-controlling interests	467	168
attributable to shareholders of the parent company	470	-189

CONSOLIDATED BALANCE SHEET – ASSETS

	Note	12/31/2016 kEUR	12/31/2015 kEUR
Non-current assets			
Intangible assets	[16]	572	349
Property, plant, and equipment	[17]	212	150
Securities at fair value through profit and loss	[18]	0	3,295
Securities available-for-sale	[18]	1,734	2,210
Other financial assets	[19]	188	310
Total non-current assets		**2,706**	**6,314**
Current assets			
Trade receivables	[20]	10,116	9,983
Other receivables	[21]	408	292
Income tax receivables	[22]	151	222
Other financial assets	[23]	138	297
Cash and cash equivalents	[24]	17,859	16,932
Total current assets		**28,672**	**27,726**
Total assets		**31,378**	**34,040**

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

	Note	12/31/2016 kEUR	12/31/2015 kEUR
Equity attributable to shareholders of the parent company			
Issued capital	[25]	1,150	1,150
Reserves	[26], [27]	61,116	63,305
Accumulated deficit		-45,621	-46,250
Other reserves	[29]	-2,356	-2,199
Total		**14,289**	**16,005**
Non-controlling interests	[30]	690	503
Total equity		**14,979**	**16,508**
Non-current liabilities			
Deferred tax liabilities	[14]	117	96
Total non-current liabilities		**117**	**96**
Current liabilities			
Trade payables	[31]	12,357	13,618
Other liabilities	[32]	1,470	1,254
Other financial liabilities	[33]	1,807	2,300
Income tax liabilities		648	265
Total current liabilities		**16,282**	**17,436**
Total liabilities		**16,399**	**17,532**
Total equity and liabilities		**31,378**	**34,040**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	1/1 - 12/31/2016 kEUR	1/1 - 12/31/2015 kEUR
Net income / loss		**1,096**	**135**
Adjustments for:			
Depreciation and amortization	[6]	140	296
Gain/loss on sale of fixed assets	[10]	-9	-25
Share-based compensation	[39]	28	57
Gain/loss on sale of securities and other investments (after bank charges)	[13], [18]	-14	-33
Other financial income and financial expenses	[13]	-68	-167
Income taxes	[14]	594	307
Gain on sale of shares in subsidiaries	[12]	0	-386
Other non-cash expenses and income	[38]	-534	-1,139
Gross cash flow		**1,233**	**-955**
Change in trade receivables	[20]	-456	-2,464
Change in other assets	[21], [23]	-47	169
Change in trade payables	[31]	-549	4,154
Change in other liabilities	[32], [33]	-112	398
Income taxes received		206	225
Income taxes paid		-327	-93
Interest received		95	212
Interest paid		-20	-19
Net cash flow from/used in operating activities		**23**	**1,627**

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CONSOLIDATED FINANCIAL STATEMENTS

	Note	1/1-12/31/2016 kEUR	1/1-12/31/2015 kEUR
Purchase of intangible assets and property, plant, and equipment	[17]	-561	-185
Proceeds from sale of intangible assets and property, plant, and equipment		9	57
Loans payback	[23]	209	16
Proceeds from sale of subsidiaries, net of cash sold	[12]	0	1,270
Proceeds from sale/maturity of securities	[18]	5,323	2,036
Purchase of securities	[18]	-1,412	0
Net cash flow from/used in investing activities		**3,568**	**3,194**
Issuance of own shares	[27]	109	176
Repurchase of own shares	[27]	-2,326	0
Dividends to non-controlling interests	[30]	-280	0
Net cash flow from/used in financing activities		**-2,497**	**176**
Net decrease/increase in cash and cash equivalents		1,094	4,998
Cash and cash equivalents at beginning of period		**16,932**	**11,926**
Effect of exchange rates on cash and cash equivalents		-167	8
Cash and cash equivalents at end of period	[24]	**17,859**	**16,932**

CONSOLIDATED CHANGES IN EQUITY 2015

	Note	Balance at 1/1/2015	Total comprehensive income	Share-based payment	Issuance of shares	Dividends	Purchase of treasury shares	Cash settlement of SOP's	Balance at 12/31/2015
Issued capital	[25]								
Number of shares		23,000,000							23,000,000
Issued capital (kEUR)		1,150							1,150
Reserves	[26]								
For employee stock option plans (kEUR)		2,571		57					2,628
From contributions of shareholders of the parent company (kEUR)		63,782							63,782
Treasury shares	[27]								
Number of shares		1,759,292			-220,000				1,539,292
Treasury shares at cost (kEUR)		-3,281			176				-3,105
Accumulated deficit (kEUR)		**-46,218**	**-33**						**-46,251**
Other reserves	[29]								
Currency translation differences (kEUR)		-888	8						-880
Unrealized gains/(losses) from available-for-sale securities (kEUR)		-1,155	-164						-1,319
Equity attributable to shareholders of the parent company (kEUR)		**15,961**	**-189**	**57**	**176**	**0**	**0**	**0**	**16,005**
Non-controlling interests (kEUR)	[30]	335	168	0	0	0	0	0	503
Total equity (kEUR)		**16,296**	**-21**	**57**	**176**	**0**	**0**	**0**	**16,508**

CONSOLIDATED CHANGES IN EQUITY 2016

	Note	Balance at 1/1/2016	Total comprehensive income	Share-based payment	Issuance of shares	Dividends	Purchase of treasury shares	Cash settlement of SOP's	Balance at 12/31/2016
Issued capital	[25]								
Number of shares		23,000,000							23,000,000
Issued capital (kEUR)		1,150							1,150
Reserves	[26]								
For employee stock option plans (kEUR)		2,628		28					2,656
From contributions of shareholders of the parent company (kEUR)		63,782							63,782
Treasury shares	[27]								
Number of shares		1,539,292			-110,000		690,000		2,119,292
Treasury shares at cost (kEUR)		-3,105			109		-1,437	-889	-5,322
Accumulated deficit (kEUR)		**-46,251**	**629**						**-45,621**
Other reserves	[29]								
Currency translation differences (kEUR)		-880	-277						-1,157
Unrealized gains / (losses) from available-for-sale securities (kEUR)		-1,319	119						-1,200
Equity attributable to shareholders of the parent company (kEUR)		**16,005**	**470**	**28**	**109**	**0**	**-1,437**	**-889**	**14,289**
Non-controlling interests (kEUR)	[30]	503	467			-280			690
Total equity (kEUR)		**16,508**	**937**	**28**	**109**	**-280**	**-1,437**	**-889**	**14,979**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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CORPORATE INFORMATION [1]

The consolidated financial statements of ad pepper media International N.V. (the "company") for the year ended December 31, 2016 were authorized for issue by the Board of Directors on March 17, 2017. ad pepper media International N.V. is a public company incorporated in the Netherlands, domiciled at Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands and ultimate parent and controlling party of the ad pepper media group. Its head office is domiciled at Frankenstraße 150 C, 90461 Nuremberg, Germany. The company's shares are publicly traded under WKN 940883 (ISIN NL0000238145) on the Prime Standard of the Frankfurt Stock Exchange. The business activities of ad pepper media International N.V. involve holding investments in other entities whose objective is to market advertising space on the internet, and providing services for the subsidiaries. Since its formation, the ad pepper media group has been geared towards acting flexibly to meet the requirements of a whole range of different markets as an international group.

The ad pepper media group 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 six offices in four European countries and the USA. The ad pepper media group uses state-of-the-art technology to link thousands of small, medium, vand 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 traffic analysis and performance optimization, provided by the ad pepper media group and its affiliated entities in a localized form.

ACCOUNTING PRINCIPLES [2]

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial instruments that have been measured at fair value through other comprehensive income. The consolidated financial statements are presented in EUR. All values are rounded to the nearest thousand euro (EUR k) or million euro (EUR m) except when indicated otherwise. Due to rounding up or down, individual figures may not add up exactly to the totals stated.

Where necessary, certain reclassifications have been made to the prior-year financial information and the notes thereto to conform to the current year presentation and to improve insights.

Based on the requirements of the Dutch Civil Code, a full set of annual report comprises the Reports of Directors and the Supervisory Board, consolidated financial statements, company financial statements, and other information. This report includes the Reports of Directors and the Supervisory Board, consolidated financial statements, company financial statements, and other information.

Statement of compliance

The consolidated and company 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), and with Part 9 of Book 2 of the Dutch Civil Code. The same accounting principles may be applied in the company's financial statement and the consolidated financial statements. If the accounting principles of the company's financial statements differ from the accounting principles applied in the consolidated financial statements, it is disclosed.

Basis of consolidation

The consolidated financial statements comprise the financial statements of ad pepper media International N.V. and its subsidiaries as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 acquisition method. In accordance with this method, the purchase price has been allocated to the fair value of the interest held in the net assets of the consolidated subsidiaries at the time of acquisition.

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

In doing so, all identifiable assets, liabilities and contingent liabilities are recognized at fair value and measured accordingly in the consolidated balance sheet. Following adjustments to the fair values of assets acquired and liabilities assumed, any resulting positive difference is capitalized in the balance sheet as goodwill. Situations in which the fair value of net assets is greater than the purchase price paid result in a negative difference.

In the event that such difference remains following reassessment of the allocation of the purchase price or determining the fair value of acquired assets, liabilities and contingent liabilities, this is recognized as income immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to non-controlling interest is also recognized at fair value.

All intragroup balances, transactions, income and expenses, and profits and losses resulting from intragroup transactions that are recognized in assets are eliminated in full.

Consolidated group

The subsidiaries included in consolidation are as follows:

Entity	12/31/16	12/31/15
	Share in Percent	Share in Percent
ad pepper media GmbH, Nuremberg, Germany	100	100
ad pepper media UK Ltd, London, United Kingdom	0	100
ad pepper media France S.A.R.L., Paris, France	100	100
ad pepper media Spain S.A., Madrid, Spain	65	65
ad pepper media USA LLC, New York, USA	100	100
Webgains Ltd, London, United Kingdom	100	100
ad agents GmbH, Herrenberg, Germany	60	60

Changes in shares of subsidiaries and non-controlling interests

On November 30, 2016, ad pepper media UK Ltd was merged with Webgains Ltd with effect of November 30, 2016.

Changes in accounting policies and estimates

The accounting policies and estimates adopted are fundamentally consistent with those of the previous financial year.

