ad pepper group
digital pioneers since 1999

ANNUAL REPORT

2017

ad pepper

WEBGAINS

ad agents

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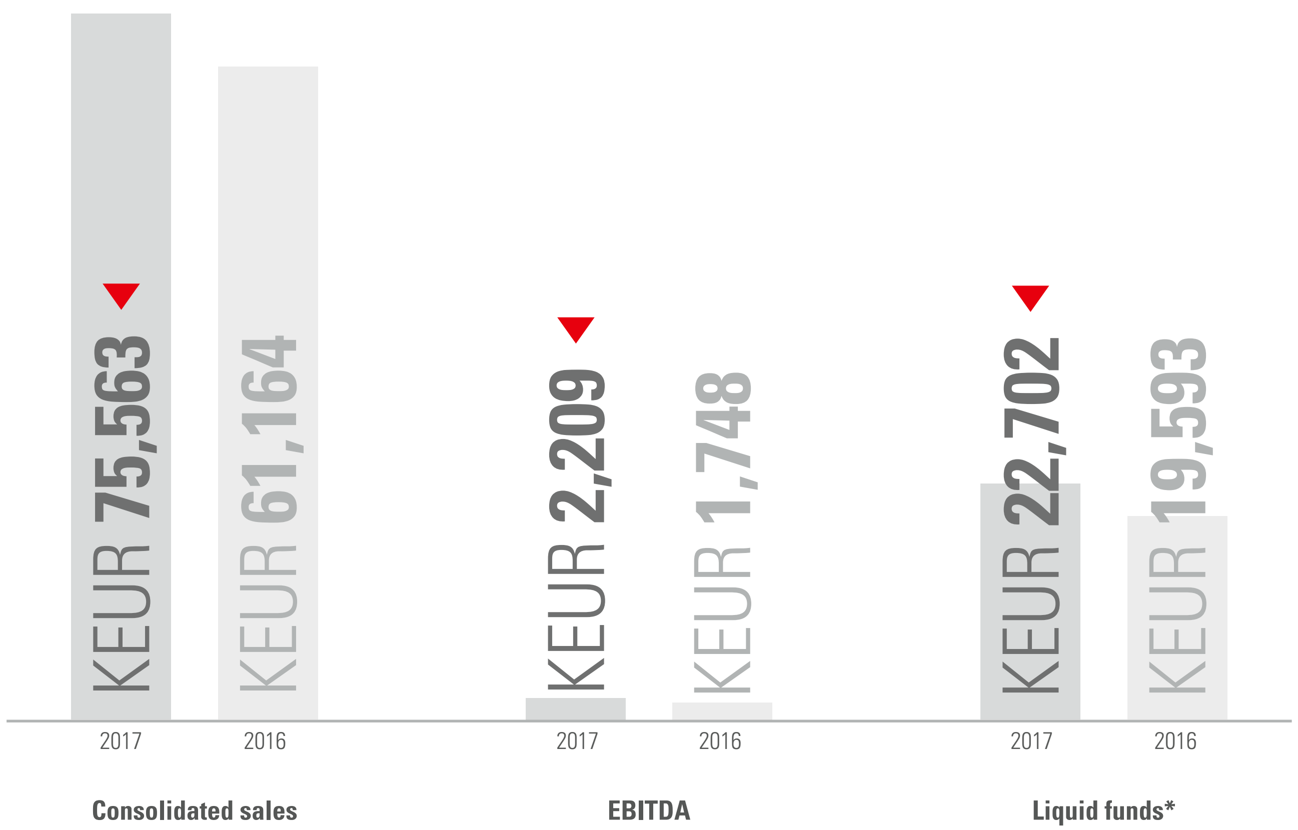
» KEY FIGURES AT A GLANCE

	2017	2016
Consolidated sales (kEUR)	75,563	61,164
Gross profit (kEUR)	18,348	16,088
Gross margin (Percent)	24.3	26.3
EBITDA (kEUR)	2,209	1,748
EBIT (kEUR)	1,817	1,608
EBT (kEUR)	1,800	1,691
Net earnings (kEUR)	1,136	1,096
Earnings per share (basic, EUR)	0.03	0.03
Total assets (kEUR)	38,615	31,378
Shareholders' equity (kEUR)	16,517	14,979
Equity ratio (Percent)	42.8	47.7
Liquid funds* (kEUR)	22,702	19,593
Number of employees** (as of December 31)	200	171



*including securities measured at fair value
**calculated on a full-time/actual working units basis

01

LETTER FROM BOARD OF DIRECTORS

» DEAR SHAREHOLDERS, FRIENDS, AND PARTNERS OF OUR COMPANY,

we can look back on a great and eventful year. With record sales of EUR 75,563k and EBITDA of EUR 2,209k, 2017 was again the most successful financial year in our company's history - despite significant investments in personnel, technology and infrastructure. Upon publication of the results for the period ending September 30, 2017, we had raised our full-year guidance to sales of at least EUR 70 million and an EBITDA of at least EUR 1,500k. We have also exceeded this target. All three operating segments posted double-digit growth and contributed to these excellent results.

The improved performance we see today is largely based on a strategy shift resolved upon already at the end of 2014 and executed in the course of the following year. A central aspect of this shift was the implementation of a decentralized structure with a cost-efficient holding under which the Company's operating segments were allowed significant decision-making autonomy within the ad pepper Group's strategic framework and internal financial and compliance controls. This structure is still in place today and has allowed for substantial growth and value creation.

All operating segments with double-digit growth

The Group is therefore organized around a lean Holding Company structure with three operating segments: ad agents, Webgains, and ad pepper media. Sales in the ad agents segment grew by 44.5 percent, or EUR 5,348k, to a total of EUR 17,354k, thus also clearly exceeding the EUR 15 million mark for the first time. With EBITDA of EUR 1,258k, ad agents posted its best results in the company's history despite significant investments. The Webgains segment also set new records. Sales here grew by 17.1 percent, or EUR 7,506k, to a new record figure of EUR 51,399k. This segment thus accounted for 68.0 percent of sales at the overall ad pepper media group. With EBITDA of EUR 1,308k, the Webgains segment also reported a very good result given the significant investments in personnel and infrastructure. Finally, our third operating segment ad pepper media grew by 29.6 percent, or EUR 1,553k, to EUR 6,810k. EBITDA came to EUR 972,9 or an EBITDA margin of 14.3 percent, making it the most profitable segment of the Group. As one can clearly see, also in the past year, we saw an ongoing trend of shifting marketing budgets to digital advertising and performance-based platforms. The ad pepper media group could benefit over-proportionally from this trend.

A pioneer in online marketing

Founded in 1999, the ad pepper media group is a pioneer in online marketing and we are well aware of how fundamentally digital is transforming society. For some time now, we have been building the know-how and talent to respond effectively and efficiently. Digital is changing not just how companies operate but also our relationships with partners, suppliers, and the people who buy products online. It requires attention and investment to enable us to seize opportunities.

The rapid evolution of digital platforms has created unparalleled opportunities for marketers who are focusing on digital marketing. Corporations worldwide are increasingly allocating a significant amount of their marketing budgets to digital marketing as they are seeing a measurable return on investment (ROI) on their digital marketing. Alongside this megatrend towards a further acceleration in the digitization of consumer behavior, we have also built the foundation for future growth by initiating new product innovations and developments as well as reorganising operations, especially in the tech department of the Webgains segment. Among others, we opened a new technology hub in Bristol with staff drawn from the Webgains headquarters in London. We started a cooperation with IBM Watson in the field of Artificial Intelligence (AI) and relaunched the entire Webgains platform. During the year, our ad agents segment successfully enlarged the team and broadened its service offer. In the past year, ad agents has become one of the leading providers of Amazon marketing services and analytics for Amazon sellers and vendors.

01
LETTER FROM BOARD OF DIRECTORS

Higher profitability and a strong balance sheet: The year ahead

As a consequence, our operating expenses increased by EUR 1,937k, or 13.3 percent, largely driven by a higher number of employees which rose from 171 to 200 for the Group as a whole. At the same time, our gross profit showed a group-wide increase of EUR 18,348k, or 14.0 percent. Consequently, our EBITDA rose by EUR 462k to EUR 2,209k and we were hence able to achieve a higher profitability already in 2017, despite the significant investments we made. The level of profitability achieved in 2017 represents the best result from operating activities since ad pepper media International N.V. was founded.

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 22.7 million at the end of 2017. This represents the highest level since 2010. The Company still does not have any liabilities to banks. Our equity ratio amounts to a comfortable 42.8 percent. We carefully review acquisitions and consider these more closely when they offer sufficiently great potential synergies. We also have the flexibility to buy-back own shares, as we did in the past, if and to the extent this is considered reasonable and in the best interest of the Company. 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.

Therefore, we are positive with regard to the 2018 financial year and – despite a highly competitive overall climate, a stricter regulatory framework for the processing of personal data across the EU, and assuming the macroeconomic environment remains intact – expect to generate further strong sales growth.

We would like to thank our 200 employees for their commitment to the ad pepper media group. It is their hard work and dedication that enables us to align our strategy and deliver on our promises. We also want to thank you, our shareholders, for your continuing support, your confidence, and above all, for your trust. Rest assured that our passion for online marketing, and our passion for quality will continue to generate the sustainable, profitable returns you rightfully expect from us.

Yours faithfully,

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

Dr. Jens Körner, CEO

Nuremberg, March 29, 2018

» 02

REPORT OF THE SUPERVISORY BOARD

» DEAR SHAREHOLDERS,

in the 2017 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.

Meetings in 2017

The Supervisory Board held four meetings in 2017. In addition to the scheduled meetings, the chairman and other members of the Supervisory Board maintained regular contact with the CEO. 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 2017 and beyond. The Supervisory Board discussed the manner in which the Board of Directors implemented the long-term value creation strategy and the principal risks associated with it. The Supervisory Board approved the financial plan for 2017 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.

In addition, 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, was discussed in the absence of the members of the Board of Directors.

The evaluation is done by following a detailed questionaire. As a result, the Supervisory Board decided to be informed in greater detail by the management of each business unit (being invited to meetings of the Supervisory Board in rotating order) regarding technical matters and, once a year, by a Dutch law firm regarding the requirements of the Dutch Corporate Governance Code.

Remuneration 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 4 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, the 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, 2013 and 2017. 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 2018.

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, 2017
  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 2021

- **Thomas Bauer** (born 1963; German citizen)
  Supervisory Board member throughout the entire financial year up to and including December 31, 2017
  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, 2017
  Managing Director of Sales and Operations at SevenOne AdFactory (Pro7 Sat1 Media AG)
  Supervisory Board member since March 20, 2013; appointed until Annual General Meeting 2021

- **Dr. Stephan Roppel** (born 1964; German citizen)
  Supervisory Board member throughout the entire financial year up to and including December 31, 2017
  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	2017	2016
	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.

02
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. for the 2017 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 29, 2018, the Supervisory Board discussed and agreed with the annual financial statements prepared by the Board of Directors for the 2017 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, the ad pepper media group reports in detail on compliance with the Dutch Corporate Governance Code.

The Supervisory Board has played a key role in supporting the ad pepper media group's growth strategy during the year, as laid out by the Board of Directors. We have assisted in evaluating acquisitions, refining the long-term value creation strategy and played a central role in appointing the new Board of Directors as announced in February 2017. The reshaping and appointment of the new Board of Directors represents an integral element of building international aligned operations. The appointment of Jens Koerner as CEO was proposed for approval at the Ordinary General Meeting convened on May 16, 2017. The new CEO brings a wealth of experience and will be essential in continuing the successful integration of the Group while ensuring that we take full advantage of the many opportunities being presented.

On behalf of the Supervisory Board, I would like to express our appreciation to all of the employees of the ad pepper media group for their efforts and achievements throughout 2017.

For the Supervisory Board

Michael Oschmann,
Supervisory Board Chairman

Nuremberg, March 29, 2018

» 03

GOVERNANCE

» OUR GOVERNANCE STRUCTURE

Corporate information

ad pepper media International N.V. (the "Company") 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 Company's registered office address is Frankenstrasse 150C, 90461 Nuremberg, Germany. Its registration number with the Dutch 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 the Dutch Corporate Governance Code (the "Code").

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 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.

In this section, we address our overall Corporate Governance, and provide information on our compliance with the principles and best practice provisions of the Code. Occasional deviations from the Code are explained and information on the reasons for any such deviations are provided at the end of this section. In case of any substantial changes to the Corporate Governance structure of the Company and its compliance with the Code, the shareholders shall be informed at a General Meeting.

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 and its enterprise. 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 timely with 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 General Meeting, 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 and the articles of association (the "Articles of Association"). Since February 28, 2017, the Company's Board of Directors consists of one "A Director" (chairman of the Management Board and CEO). The CEO has powers to represent the Company and discretion to exercise powers of representation and signing powers.

