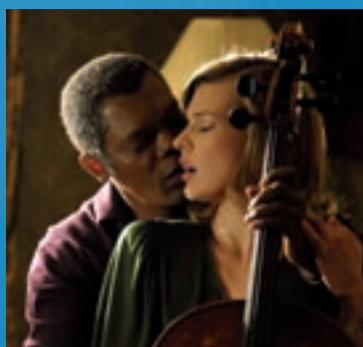


splendid medien AG

Annual Report 2006



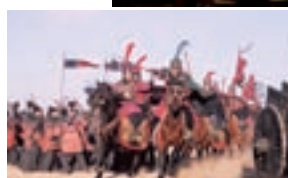
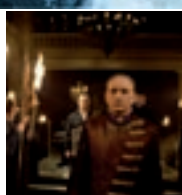
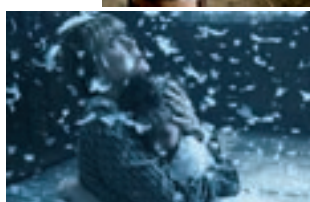
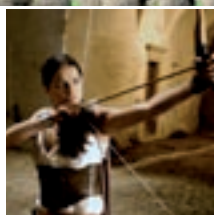
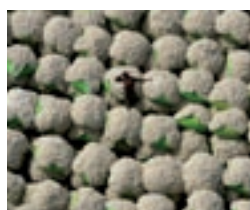
Splendid at a glance

Key data (IAS)

in mill. €	2006	2005
Total sales revenues	24.9	20.3
Licences granted	2.5	2.0
Home Entertainment	19.1	15.6
Post-production	3.3	2.7
EBITDA	7.4	4.9
EBIT*	2.3 (1.5)	1.9 (1.2)
EBT	2.0	1.8
Profit after tax	2.9	2.1
Cash flow from current business activities*	4.2 (5.2)	6.5 (5.5)
Balance sheet total	34.4	25.5
Equity	15.3	12.3
Equity ratio	44.5%	48.4%
Liquid funds as at 31.12.*	10.7	7.7 (6.7)
Liquid funds minus long-term loans*	3.5	7.7 (6.7)
Film rights (incl. advance payments)	10.8	8.1
Investments in film rights	7.6	3.3
Investment ratio (from balance sheet total)	22.1 %	12.9 %
Depreciation of film rights	4.9	3.4
Depreciation ratio (from sales revenues)	19.7%	16.7%
Earnings per share in Euro**	0.30	0.22
Number of employees at the end of the year	66	64

* in brackets: Key figures adjusted by special effects

** Average number of shares in 2006: 9,8 Mio., in 2005: 9,5 Mio.



2	Foreword by the Executive Board
4	Report by the Supervisory Board
8	The value we add
10	The share
12	Corporate governance
18	Group management report
18	Course of business and basic conditions
23	Earnings position
25	Assets and financial position
27	Investments Employees
28	Risk report
31	Forecast
32	Events after the end of the business year
33	Remuneration Report
38	Consolidated financial statements
38	Consolidated balance sheet
40	Consolidated profit and loss account (acc. to IAS)
41	Consolidated cashflow statement (acc. to IAS)
42	Consolidated statement of fixed asset movements (acc. to IAS)
44	Development of equity
45	Appendix
79	Auditor's certificate
80	Imprint/Contact
81	Financial calendar



*f.l.t.r.
Michael Gawenda,
Andreas R. Klein,
Alexander Welzhofer*

Foreword by the Executive Board

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

The 2006 financial year proved to be a highly successful year. We have set the course for future growth and obtained financial resources to propel this growth forwards.

All segments of the company achieved significantly higher sales in the financial year 2006. With 24.9 million Euros and 23 percent respectively total Group turnover and the growth rate clearly surpassed figures for the previous year for the first time since 2000. With 2.3 million Euros, EBIT was at its highest since 1999.

We released significantly more titles in the home entertainment segment in 2006 than in the preceding year. In the license acquisition segment we were able to buy new titles resulting in a 25-percent increase in sales in comparison with the previous year. We saw clear growth in the post-production segment as well and by developing existing partnerships and building new ones we have strengthened our position for the future.

We want to continue along this growth course – in all segments. The means to achieve this will be the initialisation of new business concepts along with a targeted investment policy and finance-orientated management of operations. We will continue to develop our market position in home entertainment, using, in addition to the DVD format, next generation formats (HD-DVD and Blue-Ray) as well the video-on-demand (VoD) and electronic sell-through (EST) exploitation platforms that are growing in significance. We intend to further extend our leading market position in the areas of Asian action films and horror, and gain a foothold in other European markets in addition to the Benelux countries, where we have been a market player since the end of 2006. In addition, we plan to operate our own digital pay-TV channel concentrating on Asian action films from our comprehensive library.

We anticipate percentage growth in sales in the lower two-digit range in the 2007 financial year along with a further increase in pre-tax earnings.

Cologne, March 2007



Andreas R. Klein
Chairman of the Executive Board



Alexander Welzhofer
Director of Marketing/Sales



Michael Gawenda
Director of Finances and Investor Relations

History of the Company

- 1974** Foundation of Splendid Film by Albert E. Klein
- 1980** Andreas R. Klein becomes head of Distribution & Marketing
- 1986** Pacific Video GmbH formed
- 1997** The company has its own complex of synchronisation studios at its new location.
- 1998** Distribution partnership formed with Polyband and Warner Music for cassettes and DVDs
Beginning of global business by investment in the Initial Entertainment Group, Inc. (IEG), Santa Monica
- 1999** Listed on the stock market
- 2000** Acquisition of Polyband, foundation of Interactive and Splendid Television
Co-operation agreement with 20th Fox International, L.A., on distribution of Splendid films
Production of "Traffic", "Dr. T & The Women", "Gangs of New York"
- 2001** Splendid-Production "Traffic" wins four Oscars
Sale of the minority shareholding in the IEG film production company, Santa Monica
- 2002** Golden Globe for Splendid production "James Dean"
Foundation of the Splendid Pictures Holdings film production company, Los Angeles with a majority shareholding
Three Emmy awards for Splendid productions "James Dean" and "Victoria & Albert"
- 2003** Two Golden Globes for Splendid production "Gangs of New York"
Separation from Splendid Pictures Holdings, Inc.
- 2004** Acquisition of majority shareholding in WVG Medien GmbH distribution company, Hamburg
Focus on core business (home entertainment, license trading)
- 2005** Increase in share capital by issue of 889,999 new ordinary bearer shares
- 2006** Conclusion of a long-term financing agreement for € 7.5 million with HSBC Trinkaus & Burkhardt KG, Düsseldorf
Splendid Synchron and FFS Film und Fernseh-Synchron GmbH, Munich/Berlin form a joint venture with its head office in Cologne
Splendid Film begins feature film exploitation in Benelux countries

Report by the Supervisory Board

The Supervisory Board was informed by the Executive Board of all business transactions of significance in the 2006 financial year as well as business and strategic developments that the management supervises and supports by providing advice. Information was given at meetings and in the context of the regular exchange of information and thoughts between the chairman of the Supervisory Board and the chairman of the Executive Board. The Supervisory Board participated in the affairs of the company to the extent required by law, the articles of association and the rules of procedure of the Executive Board and, if necessary, adopted resolutions on such affairs.

