

*splendid* **medien AG**



*Annual Report 2001*

# *Mission statement*

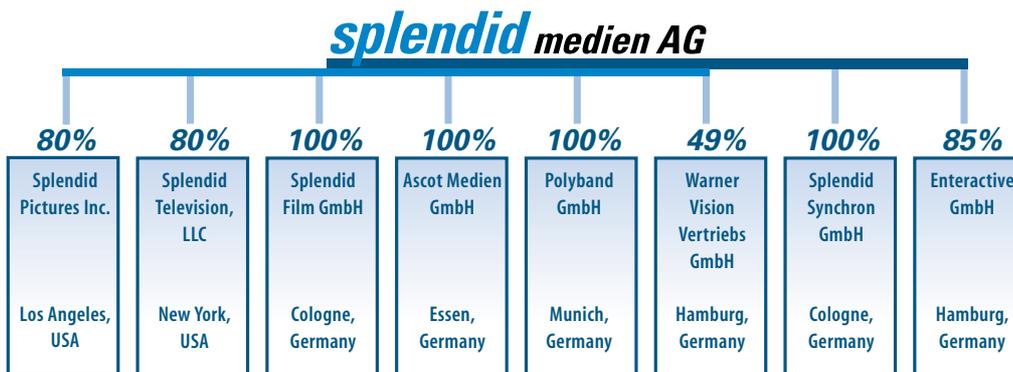
We are an independent international producer with a strong focus on Hollywood, specializing in feature films and television films which we sell throughout the world and use ourselves in Germany at every stage of value creation. We have established ourselves in the last 28 years with a highly impressive record of successes in the screen rights trade.

We want to enhance the quality of our already extensive product range by acquiring high-quality international film rights. We also want to use all economically sensible sources of finance to expand our library. With internal growth and strategically forward-looking acquisitions we plan to continue to build on our position along the value creation chain as an attractive place of work for competent employees and potential applicants.



*Splendid Medien AG head office in Cologne.*

## Corporate structure



## Splendid at a glance

Key figures (IAS)	2001 in mil. €	2000 in mil. €	Change 2000/2001 in %
Total turnover	69.4	26.9	158.0
License trade	57.6	19.4	196.9
Home entertainment	10.2	5.2	96.1
Post-production	1.6	2.2	-27.3
EBITDA	51.6	18.7	175.9
EBIT	-12.1	0.7	
Annual net profit	-8.7	3.4	
Cash flows from current operating activities	26.3	32.1	-18.1
Balance sheet total	93.9	101.4	-7.4
Shareholders' equity	71.1	79.8	-10.9
Equity ratio	75.7%	78.7%	
Cash and cash equivalents on 12.31	22.5	1.3	1,630.8
Screen rights (incl. advance payments made)	36.4	85.4	-57.4
Investment in screen rights	13.9	54.7	-74.6
Investment ratio (of balance sheet total)	14.8%	53.9%	
Amortization of screen rights	63.0	17.4	262.1
Amortization rate (of turnover)	90.8%	64.8%	
Net income per share in Euro*	-0.98	0.39	
Number of employees at end of year	38	38	0.0

\* Total number of shares: 8.9 million.

## The Board of Management



**Andreas R. Klein (CEO/40),**

**responsible for licenses and strategy.**

Since 1980 he has been at the company which his father, Albert E. Klein, founded in 1974. When the Splendid group became Splendid Medien AG Andreas R. Klein became chief executive officer of the company in June 1999.



**Dr. Thomas Weber (CFO/37),**

**responsible for finances, operative management  
of associated companies and investor relations.**

Before he joined Splendid he had several leading positions at international companies, including ITT Automotive and Metro International AG. Member of the board at Splendid Medien AG since August 2001.



**Alexander Welzhofer (CMO/38),**

**responsible for marketing and sales.**

Chief executive officer of Warner Vision Vertriebs GmbH (Splendid interest: 49 percent). During his long career in the film industry he has been in leading positions at a number of international film companies, including PolyGram and Virgin Vision. Member of the board at Splendid Medien AG since February 2001.



*The Splendid Synchron GmbH recording studios in Cologne.*

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## **Dear Stockholders of Splendid Medien AG, Staff and Friends,**

In the last financial year we wrote another chapter in our long history of success. Our total turnover increased 158.0 % to 69.4 million Euro, which meant we were 36 % better off than we had predicted in our own forecasts.

The development of our 2001 annual result changes nothing here. This is because we effectively amortized our receivables from the delivery of securities of Internationalmedia AG amounting to 16.6 million Euro for the 2001 financial year on account of the surprising drop in stock price in February 2002.

Furthermore, we reacted to recent developments within the Kirch Media Group by performing valuation adjustments to all receivables from Kirch Media in accordance with strict rules of prudence.

A more cautious assessment of the market development in Germany has also led us to adjust the amount of deferred taxes accordingly. Based on our strict rules of prudence regarding valuation principles we have carried out an additional writedown of 12.7 million Euro on screen rights.

This improves the future profitability of our film library with second and following uses, but in the 2001 financial year this led to an annual loss of 8.7 million Euro.

We consider this a one-off result of precautionary measures which were essential in order to secure the longterm success of our company.

This development is based on a clear strategy. This strategy itself is based on two firm foundations.

First, we are resolutely continuing our growth in the international market with co-productions and own productions and also worldwide sales with Splendid Pictures and Splendid Television.

Second, in the German-speaking area, which we consider highly important, we are on a course of expansion with our other group subsidiaries.

There were several important events which had an impact on our last financial year.

The movie "Traffic", co-produced by our partner IEG, was a sensational success. The film won four Oscars and high praise from the critics. Other films from our library also won awards. These include a Golden Globe for James Franco's portrayal of James Dean in the Splendid Television TV film of the same name.

Another milestone in the 2001 financial year was the sale of two film packages to KirchMedia and RTL II.

The September 11 terrorist attacks in the USA were a real shock for the whole world and caused a delay in the cinema release of "Gangs of New York" from our film co-production partner Miramax. We were able to more than compensate for the delayed turnover and revenue from "Gangs of New York" with other activities however.



***“Splendid brings Hollywood  
to the whole world”***

***Andreas R. Klein,  
Chief Executive Officer***

At the end of 2001 we pulled out of our 49 percent participation in IEG. We made this decision with strategic considerations in mind as much as the proceeds from the sale. We remain on good terms with the company both for business and as friends.

After drops in stock prices, in particular of growth-oriented values of the new economy, had characterized 2000, 2001 also proved to be an unsatisfactory year.

The Splendid stocks could not escape the downward trend in the Neuer Markt. The stock price shot up at the start of 2001 after substantially positive reports, but it clearly weakened in the rest of the year.

Our highly promising medium and longterm business prospects give us good cause for optimism. We also see ourselves in an outstanding position for this upswing.

Taking over the majority of Cutting Edge Entertainment at the start of 2002 certainly contributes to this. We have had business relations with this company for many years and it was integrated into our group under the Splendid Pictures organization unit. This will make it possible to consolidate turnover and revenue in our group.

## Foreword by the Chief Executive Officer

With the foundation of Splendid Pictures we have expanded our value creation chain with project development. This means we will be able to tie up projects which are likely to be a success at an earlier stage than before, and we can also help decide which actors, directors, and other artists will be signed.

We are continuing to fill our product pipeline in the film library with a greater number of feature film copyrights with different budgets. Splendid Medien AG's clearly-structured feature film line of business becomes evident with the name "Splendid Pictures".

We have planned a great for the 2002 financial year.

We want to extend our value creation chain and establish new business areas to expand our core business sensibly.

We are working towards new organic growth and external expansion with other operatively and strategically sensible company acquisitions.

We want to expand our library with copyrights for feature films for the worldwide market.

These goals are essential elements of a longterm strategy to develop further revenue potential and spread risks better.

The most important production factors are still our film library and our competent and dedicated employees. I would like to thank these people in particular for their outstanding work in the 2001 financial year.

I would equally like to thank our stockholders, our friends, and business partners for the confidence they have shown in us in the last year.

It would please me greatly to have you still on our side as we continue in our success on the way to a highly-promising future.



Cologne, March 2002  
Andreas R. Klein  
Chief Executive Officer

## **Report of the supervisory board**

In the 2001 financial year the supervisory board fulfilled the tasks it was obliged to undertake according to the law and articles of incorporation. It was kept up to date by the board of directors with oral and written reports on the current position of Splendid Medien AG and its associated companies. It checked all business transactions of particular importance and discussed these business transactions and the strategic development of all the companies in the group in regular meetings with the board of directors and also outside general meetings. Matters which, according to the law, the company's articles of incorporation, or the rules of internal procedure for the board of directors, require the involvement of the supervisory board, were dealt with by the latter and, where necessary, resolved.

The supervisory board met for four general meetings in the year under review.

In its meetings the supervisory board discussed business development and the situation of Splendid Medien AG and its associated companies as well as the intended business policy and company planning for continued internal and external expansion.

The auditing company BFJM Bachem Fervers Janssen Mehrhoff GmbH checked the annual accounts of Splendid Medien AG as well as the consolidated accounts and the situation reports for the group and for Splendid Medien AG on 12.31.2001. The auditor found the documents were in conformity with the books and with legal regulations and the articles of incorporation. The auditor gave both accounts an unqualified certificate of inspection.



*Dr. Ralph Drouven, Chairman of the Supervisory Board*

The supervisory board checked the annual accounts of Splendid Medien AG along with the consolidated accounts and the situation reports for the group and for Splendid Medien AG and also found no reason for complaint. The annual accounts compiled by the board were dealt with in detail by the supervisory board in the presence of the auditor and approved in the meeting on April 26, 2002 after close inspection.

On February 1, 2001 Mr. Alexander Welzhofer joined the board at Splendid Medien AG, and on August 28, 2001 Dr. Thomas Weber also joined the board. On October 9, 2001 Mr. Graham King left the board of Splendid Medien AG. He had responsibility for production and worldwide sales; his department is now headed by Mr. Andreas R. Klein, Chief License and Strategy Officer.

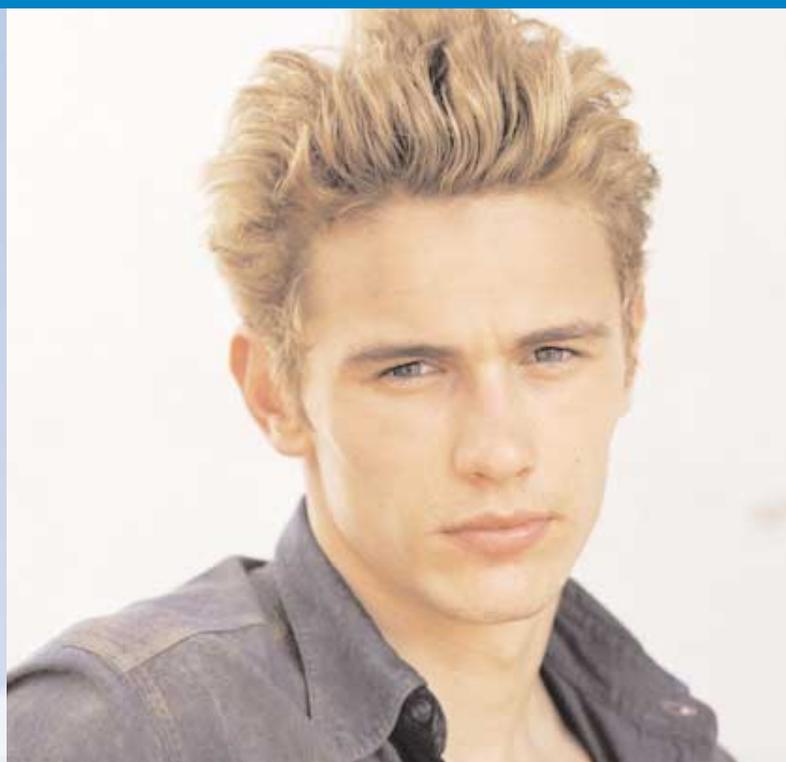
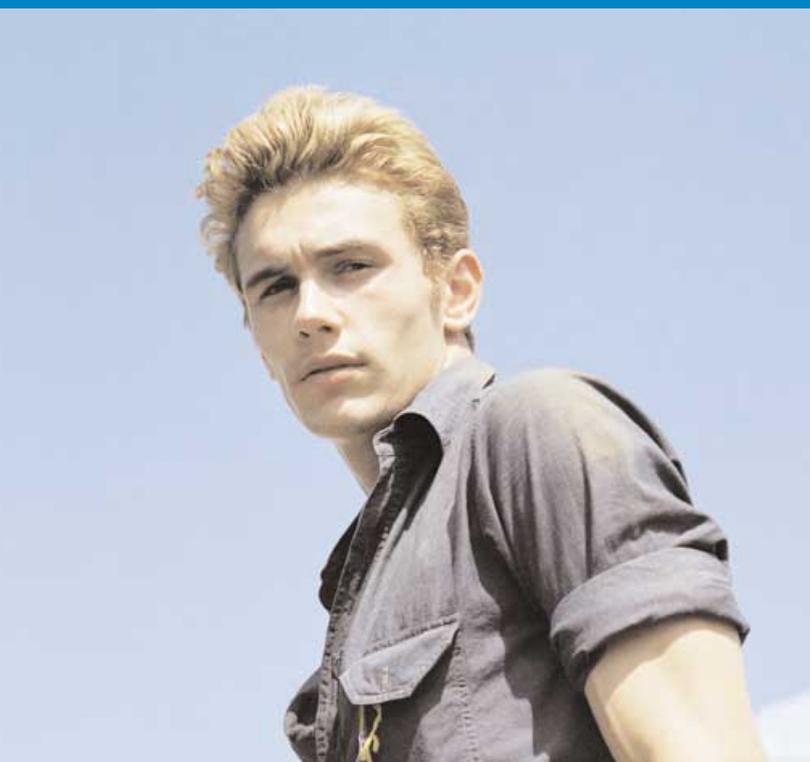
The supervisory board thanks the board of directors for its dedicated work for the company. The supervisory board also thanks all employees in the Splendid group for their achievements in the last financial year.

Cologne, April 2002

Dr. Ralph Drouven

Chairman of the Supervisory Board

James Franco in the role of James Dean in the TV film of the same name, a Splendid Television LLC. co-production. Franco received a Golden Globe award for his outstanding performance.



## Highlights 2001

### January 2001

"Traffic" wins two Golden Globes for Best Supporting Actor (Benicio Del Toro) and Best Screenplay. "If These Walls Could Talk II" wins a Golden Globe for Best TV Supporting Actress (Vanessa Redgrave).

### February 2001

Alexander Welzhofer joins the board at Splendid Medien AG, taking over responsibility for marketing and sales/distribution.

"Traffic" is awarded a Silver Bear for Best Actor (Benicio Del Toro) at the Berlinale.

### March 2001

"Traffic" wins four Oscars in the Best Director, Best Screenplay (Adapted), Best Supporting Actor, and Best Film Editing categories. "Shadow of the Vampire" is nominated in two categories.

### April 2001

"Traffic" opens in German cinemas. For its successful start in cinemas "Traffic" is awarded the "Bogey", the German box office award, because of the exceptionally high number of viewers.

# Splendid Medien AG



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## Our value creation

*Splendid Medien covers the complete value creation chain of a film from project development on to production and the television stage of use and also new media with video-on-demand. We have eight different subsidiaries in action at the different stages of value creation.*

### International value creation and its function units

#### Production and acquisition

Preparatory measures are necessary before the production of a film can begin. These function units cover **project development** such as the search for suitable screenplays, actors, and directors, in other words the complete cast and film crew. Project development also includes financing and the whole contract work.

All the people and processes involved in production are brought together in another function unit, **packaging**.

Packaging is usually followed by **pre-marketing** measures. The purpose of these is to make potential purchasers aware of the film and to gain them as customers before any sale is made. This gives us an exact picture of the prices at which the film can be sold later internationally when it is still being made. It also means we can adjust the film budget accordingly.

The budget is a key aspect for us because a film has to be sold at a profit internationally. A rule of thumb is that if countries such as Great Britain, Germany, Japan, France, Italy, and Spain are prepared to cover the greatest part with the pre-sale of licenses, we give the "green light" for the project to go ahead.

During production we draw up sales contracts for the film licenses, working together with a large network of national distributors when doing so.