Dutch law provides that a member of the Board of Directors of a Dutch public limited liability company may not participate in the adoption of resolutions (including deliberations in respect hereof) if he or she has a direct or indirect personal interest conflicting with the interests of that company or its enterprise. Pursuant to the Board of Directors by-laws, each member of the Board of Directors must immediately report any (potential) personal conflict of interest to the Supervisory Board and to the other members of the Board of Directors and must provide all information relevant to the conflict. The Board of Directors by-laws provide detailed rules under which circumstances a conflict of interest of a member of the Board of Directors exists, and determines that the Board of Directors member may not be present at the meeting discussing such matters. During 2017 no conflicts of interest were reported. There were furthermore no transactions as referred to in the best practice provisions 2.7.4 and 2.7.5.

Supervisory Board

The Supervisory Board should supervise the policies carried out by the management board and the general affairs of the Company and its affiliated enterprise. In so doing, the Supervisory Board should also focus on the effectiveness of the Company's internal risk management and control systems and the integrity and quality of the financial reporting. It offers advice to the Board of Directors. In discharging its 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.

All members have had sufficient time available for their duties relating to their membership of the Supervisory Board. Their availability for ad-hoc calls, prompt response on emails and the fact that the members prepared the meetings well, regardless of their attendance at the meetings, and actively participated in the meeting discussions, demonstrate that they were all able to devote adequate attention to the Company.

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

According to the Dutch Civil Code, the Company shall strive towards achieving a quota of at least 30 percent women and 30 percent men on the Supervisory Board and the Board of Directors. This target has not been reached at present on the Supervisory Board and the Board of Directors. The Supervisory Board considers diversity, including as concerns gender, a relevant criterion in the board member selection process. However, top priority in filling open positions will continue to be the suitability in regards to quality, expertise and experience. In any future vacancies that arise, gender diversity will continue to be one of the criteria in the selection process, and the Company shall continue to strive towards achieving a quota of at least 30 percent women and 30 percent men on the Supervisory Board and the Board of Directors.

General Meeting of shareholders

At least one General Meeting shall be held each year, at the latest six months after 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.

Internal audit function

The Supervisory Board, with the advice of the external auditor, annually considers the need to establish an internal audit function and following these discussions makes a recommendation to the management board. Considering the current size of the operations of the Company and taking into account its risk profile, the Supervisory Board advised to the Board of Directors that it does not yet deem it necessary to create an internal audit function.

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. In view of its size, the Group does not employ any permanent internal auditors. The controlling department and the external hires assumes the function of internal auditor. 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.

» COMPLY OR EXPLAIN

Introduction

The Corporate Governance structure and compliance with 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 8, 2016. The new Code has taken effect on January 1, 2017. The code can be found at www.mccg.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 that existing contractual agreements between the 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:

Principle 1.3 Internal audit function

The Supervisory Board consists of four members. Given the size of this gremium and the engagement of the external auditor, the Company 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 Company thus does not fully comply with provisions 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.3.5 and 1.3.6 of the Code.

Principle 1.4.3 Statement by the management board

It is the Company's management standpoint that i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems; ii. the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies; iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and iv. the report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the report.

Principle 1.5 Role of the Supervisory Board

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 Company 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 fully comply with provisions 1.5.1, 1.5.2, 1.5.3 and 1.5.4.

Principle 1.6 Appointment and assessment of the functioning of the external auditor

Since no audit committee has been formed and hence the entire Supervisory Board is responsible for ensuring that tasks are performed responsibly the Company does not fully comply with provisions 1.6.1 and 1.6.3.

Principle 1.7 Performance of the external auditor's work

Since no audit committee has been formed and hence the entire Supervisory Board is responsible for ensuring that tasks are performed responsibly the Company does not fully comply with provisions 1.7.2, 1.7.3 and 1.7.4.

Principle 2.1 Composition and size

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. The Company does therefore not comply with provision 2.1.1. Michael Oschmann, chairman of the Supervisory Board of the Group, is not counted as independent as set out in provision 2.1.8 (vi) and (vii) 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.

Principle 2.2 Appointment, succession and evaluation

The current member of the Board of Directors is appointed for an indefinite period. The Company does not comply with provision 2.2.1. Members of the Supervisory Board are appointed for a term of four years and can be reappointed. The Company has adopted a policy to keep open the possibility that a Supervisory Board member will be reappointed after the maximum term contained in provision 2.2.2 due to his or her great

knowledge of the Company and high level of involvement. In addition, the Supervisory Board will retire by rotation and may be reappointed in order to ensure that the lowest possible number of Supervisory Board members should retire from the Board at the same time. The latter is not posted on the Company's website. The Company does therefore not comply with provisions 2.2.2 and 2.2.4. The Company does not have a selection and appointment committee and does not comply with provision 2.2.5.

Principle 2.3 Organisation of the Supervisory Board and reports

If the Supervisory Board considers it necessary, it can, according to the Company's articles of association, install committees from among its members, such as an audit committee, remuneration committee, and a selection and appointment committee and shall draw up a set of regulations for each committee. The Supervisory Board consists of four members. The Company therefore decided to not form dedicated committees and it is instead the collegiate responsibility of the Supervisory Board to prepare the decision-making of the Supervisory Board and perform the tasks of the committees as set out in the Code, unless stated otherwise herein. The Company does therefore not comply with provisions 2.3.2, 2.3.3, 2.3.4 and 2.3.5. The Supervisory Board, due to its size, did not nominate a vice-chairman and does therefore not fully comply with provisions 2.3.6 and 2.3.7.

Principle 2.4 Decision-making and functioning

Due to its size, the Supervisory Board did not nominate a vice-chairman and does therefore not fully comply with provision 2.4.3.

Principle 2.5.4 Accountability regarding culture

Company's staff acknowledges our corporate values which are respect for people, integrity, customers' success and Initiative and Accountability by signing our Global Standards of Business Conduct.

Principle 2.6 Misconduct and irregularities

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 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. The Company does therefore not fully comply with provision 2.6.1.

Principle 3.1 Remuneration policy – management board

In deviation of provision 3.1.2 of the Code, options granted to members of the Board of Directors under the BoD SOP can be partly exercised after a period of one year. The reason for this is that options under the BoD SOP already lapse after seven years from the date of granting.

Principle 3.2 Determination of management board remuneration

The compensation paid in the event of dismissal of Mr. Koerner may exceed one year's salary. In the event of his contract being terminated without cause as defined by the applicable law, the Company 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. The Company does therefore not comply with provision 3.2.3.

Principle 3.3 Remuneration Supervisory Board

Supervisory Board members have been granted stock options. The Company does not comply with provision 3.3.2 of the Code and deems this appropriate given the size of the Group and long-term involvement of the members of the Supervisory Board.

Principle 3.4 Accountability for implementation of remuneration policy

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. This deviates from principle 3.4 of the Code.

Principle 4.2 Provision of information

Due to the size of the Company, the Group does not post a policy on bilateral contacts with the shareholders on its website. For the same reason, the Company usually does not in advance announce analyst meetings, analyst presentations, presentations to institutional or other investors and press conferences on the Company's website and by means of press releases. This is in deviation of provisions 4.2.2 and 4.2.3.

» 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 and provision 4.2.6 of the Dutch Corporate Governance Code. The Group must disclose certain information that might be relevant for companies considering making a public offer with respect to the Group. The information which the Group is required to disclose, including a corresponding explanatory report, is presented below.

Capital structure

On December 31, 2017, the Group had issued a total of 23,000,000 ordinary shares with voting rights (including 1,999,292 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 the Company 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 2017, 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. The General Meeting may at any time suspend or dismiss any member of the Board of Directors. The Supervisory Board is entitled to suspend any member of the Board of Directors, and is obliged to notify the 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 a resolution either on lifting the suspension of the member of the Board of Directors or on his dismissal.

Shareholders' agreement on limitations on exercising of voting rights

Each share issued by the Company entitles its bearer to one vote. There are no restrictions on voting rights. As far as is known to the Group, there is no agreement involving a shareholder of the 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 in a meeting in which at least three-fourth of the issued share capital is represented.

Buyback of treasury stock by the Company

On May 16, 2017, 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.

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 Mr. Körner 12 months after the change of control takes effect. In the event of extraordinary termination of his contract, Mr. 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 the Company.

04

THE SHARE

» THE SHARE OF AD PEPPER MEDIA INTERNATIONAL N.V.

Capital structure

The Company's shares are traded on the Prime Standard of the Frankfurt Stock Exchange under the symbol "APM" and the ISIN code NL0000238145. The issued capital of ad pepper media International N.V. amounts to EUR 1,150,000 and is divided into 23,000,000 common bearer shares with a nominal value of EUR 0.05 each.

The authorized share capital of the Company amounts to EUR 4,000,000, divided into 80,000,000 shares, with a par value of EUR 0.05 each. The Board of Directors is authorised, after the approval by the Supervisory Board, until May 16, 2022 to issue shares, or to grant rights to subscribe for shares until the issued share capital amounts to EUR 2,000,000.

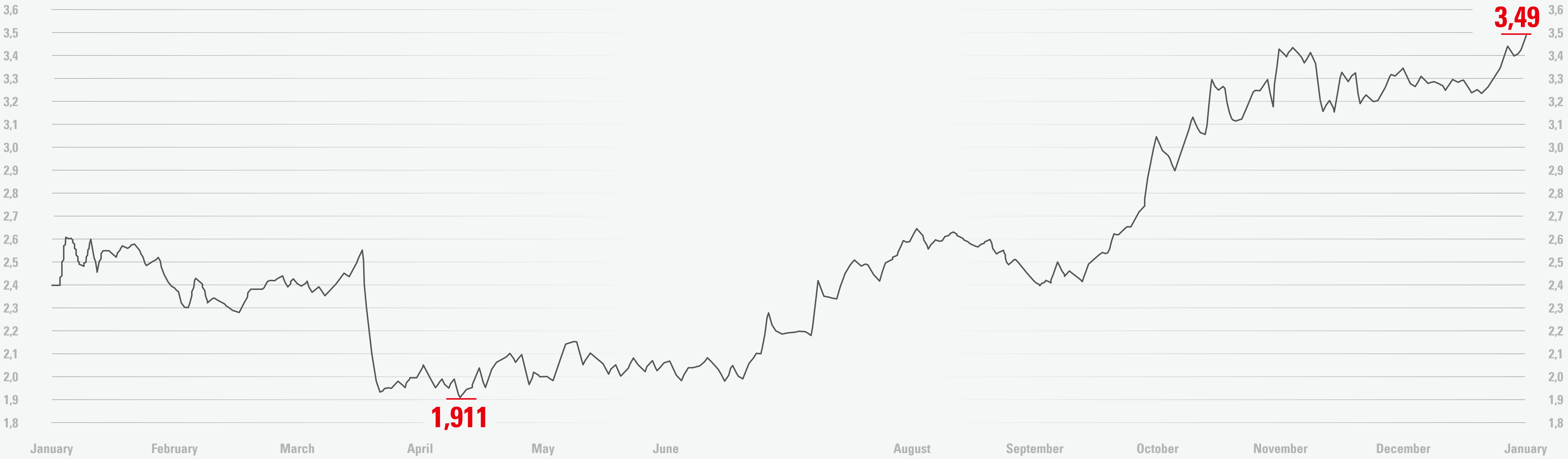
No changes in share capital occurred during the year in review.

Share price performance

Key share figures	2017	2016
	EUR	EUR
Outstanding Shares	21,000,708	20,880,708
Market capitalization	80.2m	55.2m
Year-end	3.49	2.40
Annual high	3.49	2.79
Annual low	1.91	1.20

The ad pepper media group announced record quarterly results on April 19, July 17 and October 16. As a consequence, the share price benefited from the positive news flow. In the wake of the announcement of the results of the third quarter, which was accompanied with an increased guidance for the financial year 2017, the ad pepper media group's shares advanced to EUR 3.49, and reached its year-high on the last trading day of the year, which is equivalent to an increase of 45 percent on the previous year's closing price.

Share price performance in past 12 months (Xetra)



04
THE SHARE

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 16, 2017. In all, 10,226,982 voting rights, or 44.47 percent of the issued share capital and 48.88 percent of all shares with voting rights were represented at the Annual General Meeting.

Alongside the presentation of the annual financial statements for the 2016 financial year, key agenda items also included the appointment of Mr. Jens Körner as CEO, the re-election of Mrs. Eun-Kyung Park and Mr. Michael Oschmann as members of the Supervisory Board, the approval of Stock Option Plans 2017 as well as the authorization to buy back treasury stock.

Shareholders structure as of December 31, 2017

As the ad pepper media group has issued bearer shares, there is no exact information on the shareholder structure, the names of the shareholders and the amounts of voting interests they hold, available. Shareholders owning 3 percent or more of the issued capital of a listed company (a substantial shareholding or short position) must report this to the Netherlands Authority for Financial Markets (AFM) as soon as this threshold is reached or exceeded.