The reports written by the Executive Board kept the Supervisory Board informed on a regular basis on the course of business transactions, strategic developments, sales, earnings and liquidity as well as the planning of Splendid Medien AG and its portfolio companies. It was therefore fully in a position to discharge its obligations under the law and the articles of association in the 2006 financial year. The Supervisory Board did not set up any special committees.

Changes in the Executive Board

The Director of Finances, Mr. Frank Preuss, left the company on 30.06.2006. The Supervisory Board adopted a resolution on 22.06.2006 to appoint

Mr. Michael Gawenda as the new Directors of Finances of Splendid Medien AG with effect from 01.07.2006.

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary meetings in the 2006 financial year. The Executive Board gave a detailed report of business activities in the first few months of 2006 at the first meeting, which took place on 27.03.2006. In particular, the risks and opportunities in the DVD segment were discussed. In connection with this, there was also discussion of the possibilities that online marketing of products of the Splendid Group would offer in the future. The Executive Board and the Supervisory Board agreed that the strategic options would have to be studied in detail to enable the company to react to developments on the market quickly. The Executive Board presented its planning for the further expansion of international distribution of the Ben & Bella product area. This planning was studied by the Supervisory Board and given its approval. Furthermore, the Executive Board described the progress to date in negotiations with HSBC Trinkaus & Burkhardt on mezzanine financing. Following discussions on the annual financial statements and the consolidated financial statements, the agenda for the General Shareholders' Meeting was drawn up by the Executive Board and the Supervisory Board jointly. A resolution on the royalties and bonuses due to the members of the Executive Board for the 2005 financial year was adopted by the Supervisory Board.

The subject of anticipated sales and results of Splendid Film GmbH was discussed by the Supervisory Board at the meeting on 29.05.2006, which was continued on 30.05.2006. The Executive Board reported on investments that had been substantially increased in the license acquisition segment. The Executive Board also reported that a possibility was emerging for Splendid Medien GmbH to expand its distribution activities to the Benelux countries. As business developments had on the whole been positive and the agreement on mezzanine financing had since been concluded with HSBC Trinkaus & Burkhardt, the Executive Board and the Supervisory Board felt it was necessary to examine the question of further financing critically. The subject matter of the internal audit was set by the Executive Board and the Supervisory Board by mutual agreement. The consulting services provided in 2005 and the remuneration paid for these to CMS Hasche Sigle were approved by the Supervisory Board in view of the fact that Dr Ralph Drouven, who is a member of the Supervisory Board, was one of the partners in this firm. In view of the death of the former Director of Finances of Splendid Medien AG, Dr Thomas Weber, a resolution was adopted by the Executive Board and the Supervisory Board to remove the reference to approval originally to be on the agenda of the General Shareholders' Meeting.

The meeting on 05.09.2006 was dominated by a lengthy discussion on the impending conclusions of contracts, in particular with Encyclopaedia Britannica on the distribution of the Ben & Bella product in Asian countries and further partnerships associated with this. A further topic was the planned joint venture with FFS Film- & Fernseh-Synchron GmbH. The Executive Board and the Supervisory Board agreed that such a joint venture was an opportunity for Splendid Medien AG to significantly expand the synchronisation segment. The Executive Board reported on the insurance situation of the Splendid Group and the optimisation of the cost structure in this area. On the question of the efficiency review of the Supervisory Board prescribed by the Corporate Governance Code the Supervisory Board members agreed, as they had the previous year, that it would not be necessary to call in outside help.

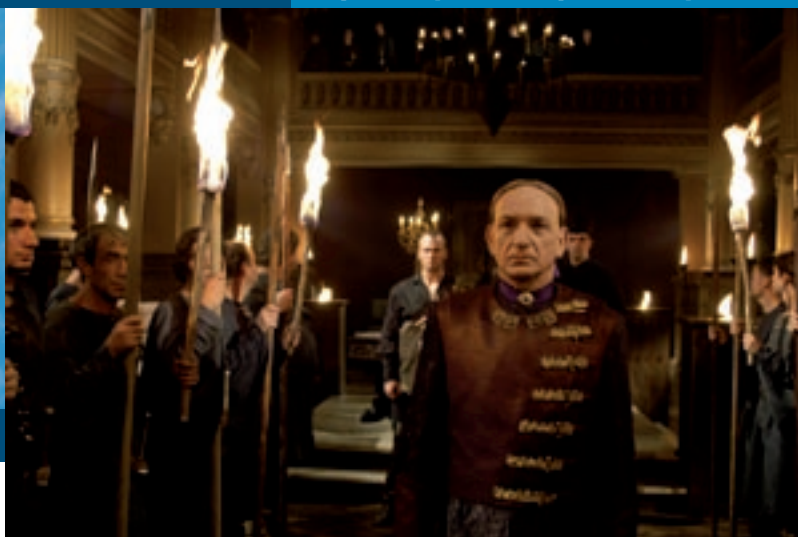
The efficiency review was then carried out by the Supervisory Board itself at the meeting held on 14.11.2006. The basis was formed by catalogues of questions published that had been compiled by independent third parties. The Supervisory Board came to the conclusion that it discharged its responsibilities efficiently and that additional measures were not required. The development of business at the various portfolio companies of Splendid Medien AG in the 2006 financial year was discussed with the Executive Board. This was followed by a discussion between the Supervisory

Board and the Executive Board as to which business segments Polyband GmbH was to focus on in the future and how the substantial business potential of Enteractive GmbH could be used to a greater extent. The online marketing of products as well as the setting up of new distribution channels were again the subject of lengthy discussions. The various strategic options were outlined by the Executive Board. The Executive Board and the Supervisory Board subsequently agreed that the decision on the further strategic direction to be taken in this area should not be taken until further observation of the market in 2007. The Executive Board and the Supervisory Board were also in agreement that it was not necessary to obtain additional financing in view of the positive development of business. The budget for 2007 presented by the Executive Board in written form was studied in detail. In particular, the Supervisory Board discussed the forthcoming investments. The budget was then approved by the Supervisory Board. Following on from this, the success targets for the royalties of the members of the Executive Board were agreed. In conclusion the Supervisory Board dealt with the question as to what extent the existing risk early recognition and management system could be further optimised by the use of SAP software.

