# Annual Report 2002

splendid medien AG

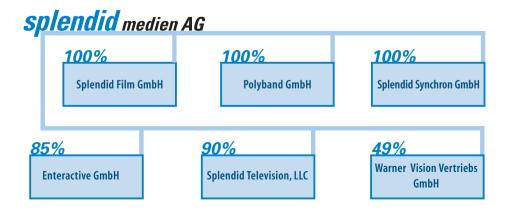


Key Figures (IAS)	2002 in mil. €	2001 in mil. €
Total turnover	34.5	69.4
License trade	14.5	57.6
Home entertainment	10.4	10.2
Post-production	1.8	1.6
Production	7.8	0.0
EBITDA	9.5	51.6
EBIT	-57.9	-12.1
Annual net profit	-59.6	-8.7
Cash flows from current operating activities	-0.8	26.3
Balance sheet total	32.3	93.9
Shareholder' equity	11.5	71.1
Equity ratio	35.6%	76.3%
Cash and cash equivalents on 12.31	3.8	22.5
Screen rights (incl. advance payments made)	15.8	36.4
Investments in screen rights	23.3	13.9
Investment ratio (of balance sheet total)	72.1%	14.8%
Amortization of screen rights	50.1	63.0
Amortization rate (of turnover)	145.2%	90.8%
Net income per share in Euro*	-6.69	-0.98
Number of employees at the end of the year	42	38

\* Total number of shares: 8.9 million

# **Corporate Structure**

Major shareholdings





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Preface by the Management Board

Andreas R. Klein, Chief Executive Officer

## Dear Splendid Medien AG shareholders, members of staff and partners,

The past financial year was the most difficult year in our company's history. The media industry is currently going through a reorientation phase that is affecting almost all market players. Further structural changes in the film industry, which we will have to react to in an appropriate manner, are expected in the immediate future. At the start of the year 2003, we embarked on an extensive business model reorientation course which will equip us with better means to meet the new market requirements.

#### Earnings position

The KirchMedia insolvency and the TV stations' drastic decline in advertising income both had a negative effect on the sale of film licenses. In the course of the year 2002, it became clear that our expectations regarding license sales would not be fulfilled.

Furthermore, as a result of postponements of projects, such as "Gangs of New York", sales revenue that had been planned for the year 2002 was shifted to the year 2003.

A significant portion of our Euro 59,6 million loss was caused by depreciation. Once it became clear that, due to the deteriorating market environment, previous film license purchase prices would, in the future, not be juxtaposed with appropriate earnings, we applied the respective depreciation at the end of the year. This

measure is intended to ensure that, throughout the further exploitation stages, the films' earnings power will correspond to a value that can be achieved in the current market environment.

#### Films

During the first quarter of 2003, we brought two major films to the German cinemas. In January, the US comedy "My Big Fat Greek Wedding" had a very successful launch in German cinemas. By mid-June, over two million German and Austrian cinema-goers had seen the film.

In February 2003, Martin Scorsese's long awaited epic "Gangs of New York" opened in the cinemas. Although it received many awards – among them two Golden Globes and ten Oscar nominations – and concluded the Berlinale, the film did not receive the expected response among cinema-goers. Up until now, approx. one million cinema-goers in the German-speaking region have seen the film.

#### Prospects

Due to the difficulties associated with the financing of US film projects, the predictability and the realisation of international sales as well as the high liquid fund requirement, Splendid Medien AG's Management Board is planning to sell its 80 % share in Splendid Pictures Holdings Inc. The original plan at the start of the year 2002 provided for the establishment of independent project development and film production activities via the acquisition of Cutting Edge Entertainment, Inc. In addition, the worldwide distribution of selfproduced films was to allow full exploitation of the entire value chain. The main advantage of this model was the establishment of a film library to which Splendid would hold the global rights and which would generate global income. However, in the course of the last year, it became clear that the income from advance sales and the expected further income would, in most cases, not even cover the substantial production and financing costs. In addition, due to the changes in the market environment, certain essential new productions could not be achieved as planned.

Consequently, in the future, Splendid Medien AG will be focussing on its core business. Film licenses will be acquired on international markets via Splendid Film GmbH and exploited via the subsidiaries' existing cinema, TV and video/DVD distribution channels. With respect to license acquisition, the focus will be on films in which TV stations have shown a definite interest and with respect to which the company considers the return on a substantial part of the investment to be almost guaranteed. In addition, more film licenses for exclusive exploitation in the "home entertainment" growth market will be acquired. The focus of the "home entertainment" segment will be on the DVD market since this segment shows the highest growth rates. In the future, Splendid Medien AG, together with its "Splendid Film" and "Polyband" subsidiaries, will concentrate on the acquisition and distribution of licenses, in particular with respect to the Germanspeaking region. Splendid Medien AG's entire previous value chain at the national level will remain intact. In this context, the company's focus will be on the exploitation of film licenses in the cinema, rental videos/DVDs, videos/DVDs for sale, pay TV, free TV and VoD (Video on Demand) areas.

Besides the exploitation of film licenses, post-production (at "Splendid Synchron" and "Enteractive") will continue to complement the core business.

In terms of the company's future development, it is of crucial importance to develop the business segments presented above and to restructure them with the aim of substantially reducing default risks. The cost and purchase/distribution control measures required in this context form part of a business concept and restructuring process which are currently being prepared for submission to the responsible bodies.

After an adjustment taking into account the special "Splendid Pictures" effect, the company is expecting, at the least, a balanced 2003 result.

Cologne, July 2003

Ill.

Andreas R. Klein



# Report of the Supervisorv Board

Dr. Ralph Drouven, Chairman of the Supervisory Board

During the financial year 2002, the Supervisory Board fulfilled its responsibilities in accordance with the respective legal requirements and the company's articles of incorporation and supervised the company's management via its Management Board. It received regular and extensive information regarding the course of business, business policy, the turnover, earnings and liquidity situation as well as Splendid Medien AG's and its associated companies' plans. The respective information was presented in the form of written and oral Management Board reports. The Supervisory Board reviewed all business transactions that were of special importance and discussed both these transactions and the strategic development of all Group companies with the Management Board during regular sessions which also took place outside ordinary meetings. Furthermore, the Chairman of the Supervisory Board kept in regular contact with the CEO in order to exchange information and ideas.

The Management Board presented to the Supervisory Board all matters which, according to the law, the company's articles of incorporation or the rules of internal procedure for the board require the Supervisory Board's involvement. The latter dealt with these matters and, where applicable, took a decision upon them. Excepted are the salary payments to Management Board members that were found out during the preparation of the annual financial statements.

During the financial year 2002, the Supervisory Board held four ordinary meetings. Special committees were not formed.

In compliance with the resolution of the general shareholders' meeting on 13 June 2002, the Supervisory Board commissioned BFJM Bachem Fervers Janssen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft (auditing company), Cologne, to audit both the company's annual financial statements and the consolidated financial statements. BFJM Bachem Fervers Janssen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft audited Splendid Medien AG's annual financial statements and the consolidated financial statements and the consolidated financial statements as well as the Group status report and Splendid Medien AG's status report as of 31 December 2002. The auditing company came to the conclusion that the figures presented complied with the accounting books and the respective legal requirements as well as the articles of association. The auditing company issued an unrestricted audit certificate.

The annual financial statements, the status report, the consolidated financial statements, the Group status report and the auditor's report were submitted to all members of the Supervisory Board. The Supervisory Board examined these documents and discussed them in detail, in the presence of the auditor, during the Supervisory Board's balance sheet meeting on 9 July 2003.



The Supervisory Board agreed with the statements contained in the auditing report. Subsequent to further discussion of the matter, the Supervisory Board approved both the annual financial statements and the consolidated financial statements on 16 July 2003. The annual financial statements were thereby approved. The Supervisory Board took note and approved of both the status reports and, most notably, the Management Board's assessment of the company's further development.

However, in his auditing report, the auditor noted irregularities concerning payments to the Management Board member, Dr. Thomas Weber. These irregularities require further clarification. In this context, the Supervisory Board agrees with the Management Board's suggestion to the general shareholders' meeting to postpone the decision regarding Dr. Thomas Weber's release for the financial year 2002.

During its meetings throughout the financial year 2002, the Supervisory Board discussed, with the Management Board, the question to what extent Corporate Governance Codex recommendations and suggestions are already being followed or should still be implemented at Splendid Medien AG. Where necessary, the rules of internal procedure applying to the Management Board and Supervisory Board have been adjusted in accordance with the standards set out in the codex. Subsequent to detailed discussions, the Management Board and the Supervisory Board passed and published a joint compliance declaration in accordance with Section 161 AktG (German Stock Corporation Law).

The Supervisory Board monitored the further implementation of an early risk alert and risk management system. In this context, the Board received regular information from the Management Board. According to the Supervisory Board, the existing systems are essentially suitable to give a timely warning of all dangers facing the company thus allowing it to react appropriately. However, the Supervisory Board also agrees with the auditor that the implementation of the measures approved by the Management Board is not yet complete.

The Supervisory Board would like to thank the Splendid Group's management and all members of staff for their commitment and excellent performance during the financial year 2002.

Cologne, July 2003

#### Dr. Ralph Drouven

Chairman of the Supervisory Board

# Highlights 2002

## January

Warner Vision Vertriebs GmbH, in which Splendid Medien AG holds 49 %, takes over the distribution of cinema films and first-time video releases on the mediacs label.

Splendid Pictures Holdings, Inc., a newly formed subsidiary of Splendid Medien AG, takes over the film production company Cutting Edge Entertainment, Inc., Los Angeles.

## February

The police detective thriller "NARC" is presented at the Sundance Film Festival in Utah, USA.

In Los Angeles, the actor James Franco ("Spiderman") is awarded the soughtafter Golden Globe in the "Best TV Mini Series/TV Film Actor" category for his role in "James Dean".

## March

Splendid Pictures and Metro Goldwyn Mayer (MGM) agree upon the financing of "Agent Cody Banks". The film will be produced in conjunction with Maverick Entertainment. Production will start in June 2002. Besides a producer fee, Splendid Pictures will receive a share in the profits generated by the global exploitation of the rights.

The marketing of the "Dragonball Z" films from the Polyband library has been very successful. By the end of May 2002, just under 200,000 copies had been sold on the market.

# April

Launch of the second instalment of the Jackie Chan Masterpiece Edition. By June, 54,000 copies had been sold on the market.

"Victoria & Albert" is nominated best mini-series at the renowned BANFF Festival in Canada.

"Kate & Leopold" launched in the cinemas. By the end of June, approx. 1 million cinema-goers had watched the romantic comedy.

# Splendid Medien AG

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Lost Heaven – The Dangerous Lives of Altar Boys



## Splendid Me<mark>dien AG</mark>

## **Our value creation**

#### Value added in the Group

Splendid Film GmbH acquires rights in feature films and exploits these, throughout the German-speaking region, along the entire value added chain (cinema, home entertainment and TV), either inhouse or via the distribution channels operated by Splendid Medien AG's subsidiaries.

With respect to the **(co-)production** of films, copyrights are acquired that are valid for an indefinite period of time. Licensing rights are resold to customers in individual countries.

**Licenses** are acquired, inter alia, at international film fairs, such as AFN in Los Angeles, MIFED in Milan or the Cannes film festival. License buyers check out finished films during screenings. However, in some cases, film licenses are acquired before the respective film has been made. In this case, insofar as the story, the director, the cast (actors, cameraman, etc.) and further qualitatively assessable factors represent sufficient marketing potential, a decision in favour of acquiring the license is taken. Our focus is on films in which TV stations have expressed a serious interest, thus ensuring that the return of a substantial part of the investment can be considered a certainty.

**Cinema:** Films are initially exploited in the cinemas if their associated acquisition and marketing costs as well as the expected ticket proceeds justify this course of action. Splendid is working together with 20th Century Fox which, in return for an industry-standard distribution fee, takes over the distribution and marketing of cinema films. Successful cinema films add value and become even more attractive with respect to further exploitation on video and DVD.

As a result of the promising development of the home entertainment market, Splendid is increasingly acquiring film licenses for exclusive exploitation in this growth market.

**Rental videos/DVDs:** Approximately six months after a film has been launched in the cinemas, it is exploited as rental video/DVD via distribution in video rental shops. The current top seller is the DVD format (cp. Status report – industry development - home entertainment).

Videos/DVDs for sale: Splendid distributes its films on the market under the "Splendid Entertainment" and "Polyband" labels. Warner Vision Vertriebs GmbH, a Splendid subsidiary, is responsible for distribution.



#### Our value creation chain



VoD: Video on Demand (VoD), a new form of exploitation whereby customers download a film they want to watch via the Internet or TV is also attractive for Splendid Medien AG. In this field, we have concluded co-operations with Arcor, Datacargo and Visono.

**Pay TV/free TV:** Six months after the start of the home entertainment exploitation process, films are exploited in the TV medium. As a rule, pay TV transmits the film first, followed by free TV. Splendid sells the respective licenses for a contractually agreed period of time (e.g. seven years) and for a contractually agreed number of transmissions during this period (e.g. seven transmissions during the seven years). Subsequent to the expiry of the license agreement, the film is available for further exploitation in the TV sector (secondary exploitation).

#### **Post-production**

Splendid Medien AG's core business is complemented by audioand video postproduction. Besides guaranteeing a reliable high quality standard, with respect to Splendid's own films, the company's capacities in the fields of dubbing, the addition of soundtracks and conversion to DVD are increasingly in demand among external customers. Before the start of the cinema and home entertainment exploitation process, films are dubbed and post-produced using the appropriate sound technology. Simultaneously, analogue film material is converted into the digital DVD medium, thus creating new additional contents for DVD.

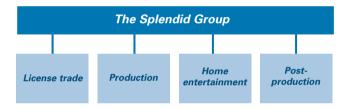




## **Development of the business segments**

The Splendid Group generated its 2002 turnover via the following four business segments:

license trade, production, home entertainment and postproduction.



#### License trade

License trade is broken down into two sub-areas: cinema exploitation and license trade national.



During the financial year 2002, this business segment generated a total turnover of Euro 14.5 million.

#### **Cinema exploitation**

During the past year, the film "Kate & Leopold" was exploited in German cinemas.

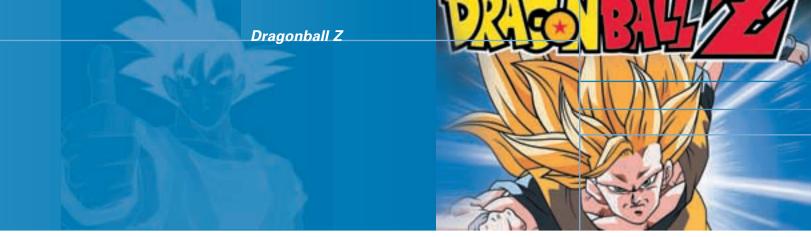
Just under a million cinema-goers watched the romantic comedy starring Meg Ryan and Hugh Jackman. The total turnover generated in this sector amounted to Euro 2.6 million.