Subsequently, notifcations to the AFM must be done by the shareholder as soon as a substantial shareholding or short position reaches, exceeds or falls below set thresholds. The thresholds are 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 40 percent, 50 percent, 60 percent, 75 percent and 95 percent of the Company's issued share capital.

As at December 31, 2017, the following shareholders owning 3 percent or more of the Company's voting rights were registered with the AFM:

	Shares Pieces	Shares Percent
EMA B.V.	9,486,402	41.25
Treasury stock	1,999,292	8.69
Axxion S.A.	1,163,501	5.06
Dieter Koppitz	699,338	3.04
Euro Serve Media GmbH	456,163	1.98
Subtotal	**13,804,696**	**60.02**
Freefloat	9,195,304	39.98
Total	**23,000,000**	**100.0**

» 05

BUSINESS ACTIVITY

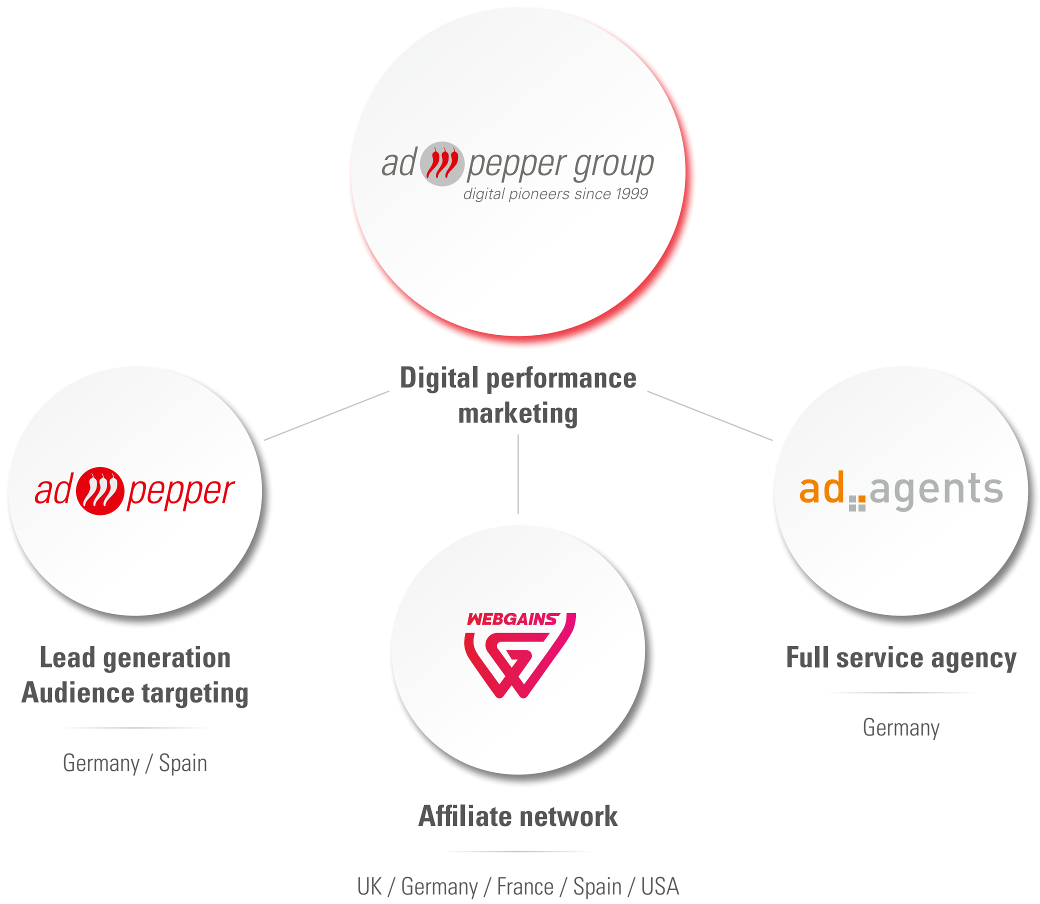
» THE AD PEPPER MEDIA GROUP

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. With seven offices in four European countries and the U.S., the ad pepper media group globally develops performance marketing solutions for customers.

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 Audience targeting), **ad agents** (Full service agency), and **Webgains** (affiliate network). 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.

2017 has been a year of business-oriented headcount growth for the ad pepper media group, in particular in the ad agents and Webgains segment. A total of 200 employees work in the three business units and the Group's Holding Company as per December 31, 2017 which is an increase of 17.0 percent or 29 employees compared to the figure as per end of December 2016.

Number of Employees	12/31/17	12/31/16
	Number	Number
ad pepper media	19	19
Webgains	100	87
ad agents	68	51
Administration	13	14



» SEGMENTS OF THE AD PEPPER MEDIA GROUP

ad pepper media

The Group's success story began with ad pepper media in 1999. As a leading performance marketing company, it specialises in lead generation and targeting specific audiences. ad pepper media works together with its customers to develop online marketing strategies for over 50 countries worldwide. ad pepper media also applies the latest technologies to each project. Whether at local, national or international level, ad pepper media helps its customers meet their goals by developing the most efficient online marketing strategies for their budget. By taking local conditions into consideration, ad pepper media is able to optimise campaigns for the target markets. Whether they are working with an agency or a direct customer, their aim is always the same: to deliver the best possible results for its customers. What makes ad pepper media different from its competitors? Many years of experience – and iLead. This unique platform enables them to generate customised campaigns that are adapted to their customers' markets in next to no time. And ad pepper media designed the platform by themselves. So far, they have used iLead to successfully launch and manage over 30,000 campaigns worldwide and generate millions of qualified leads.

Offices: Nuremberg / Madrid

Iñigo Abrisqueta
Chief Executive Officer
ad pepper media Spain

Susanne Pilz
Managing Director
ad pepper media Germany

Webgains

A network is only as strong as its members. Thanks to Webgains' partnerships with over 250,000 publishers, their customers have access to one of the world's leading high-performance affiliate marketing networks – for the largest reach possible. What's more, Webgains' experienced acquisitions team works to sign up new high-quality publishers on an ongoing basis. Webgains joined the ad pepper media group in 2006. Today, over 2,000 customers in 14 countries – from startups to global players – rely on Webgains' services. When it comes to designing local and international campaigns, Webgains not only benefits from its strong publisher network but also the extensive experience of over 100 highly motivated experts with excellent knowledge of global markets – not to mention the most innovative tools.

Their current business development strategy focuses on artificial intelligence and machine learning. High-tech advances make it easy to quickly roll out scalable international campaigns. Meanwhile, customers can count on outstanding data security at all times and benefit from near real-time performance reporting. As well as being committed to the ongoing development of its tools, Webgains supports its employees' professional development at the company's integrated Webgains Academy. Everything they do is designed to turn Webgains' customers into market leaders and maximise their sales. In short, their teams always give their all.

Offices: Nuremberg / Madrid / Bristol / London / New York / Paris

Richard Dennys
Chief Executive Officer
Webgains

ad agents

ad agents joined the ad pepper media group in 2007. Today it is one of Germany's most successful performance marketing agencies – and for a good reason. Their strategies are as unique as their personalised advice and support services. They are always optimised to suit the situation and specific requirements of ad agents customers. They maintain an overview of the entire digital advertising market and adapt their comprehensive service portfolio accordingly. Concept, management and optimisation: these factors are crucial for delivering an efficient marketing and sales solution. Ad agents performance marketing experts always find the perfect strategy for increasing our customers' profiles and turnover – across all digital channels and on all devices.

Customers benefit from ad agents' sixth sense for trends, their extensive experience and transparent reporting. For years, national and international companies from virtually every industry have relied on ad agents for their digital marketing activities. Why? Because their campaigns deliver outstanding results.

Exceptional quality always pays off: ad agents is a certified Google Premier Partner, and in 2017 they once again received numerous forms of quality certification from the German Digital Industry Association (BVDW).

Offices: Herrenberg

Dirk Lajosbanyai
Managing Director
ad agents

Wolfgang Schilling
Managing Director
ad agents

» 06

ECONOMIC DEVELOPMENT

» MACROECONOMIC FRAMEWORK

Germany/UK/Europe

The ad pepper media group's core markets: Eurozone, UK and USA

According to a forecast published in November 2017 by Organisation for Economic Cooperation and Development (OECD), Germany is forecast to grow by 2.3 percent in 2018, and 1.9 percent in 2019. France is projected to grow by 1.8 percent over the 2017-18 period and 1.7 percent in 2019, while Italy will see a 1.5 percent rate in 2018 and a 1.3 percent rate in 2019. The revised projections reflect stronger-than-expected performance in the first half of 2017, in the context of rising employment, accommodative monetary policy and stronger consumption growth and investment. The Eurozone as a whole is projected to grow at a 2.2 percent pace in 2018 – upward revisions from previous projections driven by stronger growth in key European countries – before slowing to a 1.9 percent pace in 2019, according to OECD.

In the United Kingdom, according to the same study performed by OECD, the growth slowdown is expected to continue through 2018, due to continuing uncertainty over the outcome of negotiations around the decision to leave the European Union and the impact of higher inflation on household purchasing power. In this context, the UK is projected to grow by 1.2 percent in 2018 and 1.1 percent in 2019. In the United States, growth is estimated to rise to 2.5 percent in 2018, then dropping back to 2.1 percent in 2019.

Source: http://www.oecd.org/economy/oecd-sees-global-economy-strengthening-but-says-further-policy-action-needed-to-catalyse-the-private-sector-for-stronger-and-more-inclusive-growth.htm

Online advertising market

In 2017, for the first time global spending on digital advertising exceeded spending on TV advertising. In terms of numbers: Digital ad spending reached USD 209 billion, which corresponds to 41 percent of the worldwide market, while spending for TV accumulated to USD 178 billion, equaling 35 percent of the global market. However, traditional TV ad spending was still slowly growing in 2017. For 2018, MAGNA predicts that digital ad spending will keep growing strongly by 13 percent to USD 237 billion while TV ads are forecasted to further grow moderately by 2.5 percent to USD 183 billion. One-off events like the Winter Olympics in South Korea, the football World Cup in Russia, or the mid-term elections in the USA are expected to positively influence these developments.

Source: MAGNA (part of the IPG Mediabrands Network)

06
ECONOMIC DEVELOPMENT

» PRESENTATION OF EARNINGS POSITION

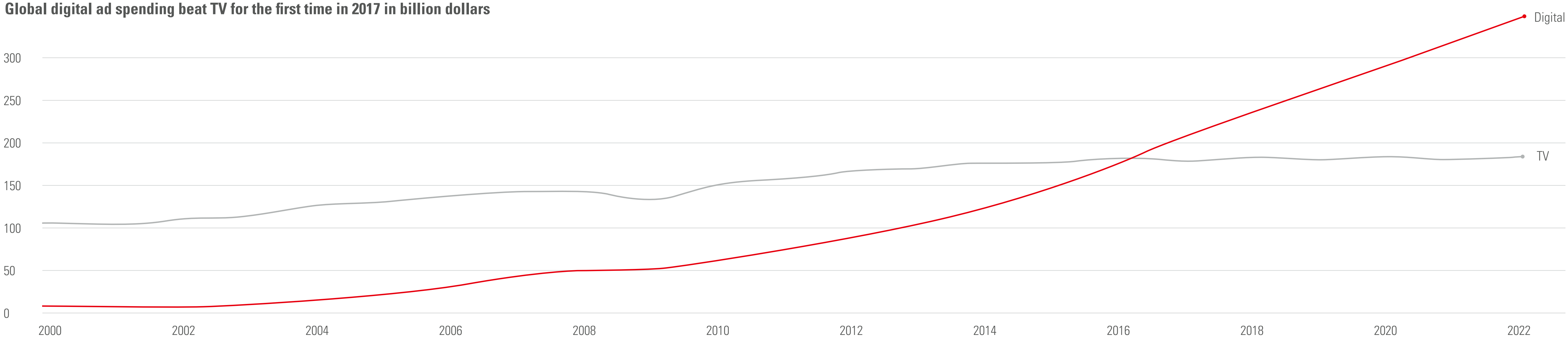
Development in sales and gross profit

The ad pepper media group increased its sales to EUR 75,563k in the 2017 financial year (2016: EUR 61,164k), equivalent to year-on-year growth of 23.5 percent. Exceeding the EUR 75 million mark for the first time also marks the highest sales figure in the Company's history. Gross profit – alongside sales our second most important key figure – showed group-wide growth of 14.0 percent to EUR 18,348k (2016: EUR 16,088k).

One of the main growth drivers was the ad agents segment. Offering more than 10 years of expertise with the full spectrum of performance marketing services, ad agents positioned itself in 2017 as an early mover in the segment for Amazon SEO and SEA services. As a consequence, sales here rose by EUR 5,347k, or 44.5 percent, to EUR 17,354k (2016: EUR 12,007k). The sales volume exceeding the EUR 15 million mark in the business year 2017 as a whole is therefore again the highest achieved in the company's history. In terms of Gross Profit, a record level of EUR 5,264k for the 2017 financial year could be posted in the ad agents segment. This corresponds to an increase of 22.8 percent compared with the previous year (2016: EUR 4,285k). The gross margin, i.e. gross profit as a percentage of sales, came to 30.3 percent for the 2017 financial year as a whole, as against 35.7 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.