Audit of the consolidated financial statements and the annual financial statements

The General Shareholders' meeting chose the auditors BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft, Cologne to audit the financial statements for 2006 at its meeting on 30.05.2006. After being commissioned by the Supervisory Board, BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements of Splendid Medien AG as well as the consolidated financial statements and the status report for the Group and for Splendid Medien AG as at 31.12.2006 on the basis of statutory regulations and issued an unqualified audit certificate.

The annual financial statements and the management report of Splendid Medien AG, the proposal on use of profit made by the Executive Board, the consolidated financial statements and the Group status report as well as the audit reports drawn up by the auditor were sent to the members of the Supervisory Board prior to the balance sheet meeting on 29.03.2007. The representative of the auditor was present at the meeting on 29.03.2007 and reported to the Supervisory Board on the results of the audit that were of significance. The Supervisory Board examined the documents relating to the financial statements at the meeting and discussed their content with the Executive Board at length. The Executive Board and the representative of the auditor answered all questions asked by the

Bloodrayne (Ben Kingsley)

Supervisory Board in this connection. The Supervisory Board saw no reason for any objections to be raised. In particular, the Supervisory Board examined the compulsory data provided by the Executive Board in the status report of Splendid Medien AG pursuant to Section 289 para. 4 of the German Commercial Code and in the Group status report pursuant to Section 315 para. 4 of the German Commercial Code. The Supervisory Board considered the information provided by the Executive Board to be complete and correct and accepted it.

In line with the approval given in the audit reports of the auditor, the Supervisory Board approved the annual financial statements and the consolidated financial statements after having examined them. Hence the annual financial statements of Splendid Medien AG as at 31.12.2006 have been given formal approval. The Supervisory Board has taken note of and accepted the status report and in particular the forecast of the Executive Board for the further development of Splendid Medien AG and the Group. The Supervisory Board agreed to the proposal on the use of profit made by the Executive Board.

Corporate Governance

The Supervisory Board attaches great importance to compliance with the recommendations and suggestions contained in the Corporate Governance Code. Splendid Medien AG only deviates from the prescriptions of this Code on a few points. It is the opinion of the Supervisory Board that these depar-

tures can be justified objectively. The justifications are set out in the joint declaration of conformity by the Executive Board and the Supervisory Board pursuant to Section 161 of the Stock Corporations Act. The declaration of conformity has, as required by the law, been published. It can be found on the web site of Splendid Medien AG and elsewhere.

Risk early recognition system

The risk early recognition system of the Splendid Group has been continuously improved for a number of years. The Executive Board provides the Supervisory Board with reports on the system at regular intervals. Possibilities of making further improvements were also discussed with the Executive Board in the 2006 financial year. It is the view of the Supervisory Board that the system already in place is suitable for recognising risks of the company in sufficient time and taking appropriate action.

The Supervisory Board thanked management and all employees of the Splendid Group for their commitment and achievements in the 2006 financial year.

Cologne, March 2007

Dr Ralph Drouven
Chairman of the Supervisory Board




The value we add

Splendid Medien AG's group companies, in particular Splendid Film GmbH and Polyband Medien GmbH, acquire rights for feature films, TV productions, special interest and children's programmes and exploit these along the entire value added chain (cinema, home entertainment and TV) in German-speaking regions and in the Benelux countries.

Inter alia, the **acquisition of licences** occurs at international film fairs such as AFM in Los Angeles, the Berlinale, the Toronto Film Festival, the Pusan International Film Festival (Korea) and at various festivals in Cannes, including MIPTV, MIPCom und the Cannes Festival. There, buyers of licences sound out already produced films in screenings. Sometimes, however, licences may also be acquired before a film is shot. In cases in which the story and the director, as well as other appraisable qualitative factors signify substantial marketing potential, a decision in favour of acquiring the licence is taken.

Cinema: Selected films are commercially exploited initially in cinemas, provided that the costs of acquisition and marketing as well as expected proceeds from ticket sales justify this course of action. Splendid publishes these films either on its own or in collaboration via outside distributors such as Twentieth Century Fox. The value of a successful film increases, rendering it even more attractive for subsequent commercial exploitation with TV broadcasting stations as well as in the video and DVD segments.

Home Entertainment: Approximately four to six months after the movie has been launched in the cinemas, it is commercially exploited as DVD rental. Splendid brands its movies using the "Splendid Film", "Polyband" and "Kids for Kids" brand labels for the distributive trade. Distribution is carried out by the Splendid subsidiary, WVG Medien GmbH, which has grown into one of the leading independent distribution companies in Germany. The Group



Der Fluch der Betsy Bell (OT: An American Haunting; Donald Sutherland, Rachel Hurd-Wood)

expanded into the Benelux countries at the end of 2006. Titles from the film library of the Splendid Group are released monthly there in the home entertainment segment. The Group works in association with Twentieth Century Fox Home Entertainment BV, Amsterdam. Splendid has entered into a number of co-operation agreements to ensure it is well positioned for the growing Video on Demand (VoD) and Electronic Sell-through (EST) markets. These media enable the customer to watch and in some cases also download audiovisual programmes individually via the telephone/Internet, cable TV network, electricity system and directional radio.

PayTV/FreeTV: Six months after a film's commercial exploitation in the home entertainment segment has commenced, TV exploitation begins. Generally, Pay TV shows the films first, followed by free TV. Splendid sells the licences for a contractually agreed duration (for instance, seven years) and for a contractually agreed number of transmissions

during a given period (for instance, seven transmissions in the course of seven years). At the end of the licence agreement, the film is available for a further commercial exploitation in TV markets (secondary exploitation).

Post-production: Audio and video post-production represents a sensible complement to Splendid Medien AG's core business. Making use of its own capacities in dubbing and soundtrack addition as well as in converting films to DVD format ensures not only a consistently high quality standard for our own films, but is also increasingly demanded by external customers. The movies are dubbed and their soundtracks treated prior to their commercial exploitation in the cinema and the home entertainment market. Step by step, the typically analog film material is being converted to the digital medium, DVD. In addition to design of the menu-driven operation, additional content is generated for the DVD ('Making of...', bonus material, games etc.).



