ad 20 YEARS pepper group
digital pioneers since 1999

ANNUAL REPORT

» 2018

ad pepper

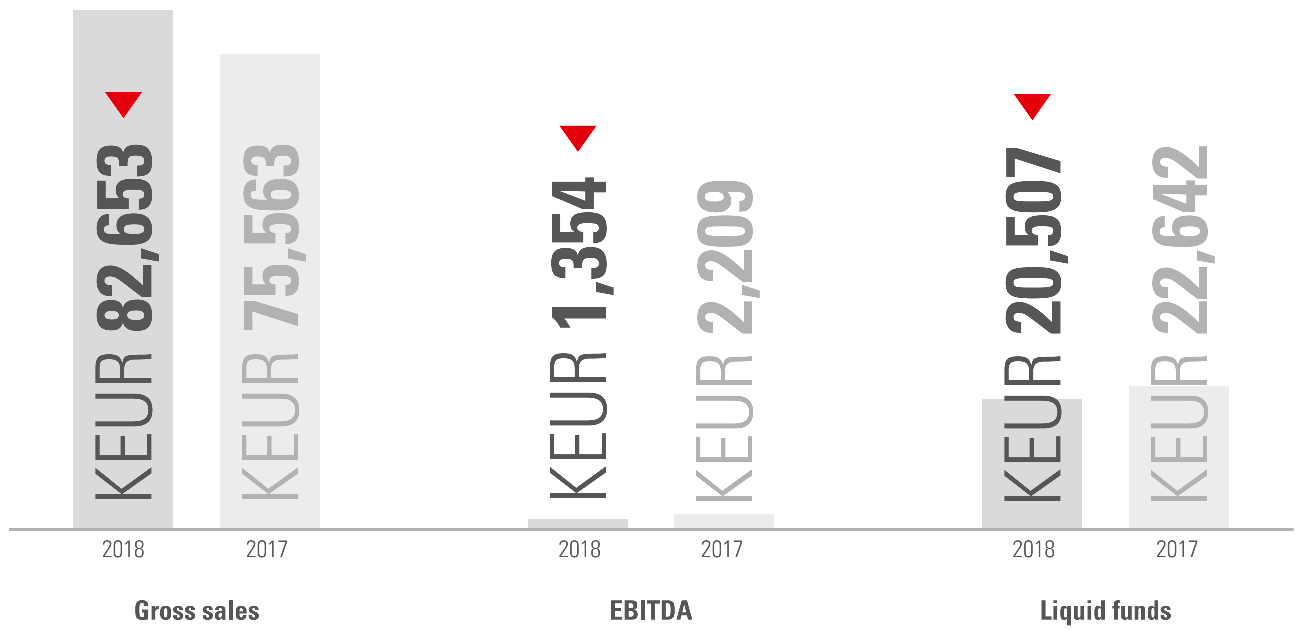
WEBGAINS

ad agents

» CONTENT

» KEY FIGURES AT A GLANCE

	2018	2017
Gross sales (kEUR)[1]	82,653	75,563
Revenue	20,272	18,724
Gross profit (kEUR)	19,546	18,348
Gross margin (percent) in relation to gross sales	23.6	24.3
Gross margin (percent) in relation to revenue	96.4	98.0
EBITDA[2] (kEUR)	1,354	2,209
EBIT[3] (kEUR)	1,027	1,817
EBT[4] (kEUR)	837	1,800
Net earnings (kEUR)	535	1,136
Earnings per share (basic, EUR)	0.01	0.03
Total assets (kEUR)	39,610	38,615
Shareholders' equity (kEUR)	16,512	16,517
Equity ratio (percent)	41.7	42.8
Liquid funds[5] (kEUR)	20,507	22,642
Number of employees (as of 31 December)	207	200



1 Gross sales represent the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of gross revenue information is not required under IFRS; however, it is voluntarily disclosed from January 1, 2018 onwards in the Consolidated Income Statement since management has concluded that the information is useful for users of the financial statements. Please refer to Note [6]

2 Income before Interest, Tax, Depreciation and Amortization
3 Income before Interest and Tax
4 Income before Tax
5 Cash & cash equivalents including listed debt securities

» THE AD PEPPER MEDIA GROUP TURNS 20. AND THE BEST IS YET TO COME.

Celebrating the birthday of a digital success story.

ad pepper media launched its innovative online marketing solutions in 1999. Back then, online business was still in its infancy, with most people accessing the internet by modem. That was also the time of the first documented online sales transaction (involving the sale of a CD). In the years since then, we have seen rapid technological advances and actively helped shape the digital advertising market. Our Group is a pioneer of cutting-edge digital advertising. ad pepper media International N.V. (the "Company") acts as the Holding Company for our three segments: Webgains (affiliate marketing), ad pepper media (lead generation), and ad agents (performance marketing agency). By pooling our expertise, we rapidly positioned ourselves as a key mover in the performance marketing business. These days, we are one of the most experienced players in our industry and will continue to pursue our vision of shaping the digital evolution process in future as well.

We now have 207 employees at seven locations across Europe. It is their expertise, dedication, and creativity which drive the Group's success. We operate in more than 50 countries and satisfy prestigious customers in a very wide range of industries.

So this is a time to say thank you – to our employees and our partners for their exceptional commitment, their creativity, and their willingness to pool forces. And these qualities will enable us to tackle and master the challenges that lie ahead.


ad pepper media group celebrates its 20th anniversary
Michael Oschmann, Chairman of the Supervisory Board; Dr. Jens Körner, CEO; Staff Members

1999

ad pepper media founded with **Michael Oschmann** as anchor investor

2000

IPO: Successful listing in Frankfurt - **Jens Körner** is part of the IPO team

Michael Oschmann joins ad pepper media group as Supervisory Board Member

2001

ad pepper media launches new product **iLead** (lead generation)

2006

Jens Körner joins the ad pepper media group as **CFO**

Acquisition of the Affiliate Marketing technology platform **Webgains Ltd**

2007

Acquisition of the performance marketing agency **ad agents**

2017

Jens Körner takes over as CEO of the ad pepper media group

Best EBITDA from operations (> EUR 2 million)

2018

Record 1st quarter

2019

20th anniversary

» 01

LETTER FROM BOARD OF DIRECTORS

» DEAR STAKEHOLDERS,

Founded in 1999, ad pepper media is a pioneer in online marketing. This year, we can therefore look back on two successful decades. We have worked hard over the past years and laid the foundation for a strong, future-proof ad pepper. We've built a Company that is more successful than ever – a Company that can not only keep up with the fast pace of digital transformation, but also shape that transformation by staying at the forefront of this development. This is what all three of our business segments have in common: we are leaders of digital marketing and in the use of data and technology to drive performance.

With the Group achieving gross sales of EUR 82,653k, revenue of EUR 20,273k and EBITDA of EUR 1,354k for the Group achieved in 2018, the past financial year was one of the best since inception of the Company 20 years ago. And although we did not fully deliver to our 2018 plan, we achieved satisfying results in the respective segments, in the ad pepper media segment we even achieved record levels of gross sale and profitability.

Mixed development of the three operational segments

As mentioned above, our three operational segments differed in financial performance throughout the past financial year. While gross sales in the ad agents segment fell by 1.5 percent to a total of EUR 17,096k (revenue: -7.6 percent) the EBITDA of EUR 40k achieved in the past year was not only below last year's figures but also clearly below our own expectations. The main reason for the weaker-than-expected performance was the loss of three clients in the second half of 2018.

The Webgains segment performed well. Gross sales here grew by 6.9 percent to a new record figure of EUR 54,938k (revenue: + 4.1 percent). This segment thus accounted for 66.5 percent of gross sales for the ad pepper media group as a whole. While the EBITDA of EUR 632k was a good result, here too we had expected higher profits.

Finally, our third operating segment, ad pepper media, grew by 55.9 percent to EUR 10,619k in gross sales (revenue: + 43.8 percent). EBITDA came to EUR 1,618k or an EBITDA-margin of 31.6 percent in relation to revenue, making it once again the most profitable segment of the Group. The profitability levels achieved in this segment are also the best we have seen in our 20 years of operation.

As a consequence of the weaker-than-expected financial performance of the ad agents and Webgains segments – for which the excellent development in the ad pepper media segment could not compensate in full – a lower guidance for the full year of 2018 was issued with the release of figures for the first three quarters of the financial year 2018. While the self-imposed EBITDA target of at least EUR 2.2m for the financial year 2018 was missed by some EUR 800k, as stated above, the profitability achieved is still one of the best results in our Company's history and the fourth consecutive positive annual result, delivered along with consistent growth.

Defending and expanding our market position will continue to be our task in 2019. Competition is fierce as we all know and it will only intensify should the macroeconomic framework deteriorate. The signs of a change in economic direction are already evident. However, in our view, digital transformation at major European companies has only just begun. Every company can see the gravity of the situation, the challenges, and the need for further expenditure. This will further advance the development of the ad pepper media group in the years ahead. Even in a more difficult economic framework, with all our operational segments active in performance marketing, i.e. the advertiser paying only for measurable results, we believe we are well positioned to address the challenges and opportunities within our industry and are confident of once again returning profitable growth in the financial year ahead.

01
LETTER FROM BOARD OF DIRECTORS

Strong balance sheet and financial resources

Our balance sheet is strong and our financial resources are considerable. Our cash reserves (including securities measured at fair value) amounted to EUR 20.5m at the end of 2018. The Company still has no liabilities to banks and we plan to continue financing our growth through cashflow in the financial year ahead. Our equity ratio amounts to a comfortable 41.7 percent. We carefully review acquisitions and are more inclined to pursue them when they offer 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. Based on the strong balance sheet and on the financial expectations for 2019, we therefore believe it is justified to apply the going concern assumptions.

It only remains for me to thank our customers, shareholders and other stakeholders for their continued support. And to thank all our staff for their tremendous commitment and efforts over the past year.

Yours faithfully,

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

Dr. Jens Körner, CEO

Nuremberg, 27 March 2019

» 02

REPORT OF THE SUPERVISORY BOARD

» DEAR SHAREHOLDERS,

In the 2018 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 2018

The Supervisory Board held four meetings in 2018. Moreover, we collectively and individually interacted with the CEO and with the Senior Management outside the formal Supervisory Board meetings. The Chairman of the Supervisory Board and the CEO met regularly for bilateral discussions about the progress of the Company on a variety of matters. The Supervisory Board meetings were well attended in 2018 with an attendance rate of 100 percent of each Supervisory Board member. This also applies to the audit committee. The Board of Directors kept the Supervisory Board informed of the status of discussions surrounding the development and implementation of the strategy for 2018 and beyond. The Supervisory Board discussed the status of the implementation with the Board of Directors in its meetings and is hearing senior management regularly, e.g. after a meeting of the Supervisory Board. The Supervisory Board discussed the manner in which the Board of Directors implemented the long-term value creation strategy, i.e. improving our financial performance, and the principal risks associated with it. The Supervisory Board approved the financial plan for 2018 and discussed (potential) aquisitions and disposals with the Board of Directors. Topics discussed included annual and interim results, the performance of securities, technological developments, the organisation of sales and marketing activities, Corporate Governance, investor relations, compensation, and human resources. The Supervisory Board also met and engaged Ernst & Young Accountants LLP, appointed as independent auditor for the financial year 2018 by the General Meeting held on 15 May 2018 and discussed the outcome of the audit procedures on 25 March 2019.

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 of the Supervisory Board is done by following a detailed questionaire. The review and discussion included reviews of the composition and expertise of the Supervisory Board, its time management, its effectiveness, its dynamics and succession planning, as well as its organisation and meeting procedures, provision of information and performance of the Chairman and the individual members. The evaluation has shown that the Supervisory Board is functioning well and will continue to also regularly discuss its own effectiveness and value for the Company. The evaluation of the Board of Directors is done by individual evaluation and discussion of its strength and weaknesses between the members of the Supervisory Board, including core abilities, risk assessment, business culture and human resources management.

Also in the past financial year, the Supervisory Board decided to be informed in greater detail by the management of each business unit (which were present at meetings of the Supervisory Board in rotating order) – among other things - regarding technical matters, clients, market trends 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 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 1 January 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, bonuses paid to members of the Board of Directors ranged between 4 percent and 65 percent of their annual fixed salaries. Variable bonuses are usually paid during the first quarter following publication of the consolidated annual results.

In 2000, ad pepper media group introduced a long-term incentive model in the form of stock option plans for employees in key positions, including members of the Board of Directors. Company stock options become exercisable once ad pepper media's share price exceeds specified treshold, but only after 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. The details of the compensation structure disclosed in this Annual Report reflect the size of the Company and take into consideration the fact that the Board of Directors currently consists of one member only (see also note [40]). Consequently, the Supervisory Board did not conduct a scenario analysis whereby different performance assumptions and corporate actions were examined. The compensation policy is expected to remain largely unchanged in 2019.

Composition of the Supervisory Board

The profile and composition of the Supervisory Board as a whole must be aligned with the profile and strategy of the Company. The Supervisory Board strives for a balanced distribution of specific expertise in relation to the business activities, strategy and long-term goals of the Company. Each member of the Supervisory Board must be capable of assessing the broad outline of the Supervisory Board's overall policy objectives. Given the size of the Company, the Supervisory Board generally considers four members to be a good proportion. One Supervisory Board member holds long-term share positions. The following table shows the current composition of the Supervisory Board:

- **Michael Oschmann** (male, born 1969; German citizen)
  Supervisory Board Chairman throughout the entire financial year up to and including 31 December 2018
  Graduate in Business Administration, Managing Director of Telefonbuchverlag Hans Müller GmbH & Co. KG, Nuremberg
  Supervisory Board member since 10 January 2000; appointed until Annual General Meeting 2021

- **Thomas Bauer** (male, born 1963; German citizen)
  Supervisory Board member throughout the entire financial year up to and including 31 December 2018
  CEO of Apotheker Walter Bouhon GmbH, Managing Director of Thomas Bauer GmbH, Nuremberg
  Supervisory Board member since 20 March 2013; appointed until Annual General Meeting 2019

- **Eun-Kyung Park** (female, born 1978; German citizen)
  Supervisory Board member throughout the entire financial year up to and including 31 December 2018
  Chief Digital Officer Entertainment of ProSiebenSat.1 Media SE
  Supervisory Board member since 20 March 2013; appointed until Annual General Meeting 2021

- **Dr. Stephan Roppel** (male, born 1964; German citizen)
  Supervisory Board member throughout the entire financial year up to and including 31 December 2018
  Managing Director of baby-walz GmbH, Munich
  Supervisory Board member since 20 March 2013; appointed until Annual General Meeting 2020

In view of Michael Oschmann's knowledge and experience as an entrepreneur in online-marketing and services as well as the way he fulfils his role as a member of the Supervisory Board, on the 2017 Annual General Meeting of Shareholders, in deviation of best practice provision 2.2.2 of the Dutch Corporate Governance Code, he has been reappointed for a period of another four year terms. In view of Thomas Bauer's knowledge and experience in management functions, especially his financial expertise, and his experience in human resources, controlling, IT and corporate planning as well as the way he fulfils his role as a member of the Supervisory Board, the agenda for the upcoming 2019 Annual General Meeting of Shareholders will include a proposal to re-appoint Thomas Bauer as member of the Supervisory Board for an additional term of four years.

The Supervisory Board is a separate corporate body that is independent of the Board of Directors. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Directors nor an employee of the Company. In accordance with best practice provision 2.1.10 of the Dutch Corporate Governance Code the Supervisory Board declares that the independence requirements in best practice provisions 2.1.7 to 2.1.9 have been fulfilled, except that one of its members, Michael Oschmann, is not independent pursuant to best practice provision 2.1.8 vii. because he is Director of EMA Electronic Media Advertising International B.V., which holds more than 10 percent of the Company's share capital. On March 30, 2018, the Supervisory Board formed an audit committee consisting of Eun-Kyung Park, Dr. Stephan Roppel and Thomas Bauer (chairman). The Supervisory Board is aware of the fact that ad pepper media does not yet have an internal audit function and has discussed this with the Board of Directors. The Supervisory Board came to the conclusion that due to the size of the Company and the size of the Supervisory Board, the Company currently does not need an internal audit function, which may though change in future depending on further Company growth. The Supervisory Board annually considers the need to establish an internal audit function.

Supervisory Board Compensation	2018	2017
	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

In addition, the following Supervisory Board members were granted 10.000 stock options each (Executive SOP 2017 SB): Thomas Bauer, Eun-Kyung Park and Dr. Stephan Roppel.

Unqualified independent auditor's report on the Financial Statements

The independent auditor Ernst & Young Accountants LLP audited the financial statements of ad pepper media International N.V. for the 2018 financial year and issued an unqualified independent auditor's report.

The financial statements, the Report of the Board of Directors and independent auditor's report were made available to the Supervisory Board for review. Meetings between the Company's audit committee and the auditors were held, who presented the draft audit plan and 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 27 March 2019, the Supervisory Board discussed and approved the Consolidated Financial Statements prepared by the Board of Directors for the 2018 financial year.

02
REPORT OF THE SUPERVISORY BOARD

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 to trading on 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 Governance section of this annual report, ad pepper media reports in detail on compliance with the Dutch Corporate Governance Code.

The Supervisory Board has played a key role in supporting ad pepper media's growth strategy during the year, as laid out by the Board of Directors. We have assisted in evaluating acquisitions and refining the long-term value creation strategy. On behalf of the Supervisory Board I would like to express our appreciation to all of the employees of ad pepper media for their efforts and achievements throughout 2018.

For the Supervisory Board

Michael Oschmann,
Supervisory Board Chairman

Nuremberg, 27 March 2019

» 03

THE AD PEPPER MEDIA SHARE

03
THE AD PEPPER MEDIA SHARE

» THE AD PEPPER MEDIA SHARE

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. as at December 31, 2018 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. As of 31 December 2018, the Company held 1,999,292 own shares (2017: 1,999,292).

The authorised 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, upon approval by the Supervisory Board, to issue shares until 15 May 2023, 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.

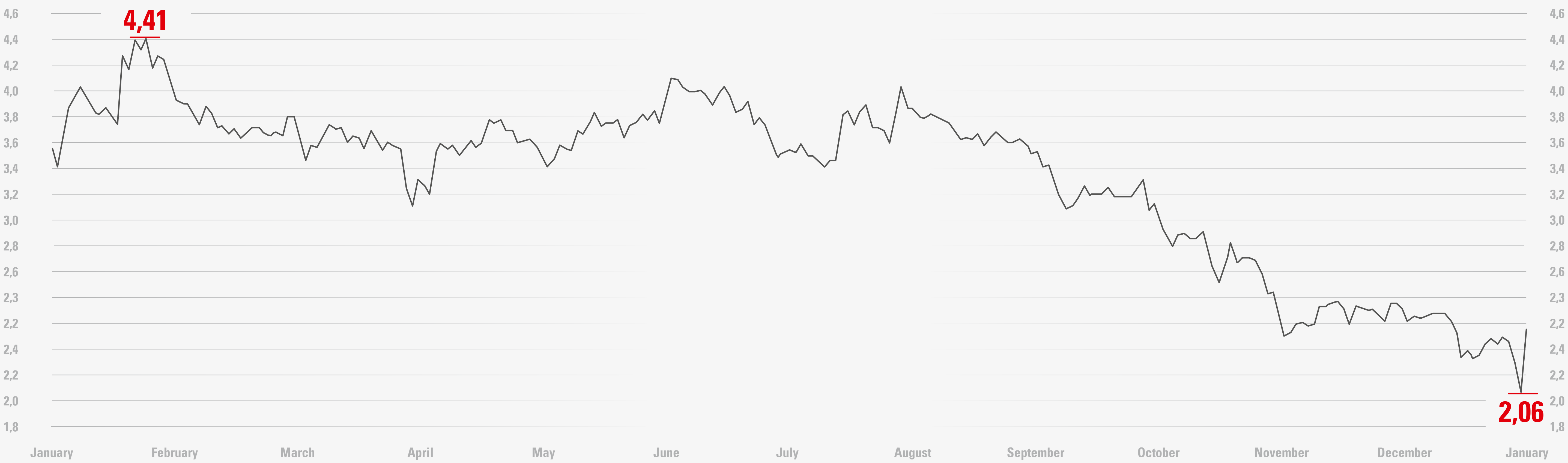
Key share figures	2018	2017
Outstanding shares*	21,000,708	21,000,708
Market capitalisation (in EUR)	56.8m	80.2m
Year-end (in EUR)	2.47	3.49
Year high (in EUR)	4.41	3.49
Year low (in EUR)	2.06	1.91

*total number of issued shares less own shares

ad pepper media announced strong preliminary results for the year 2017 on 24 January 2018. The share price benefited from the positive news and reached its year high on 24 January with EUR 4.41 per share. Record results for the first quarter released on 18 April 2018 contributed to a stable development of the share price during the first half of 2018, however, despite the good news the share price could not maintain this level and fell below EUR 4.00.

In the wake of the announcement of third quarter results, which was accompanied by a downward revision of the EBITDA guidance for the financial year 2018, ad pepper media's shares fell below EUR 3.00, and reached its 2018 low with a price of EUR 2.06 per share on 27 December 2018. Overall trading volumes were generally low and our share was not spared the effects of the stock market volatility which could be observed in the second half of 2018. On 28 December, the last day of trading of the year, the share finally closed at EUR 2.47 per share, almost 30 percent below last year's closing price.