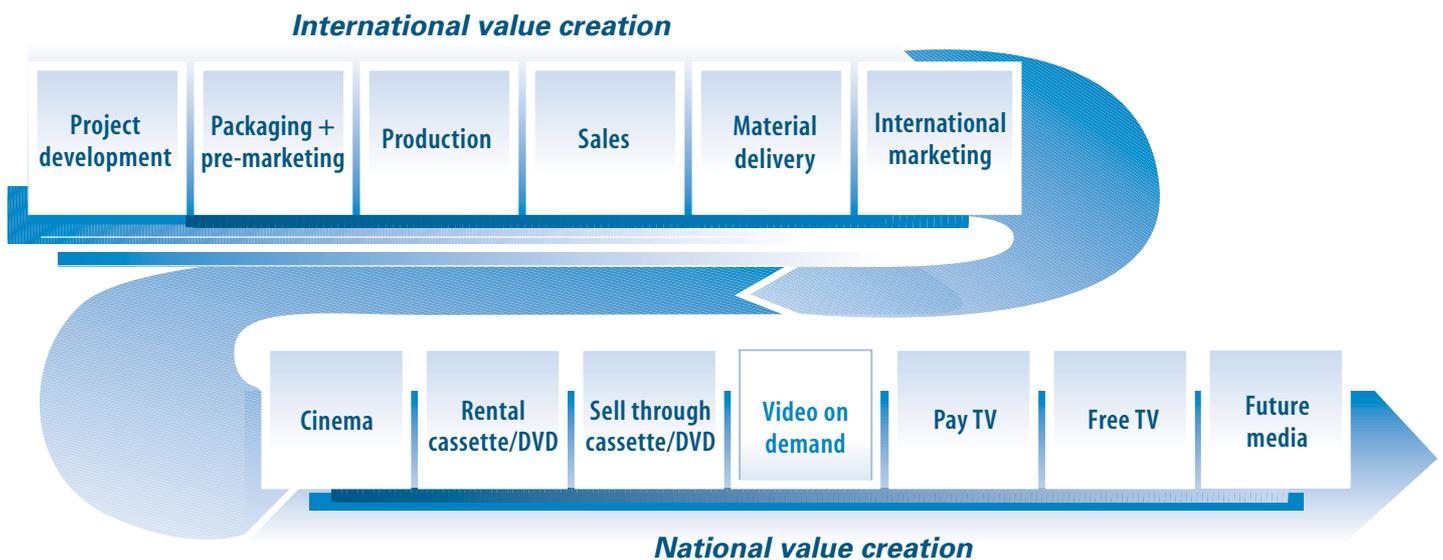
The first stage of value creation after the project development and packaging function units is the **production** of the film. We as co-producers play a key role in the film project, but we do not usually make our own productions ourselves. We usually bring in a third party to do this.

Co-producer status ensures that we have the complete copyrights for the film with no time restriction however.

A major advantage of co-productions and own productions becomes evident here: unlike license rights, the copyrights for a film have no time or territorial restriction and are not restricted to individual stages of value creation.

The production or co-production of films is not the only way of acquiring films. We also purchase film licenses for use in the German-speaking area.

## Our value creation chain



This often happens at international film trade fairs like NATPE in Las Vegas, MIFED in Milan, or Mipcom in Cannes. Here purchasers can see screenings of ready-made films and purchase a film if there is considered sufficient marketing potential.

There are also pre-agreements where we secure the rights for a film before it is made. But here it is necessary to know everything about the market and the supplier, to have had trusting and faithful contacts for many years, and to monitor the running project carefully to make sure the agreements which have been made are implemented in accordance with the contract. We have such knowledge of the market and the corresponding contacts.

### Sales

The license for a film (co-)produced by us is usually sold on in the individual countries well before the film is finished. This is done with presales, which correspond with the agreed upon guaranteed sums. When a film is a real success we also gain additional revenue – so-called royalties.

Presales of a film in the countries buying it are a way of financing a film project in advance to minimize the financial risk. When financing a project our banking partners usually insist that around 70 percent of the entire budget has to be covered by presales.

There are two other function units in the value creation chain after the international sale of the film license: **material delivery** to the licensees and the **international marketing** of the film by the licensees, who use the film in their country.

Here it is necessary that the publicity material for public relations work and marketing, such as pictures and folders, is avail-

## Our value creation

*"Traffic", a thriller directed by Steven Sonderbergh, focused on drug trafficking in the US and Mexico. The film won four Academy Awards in 2001.*



able along with the films themselves in the form of a made for television film or a cinema film copy, depending on the stage of use.

### **National value creation**

After the international value creation of the film we generate further revenue from the national use of licenses we have purchased or our own productions and co-productions. In Germany we use films at all stages ourselves, working together with famous partners such as 20th Century Fox and Warner Home Video in the process.

**Cinema:** the finished or purchased film is used first of all in cinemas. We bring it to German cinemas in association with our co-operation partner 20th Century Fox. Fox is responsible for sales and also marketing here. A film which is a success in cinemas gains value and becomes more attractive for further use on video and DVD.



*It takes many stages to cover the entire value chain, from project development, production and finally screening on TV and new media with video-on-demand.*

**Rental cassette/DVD:** about six months after it opens in the cinemas, we start to use the film for rental from video stores as rental cassettes and DVDs. We work together with another big name here: Warner Home Video, Hamburg. Warner markets the title, having responsibility for both sales and marketing. VHS cassettes are still the most important source of turnover in video stores, but DVDs are catching up quickly.

**Sell through cassette/DVD:** we sell the film on the market as a sell through cassette and sell through DVD under the Splendid Entertainment and Polyband labels. As with video rental,

for sales and marketing we can fall back on the work done beforehand for the cinema release. Publicity material from the cinema launch is used again with some additions for the video release. DVDs are already the more important source of turnover on the market today.

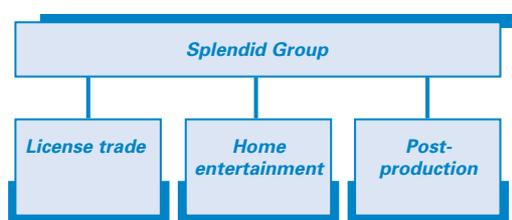
**Video-on-demand:** we are already involved in an active co-operation with Arcor for video-on-demand. We are also in close contract negotiations with other potential suppliers.

**Pay TV/free TV:** six months after rental and sales in stores use of the film on television begins, at first on pay TV and then on free TV. For television use we give the license for a film for a certain period – seven years for example – to a TV station or group of stations. Once the license expires, the film can be sold again to another TV station (second use).

**Future media:** if we have co-producer's or producer's rights to a film, the rights for future forms of usage, such as web or Internet TV, also belong to us.

## Development of business divisions

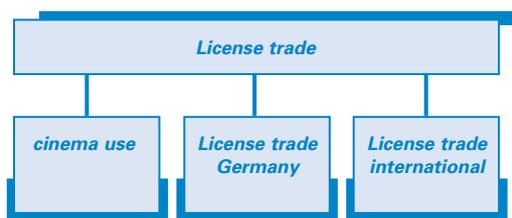
The turnover of the Splendid Group comes from three business divisions: license trade, home entertainment, and post-production.



The turnover development of the three divisions is shown in the diagram on page 13. For further information please see the segment report in the Notes.

### License trade

License trade is divided into three divisions: cinema use, license trade Germany, and license trade international.



In the 2001 financial year the license trade segment generated a total turnover of 57,6 million Euro. This was 196.9 % more than in the previous year.

### Cinema use

In 2001 we brought a total of five films to German cinemas, some of which went on to become major hits. With "Dr. T & The Women", "Traffic", "Gorgeous", "Under Suspicion", and "Shadow of the Vampire" we generated turnover of 6.9 million Euro.

More than 1.7 million people in the German-speaking area saw "Traffic", the drugs thriller which won a number of Golden Globes and Oscars. This has been the most successful film in our library to date.

A total of 155,000 people saw "Dr. T & The Women". This was below our expectations.

The cinema launch of "Gangs of New York" was put back until 2002 by Miramax, our co-production partner, because of the terrorist attacks on September 11.

We also decided not to release the films "Druids" with Christopher Lambert and "The Dangerous Lives of Altar Boys" with Jodie Foster in the cinema. We released them direct to video/DVD instead.

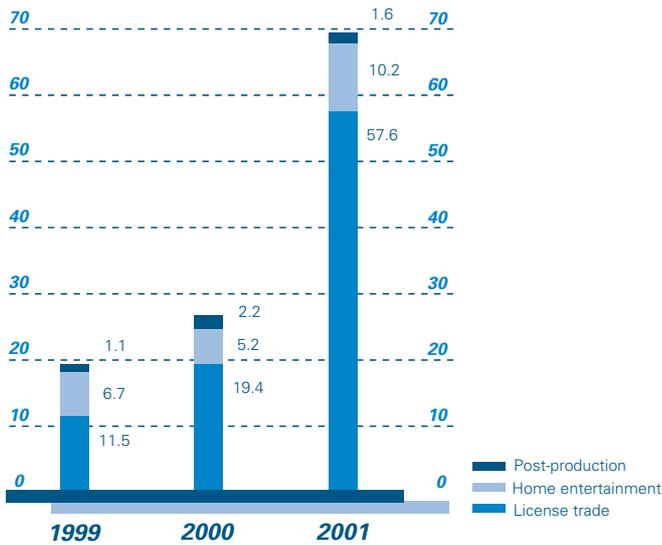
### License trade Germany

The "License trade Germany" division essentially covers the sale of TV licenses to German television stations.

In the 2001 financial year the group generated turnover of 14.1 million Euro in this area, 370 % more than in the previous year. We were able to conclude license agreements with KirchMedia for 22 titles and with RTL II for a package of 13 titles from our library.

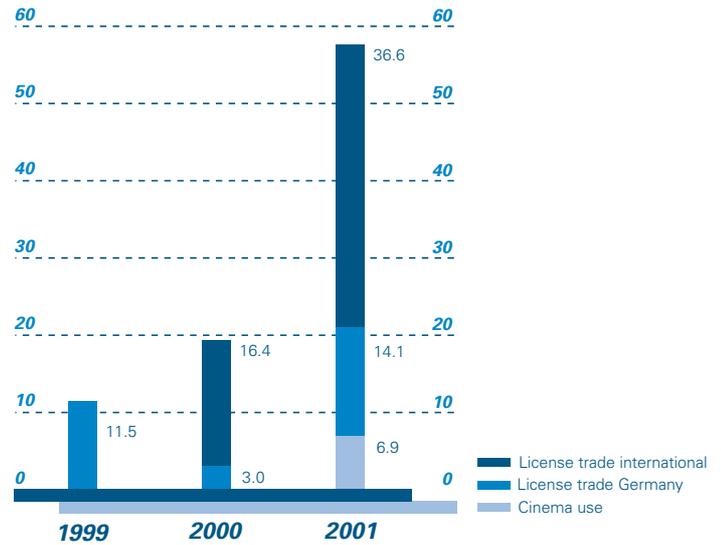
**Turnover development in our business units 1999–2001**

in Euro million



**Turnover development in License Trading 1999–2001**

in Euro million



As well as top titles like “Traffic” and “Dr. T & The Women” there were also films licensed which were not shown in the cinema, such as the action film “Cutaway” with Tom Berenger and “If These Walls Could Talk II” with Sharon Stone.

**License trade international**

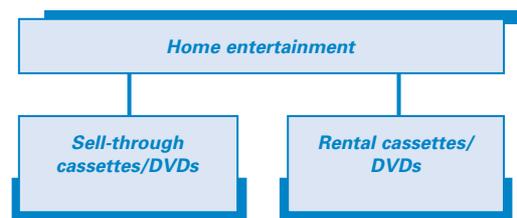
This division covers the sale of screen rights to license traders all over the world. As part of our co-operation with IEG we acquired the European rights to the films “Gangs of New York” and “The Dangerous Lives of Altar Boys”. Most of these rights were sold back to IEG as part of the sale of stock.

We generated further revenue from the sale of license rights for the co-productions “James Dean” and “Victoria & Albert” and also the TV series “Glory Days” and “Project Greenlight”. The latter were both sold by Splendid Television as part of a distribution agreement with Abandon Entertainment, New York.

The total turnover of the division increased by 123.2 % in the 2001 financial year to 36.6 million Euro.

**Home entertainment**

The home entertainment division covers sell through cassettes/DVDs and rental cassettes/DVDs. In the 2001 financial year we were able to generate a turnover of 10.2 million Euro – 96.1 % more than in 2000 – with videos/DVDs. We had turnover of 5.1 million Euro in the fourth quarter alone.

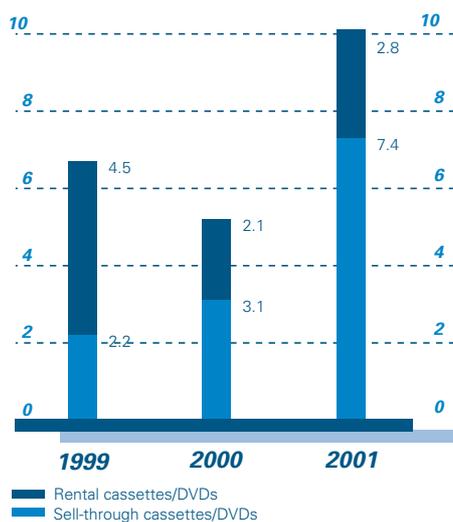


**Sell through cassette/DVD**

This division covers the use of films from our library (Splendid Entertainment label) and the library of our group subsidiary Polyband (Polyband label) on VHS and DVD which are sold on the market.

## Development of business divisions

**Turnover development in Home entertainment  
1999–2001  
in Euro million**

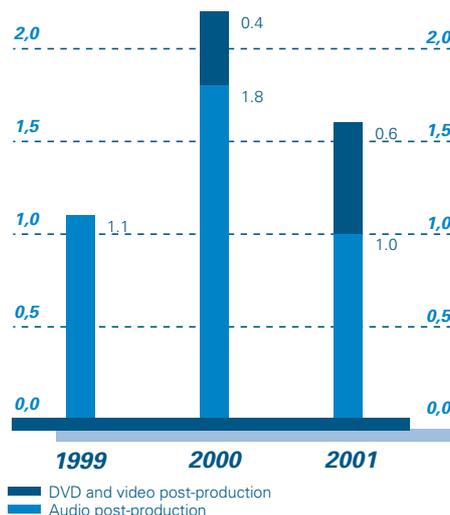


In the 2001 financial year we managed to generate turnover totaling 7.4 million Euro, a 138.7 % increase over the previous year, in this area.

We have released 65 titles as sell through DVDs and 31 titles as sell through cassettes. As well as big hits like “Traffic” with a total of almost 200,000 copies sold, the “Jackie Chan Masterpiece Edition” has already sold over 120,000 copies on DVD alone. Sales of the “Jet Li Masterpiece Edition” have also been very successful.

Our subsidiary Polyband GmbH, Munich, which specializes in the production of special interest films, concentrated more on the growing market for fitness and health programs in the 2001 financial year. Polyband produced three fitness programs,

**Turnover development in Post-production  
1999–2001  
in Euro million**



with “Cardio Boxing” doing particularly well among these. The company also worked on additional sales channels such as video-on-demand and the Internet for its products.

### **Rental cassette/DVD**

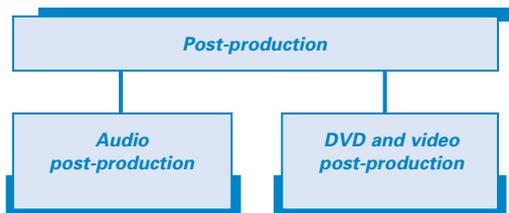
By using films from the Splendid library in the form of rental cassettes or DVDs we had ten new titles in German video stores in 2001. This gave us a turnover of 2.8 million Euro, 21.7 % more than in the previous year. The titles included the massive hit “Traffic” and “Dr. T & The Women”.

*William Dafoe as Max Schreck terrifies the film team and John Malkovich (playing F.W. Murnau) in the film "Shadow of the Vampire".*



### Post-production

Audio post-production such as dubbing and sound editing as well as DVD and video post-production are brought together in this segment.



The pleasing development in DVD and video post-production could not fully compensate for the declining turnover from audio post-production.

In total we were able to generate a turnover of 1.6 million Euro in this division in 2001. This was 27.3 % less than in the previous year.

#### Audio post-production

The first half of 2001 in particular was characterized by a lull in the market and by declining turnover from feature film dubbing. We did not manage to compensate for these problems with the increasing workload for post-dubbing, soundtracks, and DVD remix. The turnover of 1.0 million Euro was 44.4 % lower than in the previous year (1.8 million Euro).

In 2001 our dubbing work included five feature films from our library, two cinema films for 20th Century Fox, and series for Super RTL and RTL. Splendid Synchron had more than 80 jobs in the areas of post-dubbing, soundtracks, DVD remix, and TV mixing. We had to expand our technical capacity especially for TV mixing in order to manage with the increasing amount of work.