The following amendments and improvements to existing standards require first-time application in financial years beginning on January 1, 2016:

- **Amendment to IAS 19 "Defined Benefit Plans"** (effective date: February 1, 2015). This amendment had no impact on the consolidated financial statements.
- **Annual Improvements to IFRSs 2010-2012 Cycle** (effective date: February 1, 2015). These annual improvements had no impact on the consolidated financial statements.
- **Amendments to IAS 27 "Equity Method in Separate Financial Statements"** (effective date: January 1, 2016). These amendments had no impact on the consolidated financial statements.
- **Amendments to IAS 1 "Disclosure Initiative"** (effective date: January 1, 2016): These amendments implied minor changes on the consolidated financial statements.
- **Annual Improvements to IFRSs 2012-2014 Cycle** (effective date: January 1, 2016). These annual improvements had no impact on the consolidated financial statements.
- **Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"** (effective date: January 1, 2016). These amendments implied no changes on the consolidated financial statements.
- **Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"** (effective date: January 1, 2016). These amendments implied no changes on the consolidated financial statements.
- **Amendments to IAS 16 and IAS 41 "Bearer Plants"** (effective date: January 1, 2016). These amendments implied no changes on the consolidated financial statements.
- **Amendment to IFRS 10, IFRS 12 and IAS 2 "Investment Entities – Applying the Consolidation Exception"** (effective date: January 1, 2016). These amendments had no impact on the consolidated financial statements.

New standards requiring application in financial years beginning after January, 2016:

- **IFRS 9 "Financial Instruments"** In July 2014, the IASB issued IFRS 9. The new standard introduces a single approach for the classification and measurement of financial assets according to their cash flow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses (ECL method). Further it includes also new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. The company will adopt IFRS 9 for the fiscal year beginning as of January 1, 2018. The standard will mainly have an impact on the recognition and impairment of the securities, classified as of December 31, 2016 as "available-for-sale". Based on ad pepper media's preliminary evaluation under IFRS 9, those securities would be classified into the category "fair value through other comprehensive income; FVOCI", where fair value adjustments are recognized within other comprehensive income until their reclassification upon derecognition of the asset. For these debt instruments, the ad pepper media group will be obliged to recognize a risk provision as of each measurement date in accordance with 12-ECL. Application of the general approach to bond impairment requires a comprehensive analysis of credit risk with reference to material risk factors as of the respective measurement date. At present, it is not possible to conclusively quantify the risk provision to be recognized. For trade account receivables, the company will make application of the simplified approach set out in the ECL model. Based on its current assessment, the company will not have to increase its credit provisioning to any significant extent.

- **IFRS 15 "Revenue from Contracts with Customers"** In May 2014, the IASB issued IFRS 15. The new standard describes when and in which amount revenues require recognition, also lays down the necessary disclosure notes. Revenues are calculated on the basis of a five-stage model applicable to all contracts with customers. The company will adopt IFRS 15 for the financial year beginning as of January 1, 2018. The precise implications resulting from application of IFRS 15 are currently still under review. Although conclusive statements are not yet possible, the current status of our analyses shows that application of the new standard will only result in extended note disclosures. Given the transaction nature of the revenues recognized, based on the information currently available to us, the new standard is not expected to have any implications for the amount of revenues recognized in future or the time at which such revenues are recognized.
- **IFRS 16 "Leasing"** In January 2016, the IASB issued IFRS 16. This standard regulates lease accounting. IFRS 16 will replace the previously applicable standard IAS 7, as well as three lease-related interpretations. As the ad pepper media group will only be making application of IFRS 16 from the 2019 financial year, no disclosures can yet be made concerning the future implications.

Significant accounting judgments, estimates, and assumptions

In the application of the group's accounting policies, which are described below in Note [3], the directors are required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgement, estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date have been used in particular on determining the need of impairment of financial assets (Note [18]), on the assessment of accrued liabilities for outstanding affiliate payments (Note [31]) and on the measurement of deferred tax assets on losses carried forward (Note [14]).

A) Judgements

Decisions have been taken in connection with the need to impair financial assets. Alongside customary volatility in stock market prices and the impact of inadequate trading liquidity, the ad pepper media group has also taken particular account of the existence of objective indications of impairment. Evidence of impairment may include significant financial difficulties, the likelihood of insolvency, financial restructuring and/or observable data indicating a measurable reduction in estimated future cash flows, e.g. in the event of payment arrears on the part of the issuer. Please refer to Note [18].

Further discretionary decisions have impacted on the selection of IAS 39 measurement categories for securities. Please refer to Note [18].

B) Estimates and assumptions

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

Impairment of financial assets
The ad pepper media group assesses at least on annual basis whether a financial asset or group of financial assets is impaired. The determination of fair value involves estimates and assumptions that are subject to a certain degree of uncertainty. Please refer to Notes [18].

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Accrued liabilities
In measuring accrued liabilities for affiliate credits not yet disbursed in the Webgains segment, reference has been made to assumptions determined with the assistance of various controlling and reporting tools. Based on various evaluations, the ad pepper media group assesses the disbursement of credits for confirmed transactions that have not been called up more than one year after the closure of the program as well as of credits of inactive publishers as unlikely and has reduced the accrued liability by the resultant amounts.

Deferred tax assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. Further information is presented in the note on "Income taxes". Please refer to Note [14].

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [3]

Foreign currency translation

The consolidated financial statements are presented in EUR, 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. 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.

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

The significant foreign currency exchange rates have developed as follows:

Foreign currency per 1 EUR	Closing rate 12/31/16	Closing rate 12/31/15	Average rate 2016	Average rate 2015
USD	1.0453	1.0926	1.1034	1.107
GBP	0.8530	0.7380	0.8169	0.7252

Property, plant, and equipment

Property, plant and equipment are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Subsequent costs are included in the asset's carrying value or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the line item will flow to the group and the cost of the item can be reliably measured. Depreciation is calculated on a straight-line basis over the useful life of the assets. The estimated useful lives of the assets are between three and ten years. An item of property, plant, and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

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. All intangible assets have finite lives and are amortized using the straight-line method over the useful economic life and assessed for impairment whenever

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each financial year end. 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.

Research and development costs

Research costs are expensed as incurred. An intangible asset resulting from the development of an individual project is only capitalized when it cumulatively meets the criteria for recognition stipulated in the group accounting policy, which considers the requirements of IAS 38. 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.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that a non-monetary asset (property, plant, and equipment, intangible assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the fair value of the asset or cash-generating unit less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. The valuation model is based on a discounted cash flow method. Impairment losses are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the group makes an estimate of recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. This increased amount shall not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized on the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognized for goodwill are not reversed for subsequent increases in its recoverable amount.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as at fair value through profit or loss, loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognized on the settlement date, being the date on which the group clears the purchase or sale of a financial asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Subsequent measurement of financial assets is based on the respective IAS 39 category to which they are allocated. Financial instruments in the "at fair value through profit or loss" and "available-for-sale" categories are measured at fair value. Changes in fair value resulting in realized and unrealized gains and losses are recognized through profit or loss upon such gains and losses arising. One exception involves available-for-sale financial assets, whose unrealized gains and losses, to the extent that the respective assets are not impaired, are recognized in equity through to retirement.

After initial recognition, investments "held to maturity" and "loans and receivables" are measured at amortized cost using the effective interest rate method, less any impairment. Gains and losses are recognized in period earnings when the financial investments are derecognized or impaired.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. If the fair value of an unquoted equity instrument cannot be measured reliably, it is carried at cost.

Impairment of financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss. If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the recognition of impairment, the impairment loss previously recognized is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible. In the reporting year 2016 and 2015, bad debt allowance on trade receivables applies with 50 percent after 120 days overdue, 75 percent after 240 days overdue, and 100 percent after one year overdue.

Impairment of available-for-sale financial assets

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 other comprehensive income to the income statement. The ad pepper media group assesses at each balance sheet date thoroughly whether a financial asset or group of financial assets is impaired. In making this assessment, the ad pepper media group refers to all available information, including customary stock market price volatility, the impact of inadequate trading liquidity, and the duration and extent of the respective reduction in value. However, a financial asset classified as available-for-sale is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the debt instrument, and that the loss event has impact on the estimated future cash flows of the financial asset. Evidence of impairment may include indications that the issuer is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the issuer is facing bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears. Impairment is deemed appropriate when there is convincing doubt about the creditability of the issuer.

Treasury shares

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand. Shares in money market funds are also included in cash equivalents. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Provisions and accrued liabilities

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, although the respective due date or amount is still uncertain. If the effect of the time value of money is material, long-term 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.

Accrued liabilities are obligations to pay for goods or services received or delivered that have neither been paid, nor invoiced by the suppliers. Even though estimates are occasionally required to determine the amount or timing of accrued liabilities, the degree of uncertainty is generally notably less significant than for provisions. Accrued liabilities are recognized under trade payables.

Financial liabilities

Financial liabilities are liabilities that must be settled in cash or other financial assets. Based on their nature, financial liabilities are measured at amortized costs and are derecognized upon settlement or cancellation.

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"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external value using an appropriate pricing model, further details of which are given in Note [39]. The cost of equity-settled transactions (remuneration cost) 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. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are provided in Note [15]).

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, or the arrangement conveys a right to use the asset. Only operating lease agreements exist. Payments are recognized as an expense in the income statement on straight-line basis over the lease term.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other turnover taxes or duty. The company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The company has concluded that it is acting as principal in all of its revenue arrangements.

Rendering of services

The company generates its revenues mainly using the Webgains technology platform, where publishers select advertisements and place them on their websites. These advertisements drive traffic back to the advertiser's website and if that traffic results in a transaction, the affiliate receives a commission from the advertiser and the group is paid an override for every successful transaction. Therefore, most of the company's revenue consists of transaction revenues, which are variable and are continuously calculated based on transaction volume and price per transaction. Revenues in the ad pepper media segment are generated by marketing internet advertising space. Advertising customers book units (Ad Impressions, Ad Clicks, Registrations, Mail send-outs, Transactions) via the company – these are supplied over a period defined by the customer. In cases in which the campaign starts before the balance sheet date and lasts beyond this date, revenue is accounted proportionately to the extent the stage of completion of the transaction at the end of the reporting period. Stage of completion is determined as the proportion of the costs incurred till the end of the reporting period to the total costs of the campaign, which can be reliably estimated.

Interest income

Interest income is recognized as soon as it arises using the effective interest rate method.

Current income tax

Current taxes are determined on the basis of annual earnings with due reference to national tax rates and tax legislation in the various tax jurisdictions valid as of the balance sheet date. Current income tax relating to items recognized directly in other comprehensive income is recognized in other comprehensive income and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except for goodwill, whereon the recognition is not permitted. 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. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognized directly in other comprehensive income is recognized in other comprehensive income and not in the income statement. Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

BUSINESS COMBINATIONS [4]

No business combinations occurred in the financial year 2016 as in 2015.

SEGMENT REPORTING [5]

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity, on which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Financial information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focused on the category of service delivered. Hence, the group is disclosing segment information for the operating segments "ad pepper media" (Lead, Mail, Banner), "Webgains" (Affiliate Marketing), and "ad agents" (Search Engine Optimization "SEO"/ Search Engine Marketing "SEM") as well as the non-operating segment "Admin" (Administration). If the holding company disposes shareholdings in immaterial subsidiaries, the resulting profit is allocated to the non-operating segment "Admin". The accounting policies of the reportable segments are the same as the group's accounting policies described in Note [2].