Share price performance in past 12 months (Xetra)



03
THE AD PEPPER MEDIA SHARE

Annual General Meeting

All of the resolutions proposed in the agenda were adopted unanimously at the Annual General Meeting (the "General Meeting") of ad pepper media International N.V. held in Amsterdam on 15 May 2018. In all, 9,986,761 voting rights, or 44.42 percent of the issued share capital and 47.55 percent of all shares with voting rights were represented at the Annual General Meeting.

Alongside the presentation of the annual financial statements for the 2017 financial year, key agenda items also included the discharge of the members of management and the Supervisory Board, the election of a new auditor for the 2018 financial year as well as the authorisation to buy back treasury stock.

»04

REPORT OF THE BOARD OF DIRECTORS

» 04.1

GOVERNANCE

» OUR GOVERNANCE STRUCTURE

Corporate information

ad pepper media International N.V. is a "Naamloze vennootschap" (N.V.), a Dutch limited liability company, and is the parent company of the ad pepper media group (the "Group"). The 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 and the annual general meeting of shareholders 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 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 General Meeting. In performing its duties, the Board of Directors is guided by the interests 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 best practice provisions of the Dutch Civil Code and the articles of association (the "Articles of Association"). Since 28 February 2017, the Company's Board of Directors consists of one "Director" (Chairman of the Board of Directors 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 2018 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 Board of Directors 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.

04.1
GOVERNANCE

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 adhoc 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.

General Meeting

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. An extraordinary General Meeting 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 Dutch Civil Code and as often as a member of the Board of Directors or a Supervisory Board member considers it necessary.

Diversity

We aim for diversity on every level. We do not see diversity as merely a matter of gender or ethnicity but also of personality, skills and knowledge. We need men and women, people from different backgrounds and cultures. ad pepper media values this diversity and believes it contributes positively to the way we evaluate situations and make decisions. The more we utilise the differences between us and the more we can cooperate and learn from each other, the stronger we will be as a company that serves a highly diverse society and stakeholders. The Supervisory Board and the Board of Directors are fully aware that both boards currently lack gender diversity we, do not comply with the Dutch law requirements to have an even distribution of seats between men and women and that we do not have a diversity policy. We will take greater board-level gender diversity into account for future appointments without compromising our commitment to hiring the best qualified individuals for positions.

Conflicts of interest

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.

During 2018 no conflicts of interest were reported.

Insider trading policy

ad pepper media has a strict Code of Conduct on insider trading. The insider trading policy with regard to inside information and securities trading was adopted by the Board of Directors. The insider trading policy with regard to inside information and securities trading was adopted by the Board of Directors. This policy is publicly available on the Company's website. In accordance with applicable law and regulations (including the EU Market Abuse Regulation), the Company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price-sensitive information. Transactions in the Company's shares carried out by the Board of Directors and the Supervisory Board members (including their closely associated persons) are as and when required, notified to the Dutch Authority for the Financial Markets (AFM), in accordance with the applicable provisions of the EU Market Abuse Regulation.

Substantial shareholdings

Shareholders owning 3 percent or more of the issued share capital of a listed company (a substantial shareholding or short position) must report this to the AFM as soon as this threshold is reached or exceeded. Subsequently, notifications to the AFM must be made 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. Shareholder's disclosures can be inspected in the register kept by the AFM and for ad pepper media the shareholdings as per December 31, 2018 are also disclosed on page 34 of this annual report.

Publication requirements under German law

In accordance with Section 26 (1) of the German Securities Trading Act ("Wertpapierhandelsgesetz"), the Company, in its capacity as a so-called domestic issuer ("Inlandsemittent") under the German Securities Trading Act, must publish any shareholding notifications under Dutch law immediately, but no later than three trading days after receiving them, via qualified media outlets. The Company must also transmit the notice to the German Federal Financial Supervisory Authority (BaFin) and to the German Company Register ("Unternehmensregister").

Internal audit function

The Supervisory Board annually considers the need to establish an internal audit function and following these discussions makes a recommendation to the Board of Directors. 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 independent 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 independent auditor and any commissioning of the external auditor 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 independent auditor is required to attend the General Meeting and the Supervisory Board meeting at which the independent auditor's report on its audit of the financial statements is discussed.

Statement by the Board of Directors (Dutch Corporate Governance Code)

For the purpose of complying with best practice provision 1.4.3 of the Code the Management Board believes that, to the best of its knowledge:

- the Company's internal risk management and control organization provides reasonable assurance that its financial reporting does not contain any errors of material importance;
- the internal risk management and control processes in relation to financial reporting functioned properly in 2018;
- the report provides sufficient insights into failings, if any (no failings in 2018), in the effectiveness of the internal risk management and control systems;
- the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies;
- based on the strong balance sheet it is justified that the financial reporting is prepared on a going concern basis; and
- 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.

The Board of Management is responsible for the establishment and adequate functioning of a system of governance, risk management and internal controls in the Company. It reports on and is accountable for internal risk management and control systems to the Supervisory Board and its Audit Committee.

The Company has implemented a risk management and internal controls designed to provide reasonable assurance that strategic objectives are met by creating focus, integrating management control over the Company's operations, ensuring compliance with applicable laws and regulations and by safeguarding its assets and the reliability of its financial reporting and its disclosures. The Company's risk management approach is embedded in its periodic business planning and review cycle and forms an integral part of business management.

With respect to financial reporting a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with internal control over financial reporting.

It should be noted that the above does not imply that these systems and procedures provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

Remuneration Policy

General

The remuneration and the contracts between the Company and the members of its Management Board are determined by the Supervisory Board within the scope of the remuneration policy that has been adopted by the General Meeting.

The objective of the remuneration policy is to attract, retain and motivate the members of the Management Board as top-tier managers of an international company in a fast-moving commercial environment, while protecting and promoting the objectives of the Company and shareholders' value.

The remuneration for the members of the Management Board may consist of the following items:

- Periodically paid remuneration (fixed base salary)
- Short-term performance-related variable remuneration (bonus)
- Medium- and long-term performance-related variable remuneration (stock options)
- Remuneration payable in instalments
- Other benefits

Periodically paid fixed remuneration (base salary)

The base salary of the members of the Management Board is determined on an annual basis by the Supervisory Board. The fixed remuneration is determined by the Supervisory Board, usually within the first three months of each calendar year and with retrospective effect as of 1 January of that year. The fixed remuneration is typically increased in line with the inflation rate, but the Supervisory Board may decide otherwise.

Short-term performance-related variable remuneration (bonus)

Due to the business environment of the Company it is difficult to link the variable remuneration to previously determined and influenceable long term targets. The short-term variable remuneration for members of the Management Board should in principle consist of an annual performance-related bonus. The bonus is determined by the Supervisory Board on the basis of measurable and controllable targets such as the Company's income before taxation (EBT) or other financial or operational targets, as determined by the Supervisory Board.

Medium- and long-term performance-related variable remuneration (stock options)

The Company aims for a business policy which takes into account the interests of the shareholders and its other stakeholders. The Company wishes to promote commitment of the members of the Management Board to build the shareholders' value on a long term basis. The Company may therefore introduce one or more stock option plans for the members of the Management Board, which may or may not be linked to the performance of the Company. The exercise price of the stock options, the number of stock options and the other terms and conditions shall be laid down in the stock option plans.

Remuneration payable in instalments

The members of the Management Board have entered into part-time employment contracts with the Company. Upon dismissal of a member of the Management Board, the Company is in principle obliged to pay his/her fixed and variable salary and other benefits for the remaining term of the contract, but the Supervisory Board is authorized to deviate from this principle.

Other benefits

The Company shall indemnify each (former) member of the Management Board who was or is involved, or threatens to become involved, in his/her capacity as (former) member of the Management Board, as a party to any past, present or anticipated future actions or proceedings of any nature whatsoever, against all conceivable financial loss or harm that he/she has in fact and in all reasonableness suffered in connection with the actions or proceedings.

Other benefits may include but are not limited to life insurance, disability insurance, long-term health care insurance, company vehicle and cell phone usage.

In general, the Company, its subsidiaries and the companies whose financial details are consolidated by the Company shall not grant loans, advances or guarantees to members of the Management Board, but the Supervisory Board may resolve that the Company shall do so if the Supervisory Board deems that the granting of loans, advances or guarantees is in the interest of the Company.

During 2018 the Company was in compliance with the remuneration policy.

» 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 8 December 2016. The new Code took effect on 1 January 2017, and code can be found at www.mccg.nl.

Non-application of specific best practice provisions 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 best practice provisions. To the extent that we do not apply certain 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:

Best practice provision 1.3 Internal audit function

The Supervisory Board consists of four members. Given the size of the Company and its risk profile, the Company does not have an internal auditor function of its own. Nevertheless, the Board of Directors and the Supervisory Board may implement internal audits on a case-by-case decision using internal and external resources. The Company thus does not fully comply with best practice provisions 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.3.5 and 1.3.6 of the Code.

Best practice provision 2.1 Composition and size

The profile of the Supervisory Board is not posted on the Company's website. Our opinion is that the Annual Report provides sufficient information in this respect. The Company therefore does not comply with best practice provision 2.1.1. This provision also states that the Supervisory Board should strive for a diverse composition with respect to nationality, age, gender, and educational and work background and should define specific targets to achieve this. The Supervisory Board believes that both the Board of Directors and the Supervisory Board are and will be composed in such a manner that the combination of experience, expertise and independence of its members satisfies the requirements set out in its profile. We believe that the composition of our boards allows them to properly and effectively carry out their duties. Our focus for new board members is on experience and education instead of explicit gender, age or nationality diversity targets. We therefore do not comply with best practice provision 2.1.5 of the Code. Finally, Michael Oschmann, Chairman of the Supervisory Board of the Group, cannot be regarded as independent 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.

Best practice provision 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 best practice 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 of remaining open to 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 retire from the Board at the same time. The latter is not posted on the Company's website. The Company therefore does not comply with best practice 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. As the Supervisory Board has just four members, the number of committees must be reduced to the minimum required.

Best practice provision 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 decided to not form a remuneration committee and a selection and appointment committee 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 these committees as set out in the Code, unless stated otherwise herein. The Company does therefore not fully comply with best practice 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 best practice provisions 2.3.6 and 2.3.7.

04.1
GOVERNANCE

Best practice provision 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 best practice provision 2.4.3.

Best practice provision 2.6 Misconduct and irregularities

The Company has no plans to establish "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 jeopardising their legal position. The Company therefore does not fully comply with best practice provision 2.6.1. However, a Code of Conduct, setting out business principles for our employees and rules of conduct, was adopted in 2007 which allows for the possibility of anonymously reporting concerns about actual or suspected non-compliance with the Company's standards stipulated in its Code of Conduct.

Best practice provision 3.1 Remuneration policy – management board

In deviation of best practice provision 3.1.2 of the Code, options granted to members of the Board of Directors under the BoD stock option plan ("SOP") can be partly exercised after a period of one year. Furthermore, the grant of 10.000 SOP is regarded to be more symbolic, rather than remmeration.

Best practice provision 3.2.1 Remuneration committee proposal

A remuneration policy has been implemented and approved by the general meeting. However, given the size of the company and the Supervisory Board, a remuneration committee has not been and is not intended to be established.

Best practice provision 3.2.3 Severance payments

The compensation paid in the event of dismissal of Mr. Körner may exceed one year's salary, however, severance pay will not be awarded if the agreement is terminated early at the initiative of the management board member, or in the event of seriously culpable or negligent behaviour on the part of the management board member. 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 best practice provision 3.2.3. See also page 35 "payments to employees on termination of employment in connection with a public takeover bid".

Principle 3.3 Remuneration Supervisory Board

Supervisory Board members have been granted stock options. The Company does not comply with best practice 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. Furthermore, the grant of 10.000 SOP for three Supervisory Board Members is regarded to be more symbolic rather than part of a regular remuneration.

Best practice provision 3.4.1 Remuneration report

A remuneration policy has been implemented and approved by the General Meeting and is included in this annual report. However, a remuneration report is not provided in this report nor will such a report be published on the company's website and a remuneration committee has not been and is not intended to be established.

Best practice provision 3.4.2 Agreement of Board of Directors member

The existing contract with the Board of Directors does not contain any extraordinary elements; the remuneration essentially consists of fixed and variable remuneration. In the event of more complex contracts being concluded in the future, the Company will consider publishing a disclosure on its website.

Best practice provision 4.2 Provision of information

While the Company focusses on the corporate calendar that covers all publication dates and planned conferences and will update investor presentations posted on the Company's website whenever new information is available so that no single investor can gain an information advantage, due to the size of the Company and owing to the large number of meetings not every single meeting with or presentation to analysts, investors and institutional investors can be made available to follow in real time. The Group also does not post a policy on bilateral contacts with the shareholders on its website. This is in deviation from best practice provisions 4.2.2 and 4.2.3.

» DECREE ARTICLE 10 TAKEOVER DIRECTIVE (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 board reports. This obligation has been implemented in Dutch law through Decree Article 10 Takeover Directive. 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 section, is presented below.

Capital structure

The Company has only one class of shares (ordinary shares) which carry equal rights. The issued share capital amounts to EUR 1,150,000 in total. On 31 December 2018, the Group 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 Meeting). The Company only has ordinary shares.

Obligation of shareholders to disclose share ownership

The Dutch authority for the financial markets ("AFM") 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).

Due to the listing of the shares on the German Frankfurt Stock Exchange, the Company must also in its capacity as a so-called domestic issuer ("Inlandsemittent") under the German Securities Trading Act publish any shareholding notifications under Dutch law immediately, but no later than three trading days after receiving them, via qualified media outlets in accordance with Section 26 (1) of the German Securities Trading Act ("Wertpapierhandelsgesetz"). The Company must also transmit the notice to the German Federal Financial Supervisory Authority (BaFin) and to the German Company Register ("Unternehmensregister").

Michael Oschmann, Supervisory Board Chairman of the Group, holds more than 10 percent of the Company's share capital via EMA Electronic Media Advertising International B.V. and Euro Serve Media GmbH. In 2018, we were not informed of any new material shareholdings.

Share ownership as per 31 December 2018:

	Shares Number	Shares Percentage
EMA Electronic Media Advertising International 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**
Free float	9,195,304	39.98
Total	**23,000,000**	**100.0**

*as reported to the Company

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 to select. 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 this 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 exercise of voting rights

Each share issued by the Company entitles its bearer to one vote. There are no special statutory rights attached to the shares of the Company and no restrictions on the voting rights of the Company's shares exist. There is also no employee participation in capital that does not allow employees to directly exercise their controlling 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 defined 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 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 quarters of the issued share capital is represented.

Buyback of treasury stock by the Company

On May 15, 2018, 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 Paragraph 29 of the German Securities Acquisition and Takeover Act (WpÜG), i.e. acquisition of at least 30 percent of the voting rights in the Company.

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.

» 04.2

BUSINESS ACTIVITY

» DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

This management report includes forward-looking statements that are based on management estimations, which are valid as of the time when this management report was prepared. Such statements relate to future periods, or are characterized by terms such as "expect", "forecast", "predict", "intend", "plan", "estimate" and "anticipate". Forward-looking statements can entail risks and uncertainties. Many such risks and uncertainties are determined by factors that cannot be influenced by the ad pepper media Group. As a consequence, actual results may differ significantly from those described below.

» 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 our customers.

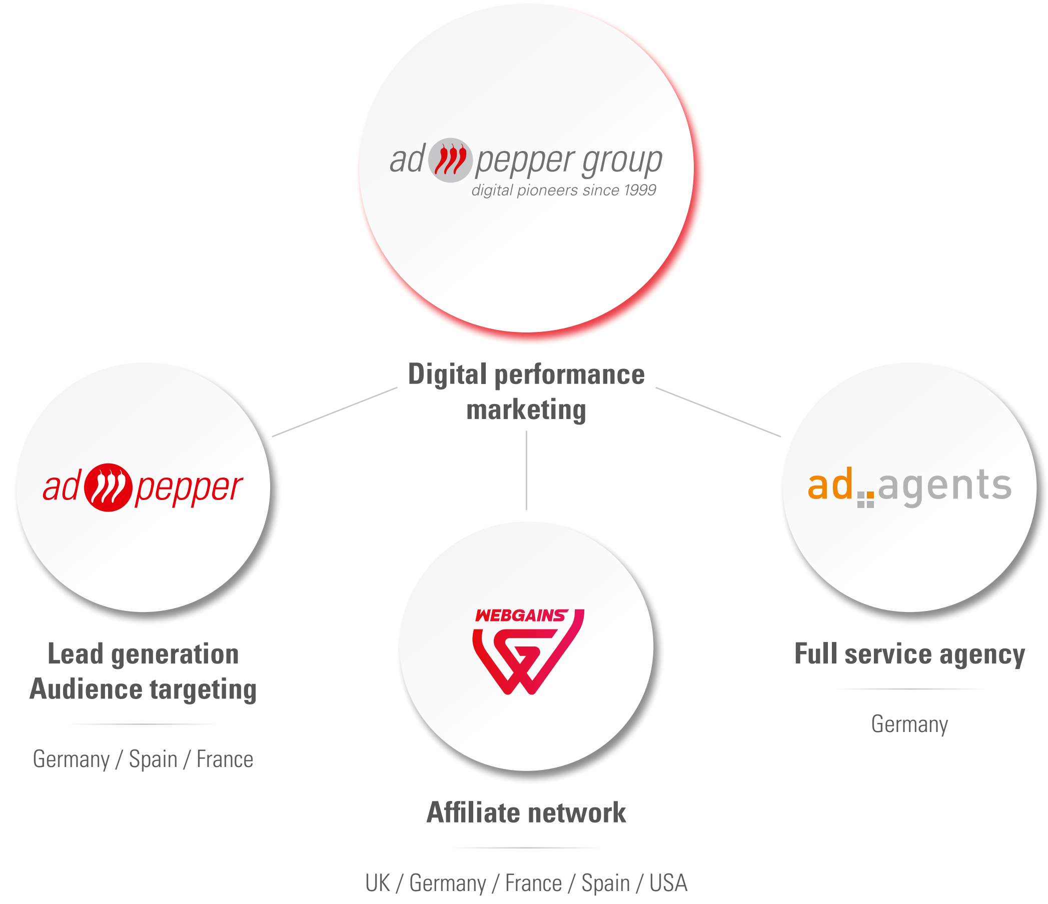
The Company operates within the dynamic environment of digital commerce, which is characterised by dynamic growth in both consumer and advertising expenditure. Channels such as social media, search, video and mobile– to name just a few - continue to expand their market share. This dynamic is influencing our business and opens a range of new opportunities for our clients and us.

ad pepper media works for large firms and major SMEs based in Europe and abroad. Our clients operate primarily in the „Trade & Consumer Goods", „Financial Services", „Telecommunication & Technology" and „Transport and Tourism" sectors. ad pepper media aims for long-term client relationships: The Company has been working for some of its clients for more than ten years.

As part of our long-term value creation strategy, we are focusing on organically growing the existing business segments, while evaluating opportunities for inorganic growth through value-accretive acquisitions. Today, 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). Within the framework of the overall governance of the Group, the Holding Company (admin) takes responsibility for know-how transfer between the segments, the strategic focus, as well as financing and liquidity. Part of our overall strategy is to support and strengthen each segment individually as each business has its own distinctive culture, clients, product range and regional focus. The common umbrella across the three business segments is that we deliver performance-based solutions for our clients. That is, the advertiser only pays when there are measurable results (completion of specific actions). The most common models in performance-based marketing are: CPM (cost-per-mile), CPC (cost-per-click), CPL (cost-per-lead), CPA (cost-per-acquisition).

ad pepper media also offers a broad range of services such as advice- and development of strategies for the use of digital technology, the conception, implementation and execution of digital marketing and communication measures as well as advice on digital media strategies and digital media technologies and tools. It can therefore not be ignored that due to the growing importance of digital issues for the companies, the sheer volumes of budgets assigned to them and with the rising amount of data and the ever-growing importance of analyzing it (preferrably in real time), a successful company in the field of digital marketing has to develop competencies that go beyond the effective allocation of digital media media spend across multiple channels and managing the respective campaigns. It is therefore not surprising that – in some areas of our business – ad pepper media is competing more and more with well-known strategy and IT consultancies. The acquisition of the German company SinnerSchrader by Accenture in 2017 undelines the change in the competitive environment. A key piece of our Group strategy is therefore to strengthen our expertise and knowledge in this area.

04.2
BUSINESS ACTIVITY



» 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 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 the 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 the customer. 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 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 / Paris

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 1,750 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 focusses on a service-focussed and performance differential, aided by an optimal mix of human and artificial intelligence and accelerated with 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 / Munich / 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 with 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 as well as a "Bing Elite Partner" and maintains strong partnerships with leading-edge technology providers.*

Office: Herrenberg

Dirk Lajosbanyai
Managing Director
ad agents

Wolfgang Schilling
Managing Director
ad agents

» EMPLOYEES AND VALUES

2018 has been a year of business-oriented headcount growth for the ad pepper media group, particularly in the ad agents and Webgains segments. In 2018 the headcount of the ad pepper media group continued to grow. A total of 207 employees work in the three business units and the Group's Holding Company as per 31 December 2018 which is an increase of 3.5 percent or 7 employees compared to the figure as per end of December 2017.