Another important growth driver was once again the Webgains segment, which increased its sales by 17.1 percent to EUR 51,399k (2016: EUR 43,894k). Adjusted for foreign exchange effects, sales growth amounted to 22.8 percent. Webgains benefitted from a sector-wide consolidation process as well as new product initiatives initiated in the course of the financial year 2017 (IBM Watson). With a 68.0 percent share of the Group's total sales, Webgains remains by far the most important segment in terms of sales. For Webgains, the past financial year was also successful in terms of its gross profit. This came to EUR 9,632k in the past financial year (2016: EUR 9,224k), equivalent to growth of 4.4 percent. Adjusted for foreign exchange effects, this figure increased by 9.4 percent. The gross margin, i.e. gross profit as a percentage of sales, eased slightly to 18.7 percent, as against 21.0 percent in the previous year. This was largely due to disproportionate growth in high-volume programs.

Global digital ad spending beat TV for the first time in 2017 in billion dollars



Source: MAGNA | Data for 2017 and beyond are forecasts • Created with Datawrapper

The ad pepper media segment also performed very strongly. Key driver of this growth was once again iLead (lead generation). In addition, new products in the field of audience targeting could be developed and sold already in the past financial year. As a consequence, sales growth in the ad pepper media segment amounted to EUR 1,546k or 29.5 percent (2016: EUR 5,258k). In parallel to the rise in sales, gross profit rose by 36.5 percent to EUR 3,180k (2016: EUR 2,329k), and thus clearly outpaced the growth of the other two segments. With a gross margin corresponding to 46.7 percent of sales, the ad pepper media segment is by far the group leader in this respect (2016: 44.3 percent) highlighting the importance of this segment despite its lower revenue compared to the other two segments.

Development in operating expenses

Operating expenses at the ad pepper media group rose by 14.2 percent to EUR 16,530k (2016: EUR 14,480k). One major reason for this increase is significant investment in personnel. Hence, the total number of headcount as per December 31, 2017 increased by 31 or 18.1 percent compared to end of December 31, 2016 (171), with ad agents and Webgains segment being the main investment areas where headcount rose by 35.3 percent and 16.1 percent respectively.

EBIT, EBITDA, and EBT

The Group's earnings before interest and taxes (EBIT) amounted to EUR 1,817k in the past financial year (2016: EUR 1,608k). Earnings before taxes (EBT) amounted to EUR 1,800k. Earnings before interest, taxes, depreciation and amortization (EBITDA) at the Group came to EUR 2,209k in the past financial year (2016: EUR 1,748k). This is the best operating earnings figure in the Company's history despite substantial investments that will lay the foundation for future growth. In terms of individual segments, Webgains generated EBITDA of EUR 1,309k (2016: EUR 1,532k). Thanks to important e-commerce shopping events like the so-called Singles Day, Black Friday and Cyber Monday, and the Christmas shopping season in general, in the fourth quarter alone, Webgains could generate an EBITDA of EUR 756k, representing some 57.8 percent of the EBITDA generated for the entire year in this segment (Q4 2016: EUR 497k). Webgains' EBITDA margin amounted to 2.5 percent in 2017 (2016: 3.5 percent).

Likewise, ad agents also reported substantial EBITDA growth. Having increased its EBITDA by EUR 100k to EUR 1,258k (2016: EUR 1,158k), the ad agents segment also reported the best earnings in its history, with an EBITDA of EUR 505k generated in the fourth quarter alone (Q4 2016: EUR 464k). The EBITDA figure achieved by ad agents in the last quarter of the year hence amounted to 40.1 percent of the total figure achieved in the business year under review. EBITDA margin for 2017 as a whole was 7.2 percent (2016: 9.6 percent). The third operating segment, ad pepper media, also concluded the 2017 financial year on a very positive note with EBITDA of EUR 973k (2016: EUR 472k). The EBITDA figure posted in the fourth quarter of 2017 amounted to EUR 8k (Q4 2016: EUR -183k). With an EBITDA margin of 14,3 percent in 2017 (2016: 9.0 percent), ad pepper media was clearly the most profitable segment within the entire Group.

06
ECONOMIC DEVELOPMENT

» PRESENTATION OF FINANCIAL AND NET ASSET POSITION

Cash flow

The gross cash flow amounted to EUR 1,523k (2016: EUR 1,233k) while a figure of EUR 3,100k (2016: EUR 23k) 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, is due to higher trade payables and receivables. Key factors driving the operational outflow of cash were tax payments made in ad agents and ad pepper media Spain S.A. The net cash flow from investing activities came to EUR -431k in the past financial year (2016: EUR 3,568k), mainly for investments made in Webgains UK. The cash flow from financing activities amounted to EUR -362k, as against EUR -2,497k in the 2016 financial year. It included outgoing cash of EUR 362k (2016: EUR 280k) occurred for dividends paid to non-controlling parties and cash received from the exercise of stock option plans.

Balance sheet structure

Total assets increased by EUR 7,237k to EUR 38,615k (December 31, 2016: EUR 31,378k). Both non-current assets and current assets increased significantly by EUR 1,013k to EUR 3,719k respectively by EUR 6,224k to EUR 34,896k. Cash and cash equivalents rose by EUR 2,268k to EUR 20,127k (December 31, 2016: EUR 17,859k). Securities rose by EUR 781k to EUR 2,515k (December 31, 2016: EUR 1,734k). Trade receivables increased by EUR 4,013k to EUR 14,129k (December 31, 2016: EUR 10,116k). On the equity and liabilities side, the company's equity showed a increase of EUR 1,538k to EUR 16,517k (December 31, 2016: EUR 14,979k). The equity ratio as of December 31, 2017 is on a still good level at 42.8 percent (December 31, 2016: 47.7 percent). Trade payables increased by EUR 5,481k to EUR 17,838k (December 31, 2016: EUR 12,357k). 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 22,702k at the end of December 2017 (December 31, 2016: EUR 19,593k). The company still has no non-current liabilities to banks.

» 07

RISK REPORT

» 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. Consistent with the requirements of the Dutch Corporate Governance Code, the Company for instance established a procedure for reporting actual or suspected irregularities within the Company and its affiliated enterprises. In addition, 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 (reduced 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

„The management board is of the opinion that:

i. the report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
ii. the internal risk management and control systems provides reasonable assurance that the financial reporting does not contain any material inaccuracies;
iii. based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis; and
iv. the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report."

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 an ID to identify a user, generally called "cookies", on a device. Cookies usually collect 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.

According to the EU Directive on electronic communication (Directive 2002/57/EC), consent of data subjects is required for storing information like cookies on a device. This EU Directive is transformed in a different way in EU Member States. According to some national regulations, a general limitation of the use of cookies and consent of internet users for receiving cookies is necessary. In Germany, there is up to now a consent requirement for storing any personal data in a cookie on a device. With regard to the adjustment of national data protection legislation in Germany due to the requirements of the General Data Protection Regulation (EU Regulation 2016/679 - GDPR), there might be some changes. According to a proposal of the German government, a broad consent requirement for any storing of cookies on a device can be introduced in national law and be applicable from May 25, 2018. 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 to this, a general consent requirement for any advertising delivered by electronic means to an addressable ID is discussed in the context of the envisaged ePrivacy Regulation (EU Regulation on Privacy and Electronic Communications). This aspect will have a negative impact as any advertising in the internet needs a prior consent of a data subject. When this requirement will be applicable, the available marketplaces for advertisers will reduce extremely and in consequence the sales.

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 and its replacement by the Privacy Shield within the international data transfer. Following in-depth examination of all significant IT services contracts and, coupled with this, of the application of EU Standard Contractual Clauses recommended by the EU commission, we consider this risk as tolerable at present. In addition, a similar situation could occur when "Brexit" takes place. According to a recently published statement of the European Commission, the status of an adequate data protection level will not be granted to UK automatically. This could lead to additional efforts for our clients as they will have to conclude EU Standard Contractual Clauses for a data hosting in UK and to inform data subjects about a data processing outside the EU. 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. With the General Data Protection Regulation, coming into effect in May of 2018 in Europe, as well as the EU e-commerce Directive, compliance obligations and financial penalties for non-compliance are increasing significantly and could potentially harm our business. We face risks and cost as our service is offered in international markets and may be subject to additional regulations. Any failure on our part to comply with these laws and regulations can result in negative publicity and may subject us to significant liabilities and other penalties.

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.

07
RISK REPORT

» 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 largely based on Cost Per Action (CPA), Cost Per Lead (CPL), Cost Per Download (CPD), Cost Per Thousand Impressions (CPM), or Cost Per Click (CPC) systems. Every field of our business is exposed to strong competition, mainly from large media and/or performance (digital) agencies or other advertising and affiliate networks offering similar online services and products. Beside this group of companies, we also compete with search engine providers, social media channels and market places, such as Google, Facebook and Amazon, 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 to, for instance, 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 staff, 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 advertisers and web publishers and hence adversely affect our revenues.

Also, some 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 designed to obfuscate or block online advertising while using desktop PC or mobile devices
- 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 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.

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 the ad pepper media group'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 the ad pepper media group'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 euro area. 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

Rapid technological change

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. For instance, major players in the market such as the mobile operators or the providers of application eco systems such as Apple and Google may decide to introduce ad blockers to their systems. These could potentially seriously obstruct the delivery of advertisements to users of mobile apps and thus harm the business of the ad pepper media group.

In general, 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 on users having access to the internet and in some cases also require substantial band width. 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. 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, 2017, 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.

» 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 2017, the ad pepper media group achieved superb business results. Driven by double-digit sales growth in all segments, we generated consolidated sales of EUR 75,563k and EBITDA of EUR 2,209k. 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. The ad pepper media group thus exceeded the sales target of EUR 70 million published after the announcement of the results for the period ending September 30, 2017.

In 2018, we will be pursuing our growth opportunities in a targeted manner. We will continue to invest in new products and services. We will concentrate 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 again 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 higher EBITDA figure than in the previous business year for the ad pepper media group in 2018. However, continuing uncertainty surrounding the economic outlook and consumer sentiment as well as exchange rate volatility may present a risk to the achievement of this target.

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/avoid situations or actions that could have a negative impact on our reputation or brand.	No tolerance for breaches of: • Legislative/statutory requirements • Group and divisional policies	Low

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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, 2017 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 fair view of the position as of the balance sheet date and the state of affairs during the 2017 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, CEO

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CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED INCOME STATEMENT

	Note	1/1 - 12/31/17 kEUR	1/1 - 12/31/16 kEUR
Revenue	[5]	**75,563**	**61,164**
Cost of sales	[7]	-57,215	-45,076
Gross profit		**18,348**	**16,088**
Selling and marketing expenses	[8]	-10,771	-9,055
General and administrative expenses	[9]	-6,087	-6,156
Other operating income	[10]	723	1,059
Other operating expenses	[11]	-396	-329
Operating profit		**1,817**	**1,608**
Financial income	[12]	26	148
Financial expenses	[12]	-43	-66
Income/loss before taxes		**1,800**	**1,690**
Income taxes	[13]	-664	-594
Net income/loss		**1,136**	**1,096**
attributable to shareholders of the parent company		580	629
attributable to non-controlling interests		556	467
Basic earnings per share on net income for the year attributable to shareholders of the parent company	[14]	0.03	0.03
Diluted earnings per share on net income for the year attributable to shareholders of the parent company	[14]	0.03	0.03
Weighted average number of shares outstanding (basic)	[14]	**20,904,708**	**21,012,849**
Weighted average number of shares outstanding (diluted)	[14]	**21,202,018**	**21,194,339**

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CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [28]

	1/1 - 12/31/17 kEUR	1/1 - 12/31/16 kEUR
Net income/loss	**1,136**	**1,096**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	-39	-277
Revaluation of available-for-sale securities	782	136
Realized gains/losses from available-for-sale securities	0	-10
Income tax recognized on other comprehensive income	-69	-8
Other comprehensive income, net of tax	**674**	**-158**
Total comprehensive income	**1,810**	**937**
attributable to non-controlling interests	556	467
attributable to shareholders of the parent company	1,254	470

» CONSOLIDATED BALANCE SHEET – ASSETS

	Note	12/31/2017 kEUR	12/31/2016 kEUR
Non-current assets			
Intangible assets	[16]	362	572
Property, plant, and equipment	[16]	424	212
Securities available-for-sale	[17]	2,515	1,734
Other financial assets	[18]	418	188
Total non-current assets		**3,719**	**2,706**
Current assets			
Trade receivables	[19]	14,129	10,116
Other receivables	[20]	410	408
Income tax receivables	[21]	203	151
Other financial assets	[22]	27	138
Cash and cash equivalents	[23]	20,127	17,859
Total current assets		**34,896**	**28,672**
Total assets		**38,615**	**31,378**

» CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

	Note	12/31/2017 kEUR	12/31/2016 kEUR
Equity attributable to shareholders of the parent company			
Issued capital	[24]	1,150	1,150
Reserves	[25]	61,312	61,116
Accumulated deficit		-45,041	-45,621
Other reserves	[28]	-1,683	-2,356
Total		**15,738**	**14,289**
Non-controlling interests	[29]	779	690
Total equity		**16,517**	**14,979**
Non-current liabilities			
Deferred tax liabilities	[13]	185	117
Other liabilities	[30]	217	0
Total non-current liabilities		**402**	**117**
Current liabilities			
Trade payables	[31]	17,838	12,357
Other liabilities	[32]	2,529	1,470
Other financial liabilities	[33]	1,150	1,807
Income tax liabilities		179	648
Total current liabilities		**21,696**	**16,282**
Total liabilities		**22,098**	**16,399**
Total equity and liabilities		**38,615**	**31,378**

» CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	1/1 - 12/31/2017 kEUR	1/1 - 12/31/2016 kEUR
Net income/loss		**1,136**	**1,096**
Adjustments for:			
Depreciation and amortization	[6]	391	140
Gain/loss on sale of fixed assets	[10], [11]	19	-9
Share-based compensation	[39]	91	28
Gain/loss on sale of securities and other investments (after bank charges)	[12], [17]	0	-14
Other financial income and financial expenses	[12]	17	-68
Income taxes	[13]	665	594
Other non-cash expenses and income	[38]	-796	-534
Gross cash flow		**1,523**	**1,233**
Change in trade receivables	[19]	-4,273	-456
Change in other assets	[20], [22]	-128	-47
Change in trade payables	[31]	6,177	-549
Change in other liabilities	[32], [33]	990	-112
Income taxes received		329	206
Income taxes paid		-1,497	-327
Interest received		20	95
Interest paid		-41	-20
Net cash flow from/used in operating activities		**3,100**	**23**

	Note	1/1-12/31/2017 kEUR	1/1-12/31/2016 kEUR
Purchase of intangible assets and property, plant, and equipment	[17]	-434	-561
Proceeds from sale of intangible assets and property, plant, and equipment		3	9
Loans payback	[23]	0	209
Proceeds from sale/maturity of securities	[18]	0	5,323
Purchase of securities	[18]	0	-1,412
Net cash flow from/used in investing activities		**431**	**3,568**
Issuance of own shares	[27]	105	109
Repurchase of own shares	[27]	0	-2,326
Dividends to non-controlling interests	[30]	-467	-280
Net cash flow from/used in financing activities		**-362**	**-2,497**
Net decrease/increase in cash and cash equivalents		2,307	1,094
Cash and cash equivalents at beginning of period		**17,859**	**16,932**
Effect of exchange rates on cash and cash equivalents		-39	-167
Cash and cash equivalents at end of period	[23]	**20,127**	**17,859**

» 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 SOPs	Balance at 12/31/2016
Issued capital	[24]								
Number of shares		23,000,000	-	-	-	-	-	-	23,000,000
Issued capital (kEUR)		1,150	-	-	-	-	-	-	1,150
Reserves	[25]								
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									
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									
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)		503	467	-	-	-280	-	-	690
Total equity (kEUR)		**16,508**	**937**	**28**	**109**	**-280**	**-1,437**	**-889**	**14,979**

» CONSOLIDATED CHANGES IN EQUITY 2017

	Note	Balance at 1/1/2017	Total comprehensive income	Share-based payment	Issuance of shares	Dividends	Purchase of treasury shares	Cash settlement of SOPs	Balance at 12/31/2017
Issued capital	[24]								
Number of shares		23,000,000	-	-	-	-	-	-	23,000,000
Issued capital (kEUR)		1,150	-	-	-	-	-	-	1,150
Reserves	[25]								
For employee stock option plans (kEUR)		2,656	-	90	--	-	-	-	2,746
From contributions of shareholders of the parent company (kEUR)		63,782	-	-	-	-	-	-	63,782
Treasury shares	[26]								
Number of shares		2,119,292	-	-	-120,000	-	-	-	1,999,292
Treasury shares at cost (kEUR)		-5,322	-	-	105	-	-	-	-5,217
Accumulated deficit (kEUR)		**-45,621**	**580**	**-**	**-**	**-**	**-**	**-**	**-45,041**
Other reserves	[28]								
Currency translation differences (kEUR)		-1,157	-39	-	-	-	-	-	-1,196
Unrealized gains/(losses) from available-for-sale securities (kEUR)		-1,200	713	-	-	-	-	-	-487
Equity attributable to shareholders of the parent company (kEUR)		**14,289**	**1,254**	**90**	**105**	**-**	**-**	**-**	**15,738**
Non-controlling interests (kEUR)	[29[	690	556	-	-	-467	-	-	779
Total equity (kEUR)		**14,979**	**1,810**	**90**	**105**	**-467**	**-**	**-**	**16,517**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» CORPORATE INFORMATION [1]

The consolidated financial statements of ad pepper media International N.V. (the "Company") for the year ended December 31, 2017 were authorized for issue by the Board of Directors on March 29, 2018. ad pepper media International N.V. is a public company incorporated in the Netherlands, domiciled at Frankenstraße 150 C, 90461 Nuremberg, Germany and ultimate parent and controlling party of the ad pepper media group. 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 seven 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, and large websites to a top-quality advertising network with global reach and an exact focus on its target groups. 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.

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

Consolidated Group

The subsidiaries included in consolidation are as follows:

Entity	12/31/17	12/31/16
	Share in Percent	Share in Percent
ad pepper media GmbH, Nuremberg, Germany	100	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 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, 2017:

- **Amendment to IAS 7 "Cash Flow Statements":** Disclosure Initiative (effective date: January 1, 2017). This amendment had no impact on the consolidated financial statements.
- **Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"** This amendment (effective date: January 1, 2017) had no impact on the consolidated financial statements.

New standards requiring application in financial years beginning after January, 2017:

- **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, 2017 as "available-for-sale". Based on the ad pepper media group's 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, the respective measurement data do not imply the need of a 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 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. In April 2016 clarifications to IFRS 15 were issued relating mainly to the identification of separate performance obligatins as well as the definition of principal and agent. At ad pepper media International N.V., IFRS 15 will have an impact in particular on contracts that can give rise to a new classification, whether a principal or agent activity exists. Thus, for each separate performance obligation it is to be examined whether these are controlled prior to transfer to the customer. As supportive indicators, only the primary responsibility for provision of the service, the inventory risk as well as the pricing competency is to be taken into account in the assessment. Any potentially existing default risk should be disregarded. Taking into account the newly introduced control principle as well as the modified indicators, the contractual relationships of our Webgains business model are to be accounted for as agent relationships

from 2018 onwards. As a result of this change, revenues and cost of sales of the Webgains will decrease. With respect to the fiscal year 2017, application of the new regulations would result in a reduction in the revenues and the material expenses of approximately EUR 41m. This would correspond to a decline in sales in the Webgains segment of around 55 per cent. Our Group performance figures adjusted EBITDA and adjusted EBIT, as well the balance sheet disclosure are not affected. The adjusted EBITDA margin of the Group as well as of the Webgains segment will increase accordingly. Furthermore, the new standard requires future qualitative and quantitative disclosures which will go beyond the current regulations.

- **IFRS 16 "Leasing":** In January 2016, the IASB issued IFRS 16, which is to replace the previously applicable standard IAS 7, as well as three lease-related interpretations. The ad pepper media group will adopt the new standard for the financial year beginning as of January 1, 2019, presumably by applying the modified retrospective approach, i.e. comparative figures for the preceding year would not be adjusted. In comparison to the the previous standard, IFRS 16 leads to a different treatment of all rental and leasing contracts entered into. The relief provision given in IFRS 16 (recognizing short-term contracts or leases with a contract value below USD 5,000) will not result in any major relief. The major transition effect will relate to real estate leased by ad pepper media. The adoption of the standard will lead to an increase in non-current assets due to recognition of the rights of use. Accordingly, financial debt will increase due to recognition of the corresponding liabilities. In addition, the classification of expenses from these leases will change because IFRS 16 replaces the current straight-line expenses for operating leases with depreciation of the right of use and interest expenses for the liabilities. Further within the cash flow statement, leases will no longer be posted in cash flows from current business activities, but rather in cash flows from financial activities. The Company is currently assessing the effect on its financial statement, so no disclosures can yet be made concerning the exact amount the standard will imply.
- **Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts":** These amendments (publication: September 12, 2016): require application in financial years beginning on or after January 1, 2018 and are not expected to have any impact on the consolidated financial statements.

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 [17]), 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 [13]).

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 [17].

Preparing the financial statements in conformity with IFRS requires the Group management to make judgements also in respect to the recognized amounts of revenue in the Webgains segment. The Company assesses its revenue arrangement in this business unit against specific criteria in order to determine if it is acting as principal or agent. Alongside contractual agreements, current business and industry practice is taken into consideration when assessing if the Company has exposure to the significant risks and rewards associated with rendering of performance marketing services to its customers. Based on the evaluation done, management concludes to be principal in providing the affiliate services to the merchant, rather than being an agent between merchant and affiliate. Consequently ad pepper media is recognising its revenue on gross basis, accounting for the commission owned to our affiliates amounting to EUR 41m as third party revenues and cost of sales. Please refer to Note [5]. Further discretionary decisions have impacted on the selection of IAS 39 measurement categories for securities. Please refer to Note [17].

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 Note [17].

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 [13].

» 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 12/31/17	Closing rate 12/31/16	Average rate 2017	Average rate 2016
USD	1.1934	1.0453	1.1295	1.1034
GBP	0.8877	0.8530	0.8705	0.8169

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 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 2017 and 2016, 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 [14]).

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 by delivering merchant's advertising on publishers' websites. By using the Webgains technology platform, appropriate publishers are selected for placing merchant's advertisements on the most adequate websites to drive traffic back to the merchant's website and consequently enhance merchant's transaction values. The merchant pays us on a cost-per-action basis (CPA), which means that the merchant only pays us based on successful transactions resulted from the traffic. The price billed to the merchant consists of an override and a commission. The commission is the amount paid to our publishers and is recorded as cost of sales.

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. ad pepper media customers pay us on a cost per click basis (CPC), cost per lead basis (CPL) or cost per impression basis (CPM). 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.

Revenues in the ad agents segment is derived from fees for services, based on a rate per hour or percentage of the media budget. For SEM contracts advertisers are billed based on CPC basis. Revenue is recognized when the service is performed in accordance with the client arrangement and upon the completion of the service. Our client arrangements imply revenue recognition on a straight-line basis over the contract period. Prior to recognizing revenue, persuasive evidence of an arrangement must exist, the sales price must be fixed or determinable, delivery, performance and acceptance must be in accordance with the client arrangement and collection must be reasonably assured.

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 2017 as in 2016.

» 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 [3].

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 2017	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Total revenues	6,907	51,401	17,354	272	-371	75,563
Thereof external	6,810	51,399	17,354	0	0	75,563
Thereof intersegment	97	2	0	272	-371	0
Expenses and other income	-5,850	-50,299	-16,142	-1,727	272	-73,746
Thereof amortization and depreciation	-13	-207	-46	-125	0	-391
Thereof other non-cash expenses	-60	-234	0	-92	0	-386
Thereof other non-cash income	96	1,060	2	18	0	1,176
EBITDA	1,070	1,309	1,259	-1,330	-99	2,209
EBIT	1,057	1,102	1,213	-1,455	-99	1,818
Financial income	2	1	0	23	0	26
Financial expenses	-5	-2	-1	-35	0	-43
Income taxes						-665
Net income for the year						1,136

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	146	708	18	58	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

Geographical information

The Group operates in three principal geographical areas – United Kingdom, Germany, and Spain. 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 12/31/17	Year ended 12/31/16	12/31/17	12/31/16
	kEUR	kEUR	kEUR	kEUR
Germany	32,182	19,107	196	233
United Kingdom	31,862	32,146	567	519
Spain	5,499	4,420	17	20
USA	5,127	4,365	4	6
Other	893	1,126	4	5
Total	**75,563**	**61,164**	**787**	**784**

Revenues of approximately EUR 9,886k (2016: EUR 7,450k) 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 11,743k (2016: EUR 10,667k) as well as depreciation and amortization of EUR 391k (2016: EUR 140k). Amortization of intangible assets is included in selling expenses EUR 224k (2016: EUR 143k), administration expenses EUR 29k (2016: EUR 19k), and other operating expenses EUR 0k (2016: EUR -97k).

The personnel expenses include the employer's share to state pension schemes amounting to EUR 497k (2016: EUR 447k), which have to be disclosed as employer's contribution to a defined contribution plan.

» COST OF SALES [7]

Cost of sales comprises expenses of EUR 57,215k (2016: EUR 44,962k) for commissions paid to the affiliates, internet advertising space and for ad server technology used, and associated personnel costs of EUR 0k (2016: EUR 111k).