The share

Although Splendid shares got off to a slow start in 2006, they picked up in the first quarter of the year. This trend continued to the beginning of the second quarter and gained further momentum with the announcement of the financing agreement with HSBC Trinkaus & Burkhardt KG, Düsseldorf for 7.5 million Euro. In line with the general market trend, Splendid shares fell as the year progressed. The downward trend lasted throughout the entire third quarter. The beginning of the fourth quarter saw a clear recovery that was further strengthened in particular by the release of the positive figures for the first three quarters. Despite a number of recommendations to purchase them, Splendid shares fell again as 2006 drew to a close. There has been a return to a clear upward trend for Splendid shares in the first quarter of 2007. An index comparison with relevant industry and stock exchange segment indices shows a clearly improved performance again in 2007 so far.

Shareholder Structure

As of 31. December 2006, Splendid Medien AG's share capital was spread over 9,789,999 bearer stocks. The shareholder structure was as follows:

Percentage of total capital

	%
Andreas R. Klein	54.23
Familie Klein GbR	6.30
Free float	39.47

The lock-up periods voluntarily agreed to in the context of supervisory regulations at the time of the IPO have already expired. There are no further agreements. For the securities portfolio subject to registration, please consult the notes.

Der Mythos (OT: The Myth; Jackie Chan)

The Splendid share at a glance

ISIN	DE0007279507
Security Identification Code	727 950
Stock market abbreviation	SPM
Prime Branch	Media
Industry Group	Movies & Entertainment
Trading segment	Prime Standard
Reuters instrument code	SPMG.DE
Authorized Capital	€ 9,789,999.00
Authorized Capital/Shares	9,789,999
Capital Stock	€ 9,789,999.00
Capital Stock/Shares	9,789,999
First trading day	24 September 1999
Designated Sponsor	VEM Aktienbank AG, Munich
IPO activities in 2005	29.08.01 stock options issued to employees of the group. Total no. of units: 222,494 11.05.05 increase in share capital by issue of 889,999 new ordinary bearer shares
Market capitalization (as of 29.12.2006)	€ 12.92 million
Market capitalization (as of 30.03.2007)	€ 18.89 million



Corporate Governance

The Executive Board has – also on behalf of the Supervisory Board - submitted the following report of corporate governance at Splendid Medien AG pursuant to No. 3.10 of the German Corporate Governance Code:

Declaration of conformity

The Executive Board and the Supervisory Board made the declaration of conformity pursuant to Section 161 of the German Stock Corporations Act on 17 November 2005 and 31 January 2007 after Splendid Medien AG met the recommendations of the version of the German Corporate Governance of 12 June 2006 with three provisions.

Co-operation between Executive Board and Supervisory Board

The Executive Board and the Supervisory Board work together closely in the interest of and for the benefit of Splendid Medien AG. The Supervisory Board supervises and advises the Executive Board in its managements of the affairs of the company. The Executive Board provides the Supervisory Board with regular, up to date and comprehensive reports on the course of business, the strategic developments, the status of the Group and all questions relevant to corporate planning. The articles

of association stipulate that business transactions of significance are subject to the consent of the Supervisory Board. Please refer to the report of the Supervisory Board for further details.

Consulting agreements and agreement on the provision of other services between members of the Supervisory Board and the company exist in the case of Dr Ralph Drouven and Mr. Bernd Kucera. Dr Drouven is both a member of the Supervisory Board of our company and a partner in the CMS Hasche Sigle law firm; Mr. Kucera is both a member of the Supervisory Board of our company and a partner in Kucera & Hüttner GmbH. Insofar as CMS Hasche Sigle or Kucera & Hüttner provided consulting services for the company in the year under review, this took place with the consent of the Supervisory Board. No conflicts of interest in the part of members of the Executive Board or Supervisory Board, which have to be reported to the Supervisory Board without delay, occurred.

The term of office of the members of the Supervisory Board will end upon the conclusion of the General Shareholders' Meeting at which a resolution was adopted to approve the actions of the Supervisory Board in the 2009 financial year.

Severance (Director: Christopher Smith)



The company has taken out consequential loss insurance (D&O insurance company) with a suitable retained risk for members of the Executive Board and Supervisory Board of Splendid Medien AG.

Directors' Dealings

Pursuant to Section 15a of the German Securities Trading Act (WpHG), the members of the Executive Board and the Supervisory Board as well as certain employees with executive responsibilities and persons close to them are obliged to disclose the acquisition or sale of shares in Splendid Medien AG and financial instruments based on them insofar as the value of the transactions carried out by the member in question or a person not at arm's length to him reaches or exceeds the figure of € 5,000. Splendid Medien AG will publish these transactions without delay as soon as they become known to it. Furthermore, the information can be seen on the Internet at www.splendidmedien.com/InvestorServices. The following transactions took place in the 2006 financial year:

The following data all relate to:

Issuer: Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne
ISIN DE0007279507

- 28.09.2006** Alexander Welzhofer, Member of the Management Board:
Acquisition of 5,000 shares of Splendid Medien AG
Price in €: 1.17; Volume of transaction in €: 5,850
Stock exchange: Xetra
- 09.06.2006** Alexander Welzhofer, Member of the Management Board:
Acquisition of 4,000 shares of Splendid Medien AG
Price in €: 1.45; Volume of transaction in €: 5,800.00
Stock exchange: Xetra
- 01.06.2006** 01.06.2006 Michael Baur, Member of the Supervisory Board:
Acquisition of 6,500 shares of Splendid Medien AG
Price in €: 1.5754; Volume of transaction in €: 10,240.10
Stock exchange: Frankfurt (5,500 shares), Stuttgart (1,000 shares)
- 30.05.2006** Michael Baur, Member of the Supervisory Board:
Acquisition of 3,500 shares of Splendid Medien AG
Price in €: 1.59; Volume of transaction in €: 5,565.00
Stock exchange: Frankfurt (500 shares), Xetra (3,000 shares)
- 30.05.2006** Alexander Welzhofer, Member of the Management Board:
Acquisition of 12,300 shares of Splendid Medien AG
Price in €: 1.619; Volume of transaction in €: 19,913.70
Stock exchange: Frankfurt

Shares owned by members of the Executive Board and Supervisory Board

Pursuant to No. 6.6 of the German Corporate Governance Code, the Corporate Governance report is required to contain information on ownership of shares or financial instruments based on them by members of the Executive Board or the Supervisory Board if it is directly or indirectly greater than 1 % of the shares issued by the company. Splendid Medien AG shows all shares or financial instruments based on them owned by a member of the Executive Board or the Supervisory Board individually.