#### DVD and video post-production

The market for video and post-production is growing strongly with the digitalization and preparation of film material for DVD and other media of the future. In 2001 we had a turnover of 0.6 million Euro in this division, 50.0 % more than in the previous year.

As well as our subsidiaries, customers include leading market players in the home entertainment industry, such as Universal, Warner Home, Columbia Tristar, and Eurovideo. We expect strong stimulus for growth from the co-operation agreement made with the Time Warner subsidiary CVC (California Video Center) at the end of September.

## The stocks

### A great deal of potential in the medium and longterm

Media stocks also dropped in price in 2001.

The quoted prices of media stocks in the Nemax Media&Entertainment Index on the Neuer Markt went down more than 60 % from the start of 2001 to the end of the year.

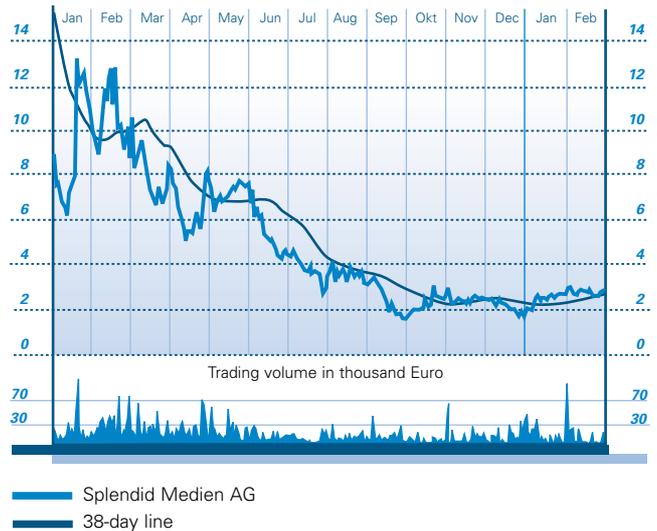
Our Splendid stocks, listed on the Neuer Markt in Frankfurt since September 24, 1999 under security identification number WKN 727 950 and stock exchange code SPM, were not immune to this development.

There were several reasons for this and one of its consequences was that our growth could not be seen on the balance sheet or income statement. This is because IEG was not consolidated. It could therefore not be seen from outside that the small independent producer, with a turnover of 25 million US dollars in 1998, had, with our not inconsiderable help, developed into one of the leading market players with top international productions like "Traffic", "Gangs of New York", and "Ali".

Several factors point to a positive development of the stock price again after the end of the general dullness of the market.

We have never given heed to over-the-top forecasts in the market, and have always been rather conservative and self-restraining. But we have always met our forecasts in the past.

### Development of Splendid stocks Value development and trading volume in Euro



### Development of Splendid stocks in per cent



In future we will consolidate our turnover from the international feature film area to make the development of this business division transparent. The strategy of our umbrella organization (Splendid Pictures, Splendid Television, Splendid Film, Splendid Synchron) will also ensure that our good name will continue to be spread among customers and investors.

The stock exchange will improve again in 2002. Most specialists agree that the general macroeconomic conditions have

reached a lower turning point and the media stock prices the end of their recession. With the sector trends we can expect more than average growth. Analysts expect the price of media stocks to rise again in 2002.

For the medium and long term we are therefore expecting a clearly improved valuation of media stocks in general and of ours in particular. Analysts consider the Splendid stocks to be undervalued and at the start of 2002 rated them at "Outperform" and "Buy".

**General meeting of stockholders approves stock repurchases**

The second general meeting of stockholders of Splendid Medien AG, which took place in Cologne on June 20, 2001, approved all the points on the agenda with an overall majority. There were 85 stockholders present representing around 7.1 million voting rights or 80 percent of all voting rights.

As well as the points on the agenda which were agreed upon as part of routine by the meeting of stockholders, the board was also given authorization for a repurchase program for 890,000 stocks, a ten percent increase in equity capital (890,000 Euro) and to issue further ordinary stocks at the nominal value of one Euro for a staff options program.

It needs to be possible to use the stock repurchase program amounting to ten percent of the equity capital as a means of acquiring company interests, for instance.

The reason for purchasing our own stocks is their price. Stock options are handed out to management as part of the staff options program. The options can be divided up into four tranches up to 2004; they are also based on the stock exchange. The first tranche was issued at the end of August 2001.

**Stockholders' structure**

The equity capital of Splendid Medien AG was divided up into 8.9 million bearer stocks on December 31, 2001. The security holdings subject to reporting requirements were divided as follows:

<b>Stockholder Structure</b>	
<b>Board of Management</b>	
Andreas R. Klein	50.66 %
Dr. Thomas Weber	3.93 %
Graham King	3.89 %
Alexander Welzhofer	1.72 %
<b>Supervisory Board</b>	
Dr. Ralph Drouven	0.03 %
<b>Other stockholders</b>	
Klein Family (civil-law association)	6.94 %
<b>Freefloat</b>	<b>32.83 %</b>

The market protection agreements made voluntarily with supervision at the time of flotation (lock-up-periods) have already expired. There are no further agreements beyond this. Security holdings subject to reporting requirements during the reporting period can be found in the Notes.

## The stocks

Splendid stocks at a glance	
Security identification number	727 950
Stock exchange code	SPM
Reuters	SPMG.F
Bloomberg	SPM
ISIN	DE0007279507
Trading segment	Neuer Markt
Number of shares issued	8,900,000
Nominal value	1,- € per share
Issue price	30,- €
Market capitalization (as of 12.31.2001)	15 million €
Market capitalization (as of 02.28.2002)	24 million €
Index on the Neuer Markt	Nemax – Media & Entertainment
Start of stock exchange quotation	September 24, 1999
Designated sponsors	WestLB Panmure, Gontard & Metallbank (since 01.01.2002), Sal. Oppenheim (until 12.31.2001)

### Investor relations

We used several events and different channels of communication to keep the financial community up to date with the development of our company in 2001. These include a balance sheet press conference and several meetings with analysts as part of the publication of the business figures for 2000 and events like the DVFA media forum in October 2001.

Our relaunched website was revised and improved to make it a comprehensive information platform for stockholders and journalists. Press releases, key company figures, reports, and also photos and logos can be downloaded at [www.splendidmedien.com](http://www.splendidmedien.com).

Stockholders, analysts, and media representatives will find us available at all times if more information is required. We can be reached at the following address:

Splendid Medien AG, Alsdorfer Straße 3, 50933 Köln,  
Telefon +49 (0) 221-954232-32, Fax +49 (0) 221-954232-8,  
[info@splendid-medien.de](mailto:info@splendid-medien.de).

### Corporate governance gains in importance

Corporate governance (CG) is the generic term for all measures taken for success-oriented company management and responsible company monitoring.

For professional finance analysts and investors it is a necessary tool for modern company analysis which can also balance out deficits with the current assessment procedures, in particular with growth values.

Corporate governance takes into consideration 'soft factors' like areas of competence, communication, and monitoring of decision-making bodies of companies listed on the stock exchange, which are of decisive importance for the assessment of a company with increasingly non-material production factors. We therefore think this instrument will gain in importance.

Despite the controversial discussion on corporate governance and the disputed attempts of the legislature to create a framework for this new corporate management instrument, we voluntarily accept it as our obligation to ensure maximum possible transparency towards the stockholders and the public as well as the value-oriented management and monitoring of our company.

*“Victoria & Albert” tells the love story of the British Queen Victoria (Victoria Hamilton) and her husband, Albert (Jonathan Firth). Victoria ascends the throne after King William IV, played by Sir Peter Ustinov.*



The following principles apply for us on top of general standards.

***Value-oriented company management strengthens net asset value***

We are clearly focused on increasing our net asset value in the interest of the stockholders. The participation of the board with own stocks in the company and the stock options program for our managers also strengthen and promote the strategic orientation of the management and staff to guarantee an increase in the value of the company on a long-term basis.

***Transparency with active information policy***

We are all supporters of maximum possible transparency and have an active information and disclosure policy towards our stockholders and all other members of the financial community. We publish essential stock price-related information – as soon as we are given the information – in the form of ad hoc and press releases. At the same time we also communicate this information on the Internet at [www.splendid-medien.com](http://www.splendid-medien.com).

As part of our investor relations and public relations work we publish regular quarterly reports and newsletters and present ourselves several times a year to analysts, investors, and the press at roadshows and presentations.

***Incentives for company managers***

To find qualified managers and to keep them on a longterm basis is of central importance for all the companies in our group.

In 2001 the board and supervisory board therefore decided to introduce the options program as a staff-political instrument.

The board and management already have stocks in Splendid Medien AG. Hans Henseleit at Enteractive 15 % and Doug Schwalbe and David Glasser at Splendid Television and Splendid Pictures also each have 20 % of the companies where they work as managers.

***Supervisory board as an independent monitoring organ***

The supervisory board of Splendid Medien AG consists of three independent supervisory boards which take their monitoring and consulting function very conscientiously.

In "Traffic" Michael Douglas plays the US drug squad officer whose own daughter becomes a heroin addict. Catherine Zeta-Jones, Benicio Del Toro and Dennis Quaid also star in the film.



## Highlights 2001

### June 2001

Second general meeting of shareholders of Splendid Medien AG on June 20, 2001

### August 2001

The Splendid television co-productions "James Dean" and "Victoria&Albert" celebrate successful premieres on US and British TV.

Splendid Television concludes a distribution agreement with Abandon

Entertainment, New York. In future, Splendid Television will sell all of the international rights to the TV films of the US company.

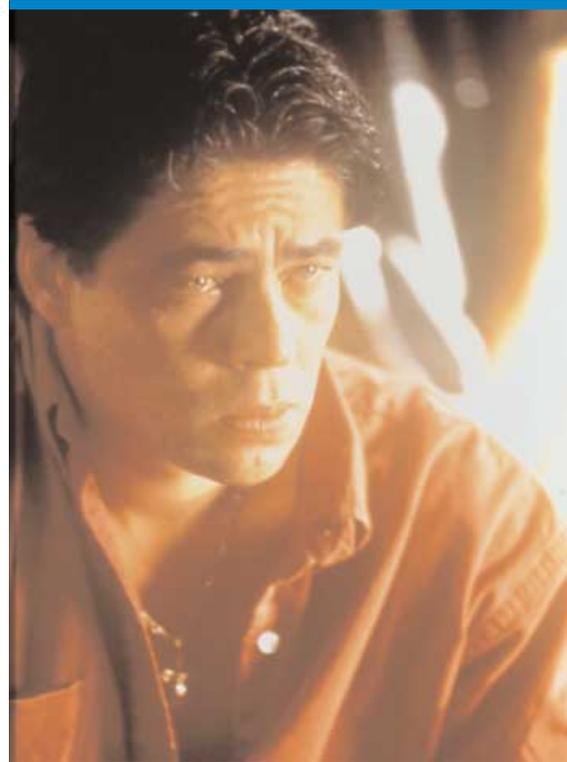
Splendid Film concludes a license agreement with KirchMedia covering a package of 22 films.

Dr. Thomas Weber joins the board at Splendid Medien AG, taking over responsibility for finances, operative management of company interests, and investor relations.

### September 2001

Interactive GmbH agrees a co-operation with the Time Warner subsidiary CVC. In future Interactive will belong to an international digital DVD editing network.

# *Statement of Group affairs*



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## Statement of Group affairs

### **Economic environment and industry development**

#### **World economic prospects brighten**

In 2001 the state of the world economy was much influenced by the downward economic trend which began in the middle of the year 2000, continued to gather pace last year and led to a light recession at the end of the year.

In the annual average the world economy still expanded slightly in 2001. But at 0.9 % the real increase in gross domestic product in the OECD countries was clearly below the rise in overall economic production in 2000.

In Germany the gross domestic product increased only 0.6% in real terms in 2001 after increases of 3.0 % and 1.8 % in the previous two years. For 2002 an economic revival is expected according to the current situation. But essentially this will not be much greater than in 2001.

For the United States the US central bank expects a noticeable increase in gross domestic product of up to 3 % in real terms. In the EU countries moderate growth of 0.3 % is expected in the first quarter of 2002.

#### **Continued high expansion in the individual market segments. US feature films the favorites in German cinemas**

Box office growth in the USA and Europe will continue at a rate of up to 5 % each year from 2002 according to the industry experts.

According to the information of the German film institute (FFA), 2001 was the best year since the start of market surveys: German cinemas had 177.9 million visitors, 16.7 % more than in the previous year.

Feature films from the USA in particular are still highly popular: according to the estimates of the film institute, American productions accounted for around 75 % of all the films watched in German cinemas in 2001.

#### **Home entertainment shows highest growth**

Home entertainment showed the highest worldwide growth rates in the film industry according to a study carried out by Pricewaterhouse Coopers.

According to the German Video Association (BVV), the revenue from the video sector, totaling 1,146.3 million Euro, was 16.1 % more than that from German cinemas. The biggest reason for growth for the whole sector is the DVD. This already has a share of more than 50 % of the German video sales market and, according to the information of the BVV, had a turnover increase of 139 % in 2001.

According to the information of the analysts from Juniper Media Metrix, in the USA the market for video-on-demand will increase to 641.9 million US dollars by 2006.

The European market for video-on-demand can expect a similar growth dynamic with a time delay.

#### **TV still the primary medium**

Television is one of the most important broadcasting technologies we have. In Europe people watch TV an average of

225 minutes a day. The German television market is characterized by the state-owned stations and the two big private station owners, the Kirch Group and the Bertelsmann/RTL Group.

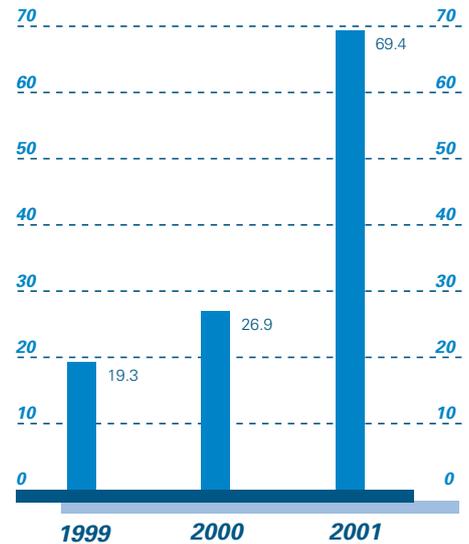
The sales problems which feature films have suffered from on German television in the last few years come down to the huge number of competing alternatives like game shows, reality TV, or self-produced TV movies, and also the slump in television advertising income of around 5 % in 2001 alone on account of the weak economy.

### **Business development**

Splendid Medien AG had a turnover increase of 158.0 % to 69.4 million Euro in the 2001 financial year. The most important business division was license trade with an 83.1 % share of turnover. In second place was the home entertainment division with a 14.6 % share of turnover, and then came post-production, which contributed 2.3 % of turnover.

The license trade business division had a huge turnover increase of 196.9 % in 2001, generating a total of 57.6 (previous year 19.4) million Euro. Substantial contributions were made by the cinematic use of titles from the library, which amounted to 6.9 million Euro, the sale of TV licenses to German television stations, in particular a package of 22 titles to KirchMedia amounting to 23.3 million Euro, giving us a turnover of 13.0 million Euro in the 2001 financial year, and also the sale of the European rights for cinema films to the Initial Entertainment Group, which amounted to 32.0 million Euro.

**Turnover development 1999–2001**  
in Euro million



The home entertainment division managed a turnover of 10.2 (previous year 5.2) million Euro – a 96.1 % increase – in the 2001 financial year. The clearest growth was in the sell through cassette/DVD segment.

In the post-production division a decline in turnover in audio post-production could not be compensated for with growth in the video/DVD post-production division. The total turnover of the division was 1.6 (previous year 2.2) million Euro.