Segment profit represents the EBIT respectively EBITDA earned by each segment without any differences to IFRS. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The basis of accounting for intersegment transactions is the "dealing at arm's length"-principle.

Financial year 2016	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenues	5,269	43,902	12,007	244	-258	61,164
Thereof external	5,264	43,894	12,007	0	0	61,164
Thereof intersegment	6	8	0	244	-258	0
Expenses and other income	-4,794	-42,343	-10,878	-1,785	244	-59,556
Thereof amortization and depreciation	-10	19	-30	-118	0	-139
Thereof other non-cash expenses	-6	-446	0	-64	0	-516
Thereof other non-cash income	707	441	18	59	0	930
EBITDA	485	1,540	1,158	-1,422	-14	1,748
EBIT	475	1,559	1,128	-1,540	-14	1,608
Financial income	1	3	0	146	-3	148
Financial expenses	0	-3	-1	-64	3	-66
Income taxes						-594
Net income for the year						1,096

Financial year 2015	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenues	5,994	40,887	9,145	184	-201	56,009
Thereof external	5,982	40,882	9,145	0	0	56,009
Thereof intersegment	12	5	0	184	-201	0
Expenses and other income	-6,502	-39,612	-8,967	-868*	184	-55,765
Thereof amortization and depreciation	-11	-78	-89	-117	0	-296
Thereof other non-cash expenses	-11	-574	-1	-35	0	-620
Thereof other non-cash income	304	429	52	685	0	1,469
EBITDA	-497	1,352	268	-567	-17	539
EBIT	-508	1,275	178	-684	-17	244
Financial income	1	2	0	257	-10	250
Financial expenses	-10	-8	-1	-42	10	51
Income taxes						308
Net income for the year						135

*Including gain on the sale of subsidiaries of EUR 386k. Further information can be found in Note [12].

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Geographical information

The group operates in three principal geographical areas – United Kingdom, Germany, and Spain. With the sale of Globase ApS, Copenhagen and ad pepper media Denmark A/S, Copenhagen as per October 1, 2015, the group withdrew completely from the Scandinavian market. See more information in Note [12].

The group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below whereby non-current assets are excluding financial instruments:

	Revenue from external customers		Non-current assets	
	Year ended 12/31/16	Year ended 12/31/15	12/31/16	12/31/15
	kEUR	kEUR	kEUR	kEUR
Germany	19,107	15,287	233	259
Scandinavia	0	1,199	0	0
United Kingdom	32,146	31,209	519	214
Spain	4,420	3,519	20	18
USA	4,365	3,594	6	2
Other	1,126	1,201	5	6
Total	**61,164**	**56,009**	**784**	**499**

Revenues of approximately EUR 7,450k (2015: EUR 7,045k) are derived from a single external customer. These revenues are attributable to the Webgains segment.

NOTES TO THE INCOME STATEMENT [6]

The revenues of the ad pepper media group are derived from the rendering of online-marketing services; e.g. lead, affiliate, and SEM/SEO. The income statement has been prepared using the function of expense method. The expenses contain personnel expenses of EUR 10,667k (2015: EUR 12,283k) as well as depreciation and amortization of EUR 140k (2015: EUR 296k). Amortization of intangible assets is included in selling expenses EUR 143k (2015: EUR 94k), administration expenses EUR 19k (2015: EUR 22k), and other operating expenses EUR -97k (2015: EUR 38k).

The personnel expenses include the employer's share to state pension schemes amounting to EUR 447k (2015: EUR 505k) which have to be disclosed as employer's contribution to a defined contribution plan.

COST OF SALES [7]

Cost of sales comprises expenses for commissions paid to the affiliates, internet advertising space and for ad server technology used of EUR 44,962k (2015: EUR 39,991k), and associated personnel costs of EUR 111k (2015: EUR 161k).

SELLING AND MARKETING EXPENSES [8]

This item comprises all costs associated with attracting customers and orders. The expenses comprise the following natures of expense:

	2016	2015
	kEUR	kEUR
Employment costs	7,227	8,603
Facility costs (office rent, depreciation)	44	89
Advertising & sales promotion	233	242
Professional and other services	591	502
General operating costs (communication, travel, other supplies)	801	1,030
Other	159	109
Total	**9,055**	**10,575**

GENERAL AND ADMINISTRATIVE EXPENSES [9]

The expenses comprise the following natures of expense:

	2016	2015
	kEUR	kEUR
Employment costs	3,329	3,519
Facility costs (office rent, depreciation)	1,066	1,236
Professional and other services	820	637
General operating costs (communication, travel, other supplies)	891	922
Other	49	68
Total	**6,155**	**6,382**

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

OTHER OPERATING INCOME [10]

Other operating income consists of the following:

	2016	2015
	kEUR	kEUR
Foreign exchange gains	154	11
Gains on sale of tangible assets	9	25
Gains on sale of customer contracts which were not capitalized in the balance sheet	135	72
Income from the release of accrued liabilities	671	1,134
Other	90	164
Total	**1,059**	**1,406**

Income from the release of accrued liabilities includes an amount of EUR 428k relating to reversals of non-disbursed affiliate credits in the Webgains segment that are classified by the ad pepper media group as not being likely to be paid out (2015: EUR 350k) and reversals of EUR 243k in connection with time-barred claims (2015: EUR 542k).

OTHER OPERATING EXPENSES [11]

Other operating expenses consist of the following:

	2016	2015
	kEUR	kEUR
Expenses for bad debt allowances and write-off of receivables	323	222
Other	6	213
Total	**329**	**435**

The "Other" item mainly includes expenses incurred in connection with contractual obligations.

GAIN ON SALE OF SHARES IN SUBSIDIARIES [12]

In 2015, ad pepper media International N.V. sold its 100 percent stake in Globase ApS, Copenhagen and ad pepper media Denmark A/S, Copenhagen, leading in 2015 to a profit of EUR 386k.

	2016	2015
	kEUR	kEUR
Disposed assets and liabilities		
Property, plant, and equipment	0	1
Liquid funds	0	406
Other current assets	0	213
Current liabilities	0	-258
Total net assets	**0**	**362**
Selling price	0	800
Gain on sale	**0**	**438**
Transaction costs	0	52
Net gain on sale	**0**	**386**

FINANCIAL INCOME, NET [13]

Net financial income consists of the following:

	2016	2015
	kEUR	kEUR
Interest income	70	214
Realized gains on sale of securities	78	36
Financial income	**148**	**250**
Interest expenses	-2	-19
Unrealized losses on securities fair value through profit and loss	0	-29
Realized losses on sale of securities	-64	-3
Financial expenses	**-66**	**-51**
Net financial income	**82**	**199**

A breakdown of interest income by category of financial instrument can be found in Note [42].

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

INCOME TAXES [14]

Income tax expenses	2016	2015
	kEUR	kEUR
Current income tax expenses	-578	-200
Deferred income tax income/(expense)	-16	-108
Total	**-594**	**-308**

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 in ad pepper media International N.V., ad pepper media France S.A.R.L. and ad pepper media USA LLC, deferred tax assets of EUR 11,141k (2015: EUR 11,254k) were calculated on the basis of the unused tax losses of EUR 35,416k (2015: EUR 34,944k). Deferred tax assets from unused tax losses were recorded to the extent that it is probable that future taxable profit is available against which they can be utilized within a foreseeable planning period. Thus, an amount of deferred tax assets of EUR 0k (2015: EUR 0k) has been recognized for the tax loss carry forwards. All of the available tax loss carry forwards are non-expiring.

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

Deferred tax liabilities	2016	2015
	kEUR	kEUR
Securities	91	84
Other	26	12
Total	**117**	**96**

Changes in deferred tax liabilities on temporary differences recognized in profit or loss amount to EUR 14k (2015: EUR 20k). The change in deferred tax assets on temporary differences is recognized in profit or loss. Deferred tax assets and liabilities are netted if the company has the legally enforceable right to set off current tax assets against current tax liabilities and if they relate to the same tax authorities and the same taxable entity. As a result, deferred tax assets of EUR 0k (2015: EUR 0k) and deferred tax liabilities of EUR 117k (2015: EUR 96k) were recognized in the balance sheet. Deferred tax assets and liabilities are classified as non-current.

Deferred tax assets of EUR 0k (2015: EUR 0k) on tax losses are recognized for companies with a history of losses. No deferred tax liabilities were recognized as of December 31, 2016 (2015: 0) for taxes on non-distributed profits of subsidiaries. If deferred taxes were to be recognized for these temporary differences, only the source tax rates applicable in each case, where appropriate taking into account the German tax of 5 percent of the distributed dividends, would have to be applied for the computation.

ad pepper media International N.V. has its tax domicile in Germany and forms a fiscal unity with ad pepper media GmbH. The reconciliation between expected income tax expense and actual income tax expense based on the German statutory tax rate (combined corporate income tax and trade tax on income) of 31.47 percent (2015: 31.47 percent) is as follows:

	2016	2015
	kEUR	kEUR
Expected income tax	-532	-139
Foreign tax rate differential	137	73
Foreign tax on profit distribution	0	-1
Effect from tax-free gains	-7	-1,279
Prior year income tax	20	0
Deferred tax expense due to change in tax rates	-286	0
Change in allowance on deferred tax assets	27	1,629
Derecognition of deferred tax assets on securities and goodwill	0	-95
Non-deductible stock option expenses	-9	-18
Non-tax-deductible expenses and other	56	-478
Actual income tax expenses	**-594**	**-308**

EARNINGS PER SHARE [15]

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

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

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

	2016	2015
Net (loss) / income attributable to shareholders of the parent company in kEUR	629	-33
Number of shares at the beginning of the period	21,460,708	21,240,708
Number of shares at the end of the period	20,880,708	21,460,708
Weighted average number of shares outstanding (basic)	21,012,849	21,317,201
Basic earnings per share in EUR	0.03	0.00
Weighted average number of shares outstanding (diluted)	21,194,339	21,459,381
Diluted earnings per share in EUR	0.03	0.00

The weighted average number of shares outstanding in 2016 was calculated on a daily basis. In 2016, the options granted resulted in dilution of an average of 181,490 shares (2015: 142,180 shares).

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2016 (2015: 0 shares). In 2016, the company carried out a share repurchase program and acquired 690,000 shares (2015: 0 shares).

A total of 110,000 treasury shares (2015: 220,000 shares) were sold in connection with the exercise of employee stock options.

Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans.

NON-CURRENT ASSETS

INTANGIBLE ASSETS [16]

In 2016 and 2015, no software IT solutions were developed in-house for the company's own use and thus none were capitalized. Expenses were related to maintenance. Amortization and impairment of solutions developed in-house for the company's own use amount to EUR 0k (2015: EUR 0k), and the carrying amount at December 31, 2016 to EUR 0k including exchange rate differences. Additions mainly relate to an amount of EUR 301k in connection with the software for the Powerfeed feature and Platform Upgrades for Webgains. Software and databases are amortized over a useful life of three to five years. Trademarks are amortized over a useful life of 12 years.