Name	Number	Share in %	Options
Management Board			
Andreas R. Klein	5,308,984	54.2286	0
Alexander Welzhofer	28,621	0.2923	33,375
Supervisory Board			
Dr Ralph Drouven	3,060	0.0313	0
Michael Baur	10,000	0.1021	0

Number of shares: 9,789,999 bearer shares

Remuneration Report

Executive Board

The members of the Executive Board are:

- **Andreas R. Klein**, Director of License Trade & Strategic Planning, CEO)
- **Alexander Welzhofer**, Director of Marketing & Distribution; additional board mandate: Federal Association for Audiovisual Media (BVV), Hamburg
- **Michael Gawenda**, Director of Finance & Investor Relations (since 1 July 2006)
- **Frank Preuss**, Director of Finance & Investor Relations (until 30 June 2006)

The Executive Board members receive a contractually agreed fixed pay and performance-related royalties. Royalties depend on sales & yield-related components and other defined performance targets that are newly fixed every year. Benefits in kind (exclusively cars) constitute an additional part of the Executive Board's remuneration.

Alexander Welzhofer was granted 33,375 stock options in the year 2001. These options have not been exercised as yet. On the date when the first tranche was issued, the exercise price was EUR 3.43. The term of the options is 15 years. The subscription

rights may be exercised no earlier than two years after allocation and then – spread over 4 years – within exercise periods and time frames depending on the achievement of performance targets.

The contracts of the members of the Executive Board Andreas R. Klein and Alexander Welzhofer run until 31.12.2008 and to 30.06.2008 in the case of Michael Gawenda. None of the Executive Board members has been promised benefits in the event that his activity is terminated. Nor did any member of the Executive Board receive any benefits or equivalent commitments by a third party with regard to his activity as a Board member in the previous financial year. Pensions are not granted to any of the Board members. Nor do Board members receive any loans by the company.

Managing director's royalties totalling € 40,000, as reserved for Alexander Welzhofer in the year before, were not disbursed in the year under review. The reserve was dissolved with an effect on the result. For this reason the above table shows a negative royalties figure for management activities in the case of Mr. Welzhofer.

In 2006 Alexander Welzhofer, as a minority shareholder in WVG Medien GmbH, has a claim to payment of compensation amounting to € 55,000.

Remuneration of Executive Board 2006

Annual income in €	Fixed pay	Royalties Board	Royalties Managing Director	Benefits in kind	Total
Andreas R. Klein, Chairman	251,058	131,288	0	5,654	388,000
Alexander Welzhofer	244,011	44,182	-20,992	6,537	273,738
Michael Gawenda (since 01.07.2006)	69,352	0	0	4,983	74,335
Frank Preuss (until 30.06.2006)	80,723	70,000	0	2,000	152,723
Total	645,144	245,470	-20,992	19,174	888,796

Supervisory Board

The members of the Supervisory Board are:

- **Dr Ralph Drouven**, lawyer, Cologne, chairman; additional supervisory board mandates: Easyway AG, Gesellschaft für Biotechnologie, Monheim
- **Mr. Bernd Kucera**, auditor/tax consultant, Bonn, deputy chairman; additional supervisory board mandates: AssFINET AG, Grafschaft near Bonn (chairman), pact Finanz AG, Düsseldorf
- **Mr. Michael Baur**, business consultant, Munich

According to Splendid Medien AG's Articles of Association the Supervisory Board members exclusively receive a fixed pay as follows:

Dr Ralph Drouven:	€ 20.000,00
Bernd Kucera:	€ 15.000,00
Michael Baur:	€ 10.000,00

In the year under review Dr Drouven (CMS Hasche Sigle) charged € 61,000 (€ 34,000 affecting expenses) for advisory services. Mr. Kucera (Kucera & Hüttner) charged € 12,000 (€ 12,000 affecting expenses) for payroll accounting for the Splendid Group in the financial year.

Declaration of conformity re the German Corporate Governance Code

The Executive Board and Supervisory Board of Splendid Medien AG adopted the following declaration pursuant to Section 161 of the German Stock Corporations Act on 17 November 2005 and 31 January 2007 respectively:

Declaration

The Executive Board and Supervisory Board of Splendid Medien AG made the last declaration of conformity pursuant to Section 161 of the German Stock Corporations Act on 17 November 2005. The following declaration relates to the period from 17 November 2005 to 24 July and the version of the Code dated 02 June 2005. For the period as of 25 July 2006 the following declaration relates to the requirements of the version of the Code dated 12 June 2006, published in the electronic Federal Gazette (Bundesanzeiger) on 24 July 2006. The Executive Board and Supervisory Board of Splendid Medien AG declare that the recommendations of the "Government Commission for the German Corporate Governance Code" have been/ will be met with the following provisos.

1. Section 5.3.2 Sentence 1

The Supervisory Board shall set up an Audit Committee which, in particular, handles issues of accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement.

The Supervisory Board of Splendid Medien AG did not set up a special Audit Committee.

Reason: The Supervisory Board of Splendid Medien AG consists of three members. In view of this small size of the Supervisory Board it is not necessary to set up any committees.

2. Section 5.4.7 Paragraph 2 Sentence 1

Members of the Supervisory Board shall receive fixed as well as performance-related compensation.

In accordance with Splendid Medien AG's articles of association, the members of the Supervisory Board receive only a fixed compensation in the following amounts:

Dr Ralph Drouven:	€ 20.000
Bernd Kucera:	€ 15.000
Michael Baur:	€ 10.000

Reason: The Supervisory Board possesses only a limited degree of influence over the success of the Company because it does not have any management rights, and cannot cause the Company's management to carry out specific acts. For fulfilling its statutory task of monitoring the Company, The Supervisory Board does not require incentives or rewards in the form of a compensation that is linked to the success of the Company.

3. Section 7.1.2. Sentence 3

The Consolidated Financial Statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.

Splendid Medien AG publishes its Consolidated Financial Statement four months after the end of the financial year and its interim reports 60 days after the end of the reporting period.