Number of employees	31/12/18	31/12/17
	Number	Number
ad pepper media	21	19
Webgains	99	100
ad agents	73	68
Administration	14	13

ad pepper media's employees are the key to the Company's success. ad pepper media strives to attract, develop and retain qualified and motivated people in a professional, safe and healthy work environment. ad pepper media complies with all local laws relating to working hours, vacation laws and occupational health laws, also taking into account the psychosocial work environment. Regular team activities as well as physical activity are encouraged.

In our Code of Conduct, ad pepper media defined a set of joined, equally important values, that best express our focus on service/product leadership through innovation, long-term value creation and the creation of a fair, inspiring work environment for all our employees:

- Respect for people. We respect people, honour diversity, and treat each other fairly. These are the cornerstones of our culture and key to our ability to work successfully as a global team.
- Integrity. We operate with the highest standards of honesty and responsibility – as individuals and as a corporation – to be a role model through our business practices, community involvement, and environmental stewardship.
- Our customers' success. We ensure our customers' continuous success by forging deep relationships founded on our commitment to meeting their diverse technology needs and a shared passion for excellence.
- Initiative and accountability. We deliver on our promises to our customers, stakeholders, and to each other by taking risks, seeking proactive solutions, and assuming ownership of the results.

The Management Board promotes and applies these values thoroughly in all personnel related processes such as hiring, promotions and the review of employee performance.

To the best of our knowledge, we have not identified incidences of non compliance.

» 04.3

ECONOMIC DEVELOPMENT

» MACROECONOMIC FRAMEWORK

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

In January 2019, the International Monetary Fund (IMF) cut its world economic growth forecasts for 2019 and 2020, due to weakness in Europe and some emerging markets, and said failure to resolve trade tensions could further destabilise a slowing global economy. In its second downgrade in three months, the IMF also cited a bigger-than-expected slowdown in China's economy and a possible "no deal" Brexit as risks to its outlook, saying these could worsen market turbulence in financial markets.

The IMF predicted the global economy would grow at a rate of 3.5 percent in 2019 and 3.6 percent in 2020, down 0.2 and 0.1 percentage points respectively from last October's forecasts. The downgrades, according to the IMF, reflected signs of weakness in Europe, with its export powerhouse Germany hurt by new fuel emission standards for cars and with Italy under market pressure due to Rome's recent budget standoff with the European Union. Growth in the eurozone as a whole is set to moderate from 1.8 percent in 2018 to 1.6 percent in 2019, 0.3 percentage points lower than projected three months ago, according to the IMF.

Britain is expected to achieve 1.5 percent growth this year though there is uncertainty over the projection, which the IMF says is based on the assumption of an orderly exit from the EU.

The IMF maintained its US growth projections of 2.5 percent this year and 1.8 percent in 2020, pointing to continued strength in domestic demand. It also kept its China growth forecast at 6.2 percent in both 2019 and 2020, but said economic activity could fall short of expectations if trade tensions persist, even with state efforts to spur growth by boosting fiscal spending and bank lending.

Online advertising market

Global advertising spending is set to rise by 3.8 percent overall in 2019, with this growth being driven by the Asia-Pacific and North America regions in particular. Digital media will remain at the forefront of these developments and is set to account for 41 percent of total advertising spending worldwide, equivalent to USD 254 billion. This makes it the segment with the highest investment volume. Digital media will reinforce its position as the leading advertising channel in Germany as well, and is expected to account for around 39 percent of the country's total advertising spending. This corresponds to expected growth of 6.5 percent in 2019. Particularly strong growth is forecast for the mobile segment, which is expected to account for 19.2 percent of spending. The flip side of this rapid growth is negative development which is expected to hit linear media such as TV and print products. Traditional print media in particular is expected to receive an increasingly low share of total media spending, with worldwide advertising spending on magazines and newspapers forecast to decrease by 7 percent and 7.2 percent respectively.

Source: Ad Spend Forecast, Dentsu Aegis Network

» PRESENTATION OF EARNINGS POSITION

Development in gross sales, revenue and gross profit

The ad pepper media group increased its gross sales to EUR 82,653k in the 2018 financial year (2017: EUR 75,563k), equivalent to year-on-year growth of 9.4 percent. This represents the highest sales figure in the Company's history. Revenue also reached a record level, amounting to EUR 20,272k in 2018 (2017: EUR 18,724k). Gross profit – our second-most important key figure after sales – recorded Group-wide growth of 6.5 percent and amounted to EUR 19,546k in 2018 (2017: EUR 18,348k).

Offering more than 10 years of expertise with the full spectrum of performance marketing services, ad agents positioned itself as an early mover in the segment for Amazon SEO and SEA services. Gross sales here fell by EUR 258k, or 1.5 percent to EUR 17,096k (2017: EUR 17,354k). Revenue decreased by 7.6 percent to EUR 5,011k (2017: EUR 5,422k). In terms of gross profit the ad agents segment managed to post EUR 4,784k for the 2018 financial year. This corresponds to a decrease of 9.1 percent compared with the previous year (2017: EUR 5,264k). The gross margin, i.e. gross profit as a percentage of gross sales, came to 28.0 percent for the 2018 financial year as a whole, as against 30.3 percent in the previous year (in relation to revenue: 95.5 percent for 2018; 97.1 percent for 2017). This slight decline in the gross margin was due to the substantial rise in media services performed in connection with Google searches.

The Webgains segment increased its gross sales by 6.9 percent to EUR 54,938k (2017: EUR 51,399k) and its revenue by 4.1 percent to EUR 10,153k (2017: EUR 9,749k). Adjusted for foreign exchange effects, revenue growth amounted to 5.6 percent. Webgains benefitted from a sector-wide consolidation process as well as new product initiatives. With a 66.5 percent share of the Group's total gross sales, Webgains remains by far the most important segment in terms of gross sales. For Webgains, the past financial year was also successful in relation to gross profit. This came to EUR 9,937k in the past financial year (2017: EUR 9,633k), representing growth of 3.2 percent. Adjusted for foreign exchange effects, this figure increased by 4.6 percent. The gross margin, i.e. gross profit as a percentage of gross sales, eased slightly to 18.1 percent, compared to 18.7 percent in the previous year (in relation to revenue: 97.9 percent for 2018; 98.8 percent for 2017). This was largely due to disproportionate growth in high-volume programmes.

The main growth driver was the ad pepper segment, which reported its strongest performance in the Company's history. Key driver of this growth was once again iLead (lead generation). In addition, new products in the field of audience targeting were developed and sold in the past financial year. As a consequence, gross sales growth in the ad pepper media segment amounted to EUR 3,809k or 55.9 percent (2017: EUR 6,810k) and revenue increased by 43.8 percent to EUR 5,109k (2017: EUR 3,553k). In parallel with the rise in sales, gross profit rose by 38.4 percent to EUR 4,401k (2017: EUR 3,180k), and thus clearly outpaced the growth of the other two segments. With a gross margin corresponding to 41.4 percent of gross sales, the ad pepper media segment is by far the Group leader in this respect (2017: 46.7 percent) highlighting the importance of this segment despite its lower revenue compared to the other two segments (in relation to revenue: 86.1 percent for 2018; 89.5 percent for 2017).

Development in operating expenses

Operating expenses at the ad pepper media group rose by 12.0 percent to EUR 18,519k (2017: EUR 16,530k). The main reason for this increase is significant investment in sales, marketing and technology activities. The total headcount as per 31 December 2018 had increased by 7 or 3.5 percent compared to 31 December 2017 (200).

Research and development largely comprises of activities in the Webgains segment, however, no investment in research and development was made in the period covered by this report, i.e. research costs are expensed as incurred.

EBIT, EBITDA, and EBT

The Group's earnings before interest and taxes (EBIT) amounted to EUR 1,027k in the past financial year (2017: EUR 1,817k). Earnings before taxes (EBT) amounted to EUR 837k (2017: EUR 1,800k). Earnings before interest, taxes, depreciation and amortisation (EBITDA) at the Group came to EUR 1,354k in the past financial year (2017: EUR 2,209k). This is one of the best operating earnings figures in the Company's history.

In terms of individual segments, Webgains generated EBITDA of EUR 631k (2017: EUR 1,308k). Thanks to important 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 managed to generate an EBITDA of EUR 406k, representing some 64.3 percent of the EBITDA generated for the entire year in this segment (Q4 2017: EUR 756k). Webgains' EBITDA margin amounted to 1.1 percent in 2018 (in relation to gross sales) (2017: 2.5 percent). In relation to revenue: 6.2 percent for 2018; (2017: 13.4 percent).

The ad agents segment resulted in EBITDA of EUR 40k and thus significantly lower than the previous year (2017: EUR 1,258k). EBITDA margin for 2018 as a whole was 0.2 percent (in relation to gross sales) (2017: 7.3 percent). In relation to revenue: 0.8 percent for 2018 (2017: 23.2 percent).

The third operational segment, ad pepper media, was the most profitable segment of the Group, reporting an EBITDA of EUR 1,616k (2017: EUR 973k). The EBITDA figure posted in the fourth quarter of 2018 amounted to EUR -17k (Q4 2017: EUR 8k). With an EBITDA margin of 15.2 percent in 2018 (in relation to gross sales; 2017: 14.3 percent), ad pepper media was clearly the most profitable segment within the entire Group (in relation to revenue: 31.6 percent for 2018; 27.4 percent for 2017).

» PRESENTATION OF FINANCIAL AND NET ASSET POSITION

Cash flow

The gross cash flow amounted to EUR 1,179k (2017: EUR 1,523k) while a figure of EUR -1,522k (2017: EUR 3,100k) was reported for cash flow from operations. The lower gross inflow of funds is particularly due to the decrease in net income for the period. Key factor driving the operational cash flow was the increase in trade receivables, which is particularly due to to the increase in sales in the last quarter of the financial year. The net cash flow from investing activities came to EUR -64k in the past financial year (2017: EUR 431k), mainly for investments in software updates. Proceeds from the purchase and sale of securities relate to a security transaction in 2018. The cash flow from financing activities amounted to EUR -296k, compared to EUR -362k in the 2017 financial year. It included outgoing cash of EUR 214k (2017: EUR 362k) for dividends paid to non-controlling parties and cash paid for the settlement of stock option plans of EUR 82k.

Balance sheet structure

Total assets increased by EUR 995k to EUR 39,610k (31 December 2017: EUR 38,615k). Current assets increased by EUR 1,450k to EUR 36,346k, while non-current assets decreased by EUR 457k to EUR 3,264k. Cash and cash equivalents decreased by EUR 1,893k to EUR 18,233k (31 December 2017: EUR 20,127k). Securities fell by EUR 242k to EUR 2,274k (31 December 2017: EUR 2,515k). Trade receivables increased in line with business activities (increase in gross sales) by EUR 3,500k to EUR 17,629k (December 31, 2017: EUR 14,129k). On the equity and liabilities side, the company's equity showed a decrease of EUR 5k to EUR 16,512k (December 31, 2017: EUR 16,517k), which basically represents the delta of other comprehensive income (EUR 523k), dividends (EUR -214k) and reclassification of stock option plans (EUR -313k). The equity ratio as of December 31, 2018 is on a still good level at 41.7 percent (December 31, 2017: 42.8 percent). Trade payables increased in line with business activities by EUR 1,129k to EUR 18,967k (December 31, 2017: EUR 17,838k). 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 20,507k at the end of December 2018 and decreased largely due to working capital movements (December 31, 2017: EUR 22,642k). The Company still has no non-current liabilities to banks.

04.3
ECONOMIC DEVELOPMENT

» 04.4

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 Directors' responsibilities is the oversight of the risk management system. Consistent with the requirements of the Dutch Corporate Governance Code, the Company has 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, and aim 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)
- Low (no material impact on the achievement of business strategy and objectives)

All identified risks are evaluated based on their likelihood of occurring and their potential impact (estimated in monetary terms) in disrupting our progress toward achieving our business objectives. The overall risk management goal is to identify risks that could significantly threaten our success and to allow management sufficient 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 a year, 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

» RISK CLASSIFICATION

Risks are classified as operational, strategic, financial risks, compliance and assessed according to their probability of occurrence and their potential financial impact. The major risks for each classification are described below:

» OPERATIONAL RISK

Infrastructure risk

Our products and services are dependent on users having access to the internet and in some cases also require substantial bandwidth. This access is at present made available by companies that have significant 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 products and services, 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. 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 centres 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 centres. Not all our systems are fully redundant and our natural disaster recovery plans cannot account for all eventualities. Natural disasters of this kind or operators of facilities we use deciding to shut down for financial reasons without reasonable notice and/or other unexpected problems at our data centres could lead to prolonged interruptions to our services.

In addition, 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 we will need. We have invested heavily in acquiring and leasing data centres and equipment, and updating our technology and the infrastructure of our network in order to cope with growing traffic and the launch of 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 financial strength.

We also use other IT suppliers, including data centres and broadband providers. Any disturbance in network access or colocation 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 in these services and in these 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 there is insufficient in the case of a major power outage.

Technology risk

It is conceivable that technologies will be developed that 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 to appear on websites. Technologies designed to block or suppress internet advertising could thus 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 ecosystems such as Apple and Google may decide to introduce ad blockers to their systems. These could 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 characterised by rapid technological change, developing industry standards, frequent introduction of new products and services, and changing customer behaviour. 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 fast and powerful internet access could generate new products and services which are only 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-party suppliers in future as well. We cannot definitively 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 so-called ad exchanges, will intensify further. By establishing and optimising demand-side platforms (DSPs) and/or supply-side platforms (SSPs), online networks such as the ad pepper media group may in future lose further relevance 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 desired acceptance 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.

Moreover, the number of people accessing the internet using devices other than PCs, 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 securing an appropriate 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.

Fraud risk

The Group may be subject to fraudulent and malicious activities undertaken by persons seeking to use its platforms to divert or artificially inflate the buyer purchases through its platform, mainly through fraudulently generated advertising impressions overstating the performance of advertising impressions. As we do not own content, we rely in part on publishers for controls with respect to such activities. If fraudulent or other malicious activity is perpetrated by others, and the Group fails to detect or prevent it, the affected advertisers may experience or perceive a reduced return on their investment resulting in dissatisfaction with the Group's solution, refusal to pay, refund demands or loss of confidence of advertisers or publishers and ultimately withdrawal of future business.

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. Moreover, the protection of our intellectual property rights is costly and time-consuming. Any increase in the unauthorised use of our intellectual property could lead to increased administrative costs and work, and adversely affect our results. Although we aim to obtain protection for our intellectual property, it is conceivable that we may not be able to adequately protect some of our innovations. Moreover, in view of the often 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 date.

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 their validity, defending such claims can be time-consuming and costly, whether in or out of court. Furthermore, in the event that claims against us are successfully upheld, it we may have to pay significant damages, or discontinue services or practices, which may result in be violations of third party rights. We may also need to obtain licences to continue our existing business operations; this may also involve considerable additional costs.

» STRATEGIC RISK

Personnel risk

Our future success is to a significant degree dependent on the continued service of the (single) member of our Board of Directors. If we lose the service of the (single) member of the Board of Directors, we may not be able to recruit suitable or qualified replacements and may incur additional expenses to recruit and train new staff, which could severely disrupt our business and growth.

In general, 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

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RISK REPORT

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.

A lack of qualified and motivated personnel could negatively impact our development and growth, increase our costs and harm our reputation. We face competition for qualified personnel, for example those in IT and marketing positions. In addition, to attract or retain qualified personnel, we might have to offer more competitive compensation packages and other benefits, which could lead to higher personnel costs.

Market risk

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). 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, similar to 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 such factors as longer company histories, higher public awareness levels, larger customer bases, better access to popular websites, and significantly larger resources in terms of staff, finance, equipment, sales, and marketing. These companies use their experience and resources in competition with us in different ways, such as 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 rely heavily on search engines such as the market leader Google when searching 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.

It can also not be excluded that Google, Amazon or other advertising platforms (such as Facebook) will in the future impose restrictions, which could limit our ability to launch marketing activities on behalf of our clients. In that case we may not be able to use these advertising platforms and no assurance can be given that we could find new advertising platforms or develop other forms of advertising at the same costs and/or with the same reach.

This would mean a serious reduction in traffic that could significantly affect the revenue and earnings situation of our clients 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.

Moreover, online advertising markets are characterised 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 in adapting 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 operating margins as a result of increasingly tough competition and a general increase in 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.

In 2018, we have been subject to market risks in the form of client losses, in particular in the ad agents segment, however, we also gained a number of new ones throughout the year in all segments.

Dependency risk

The ad pepper media Group and its segments have significant customer concentration, in terms of both advertisers and publishers (website owners), so 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 applies specifically to one client. While the concentration of our business on a relatively small number of customers may provide certain benefits to us, such as potentially more efficient handling/decreased cost 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 their business with us for any reason, or to favour competitors or new entrants. Customers do not make binding long-term commitments to the ad pepper media group regarding booking volumes and could seek to materially change the terms of their business relationship at any time. Any such change could significantly harm the ad pepper media group's business and operating results.

Platform risk

The Group's revenue growth depends partly on the ability to develop a reliable, scalable, secure, high-performance technology infrastructure that can efficiently handle increased usage globally. The platforms are scalable in principle. However, only the actual future expansion of the business will prove whether there is enough business available and the platforms scales well enough to cover the fixed cost base that has been built. Unability to develop a scalable platform may have significantly adverse consequences for our revenue as well as our asset and finance position.

» FINANCIAL RISK

Low profitability

We are exposed to risks that could prevent us from generating net profits in the future. 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 products and services we 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 on desktop PCs 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, see also note [41].

Risks of our M&A strategy

Historically, part of our Company's growth has resulted 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 acquired businesses
- diversion of management attention away from other business matters
- overvaluation of businesses acquired, acceptance of the acquired business's products and services by our customers
- cultural problems associated with the integration of the staff of acquired businesses into our Group
- continued employment of staff 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 acquired businesses.

The integration of companies, products and personnel can constitute a considerable burden to our management and our internal resources. Acquisitions of foreign companies, in particular, are subject to additional risks. These include risks associated 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 services acquired, future acquisitions may pose significantly bigger challenges with respect 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.

Currency risk

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 can impact accounts receivable, accounts payable, as well as cash and cash equivalents in a currency other than a company's functional currency. For the ad pepper media group, the currency risk from financial instruments is particularly relevant for GBP and USD. No financial instruments are used to hedge currency risks.

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, 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 with significant trading relationships 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 The British pound will impact the Group's conversion of its GBP earnings with subsequent impact on the performance and results of the Group. The Board of Directors is monitoring the potential impact 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 risk

Our future income tax payments may be adversely affected by lower-than-expected profits in jurisdictions with lower tax rates and higher profits in jurisdictions with higher tax rates. If the valuation of our deferred tax receivables and payables changes this could also mean additional tax expenditure.

Furthermore, the determination our tax provisions and other tax liabilities worldwide is a highly complex process, and in many instances 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. 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. Additionally, all of our tax positions are subject to changes in tax laws, regulations, jurisdiction as well as tax-related accounting standards and their interpretations.

New accounting standards

The International Accounting Standards Board (IASB) or other organisations may publish new or revised directives, interpretations, or other guidelines which could 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 valid methods may be replaced entirely. Such IFRS-related changes can have a significant impact on our finance, revenue and asset positions. Moreover, unability to adopt new accounting standards in time may severely damage our reputation.

Liquidity and cash flow risk

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 regarded as secure and, despite future investment in new companies, sufficient to meet all future payment obligations. A further moderate decline in liquid funds may arise if further investments are required 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 during 2008/2009 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. Should one or more financial institution go bankrupt in such a scenario, this may have severe consequences for the Company's assets and financial position.

Working capital risk

The Group's operating results and cash flow vary from quarter to quarter due to the seasonal nature of advertising spending. In contrast to the higher advertising budgets spent during the fourth quarter, the third quarter of the calendar year is typically the slowest in terms of advertising spend (summer quarter). This affects the Group's operating results, cash flow and cash requirements. In addition, digital advertising spend is volatile and unpredictable. In periods of lower advertising spend the this may have a material adverse effect on the Group's revenue. Similarly, if faced with spikes in advertising spend and traffic, the group's platforms must be able to support increased traffic volumes and variety of advertising formats whilst maintaining a stable and effective infrastructure and reliable service to customers. This flexibility and stability require significant investments in both the company's organisation and technology, which increase the cost base.

Capital risk

The price of our share at times experienced considerable fluctuation since its initial listing and will continue remain volatile in the future. The share price may move rapidly in response to factors beyond our control, including:

- 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 or disproportionate to the operational performance of these companies. These general market and industry factors can seriously damage the price of our share irrespective of our actual performance.

Lower (or volatile) share prices may lead to an inability to attract strong long-term investors and limit our ability to raise new equity and attract key personnel.

In addition, 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.

Finally, as of 31 December 2018, EMA B.V., one of the Company's founding shareholders, owned shares representing around 41 percent of the share capital and more than 80 percent of the voting rights 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 part. This concentration of control limits our shareholders' ability to influence Company matters and affects the liquidity of the ad pepper share traded on the stock exchange. In view of this, we may implement measures that our shareholders do not deem expedient. This in turn may have a lasting negative impact on our share price.