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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MOVEMENT SCHEDULE OF INTANGIBLE ASSETS AND PROPERTY, PLANT, AND EQUIPMENT [17]

	Historical Cost						Accumulated depreciation/amortization/impairment							Book value	
Financial year 2016	Balance at 1/1/2016	Additions	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2016	Balance at 1/1/2016	Depreciation/ Amortization	Impairment	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2016	Financial year 12/31/2016	Previous year 12/31/2015
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Intangible assets															
Software	1,669	417	5	0	-28	2,053	1,338	162	0	5	0	-9	1,486	567	331
Brands and customer bases	754	0	0	0	-110	644	736	-97	0	0	0	0	639	5	18
Total	**2,423**	**417**	**5**	**0**	**-138**	**2,697**	**2,074**	**65**	**0**	**5**	**0**	**-9**	**2,125**	**572**	**349**
Property, plant, and equipment															
Other equipment, operational and office equipment	1,416	144	133	0	-34	1,393	1,266	75	0	132	0	-28	1,181	212	150
Total	**3,839**	**561**	**138**	**0**	**-172**	**4,090**	**3,340**	**140**	**0**	**137**	**0**	**-37**	**3,306**	**784**	**499**

	Historical Cost						Accumulated depreciation/amortization/impairment							Book value	
Financial year 2015	Balance at 1/1/2015	Additions	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2015	Balance at 1/1/2015	Depreciation/ Amortization	Impairment	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2015	Financial year 12/31/2015	Previous year 12/31/2014
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Goodwill	**24**	**0**	**24**	**0**	**0**	**0**	**0**	**0**	**24**	**24**	**0**	**0**	**0**	**0**	**24**
Intangible assets															
Software	1,904	118	19	337	4	1,669	1,559	116	0	0	337	1	1,338	331	345
Brands and customer bases	748	0	0	0	6	754	695	38	0	0	0	3	736	18	53
Total	**2,652**	**118**	**19**	**337**	**10**	**2,423**	**2,254**	**154**	**0**	**0**	**337**	**4**	**2,074**	**349**	**398**
Property, plant, and equipment															
Other equipment, operational and office equipment	1,497	67	38	130	0	1,416	1,293	118	0	32	130	18	1,266	150	204
Total	**4,173**	**185**	**81**	**467**	**30**	**3,839**	**3,547**	**296**	**0**	**56**	**467**	**22**	**3,340**	**499**	**626**

NON-CURRENT SECURITIES [18]

As at December 31, 2016, non-current securities consist of available-for-sale securities. Non-current securities have a remaining term of more than one year for which a disposal within one year is not planned/ or if shorter, then their disposal within one year is not planned.

Available-for-sale securities

	2016	2015
	kEUR	kEUR
Book value 1/1	2,210	2,386
Realized gains	78	0
Incl. unrealized gains reclassified from other reserves to profit or loss	-10	0
Unrealized gains / losses	136	-176
Sale	-2,092	0
Purchase	1,412	0
Book value 12/31	**1,734**	**2,210**

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

Fair value	12/31/16	12/31/15
	kEUR	kEUR
Due within one year	1,734	1,591*
Due between one and five years	0	619
Due in more than five years	0	0
Total	**1,734**	**2,210**

Securities at fair value through profit and loss

	2016	2015
	kEUR	kEUR
Book value 1/1	3,295	3,324
Realized gains / losses	-64	0
Unrealized gains / losses	0	-29
Sale	-3,231	0
Purchase	0	0
Book value 12/31	**0**	**3,295**

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

Fair value	12/31/16	12/31/15
	kEUR	kEUR
Due within one year	0	0
Due between one and five years	0	3,295
Due in more than five years	0	0
Total	**0**	**3,295**

* The amount refers to one perpetual bond which is callable by the issuer on a (semi-)annual basis. The group considers the redemption of the bond in the next financial year as unlikely.

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

OTHER FINANCIAL ASSETS [19]

Other financial assets consist of the following:

	12/31/16	12/31/15
	kEUR	kEUR
Deposits	188	310
Loans	0	0
Total	**188**	**310**

The maturities of the other financial assets as of the end of the period are as follows:

	12/31/16	12/31/15
	kEUR	kEUR
Due between one and five years	188	310
Due in more than five years	0	0
Total	**188**	**310**

CURRENT ASSETS

TRADE RECEIVABLES [20]

Trade receivables are initially measured at fair value and subsequently carried at amortized costs. Trade receivables consist of the following:

	12/31/16	12/31/15
	kEUR	kEUR
Trade receivables, gross	10,727	10,532
Provision for impairment of trade receivables	-611	-549
Trade receivables, net	10,116	9,983

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, 2016. For further information, please refer to Notes [3] and [42].

OTHER RECEIVABLES [21]

Other receivables consist of the following:

	12/31/16	12/31/15
	kEUR	kEUR
Value added tax receivables	202	172
Prepayments	196	100
Other	10	20
Total	**408**	**292**

INCOME TAX RECEIVABLES [22]

Income tax receivables include tax prepayments on capital gains of EUR 73k (2015: EUR 153k).

OTHER CURRENT FINANCIAL ASSETS [23]

Other current financial assets consist of the following:

	12/31/16	12/31/15
	kEUR	kEUR
Interest receivables	3	13
Loans	0	209
Other	135	75
Total	**138**	**297**

CASH AND CASH EQUIVALENTS [24]

The item includes bank balances, day-to-day investments, and cash in hand. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand of EUR 17,859k (2015: EUR 16,932k).

EQUITY

ISSUED CAPITAL [25]

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2016 (2015: 0 shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2015: 23,000,000) bearer shares each with a nominal value of EUR 0.05 and is fully paid in.

RESERVES [26]

The capital reserve mainly comprises the premium paid upon share issues. Furthermore, it also includes the expenses incurred for stock option plans.

TREASURY SHARES [27]

Purchase of treasury shares

By shareholders resolution of May 21, 2015, the ad pepper media group was authorized to repurchase treasury stock of up to 50 percent of the issued capital within the next 18 months. The Board of Directors made use of this authorization on February 1, 2016 and decided to buy back up to 690,000 shares.

As of December 31, 2016, the company held 2,119,292 treasury shares (2015: 1,539,292 treasury shares) at a nominal value of EUR 0.05 each, which equals 9.21 percent (2015: 6.69 percent) of the share capital. According to a shareholders resolution, those shares can be used for acquisitions or stock option plans.

Sale of treasury shares

110,000 shares were sold under the employee stock option plans (2015: 220,000) for EUR 109k (2015: EUR 176k). Furthermore, cash settlements amounting to EUR 889k for stock options occurred. This amount was posted as a deduction from equity within the item "own shares".

Number of shares outstanding

The number of shares issued and outstanding as of December 31, 2016 totalled 20,880,708 (2015: 21,460,708). Each share has a nominal value of EUR 0.05.

AUTHORIZED UNISSUED CAPITAL [28]

The authorized unissued capital totals EUR 21,485.40 (2015: EUR 21,485.40) and comprises 429,708 shares (2015: 429,708 shares).

OTHER RESERVES [29]

Other reserves include losses on available-for-sale securities of EUR 1,201k (2015: losses EUR 1,319k), taking into account deferred taxes of EUR 8k (2015: EUR 12k), and accumulated exchange differences of EUR -1,156k (2015: EUR -880k) from the translation of the financial statements of foreign subsidiaries.

The total other comprehensive income recognized directly in equity and the corresponding income taxes is as follows:

2016	before income taxes	income taxes	after income taxes
Currency translation differences	-277	0	-277
Revaluation of available-for-sale securities	136	-8	128
Realized gains / losses from available-for-sale securities	-10	0	-10
Total other comprehensive income	**-151**	**-8**	**-158**

2015	before income taxes	income taxes	after income taxes
Currency translation differences	8	0	8
Revaluation of available-for-sale securities	-176	12	-164
Realized gains / losses from available-for-sale securities	0	0	0
Total other comprehensive income	**-168**	**12**	**-156**

NON-CONTROLLING INTERESTS [30]

Non-controlling interests comprise non-controlling interests in two subsidiaries as at December 31, 2016 and 2015. They include non-controlling interests in ad agents GmbH and ad pepper media Spain S.A. These result from the acquisition of 60 percent of the shares in ad agents GmbH and from the sale of a 35 percent share in ad pepper media Spain S.A. in the past years.

The net income/loss for the year of ad agents GmbH and ad pepper media Spain S.A. is allocated proportionately to the non-controlling interests. In 2016, non-controlling interests in ad pepper media Spain S.A. received a dividend payment of EUR 114k (2015: EUR 0k), while non-controlling interests of ad agents GmbH received a dividend of EUR 166k (2015: EUR 0k).

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

CURRENT LIABILITIES

TRADE PAYABLES [31]

Trade payables include also accrued liabilities and are recognized at the settlement amount. Accrued liabilities for affiliate credits not yet disbursed in the Webgains segment amounts to EUR 9,716k (2015: EUR 9,387k).

OTHER LIABILITIES [32]

Other current liabilities consist of the following:

	12/31/16 kEUR	12/31/15 kEUR
Value added tax liabilities	957	992
Liabilities for payroll tax and social security contributions	320	262
Prepayments received	193	0
Total	**1,470**	**1,254**

OTHER FINANCIAL LIABILITIES [33]

Other financial liabilities consist of the following:

	12/31/16 kEUR	12/31/15 kEUR
Bonus and commissions	725	1,043
Employee holiday accrual	151	172
Accrued liabilities for outstanding invoices	645	547
Other	286	538
Total	**1,807**	**2,300**

RELATED PARTY DISCLOSURES [34]

Pursuant to the IAS 24 definition, the Board of Directors and members of the Supervisory Board have been identified as related parties. The compensation paid to all members of these boards is based exclusively on their functions as individuals in key positions. Further information about the compensation paid to these individuals can be found in Note [40].

LITIGATION AND CLAIMS [35]

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

CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS [36]

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 43k in financial year 2016 (2015: EUR 57k). Rental expense amounted to EUR 873k (2015: EUR 952k).

The future minimum payment obligations resulting from the contracts in place as of December 31, 2016 are as follows:

	2017	2018	2019	2020	2021	Thereafter	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Office rent	786	769	582	562	508	56	3,262
Car leases	38	34	7	0	0	0	80
Others	74	0	0	0	0	0	74
Total	**898**	**803**	**589**	**562**	**508**	**56**	**3,416**

SEASONAL INFLUENCES [37]

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

ADDITIONAL CASH FLOW INFORMATION [38]

The following information is provided to supplement the statement of cash flows: "Other non-cash expenses and income" comprise expenses for allocation to and income from the release of valuation allowances on trade receivables, and expenses from writing down receivables. Furthermore, this item also includes write-downs of affiliate credits not yet disbursed and reversals of time-barred claims.