» SELLING AND MARKETING EXPENSES [8]

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

	2017	2016
	kEUR	kEUR
Employment costs	8,341	7,227
Facility costs (office rent, depreciation)	70	44
Advertising and sales promotion	407	233
Professional and other services	847	591
General operating costs (communication, travel, other supplies)	848	801
Other	258	159
Total	**10,771**	**9,055**

» GENERAL AND ADMINISTRATIVE EXPENSES [9]

The expenses comprise the following natures of expense:

	2017	2016
	kEUR	kEUR
Employment costs	3,402	3,329
Facility costs (office rent, depreciation)	815	1,066
Professional and other services	849	820
General operating costs (communication, travel, other supplies)	965	891
Other	56	49
Total	**6,087**	**6,155**

» OTHER OPERATING INCOME [10]

Other operating income consists of the following:

	2017	2016
	kEUR	kEUR
Foreign exchange gains	0	154
Gains on sale of tangible assets	0	9
Gains on sale of customer contracts which were not capitalized in the balance sheet	0	135
Income from the release of accrued liabilities	612	671
Other	111	90
Total	**723**	**1,059**

Income from the release of accrued liabilities includes an amount of EUR 470k 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 (2016: EUR 428k) and reversals of EUR 142k in connection with time-barred claims (2016: EUR 243k).

» OTHER OPERATING EXPENSES [11]

Other operating expenses consist of the following:

	2017	2016
	kEUR	kEUR
Foreign exchange losses	77	0
Expenses for bad debt allowances and write-off of receivables	259	323
Losses on disposal of tangible assets	19	0
Other	41	6
Total	**396**	**329**

» FINANCIAL INCOME, NET [12]

Net financial income consists of the following:

	2017	2016
	kEUR	kEUR
Interest income	26	70
Realized gains on sale of securities	0	78
Financial income	**26**	**148**
Interest expenses	-43	-2
Realized losses on sale of securities	0	-64
Financial expenses	**-43**	**-66**
Net financial income	**-17**	**82**

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

» INCOME TAXES [13]

Income tax expenses	2017	2016
	kEUR	kEUR
Current income tax expenses	-664	-578
Deferred income tax income/(expense)	0	-16
Total	**-664**	**-594**

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 10,668k (2016: EUR 11,141k) were calculated on the basis of the unused tax losses of EUR 35,170k (2016: EUR 35,416k). 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. Consequently we record an allowance of EUR 10,668k (2016: EUR 11,141k) on our deferred tax assets. Based on our assessment, an amount of deferred tax assets of EUR 0k (2016: 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	2017	2016
	kEUR	kEUR
Securities	160	91
Other	25	26
Total	**185**	**117**

Changes in deferred tax liabilities on temporary differences recognized in profit or loss amount to EUR 0k (2016: EUR 14k). 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 (2016: EUR 0k) and deferred tax liabilities of EUR 185k (2016: EUR 117k) were recognized in the balance sheet. Deferred tax assets and liabilities are classified as non-current.

Deferred tax assets of EUR 0k (2016: EUR 0k) on tax losses are recognized for companies with a history of losses. No deferred tax liabilities were recognized as of December 31, 2017 (2016: 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 (2016: 31.47 percent) is as follows:

	2017	2016
	kEUR	kEUR
Expected income tax	-567	-532
Foreign tax rate differential	111	137
Foreign tax from limited taxation	-1	0
Tax expense related to non deductible expenses/income and other income (AFS)	-174	-7
Prior year income tax	-75	20
Tax rate changes for deferred tax allowance	-398	-286
Change in allowance on deferred tax assets	457	27
De-recognition of deferred tax assets on securities and goodwill	0	0
Non-deductible stock option expenses	-28	-9
Non-tax-deductible expenses and other	9	56
Actual income tax expenses	**-664**	**-594**

» EARNINGS PER SHARE [14]

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:

	2017	2016
Net (loss)/income attributable to shareholders of the parent company in kEUR	580	629
Number of shares at the beginning of the period	20,880,708	21,460,708
Number of shares at the end of the period	21,000,708	20,880,708
Weighted average number of shares outstanding (basic)	20,940,708	21,012,849
Basic earnings per share in EUR	0.03	0.03
Weighted average number of shares outstanding (diluted)	21,202,018	21,194,339
Diluted earnings per share in EUR	0.03	0.03

The weighted average number of shares outstanding in 2017 was calculated on a daily basis. In 2017, the options granted resulted in dilution of an average of 261,310 shares (2016: 181,490 shares). No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2017 (2016: 0 shares). In 2017, the Company has not carried out a share repurchase program. Consequently no shares have been acquired (2016: 690,000 shares). A total of 120,000 treasury shares (2016: 110,000 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 [15]

In 2017 and 2016, no software IT solutions were developed in-house for the Company's own use and thus none were capitalized. Expenses were related to maintenance. Additions mainly relate to an amount of EUR 378k in connection with the relaunch of the Group website. 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 STATEMENTS

» MOVEMENT SCHEDULE OF INTANGIBLE ASSETS AND PROPERTY, PLANT, AND EQUIPMENT [16]

	Historical Cost						Accumulated depreciation/amortization/impairment						Book value	
Financial year 2017	Balance at 1/1/2017	Additions	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2017	Balance at 1/1/2017	Depreciation/ Amortization	Disposals	Disposals at sale of investments cost this year	Exchange differences	Balance at 12/31/2017	Financial year 12/31/2017	Previous year 12/31/2016
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Intangible assets														
Software	2,053	55	0	0	-19	2,089	1,486	251	0	0	-6	1,731	357	567
Brands and customer bases	644	0	0	0	0	644	639	1	0	0	0	640	5	5
Total	**2,697**	**55**	**0**	**0**	**-19**	**2,733**	**2,125**	**252**	**0**	**0**	**-6**	**2,371**	**362**	**572**
Property, plant, and equipment														
Other equipment, operational and office equipment	1,393	378	71	0	-20	1,680	1,181	139	48	0	-16	1,256	424	212
Total	**4,090**	**434**	**71**	**0**	**-39***	**4,414**	**3,306**	**391**	**48**	**0**	**-22**	**3,628**	**786**	**784**

	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	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
Intangible assets														
Software	1,669	417	5	0	-28	2,053	1,338	162	5	0	-9	1,486	567	331
Brands and customer bases	754	0	0	0	-110	644	736	-97	0	0	0	639	5	18
Total	**2,423**	**417**	**5**	**0**	**-138**	**2,697**	**2,074**	**65**	**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	1266	75	132	0	-28	1181	212	150
Total	**3,839**	**561**	**138**	**0**	**-172**	**4,090**	**3,340**	**140**	**137**	**0**	**-37**	**3,306**	**784**	**499**

» NON-CURRENT SECURITIES [17]

As at December 31, 2017, 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

	2017	2016
	kEUR	kEUR
Book value 1/1	1,734	2,210
Realized gains	0	78
Incl. unrealized gains reclassified from other reserves to profit or loss	0	-10
Unrealized gains/losses	781	136
Sale	0	-2,092
Purchase	0	1,412
Book value 12/31	**2,515**	**1,734**

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

Fair value	12/31/17	12/31/16
	kEUR	kEUR
Due within one year	2,515	1,734
Due between one and five years	0	0
Due in more than five years	0	0
Total	**2,515**	**1,734**

Securities at fair value through profit and loss

	2017	2016
	kEUR	kEUR
Book value 1/1	0	3,295
Realized gains/losses	0	-64
Unrealized gains/losses	0	0
Sale	0	-3,231
Purchase	0	0
Book value 12/31	**0**	**0**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» OTHER FINANCIAL ASSETS [18]

Other financial assets consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Deposits	418	188
Total	**418**	**188**

The increase in deposits is mainly due to the security payment made for the new Webgains office in London (EUR 165k).

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

	12/31/17	12/31/16
	kEUR	kEUR
Due between one and five years	418	188
Due in more than five years	0	0
Total	**418**	**188**

CURRENT ASSETS

» TRADE RECEIVABLES [19]

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

	12/31/17	12/31/16
	kEUR	kEUR
Trade receivables, gross	14,699	10,727
Provision for impairment of trade receivables	-570	-611
Trade receivables, net	14,129	10,116

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, 2017. For further information, please refer to Notes [3] and [42].

» OTHER RECEIVABLES [20]

Other receivables consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Value added tax receivables	235	202
Prepayments	162	196
Other	13	10
Total	**410**	**408**

» INCOME TAX RECEIVABLES [21]

Income tax receivables include tax prepayments on capital gains of EUR 203k (2016: EUR 73k).

» OTHER CURRENT FINANCIAL ASSETS [22]

Other current financial assets consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Interest receivables	5	3
Other	22	135
Total	**27**	**138**

» CASH AND CASH EQUIVALENTS [23]

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 20,127k (2016: EUR 17,859k).

EQUITY

» ISSUED CAPITAL [24]

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2017 (2016: 0 shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2016: 23,000,000) bearer shares each with a nominal value of EUR 0.05 and is fully paid in.

» RESERVES [25]

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

» TREASURY SHARES [26]

Purchase of treasury shares

By shareholders resolution of May 10, 2016, 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 Company did not carry out any share repurchase program in 2017. Consequently no shares were acquired (2016: 690,000 shares). As of December 31, 2017, the Company held 1,999,292 treasury shares (2016: 2,119,292) at a nominal value of EUR 0.05 each, which equals 8.69 percent (2016: 9.21 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

120,000 shares were sold under the employee stock option plans (2016: 110,000) for EUR 105k (2016: EUR 109k).

Number of shares outstanding

The number of shares issued and outstanding as of December 31, 2017 totalled 21,000,708 (2016: 20,880,708). Each share has a nominal value of EUR 0.05.

» AUTHORIZED UNISSUED CAPITAL [27]

The authorized unissued capital totals EUR 21,485.40 (2016: EUR 21,485.40) and comprises 429,708 shares (2016: 429,708 shares).

» OTHER RESERVES [28]

Other reserves include losses on available-for-sale securities of EUR 487k (2016: losses EUR 1,201k), taking into account deferred taxes of EUR 69k (2016: EUR 8k), and accumulated exchange differences of EUR -1,196k (2016: EUR -1,156k) 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:

2017	before income taxes	income taxes	after income taxes
Currency translation differences	-39	0	-39
Revaluation of available-for-sale securities	782	-69	713
Realized gains/losses from available-for-sale securities	0	0	0
Total other comprehensive income	**743**	**-69**	**674**

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**

» NON-CONTROLLING INTERESTS [29]

Non-controlling interests comprise non-controlling interests in two subsidiaries as at December 31, 2017 and 2016. 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 2017, non-controlling interests in ad pepper media Spain S.A. received a dividend payment of EUR 152k (2016: EUR 114k), while non-controlling interests of ad agents GmbH received a dividend of EUR 315k (2016: EUR 166k).

NON-CURRENT LIABILITIES

» OTHER LONG-TERM LIABILITIES [30]

Other long-term liabilities consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Deferred rent benefits	170	0
Other	47	30
Total	**217**	**30**

The maturities of the other long term liabilities as of the end of the period are as follows:

	12/31/17	12/31/16
	kEUR	kEUR
Due between one and five years	217	30
Due in more than five years	0	0
Total	**217**	**30**

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 amount to EUR 13,316k (2016: EUR 9,716k).

» OTHER LIABILITIES [32]

Other current liabilities consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Value added tax liabilities	1,441	957
Liabilities for payroll tax and social security contributions	297	320
Prepayments received	791	193
Total	**2,529**	**1,470**

» OTHER FINANCIAL LIABILITIES [33]

Other financial liabilities consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Bonus and commissions	523	725
Employee holiday accrual	186	151
Accrued liabilities for outstanding invoices	304	645
Severance payments	52	0
Other	86	286
Total	**1,150**	**1,807**

» 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]

ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, Webgains Ltd. (UK registered number: 05353649) that existed as at 31 December, 2017, until satisfied in full. As a result, the individual local statutory accounts of Webgains Ltd are exempt from audit under the requirements of section 479A of the UK companies Act 2006. As of December 31, 2017 Webgains' Ltd outstanding liabilities amount to EUR 8,549k (2016: EUR 7.511k).

ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, ad pepper media GmbH (registered number: HRB 16494) that existed as at 31 December, 2017 until satisfied in full. As a result, the individual local statutory accounts of ad pepper media GmbH are exempt from audit under the requirments of Art. 264 Par. 3 of German Commercial Code (HGB). As of December 31, 2017 ad pepper media GmbH outstanding liabilities amount to EUR 6,761k (2016: EUR 3.227k).

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 50k in financial year 2016 (2016: EUR 43k). Rental expense amounted to EUR 575k (2016: EUR 873k). The future minimum payment obligations resulting from the contracts in place as of December 31, 2017 are as follows:

	2018	2019	2020	2021	2022	Thereafter	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Office rent	810	609	479	422	88	24	2,432
Car leases	62	41	16	2	-	-	121
Others	66	-	-	-	-	-	66
Total	**938**	**650**	**495**	**424**	**88**	**24**	**2,619**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» 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.