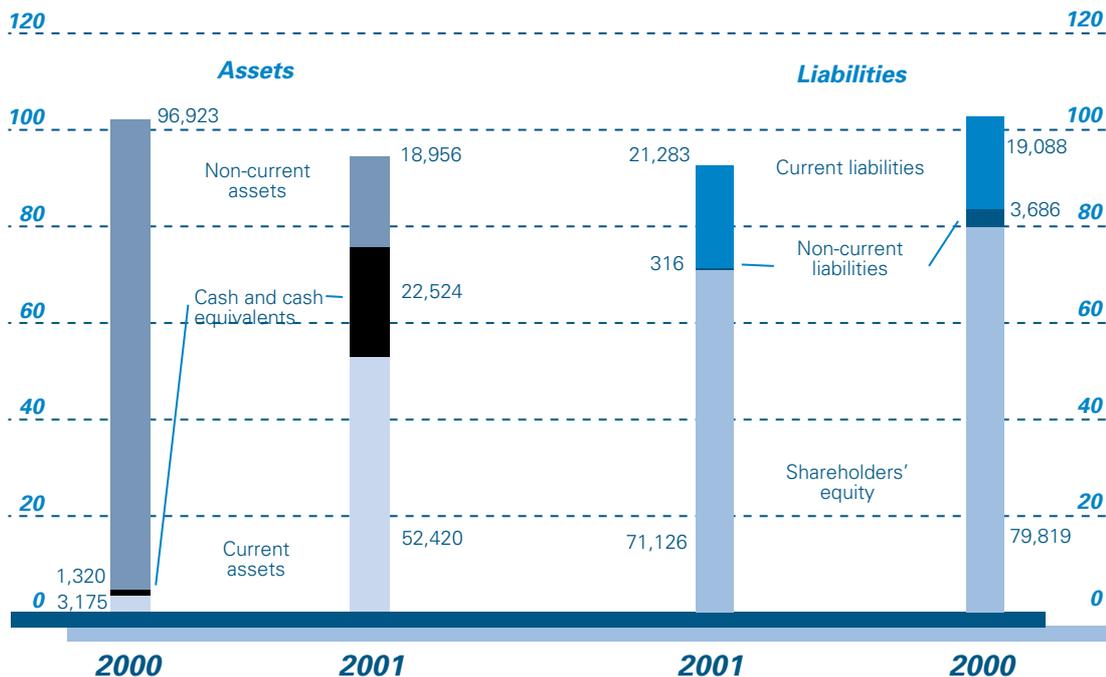
### **Assets and financial situation**

The consolidated balance sheet total of Splendid Medien AG as at December 31, 2001, decreased by 7.4 % to 93.9 million Euro (previous year 101.4 million Euro).

The current assets increased to 41.5 (previous year 4.5) million Euro. This is largely due to an increase in cash assets and bank

**Balance sheet structure 2000 and 2001**

in Euro thousand



balances from 1.3 to 22.5 million Euro and an increase in trade accounts receivable from 0.9 to 9.3 million Euro. Primary items in the latter are receivables from license agreements with KirchMedia amounting to 5.9 million Euro. This also contains a write-down of 20 percent on receivables from KirchMedia performed as at December 31, 2001, which had not yet been paid by April 22, 2002.

Prepaid expenses and other current assets totaled 9.2 (previous year 1.8) million Euro. This position includes 7.5 million Euro receivables from the delivery of securities of IM Internationalmedia AG owed to Splendid from the Initial Entertainment transaction at the end of 2001. The object of the Initial Entertainment transaction was the sale of the 49 percent share in the Initial Entertainment Group, Inc. (IEG), Santa

Monica, and also to balance out the interconnected receivables and liabilities.

At the balance sheet date non current assets amounted to 52.4 (previous year 96.9) million Euro. The reduction of 45.9 % was mainly because of the drop in the "screen rights" item including advance payments made for screen rights by 57.4 % to 36.4 (previous year 85.4) million Euro on account of additional amortization of screen rights amounting to 12.7 million Euro. The basis of amortization is the assessment of the films which is essentially led by the regulations of US-GAAP, in particular SOP 00-02.

The "Deferred taxes" item totaling 6.8 million Euro (previous year: 0.03 million Euro) takes into account the fact that past tax losses can be offset against future profits, provided these are subject to German taxes.

The investments decreased from 5.2 million Euro in 2000 to 0.3 million Euro because the 49 percent share in Warner Vision Vertriebs GmbH was represented in the 2001 financial year. The share in the Initial Entertainment Group, which was sold in 2001, was also retained in the previous year.

In "Druids," Vercingetorix (Christopher Lambert) wages a hopeless battle against Cesar (Klaus Maria Brandauer).



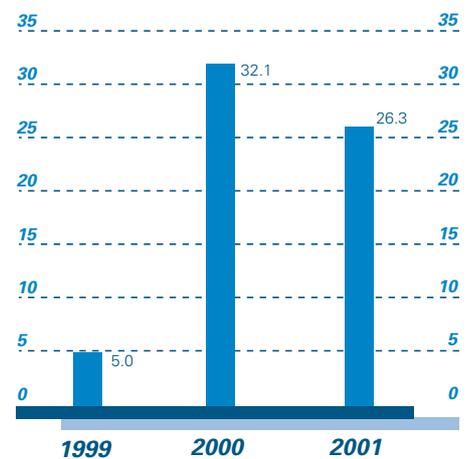
The current liabilities remained almost unchanged at 19.1 (previous year 21.3) million Euro. The short-term debts of 4.1 million Euro in 2000 increased to 9.9 million Euro in the 2001 financial year however. The "Advance payments received" position changed from 0.06 million Euro to 1.0 million Euro in the 2001 financial year. The other current liabilities decreased from 10.6 million Euro in 2000 to 1.0 million Euro in the 2001 financial year.

The non-current liabilities increased in 2001 to 3.7 (previous year 0.3) million Euro and mainly included medium- and long-term debts from a financing agreement with AGV, Wiesbaden, which was secured with a film package.

Our shareholders' equity decreased slightly to 77.0 (previous year 79.8) million Euro. The equity ratio at the balance sheet date was 77.2 %.

In the 2001 financial year the group generated a cash flow from operating activities of 26.3 (previous year: 32.1) million Euro. The cash flow from investing activities decreased to -14.4 (previous year -55.7) million Euro, mainly because of the drop in the investment in screen rights, which was 54.7 million Euro in

**Cash flow development 1999–2001**  
in Euro million

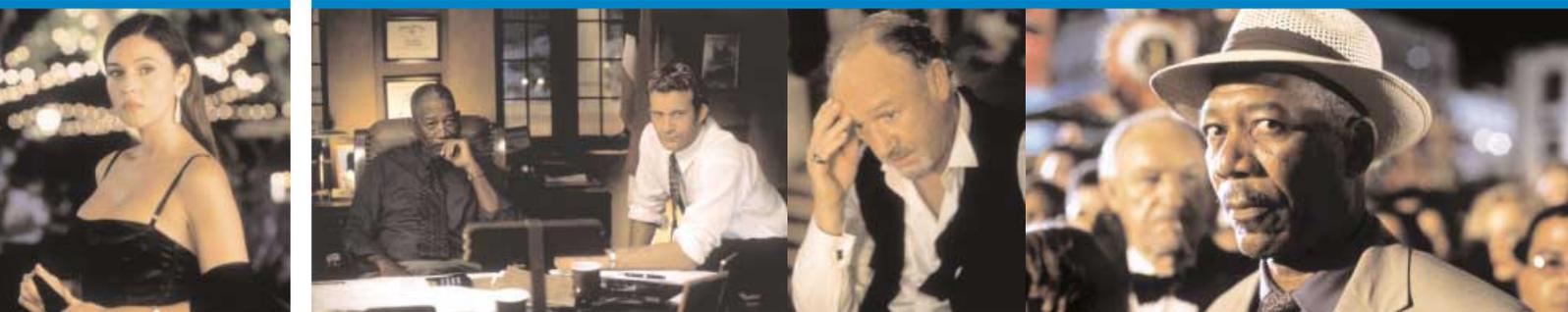


2000 and 13.9 million Euro in the 2001 financial year. The cash flow from financing activities increased from -0.2 million Euro in 2000 to 9.3 million Euro in the 2001 financial year, mainly because of payments from raising credit.

### Revenue situation

In the 2001 financial year Splendid Medien AG had an annual loss of 8.7 million Euro after a surplus of 3.4 million Euro in 2000. The result before interest, tax, and depreciation and amortization (EBITDA) was 52.6 (previous year 18.7) million Euro. The operating result was -16.0 (previous year 0.4) million Euro. The result before interest and tax (EBIT) was

*“Under Suspicion” features a thrilling interrogation duel between Victor Benezet (Morgan Freeman) and Henry Hearst (Gene Hackman). Monica Bellucci plays Chantal, Hearst’s wife.*



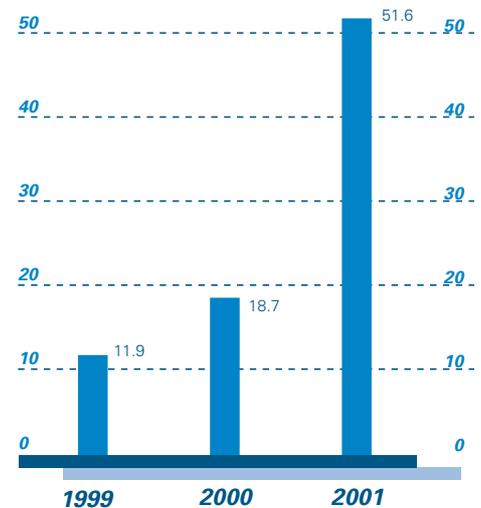
–12.1 (previous year 0.7) million Euro. The result before tax and minority interest (EBT) was –15.7 (previous year 5.1) million Euro.

The losses are mainly the result of the evaluation of the film library, which is led by the regulations of US-GAAP, in particular SOP 00-02. This meant additional amortization of screen rights of 12.7 million Euro. The conservative amortization strengthens the earning power of the film library with second and other following usage because there will only be low amortization affecting the result here in the following years.

Splendid Medien AG also had amortization of 16.6 million Euro with the claim for delivery of stocks in Internationalmedia AG which were owed from the Initial Entertainment transaction at the end of the previous year. The Initial Entertainment transaction included the sale of the 49 percent interest in the Initial Entertainment Group, Inc. (IEG), Santa Monica, and the balancing out of interconnected receivables and liabilities.

In February 2002, in light of the massive drop in price of the Internationalmedia stocks, the board of Splendid Medien AG decided to retain the amortization which was still effective from the 2001 financial year.

**EBITDA development 1999–2001**  
in Euro million



We also reacted to recent developments within the KirchMedia Group by performing valuation adjustments to all receivables from KirchMedia in accordance with strict rules of prudence. A more cautious assessment of the market development in Germany has impacted our projected revenues from German TV business, and we have adjusted the amount of deferred taxes accordingly.

The other operating income amounting to 15.0 (previous year 1.0) million Euro was essentially tax-free revenues from the sale of the 49 percent share in the Initial Entertainment Group.

Cost of sales, mainly from the high amortization of screen rights amounting to 68.0 million Euro, came to 97.9 (previous year 80.0) % of turnover.

In 2001 amortization of screen rights reached a total of 63.0 (previous year 17.4) million Euro. 61.5 million of this was in the form of cost of sales, with 1.4 million Euro in the "Other operating expenses" position. The amortization rate was 90.8 % of turnover (previous year 64.7%).

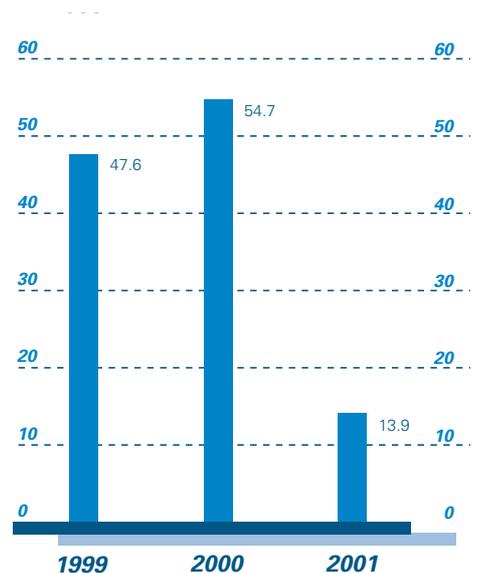
The distribution costs amounted to 8.2 (previous year 1.6) million Euro. The costs for cinematic use in the first half of the year and costs for the video and DVD use from the library accounted for most of this.

Administration costs came to 4.6 (previous year 3.8) million Euro. This included personnel costs, costs for economic and legal consultation, and investor relations and public relations. The other operating expenses increased to 20.4 (previous year 0.4) million Euro in the 2001 financial year. Essentially these were amortization of receivables from the delivery of IM Internationalmedia AG securities amounting to 16.6 million Euro; amortization of screen rights totaling 1.4 million Euro; and a write-down of 1.0 million Euro to receivables from KirchMedia as at December 31, 2001, which had not yet been paid by April 22, 2002.

**Investment**

In the last financial year Splendid Medien AG invested 13.9 (previous year 54.7) million Euro in films such as "Victoria & Albert", "Shadow of the Vampire" and "In the Shadows". This made up 95.9 % of the total investment. It was financed mainly with borrowed capital.

**Investment in film assets 1999–2001**  
in Euro million



**Staff**

The board at Splendid Medien AG welcomed some new members in 2001.

On February 1, 2001 Alexander Welzhofer joined the board at Splendid Medien AG, taking over responsibility for marketing and sales.

On August 28, 2001 Dr. Thomas Weber has been the head of finances, operative management of associated companies and investor relations.

Graham King left the board on October 9, 2001. He was responsible for production and worldwide marketing, and his division was taken over by Andreas R. Klein, head of licenses and strategy.

At the end of 2001 the group had 38 employees. In total the number of employees remained unchanged from the previous year, but in 2001 we strengthened the second management level with managers who have many years of experience in the fields of accounting and company development.

## Statement of Group affairs

### Employee spread

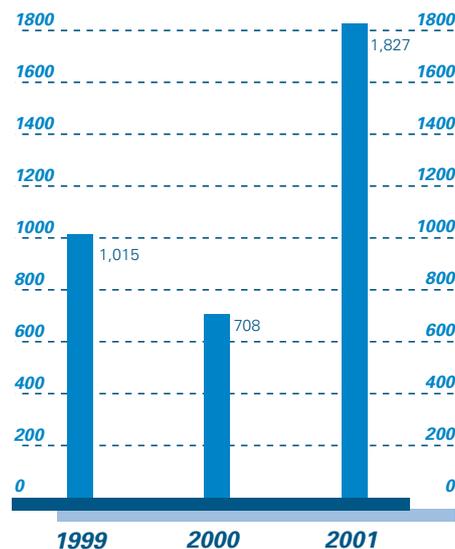
Corporate division	Employees
Splendid Medien AG	8
Splendid Film	4
Splendid Synchron	11
Ascot	1
Polyband	3
Enteractive	9
Splendid Television	2

Most of the employees in our group have either been at the company for many years or have many years of experience in the industry. The average age is 30.

To find qualified managers and employees and to keep them at the company on a long term basis is a task of particular importance for us. The board has therefore decided to use a stock options program with this purpose in mind.

The total volume of purchase rights was divided up as follows: a maximum of 30 % to the board, up to 40 % to the members of the management at associated companies, up to 15 % to the employees at the top management level below the board or the management in the holding company and at subsidiaries.

### Turnover per-capita in Euro thousand



In total maximum purchase rights with a nominal value of 890,000 Euro (10 % of the entire nominal capital) will be issued for all groups together during the four-year period of the stock options plan. In August 2001 the first tranche with a total of 222,494 share options was issued to leading employees of the group.

### Risk management

The film business is subject to great fluctuations. This can have considerable consequences for revenue and turnover development during a financial year and also between individual financial years.

Risks are found mainly in the following areas:

#### Acquisition of film licenses

At the end of 2001, the Splendid group sold its 49 percent interest in IEG. In future price and acquisition risks from co-productions and our own productions will be covered by the subsidiaries Splendid Pictures and Splendid Television and also by a well-balanced purchasing policy when acquiring film licenses.

*Our dedicated, skilled staff and our film library are decisive production factors for Splendid Medien AG.*



With co-operations the group will secure rights to screenplays and also early agreements with famous actors, directors, and other essential people in the film business all at the value creation stage of project development. It can not be guaranteed that investments made at this stage will actually lead to a complete and successful film.

**Use/sale of film licenses**

The success of the group essentially depends on acquiring licenses for films which the public will enjoy. US movies are of particular importance here. Acquisitions are discussed at board level and then calculated in terms of their marketing potential.

**Cinema use**

We estimate the number of expected cinema goers conservatively in order to minimize the risk of a less successful cinema use. There is always the risk that the number of cinema goers is influenced by external factors like the weather or the competition.

**TV use**

We generate a large part of our revenue from films from use on German television. The purchasing budget of the TV stations is largely dependent on advertising income. Lower advertising income can affect the sales or margin development of the Splendid Group and therefore have a negative effect on the financial and revenue situation.

**Dependency on individual markets**

Despite the growing internationalization of our group we are still dependent on the German market. By diversifying with the expansion of international license trade we are trying to minimize to the greatest possible extent the risks of the German market and other individual countries.