STOCK OPTION PROGRAMS [39]

By doubling the number of options and halving the exercise price, all stock options programs mentioned below have been adjusted for the share split on May 27, 2009. Options granted under the "Ongoing Stock Option Plan" are subject to the following provisions:

The options are granted to employees of the ad pepper media group. Altogether, 1,000,000 shares have been reserved for the "Ongoing Stock Option Plan". The subscription ratio is one share per option right. The subscription price is based on the average share price on the Xetra exchange during the first ten trading days of May 2001 for the 2001 plan, or the first ten trading days in January for subsequent plans. Options can first be exercised when the share price has risen at least 10 percent above the subscription price, but no sooner than one year after the option has been granted. Options may be exercised in whole or in part in the three-week period after publication of the company's quarterly reports. As a rule, the stock options granted do not expire. However, the options expire if an employee terminates his or her employment contract or if the company terminates the employment for good cause.

In January 2003, the "Ongoing Stock Option Plan" for executives was replaced by the "Executive Stock Option Plan", the aim of which is to encourage executives to remain with the company. Under this plan, a non-recurring issue of options was granted to executives; the exercise price for these options is also based on the average share price during the first ten trading days in January. 10 percent of the options may be exercised in each of the following ten years. Pursuant to the resolution of the general meeting dated May 2, 2005, exercise of the executive stock options can in particular cases also be settled in cash at the request of the ad pepper media group.

In the years 2005 and 2006, option plans ("Executive SOP 2005" and "Executive SOP 2006") to tie employees in key positions to the company were issued. These options may be exercised over a period of four years at 25 percent each year. Similar to the other plans, the exercise prices for these options are based on the average share price during the first ten trading days before grant date. The volatility for Exec SOP 2005 was calculated from the development of the ad pepper media International N.V. share price between January 1, 2003 and September 30, 2005. The volatility for Executive SOP 2006 was calculated from the development of the ad pepper media International N.V. share price between January 1, 2003 and April 28, 2006. The option plans do not include an exercise hurdle, but can be exercised at the earliest one year after being granted.

An employee equity-participation program involving 1,220,000 options was launched for executive employees on May 15, 2008 ("Executive SOP 2008"). The valuation was carried out by simulation (Monte-Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between January 1, 2003 and April 30, 2008. Earlier values would have distorted the estimate of volatility. One quarter of the option rights can be exercised one year after they were granted at the earliest, another quarter another year after they were granted, and so on. The fair values of the individual tranches at the time of granting are between EUR 0.282 and EUR 0.5145 per issued option. The maximum cost of the program over the entire period is EUR 500k.

An employee equity-participation program involving 510,000 options was launched for the members of Board of Directors on August 20, 2013 (Executive SOP 2013 BoD). The valuation was carried out by simulation (Monte-Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between September 3, 2007 and August 20, 2013. One third of the option rights can be exercised one year after they were granted at the earliest, another third another year after they were granted, and so on. The fair values of the individual tranches at the time of granting are between EUR 0.237 and EUR 0.325 per issued option. The maximum cost of the program over the entire period is EUR 145k.

Furthermore, an employee equity-participation program involving 490,000 options was launched for executive employees on August 20, 2013 (Executive SOP 2013 MD). The valuation was carried out by simulation (Monte-Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between September 3, 2007 and August 20, 2013. One quarter of the option rights can be exercised one year after they were granted at the earliest, another quarter another year after they were granted, and so on.

The fair values of the individual tranches at the time of granting are between EUR 0.237 and EUR 0.350 per issued option. The maximum cost of the program over the entire period is EUR 147k.

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

	Ongoing SOP 2001	Ongoing SOP 2002	Ongoing SOP 2003	Ongoing SOP 2004	Executive SOP 2003	Executive SOP 2006	Executive SOP 2008	Executive SOP 2013 (BoD)	Executive SOP 2013 (MD)
Share price when granted, in EUR	1.30	0.65	0.89	2.22	0.89	3.80	1.40	0.80	0.80
Date of grant	5/18/01	1/15/02	1/15/03	1/16/04	1/15/03	1/16/06	5/15/08	8/20/13	8/20/13
Exercise price, in EUR	1.365	0.665	0.89	2.225	0.89	3.795	1.50	0.80	0.80
Risk-free interest rate, in percent	4.00	3.80	3.50	2.75	4.50	3.48	4.15	1.10	1.10
Estimated term, in years	4	1	1	1	10	4	10	7	7
Future dividend, in EUR	0	0	0	0	0	0	0.04 to 0.06	0.04 to 0.06	0.04 to 0.06
Estimated volatility, in percent	93	68	73	40	53	56	50	64.41	64.41

The average share price during 2016 was EUR 2.21 (2015: EUR 0.98). The personnel expenses recorded in the past financial year in connection with stock option programs granted on the basis of equity instruments amount to EUR 28k (2015: EUR 57k).

The following table shows the changes in the options during the financial year 2016:

	2016	2015	Exercise price
	Number	Number	EUR
Options at the beginning of the financial year (Ongoing SOP 2001)	20,000	20,000	1.365
Options at the beginning of the financial year (Ongoing SOP 2002)	400	400	0.665
Options at the beginning of the financial year (Executive SOP 2003)	332,000	332,000	0.890
Options at the beginning of the financial year (Ongoing SOP 2003)	800	800	0.890
Options at the beginning of the financial year (Ongoing SOP 2004)	3,200	3,200	2.225
Options at the beginning of the financial year (Executive SOP 2006)	10,000	10,000	3.795
Options at the beginning of the financial year (Executive SOP 2008)	97,500	137,500	1.500
Options at the beginning of the financial year (Executive SOP 2013 BoD)	310,000	510,000	0.800
Options at the beginning of the financial year (Executive SOP 2013 MD)	280,000	300,000	0.800
Options forfeited (Executive SOP 2008)	-40,000	-40,000	1.500
Options forfeited (Ongoing SOP 2002)	-400	0	0.665
Options forfeited (Ongoing SOP 2003)	-400	0	0.890
Options forfeited (Ongoing SOP 2004)	-1,200	0	2.225
Options forfeited (Executive SOP 2013)	-40,000	0	0.800
Options exercised (Executive SOP 2008)	-20,000	0	0.800
Options exercised (Executive SOP 2003)	-80,000	0	0.890
Options exercised (Executive SOP 2013 BoD)	-310,000	-200,000	0,800
Options exercised (Executive SOP 2013 MD)	-220,000	-20,000	0,800
Options at the end of the financial year	**341,900**	**1,053,900**	**0.665 – 3.795**
Weighted exercise price in EUR	1.072	0.937	
Exercisable options as of December 31	**331,900**	**633,200**	
Weighted exercise price in EUR	0.990	1.214	

Weighted exercise price of stock options exercised during 2016 amounts to EUR 0.814 (2015: EUR 0.80). Most of the stock option programs do not have an expiration date. Hence, it is not possible to calculate a weighted average remaining contractual life.

TOTAL REMUNERATION OF THE KEY MANAGEMENT [40]

	2016	2015
	kEUR	kEUR
Short-term employee benefits	753	636
Post-employment benefits (pensions and medical supply)	19	19
Share-based payments	12	35
Total remuneration of the key management	**783**	**690**

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

	Expiration	Exercise price	12/31/16	12/31/15
		EUR	Number	Number
2016	8/20/21	0.80	0	310,000

EVENTS AFTER THE BALANCE SHEET DATE [41]

On January 23, 2017, Dr. Ulrike Handel prematurely terminated her management board service agreement as of April 30, 2017 in accordance with the contractual stipulations and resigned from the Management Board as of February 28, 2017.

FINANCIAL INSTRUMENTS [42]

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

1. Capital risk management

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

Net indebtedness

The group manages its capital structure and makes adjustments to this, taking into account changes in the general economic environment. In order to maintain or adjust the capital structure, the group can make dividend payments or pay back capital to the shareholders, issue new shares or buy back its own shares. No changes in the objectives, guidelines and procedures were made as at December 31, 2016 compared to December 31, 2015. Negative net indebtedness means that the group is debt-free.

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

	12/31/16	12/31/15
	kEUR	kEUR
Current and non-current financial liabilities	13,827	15,917
Cash and cash equivalents	-17,859	-16,932
Securities and fixed-term deposits	-1,734	-5,505
Net liabilities	**-5,766**	**-6,520**
Equity per balance sheet including non-controlling interest	14,979	16,508
Net indebtedness, in percent	**-38**	**-39**

2. Significant accounting policies

The rent and similar deposits referred to in note [19], carried at their nominal amount of EUR 188k (2015: EUR 310k), are pledged as collateral for bank guarantees. The group does not hold any collateral for credit facilities.

Detailed information on the main accounting policies applied, including the recognition criteria, the measurement bases and the bases for the recognition of income and expenses, are presented separately for each category of financial assets, financial liabilities, and equity instruments in section [3].

3. Categories of financial instruments

Carrying amount per category of financial instruments:

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
At fair value through profit and loss		
Designated as at fair value through profit or loss	0	3,295
Loans and receivables (including cash and cash equivalents)	28,302	27,522
Available-for-sale financial assets	1,734	2,210
Total	**30,036**	**33,027**

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
Measured at amortized cost		
Financial instruments held-to-maturity	0	0
Loans and receivables (including cash and cash equivalents)	28,302	27,522
Total	**28,302**	**27,522**

Financial liabilities	12/31/16	12/31/15
	kEUR	kEUR
Other financial liabilities measured at amortized cost	14,165	15,917
Total	**14,165**	**15,917**

Due to the short term maturities of cash and cash equivalents, trade receivables and payables, current financial assets and liabilities, their respective fair values approximate their carrying amount. The fair values of non-current financial assets classified as available-for-sale or designated as at fair value through profit and loss are based on quoted prices in an active market or a fair value measurement is carried out.

Hierarchical classification of fair values of financial instruments pursuant to IFRS 7 as of December 31, 2016:

	Fair Value 12/31/16	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	0	0	0	0
Financial assets available-for-sale	1,734	1,734	0	0

The following tables present the fair value measurement methods for Levels 1 pursuant to IFRS 13:

Financial assets measured at fair value / Level 1

Level 1 is based on quoted prices in active markets for identical assets or liabilities.

Category	Type	Valuation method	Significant unobservable inputs
Financial assets available-for-sale	Bonds	The fair value is based on the market price of the bond as at December 31, 2016.	Not applicable

In the reporting period, there were no reclassifications between the hierarchical fair value levels.

No significant concentrations of credit risks existed on loans and receivables as of the reporting date. The reported carrying amount reflects the maximum credit risk of the group for such loans and receivables.

There have been no (accumulated) changes in the fair value due to changes in the credit risk during the reporting period. Credit derivatives to hedge loans and receivables designated as at fair value through profit or loss have not existed and do not exist.