» COMPLIANCE RISK

Governance risk

Besides operational and fiscal risks, our business activity harbours a wide range of legal risks. 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 are still developing. This includes wide-reaching legislation covering consumer protection, data protection, e-commerce and competition. Antitrust and competition claims or investigations may also require changes to our business operations. Any such risks are counteracted by internal and external law experts who thoroughly examine all contractual and regulatory matters. We endeavour to fulfill our obligations through constant monitoring and by avoiding conflicts arising from the violation of third-party rights or breach of regulatory provisions. No substantial litigation risks currently exist within the ad pepper media group.

Data risk

Websites usually install small files with an ID to identify a user, generally called "cookies", on a device. Cookies usually collect information about users so that websites can adapt their contents to user needs. The internet user's browser software forwards the cookie information to the website. We currently use cookies 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 General Data Protection Regulation, which came into effect in May 2018 in Europe, and to the EU Privacy and Electronic Communications Directive, the consent of data subjects is required for storing information like cookies on a device. 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 manufacturers may 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 restricted, we would have to switch to other technologies in order to collect geographic or behaviour-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. 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 have 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 identifiable user has been discussed in the context of the EU's proposed ePrivacy Regulation (Regulation on Privacy and Electronic Communications). This would have a negative impact as any advertising on the internet would require the prior consent of data subjects. If this requirement becomes applicable, the available market for advertisers and overall online sales could greatly reduce, along with the Company's revenues and profitability.

In addition, it is difficult for us to currently assess the risk arising from the replacement of the the EU "Safe Harbour" agreement with the Privacy Shield in the context of international data transfer. Following in-depth examination of all significant IT services contracts and application of the European Commission's standard contractual clauses, we currently consider this risk as tolerable. A similar situation may apply following Brexit. According to a recently published statement of the European Commission, the UK will not automatically be granted an adequate data protection status. This could lead to additional effort for our clients as they will have to conclude contracts with EU standard contractual clauses for data hosting in the UK and inform data subjects that their data is being processed outside the EU. Despite this, the British government has made clear that the General Data Protection Regulation (GDPR) will be adopted into UK law at the point of exit, so there will be no substantive change to the rules that most organisations need to follow. The British government has also indicated its intention to seek an adequacy decision for the UK.

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 for our business models and revenues. Any litigation or 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.

In addition, the regulatory environment in Europe is about to change profoundly. With the General Data Protection Regulation ("GDPR"), which came into effect in May 2018 in Europe, as well as the EU eCommerce Directive, compliance obligations and financial penalties for non-compliance are increasing significantly and could potentially harm our business. ad pepper media has set up working groups in close cooperation with its external data privacy officer to validate our full compliance with the new regulations. Nevertheless, the security measures which have been or will be implemented may not be effective, and ad pepper media's systems may be vulnerable to theft, loss, damage or interruption from a number of potential sources or events, including unauthorised access or security breaches, cyber attacks, computer viruses, power loss, or other disruptive events. ad pepper media may not have the resources or technical sophistication to anticipate or prevent rapidly evolving forms of cyber attacks.

Moreover, GDPR not only imposes new compliance obligations regarding the handling of personal data, it has also significantly increased financial penalties for non-compliance. Failure to comply with the GDPR may lead to regulatory enforcement proceedings, which can result in monetary penalties of up to 20 percent of worldwide revenue, orders to discontinue certain data processing operations, private lawsuits, or reputational damage. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to client or ad pepper media data, or otherwise mismanages or misappropriates that data, we could be subject to significant litigation, monetary damages, regulatory enforcement proceedings, fines and/or criminal prosecution in one or more jurisdictions. These monetary damages may not be subject to contractual limit of liability or exclusion of consequential or indirect damages and could be substantial. In addition, our liability insurance may not cover us against claims related to security breaches, cyber attacks or other breaches.

Violations of other legal requirements

The aim of compliance is to ensure irreproachable business conduct at all times and in all respects. Any failure to fulfill legal requirements and report obligations, any violation of the Corporate Governance code 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 an insider trading policy, which provides for the safety and support of employees in various professional situations. Despite comprehensive measures taken within the realignment of the compliance program and our compliance organisation, it is impossible for us to protect us against all risks.

More generally, from time to time we are or may become involved in private actions, investigations and various other legal proceedings by employees, suppliers, competitors, government agencies or others. Failure to comply with laws and regulations can damage our reputation and have negative financial and operational consequences.

» RISK APPETITE

This section highlights those risks that the Group is willing to take, as well as those that are unacceptable. It includes a series of risk assertions which are aligned to our strategy, together with the risk parameters within which we expect to work. The Group operates in markets with high growth potential that are subject to volatility and intense 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.

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 finance- and compliance-related risk. Conversely, it has a higher tolerance for operational and strategic risk:

Operational risks are managed through the ongoing budgeting, forecasting and reporting process as well as training activities to constantly improve and update employees' skills. Infrastructure risks are mitigated by regular backups, redundant server structures and moving to the cloud. To reduce fraud risk, anti-fraud teams are tasked with identifying unusual patterns, ideally in the design phase of advertising campaigns.

The cost of these measures and control systems must be commensurate with the benefits achieved. Management generally considers the likelihood of risks in the operational and technology area as moderate while evaluating the financial impact of each event depending on the specific risk field. Management's risk appetite in this field is moderate and we seek to mitigate risks through contracts, service level agreements, insurance and cooperation with established partners.

As far as strategic risks are concerned, we try to mitigate the personnel risk by providing attractive remuneration package, creation of a positive working environment and structured individual development plan. We try to manage the dependency risks and platform risks by building and maintaining customer relationships. We develop online advertising strategies and regularly monitor progress for existing clients and identify and build relationships with new customers.

04.4
RISK REPORT

In general, management addresses market risks by actively monitoring the developments and evaluating the actual exposure to these risks. This includes participation in industry events, gaining information from analysts and research firms as well as creating business cases for new product developments. ad pepper media has a track record of identifying market changes early and investing into winning products and services ahead of time. We will, however, not pursue growth at all costs and expect sufficient margins. We will primarily pursue organic growth strategies to meet our growth objectives. We aim for sufficient operating margins whilst protecting the long-term viability of the Group. In general, management's risk appetite in this field is moderate.

In the field of financial risks, management addresses the low profitability risk mainly through transparency and the permanent review process in connection with monthly results, forecasting and budgeting. In the event of M&A, a dedicated programme management team will be established for the accelerating shareholder value creation transformation. Currency risks, for instance, are sought to be minimized through natural hedging by increasing the company's cost base in EUR. As far as Brexit uncertainty and political instability, in general, is concerned, the breadth of our service portfolio and our geographic reach help to mitigate our exposure to any particular localised risk. At the same time, investments outside the United Kingdom currently have a higher preference. We monitor proposed changes in taxation legislation and new accounting standards to ensure these are taken into account when we consider our future business plans. We try to manage the working capital risk by increasing and diversifying our client base in a way, which allows us to become less dependent on fourth quarter gross sales. While the Group continues to be independent on external funding, the risk of not finding these funds is not regarded as imminent. Matters of substantial significance are also reviewed with the Supervisory Board through the two-tier board structure. Management realize that the expansion of the business does require some risk taking and evaluates its risk appetite as medium. Management therefore estimates this overall financial risk to be low.

As far as compliance risks are concerned, as the Group is growing in a complex and rapidly changing environment and is in an ongoing process of establishing and improving its processes, regulatory violations may occur. Management's risk appetite is generally low and matters of substantial significance are also reviewed with the Supervisory Board through the two-tier board structure. ad pepper media group is committed to complying with the laws and regulations of the countries in which we operate. However, with the General Data Protection and e-Privacy Regulation, compliance obligations and financial penalties for noncompliance are increasing significantly. Should the risk materialize, it would have a very high, potentially critical impact. We mitigate the risk by working with well established external partners such as tax, legal and audit advisors in all countries we are operating, as well as building in-house capabilities through training and qualification measures for existing staff.

The following overview table shows a summary of risk type and respective risk appetite:

Risk category	Risk	Appetite
Operational risk	Infrastructure risk	Moderate
	Technology risk	Moderate
	Fraud risk	Low
	Intellectual property rights risk	Low
Strategic risk	Personnel risk	Low
	Market risk	Low
	Dependency risk	Moderate
	Platform risk	Moderate
Financial risk	Profitability risk	Low
	Risks of our M&A strategy	Low
	Currency risk	Moderate
	Brexit uncertainty	Moderate
	Tax risk	Low
	New accounting standards	Low
	Liquidity and cash flow risks	Low
	Working capital risk	Moderate
	Capital risk	Low
Compliance risk	Governance risk	Low
	Data risk	Low
	Violations of other legal requirements	Low

04.4
RISK REPORT

» EVALUATION OF RISK MANAGEMENT SYSTEM EFFECTIVENESS

ad pepper media's long-term strategy is focused on creating value for our shareholders and stakeholders through profitable growth. In implementing this strategy the Company has evaluated the relevant operational, strategic, financial and compliance risks as well as the risks and opportunities of future market trends for e-commerce in general and for digital advertising providers in particular. The Board of Directors is responsible for identifying and managing risks with appropriate measures. Significant issues are also reviewed with the Supervisory Board through the two-tier board structure. Internal controls have a high priority and are continuously assessed and further improved. Separation between executive and controlling functions and compliance with directives and operating instructions are an integral part of the internal control system and no risk with a significant impact were identified. The risk management and internal control systems, however, provide absolute assurance that errors, fraud losses, or unlawful acts will not occur. During the 2018 financial year, no significant shortcomings were found in the internal risk management and control system, and no risk with a significant impact were identified. From a current perspective, we foresee no risks that, even in conjunction with other risks, could threaten the continued existence of the ad pepper media group. Please also refer to the disclosure [41] in the Consolidated Financial Statements.

We are convinced that risk management has to be part of the mindset and working methods of our staff, and retaining control is of prime importance to us. The Company continued to work on optimising its risk management and internal control systems in 2018 while acknowledging that such systems cannot offer absolute assurance against errors of material importance. The Board of Directors is conscious that the company does not yet have an internal audit function, and has discussed this with the Supervisory Board. After an in-depth discussion the Board of Directors and the Supervisory Board concluded that the company does not currently require an internal audit function, although this may change in future depending on further company growth. From its evaluations, the Board of Directors concludes that the risk management system as well as the control of the business processes and the internal control within the company are sufficient, professional, appropriate and effective. The Board of Directors is of the opinion that the risk management system with its controls and processes provides an adequate level of assurance on the reliability of financial information and control information in accordance with relevant laws and regulations.

In the past financial year, ad pepper media and its external data privacy moved closer toward fulfilment of the obligations imposed by the European legislator through the General Data Protection Regulation (GDPR). Regular meetings were held and results presented to the Board of Directors as well as the Supervisory Board.

In 2019, ad pepper media is planning to further improve its risk management by implementing an information security management system (ISMS) based on ISO 27001. This standard adopts a process-based approach to establishing, implementing, operating, monitoring, maintaining and improving the Company's ISMS.

» 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 2018, the ad pepper media group achieved satisfying business results. Driven by double-digit sales growth in all segments, we generated consolidated gross sales of EUR 82,653k, revenue of EUR 20,373k and EBITDA of EUR 1,354k. 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.

In 2019, we will be pursuing our growth opportunities in a targeted manner. For our organic growth strategy, no additional financing is needed given the strong balance sheet. 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.
Hiring and retaining staff remains one of the biggest challenges for firms in our industry - investing in people therefore remains business priority. However, the timing and volume of hiring additional staff will be considered carefully, taking into account macroeconomic developments, key characteristics of our industry and the individual performance of our three segments. All in all, we expect the number of staff to only slightly increase throughout the year 2019.

Assuming there is no significant deterioration in the global economy, we are confident we will be able to generate further growth both in terms of gross sales and revenue 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.

» 04.5

RESPONSIBILITY STATEMENT

» RESPONSIBILITY STATEMENT

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

- The Consolidated Financial Statements for the year ended 31 December 2018 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 report of the Board of Directors gives a true and fair view of the position as of the balance sheet date and the state of affairs during the 2018 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 report of the Board of Directors 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

Nuremberg, 27 March 2019

» 05

CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED INCOME STATEMENT

	Note	1/1 - 31/12/2018 kEUR	1/1 - 31/12/2017 kEUR
Gross sales*	[6]	82,653	-
Media cost**	[8]	-62,381	-
Revenue		**20,272**	**75,563**
Cost of sales	[8]	-726	-57,215
Gross profit		**19,546**	**18,348**
Selling and marketing expenses	[9]	-12,621	-10,771
General and administrative expenses	[10]	-5,925	-6,087
Other operating income	[11]	494	723
Other operating expenses	[12]	-467	-396
Operating profit		**1,027**	**1,817**
Financial income	[13]	96	26
Financial expenses	[13]	-286	-43
Income before taxes		**837**	**1,800**
Income taxes	[14]	-302	-664
Net income		**535**	**1,136**
attributable to shareholders of the parent company		247	580
attributable to non-controlling interests		288	556
Basic earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.01	0.03
Diluted earnings per share on net income for the year attributable to shareholders of the parent company	[15]	0.01	0.03

Weighted average number of shares outstanding (basic)	[15]	**21,000,708**	**20,904,708**
Weighted average number of shares outstanding (diluted)	[15]	**21,303,855**	**21,202,018**

*Gross sales represent the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of gross revenue information is not required under IFRS; however, it is voluntarily disclosed from 1 January 2018 onwards in the Consolidated Income Statement as management has concluded that the information is useful for users of the financial statements. Please refer to Note [6]

**Media cost relate to payments made to suppliers of ad inventory (commonly referred to as media buys and publishers). Disclosure of media cost information is not required under IFRS; however, it is voluntarily disclosed 1 January 2018 onwards in the Consolidated Income Statement as management has concluded that the information is useful for users of the financial statements. Please refer to Note [8]

» CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1/1 - 31/12/2018 kEUR	1/1 - 31/12/2017 kEUR
Net income	**535**	**1,136**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	-12	-39
Revaluation of available-for-sale securities acc. to IAS 39	0	782
Income tax recognised on other comprehensive income	0	-69
Other comprehensive income, net of tax	**-12**	**674**
Total comprehensive income	**523**	**1,810**
Attributable to non-controlling interests	288	556
Attributable to shareholders of the parent company	235	1,254

» CONSOLIDATED STATEMENT OF FINANCIAL POSITION – ASSETS

	Note	31/12/2018 kEUR	31/12/2017 kEUR
Non-current assets			
Intangible assets	[16]	218	362
Property, plant and equipment	[17]	330	424
Listed debt securities	[2], [18]	2,274	2,515
Other financial assets	[19]	442	418
Total non-current assets		**3,264**	**3,719**
Current assets			
Trade receivables	[20]	17,629	14,129
Other receivables	[21]	422	410
Income tax receivables	[22]	7	203
Other financial assets	[23]	55	27
Cash and cash equivalents	[24]	18,233	20,127
Total current assets		**36,346**	**34,896**
Total assets		**39,610**	**38,615**

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CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS – EQUITY AND LIABILITIES

	Note	31/12/2018 kEUR	31/12/2017 kEUR
Equity attributable to shareholders of the parent company			
Issued capital	[25]	1,150	1,150
Reserves	[26]	60,999	61,312
Accumulated deficit*	[2]	-45,281	-45,041
Other reserves	[2], [29]	-1,208	-1,683
Total		**15,659**	**15,738**
Non-controlling interests	[30]	853	779
Total equity		**16,512**	**16,517**
Non-current liabilities			
Deferred tax liabilities	[14]	210	185
Other liabilities	[31]	328	217
Total non-current liabilities		**538**	**402**
Current liabilities			
Trade payables	[32]	18,967	17,838
Other liabilities	[33]	2,499	2,715
Other financial liabilities	[34]	912	965
Income tax liabilities	[14]	182	179
Total current liabilities		**22,560**	**21,696**
Total liabilities		**23,098**	**22,098**
Total equity and liabilities		**39,610**	**38,615**

*The Board of Directors proposes, with the approval of the Supervisory Board, that the result for the financial year 2018 amounting to EUR 247k should be transferred to accumulated deficit without payment of dividend. The financial statements do reflect this proposal.

» CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	1/1 - 31/12/2018 kEUR	1/1 - 31/12/2017 kEUR
Net income		**535**	**1,136**
Adjustments for:			
Depreciation and amortisation	[16], [17]	327	391
Gain/loss on sale of fixed assets	[11], [12]	-3	19
Share-based compensation	[40]	-59	91
Gain/loss on sale of securities and other investments (after bank charges)	[18], [13]	-48	0
Other financial income and financial expenses		238	17
Income taxes	[14]	303	665
Other non-cash expenses and income		-113	-796
Gross cash flow		**1,179**	**1,523**
Change in trade receivables	[20]	-3,907	-4,273
Change in other assets		-56	-128
Change in trade payables	[32]	1,554	6,177
Change in other liabilities		-208	990
Income taxes received		425	329
Income taxes paid		-503	-1,497
Interest received		61	20
Interest paid		-67	-41
Net cash flow from/used in operating activities		**-1,522**	**3,100**

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CONSOLIDATED FINANCIAL STATEMENTS

	Note	1/1 - 31/12/2018 kEUR	1/1 - 31/12/2017 kEUR
Purchase of intangible assets and property, plant, and equipment	[16], [17]	-95	-434
Proceeds from sale of intangible assets and property, plant, and equipment	[11], [12]	3	3
Loans granted	[19]	-15	0
Loans repayment		-20	0
Proceeds from sale of securities	[18], [13]	2,480	0
Purchase of securities	[18]	-2,417	0
Net cash flow from/used in investing activities		**-64**	**-431**
Cash settlement of stock option plans	[40]	-82	0
Issuance of own shares		0	105
Dividends to non-controlling interests	[30]	-214	-467
Net cash flow from/used in financing activities		**-296**	**-362**
Net decrease/increase in cash and cash equivalents		-1,882	2,307
Cash and cash equivalents at beginning of period		**20,127**	**17,859**
Effect of exchange rates on cash and cash equivalents		-12	-39
Cash and cash equivalents at end of period	[23]	**18,233**	**20,127**

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CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED CHANGES IN EQUITY 2017

	Note	Balance at 1/1/2017	Total comprehensive income	Share-based payment	Issuance of shares	Dividends	Cash settlement of SOPs	Balance at 31/12/2017
Issued capital								
Issued capital (kEUR)	[25]	1,150						1,150
Share Premium	**[26]**							
From contributions of shareholders of the parent company (kEUR)		63,782						63,782
Treasury shares	**[27]**							
Treasury shares at cost (kEUR)		-5,322			105			-5,217
Accumulated deficit (kEUR)	**[2]**	**-45,621**	**580**					**-45,041**
Other reserves	**[29], [40]**							
For employee stock option plans (kEUR)		2,656		90				2,746
For currency translation differences (kEUR)		-1,157	-39					-1,196
For unrealised gains/(losses) from available-for-sale securities acc to IAS 39 (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)	[30]	690	556			-467		779
Total equity (kEUR)		**14,979**	**1,810**	**90**	**105**	**-467**		**16,517**

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CONSOLIDATED FINANCIAL STATEMENTS

» CONSOLIDATED CHANGES IN EQUITY 2018

	Note	Balance as at 1/1/2018	Effect of adoption of new accounting standards	Balance at 1/1/2018	Total comprehensive income	Share-based payment	Issuance of shares	Dividends	Reclassification of SOP's	Cash settlement of SOPs	Balance at 31/12/2018
Issued capital	**[25]**										
Issued capital (kEUR)		1,150		1,150							1,150
Share Premium	**[26]**										
From contributions of shareholders of the parent company (kEUR)		63,782		63,782							63,782
Treasury shares	**[27]**										
Treasury shares at cost (kEUR)		-5,217		-5,217						-82	-5,299
Accumulated deficit (kEUR)	**[2]**	**-45,041**	**-487**	**-45,528**	**247**						**-45,281**
Other reserves	**[29], [40]**										
For employee stock option plans (kEUR)		2,746		2,746		81			-313		2,514
Currency translation differences (kEUR)		-1,196		-1,196	-12						-1,208
For unrealized gains/(losses) from available-for-sale securities acc. to IAS 39 (kEUR)		-487	487	0							0
Equity attributable to shareholders of the parent company (kEUR)		**15,738**	**0**	**15,738**	**235**	**81**	**0**	**0**	**-313**	**-82**	**15,659**
Non-controlling interests (kEUR)	[30]	779		779	288	0	0	-214	0	0	853
Total equity (kEUR)		**16,517**		**16,517**	**523**	**81**	**0**	**-214**	**-313**	**-82**	**16,512**

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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 31 December 2018 were authorised for issue by the Board of Directors on 27 March 2019. ad pepper media International N.V. is a public company incorporated in the Netherlands, domiciled at Frankenstraße 150 C, 90461 Nuremberg, Germany and is the 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 form a top-quality advertising network with global reach and a precise 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 optimisation, provided by the ad pepper media group and its affiliated entities in a localised form.