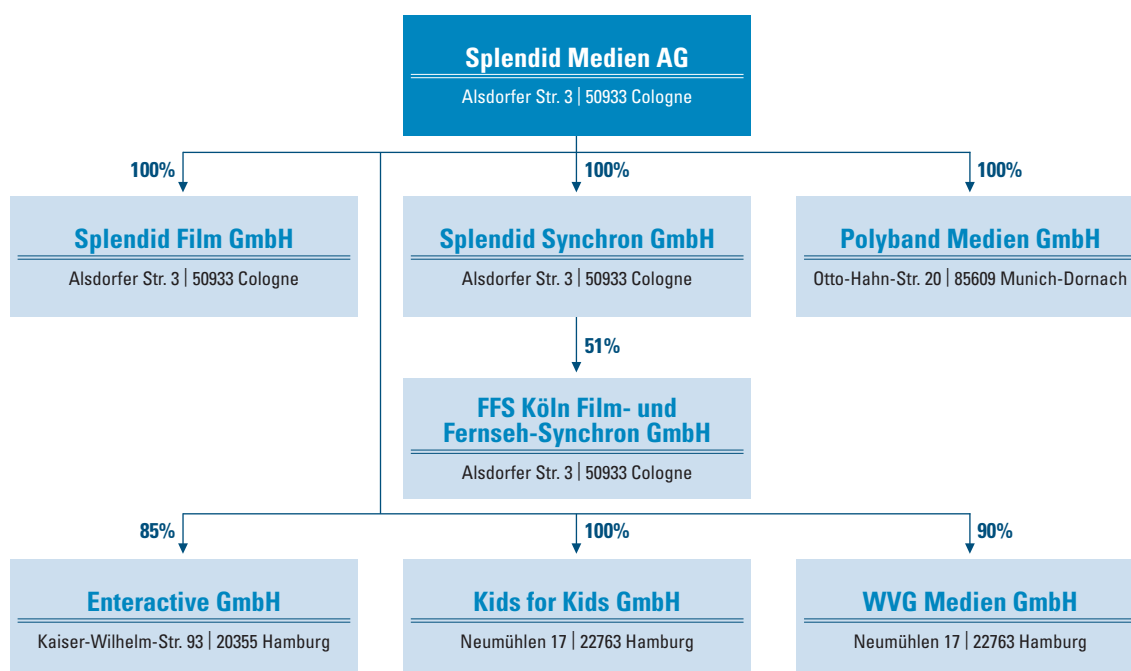
Reason: Publication of the audited Consolidated Financial Statement and due interim reporting within the periods recommended by the Corporate Governance Code would only be possible if the management accounting resources were increased which would involve considerable expenses.

Group Management Report

Course of business and basic conditions

Splendid Medien AG is the holding company for its subsidiaries and investments which cater to the value-added chain in the film business and in the cinema, video, DVD, Pay TV, Free TV and Video-on-Demand (VoD) segments. Six group companies are directly affiliated to the parent company Splendid Medien AG (holding company). FFS Köln, founded in 2006, is affiliated to Splendid Synchron GmbH with a share of 51%. The managing directors of the subsidiaries engaged in the operative business are

wholly responsible for the business success of their companies, consulting with the Executive Board in the process. The managing directors of Interactive GmbH and WVG Medien GmbH hold shares of their own in the companies run by them. Splendid Medien AG, being the parent company, assumes cross-divisional holding functions, such as accounting, strategy development, administrative services, controlling, public relations and investor relations, at group level.



Planet Erde (OT: Planet Earth)



The overall economic development in Germany was very favourable in 2006. According to the Federal Statistical Office, the economic output rose by real 2.5% compared to the year before, the highest growth rate recorded in the German economy since the year 2000. Investments had a major share in this. Economic data suggest that this positive development will continue: the big economic research institutions believe that the upswing in Germany is going to last, at least still in 2007. The growth forecasts for the overall economy range between 1.4 and 2.1 per cent.

The Home Entertainment segment has seen a new record high in sales. With 100.7 million DVDs sold, sales increased by 2 per cent compared to 2005 (98.7 million). However, the market environment was marked by a strong decline in prices of DVDs offered for purchase. While the average retail price of a DVD had been € 13.39 in the year before, it was only € 12.86 in 2006. Those especially affected were the distributors of movies whose products suffered most from the price competition among retailers. For example, some of the top new films such as "Harry Potter and the goblet of fire" or "King Kong" were available for less than € 10 when launched on DVD. As a result total sales

of the Home Entertainment segment in Germany dropped to € 1,591 (previous year: 1,686) billion in 2006.

The TV year 2006 very much bore the imprint of the big sports events (football world championships and Olympic Games). Those who obviously profited most were ARD and ZDF, the two big public TV channels, which achieved the highest ratings of all in the relevant advertising target groups of the 14 to 49 year olds, followed by the RTL broadcasting group and the ProSiebenSat.1 group. Experts expect that TV advertising will increase by an annual average of 2.2 per cent in the coming years. TV advertising expenditures are assumed to grow from € 3.9 billion in 2005 to € 4.4 billion in 2010.

The German cinema market slightly recovered after years of decline. While the positive figures in 2006 cannot conceal the fact that this market is still trying hard to catch up on the year 2004, the 9.6% growth in turnover (up from € 720.1 million to € 789.3 million) with a 7.9% rise in the number of visitors (up from 121.3 million to 130.9 million) nonetheless clearly surpassed expectations. For the coming years experts assume average annual growth rates at a level of 4.2% in cinema revenues.



Fragile (OT: Frágiles; Calista Flockhard)

The market for audio-visual postproduction is gaining more and more importance in Germany, as is not least evidenced by a growing number of mergers and reorganisations. In 2006 Berliner Synchron AG, one of the most important market participants, was quoted on the stock exchange for the first time. Splendid Synchron GmbH, FFS Film- & Fernseh-Synchron GmbH and Arena Film Synchron GmbH & Co. KG and a total of 20 additional partners, representing on aggregate some 80% of turnover in this industry, jointly founded the Verband Deutscher Synchronproduzenten (association of German producers of dubbed film versions), which will protect their common interests on this market in the future.

In the financial year 2006 the Splendid Group generated sales revenues totalling € 24.9 (previous year: 20.3) million. Thus the Group's performance surpassed its own expectations and improved on the year before by 22.7%. The top-selling fourth quarter of 2006 alone contributed a turnover of € 7.2 (previous year: 5.2) million. The growth is primarily attributable to the company's intensified investment activities, in particular after the finalisation of a long-term financing agreement with HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T. Mezzanine II Fund) over an amount of € 7.5 million. Earnings before interest and taxes (EBIT) saw a substantial rise by 21.1% to € 2.3 (previous year: 1.9) million in the last business year. Consolidated profits after

tax increased by 38.1% to € 2.9 (previous year: 2.1) million. The most important business segment was "Home Entertainment". Its 76.9% share in total sales revenues remained almost constant in the period under review, compared to the year before (76.6%). Also the revenue shares of the other two business segments showed little changes on the year before, with 13.0% (previous year: 13.3%) in the "post production" segment and 10.1% (10.1%) in the "License Trade" segment. Sales in both segments substantially increased thanks to the good business development. In the License Trade segment, where greater investments are bound to have an impact on the turnover and profit situation, especially from 2007 onwards, it has been possible to lay a solid foundation for future growth.