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

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
At fair value through profit and loss		
Designated as at fair value through profit and loss	-64	-29
Total	-64	-29
Available-for-sale financial assets		
Realized gains	68	36
Reclassified from equity to profit and loss	10	0
Through other comprehensive income	136	-176
Total	**214**	**-140**
Held-to-maturity assets		
Realized losses	0	-3
Total	**0**	**-3**

Net gains and losses from financial liabilities amount to EUR 0k (2015: EUR 0k).

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

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
At fair value through profit and loss		
Designated as at fair value through profit and loss	35	167
Not at fair value through profit and loss	32	40
Measured at amortized costs	**0**	**8**
Total	**67**	**215**

Interest income and expenses from financial liabilities amount to EUR 0k (2015: EUR 0k).

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

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
At amortized cost	0	0
Not at fair value through profit and loss	0	0
Total	**0**	**0**

4. Objectives of financial risk management

The main financial liabilities used by the group comprise trade payables. The primary purpose of these financial liabilities is to finance the group's business activities. The group has available various financial assets, such as trade receivables, cash and securities, which result directly from its business activities.

Group management monitors and manages the financial risks of the group. These risks include the market risk (including exchange rate risks, interest rate-induced fair value risks and price risks), the credit risk, the liquidity risk and interest rate-induced cash flow risks. In addition, management decides on the utilization of derivative and non-derivative financial transactions and the deposit of surplus liquidity.

The group does not enter into any contracts with or deal in financial instruments, including derivative financial instruments, for speculative purposes.

5. Market risk

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

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

6. Exchange rate risk management

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

Financial assets	12/31/16	12/31/15
	kEUR	kEUR
USD	796	1,093
GBP	8,253	9,873
Total	**9,049**	**10,967**

Financial liabilities	12/31/16	12/31/15
	kEUR	kEUR
USD	613	1,138
GBP	6,814	7,548
Total	**7,427**	**8,686**

Foreign currency sensitivity analysis

The group is primarily exposed to the exchange rate risk from the currencies USD and GBP.

The following table shows the sensitivity from the point of view of the group of a 10 percent rise or fall in the EUR compared with the respective foreign currency. The 10 percent shift represents management's assessment with regard to a reasonable possible change in the exchange rate. The sensitivity analysis only includes outstanding monetary positions denominated in foreign currency and adjusts their translation at the end of the period to a 10 percent change in the exchange rates.

	Effect of USD +10% 12/31/16	Effect of USD +10% 12/31/15	Effect of GBP +10% 12/31/16	Effect of GBP +10% 12/31/15	Total 12/31/16	Total 12/31/15
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	-18	-21	-26	-107	-44	-128

	Effect of USD -10% 12/31/16	Effect of USD -10% 12/31/15	Effect of GBP -10% 12/31/16	Effect of GBP -10% 12/31/15	Total 12/31/16	Total 12/31/15
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	23	26	31	131	54	157

7. Interest rate risk management

The group is exposed to interest rate risks because the group parent company invests funds at fixed and floating interest rates. The risk is managed by the group by maintaining an appropriate relationship between floating and fixed investments of funds.

The interest rate risk on financial assets and financial liabilities is discussed in detail in the section on control of the liquidity risk.

Interest rate sensitivity analysis

The sensitivity analyses described below were determined on the basis of the interest rate risk exposure on non-derivative financial instruments at the balance sheet date.

For investments in funds at floating interest rates, the analysis is prepared on the assumption that the funds invested at the balance sheet date were invested throughout the year.

An increase or decrease in the interest rate by 50 basis points is assumed for the interest rate risk. This represents management's assessment with regard to a justified, possible change in the level of interest rates. If the interest rate had been 50 basis points higher (lower) and all other variable had remained constant:

- The net income for the year ended December 31, 2016 would have decreased/increased by EUR 0k/EUR 0k (2015: decreased/increased by EUR 46k/EUR 46k). This is due to changes in the fair value of securities at fair value through profit and loss.
- The equity of the group would have decreased/increased by EUR 52k/EUR 64k (2015: increased/decreased by EUR 71k/ EUR 96k). This is due to changes in the fair value of available-for-sale financial assets.

The interest rate sensitivity of the group decreased during the past reporting period.

8. Credit risk management

Credit risk is the risk of a loss for the group if a contractual party does not comply with its contractual obligations. Business relationships are only entered into with creditworthy contractual parties, and, as appropriate, obtaining collateral, to reduce the risk of a loss through the non-fulfillment of obligations. The group only enters into business relationships with entities that are rated with or better than "investment grade". If such information is not available, the group makes use of other available financial information and its own trading records in order to evaluate its major customers. The risk exposure of the group and the credit ratings are continuously monitored. Trade receivables exist with a large number of customers spread over various sectors and geographical territories. Continuous credit assessments are carried out with regard to the financial condition of the receivables.

The group is not exposed to any significant credit risks relating to a single contractual party or a group of contractual parties with similar characteristics. The group defines contractual parties as those with similar characteristics if they are related parties. The concentration of credit risk from customer relationships did not exceed 7.4 percent (2015: 6.7 percent) of the financial gross asset values at any time during the reporting period. The credit risk on liquid funds securities which are not impaired is low because the contractual parties are banks and their subsidiaries with good to excellent credit ratings on issuance date. The carrying amount of the financial assets included in the consolidated financial statements less any impairment losses represents the group's maximum credit risk. Any collateral possibly held is ignored. An account for specific allowances is only maintained for the class of "loans and receivables" for the trade receivables and loans granted that are included therein.

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

	2016	2015
	kEUR	kEUR
Specific allowances		
Balance at beginning of year	549	544
Allowances in the period		
Additions	283	154
Reversals	-7	-121
Consumption	-214	-26
Balance at end of period	**611**	**549**

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

	Total	Not overdue	Up to 120 days overdue but not yet impaired
	kEUR	kEUR	kEUR
2016	10,197	6,191	4,006
2015	10,012	6,474	3,539

The analysis of impaired financial assets for the relevant class of "loans and receivables" shows that allowances were set up on a gross receivables amount of EUR 869k (2015: EUR 839k).

9. Liquidity risk management

The group monitors the risk of a shortage of liquidity on a continuous basis with the help of a liquidity planning tool. This tool takes into account the maturities of the financial investments and the financial assets (e.g. receivables, other financial assets) and the expected cash flows from operating activities. The group's aim is to maintain a balance between the continuous coverage of the funding requirement and the necessity for flexibility.

The maturities of the financial liabilities of the group as at December 31, 2016 are presented below. The information is based on contractual, undiscounted payments.

Financial liabilities 12/31/16	< 1 mo.	> 1 mo., < 3 mo.	3 mo. to 1 year	Total
	kEUR	kEUR	kEUR	kEUR
Trade payables	12,213	144	0	12,357
Other financial liabilities measured at amortized cost	932	699	177	1,808
Total	**13,145**	**843**	**177**	**14,165**

Financial liabilities 12/31/15	< 1 mo.	> 1 mo., < 3 mo.	3 mo. to 1 year	Total
	kEUR	kEUR	kEUR	kEUR
Trade payables	13,504	114	0	13,618
Other financial liabilities measured at amortized cost	1,095	1,013	192	2,300
Total	**14,599**	**1,127**	**192**	**15,918**

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Amsterdam/Nuremberg, March 17, 2017

The Board of Directors of ad pepper media International N.V. comprised the following members in the financial year 2016:

Dr. Ulrike Handel, CEO
(resigned from the Management Board as of February 28, 2017)
Hamburg, Germany

Dr. Jens Körner, CFO
Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in the financial year 2016 consisted of:

Michael Oschmann (Chairman)
Thomas Bauer
Eun-Kyung Park
Dr. Stephan Roppel

STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY AD PEPPER MEDIA INTERNATIONAL N.V.

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BALANCE SHEET OF THE HOLDING COMPANY – ASSETS (BEFORE THE PREPARATION OF RESULT)

	Note	12/31/16 kEUR	12/31/15 kEUR
Non-current assets			
Intangible assets	[2]	157	167
Tangible assets	[3]	11	26
Financial fixed assets	[4]	2,767	2,370
Marketable securities	[5]	1,734	5,504
Total non-current assets		**4,669**	**8,067**
Current assets			
Trade accounts receivables		0	3
Receivables due from subsidiaries	[6]	1,228	1,927
Prepaid expenses and other current assets	[7]	148	235
Cash and cash equivalents	[8]	9,546	7,353
Total current assets		**10,922**	**9,518**
Total assets		**15,591**	**17,585**

BALANCE SHEET OF THE HOLDING COMPANY – EQUITY AND LIABILITIES (BEFORE THE PREPARATION OF RESULT)

	Note	12/31/16 kEUR	12/31/15 kEUR
Shareholders' equity	[9]		
Issued capital		1,150	1,150
Additional paid-in capital		66,438	66,410
Accumulated deficit		-51,573	-49,322
Other reserves		-2,356	-2,199
Net results for the year		629	-33
Total equity		**14,289**	**16,005**
Provisions			
Subsidiaries and loans	[4]	216	619
Total provisions		**216**	**619**
Non-current liabilities			
Deferred tax liabilities		91	84
Total non-current liabilities		**91**	**84**
Current liabilities			
Other current liabilities	[10]	709	610
Accrued expenses		286	267
Total current liabilities		**995**	**877**
Total liabilities		**1,086**	**961**
Total equity and liabilities		**15,591**	**17,585**

PROFIT AND LOSS ACCOUNT OF THE HOLDING COMPANY

	Note	1/1-12/31/16 kEUR	1/1-12/31/15 kEUR
Net turnover	[6]	216	248
Gross profit		216	248
Selling and marketing expenses		-697	-1,039
General and administrative expenses		-1,914	-1,981
Other operating expenses		-7	-61
Total costs		**-2,618**	**-3,081**
Net sales margin		**-2,402**	**-2,833**
Other operating income		1,544	1,520
Interest income		146	282
Interest expenses		-64	-68
Gain on sale of shares in subsidiaries		0	386
Result before taxes		**-776**	**-712**
Taxes		-2	-97
Share in profit of subsidiaries and participations		1,407	777
Net result for the year		**629**	**-33**

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE HOLDING COMPANY

	Issued capital	Additional paid-in capital		Accumulated deficit	Legal and other reserves		Net income/ (loss)	Total
		For employee stock option plans	From contributions of shareholders of the parent company		Currency translation differences	Market valuation of available-for-sale financial instruments		
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance at 1/1/16	**1,150**	**2,628**	**63,782**	**-49,322**	**-880**	**-1,319**	**-33**	**16,005**
Currency translation differences	0	0	0	0	-276	0	0	-276
Revaluation equity instruments	0	0	0	0	0	0	0	0
Unrealised gains/(losses) on securities	0	0	0	0	0	118	0	118
Total income and expense for the year recognised directly in equity	0	0	0	0	-276	118	0	-158
Net income for the year	0	0	0	0	0	0	629	629
Total recognised income and expense for the year	0	0	0	0	-276	118	629	472
Allocation to accumulated deficit	0	0	0	-33	0	0	33	0
Stock-based compensation	0	28	0	0	0	0	0	28
Purchase of treasury shares	0	0	0	-1,437	0	0	0	-1,437
Sale of treasury shares	0	0	0	109	0	0	0	109
Cash settlement of SOP's	0	0	0	-899	0	0	0	-889
Balance at 12/31/16	**1,150**	**2,656**	**63,782**	**-51,573**	**-1,156**	**-1,201**	**629**	**14,289**