Due to its belated launch in the US, exploitation of Martin Scorsese's "Gangs of New York", which was originally intended for 2002, was postponed until spring 2003.

#### License trade national

License trading essentially consists of the marketing of TV licenses to German TV stations. In 2002, despite the unfavourable market situation caused by the TV stations' declining advertisement income, Splendid Film sold a package consisting of 16 of our library films to the ProSiebenSat 1 Group. Among other films, the package includes the comedy "Kate & Leopold" and the Splendid-Pictures production "Narc".

This business segment generated a turnover of Euro 11.9 million.



#### **Production**

In 2002, the turnover generated by the production division amounted to Euro 7.8 million.

This turnover was predominantly generated through international marketing activities and exploitation of the film "Narc".

#### Home entertainment

The home entertainment segment consists of the rental video/DVD sub-sectors and the video/DVD for sale. During the financial year 2002, videos/DVDs generated a total turnover of Euro 10.4 million.



#### Rental video/DVD

During the year 2002, 18 titles from the Splendid/Polyband library were released and placed in German video rental shops. The turnover from this amounted to Euro 1.7 million. The films included, among others, "Shadows of the Vampire" starring Willem Dafoe and John Malkovich and "The Dangerous Lives of Altar Boys" starring Jodie Foster.

Video on Demand (VoD) is a business segment that will gain strategic importance in the future. Due to our contracts with Arcor, Datacargo and Visono Splendid we will be well positioned in this future market.

#### Video/DVD for sale

This sector focuses on the exploitation and sale of films from the libraries of our subsidiaries Splendid Films and Polyband (on the Splendid Entertainment and Polyband labels).

During the financial year 2001, a total turnover of Euro 8.7 million was generated. The most successful releases, involving over 90,000 copies, consisted of films starring the actor Jackie Chan. The cinema film "Kate & Leopold" got off to a promising start in November 2002; by the end of the year over 100,000 copies had been sold. All in all, Splendid – Entertainment released 37 titles on DVD and 20 titles on VHS.

During the last year, our subsidiary Polyband's animated Japanese series "Dragonball Z", which is very popular among children and teenagers, sold approx. 400,000 copies. Polyband released a total of 15 titles on DVD. Besides animated films and high-quality children's programmes, Polyband focuses on the marketing of historic and natural science-related documentaries, among them documentaries produced by the BBC.

Fitness and health programmes, which are either produced in-house or provided by the Discovery Health Channel, also make an important contribution.



Kate & Leopold

# Splendid Medien AG

#### **Postproduction**

This segment includes both audio postproduction, such as dubbing and sound postproduction services provided by Splendid Synchron GmbH, and DVD and video postproduction services provided by Enteractive GmbH.

Our total 2002 turnover in this segment amounted to Euro 1.8 million, which exceeded the previous year's turnover by 9 %.



#### Audio postproduction

Besides the dubbing of Hollywood films from the Splendid library, such as "My Big Fat Greek Wedding", Splendid Synchron GmbH also won a number of external contracts. These contracts included the addition and mixing of the soundtrack to an instalment, entitled "Rückspiel", of the ARD police detective series "Tatort", the dubbing of the popular Super RTL animated film series "Mr Bean" and the addition of dubbing of several instalments of the successful documentary series "National Geographic".

Total turnover in this segment amounted to Euro 0.6 million.

The two postproduction enterprises placed particular emphasis on their joint positioning in the market as a global postproduction service provider.

#### DVD and Video postproduction

Enteractive GmbH is successfully working towards international cooperations with leading media companies: co-operation with New Line/WMME developed exceptionally well. In addition, the company won a number of international contracts, such as the postproduction of the DVD versions of "Lord of the Rings – The Two Towers", "I am Sam" and "Bones" for different countries. Further DVD productions and various VoD encoding contracts were won via the company's co-operation with GDMX ("Global Digital Media Xchange"), an AOL Time Warner subsidiary.

In 2002, two DVDs, which were either produced by Enteractive or for which the company provided crucial support, were awarded the much sought-after "DVD Champion" award: these DVDs are "Der kleine Eisbär" in the children's film category, which Enteractive produced for Warner Home Video, and "Lara Croft: Tomb Raider" in the international film category, in the DVD production of which Enteractive was involved by order of Concorde Home Entertainment. In this segment, a turnover of Euro 1.2 million was generated.



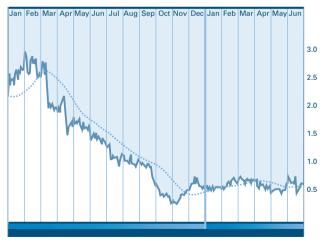


## The Splendid Share

In 2002, the recessionary economic situation made a substantial contribution towards the collapse of almost all stock exchange indices. Given the background of the unfavourable media environment the development of our share was unsatisfactory.

However, after its low in October 2002, the Splendid share, which has been listed in the Frankfurt Stock Exchange's Prime Standard segment since the start of 2003, had by that time recovered to the point whereby it exceeded the Nemax All Share Index. The business model restructuring process we have initiated has been designed with the aim of regaining both our shareholders' confidence and the interest of institutional investors.

#### **Development of Splendid shares** all figures in Euro



Splendid Medien AG

38-day-line

#### The Splendid share in brief

Security identification code	727 950	
Stock exchange abbreviation	SPM	
Reuters	SPMG.F	
Bloomberg	SPM	
ISIN	DE0007279507	
Segment	Neuer Markt	
Since 1 Jan. 2003 Prime Standard		
Number of shares issued	8,900,000	
Nominal value	Euro 1 per share	
Issue price	Euro 30	
Market capitalisation (as of 30 Dec. 2002)	Euro 5.251 million	
Market capitalisation (as of 30 June 2003)	Euro 6.319 million	
Sector index at the Neue Markt	Nemax – Media & Entertainment	
First date of quotation	24 September 1999	



#### Shareholder structure

As of 31 December 2002, Splendid Medien AG's capital stock was distributed among 8.9 million bearer shares. Overview of shareholder structure:

#### Management Board

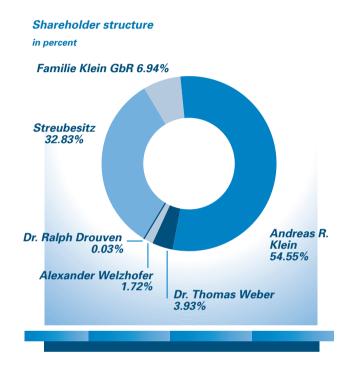
Andreas R. Klein	54,55 %
Dr. Thomas Weber	3,93 %
Alexander Welzhofer	1,72 %

#### Supervisory Board

#### Others

Familie Klein GbR	6,94 %
Portfolio investment	32,83 %

The lock-up periods that had been agreed, both in response to supervisory regulations and voluntarily, at the time of our IPO have expired. Further agreements have not been concluded. During the period under review, we did not conduct any securities transactions that are subject to reporting requirements. The securities portfolio that is subject to reporting requirements has been published in the Appendix.





## **Corporate Governance**

The notion "Corporate Governance" designates the responsible management and monitoring of an enterprise. At the beginning of 2002, the Government Commission adopted the Corporate Governance Code. The Code was and is still being lively debated. Many of the principles contained therein have long been the standing practice of our enterprise.

#### Prevailing conditions

The conditions of Corporate Governance at Splendid Medien AG follow from stock corporation and capital market legislation as well as from its corporate bylaws. As Splendid Medien AG is quoted on the German stock exchange, naturally the prerequisites of admissions to the stock exchange play a role, too.

Co-ordination between the Board of Management and the Supervisory Board

The system of dual governance used by Splendid Medien AG requires it to assign executive functions to the Board of Management and monitoring functions to the Supervisory Board. The Board of Management and the Supervisory Board exchange information extensively and on a regular basis. The Supervisory Board monitors the workings of the Board of Management and works out corporate strategy in co-ordination with it.

#### Transparency

In compliance with the Fair-Disclosure-principle we regularly and simultaneously inform our shareholders, financial analysts about any important change and new facts in relation to the business. We apply the principle of equal treatment to all our shareholders and important target groups. We publish all important appointments (management report, interim reports, general meeting etc.) in our financial calendar.

#### **Risk Management**

The Splendid Medien AG uses a risk management system (refer to page ... of the management report for the details). This system is an integral part of our planning, monitoring and reporting system. It is intended to ensure the early recognition of risks so that any necessary action can be taken.

Declarations by the Board of Management and the Supervisory Board of Splendid Medien AG pursuant to Section 161 of the Joint Stock Corporation Act (AktG)

#### Introduction

Under Section 161 of the Joint Stock Corporation Act the Board of Management and the Supervisory Board of a publicly traded joint stock corporation must annually make a declaration that the recommendations of the "German Corporate Governance Code Gov-



### **Gangs of New York**

## Splendid Medien AG

ernment Commission" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette are being or have been met or which recommendations are not being or have not been applied. In the disclosure provided for for the year 2002 the declaration may be limited to the announcement that the recommendations are being met or may indicate which recommendations are not being applied. The declaration must be made permanently available to shareholders.

The German Corporate Governance Code (the "Code") contains rules of variously binding effect. Apart from legally binding regulations of applicable securities law, it contains recommendations from which corporations may diverge; in the latter case, however, corporations are obliged to disclose them annually.

#### Declaration

The Board of Management and the Supervisory Board of Splendid Medien AG declare that the recommendations of the "German Corporate Governance Code Government Commission" published in the official section of the electronic Federal Gazette on 26 November 2002 in the version of 7 November 2002 are being met with the following provisions.

#### 1. Clause 4.2.4, para 1

The compensation of members of the Management Board are to be disclosed in the Explanatory Notes of the consolidated annual report broken down by fixed compensation, performance-related components and components with long-term incentive effects.

The compensation paid to members of the Board of Management of Splendid Medien AG are reproduced in their entirety in the consolidated annual report.

Justification: Investors have justified grounds for knowing to what extent the company's financial results are reduced by compensation payments to general management. Publication of the total compensation payable to the Board of Management adequately does justice to this interest. In particular, and in view of the legally mandated global responsibility of the Board of Management, the investors or the public have no interest worthy of protection in having the Board of Management's compensation broken down by individual member.

#### 2. Clause 5.3.2

The Board of management is to set up an audit committee to deal in particular with issues of disclosure of accounts and risk management, of the required independence of the financial auditor, of determination of the focus of the audit and of the fee agreement.



The Supervisory Board of Splendid Medien AG does not intend to set up a separate audit committee.

**Justification:** The Supervisory Board of Splendid Medien AG consists of just three members. The small size of the Supervisory Board makes any setting up of committees superfluous.

#### 3. Clause 5.4.5, para 2

The members of the Supervisory Board, besides their fixed compensation, are also said to receive performance-related compensation.

According to the corporate bylaws of Splendid Medien AG, the members of the Supervisory Board receive fixed compensation only.

**Justification:** The Supervisory Board can only have limited influence on corporate performance since it lacks any management authority of its own and cannot prompt corporate management take any specific measures. For fulfilment of its statutory monitoring function, the Supervisory Board neither needs any incentive nor any rewards in the form of compensation geared to corporate performance.

#### 4. Clause 7.1.2

Pursuant to Claus 7.1.2, the interim reports are supposed to be available within 45 days after the end of the reporting period.

Splendid Medien AG publishes its interim reports 60 days after the end of the reporting period.

**Justification:** Proper interim reporting, due to the relatively large number of consolidated domestic and foreign companies, would only be possible with an enlargement of management accounting that would entail significant costs. Interim reporting within 60 days of the end of the reporting period adequately meets the requirements of timely information to the public and to investors.

# Highlights 2002

# July

License agreement with ProSiebenSat.1 Media AG involving a package of 16 films from the Splendid-Film library. Total transaction volume: Euro 17.3 million.

On 13 June, Splendid Medien AG's general shareholders' meeting takes place.

June

## May

Shooting of "Agent Cody Banks", a Splendid production for Metro Goldwyn Mayer, commences.

## August

Polyband concludes agreement with Tele München Gruppe (TMG) pertaining to the video and DVD exploitation of the successful animated Japanese series "Hamtaro".

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# Global economic environment and industry development

#### Discouraging prospects for the global economy

The year 2002 was characterised by a global economic slowdown. The Euro zone's real GDP growth rate amounted to a mere 0.8 %. Although the US recorded an increase in GDP compared to the previous year, its economy also slowed down considerably towards the end of the year. The reasons for the unsatisfactory economic development in both economic regions are similar: private consumption in both Europe and the US cannot compensate for a decline in industry investment.

The reasons for the economic slowdown in Germany – which shows tendencies towards slipping into recession – are varied: psychological reasons connected with the introduction of the Euro (perceived inflation) are leading to a decline in private consumption. In addition, export is no longer acting as the engine of the economy and a substantial under-utilisation of capacities is leading to a decline in investment in the supplies industry. High unemployment on the labour market is lowering disposable income, the continuous discussion regarding Germany's ability to reform, which goes hand in hand with insecurity concerning existing jobs, is leading to an increase in the savings quota and, consequently, to a further decline in consumption. A number of negative headlines drew attention to the media industry in particular. The UK music company EMI suffered a sharp decline in sales revenue. The French media company Vivendi built up a substantial amount of debt during the last year and is now obliged to dispose of a large number of its participations. During the same year, AOL Time Warner made substantial write-offs and had to report record losses.

The financial markets are currently undergoing a crisis of confidence: banks are closely observing business risks and financial requirements, most notably with a view to their own increased loan loss provision requirements. This, in turn, affects their lending policies. German companies traditionally operate on low equity bases and are more dependent on bank loans than their European and US competitors. The new capital adequacy guidelines known, in brief, as Basle II, impose stricter standards in the lending business. In the future, banks will have to show a higher equity ratio for their lending business. For companies, this could mean higher financing costs. In addition, Germany's banks are also going through a crisis involving overcapacities and declining income. To make matters worse, Germany's financial market is highly fragmented: it consists of banks, savings banks and co-operative banks all of which operate extensive independent branch networks and diversified portfolios.



Economic development in 2003 is expected to be modest: positive impulses from the export industry are not anticipated. The appreciation of the Euro against the Dollar is further weakening Europe's and Germany's competitiveness. Economic research institutions are currently not expecting a substantial recovery. Domestic demand will remain weak throughout 2003. Consumption is likely to be further restricted due to declining net incomes. Industry investment activities are expected to be substantially lower than in the previous years. All in all, due to the question mark hanging over the question of Germany's ability to reform, the prospects for economic recovery are not promising.

#### Industry development

**Cinema attendance in Germany:** All in all, the number of cinema-goers declined in 2002; however, a slump – although recorded in many other industries – did not occur. According to the FFA (film promotion institute), 163.9 million people visited cinemas last year compared to 177.9 million in the previous year. However, on a percentage basis, the decline in sales revenue (from Euro 987.2 million in 2001 to Euro 960.1 million) was less pronounced due to increased ticket prices – giving the year 2002 the second best result since the early nineties. The share of German productions declined considerably. The attractiveness of US film productions remains unchallenged. The number of cinema halls increased substantially by 76 screens. Due to the uncertain economic situation, it is difficult to forecast the development of the German cinema business in 2003. However, German distribution companies are expecting growth rather than decline.