» ACCOUNTING PRINCIPLES [2]

Basis of preparation

The Consolidated Financial Statements have been prepared on a historical cost basis, except for debt financial assets and employee benefit liabilities, which have been measured at fair value. The Consolidated Financial Statements are presented in EUR. All values are rounded up or down to the nearest thousand euro (EUR k) or million euro (EUR m) except where indicated otherwise. Due to rounding, individual figures may not add up exactly to the totals stated. Based on the requirements of the Dutch Civil Code, a full Annual Report comprises reports from the Board of Directors and the Supervisory Board, Consolidated Financial Statements, Company financial statements, and other information. This report includes the reports from the Board 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), in conjunction with 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, this 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 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. 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 recognised 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 capitalised in the balance sheet as goodwill. Situations in which the fair value of net assets is greater than the purchase price paid result in a negative difference. In the event that such difference remains following reassessment of the allocation of the purchase price or determining the fair value of acquired assets, liabilities and contingent liabilities, this is recognised as income immediately. The proportion of assets, liabilities and contingent liabilities of the subsidiary applicable to 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 recognised in assets are eliminated in full.

Consolidated Group

The subsidiaries included in consolidation are as follows:

Entity	31/12/2018	31/12/17
	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 adopted in the preparation of the Group's annual Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual Consolidated Financial Statements for the year ended 31 December 2017 except for the adoption of new standards effective as of 1 January 2018. The Group has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time as of January 1st, 2018, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

In May 2014, the IASB issued IFRS 15. The new standard describes when and to what extent revenues must be recognised, and 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 adopted IFRS 15 for the financial year beginning 1 January 2018, which had a particular impact on contracts that may entail reclassification of role from principal to agent or vice versa. Thus, each separate performance obligation was examined to determine whether these are controlled by the entity 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 potential default risk should be disregarded. In all three segments the Company involves third party service providers (publishers, search engines, websites), on which properties ad pepper entities place their content to deliver the advertising. As none of the involved advertising properties belong to the Group, ad pepper has no control over the advertising inventory on which the ad is displayed. The lack of control is indicated by the fact that ad pepper has only indirect influence on establishing prices for advertising inventory, which is limited to the ability to select adequate delivery partners and delivery settings. The definite discretion of establishing pricing has the advertising property owner, while ad pepper's amounts billed to clients generally consist of a percentage fee of the media cost spent on advertising inventory. This in conclusion indicates that ad pepper is only responsible for fulfilling the performance obligation limited to services, generally named as campaign management, but not to the delivery obligations which is in the responsibility of the ad inventory owner. Taking into account the newly introduced control principle as well as the modified indicators, the contractual relationships of our three business models are accounted for as agent relationships from January 1st, 2018 onwards.

This change did not affect the statement of financial position. However, this change results in decreases in revenue and cost of sales by EUR 62m in 2018, with a cumulative effect of initial application of EUR 0. The comparative information was not restated and continues to be reported under IAS 18 and related interpretations. With respect to the comparative period, application of the new regulations would result in a reduction of revenues and cost of sales of EUR 57m.

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have an impact on OCI or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

	Amounts prepared under IFRS 15	Amounts prepared under previous IFRS/IAS 18	Increase/(decrease)
	kEUR	kEUR	kEUR
Revenue from contracts with customers	20,272	-	20,272
Revenue	-	82,653	-82,653
Cost of sales	-726	-63,107	62,381
Gross profit	**19,546**	**19,546**	**-**

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). The Company adopted IFRS 9 for the financial year beginning 1 January 2018. The first-time adoption of IFRS 9 at ad pepper media follows the modified retrospective method. Comparative prior-period information is not restated; this continues to be presented in accordance with IAS 39.

The new classification and measurement of the Group's financial assets are as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective of holding the financial assets in order to collect contractual cash flows and which meet the contractual cash flow test. From 1 January 2018 onwards, this category includes the Group's trade and other receivables, which have been classified as loans and receivables as at 31 December 2017.
- Debt instruments at FVTPL, are the Group's quoted debt instruments that are held within a business model both to collect cash flows and to sell. The introduction of the cash flow condition at ad pepper media mainly resulted in the reclassification of the held securities that were allocated to the "available for sale" category under IAS 39 and subsequently measured at fair value in the balance sheet, with fair value changes recognised in other comprehensive income. The contractual arrangement of the debt instrument states that interests are paid on non-cumulative basis which means that missed or reduced interest payments have not to be repaid. Although the arrangements stated in the securities term sheet give sufficient reason to believe that an interest default is extremely unlikely (e.g. integrated support agreement of the UniCredit BA; interest payments depending on cumulative gains and losses and not on the years result) an interest default cannot be fully excluded. Consequently the contractual cash flows of this debt instrument failed the SSPI test. The debt instrument continues to be measured at fair value in the balance sheet; however, fair value changes are recognised directly in income.

For trade account receivables, the Company will apply the simplified approach set out in the ECL model. Based on its assessment, the Company does not have to increase materially its credit provisioning. Therefore, no adjustment has been recorded in the opening balance of shareholder's equity.

In summary, upon the adoption of IFRS 9, the Group had the following required reclassifications as at 1 January 2018.

		IFRS 9 measurement category		
		Fair value through profit or loss	Amortised cost	Fair value through OCI
	kEUR	kEUR	kEUR	kEUR
IAS 39 measurement category				
Loans and receivables				
Trade receivables	14,129	-	14,129	-
Available-for-sale				
Listed debt instruments	2,515	2,515	-	-
Total	**16,644**	**2,515**	**14,129**	**-**

In addition to the adjustments described above, deferred taxes on temporary differences for listed debt instruments were adjusted to retained earnings as necessary upon adoption of IFRS 9 as at 1 January 2018. Transition effects from the first-time adoption of IFRS 9 were recognised in equity as of the date of initial application. Reclassification of components of income that were presented in other comprehensive income under IAS 39 to accumulated deficit did not have any effect on equity.

The table below shows the first-time adoption effects of IFRS 9 on retained earnings and other comprehensive income:

First-time adoption effects of IFRS 9 on equity	kEUR
Effects on accumulated deficit	**-487**
Accumulated deficit as of 31 December 2017 (prior to application of IFRS 9)	**-45,041**
Transfers from other reserves	-487
Accumulated deficit as of 1 January 2018 (following application of IFRS 9)	**-45,528**
Effects on other reserves	**487**
Other reserves (prior to application of IFRS 9)	**-1,683**
Transfers to accumulated deficit due to changes in measurement categories	487
Other reserves (following application of IFRS 9)	**-1,196**
First-time adoption effects of IFRS 9 on equity	**0**

The following further amendments, improvements and interpretations to existing standards require first-time application in the financial year beginning 1 January 2018:

- **Annual improvements to IFRS Standards 2014-2016 cycle:** This amendment (effective date: 1 January 2017/1 January 2018) had no impact on the Consolidated Financial Statements.
- **Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions":** This amendment (effective date: 1 January 2018) had no impact on the Consolidated Financial Statements.
- **Amendments to IAS 40 "Transfers of Investment Property":** This amendment (effective date: 1 January 2018) had no impact on the Consolidated Financial Statements.
- **Supplementary information on IFRIC 22 "Foreign Currency Transactions and Advance Consideration":** This interpretation (effective date: 1 January 2018) had no impact on the Consolidated Financial Statements.

New amendments and interpretations requiring application in financial years beginning after January, 2018:

- **IFRS 9 "Prepayment Features with Negative Compensation":** These amendments (publication: 26 March 2018): must be applied in financial years beginning on or after 1 January 2019 and are not expected to have any impact on the Consolidated Financial Statements.
- **IFRIC 23 "Uncertainty over Income Tax Treatments":** This interpretation (publication: 24 October 2018) must be applied in financial years beginning on or after 1 January 2019 and is not expected to have any impact on the Consolidated Financial Statements.
- **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 1 January 2019, presumably by applying the modified retrospective approach, i.e. comparative figures for the preceding year are not adjusted. In comparison to the previous standard, IFRS 16 alters the treatment of all rental and leasing contracts entered into. The relief provision given in IFRS 16 (recognising short-term contracts or leases with a contract value below USD 5,000) will not provide substantial relief. The Group will also utilize the exemptions governing short-term leases and will not recognize such leases in its statement of financial position. The major transition effect will relate to real estate and cars leased by the Company. The adoption of the standard will lead to an increase in non-current assets due to recognition of the right 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. 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 implementation of IFRS 16 beginning on 1 January 2019 will result in an increase in the balance sheet assets of EUR 2.3m. The right-of-use-asset is calculated net of rent free benefits amounting to EUR 127k. The respective liability of EUR 2.4m is measured at the present value of the remaining lease payment, discounted using the incremental borrowing rate. The equity ratio will decrease from 41.8 percent to 39.5 percent.

Significant accounting judgements, estimates, and assumptions

In the application of the Group's accounting policies, which are described below in Note [3], the directors are required to make judgements, 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 applied in particular to the assessment of revenue from contracts with customers (Note [5]), accrued liabilities for outstanding affiliate payments (Note [32]), the provision for expected credit losses of trade receivables (Note [41]), share based payments (Note [39]) and on the measurement of deferred tax assets on losses carried forward (Note [14]).

A) Judgements

Preparing the financial statements in accordance with the IFRS requires the Group management to make judgements in respect to the recognised amounts of revenue in all three operational segments. The Company assesses its revenue arrangement in its business units against specific criteria in order to determine if it is acting as principal or agent. The factors specified by IFRS 15 indicate that the Group does not control the service before they are transferred to customers. Therefore, the Group determined that it is an agent in all its customer contracts and is recognising its revenue on net basis, consequently excluding media cost owed to delivery partners from revenue and cost of sales respectively.

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.

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 programme as well as of credits of inactive publishers as unlikely and has reduced the accrued liability by the resultant amounts.

The provision for expected credit losses of trade receivables

An impairment analysis is performed at each reporting date using a matrix to calculate ECL for trade receivables. The provision is initially based on the Group's historical observed default rates and potentially adjusted with forward-looking information. At every reporting date, the historical observed default rates are updated, changes in the forward-looking estimates and evidence for impairment are analysed.

Share based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield, and assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a Monte Carlo simulation model. For cash-settled share-based payment transactions, which have been reclassified from equity-settled stock options, the liability must be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. The assumptions and models used for estimating fair value for share-based payment and cash-settled transactions are disclosed in Note [40].

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, 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 incomes taxes (Note [14]).

» SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [3]

Foreign currency translation

The Consolidated Financial Statements are presented in EUR, which is the company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

Transactions of foreign currencies are initially recorded at the functional currency rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange applicable at the balance sheet date. All differences are applied as either profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate applicable on the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate applicable on 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 applicable at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising from the translation are applied directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the income statement.

The significant foreign currency exchange rates developed as follows:

Foreign currency per 1 EUR	Closing rate 31/12/18	Closing rate 31/12/17	Average rate 2018	Average rate 2017
USD	1.1454	1.1934	1.1837	1.1295
GBP	0.9027	0.8877	0.8929	0.8705

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. All intangible assets have finite lives and are amortised 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 amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Gains or losses arising from derecognising an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the income statement when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. An intangible asset resulting from the development of an individual project is only capitalised when it cumulatively meets the criteria for recognition stipulated in 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 amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use.

Impairment of non-financial assets

At each reporting date, the Group assesses 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. The valuation model is based on a discounted cash flow method.

Impairment losses are recognised 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If 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 recognised on the asset in prior years. Such reversal is recognised 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 recognised for goodwill are not reversed for subsequent increases in its recoverable amount.

Other receivables

Other receivables consist mainly of security deposits made for rental agreements. Upon initial recognition other receivables are measured at fair value. Subsequently, they are measured at amortized cost, after deduction of any write-downs. A write-down is taken when objective indications suggest that the receivable may not be fully collectible.

Investments and other financial assets

Financial assets within the scope of IFRS 9 debt instruments are classified and subsequently measured as at fair value through profit or loss, amortised cost, or fair value through OCI, as appropriate.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it must give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Currently the categories most relevant to the Group are:

- Financial assets at amortised cost (debt instrument), which includes trade receivables
- Financials assets at fair value through profit or loss

Financial assets of the comparative period within the scope of IAS 39 were classified at fair value through profit or loss, loans and receivables, held-to-maturity or available-for-sale financial assets, as appropriate. When financial assets were recognised initially, they were measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determined the classification of its financial assets on initial recognition and, where allowed and appropriate, reevaluated this designation at each financial year-end. All regular way purchases and sales of financial assets were recognised 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 were 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 derecognised 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 was based on the respective IAS 39 category to which they were allocated. Financial instruments in the "at fair value through profit or loss" and "available-for-sale" categories were measured at fair value. Changes in fair value resulting in realised and unrealised gains and losses were recognised through profit or loss upon such gains and losses arising. One exception involves available-for-sale financial assets, whose unrealised gains and losses, to the extent that the respective assets were not impaired, were recognised in equity through to retirement.
After initial recognition, investments held to maturity and loans and receivables were measured at armortised cost using the effective interest rate method, less any impairment. Gains and losses were recognised in period earnings when the financial investments were derecognised or impaired.
Where an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. At each balance sheet date, the ad pepper media group carefully assesses whether a financial asset or group of financial assets are 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 impacts the estimated future cash flows of the financial asset.
Evidence of impairment might 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 reorganisation, and where observable data indicates 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.

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

Impairment of financial assets carried at amortised cost

The Group recognises an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. For trade receivables the Group applies a simplified approach in calculating ECL. A default on receivables expected over the respective term (stage 2 of the impairment model) is determined for trade accounts receivable based on historical default rates for a respective customer portfolio based on segment and geographic allocation.

When actions such as insolvency or comparable proceedings has been initiated or other substantial indications like the deterioration of payment behaviour exist that receivables are impaired, the receivables are individually tested for impairment (stage 3 of the impairment model). All receivables more than 90 days overdue are tested for impairment. Impaired debts are written off when they are deemed uncollectable. In the reporting years 2018 bad debt allowance on trade receivables was applied at a rate of 50 percent after 120 days overdue, 75 percent after 240 days overdue, and 100 percent after one year overdue. However, in certain cases the Group may also consider a financial asset to be uncollectable when external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full, before taking into account any credit enhancements held by the Group.

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.

Treasury shares

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

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand. 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 recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation, 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 recognised 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 much lower 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 amortised costs and are derecognised upon settlement or cancellation.

Share-based payment transactions

Equity-settled 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 [40]. 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 recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are provided in Note [15]).

Cash-settled transactions
A liability is recognised for the fair value of cash-settled transactions. The fair value is measured at modification date and at each subsequent reporting date up to and including the settlement date, with changes recognised in employee benefits expense in profit or loss.

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 recognised as an expense in the income statement on straight-line basis over the lease term.

Revenue from contracts with customers

The Group is in the business of providing performance marketing services, in which third parties provide services to its customers. When another party provides goods or services to its customers, the Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Company has concluded that it is acting as an agent in all of its revenue arrangements, as its role is restricted to arranging a third party supplying ad inventory to deliver the ad to the end-customer. Consequently the Group records revenue at the net amount that it retains for its services, which is limited to campaign management, while media cost for ad inventory used is excluded from the revenue definition. For further explanation please refer to Note [2].

Revenue from contracts with customers is recognised when the service is rendered. Depending on the requirements of the specific product, this usually occurs when successful transactions result from user action (CPA), ad impressions are generated (CPC) or personal data is provided (CPL). Gross sales represent the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of gross sales information is not required under IFRS, however, it is voluntarily disclosed in the Consolidated Income Statement as management has concluded that the information is useful for users of the financial statements.

As all performance obligations have an original expected duration of less than one year and meet the requirement of the right to invoice practical expedient in IFRS 15.B16 the Company does not disclose the amount of the remaining performance obligations.

Rendering of services

Webgains

Revenue in this segment is generated by placing the merchant's advertising on publishers' websites (affiliate marketing). By using the Webgains technology platform, appropriate publishers are selected for placment of the advertisements on websites likely to drive traffic back to the merchant's website and consequently enhance the merchant's transaction values. The merchant pays us on a cost-per-action basis (CPA), which means that the merchant only pays when successful transactions result from the traffic. The price billed to the merchant consists of an override and a commission. The override is considered the amount the Group is entitled to for its services. The commission is the amount paid to our publishers and is excluded under IFRS 15 from the revenue definition. Consequently commission to publishers is also not included in the Group's cost of sales. The contractual agreement provides the customer with a recall period, where every occurred transaction can be cancelled within a certain period. Depending on the industry the transaction occurred in, the recall periods range from 30 days in fashion and beauty industry up to 360 days for insurance, travel and mobile sales. Based on historical data, the Group calculates at year end the amount to be recognized as return assets and refund liabilities for transactions in recall period.

ad pepper media

Revenue in the ad pepper media segment is generated by marketing internet advertising space. Advertising customers book units (Ad impressions, ad clicks, registrations, mail-outs, transactions) via the company and these are supplied over a period defined by the customer. ad pepper media customers pay us on the basis of cost per click (CPC), cost per lead (CPL) or cost per impression (CPM). All of the three billing methods consist of media costs owed to ad pepper's delivery partners and a service charge as an amount the Group is entitled for its services. The media cost is the amount paid to the delivery partners and is excluded under IFRS 15 from the revenue definition. Consequently media costs are also not included in the Group's cost of sales.

In cases in which the campaign starts before the balance sheet date and lasts beyond this date, revenue is accounted proportionately based on the stage of completion at the end of the reporting period. Stage of completion is determined as the proportion of the costs incurred until the end of the reporting period to the total costs of the campaign, which can be reliably estimated.

ad agents

Revenue in the ad agents segment is mainly generated by providing search engine advertising. For contractual agreements with clients where search engine providers are contracted by ad agents and on its behalf the amounts billed to customers consist of media costs owed by ad agents to the search engine providers and a fee as a percentage of the media cost to which the Group is entitled for its services. In other contractual arrangements the search engine provider has a direct contractual agreement with ad agents' client, so that media costs are not part of ad agents billing but are charged from search engine provider to client directly. In this case the amount billed to the customer consists only of the fee as a percentage of the media cost.

In both cases the Group is only entitled to the service charge as a percentage of the media budget. Media costs billed to clients and owed to search engine providers for indirect billing agreements do not constitute revenue according to IFRS 15 and are consequently excluded from cost of sales.

Interest income

Interest income is recognised 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 recognised directly in other comprehensive income is only recognised there and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except for goodwill, whereon the recognition is not permitted. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. 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 utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax relating to items recognised directly in other comprehensive income is only recognised there and not in the income statement. Deferred income tax assets and deferred income tax liabilities are offset if there is a legally enforceable right 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]

As in 2017, no business combinations occurred in the 2018 financial year.

» REVENUE FROM CONTRACTS WITH CUSTOMERS [5]

Disaggregated revenue information

Below is the disaggregation of the Group's revenue from contracts with customers, which is based on the invoicing country:

For the year ended 31 December 2018

Segments	ad pepper media	Webgains	ad agents	Total
	kEUR	kEUR	kEUR	kEUR
Geographical markets				
Germany	3,217	2,588	5,011	10,815
United Kingdom	-	5,645	-	5,645
Spain	1,892	601	-	2,493
USA	-	1,020	-	1,020
Other	-	299	-	299
Revenue	**5,109**	**10,152**	**5,011**	**20,272**

Performance obligations

Information about the Group's performance obligations is summarised below:

ad pepper media

Service orders received from clients in accordance with framework agreements are generally short term in nature. The performance obligation is satisfied over time and usually occurs when the user provides personal data or when an impression is generated on the user's device. Revenue therefore accrues each time the ad is displayed or personal data entered by the user. Clients are invoiced monthly for the service delivered during the month based on the agreed transaction price multiplied by the delivered amounts. Payment is generally due within 14 days of invoicing.

As all ads are placed on third-party ad inventory properties and the Group has no control over the advertising inventory before it is transferred to its customers, with the Group acting as an agent in all contractual arrangements.

ad agents

Service orders received from clients in accordance with annual framework agreements are generally short term in nature. The performance obligation resulting from each service order is satisfied over time and occurs when the user clicks on the phrase created and placed by ad agents on search engines. The customer pays on a CPC (cost-per-click) basis, which means that the customer pays ad agents only when a user clicks on the ad in the search engine. Clients are invoiced monthly for the services provided during the month as a percentage fee of the media budget used during the month or in case of indirect billing contracts as media budget used for third-party delivery partners plus a percentage fee of the media budget. The payments are due within 0 to 90 days from invoicing.

As all ads are placed on third-party ad inventory properties and the Group has no control over the advertising inventory before it is transferred to our customers, with the Group acting as an agent in all contractual arrangements.

Webgains

The performance obligation is satisfied over time and occurs when successful transactions result from traffic. Contracts with clients are generally concluded for periods of 12 months or less. The invoicing is transaction-based and is carried out monthly.

The contract provides the customer with a recall period, in which any transaction can be cancelled within a certain period. Depending on the industry, the recall periods range from 30 days in the fashion and beauty industry and up to 360 days for insurance, travel and mobile sales. Based on historical data, at year-end the Group calculates the amount to be recognised as return assets and refund liabilities for transactions the in the recall period. As of 31 December 2018 and 31 December 2017 the Group's calculation resulted in amounts that have no material impact on the revenue recognised in the financial year.

As all performance obligations have an original expected duration of less than one year and meet the requirement of the right to invoice practical expedient in IFRS 15.B16 the Company does not disclose the amount of the remaining performance obligations.