**Product piracy**

Like in the music industry, owners of license rights can completely exhaust the turnover and revenue potential which they are legally entitled to because of the distribution of illegal pirate copies. So far the industry has not been able to develop effective copyright protection to prevent the illegal reproduction of digital video files on a long term basis.

**Currency risks in international license trade**

The Splendid Group acquires film licenses mainly in the USA. When invoicing in US dollars there is the risk of exchange rate fluctuations in relation to the Euro. We therefore transact business – both buying and selling – in US dollars as much as possible to reduce the currency risk to the greatest possible extent.

Exchange rate fluctuations can have a positive or negative effect on the group's financial and revenue situation in the future.

## Statement of Group affairs

### **Unpaid debts**

Risks of unpaid debts can not be excluded because the times allowed for payment are usually longer in the industry. We try to safeguard the legal situation and also the utilization sufficiently with corresponding clauses however.

Liquidity development is considerably influenced by payments coming in from KirchMedia. Even if Splendid's legal position is secure in terms of sold licenses, unpaid debt would lead to liquidity shortages.

### **Financing and liquidity risks**

To stock up our film collection and develop the business the most important thing is to find sources of finance. Production budgets are mainly financed with the (co-)producers' own resources and by pre-sales.

When borrowing outside funds we had a rather restrictive credit allocation policy. In anticipation of the Basle II agreement borrowers now face demands for higher credit worthiness from banks.

We have used ways of lowering and monitoring costs in all areas which are not completely essential for operative business.

The liquidity available at the end of 2001 will be essentially used during 2002 for investments in the subsidiary Splendid Pictures and for a variety of film projects. Projections of receivables payments by KirchMedia, revenues generated by the sale of Internationalmedia stocks, and the lines of credit available to the company have all been taken into account.

### **Production risks**

With our own productions and co-productions there are both financial risks (budget being exceeded) and production risks,

such as catastrophes or accidents. These risks are amply covered by completion bonds and other forms of production insurance.

### **Management resources**

The quantity and quality of personnel are among the main reasons for the success of a media company. We have reduced the key person risk by appointing a head of marketing and sales and a head of finances.

We will continue in our attempt to structure and expand the board and management to make sure we can compensate for the loss of a key person.

### **Organization**

We combat the risks of organizational bottlenecks by adjusting personnel and the organizational structure to corporate growth, the optimization of reporting and investment controlling and the expansion of IT systems used in the company.

We do not expect the risks described here to lead to a situation which would put assets under threat.

### **Events after the end of the financial year**

After the end of the 2001 financial year there were important events which proved of great significance for the further development of our business.

Splendid Pictures Holdings, Inc., the newly-founded subsidiary of Splendid Medien AG, is taking over the film production com-

pany Cutting Edge Entertainment, Inc., Los Angeles. Splendid Medien AG has an 80% interest and David C. Glasser, chairman of Cutting Edge, has a 20 % share in Splendid Pictures Holdings, Inc.

KirchMedia GmbH & Co. KGaA, Ismaning, was put into receivership on April 8, 2002, after filing for bankruptcy. On April 22, 2002, Splendid reacted to this development by carrying out a valuation adjustment of 20 percent on all receivables from KirchMedia as at December 31, 2001, which had not yet been paid by April 22, 2002. Following negotiations with the receiver and the management of KirchMedia GmbH & Co. KGaA, Splendid Medien AG is confident that adequate risk protection measures have been put in place and that our business association with KirchMedia can continue successfully.

### **Outlook**

The acquisition of Cutting Edge Entertainment, Inc. and its integration into the newly formed Splendid Pictures will play an important role in the growth of the Splendid group. For the current year Splendid Medien AG expects a clear increase in turnover compared with 2001, with the provision that delays to the realization of individual film projects could have a considerable impact on this projection.

#### ***Increasing demand for feature films***

The group expects the demand for movies to continue to grow along with the number of cinema goers. If we consider the information of the Central Association of the German Advertising Industry we can also expect TV advertising revenue to increase again in the medium and long term after the drop in 2001.

With the establishment of DSL transmission technology we also expect a growing number of "TV channels" and therefore

an increasing demand for feature films for use on television/the Internet.

We also expect US feature films to continue to be the clear preference for worldwide marketing because they usually appeal to a wide public without cultural restrictions. We will therefore concentrate our investments mainly on US film projects.

We believe that co-productions and own productions are the alternative with the highest value creation potential because with these it is possible to maintain direct control over the budget and creative output.

We also firmly believe that a very close connection between the project development and marketing and sales divisions greatly increases the probability of success compared with acquiring licenses from outside.

We are looking to expand co-productions and own productions with our US subsidiaries and in future we want to invest more in the area of project development.

We expect the demand for products from the special interest/how-to-do sector will continue to grow in the coming years. The subsidiary Polyband is therefore going to expand the

Richard Gere as Sullivan Travis in "Dr. T & The Women" is having a hard time with women (including Helen Hunt and Farrah Fawcett)....



group's library with copyrights for special interest productions, in particular fitness/wellness videos.

We will make further investments in film projects and acquisitions of license rights for use in the German-speaking area along the value creation chain, depending on the liquidity position and the availability of outside funds.

**Home entertainment remains growth-driver**

The sale of feature films, in particular DVDs, will continue its upwards trend according to international estimates. The main growth driver here are sell through DVDs.

We plan to release around 50 feature films on VHS/DVD for rental and sell through in 2002.

With the different ownership of the cable network and the development of transmission technology we expect a clear

increase in the number of people wanting video-on-demand. We are very well positioned for this with cooperations with different suppliers including Arcor. We are also in close contract negotiations with other potential suppliers.

**Post-production gains in importance**

In our opinion, with the increasing number of feature films produced, audio- and post-productions should have an important position in the industry. We expect there to be a growing demand for services like DVD remix and mixing/post-dubbing. Overall we expect moderate growth for audio post-production.

For DVD and video post-productions we are very optimistic for the next few years, largely because of the increasing demand for DVDs and the wider distribution of digital media, and also because of the integration into the network with CVC (California Video Center).

In the post-production segment we want to secure and build on the position we have established nationwide with organic growth and further acquisitions.

### **Organization**

With the acquisition of Cutting Edge Entertainment and its integration into the newly founded Splendid Pictures we have made a decisive strategic step forward for the company. In future we will also consolidate turnover and revenue from the production and sale of Hollywood movies on our balance sheet and income statement.

This gives analysts, investors, and other people interested in our company a more transparent picture of the positive development of our company than before.

With the strategic decisions for the future of our company we have now set ourselves up along the entire value creation chain: from project development to international film produc-

tion and use in the individual value creation stages on to post-production services which expand the company portfolio.

We will expand this forward-looking company portfolio to strengthen individual business divisions or develop new business areas provided there are still promising possibilities for the company when the economic environment and the company's liquidity position are taken into consideration.

Köln, den 22. April 2002

Splendid Medien AG

The Management Board

Jackie Chan and Shu Qui effectively defend themselves against a wide variety of assailants in "Gorgeous".



## Highlights 2001/2002

### October 2001

Graham King leaves the board at Splendid Medien AG. Andreas R. Klein takes over his responsibility for production and world sales.

Splendid Television markets the TV series "Project Greenlight" for the producer Miramax Television and the financier Abandon Entertainment/Los Angeles throughout the world except for North America.

### December 2001

Splendid sells its 49 percent interest in the US Initial Entertainment Group, Inc. (IEG) to the majority shareholders Graham King and Colin Cotter.

### January 2002

Warner Vision Vertriebs GmbH takes over the sales and marketing of cinema titles and video premieres from the mediacs label. mediacs AG, which has its head office in Potsdam – Babelsberg, is one of the leading studio suppliers on the market.

The actor James Franco is awarded a Golden Globe in the "Best Actor in a TV Mini-Series/TV movie" category for his role in "James Dean".

Splendid Film purchases the German-language marketing rights for the romantic comedy *Kate & Leopold* with Meg Ryan and Hugh Jackman. The film is set to open in German cinemas in the spring of 2002.

Splendid Pictures Holdings, Inc., the newly-founded subsidiary of Splendid Medien AG, takes over the film production company Cutting Edge Entertainment, Inc., Los Angeles. As well as Splendid Medien AG, David C. Glasser, manager of Cutting Edge, has a 20 percent share in Splendid Pictures

### February 2002

Two new film projects are started with the new subsidiary Splendid Pictures - "The Courier" and "Without Apparent Motive".

## *Group annual accounts*



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## Consolidated Balance Sheet according to IAS

as at 31. December 2001

<b>Assets</b> in thousands of Euro	Notes	01.01.2001 – 31.12.2001	01.01.2000 – 31.12.2000
<b>Current assets:</b>			
Cash and Cash Equivalents	14	22,524	1,320
Trade accounts receivable	15	9,307	936
Inventories	16	411	462
Prepaid expenses and other current assets	15	9,238	1,777
<b>Total current assets</b>		<b>41,480</b>	<b>4,495</b>
<b>Long-term assets</b>			
Property, plant and equipment	18	1,107	1,028
Intangible assets	19	119	113
Investments	20	273	5,168
Film rights	21	22,282	36,870
Prepayments on film rights	21	14,088	48,561
Goodwill	22	4,878	5,155
Deferred taxes	17	6,767	28
Other assets	15	2,906	
<b>Total long-term assets</b>		<b>52,420</b>	<b>96,923</b>
<b>Total Assets</b>		<b>93,900</b>	<b>101,418</b>

## Consolidated Balance Sheet according to IAS as at 31. December 2001

<b>Liabilities and Shareholder's equity</b>		01.01.2001 –	01.01.2000 –
in thousands of Euro	Notes	31.12.2001	31.12.2000
<b>Current liabilities:</b>			
Current portion of capital lease obligation	23	210	256
Short term debt and current portion of long-term debt	23	9,923	4,055
Trade accounts payable	23	2,118	2,030
Advance payments received	23	1,023	6
Deferred revenues	24	4,549	3,873
Income tax payable	23	282	499
Other current liabilities	23	983	10,564
<b>Total current liabilities</b>		<b>19,088</b>	<b>21,283</b>
<b>Non-current liabilities</b>			
Long-term debt, less current portion	23	3,385	0
Capital lease obligations, less current portion	23	308	304
Minority interest	25	-7	12
<b>Total non-current liabilities</b>		<b>3,686</b>	<b>316</b>
<b>Shareholders' equity</b>			
Share capital	26	8,900	8,900
Additional paid-in capital		66,992	66,992
Retained earnings/accumulated deficit		-4,768	3,939
Currency translation		2	-12
<b>Total shareholders' equity</b>		<b>71,126</b>	<b>79,819</b>
<b>Total liabilities and shareholders' equity</b>		<b>93,900</b>	<b>101,418</b>

## Consolidated Income Statement according to IAS

For the financial year from January 1 to December 31, 2001

in thousands of EUR	Notes	01.01.2001- 31.12.2001	01.01.2000- 31.12.2000
<b>Revenues</b>	1	<b>69,429</b>	<b>26,896</b>
Other operating income	2	14,993	1,041
Cost of sales	3	-67,990	-21,520
Distribution costs	4	-8,197	-1,621
Administration costs	5	-4,599	-3,759
Amortization Goodwill	6	-277	-287
Other operating expenses	7	-20,356	-390
<b>Operating income / loss</b>		<b>-16,997</b>	<b>360</b>
Interest income and expenditure	8	-602	2,086
Depreciation on investments and participations	9	0	-150
Income / expense from associated companies	10	159	2,450
Foreign currencies exchange gains / losses	11	1,723	312
<b>Result before income taxes (and minority interest)</b>		<b>-15,717</b>	<b>5,058</b>
Income tax	12	6,958	-1,291
Extraordinary income / expense		0	-370
<b>Result before minority interest</b>		<b>-8,759</b>	<b>3,397</b>
Minority interest		52	45
<b>Net income / loss</b>		<b>-8,707</b>	<b>3,442</b>
Profit / loss carry forward		3,939	497
<b>Retained earnings /Accumulated deficit</b>		<b>-4,768</b>	<b>3,939</b>
Net income per share (basic)	13	-0,98	0,39
Net income per share (diluted)	13	-0,98	0,39
Weighted average shares outstanding (basic)		8,900,000	8,900,000
Weighted average shares outstanding (diluted)		8,900,000	8,900,000

## Consolidated Cash Flow Statement according to IAS

For the financial year from January 1 to December 31, 2001

in thousands of EUR	Notes	01.01.2001- 31.12.2001	01.01.2000- 31.12.2000
Net income for the group before income taxes		-8,759	3,397
Other non-cash effective revenue		-1,025	0
Interest income		-15	-2,220
Interest expenses		617	134
Depreciation and amortization of assets		446	297
Depreciation and amortization of financial assets		0	150
Amortization of screen rights		61,524	17,420
Amortization of advance payments for screen rights		1,443	23
Amortization of goodwill		277	287
Tax expenditure (use of deferred taxes)		0	476
+/- increase/decrease in short-term accruals		1,475	849
-/+ Profit/loss from disposal of assets		0	-17
Increase/decrease in inventories, trade accounts receivable and other assets which do not classify under investment or financing activities		-18,937	-826
+/- Increase/decrease in trade accounts payable and other liabilities which do not classify under investment or financing activities		-8,783	15,690
- Tax payments		-1,368	-3,639
+ Interest received		15	218
- Interest paid		-569	-108
<b>Net cash from operating activities</b>	<b>27</b>	<b>26,341</b>	<b>32,131</b>
Proceeds from the disposal of tangible fixed assets and intangible fixed assets		15	46
Payments for investments in tangible fixed assets and intangible fixed assets		-546	-1,013
Proceeds from the disposal of financial assets		0	-12
Payments for investments in screen rights		-13,906	-54,683
<b>Net cash from investing activities</b>	<b>28</b>	<b>-14,437</b>	<b>-55,662</b>
Proceeds from loans granted		9,253	0
Other changes in capital		33	-115
<b>Net cash from financing activities</b>	<b>29</b>	<b>9,286</b>	<b>-115</b>
<b>Increase / decrease in cash and cash equivalents</b>		<b>21,190</b>	<b>-23,646</b>
Currency translation		14	6
Cash and cash equivalents at beginning of period		1,320	24,960
<b>Cash and cash equivalents at end of period</b>	<b>30</b>	<b>22,524</b>	<b>1,320</b>

## Group Assets 2001 (IAS)

	Purchasing and production costs			
	As of 01.01.01 T€	Credit entries T€	Debit entries T€	as of 12.31.01 T€
<b>I. Intangible assets</b>				
1. Industrial property rights and similar rights and assets	168	50	0	218
2. Goodwill	5,572	0	0	5,572
<b>Total intangible assets</b>	<b>5,740</b>	<b>50</b>	<b>0</b>	<b>5,790</b>
<b>II. Tangible fixed assets</b>				
1. Land and buildings, including buildings on foreign land	741	172	4	909
2. Technical equipment and machinery	929	210	0	1,139
3. Other installations, factory equipment and office equipment	808	114	16	906
4. Equipment under construction and advance payments	0	0	0	0
<b>Total tangible fixed assets</b>	<b>2,478</b>	<b>496</b>	<b>20</b>	<b>2,954</b>
<b>III. Investments</b>				
1. Shares in related companies	0	0	0	0
2. Loans to related companies	0	0	0	0
3. Holdings	6,232	159	6,220	171
4. Advance payments for investments	0	0	0	0
<b>Total investments</b>	<b>6,232</b>	<b>159</b>	<b>6,220</b>	<b>171</b>
<b>Total assets</b>	<b>14,450</b>	<b>705</b>	<b>6,240</b>	<b>8,915</b>

Amortization					Residual costs	
as of 01.01.01 T€	Credit entries T€	Debit entries T€	Rebookings T€	As of 12.31.01 T€	As of 12.31.01 T€	As of 12.31.00 T€
55	44	0		99	119	113
417	277	0		694	4,878	5,155
<b>472</b>	<b>321</b>	<b>0</b>	<b>0</b>	<b>793</b>	<b>4,997</b>	<b>5,268</b>
352	100	4		448	461	389
754	109	0		863	276	175
344	193	1		536	370	464
0	0	0	0	0	0	
<b>1,450</b>	<b>402</b>	<b>5</b>	<b>0</b>	<b>1,847</b>	<b>1,107</b>	<b>1,028</b>
0	0	0		0	0	0
0	0	0		0	0	0
1,064	0	1,166		-102	273	5,168
0	0	0		0	0	0
<b>1,064</b>	<b>0</b>	<b>1,166</b>	<b>0</b>	<b>-102</b>	<b>273</b>	<b>5,168</b>
<b>2,986</b>	<b>723</b>	<b>1,171</b>	<b>0</b>	<b>2,538</b>	<b>6,377</b>	<b>11,464</b>

## Development of shareholders' equity

For the financial year from January 1 to December 31, 2001

in thousands of EUR	Share Capital	Additional paid in capital	Retained earnings/accumulated deficit	Currency translation (CTA)	Total
<b>As of 01.01.2000</b>	<b>8,900.0</b>	<b>67,106.0</b>	<b>497.0</b>	<b>0.0</b>	<b>76,503.0</b>
Currency translation				-12.0	-12.0
Initial public offering/acquisition costs		-114.0			-114.0
Result after tax			3,442.0		3,442.0
<b>As of 12.31.2000</b>	<b>8,900.0</b>	<b>66,992.0</b>	<b>3,939.0</b>	<b>-12.0</b>	<b>79,819.0</b>
Currency translation					0.0
Result after tax			-8,707	14.0	-8,693.0
<b>As of 12.31.2001</b>	<b>8,900.0</b>	<b>66,992.0</b>	<b>-4,768.0</b>	<b>2.0</b>	<b>71,126.0</b>

## **Notes on group annual accounts**

Splendid Medien AG, Alsdorfer Strasse 3, 50933 Cologne is a stock corporation in accordance with German law which has its head office in Cologne, where it is entered in the commercial register under number HRB 31022. The group annual accounts according to the International Accounting Standards (IAS) and the group situation report have an exemptive effect in accordance with § 292a of the commercial code. They are in accordance with the 83/349/EU directive.