In the US, compared to the previous year, the 2002 sales revenue in the cinema business increased by 13 %, reaching US\$ 9.5 billion. Film industry experts expect a consolidation among German film production companies in the next few years: scaling down from the current 1,500 to 300 to 400 major companies.

**Home entertainment:** According to the BVV (German Federation of Audiovisual Media), the video market boasted a growth of more than 22 % to 1.4 billion Euros in 2002. This represented new record sales, making this market more prominent than the cinema market in terms of sales revenue generated by feature film exploitation. As expected, DVD sales increased by 75 % while VHS tape sales declined by 14.6 %. The average price of a DVD in Germany amounts to Euro 19.67, that of a VHS to Euro 11.51. In the rental sector, VHS are still ahead; however, DVDs are catching up. The rental of visual media tripled during the last year while the rental of VHS tapes declined by approximately one-third.

During the coming years, DVDs are expected to achieve a twodigit growth rate, making them one of the essential growth engines of the film industry. In the US, video and DVD sales increased by 11.5 % to US\$ 20.3 billion. In 2002, the film industry represented one of the US' few growth markets.



**TV market:** As a consequence of the TV suppliers' weak income situation and, most notably, the insolvency of the KirchMedia – Group, insecurity has spread throughout Germany's TV industry. In 2002, declining consumer demand led to drastic cuts in advertising budgets. The TV advertising market contracted by 7.5 % in 2001 and by a further estimated 8 % in 2002. Bidding battles between individual program suppliers cut proceeds as each TV station attempts to claim the largest possible piece of the advertising cake. In addition, in Germany, TV advertising accounts for only 23.8 % of the total advertising market – a low figure compared to most other European countries (in Italy, this percentage amounts to approx. 50 %, in the US, for example, to 36 %). Subject to economic recovery, the German TV advertising market has a substantial growth potential.

Video on demand (VoD): In the US, the first promising services exist already: all leading film studios (with the exception of Disney) jointly offer customers downloads of films subject to a charge via the "movielink.com" internet site. In Germany, a comparable service exists; however, general market acceptance is not as high as in the US.

#### **Business development**

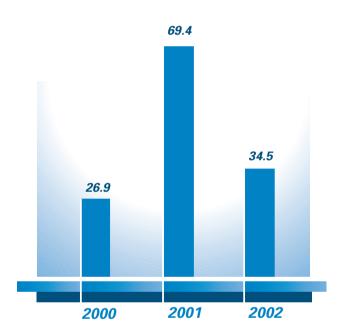
During the past year, Splendid Medien AG's market environment was a rather difficult one. The effects of the KirchMedia insolvency and the TV stations' drastic loss of advertising income all affected the sale of film licenses. In the course of the year 2002, it became clear that essential expectations regarding the realisation of license proceeds could not be fulfilled.

Splendid Medien AG's 2002 sales revenue amounted to Euro 34.5 million, compared to Euro 69.4 million in the previous year. The license trade, which accounted for a 42.2 % share, was the top-selling business segment. The home entertainment segment came second (30.2 %) and production third (22.5 %). The post-production segment accounted for 5.1 %.

The license trade segment achieved a 2002 sale revenue of Euro 14.5 million (prev. year: Euro 57.6 million). The sale of TV licenses to German TV stations, amounting to Euro 12.5 million, made a major contribution to this result. Proceeds were generated on the basis of a successfully performed contract with KirchMedia in 2001 and a contract concluded with ProSiebenSat 1 in 2002. The latter contract provides for the sale of 16 titles. The substantial decline in sales revenue in this business segment compared to the 2001 figure is due, on the one hand, to a number of project postponements, e.g. the initial exploitation of the film "The Gangs of New York" (approx. US\$ 11 million). On the other hand, international license sales were not realised to the expected extent. Comparison between the 2001 and



#### Turnover development 2000 – 2002 in Euro million



# Turnover structure in Euro million Production 7.8 Euro million U.4 Euro million License trade 14.5 Euro million

2002 figures should take into account the fact that the sale of the shares in the Initial-Entertainment-Group (IEG) led to a split of the cinema film rights and that the resale of a portion of these rights from Splendid to IEG (volume: Euro 32 million) had a substantial influence on the 2001 sales revenue.

The home entertainment segment's 2002 sales revenue amounted to Euro 10.4 million (prev. year: Euro 10.2 million). In this context, at Euro 8.7 million, the video tape/DVD for sale segment made the largest contribution. In 2002, sales in the production segment totalled Euro 7.8 million. The post-production segment also generated a slightly higher sales revenue (Euro 1.8 million compared to Euro 1.6 million) than in the previous year. Lower revenues in the overdubbing sub-segment was over-compensated for by a substantial rise in video/DVD post-production sales.



#### **Financial position**

Splendid Medien AG's consolidated balance sheet total was reduced to Euro 32.3 million (prev. year: Euro 93.9 million).

"Short-term assets" as of 31 December 2002 had fallen to Euro 14.5 million (prev. year: Euro 41.5 million). This item includes cash in hand and on deposit in bank accounts totalling Euro 3.8 million (prev. year: Euro 22.5 million). The decline in the figure relating to cash in hand and on deposit in bank accounts was due to the financing of "Splendid Pictures" operative business as well as the acquisition of film licenses. IM Internationalmedia AG securities accounted for Euro 0.9 million of this figure (prev. year: Euro 7.5 million, recorded under "other short-term assets"). "Accounts receivable", amounting to Euro 8.3 million, include accounts due in connection with license agreements concluded with TV stations. The decline in the "other short-term assets" item to Euro 0.9 million (prev. year: Euro 9.2 million) is mainly due to the massive decline in the IM Internationalmedia AG share price.

As of the balance sheet day, the "medium and long-term assets" amounted to Euro 17.8 million (prev. year: Euro 52.4 million). This decline is due, in particular, to the reduction of the "film rights" and "advance payments on film rights" items (Euro 8 million - prev. year: Euro 22.3 million and Euro 7.8 million - prev. year: Euro 14.1 million respectively) resulting from special depreciation carried out in the course of an "impairment test". The further slowdown in the mar-

ket during the last year made it clear that the film license prices Splendid had paid would not be realised in the future. Depreciation was based on film asset valuation, which essentially complies with the rules of the US-GAAP, in particular SOP 00-2.

"Deferred taxes" were adjusted from Euro 6.8 million to Euro 0.1 million.

During the period under review, "short-term liabilities" declined from Euro 19.1 million to Euro 18.1 million. The "short-term loans" item, amounting to Euro 7.5 million, includes the short-term portions of Stadtsparkasse Köln loans and a financing agreement concluded with AGV, Wiesbaden, which were secured with rights to secondary and tertiary film exploitation.

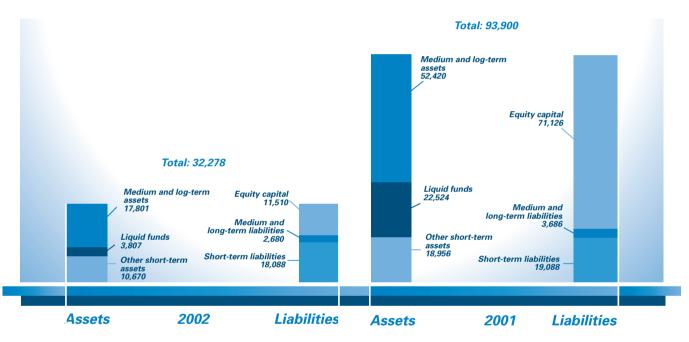
As at the cut-off day (31 December 2002), the "medium and longterm liabilities" amounted to Euro 2.7 million (prev. year: Euro 3.7 million) and consisted mainly of the medium and long-term portion of the AGV loan.

In accordance with the net loss for the year, the equity capital declined from Euro 71.1 million to Euro 11.5 million.



#### Balance sheet structure 2002 und 2001

in TEuro



In 2002, the Group's cash flow from current business operations amounted to Euro - 0.8 million (prev. year: Euro 26.3 million). In the context of investment activities, liquid funds amounting to Euro 14.8 million (prev. year: Euro 14.4 million) were utilised. This figure mainly refers to investments in film assets amounting to Euro 14.3 million. Due to the repayment of loans, the cash flow from financing activities amounted to Euro - 3.1 million (prev. year: Euro 9.3 million).

#### **Earnings position**

In the financial year 2002, Splendid Medien AG incurred a consolidated net loss of Euro 59.6 million (prev. year: Euro 8.7 million). The EBITDA amounted to Euro 9.5 million (prev. year: Euro 51.6 million) and the EBIT to Euro – 57.9 million (prev. year: Euro –12.1 million). The EBT amounted to Euro – 53.5 million (prev. year: Euro –15.7 million).

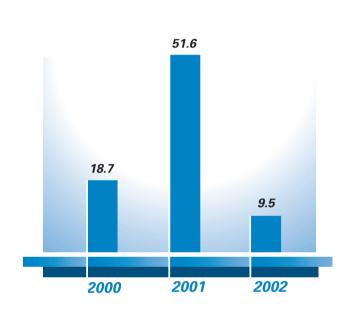


This loss is due to special depreciation of library films (Euro 17.2 million). As the unfavourable market environment led to the realisation that the film license purchase prices would, in the future, not be realised in the market, special depreciation was carried out in the context of an impairment test. This measure is to ensure that the films' earnings power in the secondary and tertiary exploitation stage corresponds to a value that is realisable in the market.

In 2002, the "Splendid Pictures" sub-group incurred a loss amounting to Euro 30.7 million. Subsequent to Splendid Medien AG's planned disposal of this participation in 2003 (see "events that took place subsequent to the expiry of the financial year"), the company was de-consolidated within the Splendid Medien AG Group; as a consequence, the losses incurred by the sub-group did not have any long-term effects on the Splendid Medien AG Group. The deconsolidation proceeds amount to Euro 11.9 million and this amount was offset against the sub-group's losses.

The sales proceeds were not sufficient to cover the purchase prices paid by "Splendid Film" for film licenses. This was due to sluggish market activity, which prevented the realisation of the planned selling prices.

Due to last year's massive price decline, depreciation affecting the result, amounting to Euro 6.4 million, was applied to the shares in Internationalmedia AG, in which Splendid Medien AG holds shares as a consequence of the sale of the Initial Entertainment Group. The shares were written down to the key date price of Euro 0.89/unit.



EBITDA development 2000–2002 in Euro million

"Production costs", which are relatively high in proportion to the sales revenue, amounted to Euro 53.6 million (prev. year: Euro 68 million). "Splendid Pictures" accounted for Euro 17.1 million of this amount. This item includes, in particular, depreciation of film assets amounting to Euro 46.3 million. Depreciation based on the regulations of the US – GAAP, in particular SOP 00-2, amounted to Euro 32.9 million; special depreciation, applied in the course of the "impairment test", amounted to Euro 13.4 million. In addition, the



"other operating expenses" include special depreciation of advance payments on film rights, amounting to Euro 3.8 million (prev. year: Euro 1.4 million). The special depreciation volume takes account of the fact that the prices paid for the acquisition of licenses are not expected to be realised in the future due to sluggish market activity.

"Distribution costs" amounted to Euro 8.0 million (prev. year: Euro 8.2 million). The costs associated with video and DVD exploitation amounted to Euro 0.6 million in the case of the "Warner Visions" subsidiary and to Euro 0.3 million in the case of "Warner Home". "Splendid Pictures" distribution costs totalled Euro 2.4 million.

"General administrative expenses" amounted to Euro 6.9 million (prev. year: Euro 4.6 million). This item includes personnel expenses, legal and consultancy costs as well as costs associated with investor relations and public relations. Splendid Pictures, Inc. accounts for Euro 3.1 million of this amount. After an adjustment taking into account Splendid Pictures' administrative expenses, the administrative cost item decreased by approx. 15 % due to the implementation of cost cutting measures.

The "other operating expenses" totalled Euro 12.4 million (prev. year: Euro 20.4 million). This item includes, in particular, depreciation of Splendid Medien AG's shares in Internationalmedia AG which amount to Euro 6.4 million as well as special depreciation of advance payments on film rights amounting to Euro 3.8 million (prev. year: Euro 1.4 million).

# 54.7 13.9 14.3 2000 2001 2002

#### Investments in film assets 2000–2002 in Euro million

#### Investments

Euro 23.3 million (prev. year: Euro 13.9 million) were invested in film assets, such as "Kate & Leopold", "Druids", and "My Big Fat Greek Wedding", which were mainly financed via borrowed capital. This sum includes investments in film assets, amounting to Euro 9 million, made by Splendid Pictures.



#### Staff

There were 42 employees. The majority of the Group's staff have long years' of experience in the industry.

Company	Number of staff	
Splendid Medien AG	9	
Splendid Film	6	
Splendid Synchron	11	
Polyband	3	
Enteractive	11	
Splendid Television	2	
Total	42	

#### **Risk management**

As an international company, Splendid Medien AG is subject to various risks. Consequently, risk management is an integral part of all decisions and business processes. In addition, the company aims to take suitable risk and prevention measures well in advance. Risk management is continuously being developed, adjusted and optimised.

The following risk areas, which are directly connected with the company's financial and earnings position, are subject to regular in-depth analysis.

#### Industry-specific risks

#### Film production

During the project development phase, the company acquires rights in film scripts and concludes, at an early stage, contracts with actors, directors and other persons responsible for the realisation of films. With respect to project financing, it is not guaranteed that the financing structure planned in advance will be definitely secured through advance sales and "gap financing".

The distribution division may not be able to sell projects, which have reached the development stage or beyond, in the essential territories or for the required amounts.

The incurrence of pre-production costs does not necessarily lead to the realisation of a film. Financial risks caused by budget overruns may arise throughout the realisation of a film. Production insurance (e.g. a "completion bond") largely covers these risks. The inclusion of pay or play clauses in actors' contracts may lead to substantial financial commitments in cases whereby projects are not realised.

#### Sale of film licenses

The marketing potential at all individual value added stages is the most important aspect to be considered in the context of film license acquisition. Despite intensive discussions at Management Board lev-



el and the utilisation of detailed acquisition / production proposals, a certain risk still remains with respect to public taste, which ultimately determines whether or not a film will be a financial success. This risk applies to all value-added stages.

In the future, the company is aiming to establish appropriate documentation of the Management Board members' joint votes on materially important transactions.

#### TV exploitation

A large part of the company's sales revenue is generated by the sale of films to both free and pay TV. Declining advertising income or slumps in the number of subscribers both have a considerable effect on the TV stations' purchasing budget. Consequently, the financial situation in the media industry, in particular all changes regarding payment terms, may have a negative effect on the Splendid Group's financial and earnings position.

#### Product piracy

For approximately one year, the film industry has been complaining about the fact that a considerable number of illegal copies of feature films, which have been downloaded from the Internet, are in circulation. This is clearly detrimental to the film industry, in particular the video/DVD sector. The industry has launched a number of initiatives with the aim of preventing illegal downloads in the future, among them the plan to adapt German legislation to European legislation. At present, sufficient legal regulations do not exist in this area.