» SEGMENT REPORTING [6]

IFRS 8 requires entities to report financial and descriptive information on their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specific criteria. Operating segments are components of an entity for 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 must be reported on the same basis as it 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. Consequently, the Group discloses information for the operating segments "ad pepper media" (lead, mail, banner), "Webgains" (affiliate marketing), and "ad agents" (search engine optimisation "SEO"/search engine marketing "SEA") 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 reflects the EBIT or EBITDA earned by each segment as stipulated by the 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 2018	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Gross sales*	**10,628**	**54,938**	**17,096**	**425**	**-435**	**82,653**
Thereof external	10,619	54,938	17,096	-	-	82,653
Thereof intersegment	9	1	-	425	-435	0
Revenue	**5,111**	**10,153**	**5,011**	**425**	**-427**	**20,272**
Thereof external	5,109	10,153	5,011	0	0	20,272
Thereof intersegment	2	0	0	425	-427	0
Gross profit	**4,403**	**9,937**	**4,784**	**425**	**-2**	**19,546**
Expenses (including cost of sales) and other income	-3,502	-9,754	-5,002	-1,412	425	-19,246
Thereof amortisation and depreciation	-8	-233	-32	-54	0	-327
Thereof other non-cash expenses	-1	-404	-10	0	0	-415
Thereof other non-cash income	22	460	1	85	0	567
EBITDA**	**1,618**	**632**	**40**	**-934**	**-2**	**1,354**
Operating Profit	**1,610**	**399**	**9**	**-988**	**-2**	**1,027**
Financial income	1	3	0	94	-2	96
Financial expenses	-3	-8	-3	274	2	-286
Income taxes						-302
Net income for the year						**535**

*Gross sales represent the total amount billed and billable to clients by the Group, net of discounts, VAT and other sales-related taxes. Disclosure of gross revenue information is not required under IFRS; however, it is voluntarily disclosed from January 1, 2018 onwards in the Consolidated Income Statement since management has concluded that the information is useful for users of the financial statements.

**EBITDA represents Income before Interest, Tax, Depreciation and Amortization

Financial year 2017	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Revenue	**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
Gross profit	**3,277**	**9,633**	**5,264**	**272**	**-99**	**18,348**
Expenses and other income	-5,850	-50,299	-16,142	-1,727	272	-73,746
Thereof amortisation 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**
Operating Profit	**1,057**	**1,101**	**1,213**	**-1,455**	**-99**	**1,817**
Financial income	2	1	0	23	0	26
Financial expenses	-5	-2	-1	-35	0	-43
Income taxes						-664
Net income for the year						**1,136**

The segment reporting for 2017 presented on a like-for-like basis, i.e. applying IFRS 15 to the equivalent period in the previous year, is shown below:

Financial year 2017	ad pepper media	Webgains	ad agents	Admin	Intersegment elimination	Group
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Revenue	**3,576**	**9,750**	**5,422**	**272**	**-296**	**18,724**
Thereof external	3,553	9,749	5,422	0	0	18,724
Thereof intersegment	23	1	0	272	-296	0
Gross profit	**3,277**	**9,633**	**5,264**	**272**	**-99**	**18,348**
Expenses and other income	-5,850	-50,299	-16,142	-1,727	272	-73,746
Thereof amortisation 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**
Operating Profit	**1,057**	**1,102**	**1,213**	**-1,455**	**-99**	**1,817**
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**

Geographical information

The Group operates in three principal geographical areas – the 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 shown exclusive of financial instruments:

	Revenue from external customers		Non-current assets	
	Year ended 2018	Year ended 2017	2018	2017
	kEUR	kEUR	kEUR	kEUR
Germany	10,815	32,182	175	196
United Kingdom	5,645	31,862	355	567
Spain	2,493	5,499	11	17
USA	1,020	5,127	3	4
Other	299	893	3	3
Total	**20,272**	**75,563**	**547**	**787**

06
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» NOTES TO THE INCOME STATEMENT [7]

The income statement was prepared using the function of expense method. The expenses include personnel expenses of EUR 12,658k (2017: EUR 11,743k) as well as depreciation and amortisation of EUR 327k (2017: EUR 391k). Amortisation of intangible assets is included in selling expenses EUR 147k (2017: EUR 224k) and administration expenses EUR 40k (2017: EUR 29k).

The personnel expenses include the employer's contribution to state pension schemes amounting to EUR 622k (2017: EUR 497k), which must be disclosed as employer's contribution to a defined contribution plan.

» COST OF SALES [8]

Prior year's cost of sales figure (EUR 57,215k) includes media cost of EUR 56,839k owed to publishers and other third party suppliers of ad inventory. After the implementation of IFRS 15, those costs which have been previously recognised as revenue and cost of sales respectively are no longer considered as revenue to which the Company is entitled for its services and were consequently excluded from revenue and cost of sales respectively.

After implementation of IFRS 15 the Company voluntarily discloses the alternative performance figure of media cost as management considers this a useful figure for the users of the financial statements.

Media cost	2018	2017
	kEUR	kEUR
ad pepper media	5,510	3,256
ad agents	12,085	11,933
Webgains	44,786	41,650
Total	**62,381**	**56,839**

» SELLING AND MARKETING EXPENSES [9]

This item comprises all costs associated with attracting customers and orders. The expenses are broken down as follows:

	2018	2017
	kEUR	kEUR
Personnel costs	9,700	8,341
Facility costs (office rent, depreciation)	51	70
Advertising and sales promotion	460	407
Professional and other services	1,282	847
General operating costs (communication, travel, other supplies)	952	848
Other	176	258
Total	**12,621**	**10,771**

» GENERAL AND ADMINISTRATIVE EXPENSES [10]

The expenses are broken down as follows:

	2018	2017
	kEUR	kEUR
Personnel costs	2,958	3,402
Facility costs (office rent, depreciation)	1,147	815
Professional and other services	733	849
General operating costs (communication, travel, other supplies)	937	965
Other	150	56
Total	**5,925**	**6,087**

» OTHER OPERATING INCOME [11]

Other operating income consists of the following:

	2018	2017
	kEUR	kEUR
Gains on sale of property, plant and equipment	3	0
Income from the release of accrued liabilities	389	612
Other	102	111
Total	**494**	**723**

Income from the release of accrued liabilities includes an amount of EUR 356k relating to reversals of non-disbursed affiliate credits in the Webgains segment that the ad pepper media group believes are unlikely to be paid out (2017: EUR 470k) and reversals of EUR 33k in connection with time-barred claims (2017: EUR 142k).

» OTHER OPERATING EXPENSES [12]

Other operating expenses consist of the following:

	2018	2017
	kEUR	kEUR
Foreign exchange losses	47	77
Expected credit losses on trade receivables	409	259
Losses on disposal property, plant and equipment	0	19
Other	11	41
Total	**467**	**396**

» FINANCIAL INCOME, NET [13]

Net financial income consists of the following:

	2018	2017
	kEUR	kEUR
Interest income	42	26
Gains on sale of securities	48	0
Other	6	0
Financial income	**96**	**26**
Interest expenses	-44	-43
Losses from securities measured as "Fair value through profit or loss"	-242	0
Financial expenses	**-286**	**-43**
Net financial income	**-190**	**-17**

» INCOME TAXES [14]

Income tax expenses	2018	2017
	kEUR	kEUR
Current income tax expenses	-277	-664
Deferred income tax income/(expense)	-25	0
Total	**-302**	**-664**

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 10,730k (2017: EUR 10,668k) were calculated on the basis of the unused tax losses of EUR 34,913k (2017: EUR 35,170k). Deferred tax assets from unused tax losses were recorded to the extent that it is probable that future taxable profit is available against which they can be utilized within a foreseeable planning period. Thus, an amount of deferred tax assets of EUR 0k (2017: 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	2018	2017
	kEUR	kEUR
Securities	142	160
Other	68	25
Total	**210**	**185**

Changes in deferred tax liabilities on temporary differences recognized in profit or loss amount to EUR 25k (2017: EUR 0k). 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 (2017: EUR 0k) and deferred tax liabilities of EUR 210k (2017: EUR 185k) were recognized in the balance sheet. Deferred tax assets and liabilities are classified as non-current.

Deferred tax assets of EUR 0k (2017: EUR 0k) on tax losses are recognized for companies with a history of losses. No deferred tax liabilities were recognized as of December 31, 2018 (2017: 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 32.17 percent (2017: 31.47 percent) is as follows:

	2018	2017
	kEUR	kEUR
Expected income tax	-269	-567
Effect of lower tax rate in other jurisdiction	87	111
Foreign tax from limited taxation	2	-1
Tax-free gains	-8	-174
Prior year income tax	-51	-75
Deferred tax expense due to change in tax rates	0	-398
Utilisation of previously unrecognised tax losses	0	457
Current year tax losses not recognized	-81	0
Non-taxable stock option income / (expense)	19	-28
Non-tax-deductible expenses and other	-3	10
Actual income tax expenses	**-302**	**-665**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

» EARNINGS PER SHARE [15]

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

	2018	2017
Net income attributable to shareholders of the parent company in kEUR	247	580
Number of shares at the beginning of the period	21,000,708	20,880,708
Number of shares at the end of the period	21,000,708	21,000,708
Weighted average number of shares outstanding (basic)	21,000,708	20,940,708
Basic earnings per share in EUR	0.01	0.03
Weighted average number of shares outstanding (diluted)	21,303,855	21,202,018
Diluted earnings per share in EUR	0.01	0.03

The weighted average number of shares outstanding in 2018 was calculated on a daily basis. In 2018, the options granted resulted in dilution of an average of 303,147 shares (2017: 261,310 shares). No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2018 (2017: 0 shares). The Company did not carry out a share repurchase programme in 2018. Consequently no shares were acquired (2017: 0 shares). No treasury shares (2017: 120,000 shares) were sold in connection with the exercise of employee stock options. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding including the dilutive effect of shares to be issued in the future under certain arrangements such as option plans.

NON-CURRENT ASSETS

» INTANGIBLE ASSETS [16]

In 2018 and 2017, no software IT solutions were developed in-house for the Company's own use and thus none were capitalised. Expenses were related to maintenance. Additions mainly relate to an amount of EUR 37k in connection with the purchase of additional features for Microsoft Dynamics AX. Software and databases are amortised over a useful life of three to five years. Trademarks are amortised 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 [17]

	Historical cost					Accumulated depreciation/amortisation/impairment					Book value	
Financial year 2018	Balance at 1/1/2018	Additions	Disposals	Exchange differences	Balance at 31/12/2018	Balance at 1/1/2018	Depreciation/ amortisation	Disposals	Exchange differences	Balance at 31/12/2018	Financial year 31/12/2018	Previous year 31/12/2017
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Intangible assets												
Software	2,089	44	184	-8	1,941	1,731	187	184	-6	1,729	214	357
Brands and customer bases	644	0	0	0	644	639	1	0	0	640	4	5
Total	**2,733**	**44**	**184**	**-8**	**2,585**	**2,370**	**188**	**184**	**-6**	**2,369**	**218**	**362**
Property, plant, and equipment												
Other equipment, operational and office equipment	1,680	51	446	-7	1,279	1,256	139	445	-2	949	330	424
Total	**4,414**	**95**	**630**	**-15**	**3,864**	**3,626**	**327**	**629**	**-8**	**3,317**	**548**	**786**

	Historical Cost					Accumulated depreciation/amortisation/impairment					Book value	
Financial year 2017	Balance at 1/1/2017	Additions	Disposals	Exchange differences	Balance at 31/12/2017	Balance at 1/1/2017	Depreciation/ amortisation	Disposals	Exchange differences	Balance at 31/12/2017	Financial year 31/12/2017	Previous year 31/12/2016
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Intangible assets												
Software	2,053	55	0	-19	2,089	1,486	251	0	-6	1,731	357	567
Brands and customer bases	644	0	0	0	644	639	1	0	0	640	5	5
Total	**2,697**	**55**	**0**	**-19**	**2,733**	**2,125**	**252**	**0**	**-6**	**2,371**	**362**	**572**
Property, plant, and equipment												
Other equipment, operational and office equipment	1,393	378	71	-20	1,680	1,181	139	48	-16	1,256	424	212
Total	**4,090**	**434**	**71**	**-39**	**4,414**	**3,306**	**391**	**48**	**-22**	**3,627**	**786**	**784**

» NON-CURRENT SECURITIES [18]

As at 31 December 2018, non-current securities consist of fair value through profit and loss securities. Non-current securities have a remaining term of more than one year, for which a disposal within one year is not planned, or, where shorter, are not scheduled for disposal within the year.

Securities measured at fair value through profit and loss acc. to IFRS 9 – listed debt instruments

Financial assets at fair value through profit or loss include investments in listed debt instruments. Fair value of these securities is determined by reference to published price quotations in active markets.

	01/01/2018	Reclassification acc. to IFRS 9	31/12/2017
	kEUR	kEUR	kEUR
Book value securities available-for-sale securities	**0**	**-2,515**	**2,515**
Book value securities fair value through profit and loss	**2,515**	**2,515**	**0**

The bond has been purchased in 2004 for 100 % of its nominal value and has characteristics of a hybrid subordinated security. The contractual interest rate amounts to 10Y-EUR-Swaprate+10 basis points, which is adjusted at each prolongation date of the bond. Interest payments are on non-cumulative basis, which excludes the issuer from the obligation to repay missed payments. The bond is perpetual, however half-yearly callable by the issuer. Any liquidation of the bond by the issuer would result in a repayment of 100 % of the nominal value, as the prospect excludes loss absorption and secures a liquidation preference. Further the bond is secured by a supporting agreement of the UniCredit BA.

	Security classified "fair value through profit or loss" acc. to IFRS 9	Securities classified "available for sale" acc. to IAS 39
	2018	2017
	kEUR	kEUR
Book value 1/1	2,515	1,734
Unrealised losses recognised in profit or loss	-242	0
Unrealised gains recognised in other comprehensive income	0	781
Book value 31/12	**2,274**	**2,515**

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

Fair value	31/12/18	31/12/17
	kEUR	kEUR
Due within one year	2,274	2,515
Due between one and five years	0	0
Due in more than five years	0	0
Total	**2,274**	**2,515**

Securities measured at amortised cost acc. to IFRS 9 – listed debt instruments

	2018	2017
	kEUR	kEUR
Book value 1/1	0	0
Purchase	2,417	0
Sale	-2,480	0
Realised gains	63	0
Book value 31/12	**0**	**0**

» OTHER FINANCIAL ASSETS [19]

Other financial assets consist of the following and are measured at amortised cost:

	31/12/18	31/12/17
	kEUR	kEUR
Loans	15	0
Deposits	427	418
Total	**442**	**418**

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

	31/12/18	31/12/17
	kEUR	kEUR
Due between one and five years	442	418
Due in more than five years	0	0
Total	**442**	**418**

CURRENT ASSETS

» TRADE RECEIVABLES [20]

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

	31/12/18	31/12/17
	kEUR	kEUR
Trade receivables, gross	18,305	14,699
Provision	-676	-570
Trade receivables, net	17,629	14,129

Trade receivables consist only of third-party customers, are non-interest bearing and are generally on terms of 14 to 90 days.

The provision is calculated on the basis of all information available to the Company and include all expected credit losses on receivables as of 31 December 2018. For further information, please refer to Notes [3] and [41].

As of 31 December 2018 all campaigns have been billed to the extent revenue has been recognised. Consequently the amount of contract assets is nil.

» OTHER RECEIVABLES [21]

Other receivables consist of the following:

	31/12/18	31/12/17
	kEUR	kEUR
Value-added tax receivables	198	235
Prepayments	213	162
Other	11	13
Total	**422**	**410**

» OTHER CURRENT FINANCIAL ASSETS [23]

Other current financial assets consist of the following:

	31/12/18	31/12/17
	kEUR	kEUR
Interest receivables	5	5
Other	50	22
Total	**55**	**27**

» INCOME TAX RECEIVABLES [22]

Income tax receivables include tax prepayments on capital gains of EUR 7k (2017: EUR 203k).

» CASH AND CASH EQUIVALENTS [24]

This item includes bank 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 18,233k (2017: EUR 20,127k).

EQUITY

» ISSUED CAPITAL [25]

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2018 (2017: 0 shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2017: 23,000,000) bearer shares each with a nominal value of EUR 0.05 and is fully paid in.

» SHARE PREMIUM [26]

The capital reserve mainly comprises the premium paid upon share issues.

» TREASURY SHARES [27]

Purchase of treasury shares

Under the shareholder resolution of 15 May 2017 the ad pepper media group was authorised to repurchase treasury stock of up to 50 percent of the issued capital within the following 18 months. The Company did not carry out a share repurchase programme in 2018. Consequently no shares were acquired (2017: 0 shares). As of 31 December 2018, the Company held 1,999,292 treasury shares (2017: 1,999,292) at a nominal value of EUR 0.05 each, which equals 8.69 percent (2017: 8.69 percent) of the share capital. According to a shareholder resolution, those shares can only be used for the stock option plan.

Sale of treasury shares

No shares were sold under the employee stock option plan (2017: 120,000 shares for EUR 105k) cash settlements amounting to EUR 82k for stock options occurred. This amount was posted as a deduction from equity under own shares.

Number of shares outstanding

The number of shares issued and outstanding as of 31 December 2018 totalled 21,000,708 (2017: 21,000,708). Each share has a nominal value of EUR 0.05.

» AUTHORISED UNISSUED CAPITAL [28]

The authorised unissued capital totals EUR 21,485.40 (2017: EUR 21,485.40) and comprises 429,708 shares (2017: 429,708 shares).

» OTHER RESERVES [29]

Other reserves include the expenses incurred for stock option plans amounting to EUR 2,514k (2017: EUR 2,746k) and the currency translation reserve amounting to EUR -1,208k (2017: EUR-1,196k).

In implementing IFRS 9, cumulated revaluation losses for available-for-sale securities and related deferred taxes totalling EUR -487k were reclassified into accumulated deficit as of 1 January 2018. After IFRS 9 other reserves only includes accumulated exchange differences from the translation of the financial statements of foreign subsidiaries of EUR -1,208k (2017: EUR -1,196k).

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

2018	Before income taxes	Income taxes	After income taxes
Currency translation differences	-12	0	-12
Gains/losses from available-for-sale securities	0	0	0
Total other comprehensive income	**-12**	**0**	**-12**

2017	Before income taxes	Income taxes	After income taxes
Currency translation differences	-39	0	-39
Revaluation of available-for-sale securities	782	-69	713
Total other comprehensive income	**743**	**-69**	**674**

» NON-CONTROLLING INTERESTS [30]

Non-controlling interests comprise non-controlling interests in two subsidiaries as at 31 December 2018 and 2017. 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 recent years. The net income/loss for the year for ad agents GmbH and ad pepper media Spain S.A. is allocated proportionately to the non-controlling interests. In 2018, non-controlling interests in ad pepper media Spain S.A. received a dividend payment of EUR 214k (2017: EUR 152k), while non-controlling interests of ad agents GmbH did not receive a dividend in 2018 (2017: EUR 315k).

Summarised financial information in respect of ad pepper's subsidiaries that have material non-controlling interest as at December 31, 2018, reflecting 100 % of the underlying subsidiary's relevant figures, is set out on the following page:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	ad agents GmbH		ad pepper media Spain	
	31/12/18	31/12/17	31/12/18	31/12/17
	kEUR	kEUR	kEUR	kEUR
Non-current assets	79	87	17	23
Current assets	4,308	4,846	3,230	2,552
Total assets	**4,387**	**4,933**	**3,248**	**2,574**
Non-current liabilities	531	47	0	0
Current liabilities	2,732	3,764	2,070	1,603
Total liabilities	**3,263**	**3,812**	**2,070**	**1,603**
Net assets	**1,124**	**1,121**	**1,178**	**971**
Equity attributable to owners of the Company	675	673	765	631
Non-controlling interests	450	448	403	331
Non-controlling interests in %	40	40	35	35

	ad agents GmbH		ad pepper media Spain	
	2018	2017	2018	2017
	kEUR	kEUR	kEUR	kEUR
Revenue	5,011	17,354	2,494	6,316
Expenses	-5,008	-16,498	-1,677	-5,705
Net profit/(loss) of the year	**3**	**856**	**817**	**611**
Profit attributable to owners of the Company	2	514	531	397
Profit attributable to non-controlling interests	1	342	286	214
Other comprehensive income attributable to owners of the Company	0	0	0	0
Other comprehensive income attributable to non-controllig interests	0	0	0	0
Total comprehensive income/loss for the year	**3**	**856**	**817**	**611**
Net cash inflow/(outflow from operating activities	-1,653	1,413	511	843
Net cash inflow/(outflow) from investing activities	485	-44	-1	-4
Net cash inflow/(outflow) from financing activities	0	-788	-611	-434
Total net cash inflow/(outflow)	-1,168	581	-101	405

NON-CURRENT LIABILITIES

» OTHER LONG-TERM LIABILITIES [31]

Other long-term liabilities consist of the following:

	31/12/18	31/12/17
	kEUR	kEUR
Deferred rent benefits	127	170
Employee benefits liability	173	0
Other	29	47
Total	**329**	**217**

The employee benefits liability relates to the obligation resulting from the cash-settled stock option plans. For further details on cash-settled stock option plans, please refer to Note [40].