The "Home Entertainment" segment generated sales revenues totalling € 19.1 (previous year: 15.6) million. Sales thus expanded by 22.4% compared to the year before.

In this business line a share of € 7.2 (previous year: 5.3) million is contributed by Splendid Film and additional € 8.8 (previous year: 7.7) million by Polyband. The contribution to sales made by Kids for Kids roughly totalled € 1.2 (previous year: 1.0) million. WVG Medien was again able to substantially increase its share in sales up from € 1.5 to € 1.9 million in the period under review. The growth in turnover compared to the year before is attributable to the increased number of title releases in the

2006 financial year. The programme mainly comprised Asian action films and horror films of the Splendid label, Special Interest topics (high-quality documentaries about nature or history, as well as wellness and fitness programmes), TV programmes (e.g. the telenovela "Verliebt in Berlin") and family and children's programmes. The Splendid Group is marketing the DVDs of its labels Splendid and Polyband and the products of Kids for Kids via its distribution subsidiary WVG Medien. The latter has close contacts to large chain department stores, specialist distributors and other retail trade companies. In addition, WVG distributes the titles of what are now 24 distribution partners, thus creating synergies in terms of their market position and know-how. In the past financial year WVG was able to strengthen its market position by an average of 1.8 per cent, up from 1.2 per cent in the year before. In the last quarter alone, WVG even reached market share rates of 3% , thus gaining a foothold among the major independent companies in the Home Entertainment segment. The production and physical distribution of DVDs is ensured by optimal media production, Röbel, a company of the edel music Group.

Special successes from the Splendid Film library were the new releases "The Myth" with Jackie Chan, the adventure spectacle "Bloodrayne", the action thriller "No Good Deed", the psycho thriller "Bittersweet Life" and the Asian sword battle epic

"Sword in the Moon". At the end of the year under review Splendid Label titles were released for the first time in the Benelux countries, too. Meanwhile, Splendid Film holds rights to more than 30 films for Benelux, planning to release two titles per month in Benelux countries in 2007 again. Polyband was able to release more than 1 million DVDs of its titles on the market in the year 2006. The most successful Polyband titles were the seasons of "Verliebt in Berlin", the BBC nature documentation "Planet Erde" (OT: Planet Earth), and the 1969 Rolling Stones live concert "In the Park".

In 2006 the Splendid Group was one of the first holders of rights to enter into an agreement on programme marketing with in2movies, the first German-language Download-to-own-Platform in the Business-to-Business sector. The cooperative deal was launched with a package of initially 100 films. Later in the year the package was expanded. Sales revenues generated in the business year 2006 are not worth mentioning. The cooperation is of strategic importance against the background of future developments in the Home Entertainment segment. Splendid is also conducting negotiations concerning the exploitation of feature films with maxdome, the Video-on-Demand portal of the ProSiebenSat.1 Group. In the light of the cooperative deals already existing with established VoD providers, such as t-online and Arcor, Splendid has thus positioned itself excellently.



Towards the end of the year under review Kids for Kids was able to enter into international distribution agreements holding promise for the future. They agreed with Encyclopaedia Britannica on setting up an instructive Ben & Bella Product, based on existing materials and distributed by an integrated network. Accordingly, the new product is expected to be sold from the fourth quarter of 2007 onwards, initially in Korea. There are options to market it in additional countries, including Japan and China. An agreement on setting up a direct-distribution product for marketing in several South East Asian countries was made with a major Malaysian partner company. All cooperative ventures will generate contributions to turnover and profit from 2007.

Also in the License Trade business, line sales revenues substantially increased in 2006 – by 25% from € 2.0 million in the year before up to € 2.5 million. Such revenues were predominantly generated by sales of TV licenses to television channels. The Splendid Group maintains good contact with all big broadcasting groups and was able to finalise a number of new license agreements with TV broadcasting corporations in the business year 2006, some of them having an impact on turnover from 2007. The agreements signed include contracts with Premiere concerning the second 13-part season of the “Master of Horror” series and other films belong-

ing to the action/horror genre for exploitation on Pay TV. Contracts for films from the comedy and action/horror genres were finalised with ARD (Degeto), ZDF, Vox and ProSieben.

In 2006 the Splendid Group exploited three films in the movie rental business. With „Thumbsucker“ (featuring Keanu Reeves), „Die Erde von oben“ (OT: The Earth from above) – an epic work about the fascinating face of our world, and the horror comedy „Severance“, which received excellent reviews, the Splendid Group sent genre films to cinemas, which – while it is not intended to compare with blockbuster films – have a potential that makes it appear advantageous to release them in cinemas first before marketing them in subsequent stages of exploitation. Cinema exploitation mainly serves the purpose of improving Splendid Group’s marketing opportunities for sales to TV broadcasting stations and for Home Entertainment. After all, especially the big public channels (ARD, ZDF) and private broadcasting groups (RTL, ProSieben, Sat.1) prefer titles that are better known due to their prior cinema release.

Substantially increased turnover was again generated in the post production segment in the financial year 2006. Sales revenues in this line of business rose by 18.5% from € 2.7 million in the previous



Thumbsucker – Bleib wie Du bist! (OT: Thumbsucker; Keanu Reeves, Lou Pucci)

year to € 3.2 million. A share of € 1.8 (previous year 1.4) million was contributed by Enteractive GmbH and a share of € 1.4 (previous year: 1.3) million by Splendid Synchron GmbH. As in the years before, the growth in sales is mainly attributable to the successful widening of business deals with existing customers. The companies aim at further growth in the years to come. Splendid Synchron and FFS Film- und Fernseh-Synchron GmbH, Munich/Berlin, founded the joint subsidiary FFS Köln Film- & Fernseh-Synchron GmbH, domiciled in Cologne, in 2006. FFS Cologne aims to increasingly draw on the creative potentials for large-scale dubbing of cinema and TV productions in the Cologne/Frankfurt region. 51% of the shares in FFS Cologne are held by Splendid Synchron, which consolidates the subsidiary. Enteractive will explore further growth potentials by enlarging its existing international customer base, by relying on its present technological competence with regard to the new formats "Blue-Ray" and "HD-DVD", and by launching forward-looking projects in the development and marketing of interactive DVDs.