#### Macroeconomic risks

#### **Currency risks**

The Splendid Group acquires the majority of its film licenses in the US. Since these film licenses are exploited in the German-speaking region, fluctuations in the Euro/Dollar exchange rate can affect the company's earnings position. Since own productions are traded in US Dollars, the operative business does not involve any major risks. Both production budgets and the subsequent sale of films in international territories are denominated and transacted in Dollars.

#### Lending

Over the last few years, both the tense overall economic situation and the situation in the banking sector, which is verging on a crisis, have led to a substantial tightening of lending activities. In the future, banks will demand higher credit ratings from companies seeking external funds. Due to this negative environment combined with the Splendid Group's deteriorated equity capital situation, the Group may have to expect more unfavourable terms with respect to bank lending. This will be particularly true if a turnaround is not achieved in the short-term. In the future, the bank lending guidelines, known as Basle II, may lead to further problems in terms of bank lending.



# Events that took place subsequent to the expiry of the financial year

Subsequent to the expiry of the financial year, events took place, which affect the company's business development in 2003. Due to the current difficult financing environment with respect to US film projects, the high liquid fund requirement and unpredictability and difficulties regarding the realisation of international sales, Splendid Medien AG's Management Board is planning to contribute its 80 % share in Splendid Pictures Holdings Inc., to Central Organisation of Technology, Inc. (COT) by way of a contribution in kind. In return, Splendid Medien AG will receive a 1% share in COT. In addition, COT's majority shareholder, North Star Finance and Investment, Inc. (North Star) is to grant Splendid Medien AG the option to increase its share in COT to 50 %. This option may be exercised between the expiry of the third and the tenth year after the conclusion of the contract. The purchase price of the shares to be acquired in this context will be based on COT's fair market value at the time the option is exercised. It may not exceed the prorate amount paid for COT shares by third parties.

Due to the discontinuance of this business segment (independent production of cinema films) as a result of the sale of "Splendid Pictures", the rules of the IAS require Splendid Pictures Holdings, Inc. to be de-consolidated early as 31 December 2002. Consequently, a true and fair view was given of Splendid Medien AG's financial and earnings position.

The original plan at the start of the year 2002 provided for the establishment of independent project development and film production activities via the acquisition of Cutting Edge Entertainment, Inc. In addition, the worldwide distribution of self-produced films was to lead to full exploitation of the entire value chain. The main advantage of this model was the establishment of a film library to which Splendid would hold the global rights and which would generate global income. However, in the course of the last year, it became clear that the production of films was, on the one hand, expensive while, on the other hand, the income from advance sales and the expected further income would, in most cases, not even cover the substantial production and financing costs (except in cases whereby films met with a very good response). In addition, due to the change in the market environment, certain essential new productions could not be realised as planned; this led to substantial liquid



fund problems. As a consequence of the decline of the IM Internationalmedia AG share price and in contrast to the original plan, the additional funds to finance Splendid Pictures were no longer available.

This model minimises Splendid Medien AG's financing risk associated with the film production business. However, it prevents the establishment of a film library involving world-wide film copyrights. Furthermore, Splendid Medien AG loses both its influence on the completion of films in progress and the selection and realisation of future productions at Splendid Pictures, Inc. Splendid Pictures Holding, Inc. and its fully owned subsidiary, Splendid Pictures, Inc., intend to conclude a first look/last refusal agreement with Splendid Film GmbH which will have a ten-year term. This agreement relates to all distribution rights to films intended for the German-speaking region (Europe) that are either produced by "Splendid Pictures", or to which "Splendid Pictures" holds exploitable rights.

Within the context of the preparations for the sale of "Splendid Pictures", payments were made for the continuation of current business operations and a loan waiver was issued. As far as possible, the consequences of the unwinding of the company have been taken into account in the 2002 balance sheet. The payments made in 2003, amounting to Euro 2.2 million, will not affect expenses before 2003. During the first quarter, two prominent films were launched in German cinemas.

In January, the successful US comedy, "My Big Fat Greek Wedding" opened in German cinemas. Splendid had acquired the license to this film in 2002. By mid-May, over 2 million German and Austrian cinema-goers had seen the film.

In February, Martin Scorsese's long-awaited film epic, "Gangs of New York" was launched in German cinemas. Although it had received many awards and concluded the Berlinale film festival, the film did not receive the expected audience response. By mid-May, approx. one million cinema-goers in the German-speaking region had watched the film.

As of 11 July 2003, Dr. Thomas Weber has left the Splendid Medien AG's Management Board.



#### **Prospects**

Splendid Medien AG is assuming that the market environment will remain difficult in 2003. At present, there is no telling whether or not a general economic recovery, which would lead to a long-term increase in the TV stations' advertising income and consequently higher funds for the acquisition of film licenses, will occur. The Kirch-Media insolvency has initiated a re-orientation among the free TV stations which is not yet complete and goes hand in hand with the current restraint in the acquisition of film licenses.

In the future, Splendid Medien AG will focus on its core business. Film licenses will be acquired on international markets via Splendid Film GmbH and exploited via the subsidiaries' existing cinema, TV and video/DVD distribution channels. With respect to license acquisition, the focus will be on films in which TV stations have signalled a definite interest and with respect to which the company considers the return on a substantial part of the investment to be almost guaranteed. In addition, more film licenses for exclusive exploitation in the home entertainment growth market will be acquired. The focus of the "home entertainment" segment will be on the DVD market since this segment has the highest growth rates.

The newly founded "Splendid Entertainment, Inc." will act as the "Splendid Group's" interest representative on the global market, in particular in the US. It's activities will focus on the selection of financially promising film projects for cinema, TV and home entertainment exploitation in Europe, in particular in the German-speaking regions, via the following subsidiaries: "Splendid Film" (fully-owned subsidiary of Splendid Medien AG), "Polyband" (fully-owned subsidiary of Splendid Medien AG) and "Warner Vision" (49% subsidiary of Splendid Medien AG). In addition, Splendid Entertainment will provide consultancy services for "Splendid Pictures" with respect to film script selection, film financing and studio selection. "Splendid Entertainment's" activities will not place any financial strain on Splendid Medien AG. With respect to license acquisition, the focus will be on films in which TV stations have signalled a definite interest and with respect to which the company considers the return on a substantial part of the investment to be almost guaranteed.

In the future, Splendid Medien AG, together with its "Splendid Film" and "Polyband" subsidiaries, will concentrate on the acquisition and distribution of film licenses, in particular with respect to the German-speaking region. Splendid Medien AG's entire previous value chain at the national level will remain intact. In this context, the company's focus will be on the exploitation of film licenses in the cine-



ma, rental videos/DVDs, videos/DVDs for sale, pay TV, free TV and VoD (Video on Demand) areas.

Besides the exploitation of film licenses, post-production (at "Splendid Synchron" and "Enteractive") will, also in the future, complement the core business. In this context, emphasis will be placed on international co-operations, e.g. with GDMX ("Global Digital Media Xchange"), an AOL Time Warner subsidiary.

After the disposal of "Splendid Pictures", the Group's future development will depend on the development of the remaining business segments– insofar as they are profitable – as well as their restructuring (with the aim of minimising the risk of loss). The cost and purchase/distribution control measures required in this context form part of a business concept and restructuring process which are currently being prepared for submission to the responsible bodies. Individual elements (e.g. cost savings through a change in stock exchange segment) are currently at the preparation stage. In view of the effects of the general economic framework conditions, there is no guarantee that the aim of a substantial improvement in results from 2004 onwards will actually be achieved.

After an adjustment taking into account the special "Splendid Pictures" effect, the company is expecting, at the least, a balanced 2003 result.

Cologne, July 2003 Splendid Medien AG Management Board

## Highlights 2002

# September

Splendid Film acquires license rights to the successful US comedy "My Big Fat Greek Wedding" for exploitation in the German cinema, home entertain-

At the Annual Primetime Emmy Award, the Splendid co-productions "James Dean" and "Victoria & Albert" are awarded three of the sought-after "Emmies".

## October

Enteractive GmbH, an 85 % subsidiary of Splendid Medien AG, receives pres-tigious awards: two DVDs, which tigious awards: two DVDs, which Enteractive either produced or provi-ded crucial support for, win the much sought-after "DVD Champion 2002" award. These DVDs are: "Der Kleine Eisbär" in the children's film category, which Enteractive produced for Warner Home Video, and "Lara Croft: Tomb Raider" in the international film cate-gory, in the DVD production of which Enteractive was involved by order of Concorde Home Entertainment. Concorde Home Entertainment.

## December

After its launch in the German home entertainment After its launch in the German home entertainment sector, in the run-up to Christmas, the romantic comedy "Kate & Leopold" starring Meg Ryan and Hugh Jackman was among the top 10 comedies sold on the DVD/VHS format. All in all, more than 100,000 VHS and DVD copies were sold. "Dragonball Z" titles were very successful last year. In 2002, a total of approx. 400,000 copies of the Japa-nese cult series were sold.

Splendid Medien AG was among the first companies to be admitted to the Deutsche Börse AG's Prime Standard segment on 16 December 2002. Subject to stringent information and transparency requirements, Prime Standard is the stock exchange's high-quality segment that was formed during the re-segmentation of the German stock market and entered into force on 1 January 2003.

The US platform release of the police thriller "NARC", starring Ray Liotta and Jason Patric in the main roles, on 20 Dec. 2002 achieved a box office result of over USD 21,000 per film copy and was thus among the top 10 box office results per film copy in the US charts.

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## Consolidated Balance Sheet (IAS)

as of 31.12.2002

<b>Assets</b> in T Euro	Appendix	01.01.2002 – 31.12.2002	01.01.2001 – 31.12.2001
Short-term assets:			
Liquid funds	1	3,807	22,524
Investments held as current assets	2	938	0
Accounts receivable - trade	3	8,313	9,307
Due from affiliated companies		0	0
Inventories	4	517	411
Prepaid expenses and deferred charges and other short-term assets		902	9,238
OTHER			
Short-term assets, total		14,477	41,480
<b>Medium and long-term assets:</b> Tangible assets	6	1,053	1,107
Intangible assets	7	146	119
Financial assets	8	375	273
Film rights	9	7,983	22,282
Payments on account in respect of film rights	9	7,801	14.088
Goodwill	10	347	4,878
Deferred taxes	11	96	6,767
Other assets		0	2,906
Medium and long-term assets, total		17,801	52,420
Assets, total		32,278	93,900



## Consolidated Balance Sheet (IAS) as of 31.12.2002

Liabilities		01.01.2002 –	01.01.2001 –
in T Euro	Appendix	31.12.2002	31.12.2001
Short-term liabilities:			
Short-term share of financial leasing liabilities	12	210	210
Short-term loans and short-term share			
in long-term loans	12	7,505	9,923
Accounts receivable - trade	12	3,313	2,118
Advance payments received	12	1,580	1,023
Reserves	13	5,116	4,549
Earnings-tax liabilities	12	0	282
Deferred taxes	14	33	0
Other short-term liabilities	12	331	983
Short-term liabilities, total		18,088	19,088
Medium and long-term liabilities:			
Long-term loans	12	2,386	3,385
Long-term financial leasing obligations	12	323	308
Minority participations	15	-29	-7
Medium and long-term liabilities, total		2,680	3,686
Equity capital:	16		
Subscribed capital		8,900	8,900
Capital reserve		66,992	66,992
Balance sheet profit/balance sheet loss		-64.336	-4,768
Exchange differences		-46	2
Equity capital, total		11,510	71,126
Liabilities, total		32,278	93,900

## **Consolidated Profit and Loss Account (IAS)**

for the period from 1 January to 31 December 2002

in T Euro	Appendix	01.01.2002– 31.12.2002	01.01.2001– 31.12.2001
Sales revenues	1	34,461	69,429
Other operating income	2	671	14,993
Income from subsidiary's exclusion from consolidated statement	3	11,932	0
Cost of manufacturing	4	-53,559	-67,990
Cost of distribution	5	-7,996	-8,197
Administrative costs	6	-6.915	-4,599
Depreciation of goodwill	7	-16,585	-277
Other operating expenses	8	-12,378	-20,356
Operating result		-50,369	-16,997
Income from/expense on interest	9	-1,398	-602
Income from / expenses on			
affiliated companies	10	362	159
Exchange gains/losses	11	-2,056	1,723
Profit or loss before taxes (and			
minority shares)		-53,461	-15,717
Taxes on income	12	-6,165	6,958
Extraordinary income/expense		0	0
Profit or loss before minority shares		-59,626	-8,759
Minority shares		58	52
Net income/net loss for the year		-59,568	-8,707
Profit/loss carried forward		-4,768	3,939
Balance sheet profit/loss		-64,336	-4,768
Profit/loss per share of stock (undiluted)	13	-6.69	-0.98
Profit/loss per share of stock (diluted)	13	-6.69	-0.98
Average shares outstanding (undiluted)		8,900,000	8,900,000
Average shares outstanding (diluted)		8,900,000	8,900,000



## Consolidated Cash Flow Statement (IAS)

for the period from 1 January to 31 December 2002

in T Euro Append	01.01.2002– lix 31.12.2002	01.01.2001– 31.12.2001
Group surplus in accounting period before third-party shares	-59.626	-8.759
Other income and expenses not affecting payments	0	-1,025
Income from interest	-74	-15
Expense on interest	1.472	617
Depreciation of fixed assets	705	446
Depreciation of film rights	46,299	61,524
Depreciation of advance payments on film rights	3,824	1,443
Amortization of goodwill	16,585	277
Tax expenditure (expense on deferred taxes)	6,148	0
+/- Increase/decrease of short-term reserves	1,159	1,475
-/+ Profit/loss from fixed-asset retirements	-14	0
Increase in inventories, trade accounts receivable and other assets not attributable		
to investment or financing activities	12,322	-18,937
+/- Increase/decrease in trade accounts payable		
and other liabilities not attributable to investment		
or financing activities	-28,737	-8,783
+ Taxes received	574	0
- Taxes paid	-315	-1,368
+ Profit distribution received from associated companies	260	0
+ Interest received	74	15
- Interest paid	-1,489	-569
Cash-Flow from current business activities 1	-833	26,341
Payments received in respect of retirements of tangible and intangible		
fixed assets	42	15
Payments made in respect of investments into tangible and intangible fixed assets	-548	-546
Payments made in respect of investments into film assets	-14,269	-13,906
Change of consolidated group	0	0
Cash-Flow from investment activity 2	-14,775	-14,437
Payments received in respect of loans raised	337	9,253
Payments made to repay loans	-3,417	0
Other changes in value of capital	-48	33
Cash-Flow from financing activity 3	-3,128	9,286
Change in existing financial resources having an effect on payment	-18,736	21,190
Exchange differences	0	14
Change of consolidated group	19	0
Existing financial resources at beginning of accounting period	22,524	1,320
Existing financial resources at end of accounting period 4	3,807	22,524