	Issued capital	Additional paid-in capital		Accumulated deficit	Legal and other reserves		Net income/ (loss)	Total
		For employee stock option plans	From contributions of shareholders of the parent company		Currency translation differences	Market valuation of available-for-sale financial instruments		
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance at 1/1/15	**1,150**	**2,571**	**63,782**	**-44,067**	**-888**	**-1,155**	**-5,432**	**15,961**
Currency translation differences	0	0	0	0	8	0	0	8
Revaluation equity instruments	0	0	0	0	0	0	0	0
Unrealised gains/(losses) on securities	0	0	0	0	0	-164	0	-164
Total income and expense for the year recognised directly in equity	0	0	0	0	8	-164	0	-156
Net income for the year	0	0	0	0	0	0	-33	-33
Total recognised income and expense for the year	0	0	0	0	8	-164	-33	-189
Allocation to accumulated deficit	0	0	0	-5,432	0	0	5,432	0
Stock-based compensation	0	57	0	0	0	0	0	57
Purchase of treasury shares	0	0	0	0	0	0	0	0
Sale of treasury shares	0	0	0	176	0	0	0	176
Balance at 12/31/15	**1,150**	**2,628**	**63,782**	**-49,322**	**-880**	**-1,319**	**-33**	**16,005**

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

NOTES TO THE STATUTORY FINANCIAL STATEMENTS OF THE HOLDING COMPANY

[1] Basis of preparation and significant accounting policies

The Company Financial Statements have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code. In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code. The same accounting principles may be applied in the company's financial statement and the consolidated financial statements. The Holding Company's financial data is included in the consolidated financial statements. The notes to the company's balance sheet and income statement are limited to items that differ from the corresponding items in the consolidated financial statements and that are of material significance.

The Holding Company applies the acquisition method to account for acquiring subsidiaries, consistent with the approach identified in the consolidated financial statements. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred by the Holding Company, liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Holding Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date, and are subsumed in the net asset value of the investment in consolidated subsidiaries. Acquisition-related costs are expensed as incurred.

Investments in consolidated subsidiaries are measured at net asset value. Net asset value is based on the measurement of assets, provisions and liabilities, and determination of profit based on the principles applied in the consolidated financial statements.

When an acquisition of an investment in a consolidated subsidiary is achieved in stages, any previously held equity interest is remeasured to fair value on the date of acquisition. The remeasurement against the book value is accounted for in the income statement.

When the Holding Company ceases to have control over a subsidiary, any retained interest is remeasured to its fair value, with the change in carrying amount to be accounted for in the income statement.

When parts of investments in consolidated subsidiaries are bought or sold, and such transaction does not result in the loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold is directly recognized in equity.

Unrealized gains on transactions between the Holding Company and its investments in consolidated subsidiaries are eliminated in full, based on the consolidation principles.

The Holding Company Financial Statements are presented in EUR, which is the Holding Company's functional currency. The amounts are in thousands of EUR (rounded to the nearest thousand), unless otherwise stated. There have been no changes to the accounting policies of the Holding Company. Due to rounding up or down, individual figures may not add up exactly to the totals stated.

[2] Intangible assets

	Goodwill	Trade-marks	Software	Total
	kEUR	kEUR	kEUR	kEUR
Book value at 1/1/15	**24**	**7**	**269**	**300**
Additions	0	0	5	5
Disposals	0	0	-20	-20
Amortization	0	-1	-93	-94
Impairment	-24	0	0	-24
Book value at 12/31/15	**0**	**6**	**161**	**167**
Purchase value	24	644	1,439	2,107
Accumulated amortization	-24	-638	-1,278	-1,940
Book value at 1/1/16	**0**	**6**	**161**	**167**
Additions	0	0	92	92
Disposals	0	0	0	0
Amortization	0	-1	-100	-101
Book value at 12/31/16	**0**	**5**	**152**	**157**
Purchase value	0	644	1,530	2,174
Accumulated amortization	0	-639	-1,378	-2,017
Book value at 12/31/16	**0**	**5**	**152**	**157**

Intangible assets are amortized over a useful life of three years.

[3] Tangible assets

	2016	2015
	kEUR	kEUR
Book value at 1/1	**26**	**50**
Additions	1	4
Disposals	0	-7
Depreciation	-16	-21
Book value at 12/31	**11**	**26**
Purchase Value	575	574
Accumulated depreciation	-564	-548
Book value at 12/31	**11**	**26**

The depreciation percentages used for tangible assets vary from 12.5 percent to 33.3 percent.

[4] Financial fixed assets

	12/31/16	12/31/15
	kEUR	kEUR
Subsidiaries at net asset value	2,741	1,984
Loans to subsidiaries	0	340
Other	26	46
Total	**2,767**	**2,370**

The movements during the year are as follows:

	Subsidiary companies			
	Invest-ments	Loans	Financial assets including invest-ments	**Total**
	kEUR	kEUR	kEUR	kEUR
Book value at 1/1/15	**-217**	**1,492**	**46**	**1,321**
Additions	0	154	0	154
Disposal and dividends	-892	0	0	-892
Share of net profit	777	0	0	777
Investments in subsidiaries	1,693	-1,306	0	386
Translation adjustments	6	0	0	6
Book value at 1/1/16	**1,366**	**340**	**46**	**1,752**
Additions	0	0	0	0
Revaluations	0	0	0	0
Impairment	0	0	0	0
Disposal Dividends	-460	0	0	-460
Repayments	0	-340	-20	-360
Share of net profit	1,407	0	0	1,407
Investments in subsidiaries	491	0	0	491
Translation adjustments	-279	0	0	-279
Book value at 12/31/16	**2,525**	**0**	**26**	**2,551**

Investments in subsidiary companies consist of the following:

	12/31/16	12/31/15
	kEUR	kEUR
Subsidiaries at net asset value	2,741	1,984
Provisions for subsidiaries and loans	-216	-618
Total	**2,525**	**1,366**

On November 30, 2016 ad pepper media UK Ltd was merged with Webgains Ltd with effect of November 30, 2016.

[5] Marketable securities

The marketable financial assets as of December 31, 2016 consist of available-for-sale securities.

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

Available-for-sale securities – non-current

In the reporting year, available-for-sale securities were acquired for EUR 1,412k (2015: EUR 0k) and sold for a total of EUR 2,092k (2015: EUR 0k).

In the reporting period, unrealized gains of EUR 136k (2015: losses of EUR 176k) were recognized in other comprehensive income and loss, and realized gains of EUR 78k (2015: gains EUR 0k) included in profit and loss.

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

	12/31/16	12/31/15
	kEUR	kEUR
Due within one year	1,734*	1,591*
Due within one and five years	0	619
Due in more than five years	0	0
Total	**1,734**	**2,210**

* The amount refers to one perpetual bond which is callable on a (semi-)annual basis.

Fair value through profit and loss securities – non-current

In the reporting period, securities at fair value through profit and loss were acquired for EUR 0k (2015: EUR 0k) and sold for a total of EUR 3,231k (2015: EUR 0k).

The unrealized revaluation losses incurred in the financial year amount to EUR 0k (2015: unrealized revaluation losses of EUR 29k) with realized losses of EUR 64k (2015: realized gains EUR 0k).

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

	12/31/16	12/31/15
	kEUR	kEUR
Due within one year	0	0
Due within one and five years	0	3,295
Due in more than five years	0	0
Total	**0**	**3,295**

[6] Group companies

The receivables from group companies mature within one year. Net turnover consists only of licence fees charged to subsidiaries.

[7] Prepaid expenses and other current assets

	12/31/16	12/31/15
	kEUR	kEUR
Tax receivables	73	165
Other	75	70
Total	**148**	**235**

[8] Cash and cash equivalents

No restrictions to cash exist at balance sheet date.

[9] Shareholders' equity

Issued capital

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2016 (2015: no new shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2015: 23,000,000) bearer shares each with a nominal value of EUR 0.05.

Additional paid-in capital

Proceeds from the issuance of shares increased the additional paid-in capital by the amount by which they exceeded the par value of the shares. Furthermore, it also includes expenses incurred for stock option plans.

Treasury shares

Purchase of treasury shares

By shareholders resolution of May 21, 2015, ad pepper media International N.V. was authorized to repurchase treasury stock of up to 50 percent of the issued capital within the next 18 months. The Board of Directors made use of this authorization on February 1, 2016 and decided to buy back up to 690,000 shares.

As of December 31, 2016, the company held 2,119,292 treasury shares (2015: 1,539,292 treasury shares) at a nominal value of EUR 0.05 each, which equals 9.21 percent (2015: 6.69 percent) of the share capital. According to a shareholders resolution, those shares can be used for acquisitions or stock option plans.

The overall amount deducted from the accumulated deficit reflecting the value of treasury shares is EUR 5,322k (2015: EUR 3,105k).

Number of shares outstanding

The number of shares issued and outstanding as of December 31, 2016 totalled 20,880,708 (2015: 21,460,708). Each share has a nominal value of EUR 0.05.

Authorized unissued capital

The authorized unissued capital totals EUR 21,485.40 (2015: EUR 21,485.40) and comprises 429,708 shares (2015: 429,708 shares).

Other reserves

Balances include valuations on available-for-sale securities of EUR -1,201k (2015: EUR -1,319k) and currency translation differences of EUR -1,156k (2015: EUR -880k).

[10] Other current liabilities

The other current liabilities comprise mainly bonus accruals.

[11] Contingent liabilities

Contingent liabilities mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 20k in financial year 2016 (2015: EUR 30k). Rental expense amounted to EUR 92k (2015: EUR 78k).

The future minimum payment obligations resulting from the contracts for real estate and car leases in place as of December 31, 2016 are as follows:

	2016
	kEUR
Not later than 1 year	164
Later than 1 year and not later than 5 years	18
Later than 5 years	0

[12] Employee information

At the end of the financial year, the company employed 14 people (2015: 13). All employees are employed outside the Netherlands.

	2016	2015
	kEUR	kEUR
Wages and salaries	1,195	1,363
Stock option expenses	29	57
Social security costs	144	149
Voluntary employment expenses	3	10
Total	**1,371**	**1,579**

These costs are included in the cost of sales, selling expenses, and general and administrative expenses. Pension costs included in social security costs amount to EUR 52k (2015: EUR 57k).