On account of being listed on the Neuer Markt of Deutsche Börse AG, Splendid Medien AG is obligated to compile its group annual accounts according to the regulations of the IAS or according to US accounting regulations (US-GAAP). Splendid Medien AG decided to draw up its group annual accounts according to the IAS international accounting regulations.

The balancing, assessment, and consolidation methods according to IAS in the group annual accounts which deviate from German law essentially concern the balancing of tax losses carried over as deferred taxes (IAS 12) and the balancing of capital lease obligations (IAS 17). SIC 17 has also been used since the declaration day on December 31, 1999. Accordingly, the net costs of stock market flotation (costs minus tax expenditure) were settled with the shareholders' equity (additional paid-in capital). There is also a difference with the amortization periods of goodwill, amounting to 20 (IAS) instead of 15 (commercial code) years. Tax was deferred with temporary differences in the adjustments which were made.

Up to the group annual accounts on December 31, 2000, Splendid Medien AG compiled its group annual accounts in accordance with the regulations of the commercial code including organizing group capital and group surplus according to the regulations of the IAS. The group annual accounts on December 31, 2001 are drawn up according to the regulations of the IAS for the first time.

The group annual accounts of Splendid Medien AG were drawn up for the financial year from January 1 to December 31, 2001 according to the directives of the International Accounting Standards Committee (IASC), London, which applied at the declaration date. The individual accounts are drawn up according to standardized balancing and assessment methods, where the estimation and assessment rules used by the parent company were also observed by the subsidiaries in the case of fully-consolidated companies. The currency figures are given in thousand Euro (T€).

### **General information**

#### **A. General**

#### **B. Principles and methods**

In terms of the division of the group annual accounts we have turned to the classification regulations of the German commercial code and made modifications according to the proposals for interim reports made by the Deutsche Börse. In the explanations we have tried to make it clear, easy to follow, and to include only essential information. The income statement is compiled according to the cost of sales method, while the cash flow statement is compiled according to the indirect method.

To compile annual accounts in accordance with the regulations of the IAS requires estimates and assumptions to be made which have an influence on the values of assets, liabilities, and financial obligations at the balance sheet deadline and on the listed revenue and expenses during the financial year. The actual results may differ from these estimates and assumptions.

The new IAS 40 (in effect since January 1, 2001) and IAS 41 (in effect from January 1, 2003) are not applicable for the company.

### C. Principles of consolidation

The following subsidiaries were included in the group annual accounts along with the parent company:

	Head office	Share in %
<b>Affiliated companies</b>		
Splendid Film GmbH	Cologne	100
Splendid Synchron GmbH	Cologne	100
Ascot Medien GmbH	Essen	100
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	Munich	100
Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	Munich	100
eNteractive GmbH	Hamburg	85
Splendid Television, LLC	New York, USA	80
<b>Associated companies</b>		
Warner Vision Vertriebs GmbH	Hamburg	49

The related companies are under the unified control of Splendid Medien AG and are included in the group annual accounts with full consolidation.

The consolidation of the associated company is done at equity. On December 31, 2000 Warner Vision Vertriebs GmbH was consolidated not at equity but with the investment book value because the company did not become operative until 2001.

The shares in the associated company Initial Entertainment Group, Inc., Santa Monica, USA (49 %) were sold in 2001 by Splendid Medien AG and were accordingly not consolidated. At the same time the group's receivables from the Initial Entertainment Group, Inc. were sold on to the purchasers of the shares. This has the following effects on the group annual accounts:

	2001 T€
Shares in associated companies	-5,055
<b>Total disposed fixed assets</b>	<b>-5,055</b>
Cash and cash equivalents	15,868
Receivables from sale of shares (claim for transfer of shares from the purchaser)	24,141
Valuation adjustment for receivables from sale of shares	-16,631
Trade accounts receivable	-21,485
<b>Total increase in current assets</b>	<b>1,893</b>
<b>Change in balance sheet total</b>	<b>-3,162</b>
Expenses for amortization of receivables	-1,019
Expenses from the sale of shares and receivables	-2,143
<b>Income statement total</b>	<b>-3,162</b>
<b>Change in balance sheet total</b>	<b>-3,162</b>
<b>Effect on the cash flow from investing activities</b>	<b>1,025</b>

There was also amortization of T€ 101 of the goodwill of the Initial Entertainment Group, Inc., in the financial year.

In light of the massive drop in price of the Internationalmedia shares in February 2002 and the matters which caused these losses, there was also amortization of the claim for delivery of shares in Internationalmedia AG coming from the Initial Entertainment transaction amounting to 16.6 million Euro.

**D. Consolidation methods**

Consolidation of capital was according to the book value method in accordance with IAS 22. The acquisition costs of the purchased shares are settled with the book value of the proportionate shareholders' equity of the subsidiary at the time of acquisition here.

Company	Book value T€	Proportionate share- holders' equity T€	Difference T€
Splendid Film GmbH	5,192	36	5,156
Splendid Synchron GmbH	28	25	3
Ascot Medien GmbH	82	65	17
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	303	-90	393
Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	38	38	0
Splendid Television, LLC	336	336	0
eNteractive GmbH	45	42	3
	<b>6,024</b>	<b>452</b>	<b>5,572</b>

The differences on the assets side of Splendid Film GmbH and Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG coming from the initial consolidation are amortized as goodwill according to the linear method over a course of 20 years according to the expected useful life. The goodwill remaining from the consolidation of Splendid Synchron GmbH was fully amortized in the 2000 financial year. The subsequent acquisition costs in 2000 amounting to T€ 57 from the purchase of Ascot Medien GmbH were set off against the difference on the liabilities side of T€ 40 in 1999 and amortized at a total of T€ 17 in 2000.

Receivables and liabilities between the consolidated companies are set off. Sales proceeds and other revenue within the group are settled with the corresponding expenses of the subsidiary. The costs of stock exchange flotation were settled with the shareholders' capital in accordance with SIC 17.

Equity is consolidated with the proportionate shareholders' equity of the associated company. With the consolidation of Warner Vision Vertriebs GmbH there was no difference. In following consolidations the value of the associated company is updated.

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The balanced financial instruments cover cash assets and bank balances totaling T€ 22,524 (previous year T€ 1,320), trade accounts receivable (T€ 9,307, previous year T€ 936) and payable (T€ 2,118, previous year T€ 2,030) and other assets and liabilities. The "Other assets" position is divided into current and non-current assets. The other current assets essentially cover receivables from delivery of securities amounting to T€ 7,510, which concern the claim for the transfer of shares in IM Internationalmedia AG, Munich. The claim was acquired as part of the Initial Entertainment transaction. The object of the Initial Entertainment transaction was the sale of the 49 per cent share in the Initial Entertainment Group, Inc. (IEG), Santa Monica, and to balance out the interconnected receivables and liabilities.

There are no derivative financial instruments.

IAS 39 is applied since January 1, 2001.

## ***E. Financial instruments***

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The foreign subsidiary is an economically independent foreign unit according to IAS 21 No. 25. In accordance with IAS 21 No. 30 the following procedure is used when converting the annual accounts of the economically independent foreign unit:

- the monetary and also non-monetary assets and liabilities were converted at the rate on the declaration date
- the revenue and expenses positions were converted with the weighted average monthly rates

There are currency conversion differences in the annual accounts from the following:

- the conversion of revenue and expenses positions with the average rates of the corresponding periods and the assets and liabilities with the rate on the declaration date,
- changes in shareholders' equity

These changes were not recorded as revenue or expenses in the period.

## ***F. Principles of currency conversion***

## Explanations on the group income statement

### (1) Sales proceeds

Splendid Medien AG generates sales proceeds from the use of film rights and services for the film and television industry.

The companies in the group purchase usage rights for specific countries and periods. Using the acquired usage rights as a basis, the companies in the group grant licenses to purchasers in all parts of the world for a limited period and a limited area. The sales proceeds are realized when the contract is fulfilled for the licensee provided the group companies have essentially fulfilled their contractual obligations.

In the German-speaking area Splendid Medien AG generates turnover from the use of film rights in the cinema, on video/DVD, and on television. In the case of cinema films turnover is realized once the film opens in the cinema. Use on video/DVD and TV (pay TV and free TV) usually begins 6 to 24 months after the film is shown regularly in the cinema. Turnover is realized when the corresponding license is first used.

Turnover from audio/video post-production services is realized upon completion.

For turnover according to segments (business divisions and regions) refer to the remarks on the segment report. Most of the turnover is generated abroad.

### (2) Other operating income

The other operating income amounted to T€ 14,993 (previous year T€ 1,041) in the 2001 financial year. The individual positions can be found in the following table:

Other operating income	2001 T€	2000 T€
Income from sale of IEG	14,488	0
Income from payment of receivables already written off	0	402
Income from reversal of accruals	147	281
Other	358	358
	<b>14,993</b>	<b>1,041</b>

### (3) Cost of sales

The cost of sales are used to generate revenue amounted to T€ 67,990 (previous year T€ 21,520) in the 2001 financial year. The following positions are included in cost of sales:

Cost of sales	2001 T€	2000 T€
Amortization of film rights	61,524	17,420
License payments / royalties	1,230	372
Material and production costs	3,214	1,979
Personnel costs	716	561
Cost of purchased services	641	193
Depreciation and amortization on assets	220	147
Fees	443	796
Other	2	52
	<b>67,990</b>	<b>21,520</b>

The big rise in the "Amortization of film rights" position was mainly down to the increase in amortization of film rights which was necessary with the sales proceeds, and additional amortization of film rights amounting to T€ 12,726. This is essentially guided by the regulations of US-GAAP, in particular SOP 00-02. The rise in the "License payments / royalties" and "Material and productions costs" positions is mainly because of the costs from cinema use.

### (4) Distribution costs

In the 2001 financial year there were distribution costs of T€ 8,197 (previous year T€ 1,621). The distribution costs positions are contained in the following table:

Distribution costs	2001 T€	2000 T€
Advertising	4,330	521
Sales commission	2,463	388
Personnel costs	592	358
GEMA / film promotion	288	142
Travel expenses	200	167
Depreciation and amortization on assets	39	21
Other	285	24
	<b>8,197</b>	<b>1,621</b>

The rise in distribution costs is largely because of the costs for cinema use in the first half of the year and costs for video and DVD use from the library.

#### (5) Administration costs

The administration costs in the 2001 financial year came to a total of T€ 4,599 (previous year T€ 3,759). The administration costs consisted of the following positions:

Administration costs	2001 T€	2000 T€
Legal and consultation costs	1,911	1,355
Personnel costs for administration	1,121	923
Rent, lease, running costs	498	306
Public relations	241	473
Office costs, insurance etc.	202	218
Stockholders' meeting	191	218
Depreciation and amortization on assets	187	129
Other	248	137
	<b>4,599</b>	<b>3,759</b>

#### (6) Amortization of goodwill

The amortization of the differences shown as goodwill from the consolidation of investments amounted to T€ 277 (previous year T€ 287) in the 2001 financial year. This is divided as follows:

Amortization of goodwill in T€	2001	2000
Company		
Splendid Film GmbH	258	258
Splendid Synchron GmbH	0	2
Ascot Medien GmbH	0	17
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	19	7
eNteractive GmbH	0	3
<b>Total</b>	<b>277</b>	<b>287</b>

### (7) Other operating expenses

The other operating expenses amounted to T€ 19,349 (previous year T€ 390) in the 2001 financial year. The individual positions are as follows:

Other operating expenses	2001 T€	2000 T€
Write-down of receivables from securities	16,630	0
Amortization of advance payments for screen rights	1,443	23
Losses on receivables	1,091	0
Bad debt provisions	1,026	6
Other	166	361
	<b>20,356</b>	<b>390</b>

The "Write-down of receivables from securities" position amounting to T€ 16,630 covers amortization of the claim for delivery of shares in Internationalmedia AG owed from the Initial Entertainment transaction at the end of the 2001 financial year.

The board of Splendid Medien AG decided on this amortization in light of the huge drop in prices of the Internationalmedia shares in February 2002 and the matters which caused the drop.

We also refer to the explanations in the chapter "E. Financial instruments" in this enclosure and the corresponding parts of the statement of group affairs. "Losses on receivables" primarily comprises receivables from KirchMedia GmbH & Co. KGaA. A write-down of 20 per cent (T€ 1,007) was performed for all receivables from KirchMedia that were booked before December 31, 2001, and had not yet been paid by the time the balance sheet was finalized.

### (8) Interest income/expenses

Interest income comes mainly from interest from bank balances.

The interest result is divided as follows:

	2001 T€	2000 T€
<b>Interest income</b>		
Interest income from bank balances	15	218
Interest income from interest-bearing advance payments	0	2,002
	<b>15</b>	<b>2,220</b>
<b>Interest expenses</b>		
Interest expenses from bank debts	501	108
Interest expenses from capital lease obligations	27	26
Interest expenses from debts to leasing company	89	0
	<b>617</b>	<b>134</b>
<b>Interest result</b>	<b>- 602</b>	<b>2,086</b>

Interest amounting to T€ 569 (previous year: T€ 108) was paid and the interest received totaled T€ 15 (previous year: T€ 218).

#### **(9) Depreciation on investments and participations**

In the previous year (T€ 150) the listed depreciation was of the paid amounts because of the non-exercise of options in IEG.

#### **(10) Income/expenses from associated companies**

This position contains the proportionate result of Warner Vision Vertriebs GmbH (T€ 260) and the amortization of the difference in the investment from the consolidation of IEG (T€ 101). In 2000 this position contained the proportionate result of the Initial Entertainment Group, Inc. after deductions for amortization of the difference listed as goodwill from the consolidation (T€ 2.450).

#### **(11) Foreign currencies exchange gains/losses**

The foreign currencies exchange gains amounting to T€ 1,723 (previous year T€ 312) essentially come from settled advance payments made in US\$.

#### **(12) Income tax**

The income tax position covers corporation tax and municipal trade tax including deferred taxes.

Taxes were divided as follows:

	2001 T€	2000 T€
Corporation tax	0	613
Municipal trade tax	0	217
Current tax refunds from loss carry-back	- 216	0
Municipal trade tax from previous years	0	9
Corporation tax from previous years	- 5	0
Foreign withholding tax not deductible	2	0
Deferred taxes	- 6,739	452
	<b>- 6,958</b>	<b>1,291</b>

The deferred taxes from the costs of flotation on the stock exchange were settled on a neutral basis with the shareholders' equity according to the costs of flotation (SIC 17) in the previous year.

After the tax reduction law passed in the 2000 financial year, the corporation tax has been calculated at a rate of 25 % (previous year 40%) for the purpose of deferred taxes. The municipal trade tax was determined with rates of 450% or 490%, and the solidarity tax contribution was taken into account with the corporation tax with a rate of 5.5 %.

The gross expenditure is divided as follows:

	2001 T€	2000 T€
Income tax on the basis of a tax rate of 40.4 % (previous year 52.8 %)	- 6,350	2,476
Non tax deductible expenses and tax-free income	- 5,911	-1,293
Amortization of goodwill	112	151
Different foreign tax rates	- 20	34
Valuation adjustment to deferred taxes	5,250	0
Other	- 39	-77
Actual tax income (previous year tax expense)	- 6,958	1,291

### **(13) Net income per share**

The net income per share is € - 0.32 (previous year: € 0.39). The dividends per share are € 0.00 (previous year: € 0.00). 8,900,000 (previous year: 8,900,000) shares were used as a basis for calculating the net income per share.