## Consolidated Statement of Fixed Assets 2002 (IAS)

	Acquisition and production costs							
		Status 1.2002	Additions inclusion in consolidated statement	Exchange differences	Additions	Retirements	retirements on the decon- solidation	
		T Euro	T Euro	T Euro	T Euro	T Euro	T Euro	
1.	Intangible assets							
1.	Industrial property rights and similar rights	218	36	-5	94	70	13	
2.	Goodwill	5,572	12,887	-2,039	29	0	10,848	
To	tal intangible assets	5,790	12,923	-2,044	123	70	10,861	
П.	Tangible assets							
1.	Land and buildings, including buildings on third-party land	909	372	-60	18	221	331	
2.	Plant and machinery	1,139	0	0	292	9	0	
3.	Other fixtures and fittings, tools and equipment	906	67	-12	138	50	81	
4.	Payments on account and tangib assets in course of construction	le 0	0	0	0	0	0	
To	tal tangible assets	2,954	439	-72	448	280	412	
Ш.	Financial assets							
1.	Shares in affiliated undertakings	0	0	0	0	0	0	
2.	Loans to affiliated undertakings	0	0	0	0	0	0	
3.	Investments	171	0	0	362	260	0	
4.	Payments on account in respect financial assets	of 0	0	0	0	0	0	
То	tal financial assets	171	0	0	362	260	0	
То	tal fixed assets	8,915	13,362	-2,116	933	610	11,273	

# 2002

Amortization/Depreciation								al costs
Status	Status	Exchange	Additions	Retire-	retirements	Status	Status	
31.12.2002	01.01.2002	differences		ments	on the decon- solidation	31.12.2002	31.12.2002	31.12.2001
					Solidation			
T Euro	T Euro	T Euro	T Euro	T Euro	T Euro	T Euro	T Euro	T Euro
260	99	0	69	51	3	114	146	119
5,601	0 694	0 -1,177	16,585	0	10,848	5,254	347	4,878
 5,861	793	-1,177	16,654	51	10,851	5,368	493	4,997
 687	448	-17	272	221	154	328	359	461
1,422	863	0	247	1	0	1,109	313	276
968	536	-2	117	49	15	587	381	370
0	0	0	0	0	0	0	0	0
3,077	1,847	-19	636	271	169	2,024	1,053	1,107
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0								
 273	-102	0	0	0	0	-102	375	273
0	0	0	0	0	0	0	0	0
273	-102	0	0	0	0	-102	375	273
9,211	2,538	-1,196	17,290	322	11,020	7,290	1,921	6,377

## Consolidated Statement of Shareholders' Equity

for the period from 1 January to 31 December 2002

in T Euro	Subscribed capital	Capital reserve	balance sheet profit/loss	Exchange dif- ference (CTA)	Total
Status 01.01.2000	8,900	67,106	497	0	76,503
Exchange difference				-12	-12
Cost of stock exchange					
trading/acquisitions		-114			-114
Result after taxes			3,442		3,442
Status 31.12.2000	8,900	66,992	3,939	-12	79,819
Exchange difference					0
Result after taxes			-8,707	14	-8,693
Status 31.12.2001	8,900	66,992	-4,768	2	71,126
Exchange difference					0
Result after taxes			59,568	-48	-59,616
Status 31.12.2002	8,900	66,992	-64,336	-46	11,510



## Appendix to the 2002 Consolidated Financial Statements

Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne, is a stock corporation (Aktiengesellschaft) under German law. The company is seated in Cologne and has been entered in the local trade register under No. HRB 31022. The consolidated financial statements prepared in compliance with the International Accounting Standards (IAS) and the Group status report both have a discharging effect in accordance with Section 292a HGB (German Commercial Code). The financial statements comply with guideline 83/349/EU.

Due to its quotation at the Neuer Markt (since 1. January 2003: Prime Standard of Deutsche Börse AG), Splendid Medien AG is obliged to prepare its consolidated financial statements in accordance with either the rules of the IAS or the US accountancy regulations (US-GAAP). Splendid Medien AG decided to prepare its consolidated financial statements in accordance with international accounting standards (IAS).

A number of the accounting, valuation and consolidation principles which were employed in the preparation of the consolidated financial statements in accordance with the IAS deviate from German law. Most notably, these deviations occurred with respect to tax losses carried forward as deferred taxes (IAS 12), finance leasing (IAS 17) and self-produced intangible assets (IAS 38). In addition, SIC 17 was applied from the key date of 31 December 1999 onwards. In this context, the net cost of the IPO (cost minus tax expenditure) was offset against the equity capital (capital reserve). A further difference exists with respect to the amortisation of goodwill periods which amount to 20 years (IAS) as opposed to 15 (HGB). On the basis of IAS 35, IAS 22 and IAS 27, Splendid Pictures Holdings, Inc. was already de-consolidated as of 31 December 2002.

In accordance with IAS 39, investments held as current assets were recorded at "fair value". Deferred taxes were formed with respect to temporary differences in the adjustments carried out.

**General information** 

A. General points

B. Foundation and methods employed

Splendid Medien AG's consolidated financial statements for the financial year starting 1 January 2002 and ending 31 December 2002 were prepared in accordance with the guidelines set out by the International Accounting Standards Committee (IASC), London, applicable on the reporting date. The individual financial statements have been prepared according to uniform accounting and valuation principles. The fully consolidated companies also took into consideration the reporting and

valuation principles employed by the parent company. All figures were expressed in thousand Euro (T $\in$ ).

With respect to the classification of the consolidated financial statements, we followed the legal requirements under the HGB (German Commercial Code) and made adjustments in compliance with the interim reporting proposals published by the German stock exchange. Our notes to the financial statements are based on the principles of clarity, comprehensibility and essentiality. The profit and loss account was prepared in accordance with the cost-of-sales accounting format and the cash flow statement in accordance with the indirect method.

The preparation of annual financial statements in compliance with the rules of the IAS requires estimates and assumptions that affect the value of assets, liabilities and financial liabilities as of the balance sheet day as well as the reported income and expenses of the financial year. The actual results may deviate from these estimates and assumptions.

The new IAS 41 (in effect since 1 January 2003) does not apply to the company.

## C. Consolidation principles

Besides the parent company, the consolidated financial statements also include the following subsidiaries:

	Seat		
Affiliated companies			
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	90	
Splendid Pictures Holdings Inc. *)	Delaware, USA	80	
Splendid Pictures Inc. *)	Los Angeles, USA	80	

# 2002

	Seat	Share, in %
Subsidiary of Splendid Pictures, Inc. **)		
In The Shadows, LLC	USA	50
Open Books Productions, LLC	USA	100
U-Boat, LLC	USA	100
Narc, LLC	USA	100
Narc, LLC	Kanada	100
Heavens Pond, LLC	USA	100
Devil and Daniel Webster, LLC	USA	50
Associated undertaking		
Warner Vision Vertriebs GmbH	Hamburg	49

<sup>\*)</sup> de-consolidated at the end of the year under review

\*\*) Splendid Pictures, Inc.'s participation quota

Splendid Film GmbH (100%), Cologne, acquires films on the global market and markets these films predominantly in the German-speaking region.

Polyband Ges. für Bild- und Tonträger mbH & Co. KG (100%), Munich, acquires and produces videos and DVDs for sale in the German-speaking region. Splendid Film and Polyband distribute their video tapes and DVDs via Warner Vision Vertriebs GmbH in Hamburg, a 49-% subsidiary of Splendid. In addition, Warner Vision also distributes videos and DVDs for other companies. ASCOT Medien (100 %) is active in the video and DVD rental business.

eNterActive GmbH (85%), based in Hamburg, prepares concepts for, and develops, digital value added services, such as animation, trailers and DVD and Internet games. The company complements Splendid Medien AG's Internet/New Media segment and, in conjunction with Splendid Synchron GmbH (100%), forms the post-production division. The Splendid Synchron GmbH, which is seated in Cologne, overdubs foreign-language films and TV series and is involved in sound technology processing.

Splendid Pictures Holdings, Inc. (80%) in Delaware/Los Angeles acquires, finances and (co-) produces high-quality TV and cinema films and markets them internationally.

Splendid Television, LLC. (90 %), New York, distributes TV films and series worldwide.

The affiliated companies are all managed by Splendid Medien AG and were included in the consolidated financial statements using the full consolidation method.

As of 30 November 2002, the share in Splendid Television, LLC. was increased by 10 % (purchase price: US\$ 1.00).

Consolidation of the associated undertaking was based on the at equity method.

Splendid Pictures Holdings, Inc., which was founded by Splendid Medien AG as sole shareholder, was consolidated for the first time as of 1 January 2002. Splendid Medien AG's contribution amounts to  $T \in 4,723$ . During the year under review, within the context of a capital increase by way of a non-cash capital contribution, Splendid Pictures Holdings, Inc. acquired all shares in Cutting Edge Entertainment, Inc. (now: Splendid Pictures, Inc.). In return, the company's former owner received a share quota of 20 % in Splendid Pictures Holdings, Inc.

In the US, Splendid Pictures Holdings, Inc. is active as a producer / co-producer of films that the company distributes worldwide.

At the time of the acquisition of Splendid Pictures, Inc., de-consolidation led to a differential amounting to US\$ 11,370,178.85. Originally, this amount had been written off over a useful life of 20 years, using the straight-line method. In addition, during the year under review, Splendid Pictures received a loan from Splendid Medien AG (T $\in$  11,562) as well as working capital from Splendid Film GmbH (T $\in$  2,887). In a resolution of 28 May 2003, the Management and the Supervisory Board decided to sell the business segment operated by Splendid Pictures Holdings, Inc. during the first six months of 2003. Consequently, Splendid Pictures Holdings Inc. was de-consolidated as of the balance sheet day. In the context of the planned sale, the goodwill, the loan and the working capital, which totalled T $\in$  2,479, were fully written off. Details will be presented in the section entitled "events that took place subsequent to the balance sheet day". The de-consolidation result was based on the following calculation:

# 2002

	TEUR
Balance sheet loss before minority share, Splendid Pictures Holdings, Inc.	30,696
Splendid Medien AG's write-off of Splendid Pictures Holdings, Inc.	4,723
Write-off of Splendid Medien AG's Ioan to Splendid Pictures Holdings, Inc.	11,562
Write-off of Splendid Film GmbH's loan to Splendid Pictures, Inc.	2.479
De-consolidation result	11,932

During the financial year, while Splendid Pictures Holdings, Inc. was part of the Group, this business segment made the following earnings contributions:

	TEUR
Proceeds	7,761
Expenditure	38,457
Result before taxes	30,696
Attributable income tax expenditure	0

The net cash flow attributable to Splendid Pictures Holdings, Inc. during the period under review may be broken down as follows:

	TEUR
Net cash flow from operations	- 312
Net cash flow from investment activities	- 44
Net cash flow from financing activities	337
	- 19

The net book values of Splendid Pictures Holding, Inc.'s assets and debts, which were disposed of due to de-consolidation, amounted to:

	TEUR
Assets	20,455
Debts	53,154

## **Consolidation methods**

In accordance with IAS 22, capital consolidation was based on the net book value method. In this context, the acquisition costs relating to the acquired shares were offset against the net book value of the subsidiary's prorate equity capital as of the acquisition date.

Company	Net book value TEUR	Prorate equity TEUR	Difference TEUR
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	307	29
eNteractive GmbH	45	42	3
	6,024	423	5,601

The asset difference resulting from first-time consolidation in the case of Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG will be written off, using the straight-line method,



as goodwill over 20 years of expected useful life. The goodwill left after consolidation of Splendid Synchron GmbH was fully written off during the financial year 2000. The acquisition costs amounting to T $\in$  57 which arose retroactively in 2000 in the context of the acquisition of ASCOT Medien GmbH were offset against the liability difference that arose in the year 1999, amounting to T $\in$  40, and T $\in$  17 were written off in 2000. The goodwill (T $\in$  29) resulting from the increase in our shares in Splendid Television, International, LLC. and the residual goodwill of Splendid Film GmbH (T $\in$  4,511) were fully written off during the year under review. The goodwill arising in connection with the capital consolidation of the Splendid Pictures Holdings, Inc. sub-group was also fully written off during the year under review. The year under review off during the year under review.

Accounts receivable and payable between the consolidated companies were offset. Sales revenue and other internal income were offset against the subsidiaries' respective expenses. Intercompany profits were eliminated. The cost of the IPO was offset against the equity capital in accordance with SIC 17.

Equity consolidation was based on the associated undertaking's prorate equity. Consolidation of Warner Vision Vertriebs GmbH did not result in any disparate amounts. Within the framework of follow-up consolidation, the associated undertaking's value will be extrapolated.

The financial instruments reported in the balance sheet include cash in hand and cash in bank accounts amounting to  $T \in 3,807$  (prev. year:  $T \in 22,524$ ), accounts receivable ( $T \in 8,313$ , prev. year:  $T \in 9,307$ ) and accounts payable ( $T \in 3,313$ , prev. year:  $T \in 2,118$ ), investments held as current assets ( $T \in 938$ ), other assets and liabilities as well as the fully written off holding in Splendid Pictures Holdings, Inc. The "other assets" item includes other medium-term and long-term assets. The other short-term assets predominantly include tax liabilities, receivables from Management Board members arising in connection with unauthorised overpayments of salaries as well as vendors with a debit balance. Derivative financial instruments do not exist.

#### D. Financial instruments

## E. Currency conversion principles

According to IAS 21 No. 25, the foreign subsidiaries are financially independent foreign sub-units. The following procedure was applied to the conversion of the financial statements prepared by the foreign sub-units in compliance with IAS 21 No. 30:

- both cash and non-cash assets and liabilities were converted at the exchange rate applicable on the key date
- the income and expense items were converted using the average weighted monthly exchange rate

As a result of the financial statements, conversion differences were recorded in the context of:

- the conversion of income and expense items at the average exchange rates of the respective periods and of the assets and liabilities at the key date exchange rates,
- in/decreases in equity capital

These in/decreases were not recorded as income or expenses attributable to the period.

# Notes pertaining to the GroupSplendid Pictures Holdings, Inc. was consolidated for the first time during the year under review.profit and loss accountConsequently, in contrast to the previous year, the individual profit and loss items include the income and expenses generated and incurred by this company.

## (1) Sales revenue

Splendid Medien AG generates sales revenue from the exploitation of film rights and from providing services for the film and TV industry.



The Group companies generate sales revenue from the production and exploitation of films as well as from the exploitation of film rights with respect to certain countries and time periods. On the basis of their exploitation rights, the Group companies, on their part, grant licenses, which are subject to temporal and geographical restrictions, to clients worldwide. The sales revenue is realised at the moment the contract is performed in favour of the licensee, provided that the Group companies have essentially fulfilled their contractual duties.

In the German-speaking region, Splendid Medien AG generates turnover from the exploitation of films in cinemas, on video/DVD and on TV. Turnover generated from cinema films is realised on the date films open at the cinemas. As a rule, video-/DVD- and TV- (pay- and free-TV) exploitation commences six to 24 months after the commencement of regular cinema exploitation. The respective turnover is realised when the respective license exploitation commences.

Sales revenue generated from services provided in the audio and video post-production area are realised after completion and acception.