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

	31/12/18	31/12/17
	kEUR	kEUR
Due between one and five years	329	217
Due in more than five years	0	0
Total	**329**	**217**

CURRENT LIABILITIES

» TRADE PAYABLES [32]

Trade payables include accrued liabilities and are recognised at the settlement amount. Accrued liabilities for affiliate credits not yet disbursed in the Webgains segment amount to EUR 13,550k (2017: EUR 13,316k).

» OTHER LIABILITIES [33]

Other current liabilities consist of the following:

	31/12/18	31/12/17
	kEUR	kEUR
Value-added tax liabilities	1,177	1,441
Liabilities for payroll tax and social security contributions	314	297
Liabilities due to customers from overpayments	817	791
Employee holiday accrual	191	186
Total	**2,499**	**2,715**

» OTHER FINANCIAL LIABILITIES [34]

Other financial liabilities consist of the following:

	31/12/18	31/12/17
	kEUR	kEUR
Bonuses and commissions	320	523
Accrued liabilities for outstanding invoices	331	304
Severance payments	149	52
Other	112	86
Total	**912**	**965**

» RELATED PARTY DISCLOSURES [35]

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 [41]. All entities over which the Supervisory Board Chairman Michael Oschmann has significant influence are considered as related parties to the Company. With none of Companies the Company had related party transactions during the financial period.

» LITIGATION AND CLAIMS [36]

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

» CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS [37]

ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, Webgains Ltd (UK company number: 05353649) as at 31 December 2018, 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 31 December 2018 Webgains Ltd's outstanding liabilities amounted to EUR 10,112k (2017: EUR 8,549k). ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, ad pepper media GmbH (register number: HRB 16494) as at 31 December 2018 until satisfied in full. As a result, the individual local statutory accounts of ad pepper media GmbH are exempt from audit under the requirements of Art. 264 Par. 3 of the German Commercial Code (HGB). As of December 31, 2018 ad pepper media GmbH's outstanding liabilities amounted to EUR 7,878k (2017: EUR 6,761k). ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, ad agents GmbH (register number: HRB 16494) as at 31 December, 2018 until satisfied in full. As a result, the individual local statutory accounts of ad agents GmbH are exempt from audit under the requirements of Art. 264 Par. 3 of the German Commercial Code (HGB). As of December 31, 2018 ad pepper media GmbH's outstanding liabilities amounted to EUR 3,712k (2017: EUR 4,260k).

Other financial obligations mainly result from rented offices and from leases for cars and office equipment. The expenses from lease agreements amounted to EUR 73k in the financial year 2018 (2017: EUR 50k). Rental expense amounted to EUR 858k (2017: EUR 575k). The future minimum payment obligations resulting from the contracts in place as of December 31, 2018 are as follows:

	2019	2020	2021	2022	2023	Thereafter	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Office rent	776	672	616	288	225	84	2,662
Car leases	86	89	48	36	7	0	266
Others	75	9	0	0	0	0	83
Total	**937**	**770**	**664**	**324**	**232**	**84**	**3,011**

	< 1 year	> 1 year to 5 years	> 5 years	Total
	kEUR	kEUR	kEUR	kEUR
Office rent	776	1,802	84	2,662
Car leases	86	180	0	266
Others	75	8	0	83
Total	**937**	**1,990**	**84**	**3,011**

Rental agreements for the office leases in Nuremberg, Herrenberg and Madrid contain extension options on automatic annual renewal terms. Purchase options and restrictions imposed by lease arrangements do not exist.

» ADDITIONAL CASH FLOW INFORMATION [38]

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

» STOCK OPTION PROGRAMMES [39]

By doubling the number of options and halving the exercise price, all stock options programmes mentioned below have been adjusted for the share split on 27 May 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 only 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 2 May 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.

An employee equity-participation program involving 136,100 options was launched for executive employees on January 16, 2004 ("Ongoing SOP 2004"). The valuation was carried out by simulation (Monte-Carlo method). The option rights can be exercised one year after they were granted at the earliest. The fair values at the time of granting amounted to EUR 1.0585 per issued option. The maximum cost of the program over the entire period is EUR 144k.

In 2006 "Executive SOP 2006" that aimed at binding employees in key positions to the Company was 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 valuation was carried out by simulation (Monte-Carlo method). The volatility for Executive SOP 2006 was calculated from the development of the ad pepper media International N.V. share price between 1 January 2003 and 28 April 2006. The option plans do not include an exercise threshold, but can be exercised at the earliest one year after being granted.

An employee equity-participation programme involving 1,220,000 options was launched for executive employees on 15 May 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 1 January 2003 and 30 April 2008. Earlier values would have distorted the estimate of volatility. One quarter of the option rights can be exercised one year after they were granted at the earliest, the next quarter one additional year after they were granted, and so on. The fair value of the individual tranches at the time of granting is between EUR 0.282 and EUR 0.5145 per issued option. The maximum cost of the programme over the entire period is EUR 500k.

Furthermore, an employee equity-participation programme involving 490,000 options was launched for executive employees on 20 August 2013 (Executive SOP 2013 MD). The plan retains the Company the right to fulfil its commitment to transfer shares by paying to the beneficiary a cash amount equal to the difference between the Issue Price and the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. 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 3 September 2007 and 20 August 2013. One quarter of the option rights can be exercised one year after they were granted at the earliest, the next quarter one additional year after they were granted, and so on. The fair value of the individual tranches at the time of granting is between EUR 0.237 and EUR 0.350 per issued option. The maximum cost of the programme over the entire period is EUR 147k.

An employee equity-participation programme involving 300,000 options was launched for the members of the Board of Directors on 11 April 2017 (Executive SOP 2017 BoD). The plan retains the Company the right to fulfil its commitment to transfer shares by paying to the beneficiary a cash amount equal to the difference between the Issue Price and the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The valuation was carried out by simulation (Monte Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 February 2011 and 28 February 2017. One quarter of the option rights can be exercised one year after they were granted at the earliest, the next quarter one additional year after they were granted, and so on. The fair value of the individual tranches at the time of granting is between EUR 0.390 and EUR 0.654 per issued option. The maximum cost of the programme over the entire period is EUR 161k. In October 2018 after the first vested tranche was settled in cash, this plan was reclassified from an equity-settled into a cash-settled option plan. At modification date the Company recognised a liability for employee benefits based on the fair value of the cash settled award, posting the corresponding debit of EUR 313k as equity. The liability for the cash settled stock option plan is measured at the end of each reporting period until settled, at the fair value. The original terms and conditions of Executive SOP 2017 BoD have not changed. The carrying amount of the liability relating to the cash settled stock option plan 2017 BoD at 31 December 2018 was EUR 173k (2017: EUR 0).

Furthermore, an employee equity-participation programme involving 150,000 options was launched for executive employees on 11 April 2017 (Executive SOP 2017 MD). The plan retains the Company the right to fulfil its commitment to transfer shares by paying to the beneficiary a cash amount equal to the difference between the Issue Price and the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The valuation was carried out by simulation (Monte Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 February 2011 and 28 February 2017. One quarter of the option rights can be exercised one year after they were granted at the earliest, the next quarter one additional year after they were granted, and so on. The fair value of the individual tranches at the time of granting is between EUR 0.390 and EUR 0.654 per issued option. The maximum cost of the programme over the entire period is EUR 80k.

Furthermore, an employee equity-participation programme involving 30,000 options was launched for Supervisory Board members on 11 April 2017 (Executive SOP 2017 SB). The plan retains the Company the right to fulfil its commitment to transfer shares by paying to the beneficiary a cash amount equal to the difference between the Issue Price and the average closing price in electronic trading (Xetra) of the Frankfurt Stock Exchange on the last 10 trading days before exercising the option. The valuation was carried out by simulation (Monte Carlo method). The volatility was calculated from the development of the ad pepper media International N.V. share price between 1 February 2011 and 28 February 2017. One quarter of the option rights can be exercised one year after they were granted at the earliest, the next quarter one additional year after they were granted, and so on. The fair value of the individual tranches at the time of granting is between EUR 0.390 and EUR 0.654 per issued option. The maximum cost of the programme over the entire period is EUR 16k.

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The fair value of the stock options was calculated 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	18/5/01	15/1/02	15/1/03	16/1/04	15/1/03	16/1/06	15/5/08	20/8/13	11/4/17
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	do not expire	do not expire	do not expire	do not expire	do not expire	do not expire	10	7	7
Future dividend, in EUR	0	0	0	0	0	0	0.04 - 0.06	0.04 - 0.06	0.05
Estimated volatility, in percent	93	68	73	40	53	56	50	64.41	51

The average share price during 2018 was EUR 3.65 (2017: EUR 2.52).

The personnel expense recognised for employee services received during the year is shown in the following table:

	2018	2017
Expense arising from equity-settled share-based payment transactions	81	90
Expense/(income) arising from the measurement of the liability for cash-settled share-based payment transactions	-140	0
Total expense/(income) arising from share-based payment transactions	**-59**	**90**

The following table shows the changes in the options during the financial year 2018:

	2018	2017	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 (Executive SOP 2003)	152,000	252,000	0.890
Options at the beginning of the financial year (Ongoing SOP 2003)	400	400	0.890
Options at the beginning of the financial year (Ongoing SOP 2004)	2,000	2,000	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	37,500	1.500
Options at the beginning of the financial year (Executive SOP 2013 MD)	0	20,000	0.800
Options at the beginning of the financial year (Executive SOP 2017 BoD)	300,000	0	1.980
Options at the beginning of the financial year (Executive SOP 2017 MD)	150,000	0	1.980
Options at the beginning of the financial year (Executive SOP 2017 SB)	30,000	0	1.980
Options granted (Executive SOP 2017 BoD)	0	300,000	1.980
Options granted (Executive SOP 2017 MD)	0	150,000	1.980
Options granted (Executive SOP 2017 SB)	0	30,000	1.980
Options forfeited (Executive SOP 2008)	-37,500	0	1.500
Options forfeited (Executive SOP 2017 MD)	-25,000	0	1.980
Options exercised (Executive SOP 2017 BoD)	-75,000	0	1,980
Options exercised (Executive SOP 2003)	0	-100,000	0.890
Options exercised (Executive SOP 2013 MD)	0	-20,000	0.800
Options at the end of the financial year	**564,400**	**701,900**	**0.890 - 3.795**
Weighted exercise price in EUR	1.6936	1.727	
Exercisable options as of December 31	**214,400**	**211,900**	
Weighted exercise price in EUR	1.206	1.055	

Weighted exercise price of stock options exercised during 2018 amounts to EUR 1.98 (2017: EUR 0.875). Stock option programmes with an outstanding amount of 184,400 options do not have an expiration date. For the remaining stock option programmes the average remaining contractual life amounts to 5.3 years.

» TOTAL REMUNERATION OF KEY MANAGEMENT [40]

	2018	2017
	kEUR	kEUR
Short-term employee benefits	245	435
Post-employment benefits (pensions and health insurance)	24	19
Stock options	-86	57
Total remuneration of key management	**183**	**511**

The amounts shown in the table above are recognised as expenses during the reporting period. Income resulting from the share based payments is due to the decreased fair value of the cash settled stock option plan and the corresponding adjustment of the liability through profit or loss.

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	31/12/18	31/12/17
		EUR	Number	Number
Executive SOP 2017 BoD	11/4/24	1.98	225,000	300,000

» FINANCIAL INSTRUMENTS [41]

The classes of financial instruments within the meaning of IFRS 7.6 are defined in accordance with the categories of financial instruments in IFRS 9. IFRS 9 contains three categories for classifying financial assets: "measured at armortised cost,"measured at fair value through profit or loss" and "measured at fair value through other comprehensive income." The standard eliminates the categories: "held to maturity," "loans and receivables," and "available for sale," that were specified in IAS 39.

1. Capital risk management

The Group manages its capital with the aim of optimising income from investments in business entities by optimising the debt equity ratio and maximising its shareholder value by maintaining a high credit rating and a good equity ratio. At the same time, the Group ensures that entities can operate under the going concern assumption. The capital structure of the Group consists of liabilities, which do not include borrowings, cash and cash equivalents, fair value through profit or loss 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 items.

Net indebtedness

The Group manages its capital structure and makes adjustments to it that take into account changes in the general economic environment. In order to maintain or adjust the capital structure, the Group can make dividend payments or pay back capital to the shareholders, issue new shares or buy back its own shares. No changes in the objectives, guidelines and procedures were made as at 31 December 2018 compared to 31 December 2017. Negative net indebtedness means that the Group is debt-free.

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

	31/12/18	31/12/17
	kEUR	kEUR
Current and non-current financial liabilities	19,879	18,804
Cash and cash equivalents	-18,233	-20,127
Securities and fixed-term deposits	-2,274	-2,515
Net liabilities	**-628**	**-3,838**
Equity per balance sheet including non-controlling interest	16,512	16,517
Net indebtedness, in percent	**-4**	**-23**

2. Significant accounting policies

The rent and similar deposits referred to in note [19], carried at their nominal amount of EUR 226k (2017: EUR 380k), 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	31/12/18	01/01/18	Reclassification acc. to IFRS 9	01/01/18
	kEUR	kEUR	kEUR	kEUR
Debt instruments at amortised cost	36,359	34,701	-	34,701
Debt instruments at fair value through profit or loss (IFRS 9 category valid from 01/01/2018)	2,274	2,515	+2,515	0
Available-for-sale financial assets (IAS 39 category valid until 31/12/2017)	0	0	-2,515	2,515
Total	**38,633**	**37,216**	-	**37,216**

Debt instruments at amortised cost include trade receivables (Note [20]), other non-current financial assets (Note [19]) and current financial assets (Note [21]).

Debt instruments at fair value through profit or loss include investments in listed debt instruments. Fair values of these instruments are determined by reference to published price quotations in an active market. Before IFRS 9 these securities have been classified as "available-for-sale" according to IAS 39.

Financial liabilities	31/12/18	31/12/17
	kEUR	kEUR
Other financial liabilities measured at amortised cost	19,879	18,804
Total	**19,879**	**18,804**

Other financial liabilities measured at amortised cost include trade payables (Note [32]) and other financial liabilities (Note [34]).

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 and liabilities are based on quoted prices in an active market or fair value measurement.

Hierarchical classification of fair values of financial instruments pursuant to IFRS 7 as of 31 December 2018:

	Fair Value 31/12/18	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	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 Level 1 pursuant to IFRS 13:

Category	Type	Valuation method	Significant unobservable inputs
Financial assets at fair value through profit or loss	Bonds	The fair value is based on the market price of the bond as at 31 December 2018.	Not applicable

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

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

Financial assets	31/12/18	31/12/17
	kEUR	kEUR
At fair value through profit and loss (IFRS 9 category valid from 1/1/2018)		
Unrealised losses	-242	0
Total	**-242**	**0**
At amortised cost (IFRS 9 category valid from 1/1/2018)		
Realised gains	54	0
Total	**54**	**0**
Available-for-sale financial assets (IAS 39 category valid until 31/12/2017)		
Through other comprehensive income	0	782
Total	**0**	**782**

Unrealised losses result from the fair value changes of debt security classified at fair value through profit or loss from 1 January 2018 onwards. Before IFRS 9, unrealised gains and losses resulting from price fluctuations have been considered through other comprehensive income. Realised gains and losses for financial assets at amortised cost occurred in conjunction with the purchase and sale of a listed debt instrument in the financial reporting period. Please refer to Note [18].

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

Financial assets	31/12/18	31/12/17
	kEUR	kEUR
Measured at amortised cost	-33	-40
Not at fair value through profit and loss (IAS 39 category valid until 31/12/2017)	0	23

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.

Group management monitors and manages the financial risks of the Group. These risks include the market risk (including exchange rate risks, interest rate-related fair value risks and price risks), the credit risk, the liquidity risk and interest rate-related cash flow risks. In addition, the management decides on the utilisation of derivative and non-derivative financial transactions and the deposit of surplus liquidity in securities. 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 sensitivity analysis. No changes occurred either in the market risk exposure 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 currencies. This can result in risk from fluctuations in exchange rate. The carrying amounts of the monetary assets and liabilities of the Group denominated in foreign currencies are as follows:

Financial assets	31/12/18	31/12/17
	kEUR	kEUR
USD	1,194	1,103
GBP	10,764	9,333
Total	**11,958**	**10,436**

Financial liabilities	31/12/18	31/12/17
	kEUR	kEUR
USD	1,129	999
GBP	10, 399	8,767
Total	**11,528**	**9,766**

Foreign currency sensitivity analysis

The Group is primarily exposed to 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 against 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% 31/12/18	Effect of USD +10% 31/12/17	Effect of GBP +10% 31/12/18	Effect of GBP +10% 31/12/17	Total 31/12/18	Total 31/12/17
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	-20	-34	-21	-27	-41	-61

	Effect of USD -10% 31/12/18	Effect of USD -10% 31/12/17	Effect of GBP -10% 31/12/18	Effect of GBP -10% 31/12/17	Total 31/12/18	Total 31/12/17
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Net income for the year	24	42	26	32	50	74

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 profit before tax of the Group would have increased/decreased by EUR 121k/EUR 202k. This is due to changes in the fair value of financial assets at fair value through profit or loss. In 2017 these financial assets were classified as available-for-sale. Consequently the equity would have decreased/increased by EUR 52k/EUR 64k). The interest rate sensitivity of the Group increased during the past reporting period.

8. Credit risk management

Credit risk is the risk of loss for the Group should contractual parties not meet their contractual obligations. Business relationships are only entered into with creditworthy contractual parties, and, where appropriate, it obtains collateral to reduce the risk of loss through the non-fulfillment of obligations. The Group only enters into business relationships with entities that are rated "investment grade" or above. 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. The Group has trade receivables 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.

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due for every single customer, reflecting reasonable and supportable information that is available at the reporting date about past events and current conditions and customer-specific, forward-looking information from the client-facing account manager. If a customer defaults, all outstanding amounts relating to that counterparty are subject to an allowance calculation. The default is primarily determined on the basis of individual assessment- prompted by noticeable changes in payment behaviour, or application for bankruptcy. Individual assessment is generally supported by the information provided by the client-facing account manager.

Generally, trade receivables are considered 100% in the credit loss allowance if past due for more than one year. Trade receivables are written off and derecognised if there is good reason to assume that the outstanding amount is unrecoverable in part or in whole, for example after completion of insolvency proceedings.

The Group is not exposed to any significant credit risks relating to a single contractual party or group of contractual parties with similar characteristics. The reported carrying amount reflects the maximum credit risk of the Group. 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 4.7 percent (2017: 4.9 percent) of the financial gross asset values at any time during the reporting period. 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 is ignored. There are no credit derivatives for hedging outstanding amounts from customers, nor have there been.

The expected loss rates (Stage 2 of the impairment model) amount to 0 % for the segments ad agents and ad pepper and 0.5 % for the webgains segment. The Company abstain from disclosing an ECL table, as the application of the expected loss rates result in immaterial amounts to the Group. The Company test for impairment (stage 3 of the impairment model) if there are substantial indications that receivables might be uncollectable e.g. deterioration of payment behaviour or initiation of insolvency proceedings. An account for specific allowances is only maintained for trade receivables.

The reconciliation of changes in the loss allowance is as follows:

Loss allowance	2018	2017
	kEUR	kEUR
Balance at beginning of year	570	611
Allowances in the period		
Additions	426	265
Reversals	-26	-22
Consumption	-294	-284
Balance at end of period	**676**	**570**

Increase in the loss allowance was mainly driven by insolvency proceedings initiated by a German client in the Webgains segment.

The analysis shows that allowances were set up on a gross receivables amount of EUR 959k (2017: EUR 873k). For any other financial assets despite trade accounts receivables which underly the impairment model acc. to IFRS 9.5.5 no material expected credit losses are anticipated.

9. Liquidity risk management

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

The maturities of the financial liabilities of the Group as at 31 December 2018 are presented below. The information is based on contractual, undiscounted payments.

Financial liabilities 31/12/18	< 1 mth.	> 1 mth., < 3 mth.	3. to 1 year	Total
	kEUR	kEUR	kEUR	kEUR
Trade payables	18,888	79	0	18,967
Other financial liabilities measured at amortised cost	402	277	233	912
Total	**19,290**	**356**	**233**	**19,879**

Financial liabilities 31/12/17	< 1 mth.	> 1 mth., < 3 mth.	3 mth. to 1 year	Total
	kEUR	kEUR	kEUR	kEUR
Trade payables	17,697	141	0	17,838
Other financial liabilities measured at amortised cost	255	486	223	965
Total	**17,952**	**627**	**223**	**18,804**

» EVENTS AFTER THE BALANCE SHEET DATE [43]

Up until the day of authorisation for issuance, there were no events that would have exerted substantial influence on the net assets, financial position, or result of operations as at 31 December 2018.