The average number of personnel employed during the year was:

	2016	2015
	FTE's	FTE's
Business development	2	2
Marketing	1	0
Administration	11	11
Total	**14**	**13**

[13] Information relating to the Managing Directors and Supervisory Board

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

	2016	2015
	kEUR	kEUR
Managing Directors	772	655
Supervisory Board Members	24	24
Total	**796**	**679**

No other than the following board remuneration were charged to the company in the year under review, especially no long-term bonuses and pension payments. The bonus payments are subject to the attainment of earnings before tax-goal. The targets have been achieved.

Remuneration of managing and supervisory directors also includes remuneration on behalf of the subsidiaries.

Remuneration of the Management Board (2016)	Periodically paid	Annual bonus	Stock-based	Total
	EUR	EUR	EUR	EUR
Dr. Ulrike Handel (CEO)	240,000	150,724	179,101	569,825
Dr. Jens Körner (CFO)	230,000	150,724	357,688	738,412

Remuneration of the Management Board (2015)	Periodically paid	Annual bonus	Stock-based	Total
	EUR	EUR	EUR	EUR
Dr. Ulrike Handel (CEO)	240,000	105,000	21,000	366,000
Dr. Jens Körner (CFO)	210,000	100,000	14,000	324,000

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

Share options outstanding to Board Members

The principal conditions and other important data can be found in Note [39] to the consolidated financial statements.

	Grant date	Share options granted	Exercise price (EUR)	Number of options outstanding as of December 31, 2016	Number of options outstanding as of December 31, 2015
Dr. Ulrike Handel (CEO)	August, 2013	300,000	0.80	0	100,000
Dr. Jens Körner (CFO)	August, 2013	210,000	0.80	0	210,000

Supervisory Board compensation

	2016	2015
	kEUR	kEUR
Michael Oschmann	6	6
Thomas Bauer	6	6
Eun-Kyung Park	6	6
Dr. Stephan Roppel	6	6
Total	**24**	**24**

Directors' holdings

Management Board	Shares	Options	Shares	Options
	2016	2016	2015	2015
Dr. Ulrike Handel (CEO)	200,000	0	200,000	100,000
Dr. Jens Körner (CFO)	0	0	0	210,000

The members of the Supervisory Board do not hold any stock options or shares (2015: none).

Associated companies

Associated companies	Shares	Options	Shares	Options
	2016	2016	2015	2015
EMA B.V.	9,486,402	0	9,486,402	0
Euro Serve Media GmbH	436,963	0	436,963	0

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

[14] Independent auditor's fees

2016	Fee PricewaterhouseCoopers Accountants N.V.	Fee other PricewaterhouseCoopers offices	Total fee PricewaterhouseCoopers
	kEUR	kEUR	kEUR
Audit of financial statements	40	112	152
Total	**40**	**112**	**152**

2015	Fee PricewaterhouseCoopers Accountants N.V.	Fee other PricewaterhouseCoopers offices	Total fee PricewaterhouseCoopers
	kEUR	kEUR	kEUR
Audit of financial statements	40	105	145
Total	**40**	**105**	**145**

The Board

Dr. Jens Körner
(Chief Financial Officer)

Amsterdam, March 17, 2017

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Appropriation of net results

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.

Appropriation of result for the financial year 2015

The Annual Report 2015 was adopted in the general meeting of shareholders held on May 10, 2016. The general meeting of share-holders has determined the appropriation of result in accordance with the proposal being made to that end.

Proposed appropriation of result for the financial year 2016

The Board of Directors proposes, with the approval of the Supervisory Board, that the result for the financial year 2016 amounting to EUR 629k should be transferred to accumulated deficit without payment of dividend.

The financial statements do reflect this proposal.

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of ad pepper media International N.V.

REPORT ON THE FINANCIAL STATEMENTS 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of ad pepper media International N.V., Amsterdam ('the company'). The financial statements include the consolidated financial statements of ad pepper media International N.V. and its subsidiaries (together: 'the group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2016;
- the following statements for 2016: the consolidated income statement and the consolidated statement of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at December 31, 2016;
- the company profit and loss account for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

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The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of ad pepper media International N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

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

Our audit approach

Overview and context

ad pepper media International N.V. is an international provider of interactive products and services for websites and advertisers. The group comprises of several components and therefore we considered our group audit scope and approach as set out in the scope of our group audit section. We paid specific attention to the areas of focus driven by the operations of the company, as set out below.

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

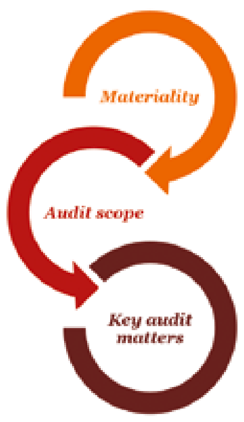
Total revenues of the group amount to EUR 61,164,000 which represents an increase of 9.2 % compared to the previous year. We consider revenue to be an important benchmark for materiality and regarding this we refer to the Materiality section below.

72 % of total revenues relate to the Webgains segment. Revenue recognition for the Webgains segment is based on records done by the Webgains platform – a self-developed IT platform which records all transactions and calculates automatically the revenue and costs of sale based on the parameters contracted with the customers. Due to the relative importance of the segment and the Webgains platform, we identified dependency on the Webgains IT platform for recognition of revenues as a key audit matter.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the board of directors that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of the financial statement of a company such as ad pepper media International N.V. that is highly dependent on a self-developed IT platform (Webgains). We therefore included IT specialists (risk assurance) in our team.

The outlines of our audit approach were as follows:



Materiality
- Overall materiality: EUR 600,000, which represents 1.0 % of total revenue

Audit scope
- We conducted audit work in three locations covering 7 components.
- Site visits were conducted in Germany and United Kingdom.
- Audit coverage: 99.9 % of consolidated revenue and 94.2 % of consolidated total assets.

Key audit matter
- Dependency on Webgains IT platform for recognition of revenues

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing, and extent of our audit procedures on the individual financial statement line items, and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	EUR 600,000 (2015: EUR 560,000).
How we determined it	1.0 % of total revenues.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. Because profit before tax has fluctuated over the past years, stakeholders are assessing the performance of this company based on revenues.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between EUR 400,000 and EUR 590,000. Certain components were audited at a local statutory audit materiality that was also less than our overall group materiality.

We also take misstatements and / or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above EUR 30,000 (2015: EUR 24,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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The scope of our group audit

ad pepper media International N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of ad pepper media International N.V.

The group audit focussed on the significant components:

- ad pepper media International N.V. (holding company, in the Netherlands)
- ad pepper media GmbH (Germany)
- ad agents GmbH (Germany)
- Webgains Ltd. (UK)

Three components, ad pepper media GmbH (Germany), ad agents GmbH (Germany), and Webgains Ltd (UK) were subjected to audits of their complete financial information as those components are individually significant to the group. ad pepper media International N.V. was subject to specific risk-focussed audit procedures as it included higher risk areas as share options and financial securities. Additionally, three components were selected for audit procedures as the revenue per component is material for the consolidated financial statements.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	99.9 %
Total assets	94.2 %
Profit before tax	98.9 %

None of the remaining components represented more than 1 % of total group revenue or 3 % of total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group engagement team visited the components in Germany and UK and used the assistance of local audit firms.

The group consolidation, financial statement disclosures, share based payments and financial securities were audited by the group engagement team at the head office.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, but they are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

The key audit matter 'Dependency on Webgains IT platform for recognition of revenues' is similar in nature to the key audit matter we reported in 2015 due to the nature of the company's business and its environment.

Key audit matter	How our audit addressed the matter
Dependency on Webgains IT platform for recognition of revenues (refer to note 3 "revenue recognition" and note 5 for the "Webgains segment") Total revenues relating to the Webgains segment amounted to EUR 43,902,000 (72 % of total revenues; 2015: 73 % of total revenues) generated in several geographic areas. Given the relative high amount Webgains revenue represents to total revenue, we considered the Webgains segment as the most significant revenue stream of the group. Furthermore, the Webgains platform is a complex, self-developed IT platform that records all transactions and calculates automatically the revenue amount based on the parameters contracted with the customers inserted into the platform. The recognition of Webgains-related revenues is highly automated and is dependent on the configuration of that platform. Considering the importance of the Webgains revenues in the financial statement and the dependency on the IT platform, any inaccuracies with respect to the IT platform may result in a material misstatement in the financial statements. We therefore consider this to be an important matter of our audit.	Our audit procedures included an assessment of the processes in the Webgains segment and identifying and testing of operational effectiveness of the internal controls. We worked together with our IT specialists who audited IT general controls, automated as well as IT dependent application controls implemented in the Webgains processes. We determined that we could rely on the data provided by the Webgains platform and on these controls for the purpose of our audit. We have performed test of details on revenue transactions vouching the transactions on a sample basis to underlying contracts, invoices, the system trail for delivery and subsequent payments. We performed confirmations procedures for accounts receivable balances. We also performed substantive analytical audit procedures on revenues, using independent expectations. We found no material exceptions in these tests.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the letter from board of directors;
- the report of the supervisory board;
- the governance;
- the share;
- the business activity;
- the economic development;
- the risk report;
- the responsibility statement;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.
- the at a glance.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Our appointment

We were appointed as auditors of ad pepper media International N.V. on May 10, 2016 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on May 10, 2016 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of four years.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the board of directors and the supervisory board for the financial statements

The board of directors is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the board of directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going-concern basis of accounting unless the board of directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing, and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, March 17, 2017
PricewaterhouseCoopers Accountants N.V.

drs. J.W. Middelweerd RA

APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2016 OF AD PEPPER MEDIA INTERNATIONAL N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Concluding on the appropriateness of the board of directors' use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements, we are responsible for the direction, supervision, and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and that we have communicated to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

AT A GLANCE

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ADDRESSES

The ad pepper media group subsidiaries operate in the following countries:

ad pepper media International N.V.

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Frankenstraße 150 C
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NL-1097 JB Amsterdam

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NL-1000 AZ Amsterdam

France

Webgains c/o ad pepper media France S.A.R.L.
92 rue de Richelieu
F-75002 Paris
Phone: +33 1 58562929
Fax: +33 1 58562928

Germany

ad pepper media GmbH
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Frankenstraße 150 C
D-90461 Nuremberg
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Fax: +49 (0) 911 929057-157

ad agents GmbH
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D-71083 Herrenberg
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90461 Nuremberg
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Fax: +49 (0) 911 929057-157

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Fax: +34 914 177456

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DATES AND CONTACTS

Company calendar

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

Annual Report 2016	March 28, 2017
Annual General Meeting (Amsterdam, The Netherlands)	May 16, 2017
Quarterly Report I/2017	May 19, 2017
Quarterly Report II/2017	August 16, 2017
Quarterly Report III/2017	November 15, 2017

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Disclaimer

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

We will gladly send you our 2016 Annual Report as well as the Interim Financial Reports for 2016.

These reports are also published as PDF files at **www.adpeppergroup.com** under:
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