With respect to the individual segments' sales revenue (business segments and regions), we would like to refer you to the information presented in the context of segmental reporting.

#### (2) Other operating income

During the financial year 2002, the other operating income amounted to  $T \in 671$  (prev. year:  $T \in 14,993$ ). Splendid Pictures Holding, Inc. accounts for  $T \in 343$  of this amount. The following table gives an overview of individual items:

Other operating income	2002 TEUR	2001 TEUR
Proceeds from the sale of IEG	0	14,488
Income from the reduction of value adjustments Income from the retransfer of reserves	346 111	0 147
Others Total	214 671	358 <b>14,993</b>

### (3) Income from the de-consolidation of a subsidiary

The result of the de-consolidation of Splendid Pictures Holdings, Inc. reported under this item may be presented as follows:

	TEUR
Balance sheet loss before minority share, Splendid Pictures Holdings, Inc.	30,696
Splendid Medien AG's write-off of Splendid Pictures Holdings, Inc.	4,723
Write-off of Splendid Medien AG's loan to Splendid Pictures Holding, Inc.	11,562
Write-off of Splendid Film GmbH's loan to Splendid Pictures, Inc.	2,479
De-consolidation result	11,932

## (4) Cost of manufaction

During the financial year 2002, the cost of production associated with the generation of the sales revenue amounted to T $\in$  53,559 (prev. year: T $\in$  67,990). Splendid Pictures Holdings, Inc. accounts for T $\in$  17,062 of this amount. The cost of production includes the following items:

Cost of manufaction	2002	2001
	TEUR	TEUR
Depreciation of film rights	46,299	61,524
License payments / royalties	997	1,230
Cost of material and production	3,726	3,214
Personnel expenses	901	716
Purchased services	835	641
Depreciation of fixed assets and long-term investments	289	220
Artists' fees	475	443
Others	37	2
Total	53,559	67,990



Depreciation of film rights includes special depreciation amounting to  $T \in 13$ , 418 (prev. year:  $T \in 11,183$ ). In addition, the other operating expenses include special depreciation of film rights amounting to  $T \in 3,824$  (prev. year:  $T \in 1,443$ ). Total depreciation of film assets amounted to  $T \in 17,242$  (prev. year:  $T \in 12,726$ ).

## (5) Distribution expenses

During the financial year 2002, the distribution expenses amounted to  $T \in 7,996$  (prev. year:  $T \in 8,197$ ). Splendid Pictures Holdings, Inc. accounts for  $T \in 2,447$  of this amount. The distribution expenses include the items listed in the following table:

Distribution expenses	2002	2001
	TEUR	TEUR
Advertising	3,976	4,330
Sales commission	1,872	2,463
Personnel expenses	1,227	592
GEMA* / film promotion	357	288
Travel expenses	412	200
Depreciation of fixed assets and long-term investments	13	39
Others	139	285
Total	7,996	8,197

\*~PRS

#### (6) Administrative expenses

During the financial year 2002, administrative expenses totalled  $T \in 6,915$  (prev. year:  $T \in 4,599$ ). The increase in costs compared to the previous year was predominantly due to the first-time consolidation of Splendid Pictures Holdings Inc. which, adjusted by Group charges, accounted for  $T \in 3,079$  of the administrative expenses. The following table presents a breakdown of this item:

Administrative expenses	2002	2001
	TEUR	TEUR
Legal and consultancy costs	1,880	1,911
Administrative staff expenses	1,857	1,121
Rents, leasing, operating expenses	666	498
Public relations	234	241
Agency costs	860	0
Office expenses, insurance and similar	406	202
Postage, telephone	263	126
General shareholders' meeting	60	191
Depreciation of fixed assets and		
long-term investments	403	187
Others	286	122
Total	6,915	4,599

#### (7) Amortisation of goodwill

During the year under review, amortisation of goodwill amounted to  $T \in 16,585$  (prev. year:  $T \in 277$ ). The difference arising from Splendid Medien AG's capital consolidation accounted for  $T \in 4,560$  of this amount.  $T \in 12,025$  result from the fact that the goodwill created at Splendid Pictures Holdings was fully written off. The following table presents the respective amortisation items:

# 2002

Company	Amortisation of goodwill, in T€	
	2002	2001
Splendid Film GmbH	4,511	258
Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	20	19
Splendid Television	29	0
Splendid Pictures Holdings, Inc.	12,025	0
Total	16,585	277

## (8) Other operating expenses

During the financial year 2002, the other operating expenses totalled T $\in$  12,378 (prev. year: T $\in$  20,356). Splendid Pictures Holdings, Inc. accounted for T $\in$  371. The individual items are presented in the following:

Other operating expenses	2002	2001
	TEUR	TEUR
Depreciation of accounts receivable - securities	0	16,630
Depreciation of securities	6,443	0
Depreciation of advance payments on film assets	3,824	1,443
Allocation to the provision for liability risks		
associated with the furnishing of collateral for		
film acquisitions made by Splendid Pictures Inc.	1,600	0
Discount on accounts receivable	1	1,091
Losses on receivables	71	1,026
Others	439	166
Total	12,378	20,356

The "depreciation of securities" item, amounting to  $T \in 6,443$ , includes depreciation of the shares held by Internationalmedia AG, to which this company was entitled as a result of the Initial Entertainment transaction at the end of the financial year 2001 and which were delivered on 2 April 2002. The shares were valued at the key date exchange rate (EUR 0.89 per share).

## (9) Interest income/expenses

The interest income essentially results from the interest rates applying to bank balances. During the year under review, Splendid Pictures Holdings, Inc. accounted for T€ 602 of the interest expenses. The net interest income is composed as follows:

	2002	2001
	TEUR	TEUR
Interest income		
Interest income from bank balances	74	15
	74	15
Interest expenses		
Interest expenses associated with accounts due to banks	1,015	501
Interest expenses associated with other liabilities	7	0
Interest expenses associated with finance leasing liabilities	39	27
Interest expenses associated with leasing business loans	411	89
	1,472	617
Net interest income	-1,398	-602

Interest payments amounted to T $\in$  1,489 (prev. year: T $\in$  569) and interest income amounted to T $\in$  74 (prev. year: T $\in$  15).

### (10) Income/expenses: associated undertakings

This item includes the prorate result of Warner Vision Vertriebs GmbH (T€ 362).



### (11) Currency gains/losses

The currency losses amounting to T€ 2,056 (prev. year: exchange gains: T€ 1,723) predominantly result from Splendid Pictures Holdings, Inc.'s EURO loans.

#### (12) Taxes on income

The taxes on income item consists of corporate income tax and trade tax, including deferred taxes and those foreign input taxes that cannot be offset.

Taxes are composed as follows:

	2002 TEUR	2001 TEUR
Corporate income tax	27	0
Trade tax	25	0
Current tax income from tax loss carryback	-216	-216
Trade tax, previous years	0	0
Corporate income tax, previous years	-379	-5
Foreign input taxes that cannot be offset	18	2
Deferred taxes	6,690	-6,739
	6,165	-6,958

The allowance for deferred tax assets applicable to loss carryforward accounted for T $\in$  6,592 of the deferred taxes, utilisation of the deferred tax assets applicable to loss carryforward accounted for T $\in$  107 and temporary differences for T $\in$  -9.

In accordance with the tax relief act passed during the financial year 2002, the corporate income tax was calculated using a 25 % rate with respect to deferred taxes. Trade tax was recorded at 19 % and the solidarity surcharge at 5.5 % of the corporate income tax rate.

2002 2001 TEUR TEUR Taxes on income, based on a 40 % tax rate (prev. year: 40 %) -21,384 -6,350 Non-offsettable expenses and taxfree income 1,867 -5,911 Amortisation of goodwill 6,634 112 Deviating foreign tax rates 395 -20 Deferred taxes from the year under 12,061 5,250 review that were not reported Allowance for deferred taxes from the 6,592 0 previous year Others 0 -39 Actual tax expenditure 6,165 (prev. year: tax income) -6,958

#### Transition of the gross expenditure can be presented as follows:

#### (13) Net earnings per share

The net earnings per share amounted to EUR - 6.69 (prev. year: EUR – 0.98) and the dividend per share to EUR 0.00 (prev. year: EUR 0.00). The calculation of the net earnings per share was based on 8,900,000 (prev. year: 8,900,000) shares.

Notes pertaining to the consolidated balance sheet

## (1) Liquid funds

The liquid funds (T $\in$  3,807, prev. year: T $\in$  22,524) consist of cash in hand and cash on deposit with credit institutions. They were recorded at nominal value. Bank balances in foreign currencies were converted using the exchange rate as of the balance sheet day.



## (2) Investments held as current assets

This item includes the shares held in IM Internationalmedia AG. The value of the shares was adjusted to the key date price of EUR 0.89 per share. The expenses that arose in connection with this adjustment amounted to  $T \in 6,443$ .

### (3) Receivables, prepayments and accrued income and other short-term assets

Receivables and other assets were recorded at their nominal value as a matter of principle. Appropriate individual valuation adjustment was applied to receivables that involved discernible risks. Noninterest bearing receivables with a residual term of over one year were discounted using a 5.5 % discount rate. Receivables in foreign currencies were valued at the exchange rate applicable as of the cut-off date.

Receivables with a residual term of over one year did not exist on the cut-off date.

The receivables and other assets can be broken down as follows:

	31.12.2002 TEUR	31.12.2001 TEUR
Accounts receivable	8,313	9,307
Tax refund claims	596	1,087
Receivables arising in connection with unauthorised salary overpayments to Management Roard members	132	0
Management Board members		
Other short-term assets	149	7,937
Prepayments and accrued income	25	214
Other medium and long-term assets	0	2,906
	9,215	21,451

The accounts receivable concern receivables from Splendid Pictures Holdings Inc. amounting to  $T \in 14,468$ . As of the balance sheet day, their value was adjusted to  $T \in 427$ . Further receivables, amounting to  $T \in 934$ , are due from Warner Vision Vertriebs GmbH. Excess salary payments are subject to the statutory rate of interest (5 % p.a. above base rate) and are due for repayment immediately. Receivables concerning the provision of securities, which related to the claim for the transfer of shares in IM Internationalmedia AG, Munich, and were reported under last year's 'other short-term assets' item, were settled (shares were delivered). The previous year's medium and long-term assets ( $T \in 0$ , prev. year:  $T \in 2,906$ ) referred to prepayments in the form of working capital that had arisen in connection with the take-over of Cutting Edge Entertainment, Inc., Los Angeles, during the financial year 2002.

#### (4) Inventories

Inventories were valued at acquisition cost, the cost of production or the lower replacement cost as of the balance sheet day.

Composition of inventories:

	31.12.2002 TEUR	31.12.2001 TEUR
Finished goods	476	399
Unfinished goods and services	41	12
	517	411

Finished goods mainly refer to videotapes and DVDs. Unfinished goods and services refer mainly to overdubbing services.

### (5) Fixed assets

The financial year's trend in fixed assets and depreciation has been presented in the "fixed asset" schedule enclosed with the Appendix.



#### (6) Tangible assets

Tangible assets were recorded either at acquisition or production cost minus scheduled depreciation through use. Assets attributable to the company due to finance leasing were capitalised at the cash value of the future leasing payments. The cash values were based on the average interest rates applicable to equivalent bank financing. Tangible asset depreciation is included in the cost of production (T $\in$  289), distribution costs (T $\in$  13) and administrative costs (T $\in$  334).

Tangible asset depreciation was based on the straight-line method. Assets due to finance leasing were written down pro rata temporis using the straight-line method.

Scheduled depreciation of assets not capitalised due to existing leasing contracts were based on the following useful life:

Tenants' conversions	up to 5 years
Furniture and fittings	3 to 10 years

## Leasing relationships

The operating leasing relationships mainly concern leased cars and office equipment. The term of the leasing relationships usually amounts to 3 years. Future liabilities associated with leasing payments have been reported under the 'other financial liabilities' item. The finance leasing relationships concern technical studio equipment. Contracts have a term of between 3 and 5 years.

#### Present value of leasing payments, in T€

1st year	2 to 5 years	over 5 years	Total
210	323	0	533

As of 31 December 2002, assets classified as furniture and fittings amounted to T $\in$  502 (prev. year: T $\in$  483).

### (7) Intangible assets

Intangible assets, which were valued at acquisition cost, refer to purchased software. They are written off over a useful life of 3 years using the straight-line method. Depreciation amounting to  $T \in 69$  was included in the administrative expenses.

#### (8) Financial assets

This item includes shares in non-consolidated holdings (associated undertakings and shares in the fully written off Splendid Pictures Holdings, Inc.).

The share in associated undertakings refers to a 49% holding in Warner Vision Vertriebs GmbH, Hamburg, which has been valued at equity.

## (9) Film rights and advance payments on film rights

Film rights and advance payments on film rights have been reported as a separate item. In the absence of industry-specific regulations under either the HGB or the IAS, valuation was based on general principles. We orientated ourselves on the US-GAAP regulations, most notably SOP 00-2 (Accounting by Producers or Distributors of Films), insofar as these regulations did not contradict the IAS regulations. On this basis, modifications and deviations were applied which created suitable foundations for company-specific valuation. The method applied with respect to the realisation of sales revenue has been presented in the sales revenue section. The applied valuation of our film assets was based on the following principles:

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At the time of the final technical inspection of the film material, the film rights reported under the film asset item are capitalised at acquisition cost while our own productions are reported at the cost of production. Film rights are written down either according to exploitation or to the sale of subrights. In the standard case, whereby we own the full rights, exploitation of film rights in the video rental/video tape distribution trade (incl. DVD) involves a 20 % write-down of the acquisition cost. In this context, in the years 2002 and 2001, the rate recorded with respect to video rental and sale amounted to 10 %. Depreciation amounting to 80 % of the acquisition cost applies to the sale of TV rights. The exploitation of pay-TV rights involves a 10 % write-down which is included in the expenses. With respect to free-TV rights, initial exploitation involves a 49 % write-down of the acquisition cost the cinema exploitation stage amounts to 10 % of the acquisition cost. The same depreciation volume applies to the TV rights exploitation stage.

The recording of the purchased sub-rights in the balance sheet is based on both the management's experience and their assessment of exploitation possibilities even if, in individual cases, contracts specify a different breakdown of the purchase price (according to individual sub-rights). A potential lack of opportunities at the various exploitation stages has been taken into consideration in the form of non-scheduled depreciation. In addition, special features of the license agreements (e.g. long initial exploitation periods) have been taken into account through appropriate adjustments of the depreciation rates.

Beyond prorate periodic depreciation, "impairment tests" are carried out regularly – at the least on each balance sheet day. During the year under review, non-scheduled depreciation amounting to  $T \in 17,242$  (prev. year:  $T \in 12,726$ ) was applied. This depreciation has been included both in the cost of production ( $T \in 13,418$ , prev. year:  $T \in 11,283$ ) and in the other operating expenses item ( $T \in 3,824$ , prev. year:  $T \in 1,443$ ).