An employee equity-participation program involving 300,000 options was launched for the members of Board of Directors on April 11, 2017 (Executive SOP 2017 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 February 1, 2011 and February 28, 2017. 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 0.390 and EUR 0.654 per issued option. The maximum cost of the program over the entire period is EUR 161k.

Furthermore, an employee equity-participation program involving 150,000 options was launched for executive employees on April 11, 2017 (Executive SOP 2017 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 February 1, 2011 and February 28, 2017. 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 0.390 and EUR 0.654 per issued option. The maximum cost of the program over the entire period is EUR 80k.

Furthermore, an employee equity-participation program involving 30,000 options was launched for Supervisory Board members on April 11, 2017 (Executive SOP 2017 SB). 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 February 1, 2011 and February 28, 2017. 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 0.390 and EUR 0.654 per issued option. The maximum cost of the program over the entire period is EUR 16k.

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, MD)	Ongoing SOP 2017 (BoD, MD, SB)
Share price when granted, in EUR	1.30	0.65	0.89	2.22	0.89	3.80	1.40	0.80	1.94
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	4/11/17
Exercise price, in EUR	1.365	0.665	0.89	2.225	0.89	3.795	1.50	0.80	1.9751
Risk-free interest rate, in percent	4.00	3.80	3.50	2.75	4.50	3.48	4.15	1.10	-0.36
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	0.05
Estimated volatility, in percent	93	68	73	40	53	56	50	64.41	51

The average share price during 2017 was EUR 2.52 (2016: EUR 2.21). 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 90k (2016: EUR 28k).

The following table shows the changes in the options during the financial year 2017:

	2017	2016	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)	0	400	0.665
Options at the beginning of the financial year (Executive SOP 2003)	252,000	332,000	0.890
Options at the beginning of the financial year (Ongoing SOP 2003)	400	800	0.890
Options at the beginning of the financial year (Ongoing SOP 2004)	2,000	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)	37,500	97,500	1.500
Options at the beginning of the financial year (Executive SOP 2013 BoD)	0	310,000	0.800
Options at the beginning of the financial year (Executive SOP 2013 MD)	20,000	280,000	0.800
Options granted (Executive SOP 2017 BoD)	300,000	0	1.980
Options granted (Executive SOP 2017 MD)	150,000	0	1.980
Options granted (Executive SOP 2017 SB)	30,000	0	1.980
Options forfeited (Executive SOP 2008)	0	-40,000	1.500
Options forfeited (Ongoing SOP 2002)	0	-400	0.665
Options forfeited (Ongoing SOP 2003)	0	-400	0.890
Options forfeited (Ongoing SOP 2004)	0	-1,200	2.225
Options forfeited (Executive SOP 2013)	0	-40,000	0.800
Options exercised (Executive SOP 2008)	0	-20,000	0.800
Options exercised (Executive SOP 2003)	-100,000	-80,000	0.890
Options exercised (Executive SOP 2013 BoD)	-20,000	-310,000	0.800
Options exercised (Executive SOP 2013 MD)	0	-220,000	0.800
Options at the end of the financial year	**701,900**	**341,900**	**0.665 – 3.795**
Weighted exercise price in EUR	1.727	1.072	
Exercisable options as of December 31	**211,900**	**331,900**	
Weighted exercise price in EUR	1.055	0.990	

Weighted exercise price of stock options exercised during 2017 amounts to EUR 0.875 (2016: EUR 0.814). Stock option programs with an outstanding amount of 184,400 options do not have an expiration date. For the remaining stock option programs the average remaining contractual life amounts to 5,8 years.

» TOTAL REMUNERATION OF THE KEY MANAGEMENT [40]

	2017	2016
	kEUR	kEUR
Short-term employee benefits	435	753
Post-employment benefits (pensions and medical supply)	19	19
Share-based payments	57	12
Total remuneration of the key management	**511**	**783**

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	12/31/17	12/31/16
		EUR	Number	Number
Executive SOP 2017 BodD	4/11/24	1.98	300,000	0

» EVENTS AFTER THE BALANCE SHEET DATE [41]

Up until the day of authorization for issuance, no event took place which would have exerted substantial influence on the net attest, financial position, or result of operations as per December 31, 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, 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, 2017 compared to December 31, 2016. Negative net indebtedness means that the Group is debt-free.

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

	12/31/17	12/31/16
	kEUR	kEUR
Current and non-current financial liabilities	19,206	13,827
Cash and cash equivalents	-20,127	-17,859
Securities and fixed-term deposits	-2,515	-1,734
Net liabilities	**-3,436**	**-5,766**
Equity per balance sheet including non-controlling interest	16,517	14,979
Net indebtedness, in percent	**-21**	**-38**

2. Significant accounting policies

The rent and similar deposits referred to in note [18], carried at their nominal amount of EUR 380k (2016: EUR 188k), 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	12/31/17	12/31/16
	kEUR	kEUR
Loans and receivables (including cash and cash equivalents)	34,701	28,302
Available-for-sale financial assets	2,515	1,734
Total	**37,216**	**30,036**

Financial assets	12/31/17	12/31/16
	kEUR	kEUR
Measured at amortized cost		
Loans and receivables (including cash and cash equivalents)	34,701	28,302
Total	**34,701**	**28,302**

Financial liabilities	12/31/17	12/31/16
	kEUR	kEUR
Other financial liabilities measured at amortized cost	18,989	14,165
Total	**18,989**	**14,165**

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 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, 2017:

	Fair Value 12/31/17	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss	0	0	0	0
Financial assets available-for-sale	2,515	2,515	0	0

Financial assets measured at fair value / Level 1

Level 1 is based on quoted prices in active markets for identical assets or liabilities.The following tables present the fair value measurement methods for Levels 1 pursuant to IFRS 13:

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, 2017.	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	12/31/17	12/31/16
	kEUR	kEUR
At fair value through profit and loss		
Designated as at fair value through profit and loss	0	-64
Total	0	-64
Available-for-sale financial assets		
Realized gains	0	68
Reclassified from equity to profit and loss	0	10
Through other comprehensive income	782	136
Total	**782**	**214**

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

Financial assets	12/31/17	12/31/16
	kEUR	kEUR
At fair value through profit and loss		
Designated as at fair value through profit and loss	0	35
Not at fair value through profit and loss	23	32
Measured at amortized costs	**-40**	**0**
Total	**-17**	**67**

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, the management decides on the utilization of derivative and non-derivative financial transactions and the deposit of surplus liquidity. The Group does not enter into any contracts with or deal in financial instruments, including derivative financial instruments, for speculative purposes.

5. Market risk

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

6. Exchange rate risk management

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

Financial assets	12/31/17	12/31/16
	kEUR	kEUR
USD	1,103	796
GBP	9,333	8,253
Total	**10,436**	**9,049**

Financial liabilities	12/31/17	12/31/16
	kEUR	kEUR
USD	1,003	613
GBP	8,802	6,814
Total	**9,805**	**7,427**

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% 12/31/17	Effect of USD +10% 12/31/16	Effect of GBP +10% 12/31/17	Effect of GBP +10% 12/31/16	Total 12/31/17	Total 12/31/16
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	-34	-18	-27	-26	-61	-44

	Effect of USD -10% 12/31/17	Effect of USD -10% 12/31/16	Effect of GBP -10% 12/31/17	Effect of GBP -10% 12/31/16	Total 12/31/17	Total 12/31/16
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	42	23	32	31	74	54

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 variables had remained constant:

The equity of the Group would have increased/decreased by EUR 35k/EUR 43k (2016: decreased/increased by EUR 52k/EUR 64k). 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 4.9 percent (2016: 7.4 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:

	2017	2016
	kEUR	kEUR
Specific allowances		
Balance at beginning of year	611	549
Allowances in the period		
Additions	265	283
Reversals	-22	-7
Consumption	-284	-214
Balance at end of period	**570**	**611**

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
2017	14,431	8,373	6,058
2016	10,197	6,191	4,006

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 873k (2016: EUR 869k).

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, 2017 are presented below. The information is based on contractual, undiscounted payments.

Financial liabilities 12/31/17	< 1 mo.	> 1 mo., < 3 mo.	3 mo. to 1 year	Total
	kEUR	kEUR	kEUR	kEUR
Trade payables	17,697	141	0	17,838
Other financial liabilities measured at amortized cost	441	486	223	1,150
Total	**18,138**	**627**	**223**	**18,988**

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**

» APPLICATION OF ART. 264 PAR. 3 OF GERMAN COMMERCIAL CODE (HBG) [43]

The following German subsidiary in the legal form of a capital corporation as defined in Art. 264a made use of the exemption clause included in Art. 264 Par. 3 of German Commercial Code:

- ad pepper media GmbH, Nuremberg

Nuremberg, March 29, 2018

The Board of Directors of ad pepper media International N.V. comprised the following members in the financial year 2017:

Dr. Jens Körner,
CEO Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in the financial year 2017 consisted of:

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

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

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

	12/31/17	12/31/16
	kEUR	kEUR
Non-current assets		
Intangible assets	101	157
Tangible assets	25	11
Financial fixed assets	3,161	2,767
Marketable securities	2,515	1,734
Total non-current assets	**5,802**	**4,669**
Current assets		
Receivables due from subsidiaries	1,700	1,228
Prepaid expenses and other current assets	285	148
Cash and cash equivalents	8,894	9,546
Total current assets	**10,879**	**10,922**
Total assets	**16,681**	**15,591**

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

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

	12/31/17	12/31/16
	kEUR	kEUR
Shareholders' equity		
Issued capital	1,150	1,150
Additional paid-in capital	66,529	66,438
Accumulated deficit	-50,839	-51,573
Other reserves	-1,682	-2,356
Net results for the year	580	629
Total equity	**15,738**	**14,289**
Provisions		
Subsidiaries and loans	114	216
Total provisions	**114**	**216**
Non-current liabilities		
Deferred tax liabilities	160	91
Total non-current liabilities	**160**	**91**
Current liabilities		
Other current liabilities	508	709
Accrued expenses	161	286
Total current liabilities	**669**	**995**
Total liabilities	**829**	**1,086**
Total equity and liabilities	**16,681**	**15,591**

» PROFIT AND LOSS ACCOUNT OF THE HOLDING COMPANY

	12/31/17	12/31/16
	kEUR	kEUR
Net turnover	272	216
Gross profit	272	216
Selling and marketing expenses	-664	-697
General and administrative expenses	-1,781	-1,914
Other operating expenses	-4	-7
Total costs	**-2,449**	**-2,618**
Net sales margin	**-2,177**	**-2,402**
Other operating income	1,639	1,544
Interest income	23	146
Interest expenses	-35	-64
Loss before taxes	**-550**	**-776**
Taxes	-72	-2
Share in profit of subsidiaries and participations	1,202	1,407
Net result for the year	**580**	**629**

» 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 1/1/17	**1,150**	**2,656**	**63,782**	**-51,573**	**-1,156**	**-1,201**	**629**	**14,289**
Currency translation differences	-	-	-	-	-39	-	-	-39
Unrealized gains/(losses) on securities	-	-	-	-	-	713	-	713
Total income and expense for the year recognized directly in equity	-	-	-	-	-39	713	-	674
Net income for the year	-	-	-	-	-	-	580	580
Total recognized income and expense for the year	-	-	-	-	-39	713	580	1,253
Allocation to accumulated deficit	-	-	-	629	-	-	-629	0
Stock-based compensation	-	91	-	-	-	-	-	91
Purchase of treasury shares	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	105	-	-	-	105
Cash settlement of SOPs	-	-	-	-	-	-	-	-
Balance at 12/31/17	**1,150**	**2,747**	**63,782**	**-50,839**	**-1,195**	**-488**	**580**	**15,738**

	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
Unrealized gains/(losses) on securities	0	0	0	0	0	118	0	118
Total income and expense for the year recognized 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 recognized 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 SOPs	0	0	0	-889	0	0	0	-889
Balance at 12/31/16	**1,150**	**2,656**	**63,782**	**-51,573**	**-1,156**	**-1,201**	**629**	**14,289**

» 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. If the valuation of a subsidiary based on the net asset value is negative, it will be stated at nil. If and insofar as the Company has the firm intention of enabling the participation to settle its debts, a provision is recognized for this. 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. If the valuation of a subsidiary based on the net asset value is negative, it will be stated at nil. If and insofar as the Company has the firm intention of enabling the participation to settle its debts, a provision is recognized for this.