» APPLICATION OF ART. 264 PAR. 3 OF GERMAN COMMERCIAL CODE (HBG) [44]

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

- ad pepper media GmbH, Nuremberg
- ad agents GmbH, Herrenberg

Nuremberg, 27 March 2019

The Board of Directors of ad pepper media International N.V. comprised the following members in the financial year 2018:

Dr. Jens Körner,
CEO
Nuremberg, Germany

The Supervisory Board of ad pepper media International N.V. in the financial year 2018 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

» BALANCE SHEET OF THE HOLDING COMPANY – ASSETS (AFTER APPROPRIATION OF RESULT)

	Note	31/12/18 kEUR	31/12/17 kEUR
Non-current assets			
Intangible fixed assets	[2]	97	101
Tangible fixed assets	[3]	17	25
Financial fixed assets	[4], [5]	5,739	5,676
Total non-current assets		**5,853**	**5,802**
Current assets			
Receivables due from subsidiaries	[6]	2,837	1,700
Prepaid expenses and other current assets	[7]	88	285
Cash and cash equivalents	[8]	7,746	8,894
Total current assets		**10,672**	**10,879**
Total assets		**16,524**	**16,681**

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

» BALANCE SHEET OF THE HOLDING COMPANY – EQUITY AND LIABILITIES (AFTER APPROPRIATION OF RESULT)

	Note	31/12/18 kEUR	31/12/17 kEUR
Equity attributable to shareholders of the parent company			
Issued capital	[9]	1,150	1,150
Share premium	[9]	63,782	63,782
Other reserves	[9]	-49,273	-49,194
Total equity		**15,659**	**15,738**
Non-current liabilities	[10]	315	160
Provisions	[11]	28	114
Current liabilities	[12]	522	669
Total liabilities		**865**	**943**
Total equity and liabilities		**16,524**	**16,681**

» PROFIT AND LOSS ACCOUNT OF THE HOLDING COMPANY

	Note	1/1 - 31/12/18 kEUR	1/1 - 31/12/17 kEUR
Revenue*		**425**	**272**
Other operating income	[14]	1,639	1,639
Selling and marketing expenses		-578	-664
General and administrative expenses		-1,351	-1,781
Other operating expenses		-17	-4
Earnings before interest and tax (EBIT)		**118**	**-538**
Interest income		109	23
Interest expenses		-289	-35
Loss before taxes		**-62**	**-550**
Income tax gain/(expense)		20	-72
Share in result of subsidiaries and participations		289	1,202
Net result for the year		**247**	**580**

*Revenue relates solely to license fee charged to subsidiaries

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

» NOTES TO THE STATUTORY FINANCIAL STATEMENTS OF THE HOLDING COMPANY

[1] Basis of preparation and significant accounting policies

The Company Financial Statements for ad pepper media International N.V. (Commercial Register No. 27182121) were prepared in accordance with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. In accordance with Subsection 8 of Section 362, 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. The Holding Company's financial data is included in the Consolidated Financial Statements. The notes to the Holding 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 acquisition of 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 recognised 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 the transaction does not result in a loss of control, the difference between the consideration paid or received and the carrying amount of the net assets acquired or sold is directly recognised in equity.

Unrealised 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 up or down to the nearest thousand), unless otherwise stated. There have been no changes to the accounting policies of the Holding Company. Due to rounding, individual figures may not add up exactly to the totals stated.

[2] Intangible fixed assets

	Trade-marks kEUR	Software kEUR	Total kEUR
Book value at 1/1/17	**5**	**152**	**157**
Additions	0	48	48
Disposals	0	0	0
Amortisation	-1	-104	-105
Book value at 31/12/17	**4**	**97**	**101**
Purchase value	644	1,578	2,222
Accumulated amortisation	-640	-1,378	-2,121
Book value at 1/1/18	**4**	**97**	**101**
Additions	0	37	37
Disposals	0	0	0
Amortisation	0	-41	-41
Book value at 31/12/18	**4**	**93**	**97**
Purchase value	644	1,432	2,076
Accumulated amortisation	-640	-1,339	-1,979
Book value at 31/12/18	**4**	**93**	**97**

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

[3] Tangible fixed assets

	2018	2017
	kEUR	kEUR
Book value at 1/1	**25**	**11**
Additions	3	29
Disposals	0	-1
Depreciation	-11	-14
Book value at 31/12	**17**	**25**
Purchase value	232	603
Accumulated depreciation	-215	-578
Book value at 31/12	**17**	**25**

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

[4] Financial fixed assets

	31/12/18	31/12/17
	kEUR	kEUR
Subsidiaries at net asset value	2,844	3,049
Marketable securities	2,274	2,515
Loans	502	-
Other	119	112
Total	**5,739**	**5,676**

Regarding Marketable Securities please refer to Note [5].

Investments in subsidiary companies consist of the following:

	12/31/18	12/31/17
	kEUR	kEUR
Subsidiaries at net asset value	2,844	3,049
Provisions for subsidiaries	-28	-114
Total	**2,816**	**2,935**

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 1/1/17	**2,525**		**26**	**2,551**
Additions			86	86
Disposal and dividends	-755			-755
Share of net profit	1,202			1,202
Investments in subsidiaries	0			0
Translation adjustments	-37			-37
Book value at 1/1/18	**2,935**	**0**	**112**	**3,047**
Additions	0	502	7	509
Disposal and Dividends	-397			-397
Share of net profit	289			289
Investments in subsidiaries	0			0
Translation adjustments	-12			-12
Book value at 31/12/18	**2,816**	**502**	**119**	**3,437**

In 2018 a short-term loan amounting to EUR 500k has been granted to the affiliated company ad agents GmbH. The interest rate is 1.12 % per annum.

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

[5] Marketable securities

The marketable financial assets as of 31 December 2018 consist of securities measured at fair value through profit or loss. Please refer to Note [2] of the Consolidated Financial Statements regarding the impact of IFRS 9 on the financial assets held.

Securities fair value through profit or loss – non-current

In the reporting period, unrealised losses of EUR 242k (2017: gains of EUR 713k were recognised in other comprehensive income) were recognised in profit or loss.

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

	31/12/18	31/12/17
	kEUR	kEUR
Due within one year	2,274	2,515
Due within one and five years	0	0
Due in more than five years	0	0
Total	**2,274**	**2,515**

Securities measured at amortised cost

In the reporting period, securities measured at amortised cost were acquired for EUR 2,417k (2017: EUR 0) and sold for a total of EUR 2,479k (2017: EUR 0). Realised gains of EUR 62k (2017: EUR 0) were recognised in profit or loss.

[6] Group companies

The receivables from Group companies mature within one year.

[7] Prepaid expenses and other current assets

	31/12/18	31/12/17
	kEUR	kEUR
Income tax receivables	31	203
Other receivables	57	82
Total	**88**	**285**

[8] Cash and cash equivalents

There were no restrictions to cash at balance sheet date.

[9] Shareholders' equity

	Issued capital	Share Premium	Other reserves		Legal reserves		Total
		From contributions of shareholders of the parent company	Accumulated deficit	For employee stock option plans	Currency translation differences	Market valuation of available-for-sale financial instruments	
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance at 1/1/18	**1,150**	**63,782**	**-50,257**	**2,746**	**-1,195**	**-488**	**15,738**
Effect of adoption of new accounting standards	-	-	-488	-	-	488	-
Balance at 1/1/18	**1,150**	**63,782**	**-50,745**	**2,746**	**-1,195**	**-**	**15,738**
Currency translation differences					-12		-12
Total income and expense for the year recognized directly in equity					-12		**-12**
Net income for the year			247				247
Total recognized income and expense for the year			**247**		**-12**		**235**
Stock-based compensation				-232			-232
Cash settlement of SOPs			-82				-82
Balance at 12/31/18	**1,150**	**63,782**	**-50,580**	**2,514**	**-1,207**	**-**	**15,659**

	Issued capital	Share Premium	Other reserves		Legal reserves		Total
		From contributions of shareholders of the parent company	Accumulated deficit	For employee stock option plans	Currency translation differences	Market valuation of available-for-sale financial instruments	
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Balance at 1/1/17	**1,150**	**63,782**	**-50,942**	**2,656**	**-1,156**	**-1,201**	**14,289**
Currency translation differences				2,656	-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			**580**		**-39**	**713**	**1,253**
Stock-based compensation				91			91
Purchase of treasury shares							
Sale of treasury shares			105				105
Balance at 12/31/17	**1,150**	**63,782**	**-50,257**	**2,747**	**-1,195**	**-488**	**15,738**

Issued capital

No new shares in ad pepper media International N.V. were admitted for trading on the Frankfurt Stock Exchange in 2018 (2017: no new shares). The issued capital of ad pepper media International N.V. comprises 23,000,000 (2017: 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.

Treasury shares

Purchase of treasury shares
Under the shareholder resolution of 15 May 2017, ad pepper media International N.V. was authorised to repurchase treasury stock of up to 50 percent of the issued capital within the following 18 months. The Company did not carry out a share repurchase programme in 2018. Consequently no shares were acquired (2017: no shares). As of 31 December 2018, the Company held 1,999,292 treasury shares (2017: 1,999,292 treasury shares) at a nominal value of EUR 0.05 each, which equals 8.69 percent (2017: 8.69 percent) of the share capital. According to a shareholder 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 5,299k (2017: EUR 5,217k).

Number of shares outstanding
The number of shares issued and outstanding as of 31 December 2018 totalled 21,000,708 (2017: 21,000,708). Each share has a nominal value of EUR 0.05.

Authorised unissued capital
The authorised unissued capital totals EUR 21,485.40 (2017: EUR 21,485.40) and comprises 429,708 shares (2017: 429,708 shares).

Legal reserves
Balance includes currency translation differences of EUR -1,207 (2017: EUR -1,195). Cumulated valuations on available-for-sale securities as of 1 January 2018 of EUR -488k have been transferred to accumulated deficit. Please refer to Note [2] of the Consolidated Financial Statements.

Proposed appropriation of result for the financial year 2018
The Board of Directors proposes, with the approval of the Supervisory Board, that the result for the financial year 2018 amounting to EUR 247k should be transferred to accumulated deficit without payment of dividend. The financial statements do reflect this proposal.

[10] Non-current liabilities

	12/31/18	12/31/17
	kEUR	kEUR
Employee benefits liability	173	-
Deferred tax liability	142	160
Total	**315**	**160**

The employee benefits liability relates to the obligation resulting from cash settled option plan. For further details on cash settled stock option plans, please refer to Note [39] of the Consolidated Financial Statements.

[11] Provisions

	12/31/18	12/31/17
	kEUR	kEUR
Subsidiaries	28	114
Total	**28**	**114**

Provisions for subsidiaries relates to subsidiaries with a negative net asset value. For further information please refer to Note [4].

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

[12] Current liabilities

Provisions for subsidiaries relate to subsidiaries with a negative net asset value. For further information please refer to Note [4].

	12/31/18	12/31/17
	kEUR	kEUR
Accrued expenses	170	161
Other current liabilities	351	508
Total	**522**	**669**

Other current liabilities largely comprise of VAT payables and bonus accruals.

[13] 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 21k in financial year 2018 (2017: EUR 22k). Rental expense amounted to EUR 59k (2017: EUR 92k). The rent deposit for its office facilities in Nuremberg carried at their nominal amount of EUR 119k (2017: EUR 380k), is pledged as collateral for bank guarantees.

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, 2018, 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, 2018 Webgains' Ltd outstanding liabilities amount to EUR 10,112k (2017: EUR 8,549k).

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, 2018 until satisfied in full. As a result, the individual local statutory accounts of ad pepper media GmbH are exempt from audit under the requirements of Art. 264 Par. 3 of German Commercial Code (HGB). As of December 31, 2018 ad pepper media GmbH outstanding liabilities amount to EUR 7,878k (2017: EUR 6,761k).

ad pepper media International N.V. has guaranteed all outstanding liabilities of its subsidiary, ad agents GmbH (registered number: HRB 16494) that existed as at 31 December, 2018 until satisfied in full. As a result, the individual local statutory accounts of ad agents GmbH are exempt from audit under the requirments of Art. 264 Par. 3 of German Commercial Code (HGB). As of December 31, 2018 ad pepper media GmbH outstanding liabilities amount to EUR 3,712k (2017: EUR 4,260k).

The future minimum payment obligations resulting from the contracts for real estate and car leases in place as of 31 December 2018 are as follows:

	2019	2018
	kEUR	kEUR
Not later than 1 year	220	192
Later than 1 year and not later than 5 years	583	117
Later than 5 years	-	-

[14] Other operating income

Other operating income mainly includes management and shared service charged to subsidiaries of EUR 742k (2017: EUR 768k) and other income resulting from the profit distribution agreement with its subsidiary ad pepper media GmbH of EUR 826k (2017: EUR 793k)

[15] Employee information

At the end of the financial year, the Company employed 15 people (2017: 13). All employees are employed outside the Netherlands.

	2018	2017
	kEUR	kEUR
Wages and salaries	892	1,075
Stock option expenses	-59	90
Social security costs	158	150
Voluntary employment expenses	2	2
Total	**993**	**1,317**

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 57k (2017: EUR 52k).

The average number of personnel employed during the year was:

	2018	2017
	FTEs	FTEs
IT	2	2
Marketing	1	1
Administration	11	10
Total	**14**	**13**

[16] Information relating to the managing directors and Supervisory Board

Remuneration of current and former managing directors and Supervisory Board members amounted to:

	2018	2017
	kEUR	kEUR
Managing directors	184	511
Supervisory Board	24	24
Total	**208**	**535**

There was no Board remuneration charged to the Company in the year under review other than the following; in particular, there were no long-term bonuses or pension payments. The bonus payments are subject to the attainment of target earnings before tax. The targets have been missed.

Remuneration of managing and supervisory directors also includes remuneration on behalf of the subsidiaries. The amounts shown in the tables are those recognised in profit or loss during the reporting period.

Remuneration of the Management Board (2018)	Gross salary	Annual bonus	Stock-Options	Total
	EUR	EUR	EUR	EUR
Dr. Jens Körner (CEO)	252,000	17,000	-86,338	182,662

Income resulting from the share based payments is due to the decreased fair value of the cash settled stock option plan and the corresponding adjustment of the liability through profit or loss.

Remuneration of the Management Board (2017)	Gross salary	Annual bonus	Stock-Options	Total
	EUR	EUR	EUR	EUR
Dr. Jens Körner (CEO)	240,000	154,000	56,531	450,531
Dr. Ulrike Handel (until February 28, 2017)	40,000	20,000	0	60,000

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

Share options outstanding to Board and Supervisory 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	Stock Option Plan	Exercise price (EUR)	Number of options outstanding as of 31 December 2018	Number of options outstanding as of 31 December 2017
Dr. Jens Körner (CEO)	April 2017	300,000	Executive SOP 2017 BoD	1.98	225,000	300,000
Thomas Bauer (SB Member)	April 2017	10,000	Executive SOP 2017 SB	1.98	10,000	10,000
Eun-Kyung Park (SB Member)	April 2017	10,000	Executive SOP 2017 SB	1.98	10,000	10,000
Dr. Stephan Roppel (SB Member)	April 2017	10,000	Executive SOP 2017 SB	1.98	10,000	10,000

In October 2018 the option of the SOP 2017 BoD have been reclassified from being equity settled to cash settled. At modification date, the Company recognised based on the fair value of the cash settled award a liability for employee benefits, taking the corresponding debit to equity. Please refer for further information to Note [40] of the Consolidated Financial Statements.

Supervisory Board compensation

	2018	2017
	kEUR	kEUR
Michael Oschmann	6	6
Thomas Bauer	6	6
Eun-Kyung Park	6	6
Dr. Stephan Roppel	6	6
Total	**24**	**24**

Associated companies

Associated companies	Shares	Options	Shares	Options
	2018	2018	2017	2017
EMA B.V.	9,486,402	0	9,486,402	0
Euro Serve Media GmbH	456,163	0	436,963	0

The ultimate shareholder of both associated companies is Michael and Constanze Oschmann.

[17] Independent auditors' fees

2018	Fee Ernst & Young Accountants LLP	Fee other Ernst & Young offices	Total fee Ernst & Young
	kEUR	kEUR	kEUR
Audit of financial statements	80	78	158
Other services	-	-	-
Total	**80**	**78**	**158**

2017	Fee Pricewater-houseCoopers Accountants N.V.	Fee other Pricewater-houseCoopers offices	Total fee Pricewater-houseCoopers
	kEUR	kEUR	kEUR
Audit of financial statements	92	137	229
Other services	-	-	-
Total	**92**	**137**	**229**

[18] Events after the balance sheet date

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, 2018.

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STATUTORY FINANCIAL STATEMENTS AND NOTES OF THE HOLDING COMPANY

The Board

Dr. Jens Körner
(Chief Executive Officer)

Nuremberg, 27 March 2019

The Supervisory Board

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

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OTHER INFORMATION

» OTHER INFORMATION

Statutory arrangements for appropriation of 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 for the previous year.

Independent auditor's report

The independent auditor's report of these financial statements is included on the following pages.

INDEPENDENT AUDITOR'S REPORT

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

» REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2018 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the financial statements 2018 of ad pepper media International N.V., based in Amsterdam. The financial statements include the Consolidated Financial Statements and the statutory financial statements of the holding company.

In our opinion:

- The accompanying Consolidated Financial Statements give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2018, and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying statutory financial statements of the holding company give a true and fair view of the financial position of ad pepper media International N.V. as at December 31, 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The Consolidated Financial Statements comprise:

- The consolidated statement of financial position as at December 31, 2018
- The following statements for 2018: the consolidated income statement,
  the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The Consolidated Financial Statements comprise:

- The balance sheet of the holding company as at December 31, 2018
- The profit and loss account of the holding company for 2018
- The notes comprising a summary of the accounting policies and other explanatory information

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 "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of ad pepper media International N.V. in accordance with the EU 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 assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality	€ 390,000
Benchmark applied	Approximately 2% of gross profit
Explanation	We have applied this benchmark based on our professional judgment and taking into account the expectations of users of the financial statements. Gross profit was concluded to be the most appropriate earnings based measure given it to be rather stable and reflective of the growth in the Company's activities.

We have also taken into account misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €20,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

ad pepper media International N.V. is at the head of a group of entities. Our group audit mainly focused on group entities that are either significant based on their size or risk relative to the Consolidated Financial Statements. All entities that have contributions to gross profit exceeding 10% of total are included within our audit scope. Together with certain qualitative considerations, this resulted into full scope audit procedures on the financial information of five entities. The procedures performed for entities with an audit scope represent 97% of revenue and gross margin and 95% of total assets. All audit procedures were performed by a team consisting of members of EY offices in both Netherlands and Germany.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the Consolidated Financial Statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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 discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk of inappropriate revenue recognition, including the risk of management overriding revenue recognition controls (refer to note 2 under header 'Changes in accounting policies and estimates' and note 6 in the Consolidated Financial Statements)

Description	Recognizing revenue is a routine process for the Company, with a high number of transactions during the year. Revenue is an important performance indicator to the board of directors, the supervisory board as well as to other stakeholders and therefore we believe it to be subject to a higher risk of manipulation. Additionally, with IFRS 15 becoming effective from 1 January 2018, the Company was required to re-assess the presentation of revenue as a principal or agent as the underlying accounting requirements changed as compared to IAS 18. As a result of this re-assessment, management concluded the Company to be an agent in revenue arrangements for all three segments. In order for the Company to provide stakeholders with insight into the extent of operating activities, it presents "gross sales" as an alternative performance measure in the income statement.
Our audit approach	We have analyzed the Company's revenue recognition policies and procedures for the various sources of revenue. We evaluated the design and implementation of internal controls embedded in revenue recognition processes, including internal controls related to IT processes relevant to revenue recognition. In the latter IT specialists were involved as well. We discussed with and challenged management in their evaluation of revenue arrangements and the related analysis of recognizing revenues as principal or agent. We validated management's analysis based on inspection and interpretation of agreements with both customers and suppliers. We applied a data-analytics driven audit approach to revenues in which we verified that revenue recognized during the year subsequently resulted in cash receipt. Our analytics did not reveal material exceptions. Additionally, we tested appropriate cut-off of revenues between 2018 and 2019.
Key observations	We conclude that the revenue for 2018 has been appropriately recognized and disclosed in the financial statements.

» REPORT ON 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 Report of the Supervisory Board, the Report of the Board of Directors, the letter from Board of Directors, the ad pepper media Share, at a glance and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as 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 through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these 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 the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

» REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the supervisory board as auditor of ad pepper media International N.V. on 27 July 2018, as of the audit for the year 2018.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

No other services were provided to the Company.

» DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management 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 objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- 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 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 management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events 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. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

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 findings in internal control that we identify during our audit. In this respect we also submit 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 the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Amsterdam, March 27, 2019
Ernst & Young Accountants LLP

G.M.J. Bloetjes

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AT A GLANCE

» 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 2018	28 March 2019
Annual General Meeting (Amsterdam, The Netherlands)	21 May 2019
Quarterly Report I/2019	23 May 2019
Quarterly Report II/2019	22 August 2019
Quarterly Report III/2019	19 November 2019

Contact partner for investors

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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 materialise. Future developments and the results actually achieved by ad pepper media International N.V. and its affiliated companies are dependent upon a number of risks and uncertainties and can hence deviate significantly from the future-related statements. Several of these factors are beyond ad pepper media's control and cannot be precisely estimated in advance, such as the future economic environment and the actions of competitors and other market players. There are no plans to update the future-related statements nor does ad pepper media International N.V. undertake any separate obligation to do so.

Our 2018 Annual Report as well as the Interim Financial Reports for 2018 are available at **www.adpeppergroup.com** under:
Investor relations / Statutory publications / Financial reports.

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www.adpeppergroup.com