## (10) Goodwill

The recorded goodwill (T $\in$  347, prev. year: T $\in$  4,878) arose in connection with capital consolidation. It was recorded at acquisition cost minus scheduled depreciation over a maximum useful life of 20 years.

The asset difference resulting from first-time consolidation of Polyband Gesellschaft für Bild- und Tonträger mbH & Co. Betriebs KG will be written down as goodwill, using the straight-line method, over 20 years of expected useful life. The difference resulting from the consolidation of Splendid Synchron GmbH and ASCOT Medien GmbH was fully written off during the financial year 2000. During the year under review, in the context of the annual "impairment test", non-scheduled depreciation was applied to the goodwill of the following companies: Splendid Film GmbH (T $\in$ 4,511), Splendid Pictures Holdings, Inc. (T $\in$  12,025) and Splendid Television, LLC. (T $\in$  29).

### (11) Deferred taxes

Deferred taxes are formed with respect to the difference between the commercial balance sheet/ consolidated balance sheet result and the consolidated companies' accumulated tax result. The valuation of the future tax reduction claims that are to be capitalised depends on the probability of utilisation in the context of the usefulness of the balances carried forward. These deferred taxes are calculated using estimates based on current tax laws applicable to taxable income generated in the years during which the difference is either reversed or offset.

Deferred taxes include the following items:

	31.12.2002 TEUR	31.12.2001 TEUR
Deferred tax assets		
Losses carried forward	6,633	12,008
Temporary differences	55	9
Sub-total: deferred tax assets	6,688	12,017
Valuation adjustment: deferred tax assets	-6,592	-5,250
Total deferred tax assets	96	6,767



## (12) Liabilities

The liabilities have been accrued at their respective repayment amounts. Liabilities denominated in foreign currencies were valued at the exchange rate applicable on the balance sheet day. The liabilities' residual terms have been presented in the liability schedule.

2002	Amount T€	Thereof over 1 year T€	Collateral provided T€	Туре
		10	10	
Finance leasing	533	323		
Loans, credit institutions	6,506		6,506	Pledging of film rights
Loans, leasing business (AGV)	3,385	2,386	3,385	Pledging of film rights
Accounts payable	3,313			
Advances from customers	1,580			
Other liabilities	331			
	15,648	2,709	9,891	

Liabilities as of 31 December 2002 include liabilities, amounting to T€ 377, which are due to "In The Shadows, LLC" in which Splendid Pictures Holdings, Inc. indirectly holds a 50 % share via its holding in Splendid Pictures, Inc.

2001	Amount T€	Thereof over 1 year T€	Collateral provided T€	Туре
Finance leasing	518	308		
Loans, credit institutions	8,195		8,195	Pledging of film rights
Loans, leasing business (AGV)	5,113	3,385	4,496	Pledging of film rights
Accounts payable	2,118			
Advances from customers	1,023			
Income tax liabilities	282		44	Guarantee
Other liabilities	983			
	18,232	3,693	12,735	

The loan extended by a leasing company refers to a loan in the form of a "sale and lease back" transaction. In this context, secondary exploitation rights (film rights) are serving as collateral. The loan is to be repaid over a 5-year period. Splendid Film GmbH retains the film rights exploitation possibilities. After the five years have expired, the film rights will be returned to Splendid Film in return for the payment of T $\in$  15. The proceeds generated from the sale of the film rights (T $\in$  5,113) were recorded as a loan liability; the respective interest and other administrative expenses affect the result.

## (13) Reserves

Reserves are formed for contingent liabilities and expected losses from pending transactions insofar as their utilisation is more likely to occur than not. Reserves are only formed if they are based



on legal or factual liabilities vis-à-vis third parties. The reserves have been valued on the basis of the amounts necessary to cover the Group's future commitments to pay, discernable risks and contingent liabilities. All reserves are of a short-term nature.

The current year's taxes on income predominantly account for the provisions for taxation, amounting to T $\in$  40 (prev. year: T $\in$  632).

The other reserves include the following items:

Other reserves	2002	2001
	TEUR	TEUR
Commitments arising from license agreements	2,063	2,663
Liability risks arising in connection with the provision of collateral for film acquisitions made		
by Splendid Pictures, Inc.	1,600	0
Legal and consultancy costs	490	676
Film subsidy charges and similar	442	260
Royalties and settlements	58	77
Outstanding interest	26	53
Outstanding vacation	89	50
Returns	173	34
Others	135	104
	5,076	3,917

Reserve schedule in TEUR	Provisions for taxes on income	Other provisions	Total
As at 1 Jan. 2002	632	3,917	4,549
Additions	36	3,013	3,049
Utilisation	301	1,743	2,044
Retransfer	327	111	438
As at 31 Dec. 2002	40	5,076	5,116

## (14) Deferred tax liabilities

The deferred tax liabilities, amounting to T€ 33, result from temporary differences.

#### (15) Interests held by other shareholders

The interests held by other shareholders (T $\in$  -29, prev. year: T $\in$  -7) were recorded, at the time of the respective company's acquisition, on the basis of minority companies' share in the applicable current market value of the assets and debts taken over plus the annually accumulating prorate profit contributions.

## (16) Equity capital

With respect to equity capital development, we refer you to the equity capital schedule enclosed with the Appendix.

As of 31 December 2002, the company's subscribed capital amounted to EUR 8,900,000. The capital stock is divided into 8,900,000 ordinary bearer shares with a nominal value of EUR 1. The basic capital has been fully paid in. All shares have been issued.

#### **Approved capital**

In a resolution of 3 September 1999, the Management Board was authorised to increase the company's capital stock, with the Supervisory Board's approval, once or several times during the peri-



od until 20 September 2003, in return for either cash or non-cash contributions, by up to EUR 3,410,000 (authorised capital II), up to EUR 890,000 (authorised capital II) or up to EUR 150,000 (authorised capital III) by way of issuing new bearer shares with a nominal value of EUR 1 per share. Furthermore, the Management Board was authorised, with the Supervisory Board's approval, to take a decision regarding the exclusion of the shareholders' subscription rights. The exclusion of subscription rights is, however, only admissible in cases whereby peak amounts are offset or companies, or participations therein, are acquired in return for the company's shares, as long as the capital increase in return for a cash contribution does not exceed ten percent of the capital stock and the issue price is not significantly lower than the stock market price (refers only to authorised capital II).

#### Authorised but unissued capital

In a resolution of 20 June 2001, the Management Board was authorised to increase the company's capital stock, with the Supervisory Board's approval, by up to a nominal amount of EUR 890,000 (authorised but unissued capital) by way of issuing new bearer shares with a nominal value of EUR 1 per share. The conditional increase of capital stock exclusively serves to honour subscription rights which were granted within the context of the 2001 share option plan. The Supervisory Board is exclusively responsible for granting subscription rights to Management Board members.

#### Authorisation to repurchase own shares

In a resolution of 20 June 2001, the company was authorised to acquire, for 18 months following the date of the resolution, shares in Splendid Medien AG equivalent to up to 10 % of the capital stock in order to

- introduce the shares at foreign stock exchanges
- enable the company to offer shares in the context of mergers with companies, the acquisition of companies or the acquisition of participations therein
- offer shares to some members of the staff, the Management Board and managing directors of affiliated companies within the framework of the 2001 share option plan or
- call in shares.

Own shares acquired on the basis of an authorisation in accordance with Section 71 Par. 1 No. 8 AktG (Stock Corporation Law) and the other own shares the company has already acquired and still owns may not exceed 10% of the company's capital stock. The authorisation can be exercised either entirely or in instalments, either once or several times, in pursuance of either one or several of the above-mentioned purposes. The shares may be acquired either via the stock exchange or by way of a public offer open to all shareholders. The counter value paid by Splendid Medien AG for the purchase of the shares may not be lower than 25 % below the stock exchange price and may not exceed it by more than 5 % (excluding ancillary acquisition costs). During the financial years 2001 and 2002, the right to repurchase own shares was not utilised.

#### **Capital reserve**

The capital reserve essentially consists of premiums associated with the issue of new shares in 1999, amounting to  $T \in 49$  /  $T \in 69,278$  (the latter figure resulting from the IPO), which were netted out with the costs of the IPO ( $T \in 2,365$ ).

The net earnings per share amounted to EUR -6.69 (prev. year: EUR -0.98). The dividend per share amounted to EUR 0 (prev. year: EUR 0). The net earnings per share were calculated on the basis of 8,900,000 (prev. year: 8,900,000) shares. Since the option rights were not exercised, the earnings were not diluted.

### 2001 share option plan

At present, the IAS do not include any regulations concerning the recording and valuation of share option schemes. Consequently, such schemes do not require special treatment in terms of either the balance sheet or the profit and loss account. Furthermore, it is not obligatory to record the respective amount under personnel expenses in the profit and loss account. Given this back-



ground, Splendid Medien AG merely opted for a presentation of the share option scheme. Some members of the staff, the entire Management Board and managing directors of affiliated companies have been offered the option to acquire bearer share options to purchase a maximum of 890,000 shares in Splendid Medien AG at a nominal value of EUR 1 per share. These options are granted in tranches spread over four years (2001 to 2004).

The respective exercise price to be paid when the share option for the acquisition of a nominal value share in Splendid Medien AG is exercised corresponds to the share's average closing price during the last 30 trading days (at the Frankfurt securities exchange) preceding the date on which the share options are issued and may not be lower than the nominal value of the share to be acquired. A total of 222,494 share options were issued to the Splendid Group's executives and employees on 29 August 2001. By 31 December 2002, no options had been exercised. At the time the first tranche was issued, the exercise price amounted to Euro 3.43.

The term of the issued subscription rights is limited to a maximum of 15 years. The subscription rights may be exercised, for the first time, 2 years after allocation and thereafter over the following 4 years during certain exercise periods and intervals which are dependent upon the achievement of certain performance goals.

Splendid Medien AG's cash flow calculation is based on the indirect method according to which the current profit and loss account is adjusted by the effects of transactions not affecting payments, by the deferral of in- and outflows of funds associated with current business operations in the past and in the future and by income and expense items connected with the cash flow from investment or financing activities.

Since Splendid Pictures Holdings, Inc. was both consolidated for the first time and de-consolidated during the year under review, the company's individual payment flows have been presented in the cash flow statement while the liquid funds at the start and the end of the year have not been included. Notes pertaining to the cash flow statement according to the IAS

#### (1) Cash flow associated with current business activities

The cash flow from current business activities amounted to T€ -833 (prev year: T€ 26,341).

#### (2) Cash flow from investment activities

The cash flow from investment activities, amounting to  $T \in -14,775$  (prev. year:  $T \in -14,437$ ) results from the acquisition of film assets ( $T \in 14,269$ ), tangible assets and intangible assets ( $T \in 548$ ) as well as deposits made in connection with the sale of tangible and intangible assets.

#### (3) Cash flow from financing activities

The cash flow from financing activities, amounting to  $T \in -3,128$  (prev. year:  $T \in 9,286$ ) was mainly due to loans repaid in 2002 ( $T \in -3,417$ ) in conjunction with the taking out of further loans ( $T \in 337$ ).

#### (4) Financial resources

The financial resources amounting to  $T \in 3,807$  (prev. year:  $T \in 22,524$ ) include cheques, cash in hand and cash in bank accounts minus current liabilities with credit institutions.

#### Group segmental reporting

Splendid Medien AG's lines of business include production, licensing transactions, home entertainment and post-production. The individual segments have been defined on the basis of internal reporting. In this context, only those items that are either directly attributable to a particular segment or can be allocated to certain segments on the basis of sensible considerations have been taken into consideration. Inter-segmental income and expenses were eliminated.

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#### Key figures relating to the segments:

2002	Production	License trade	Home Enter- tainment	Post- production	Total	Consoli- dation	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
External sales	7,761	14,544	10,407	1,749	34,461		34,461
Intercompany sales		29	11	876	916	-916	0
Total sales	7,761	14,573	10,418	2,625	35,377	-916	34,461
EBITDA	-2,168	7,500	4,133	393	9,858	-359	9,499
Tax depreciation (TD): film rights	-15,268	-26:836	-4,195		-46,299		-46,299
TD: advance payments on film rights	0	-3,824			-3,824		-3,824
TD: properties and tangible assets	-191	-123	-80	-311	-705		-705
TD: goodwill	-12,025	-4,540	-20		-16,585		-16,585
EBIT	-29,652	-27,823	-162	82	-57,555	-359	-57,914
Financial result						-1,398	-1,398
Result – associated undertaking						362	362
Deprec. of investments held as current assets						-6,443	-6,443
De-consolidation of Splendid Pictures Holdings, Inc.						11,932	11,932
Taxes on income						-6,165	-6,165
Minority shares						58	58
Group result							-59,568
Segmental fixed assets		27	733	687	1,447	474	1,921
Film rights		12,342	3,442		15,784		15,784
Other assets		9,753	3,104	447	13,304	1,269	14,573
Total assets		22,122	7,279	1,134	30,535	1,743	32,278
Total liabilities		16,876	2,298	811	19,985	783	20,768
Investment, film rights	9,068	11,112	3,157		23,337		23,337
Investment, properties and tangible assets	44	46	44	408	542		542
Number of staff	18	12	8	22	60		60
Sales per employee, in T€	431	1,212	1,301	80	574		574

Non-scheduled depreciation of film assets, amounting to  $T \in 13,418$  and of the advance payments on film rights, amounting to  $T \in 3,824$ , refers to the license trade segment.

The production segment consists exclusively of the Splendid Pictures Holdings, Inc. subgroup.

2001	License trade TEUR	Home Enter- tainment TEUR	Post- production TEUR	Total TEUR	Consoli dation TEUR	Total TEUR
External sales	57,657	10,162	1,610	69,429		69,429
Intercompany sales	94	114	728	936	-936	0
Total sales	57,751	10,276	2,338	70,365	-936	69,429
EBITDA	47,098	5,128	-648	51,578		51,578
TD: film rights	-56,757	-4,767		-61,524		-61,524
TD: advance payments on film rights	-1,443			-1,443		-1,443
TD: properties and tangible assets	-151	-65	-230	-446		-446
TD: goodwill	-258	-19		-277		-277
EBIT	-11,511	277	-878	-12,112		-12,112
Financial result					-602	-602
Result – associated undertaking					159	159
IPO – costs					-3,162	-3,162
Taxes on income					6,958	6,958
Minority shares					52	52
Group result						-8,707
Segmental fixed assets	4,544	387	593	5,524	853	6,377
Film rights	36,166	204		36,370		36,370
Other assets	41,214	1,361	241	42,816	8,337	51,153
Total assets	81,924	1,952	834	84,710	9,190	93,900
Total liabilities	19,053	1,063	739	20,855	1,926	22,781
Investment, film rights	13,665	241		13,906		13,906
Investment, properties and tangible assets	223	36	287	546		546
Number of staff	11	7	20	38		38
Sales per employee, in T€	5,242	1,452	80	1,827		1,827



Due to the close links that exists between the individual segments, further segmentation was not considered to be useful. Segmental reporting is essentially based on segmentation according to sales revenue.