### **(14) Cash and cash equivalents**

The cash and cash equivalents (T€ 22,524, previous year T€ 1,320) consist of cash assets and bank balances. They are assessed at nominal value, and bank balances in a foreign currency were converted with the exchange rate on the balance sheet declaration date.

*Explanations on the group balance sheet*

### **(15) Receivables, prepaid expenses and other assets**

Receivables and other assets are essentially assessed at the nominal value. In the case of receivables where there are recognizable risks appropriate individual value adjustments were made. Interest-free receivables with a remaining life of more than a year are discounted at 5.5 %. Cur-

rency receivables are assessed with the exchange rate on the annual accounts declaration date.

There were no receivables with a remaining life of more than 1 year on the annual accounts declaration date.

The individual receivables and other assets are divided up as follows:

	12.31.2001 T€	12.31.2000 T€
Trade accounts receivable	9,307	936
Tax refunds	1,087	831
Other current assets	7,937	885
Prepaid expenses	214	61
Other non-current assets	2,906	0
	<b>21,451</b>	<b>2,713</b>

The other assets are divided into other current assets and non-current assets. The other current assets essentially cover receivables from the delivery of securities amounting to T€ 7,510 which concern the claim for transfer of shares in IM Internationalmedia AG, Munich. The claim was acquired with the Initial Entertainment transaction. On account of the huge drop in price of the Internationalmedia shares in February 2002 and the reasons for this drop, the claim for € 22.50 per share was amortized at € 7.00 per share. The total amortization came to T€ 16,630. We also refer to the explanations in the chapter "E. Financial instruments" in this enclosure and in the corresponding parts of the statement of group affairs. The non-current assets (T€ 2,906, previous year T€ 0) concern advance payments in the form of working capital which arose in connection with the takeover of Cutting Edge Entertainment, Inc., Los Angeles, in the 2002 financial year.

#### **( 16 ) Inventories**

The inventories are assessed as purchasing costs, production costs, or lower replacement costs on the balance sheet declaration date.

Composition of inventories:

	31.12.2001 T€	31.12.2000 T€
Raw materials, auxiliary materials, working materials	399	425
Unfinished products, services	12	37
	<b>411</b>	<b>462</b>

The raw materials, auxiliary materials, and working materials are essentially video cassettes and DVDs. The unfinished products and services are essentially dubbing services.

#### (17) Deferred taxes

Deferred taxes are indicated for differences between the trade or group balance sheet result and the accumulated fiscal result of the consolidated companies. The assessment of the future claims for tax reduction depends on whether use is more probable than not within the scope of usability of the balance brought forward. These deferred taxes are worked out using taxation principles which are expected, on account of the current tax laws for taxable revenue, to be applicable in those years in which the differences are reversed or balanced out.

Recent developments within the KirchMedia Group and a more cautious assessment of the market development in Germany have resulted in an adjustment to the amount of deferred taxes as shown below.

The following positions are included in deferred taxes:

	31.12.2001 T€	31.12.2000 T€
<b>Active deferred taxes</b>		
Losses carried forward	12,008	
Elimination of intra-group profits	43	24
Differences when balancing according to commercial code and IAS	-34	4
Subtotal active deferred taxes	12,017	28
Valuation adjustment to active deferred taxes	-5,250	0
<b>Total active deferred taxes</b>	<b>6,767</b>	<b>28</b>

**Fixed assets**

For the development of fixed assets and the depreciation and amortization in the financial year we refer to the description in "Development of fixed assets", enclosed in the notes.

**(18) Tangible fixed assets**

The tangible fixed assets were balanced with purchasing or production costs minus necessary scheduled amortization. Assets which, on account of the existence of capital lease obligations, have to be assigned to the company, were activated with the cash value of the future lease payments. Average interest rates used with corresponding bank financing were used as a basis for determining the cash values.

Amortization of tangible fixed assets is according to the linear method. Assets on the basis of lease obligations are amortized using the linear pro rata temporis method.

The following useful lives form the basis of the scheduled amortization of those assets which are not activated because of existing lease contracts:

Rented buildings	up to 5 years
Business/office equipment	3 to 10 years

**Leases**

The operating leases are essentially leased cars and office equipment. The lease period is usually 3 years. Future obligations from lease payments are indicated under the other financial obligations.

The capital leases cover the technical equipment in the studios.

The contracts are agreed for periods between three and five years.

**Capital lease**

Cash value of leases in T€			
1 year	2 – 5 years	over 5 years	Total
210	308	0	518

The assets balanced under the business/office equipment category on 12.31.2001 amount to T€ 483 (previous year: T€ 486).

**(19) Intangible assets**

The intangible assets assessed as purchasing costs are purchased software. They are amortized on a scheduled linear basis for a period of 3 years.

**(20) Investments**

Shares in non-consolidated interests (associated companies) are indicated under this position. The shares in associated companies here are an at equity assessed 49% interest in Warner Vision Vertriebs GmbH, Hamburg.

In 2000 we had the same level of interest in the Initial Entertainment Group, Inc., Santa Monica. The payment for the option of an additional 2% stake in the Initial Entertainment Group, Inc. totaling T€ 150, indicated as a down payment for investments, was amortized in 2000 because the option was not exercised.

**(21) Screen rights and advance payments made for screen rights**

The screen rights and advance payments made for screen rights are included in their own positions. In the absence of industry-specific regulations in accordance with the commercial code and IAS the assessment was carried out according to general principles. The assessment is guided by the regulations of US-GAAP, in particular SOP 00-02 (Accounting by Producers or Distributors of Films), provided these regulations do not conflict with the IAS. On top of this there were modifications and differences to provide a suitable basis for assessment in individual companies. The method of realizing turnover employed is shown under turnover. The assessment method for film assets is described in detail in the following:

The screen rights included in film assets are activated at the time of the technical acceptance of the film material with the acquisition costs and are amortized according to the use or sale of par-

tial rights. In the usual case of full rights being bought, the use of screen rights in the video rental/video sales cassette business (including DVD) means amortization amounting to 20 % of the purchasing costs, whereby 10 % each was assessed in 2001 and 2000 for the use of video rental and sell through cassettes. With the sale of TV rights, amortization amounting to 80 % of the acquisition costs is calculated. For the utilization of pay TV rights 10 % was determined as amortization in the expenses; for the free TV rights, with first use there is amortization of 49 % and with second use it is 21 % of the acquisition costs. If the license period for the first use is ten years or more then higher amortization for first use has been applied.

For the cinema stage of use amortization of 10 % of the acquisition costs is calculated. The volume of amortization was reduced accordingly in TV rights stage of use.

The balancing of the purchased partial rights is based on the experience and estimates of the management in terms of possibilities of use, even if in individual cases other divisions of purchasing price in terms of individual partial rights were agreed in the contracts. When there was a lack of possibilities in the individual stages of use unscheduled amortization was considered. The particularities of the license agreements (e.g. long life spans for first use) are also taken into consideration with appropriate changes to the amortization rates. The rights the group acquired from Polyband GmbH & Co. KG are amortized according to the linear method over three years on account of their special nature.

“Impairment tests” are carried out at regular intervals beyond the periodically proportionate amortization, with the balance sheet declaration date the latest possible date. In the financial year there was unscheduled amortization totaling T€ 12,726 (previous year: T€ 23).

## **(22) Goodwill**

Goodwill is balanced at purchasing costs minus scheduled amortization over a maximum useful life of 20 years.

The goodwill amounting to T€ 4,878 (previous year 5,155) came from the consolidation of investment and concerns differences on the assets side of Splendid Film GmbH and Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG, and is amortized according to the linear method over 20 years in accordance with their expected useful life. The difference coming from the consolidation of Splendid Synchron GmbH and Ascot Medien GmbH was fully amortized in the 2000 financial year.

### (23) Liabilities

Liabilities are carried at the corresponding amounts repayable. Foreign exchange liabilities are assessed at the exchange rate on the balance sheet declaration date. The remaining lives of the liabilities come from the movements in liabilities.

2001	Amount T€	of which over 1 year T€	Securities given T€	Type
Capital lease liabilities	518	308		
Bank debts	8,195		8,195	Pledge of screen rights
Leasing company debts (AGV)	5,113	3,385	4,496	Pledge of screen rights
Trade accounts payable	2,118			
Advance payments received	1,023			
Income tax payable	282		44	Guaranty
Other liabilities	983			
	<b>18,232</b>	<b>3,693</b>	<b>12,735</b>	

2000	Amount T€	of which over 1 year T€	Securities given T€	Type
Capital lease liabilities	560	304		
Loans	4,055		4,050	Pledge of screen rights
Trade accounts payable	2,030			
Advance payments received	6			
Income tax payable	499		44	Guaranty
Deferred taxes				
Other liabilities	10,564			
	<b>17,714</b>	<b>304</b>	<b>4,094</b>	

## (24) Accrued expenses

The accrued expenses are indicated in a range for doubtful liabilities and omitted expenses, which is necessary for sensible business evaluation. Accrued expenses are indicated only when they have a legal or de facto obligation to a third party as a basis. The amount stated for accrued expenses is based on those amounts which are necessary in order to cover the future payment obligations, recognizable risks, and doubtful liabilities of the group.

The provision for taxes amounting to T€ 632 (previous year: T€ 1,431) contains expected tax liabilities for the assessment years between 1987 and 2000.

The other accrued expenses are contained in the following positions:

Other accrued expenses	2001 T€	2000 T€
Obligations from license agreements	2,663	1,574
Legal and consultation costs	676	280
Film promotion contributions etc.	260	146
Bonuses and compensation	77	71
Outstanding interest	53	57
Outstanding vacation	50	55
Other	138	259
	<b>3,917</b>	<b>2,442</b>

Movements in liabilities in T€	Accrued expenses for income tax	Other accrued expenses	Total
Status on 01.01.2001	1,431	2,442	<b>3,873</b>
New liabilities incurred		2,276	<b>2,276</b>
Consumption	799	654	<b>1,453</b>
Liabilities redeemed		147	<b>147</b>
Status on 12.31.2001	632	3,917	<b>4,549</b>

The accrued expenses are only shortterm ones.

### **(25) Minority interest**

The minority interest ( T€ -7, previous year T€ 12) were assessed at the time of the corresponding company acquisition with the share to be allocated to the minority shareholders at the times to be included for the assets and liabilities taken over with the acquisition of shares.

### **(26) Shareholders' equity**

For the development of shareholders' equity we refer to the description in the table "Development of shareholders' equity" included in the notes.

The company's share capital on 12.31.2001 was € 8,900,000. The capital stock is divided into 8,900,000 ordinary stocks issued to the bearer at the nominal price of € 1 each. The capital stock was fully paid up. All stocks were issued in the 2000 and 2001 financial year.

### **Authorized stock**

With the decision from September 3, 1999 the board was given the authorization, with the approval of the supervisory board, to increase the capital stock of the company in the period up to September 20, 2004 once or several times with cash deposits or investment in kind totaling up to € 3,410,000 (authorized stock I), with a total of € 890,000 (authorized stock II) or € 150,000 (authorized stock III) by issuing new shares to the bearer with the nominal value of € 1 per share. The board was also authorized, with the approval of the supervisory board, to decide on the cancellation of the legal subscription rights of the shareholders. Canceling pre-emption right on issues of new shares is permitted only to balance out residual amounts and for the acquisition of companies or interests in companies by granting shares in the company when a stock increase with cash deposits does not exceed ten percent of the capital stock and the offering price of the shares is not well below the stock market price (only authorized stock capital II).

### **Conditional stock**

With the decision from June 20, 2001 the board was given the authorization, with the approval of the supervisory board, to increase the capital stock of the company by a nominal amount of up to € 890,000 (conditional stock) by issuing new shares to the bearer at the nominal price of € 1 per share. The conditional stock increase is only to redeem subscription rights granted as part of the 2001 stock options plan. For members of the board at the company the responsibility for granting subscription rights lies solely with the supervisory board.

**Authorization to repurchase own stock**

With the decision from June 20, 2001 the company was authorized to purchase shares in Splendid Medien AG totaling up to 10% of the capital stock for 18 months from the day the decision was made in order to

- introduce shares to foreign stock exchanges
- to be able to offer shares as part of a merger with companies or as part of the acquisition of companies or interests in them
- to offer shares to members of staff, the board, and chief executive officers of related companies as part of the 2001 stock options plan or
- to collect shares.

The shares purchased in our own company with authorization in accordance with § 71 Paragraph 1 No. 8 of the companies act must not exceed 10% of the company's capital stock when added together with the other own shares which the company has already acquired and still possesses. The authorization can be exercised for whole or partial amounts, once or several times, and can be in pursuit of one or more of the given purposes. The purchase must ensue only via the stock exchange or with a public purchase offer to all shareholders. The countervalue paid by Splendid Medien AG for the purchase of the shares must not be more than 25% lower or 5% higher than the stock exchange price (without incidental expenses for the acquisition).

The authorization to repurchase own stock was not exercised in fiscal year 2001.

**Additional paid-in capital**

The additional paid-in capital essentially consists of premiums from the issue of new shares in 1999 amounting to T€ 49 or T€ 69,278 (the latter the result of stock exchange flotation) balanced with the costs of flotation amounting to T€ 2,365.

The net income per share is € – 0.98 (previous year: € 0.39). The dividends per share are € 0 (previous year: € 0). 8,900,000 (previous year: 8,900,000) shares were used as a basis for calculating the net income per share.

### **Stock options plan 2001**

The IAS currently have no regulations on the nature and assessment of stock options plans. This means that special treatment is required for the balance sheet and income statement. It is therefore not obligatory to include corresponding expenditure for personnel expenses in the income statement. In this respect Splendid Medien AG has restricted itself to showing its stock options plan.

Members of staff, the board of directors, and managers of related companies have the possibility of purchasing stock options issued to the bearer to allocate a maximum of 890,000 shares in Splendid Medien AG at the nominal price of € 1.00 per share. The shares are issued in tranches over 4 years from 2001 to 2004.

The exercise price to be paid when exercising the stock option for the allocation of a nominally priced share in Splendid Medien AG corresponds with the average closing price of the shares in the last 30 trading days on the Frankfurt stock exchange prior to the day of issue for the share options and must be at least the nominal price of the shares being purchased. On August 29, 2001 a total of 222,494 share options were issued to leading employees in the Splendid group. No options were exercised by December 31, 2001. The exercise price for the first tranche is € 3.43.

The maximum life of the issued subscription rights is 15 years. The subscription rights can be exercised 2 years after allocation at the earliest and then over the following 4 years within exercise periods and windows, depending on whether goals have been successfully reached.

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Splendid Medien AG determines the cash flow with indirect methods, after the profit or loss in the period is adjusted for the effects of non-cash effective transactions, restrictions in cash inflow or outflow from operating activities in the past or future, and revenue and expenditure positions connected with the cash flow from investing and financing activities.

***Explanations on the cash flow statement according to IAS***

**(27) Net cash from operating activities**

The “Other non-cash effective revenue” position amounting to T€ –1,025 shows the non-cash effective revenue from the sale of the 49 percent share in the Initial Entertainment Group, Inc., Santa Monica.

The net cash from operating activities amounts to T€ 26,341 (previous year: T€ 32,131).

**(28) Net cash from investing activities**

From the acquisition of screen rights (T€ –13,906), tangible fixed assets and intangible assets (T€ –546) and payments from the sale of tangible fixed assets and intangible fixed assets there was a cash flow from investing activities amounting to T€ –14,437 (previous year: T€ –55,662).

**(29) Net cash from financing activities**

The borrowing of loans in 2001 with a cash inflow of T€ 9,253 essentially led to the positive cash flow from financing activities totaling T€ 9,286 (previous year: T€ -115).

**(30) Cash and cash equivalents**

The cash and cash equivalents totaling T€ 22,524 (previous year: T€ 1,320) covers the checks, cash assets, and bank balances included in the balance sheet minus bank open account liabilities.

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**Group segment report**

Splendid Medien AG's lines of business are license trade, the home entertainment division, and post-production. The individual segments are separated on the basis of internal reporting. Here only those positions are considered which are directly allocated to a segment or can be distributed to specific segments on a sensible basis. Intersegment expenses and revenue have been eliminated.