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

	Trade-marks	Software	Total
	kEUR	kEUR	kEUR
Book value at 1/1/16	**6**	**161**	**167**
Additions	0	92	92
Disposals	0	0	0
Amortization	-1	-100	-101
Impairment			
Book value at 12/31/16	**5**	**152**	**157**
Purchase value	644	1,530	2,174
Accumulated amortization	-639	-1,378	-2,017
Book value at 1/1/17	**5**	**152**	**157**
Additions	0	48	48
Disposals	0	0	0
Amortization	-1	-104	-105
Book value at 12/31/17	**4**	**97**	**101**
Purchase value	644	1,578	2,222
Accumulated amortization	-640	-1,482	-2,121
Book value at 12/31/17	**4**	**97**	**101**

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

[3] Tangible assets

	2017	2016
	kEUR	kEUR
Book value at 1/1	**11**	**26**
Additions	29	1
Disposals	-1	0
Depreciation	-14	-16
Book value at 12/31	**25**	**11**
Purchase Value	603	575
Accumulated depreciation	-578	-564
Book value at 12/31	**25**	**11**

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

[4] Financial fixed assets

	12/31/17	12/31/16
	kEUR	kEUR
Subsidiaries at net asset value	3,049	2,741
Other	112	26
Total	**3,161**	**2,767**

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 1/1/16	**1,366**	**340**	**46**	**1,752**
Additions	0	0	0	0
Disposal and dividends	-460	0	0	-460
Share of net profit	1,407	0	0	1,407
Investments in subsidiaries	491	0	0	491
Translation adjustments	-279	0	0	-279
Repayments	0	-340	-20	-360
Book value at 1/1/17	**2,525**	**0**	**26**	**2,551**
Additions	0	0	86	86
Revaluations	0	0	0	0
Impairment	0	0	0	0
Disposal and Dividends	-755	0	0	-755
Repayments	0	0	0	0
Share of net profit	1,202	0	0	1,202
Investments in subsidiaries	0	0	0	0
Translation adjustments	-37	0	0	-37
Book value at 12/31/17	**2,935**	**0**	**112**	**3,046**

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

Investments in subsidiary companies consist of the following:

	12/31/17	12/31/16
	kEUR	kEUR
Subsidiaries at net asset value	3,049	2,741
Provisions for subsidiaries and loans	-114	-216
Total	**2,935**	**2,525**

[5] Marketable securities

The marketable financial assets as of December 31, 2017 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 0k (2016: EUR 1,412k) and sold for a total of EUR 0k (2016: EUR 2,092k). In the reporting period, unrealized gains of EUR 713k (2016: gains of EUR 136k) were recognized in other comprehensive income and loss, and realized gains of EUR 0k (2016: gains EUR 78k) included in profit and loss.

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

	12/31/17	12/31/16
	kEUR	kEUR
Due within one year	2,515	1,734
Due within one and five years	0	0
Due in more than five years	0	0
Total	**2,515**	**1,734**

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 (2016: EUR 0k) and sold for a total of EUR 0k (2016: EUR 3,231k). The unrealized revaluation losses incurred in the financial year amount to EUR 0k (2016: unrealized revaluation losses of EUR 0k) with realized losses of EUR 0k (2016: realized losses EUR 64k).

[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

	12/31/17	12/31/16
	kEUR	kEUR
Tax receivables	203	73
Other	82	75
Total	**285**	**148**

[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 2017 (2016: no new shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2016: 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 10, 2016, 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 Company did not carry out any share repurchase program in 2017. Consequently no shares were acquired (2016: 690,000 shares). As of December 31, 2017, the Company held 1,999,292 treasury shares (2016: 2,119,292 treasury shares) at a nominal value of EUR 0.05 each, which equals 8.69 percent (2016: 9.21 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 5,217k (2016: EUR 5,322k).

Number of shares outstanding

The number of shares issued and outstanding as of December 31, 2017 totalled 21,000,708 (2016: 20,880,708). Each share has a nominal value of EUR 0.05.

Authorized unissued capital

The authorized unissued capital totals EUR 21,485.40 (2016: EUR 21,485.40) and comprises 429,708 shares (2016: 429,708 shares).

Other reserves

Balances include valuations on available-for-sale securities of EUR -488k (2016: EUR -1,201k) and currency translation differences of EUR -1,195k (2016: EUR -1,156k).

Proposed appropriation of result for the financial year 2017

The Board of Directors proposes, with the approval of the Supervisory Board, that the result for the financial year 2017 amounting to EUR 580k should be transferred to accumulated deficit without payment of dividend. The financial statements do reflect this proposal.

[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 22k in financial year 2017 (2016: EUR 20k). Rental expense amounted to EUR 92k (2016: EUR 92k).

The future minimum payment obligations resulting from the contracts for real estate and car leases in place as of December 31, 2017 are as follows:

	2017
	kEUR
Not later than 1 year	192
Later than 1 year and not later than 5 years	117
Later than 5 years	0

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

[12] Employee information

At the end of the financial year, the Company employed 13 people (2016: 14). All employees are employed outside the Netherlands.

	2017	2016
	kEUR	kEUR
Wages and salaries	1,075	1,195
Stock option expenses	90	29
Social security costs	150	144
Voluntary employment expenses	2	3
Total	**1,317**	**1,371**

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 (2016: EUR 52k).

The average number of personnel employed during the year was:

	2017	2016
	FTE's	FTE's
IT	2	2
Marketing	1	1
Administration	10	11
Total	**13**	**14**

[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:

	2017	2016
	kEUR	kEUR
Managing Directors	511	772
Supervisory Board Members	24	24
Total	**535**	**796**

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 (2017)	Periodically paid	Annual bonus	Stock-based	Total
	EUR	EUR	EUR	EUR
Dr. Jens Körner (CEO)	240,000	154,000	56,531	450,531
Dr. Ulrike Handel (CEO until April 30, 2017)	40,000	20,000	0	60,000

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

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, 2017	Number of options outstanding as of December 31, 2016
Dr. Jens Körner (CEO)	April, 2017	300,000	1.98	300,000	0

Supervisory Board compensation

	2017	2016
	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
	2017	2017	2016	2016
Dr. Jens Körner (CEO)	0	300,000	0	0

The members of the Supervisory Board do not hold any stock options or shares (2016: none).

Associated companies

Associated companies	Shares	Options	Shares	Options
	2017	2017	2016	2016
EMA B.V.	9,486,402	0	9,486,402	0
Euro Serve Media GmbH	456,163	0	436,963	0

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

[14] Independent auditor's fees

2017	Fee Pricewater-houseCoopers Accountants N.V.	Fee other Pricewater-houseCoopers offices	Total fee Pricewater-houseCoopers
	kEUR	kEUR	kEUR
Audit of financial statements	40	130	170
Total	**40**	**130**	**170**

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

The Board

Dr. Jens Körner
(Chief Executive Officer)

Nuremberg, March 29, 2018

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» OTHER INFORMATION

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 2016

The Annual Report 2016 was adopted in the General Meeting of shareholders held on May 10, 2017. The General Meeting of shareholders has determined the appropriation of result in accordance with the proposal being made to that end.

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INDEPENDENT AUDITOR'S REPORT

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

» REPORT ON THE FINANCIAL STATEMENTS 2017

Our opinion

In our opinion:

- ad pepper media International N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 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;
- ad pepper media International N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 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 2017 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 31 December 2017;
- the following statements for 2017: 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 balance sheet of the holding company as at 31 December 2017;
- the profit and loss account of the holding company for the year then ended, the statement of changes in shareholders' equity of the holding company as at 31 December 2017; and
- 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.

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.

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

Independence

We are independent of ad pepper media International N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

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

The financial year 2017 was characterised by an increase in revenues of 23.5%. In the Webgains segment sales grew by 17.1% to € 51,399,000, the Webgains segment represents 68 % of total revenues. This affected the determination of materiality and our audit procedures as described in the section 'Materiality' and 'Key audit matters'.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the board of directors made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

In note 2 of the financial statements, the company describes the areas of judgement in applying accounting policies. Given the significant judgement in the determination of whether the company acts as an agent or principal in recognizing revenue for the Webgains segment, we have considered this to be a key audit matter as set out in the section 'Key audit matters' of this report.

Furthermore, we identified the "Dependency on Webgains IT platform for recognition of revenues" as a key audit matter due to the relative importance of the segment and the Webgains platform, 68 % of total revenues relate to the Webgains segment. Revenue recognition for the Webgains segment is based on transactions recorded 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.

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 outline of our audit approach was as follows:

Materiality

- Overall materiality: € 750,000.

Audit scope

- We conducted audit work in Germany, the Netherlands and the United Kingdom.
- Audit coverage: 100% of consolidated revenue, 95% of consolidated total assets and 99.25% of consolidated profit before tax.

Key audit matters

- Dependency on Webgains IT platform for the "Webgains segment".
- Reconsideration of revenue recognition as agent or principal for the "Webgains segment"

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'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 750,000 (2016: € 600,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 1.0% of total revenues.
Rationale for benchmark applied	We used revenues as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that revenues are an important metric for the financial performance of the company. 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 € 480,000 and € 699,999. Certain components were audited to 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 € 35,000 (2016: € 30,000) 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.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate.

The group audit primarily 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 marketable 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	100%
Total assets	95%
Profit before tax	99.25%

None of the remaining components represented more than 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 the United Kingdom.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team at the head office. These include share based payments and marketable securities.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the 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. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, 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 separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

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 € 51,399,000 (68% of total revenues; 2016: 72% of total revenues) generated in several geographic areas across the Group. Given the relative high amount of Webgains revenue represents to total revenue, we considered the Webgains segment as the most significant revenue stream of the group. 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. Considering the importance of the Webgains revenues in the financial statements and the dependency on the complex IT platform, any inaccuracies with respect to the configuration and operations of 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 the 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. In respect of the IT general controls we have tested the change management process by inspection of change samples. In respect of the automated application controls their operating effectiveness have been tested. We determined that we could rely on these controls for the purpose of our audit. We have performed test of details on revenue transactions vouching transactions on a sample basis to underlying contracts, invoices, evidence of delivery and subsequent payments. We performed confirmation procedures for accounts receivable balances and where no confirmations were received we obtained evidence of the underlying transactions. We also performed testing of manual journal entries for unusual revenue transactions, a test of credit notes after year end and analytical audit procedures on revenues, using independent expectations. We found no material exceptions in these tests. Our audit procedures included reading contractual agreements between Webgains and merchants and between Webgains and affiliates.
Reconsideration of revenue recognition as agent or principal for the "Webgains segment" Refer to note 2 "Judgements" and note 3 "revenue recognition" In the financial year 2017 the Webgains segment sales represents 68% of total revenues. Based on the criteria defined in IAS 18, the company has concluded that it is acting as a principal for the Webgains activities, in providing the affiliate services to the merchant, rather than being an agent between merchant and affiliate. Consequently, the company is recognising its revenue on a gross basis.	We assessed and challenged management's analysis for the revenue recognition of the Webgains segment under IAS 18 as well as IFRS 15. Alongside contractual arrangements, current business and industry practice were taken into consideration, when assessing if the company has exposure to the significant risks and rewards associated with rendering of performance marketing services to the merchants. Based on the analyses, we found that management's conclusions are supported by available evidence.

Key audit matter	How our audit addressed the matter
As per 1 January 2018 IFRS 15 is effective, which led to an assessment by management whether a principal or agent activity exists under the new standard. Under IFRS 15, the assessment is made for each separate performance obligation, taking into account the newly introduced control principle as well as the modified indicators. Management concluded that as of 2018, under IFRS 15, it should report revenues as an agent on a net basis, resulting in lower revenues and cost of sales of the Webgains segment. With respect to the fiscal year 2017, application of IFRS 15 would have resulted in a reduction of the third party revenues and cost of sales of approximately €41,000,000. The EBITDA and EBIT as well as the balance sheet are not affected in absolute amounts. The EBITDA and EBIT presented as a percentage of adjusted revenues will increase accordingly. Given the significant judgement involved in the determination of whether the company acts as an agent or principal for the Webgains revenues, and the material impact thereof, we consider this as a key audit matter.	We also evaluated management's disclosures of significant judgements in relation to the company's revenue recognition (note 2) and of the expected impact of IFRS 15 on the company's revenue recognition as of 2018 (note 2). Based on our procedures we considered the disclosures made in these notes to be adequate.

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 the 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 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was 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 in accordance with Part 9 of 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 16 May 2017 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 16 May 2017 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 5 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

We have not provided any services in addition to the audit to the company and its controlled entities, for the period to which our statutory audit relates.

» 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, 29 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by: drs. J.W. Middelweerd RA

» APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2017 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. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with 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.

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» ADDRESSES

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

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» DATES AND CONTACTS

Company calendar

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

Annual Report 2017	March 29, 2018
Annual General Meeting (Amsterdam, The Netherlands)	May 15, 2018
Quarterly Report I/2018	May 22, 2018
Quarterly Report II/2018	August 21, 2018
Quarterly Report III/2018	November 15, 2018

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Contact partner for investors

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Board of Directors:
Dr. Jens Körner, CEO

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.

Our 2017 Annual Report as well as the Interim Financial Reports for 2017 are available at **www.adpeppergroup.com** under:
Investor relations / Statutory publications / Financial reports.

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www.adpeppergroup.com