Sales revenue according to geographical regions:

Sale revenue	2002	2001
	TEUR	TEUR
Germany	24,900	30,041
Rest of Europe	4,237	7,369
USA	2,987	32,019
Others	2,337	0
Total	34,461	69,429

More than 90 % of the company's assets are located in Germany. The transfer prices applicable to intercompany sales are orientated on market prices (at arm's length principle).

#### **Management Board**

The Management Board consists of the following members:

- Andreas Ralf Klein, Cologne, Director License Trade and Strategic Planning, CEO
- Dr. Thomas Weber, Financial Director, Operative Management of Associated Companies and Investor Relations (until 11 July 2003)
- Alexander Welzhofer, Marketing and Sales Director

The Management Board's remuneration during the financial year 2002 amounted to T€ 695 (prev. year: T€ 425).

During the year 2002, the members of the Management Board did not fulfil any further responsibilities on other supervisory boards or management bodies.

#### **Supervisory Board**

The Supervisory Board consists of the following members:

- Dr. Ralph Drouven, lawyer, Cologne, Chairman; further Supervisory Board mandates: Easyway AG, Gesellschaft f
  ür Biotechnologie, Monheim
- Georg Holschbach, auditor, tax consultant, Pulheim, Deputy Chairman
- James W. Wells, Managing Director, Multithématiques GmbH, Ismaning

The remuneration received by the members of the Supervisory Board during the financial year 2002 amounted to T $\in$  45 (prev. year: T $\in$  45).

#### **Other information**

#### Staff

At the end of the year, the number of staff amounted to:

	2002	2001
Members of the Management Board	3	3
Employees	42	36

During the financial year 2002, total personnel expenses amounted to T $\in$  3.985 (prev. year: T $\in$  2,429).

The 16 members of staff employed by the Splendid Pictures Holdings, Inc. sub-group at the end of the year are included in the personnel expenses. However, they were not included in the staff schedule as of the end of the year.

#### Shareholder structure

On 29 August 2001, a total of 222,494 share options were issued to the Splendid Group's executives and employees. By 31 December 2002, no option had been exercised. The earliest exercise date is 29 August 2003.



On 6 September 2001, Splendid Medien AG's CEO, Andreas R. Klein, transferred 500,000 ordinary bearer shares from his portfolio to two members of the Management Board: Dr. Thomas Weber received 350,000 ordinary bearer shares and Alexander Welzhofer 150,000.

Splendid Medien AG's capital stock as of 31 December 2002 amounted to EUR 8,900,000 and consisted of 8,900,000 ordinary bearer shares.

As of 31 December 2002, the securities portfolio subject to reporting requirements included the following:

	2002			2001		
	Number	Shares	Options	Number	Shares	Options
		in %			in %	
Mgt. Board						
Andreas R. Klein	4,855,129	54.552	0	4,509,079	50.6638	0
Dr. Thomas Weber	350,000	3.9326	33,375	350,000	3.9326	33,375
Alexander Welzhofer	153,060	1.7198	33,375	153,060	1.7198	33,375
Graham King	0	0.0000	0	346,050	3.8882	0
Superv. Board						
Dr. Ralph Drouven	3,060	0.0344	0	3,060	0.0344	0

#### **Relationships with affiliated persons**

Name	Amount in T€	Thereof	Type of	
		outstanding	activity	Settlement
Dr. Drouven				
(Norton Rose Vieregge)	215	3	Consultancy	Acc. to hours
Albert Klein	118	0	Rent.	Acc. to tenancy
			office building	agreement
Albert Klein	59	12	Consultancy	Acc. to contract

#### Other financial obligations

Other financial obligations, in T€:

Type of obligation	Up to 1 year	2 to 5 years	Over 5 years	Total	
Rent	259	643	0	902	
Operating leasing	52	38	0	90	

During the year under review, expenses associated with operating leasing, amounting to T $\in$  37 were entered in the books affecting the result.

The investment-related order commitment amounted to T€ 8,964 (prev. year: T€ 7,141).

#### Contingencies

Bank guarantees, amounting to T€ 69 have been furnished.

#### Events that took place subsequent to the expiry of the financial year

Subsequent to the expiry of the financial year, events took place, which affect the company's business development in 2003. Due to the current difficult financing environment with respect to US film projects, the high liquid fund requirement and unpredictability and difficulties regarding the realisation of international sales, Splendid Medien AG's Management Board is planning to contribute its 80 % share in Splendid Pictures Holdings Inc., to Central Organisation of Technology, Inc. (COT) by way of a contribution in kind. In return, Splendid Medien AG will receive a 1% share in COT. In addition, COT's majority shareholder, North Star Finance and Investment, Inc. (North Star) is to grant Splendid Medien AG the option to increase its share in COT to 50 %. This option may be exercised between the expiry of the third and the tenth year after the conclusion of the contract. The purchase price of the shares to be acquired in this context will be based on COT's fair market value at the time the option is exercised. It may not exceed the prorate amount paid for COT shares by third parties.



Due to the discontinuance of this business segment (independent production of cinema films) as a result of the sale of "Splendid Pictures", the rules of the IAS require Splendid Pictures Holdings, Inc. to be deconsolidated early as 31 December 2002. Consequently, a true and fair view was given of Splendid Medien AG's financial and earnings position.

The original plan at the start of the year 2002 provided for the establishment of independent project development and film production activities via the acquisition of Cutting Edge Entertainment, Inc. In addition, the worldwide distribution of self-produced films was to lead to full exploitation of the entire value chain. The main advantage of this model was the establishment of a film library to which Splendid would hold the global rights and which would generate global income. However, in the course of the last year, it became clear that the production of films was, on the one hand, expensive while, on the other hand, the income from advance sales and the expected further income would, in most cases, not even cover the substantial production and financing costs (except in cases whereby films met with a very good response). In addition, due to the change in the market environment, certain essential new productions could not be realised as planned; this led to substantial liquid fund problems. As a consequence of the decline of the IM Internationalmedia AG share price and in contrast to the original plan, the additional funds to finance Splendid Pictures were no longer available.

This model minimises Splendid Medien AG's financing risk associated with the film production business. However, it prevents the establishment of a film library involving world-wide film copyrights. Furthermore, Splendid Medien AG loses both its influence on the completion of films in progress and the selection and realisation of future productions at Splendid Pictures, Inc. Splendid Pictures Holding, Inc. and its fully owned subsidiary, Splendid Pictures, Inc., intend to conclude a first look/last refusal agreement with Splendid Film GmbH which will have a ten-year term. This agreement relates to all distribution rights to films intended for the German-speaking region (Europe) that are either produced by "Splendid Pictures" or its associated companies, owned by "Splendid Pictures", or to which "Splendid Pictures" holds exploitable rights.

Within the context of the preparations for the sale of "Splendid Pictures", payments were made for the continuation of current business operations and a loan waiver was issued. As far as possible, the consequences of the unwinding of the company have been taken into account in the 2002 balance sheet. The payments made in 2003, amounting to Euro 2.2 million, will not affect expenses before 2003.

During the first quarter, two prominent films were launched in German cinemas.

In January, the successful US comedy, "My Big Fat Greek Wedding" opened in German cinemas. Splendid had acquired the license to this film in 2002. By mid-May, over 2 million German and Austrian cinema-goers had seen the film.

In February, Martin Scorsese's long-awaited film epic, "Gangs of New York" was launched in German cinemas. Although it had received many awards and concluded the Berlinale film festival, the film did not receive the expected audience response. By mid-May, approx. one million cinema-goers in the German-speaking region had watched the film.

As of 11 July 2003, Dr. Thomas Weber has left the Splendid Medien AG's Management Board.

#### Proposal for the appropriation of profits and dividend per share

The Splendid Medien AG Management Board's proposal to the general shareholders' meeting will involve the relinquishment of a dividend for the financial year 2002. The Management Board suggests carrying forward to new account Splendid Medien AG's balance sheet loss amounting to EUR -58,877,932.91 (according to the HGB).

The Splendid Medien AG Management and Supervisory Boards' declaration of conformity regarding the corporate governance codex in accordance with Section 161 AktG has been published on Splendid Medien AG's homepage.

The consolidated financial statements were released for publication by the Management and Supervisory Boards on 16 July 2003.

Cologne, 14 July 2003 The Management Board



### **Auditors' Certificate**

"We have examined the consolidated financial statements of Splendid Medien AG for the fiscal year from January 1 to December 31, 2002, 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 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, earnings position and cash flow during the fiscal year in accordance with International Accounting Standards.

Our audit, which also included the Statement of Group affairs on the group for the fiscal year from January 1 to December 31, 2002, did not give any cause for qualification.

In our opinion, the group Statement of Group affairs, 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 Statement of Group affairs for the fiscal year from January 1 to December 31, 2002 fulfill the German legal requirements for exemption from the obligation to prepare consolidated financial statements and a group Statement of Group affairs".

Cologne, 15 July 2003 BFJM Bachem Fervers Janßen Mehrhoff GmbH Certified Public Accountants

(Dr. Christian Janßen) Auditor (Dipl. Kfm. Franz Meller) Auditor

## <u>Glossarv</u>

#### Acquisition proposal:

List of criteria used at Splendid Medien AG on which investment decisions regarding film assets are based (cp. production proposal).

#### **Basle II agreement:**

The Basle II agreement contains new capital requirement regulations applicable to bank lending. The EU member states are expected to adopt the new directive by 2006.

#### BVV:

Bundesverband Audiovisuelle Medien (Federal Audio-Visual Media Association), Hamburg

#### **Completion bond:**

Completion bonds furnish a completion guarantee for films via insurance. The insurance policy protects both producers and investors against risks such as budget excesses and non-delivery of films. Where necessary, the insurer finishes films at his own expense and may, in return, receive the film rights.

#### Designated sponsor:

The DS is responsible for entering, either in response to market players' enquiries or on his own initiative, binding offers to buy or sell in the electronic order ledger Xetra. Financial institutions may act as designated sponsors for listed equities.

#### Dividend:

Corresponds to the appropriation of earnings, i.e.: distribution of corporate profits among shareholders.

#### **DVD remix:**

Postproduction of the sound format for publication of a film on DVD. Frequently, the sound format is upgraded to Dolby Digital 5.1, i.e. six audio channels.

#### DVFA:

Deutsche Vereinigung für Finanzanalyse und Asset Management (German Financial Analysis and Asset Management Association), Dreiech near Frankfurt.

#### EBIT:

Earnings before interest and tax.

#### EBITDA:

Earnings before interest, tax, depreciation and amortisation.

#### Equity:

The balance sheet equity results from the difference of assets minus all debts.

#### First look deal:

Agreements whereby the supplier makes a certain film / rights buyer either an exclusive offer or makes him an offer him in advance of all other prospective buyers.

#### Fair market value:

Generally, the estimated value for which an investment is being exchanged between the willing buyer and the willing seller on the day of the valuation.

#### Feature film:

full-length motion picture

#### Film library:

Contains all films to which a company holds the right of legal exploitation. Splendid's film library contains more than 700 films.

#### Forecast:

Here: estimates concerning the company's turnover and profit.

#### Free TV:

Free TV programmes that are financed via advertisements. This also includes public TV stations (ARD, ZDF, third channels).

#### **GAP** financing:

The portion of a film's financing for which no advance sales exist as yet.

#### IAS:

International Accounting Standards

#### Independent film producer:

Smaller independent film producer (Independent) such as Splendid Pictures.

# 2002

#### Impairment test:

Assessment whether a film's or license's valuation is still appropriate as of the balance sheet date.

#### Internet TV/web TV:

TV via the Internet, either in real time on the PC monitor or through Internet access via the TV set. TV is accessed either via a web TV box or a modem.

#### ISIN:

International Securities Identification Number, expected to be introduced with binding effect in 2005, will replace the WKN (German Securities Code number).

#### Letter of credit:

In the film business, letters of credit act as an agreement pertaining to the purchase of a film license which the film's buyer issues to the producer.

#### Library:

See film library

#### Liquid funds:

Consist of total cash in hand (liquid funds) plus bank balances available in the short-term (includes also investments held as current assets).

#### Major studios:

Large film studios with global distribution (e.g. 20th Century Fox, Disney, Warner Bros.), (cp. independent producers).

#### Pay or play:

Contractual penalty at the film producer's expense in favour of actors and/or other persons involved that applies if a project is cancelled.

#### Pay TV:

TV programmes consumers can only receive in return for payment (e.g. Premiere).

#### Prime Standard:

New market segment created at the Frankfurt Stock Exchange for securities which fulfil additional reporting requirements besides the minimum legal requirements. Since 1 Jan. 2003, Splendid Medien AG has been listed in the Prime Standard.

#### Production proposal:

List of criteria used at Splendid Medien AG on which investment decisions regarding film assets are based (cp. acquisition proposal).

#### Post production:

Postproduction of films or pieces of music, e.g. adding a soundtrack, mixing, cutting of audio or video material.

#### SOP 00-2:

SOP 00-2 (SOP = Standard Operating Procedure) is a US accounting regulation which shortens the depreciation period applicable to films from 20 years to 10 years. It applies to companies that prepare their accounts in accordance with the US-GAAP.

#### True and fair view:

Balance sheet principle requiring an assessment based either on facts or on prudent estimates.

#### US-GAAP:

General Accepted Accounting Principles, US accountancy standard, comparable to the HGB (German Commercial Code) or the IAS.

#### Video-on-demand:

Process that allows viewers to download films of their choice from a video server at any time in return for a fee. As a rule, the download is done via an Internet access.

#### Web TV/Internet TV:

TV via the Internet, either in real time on the PC monitor or through Internet access via the TV set. TV is accessed either via a web TV box or a modem.

## **Imprint**

### Imprint

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## Company History

1974	Formation of "Splendid Film": initial focus on film license trade
1980	Andreas R. Klein manages the "Sales & Marketing" division
1997	The company's own dubbing studio complex is erected at the company's new location
1998	Start of joint distribution of videos and DVDs for sale with Polyband and Warner Music Internationalisation strategy initiated with investment in Initial Entertainment Group Inc., Santa Monica (IEG): Splendid enters the production business
1999	IPO, quotation at the Neuer Markt stock exchange segment
2000	Acquisition of Polyband, formation of "Enteractive" and "Splendid Television"; co-operation agreement with 20th Fox International, L.A. pertaining to the distribution of Splendid films
2001	Sale of the minority share in the film production company Initial Entertainment Group, Inc, Santa Monica (IEG)
2003	Transfer of the 80% investment in Splendid Pictures Holdings, Inc. to COT, subject to the approval of the general shareholders' meeting

## Financial Calendar

26 Aug. 2003	2003 general shareholders' meeting
	Splendid Medien AG's fourth ordinary shareholders' meeting
29 Aug. 2003	2003 semi-annual report
	- ad hoc and press release on the subject of the first six months' figures of the year 2003 -
	Publication of the interim report for the first six months of 2003
28 Nov. 2003	2003 nine-month report
	- ad hoc and press release on the subject of the first nine months' figures of the year 2003 -
	Publication of the 2003 nine-month report
30 April 2004	Annual report 2003
	– ad hoc and press release on the subject of the 2003 figures –
	Publication of the 2003 management report



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