The essential key figures of the segments are as follows:

2001	License trade (T€)	Home entertainment (T€)	Post-production (T€)	Sum (T€)	Consolidation (T€)	Total (T €)
Outside turnover	57,657	10,162	1,610	69,429		<b>69,429</b>
Turnover within the group	94	114	728	936	-936	<b>0</b>
Total turnover	57,751	10,276	2,338	70,365	-936	<b>69,429</b>
<b>EBITDA</b>	<b>47,098</b>	<b>5,128</b>	<b>-648</b>	<b>51,578</b>		<b>51,578</b>
Amortization of screen rights	-56,757	-4,767		-61,524		<b>-61,524</b>
Amortization of payments for screen rights	-1,443			-1,443		<b>-1,443</b>
Amortization of property and tangible fixed assets	-151	-65	-230	-446		<b>-446</b>
Amortization of goodwill	-258	-19		-277		<b>-277</b>
<b>EBIT</b>	<b>-11,511</b>	<b>277</b>	<b>-878</b>	<b>-12,112</b>	<b>0</b>	<b>-12,112</b>
Finance result					-602	<b>-602</b>
Result of assoc. companies					159	<b>159</b>
IEG share sale					-3,162	<b>-3,162</b>
Income tax					6,958	<b>6,958</b>
Minority interests					52	<b>52</b>
<b>Group result</b>						<b>-8,707</b>
Segment assets	4,544	387	593	5,524	853	<b>6,377</b>
Screen rights	36,166	204		36,370		<b>36,370</b>
Other assets	41,214	1,361	241	42,816	8,337	<b>51,153</b>
Total assets	81,924	1,952	834	84,710	9,190	<b>93,900</b>
Total liabilities	19,053	1,063	739	20,855	1,926	<b>22,781</b>
Investment in screen rights	13,665	241		13,906		<b>13,906</b>
Investment in property and tangible fixed assets	223	36	287	546		<b>546</b>
Employees	11	7	20	38		<b>38</b>
Turnover per employee in T€	5,242	1,452	80	1,827		<b>1,827</b>

2000	License trade (T€)	Home entertainment (T€)	Post-production (T€)	Sum (T€)	Consolidation (T€)	Total (T€)
Outside turnover	19,425	5,223	2,248	26,896		<b>26,896</b>
Turnover within the group	333	1,341	159	1,833	-1,833	<b>0</b>
Total turnover	19,758	6,564	2,407	28,729	-1,833	<b>26,896</b>
<b>EBITDA</b>	<b>17,689</b>	<b>918</b>	<b>92</b>	<b>18,699</b>		<b>18,699</b>
Amortization of screen rights	-15,340	-2,080		-17,420		<b>-17,420</b>
Amortization of payments for screen rights	-23			-23		<b>-23</b>
Amortization of property and tangible fixed assets	-129	-21	-147	-297		<b>-297</b>
Amortization of goodwill	-258	-24	-5	-287		<b>-287</b>
<b>EBIT</b>	<b>1,939</b>	<b>-1,207</b>	<b>-60</b>	<b>672</b>	<b>0</b>	<b>672</b>
Finance result					1,936	<b>1,936</b>
Result of assoc. companies					2,450	<b>2,450</b>
IPO costs					-370	<b>-370</b>
Income tax					-1,291	<b>-1,291</b>
Minority interests					45	<b>45</b>
<b>Group result</b>						<b>3,442</b>
Segment assets	9,957	456	536	10,949	515	<b>11,464</b>
Screen rights	85,122	309		85,431		<b>85,431</b>
Other assets	500	1,323	520	2,343	2,180	<b>4,523</b>
Total assets	95,579	2,088	1,056	98,723	2,695	<b>101,418</b>
Total liabilities	18,051	1,475	779	20,305	1,282	<b>21,587</b>
Investment in screen rights	54,326	357		54,683		<b>54,683</b>
Investment in property and tangible fixed assets	24	87	822	933	92	<b>1,025</b>
Employees	9	10	19	38		<b>38</b>
Turnover per employee in T€	2,158	522	118	708		<b>708</b>

The "IEG sale of participation" position covers the sale of the 49 percent interest in the Initial Entertainment Group, Inc (IEG), Santa Monica, and the balancing out of interconnected receivables. See the explanations in chapter "C. Principles of consolidation".

There was no further segmentation because of the close connection of the individual segments. The segment report is essentially based on a segmentation made with sales proceeds.

The sales proceeds according to geographical segments are divided as follows:

Sales proceeds	2001 (T€)	2000 (T€)
Germany	30,041	9,291
Rest of Europe	7,369	2,968
USA	32,019	14,637
<b>Total</b>	<b>69,429</b>	<b>26,896</b>

The geographical location of the assets is in Germany in more than 90% of the cases. The settlement prices for internal group turnover are determined by the market (at arm's length principle).

### Board of directors

The board of directors at Splendid Medien AG currently consists of three members.

The members of the board are:

- Andreas Ralf Klein, Cologne, head of license trade and strategic planning, chairman of the board
- Graham King, Pacific Palisades, USA, head of production and worldwide sales; chief executive officer of the Initial Entertainment Group, Inc., Santa Monica (USA) (up to October 9, 2001)
- Dr. Thomas Weber, head of finances, operative management of associated companies and investor relations (since August 28, 2001)
- Alexander Welzhofer, head of marketing and sales (since February 1, 2001)

The board received payment totaling T€ 425 (previous year: T€ 397) in the 2001 financial year.

The board undertook no other tasks in other supervisory boards and monitoring bodies during 2001.

### *Information on organs of the company*

### Supervisory board

The members of the supervisory board are:

- Dr. Ralph Drouven, lawyer, Cologne, chairman; other supervisory board roles: Santron AG, Cologne; Easyway AG, Gesellschaft für Biotechnologie, Monheim.
- Georg Holschbach, certified accountant, tax adviser, Pulheim, vice chairman
- James W. Wells, chief executive officer, Multithématiques GmbH, Ismaning

The payments to the members of the supervisory board in the 2001 financial year came to T€ 45 (previous year T€ 45).

### Other information

#### Staff

The number of employees was as follows at the end of the year:

	2001	2000
Board members	3	2
Employees	36	36

The total personnel expenditure in the 2001 financial year came to T€ 2,429 (previous year: T€ 1,842).

#### Shareholders' structure

On August 29, 2001 a total of 222,494 share options were issued to leading employees of the Splendid group. No options were exercised by December 31, 2001. The earliest possible exercise date is August 29, 2003.

On September 6, 2001 the chairman of Splendid Medien AG, Andreas R. Klein, transferred 500,000 ordinary bearer stocks from his stock to two members of the board: Dr. Thomas Weber received 350,000 and Alexander Welzhofer 150,000 ordinary bearer stocks.

The capital stock of Splendid Medien AG at December 31, 2001 was € 8,900,000 and is divided into 8,900,000 ordinary bearer stocks with the nominal value of € 1 each.

The security holdings subject to reporting requirements on 12.31.2001 consisted of the following:

	Number	Share in %	Options
<b>Board of directors</b>			
Andreas R. Klein	4,509,079	50.6638	0
Dr. Thomas Weber	350,000	3.9326	33,375
Graham King	346,050	3.8882	0
Alexander Welzhofer	153,060	1.7198	33,375
<b>Supervisory board</b>			
Dr. Ralph Drouven	3,060	0.0344	0

#### Relations with affiliated persons

Name	Amount in T€	of which outstanding	Type of activity	Fee based on
Dr. Drouven (Norton Rose Vieregge)	144	78	Consultancy service	Hourly rate
Albert Klein	118	0	Office building rental	According to contract of lease
Albert Klein	48	22	Consultancy	According to contract
Albert Klein	31	0	Supplementary payment of Ascot purchasing price	

#### Other financial obligations

Other financial obligations in T€

Type of obligation	up to 1 year	2 to 5 years	over 5 years	Total
Rent	252	872	0	<b>1,124</b>
Operating lease	37	38	0	<b>75</b>
	<b>289</b>	<b>910</b>	<b>0</b>	<b>1,199</b>

The order commitment resulting from the purchase of screen rights is T€ 7,141 (2000: T€ 14,036).

### **Liability**

There are bank guaranties totaling T€ 69 and a letter of credit to cover production amounting to T€ 2,267.

### **Events after the balance sheet declaration date**

After the end of the 2001 financial year there were important events which are of great significance for the further development of the business.

Splendid Pictures Holdings, Inc., the newly-founded subsidiary of Splendid Medien AG, is taking over the film production company Cutting Edge Entertainment, Inc., Los Angeles. Splendid Medien AG has an 80% interest and David C. Glasser, chief executive officer of Cutting Edge, has a 20 % share in Splendid Pictures Holdings, Inc.

KirchMedia GmbH & Co. KGaA, Ismaning, was put into receivership on April 8, 2002, after filing for bankruptcy. On April 22, 2002, Splendid reacted to this development by carrying out a valuation adjustment of 20 percent on all receivables from KirchMedia as at December 31, 2001, which had not yet been paid by April 22, 2002. Following negotiations with the receiver and the management of KirchMedia GmbH & Co. KGaA, Splendid Medien AG is confident that adequate risk protection measures have been put in place and that the business association with KirchMedia can continue successfully.

### **Proposal on the allocation of unappropriated profits and dividends per share**

The board of Splendid Medien AG proposes to the stockholders' meeting that no dividends are issued for the 2001 financial year. The board of Splendid Medien AG proposes to carry over the balance sheet profit of 5,725,010.53 Euro (HGB).

Cologne, April, 22, 2002

The Board of directors

## **Auditors' Certificate**

We have examined the consolidated financial statements of Splendid Medien AG for the fiscal year from January 1 to December 31, 2001, consisting of balance sheet, statement of income, schedule of changes in equity, cash flow statement and notes thereto. The corporation's management is responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, on whether the consolidated financial statements comply with International Accounting Standards (IAS).

We conducted our audit of the consolidated financial statements in accordance with German regulations on corporate audits and with the German standards for the audit of financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer, IDW). These require us to plan and perform the audit in such a way as to obtain reasonable assurance that the consolidated financial statements contain no significant inaccuracies. The scope of the audit was planned taking into account our understanding of the corporation's business operations, economic and legal environment, and the possibility that errors may have been committed. In the course of the audit, the vouchers used for valuation purposes and the disclosures made in the consolidated financial statements were verified, mainly on a test basis. The audit also included assessment of the accounting principles used and of the significant assumptions made by the corporation's legal representatives as well as evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the corporation's net worth, financial position, operational results and cash flow during the fiscal year in accordance with International Accounting Standards.

Our audit, which also included the management report on the group for the fiscal year from January 1 to December 31, 2001, did not give any cause for qualification. In our opinion, the group management report, together with the other statements contained in the consolidated financial statements, correctly and accurately describes the situation of the corporation and the risks to its future development. We also confirm that the consolidated financial statements and the group management report for the fiscal year from January 1 to December 31, 2001 fulfill the German legal requirements for exemption from the obligation to prepare consolidated financial statements and a group management report.

Cologne, 22 April 2002

BFJM Bachem Fervers Janßen Mehrhoff GmbH

Certified Public Accountants

(Dr. Christian Janßen)

Auditor

(Dipl.-Kfm. Franz Meller)

Auditor

## Glossary

### **Basle II agreement:**

The Basle II agreement will be incorporated in a EU directive when it is completed. It contains a new regulation concerning depositing shareholders' equity for bank credit. It is being negotiated in the banking supervision committee at the Bank for International Settlement in Basle. It is expected to be passed in March 2002 and come into effect in 2005.

### **BVV:**

German video association based in Hamburg.

### **Cash and cash equivalents:**

These consist of the total cash assets (available cash) and the current available bank credit (also securities of current assets).

### **Completion bond:**

The completion bond contains a completion guarantee for a film as insurance. This insurance protects producers and investors against risks like budget costs being exceeded or a film not being delivered. The insurer will finish production at its own costs if necessary and may in turn be given the screen rights.

### **Designated sponsor:**

The job of the designated sponsor is to put binding sales or purchasing offers in the electronic order book of Xetra, whether after inquiries from market players or done at the sponsor's own initiative. Financial institutions can be designated sponsors of a listed company.

### **Dividends:**

These correspond with the appropriation of net income, i.e. the distribution of the business profits to the stockholders.

### **DVD remix:**

Editing the sound format for the release of a film on DVD. The sound format is often set to Dolby Digital 5.1, i.e. to six audio channels.

### **DVFA:**

German Society of Investment Analysis and Asset Management, based in Dreiech near Frankfurt.

### **EBIT:**

Earnings before interest and tax.

### **EBITDA:**

Earnings before interest, tax, depreciation and amortization.

### **Film library:**

This contains all the films which are available for a company for legal use. Splendid's film library has over 700 titles.

### **Forecast:**

Projection, prediction, here estimates on the turnover and profits of the company.

### **Free TV:**

Cost-free television, i.e. television programs which are financed by advertising. The state-owned stations (ARD, ZDF) are also meant here.

**Independent film producer:**

In film production we differentiate between big film studios, the majors (like 20th Century Fox, Disney, Warner Bros.) and the smaller independent film producers like Splendid Pictures.

**Internet TV/web TV**

Television via the Internet, either on the PC monitor or the TV set by going online. TV access is via a web TV box or modem.

**ISIN:**

International Securities Identification Number, is expected to become binding in 2005 and will replace the current security identification number.

**IAS:**

International Accounting Standards.

**Letter of Credit:**

In the film business the Letter of Credit is an agreement on the purchase of a film license which the purchaser of the film gives to the producer.

**Library:**

This means the film library, see Film library

**Pay-TV:**

Pay or subscription television. These are television programs which can only be received by paying for them

**Post production:**

Editing of films or music pieces, e.g. soundtracks, mixing, cutting audio or video material.

**Shareholders' equity:**

The shareholders' equity is the difference in assets minus all liabilities.

**SOP 00-02:**

SOP 00-02 (SOP = Standard Operating Procedure) is a new US balancing regulation which reduces the amortization period for films from 20 to 10 years. This affects companies which balance according to US accountancy guidelines, i.e. US-GAAP.

**US-GAAP:**

General Accepted Accounting Principles, this is the accounting standard in the United States, similar to the commercial code in Germany or IAS as an international accounting standard.

**Video-on-Demand:**

Video files which can be downloaded from the Internet where customers pay per film or per download.

**Web TV/Internet TV**

Television via the Internet, either on the PC monitor or the TV set by going online. TV access is via a web TV box or modem.

Meg Ryan and Hugh Jackman are joined together by a timeless love in "Kate & Leopold".



## Imprint

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### **Redaktion und Inhalt:**

Splendid Medien AG

### **Concept and Layout:**

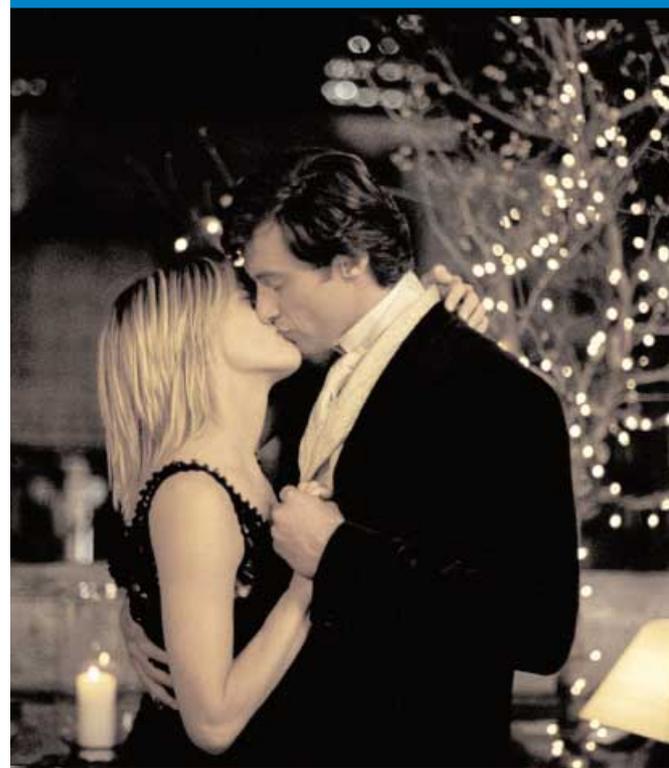
IR-One Finanzkommunikation, Hamburg

***We would be happy to send you the individual annual accounts of Splendid Median AG which are in accordance with the commercial code and also other information on the company. Please send inquiries to the following contact partner:***

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## ***Corporate Calendar***

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April 23, 2002	Balance Sheet Press Conference and Analysts' Meeting	Frankfurt
May 31, 2002	Publication of the Quarterly Report for I/2002	
June 13, 2002	Annual General Meeting	Cologne
August 30, 2002	Publication of Half-yearly Report 2002	
November 29, 2002	Publication of the Nine-months Report 2002	

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**splendid** medien AG

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