Earnings position

The Splendid Group was able to clearly surpass its own profit expectations in the business year 2006. Earnings before interest and taxes (EBIT) rose by

21.1% up to € 2.3 (previous year: 1.9) million in the past business year. As the special effects of the business year 2005 (€ 0.7 m from dissolution of reserves and liabilities in connection with the legal disputes Gold Circle Films and LHO) and 2006 (€ 0.8 m € from dissolution of reserves for certain license obligations and liability risks) are fairly similar in scope, it is possible to compare the results achieved. The adjusted EBIT in financial year 2006, totalling € 1.5 million, exceeded the comparative figure in the year before (€ 1.2 million). As in the year before, the EBIT margin reached 9.2% of turnover. Earnings before interest, taxes and depreciation (EBITDA) likewise increased substantially from € 4.9 million to € 7.4 million. The EBT generated totalled € 2.0 (previous year: 1.8) million. In the overall result, account is also taken of interest expenses incurred by recourse to a long term financing agreement with HSBC Trinkaus & Burkhardt KG, Düsseldorf (H.E.A.T. Mezzanine II Fund). Even clearer was the increase in consolidated profits after tax compared with the previous year to a total of € 2.9 million, representing a growth rate of 38.1%. The tax amount for the fiscal year results mainly from the revaluation of deferred taxes on tax loss carry-forwards.



No Good Deed (Samuel L. Jackson, Milla Jovovich)

Production costs totalled € 16.0 (previous year: 12.5) million. The ratio between productions costs and sales was roughly 64.3% in 2006 (previous year: 61.5%). Among the biggest items were depreciation of film assets in an amount of € 4.9 (previous year: 3.4) million, expenditures on purchased services (e.g. production of film copies) totalling € 6.1 (previous year: 4.8) million, and expenditures on licenses and royalties totalling € 2.1 (previous year: 1.8) million. The increase of production costs was caused by a larger number of title exploitations compared to the year before, both in the Home Entertainment and the License Trade segments. Depreciation of film assets alone largely contributed to the risen production costs. The rate of depreciation on film assets equalled roughly 19.3 (previous year: 16.7) %. The increase in comparison to the year before can be explained by the larger number of new titles exploited in 2006 at higher acquisition costs compared to the year before.

Distribution expenses, amounting to € 4.4 (previous year: 4.0) million, were mainly composed of advertising expenses totalling € 1.8 (previous year: 1.7) million, personnel expenses totalling € 1.0 (previous year: 1.2) million and costs associated with Gema/film promotion, totalling € 0.6 (previous year: 0.5) million. The increase in distribution expenses compared to the year before is attributable to a larger number of title releases in the Home Entertainment and Cinema segments. Personnel expenses in the distribution sector were reduced compared to the year before. Compared to sales, distribution expenses decreased from 19.7 to 17.6%. This is essentially attributable to the economies of scale triggered by an increased number of title releases in the year under review.

Compared to the year before, general administrative expenses were reduced from € 3.9 to 3.6 million. Especially the cost of advisory services dropped by 50% from € 0.8 down to 0.4 million.

Assets and financial position

in k€	2006	2005
Balance sheet total	34.4	25.5
Equity capital	15.3	12.3
Film assets, total	10.8	8.1
Investments in film assets	7.6	3.3
Depreciation of film assets	4.9	3.4
Liquid funds*	10.7	7.7 (6.7)
Liquid funds, minus long-term loans*	3.5	7.7 (6.7)
Cash flow from current business activities*	4.2 (5.2)	6.5 (5.5)

* ratio adjusted by special effects

In the past business year the Group's balance sheet total climbed from € 25.5 to 34.4 million.

Compared to the year before, short-term assets increased from € 14.5 to 19.6 million. In this context, especially liquid funds saw a significant rise from € 7.7 million (€ 6.7 million after deduction of a payment received by mistake, which was retransferred only after the balance-sheet date) up to € 10.7 million. The Group's financial position, measured by the ratio liquid funds minus long-term loans, totals € 3.5 million in 2006 (previous year: € 7.7 million, adjusted: 6.7 million).

Compared to the year before, accounts receivable for goods and services increased from € 5.2 to 6.0 million and inventories increased from € 1.0 to 1.5 million. The growth of both items is due to a stimulation of business activity, especially in the Home Entertainment segment (sales of DVDs to retailers). As per the balance sheet date, medium

and long-term assets, totalling € 14.8 million, likewise substantially exceeded the € 11.0 million reported in the year before. What should be specially emphasised in this context is the increase in the items "film rights" and "advance payments on film rights" from € 8.1 to 10.8 million, on aggregate. Such increase is attributable to wider investments into film assets compared to the year before.

Short-term liabilities fell from € 13.1 to 11.8 million in the period under review, in particular due to the reduction of reserves from € 6.2 to 4.9 million. Under a composition arrangement with Fireman's Fund Insurance Company ("Fireman's Fund") in connection with the film "U-Boat", produced by a former subsidiary of Splendid Medien AG (the company reported on this in the Group Status Report 2005 and the quarterly report I/2006), the company required an amount of € 0.3 million. Thus only parts of the reserves were actually used. The positive outcome of the settlement with Fireman's Fund enabled the



Splendid Group to dissolve an amount of € 0.1 million. In the period under review accounts payable climbed from € 3.5 to 4.5 million. They essentially consist of accounts payable to distribution partners. The item "other short-term liabilities" fell from € 2.1 to 0.9 million. The reduction is essentially due to an outflow of short-term liabilities to a service provider at a level of € 1.0.

Medium and long-term liabilities increased from € 0.1 to 7.4 million. This increase was caused by a long-term financing agreement in the amount of € 7.5 million, realised in April 2006. The amount, taking into account a discount granted, was reported under the item "long-term loans". The long-term loan has a term of seven years. The discount is spread according to the effective annual yield; the effective interest rate is set at 8.7%.

Equity capital increased in particular on account of the Group's annual surplus from € 12.3 to 15.3 million. The equity ratio is 44.5 (previous year 48.4) per cent.

The cash flow from the Group's current business activity changed from € 6.5 to 4.2 million. Cash flow was mainly influenced by the increase in inventories and accounts receivable for goods and

services, totalling € 1.8 million. These movements were caused by the stimulation of business activity, notably in the Home Entertainment segment (sales of DVDs to retailers). Adjusted by the retransfer of a payment received by mistake at the end of 2005, the cash flow from current business activity amounted to € 5.2 million in 2006. Liquid funds totalling € 7.6 (previous year: 3.3) million were used for investments into film assets. The cash flow from financing activity totalled € 6.6 (previous year: -0.3) million, attributable to a long-term loan raised from HSBC Trinkaus & Burkhardt (H.E.A.T. Mezzanine II Fund) (€ 7.2 million after deduction of a discount) and the repayment of a loan (€ 0.6 million) raised from the leasing company AGV in 2001. The term of the long-term HSBC loan, categorised as "held to maturity", is seven years. It represents a long-term financing agreement bearing 7.933% interest per annum. The discount is spread according to effective annual yield; the effective interest rate is set at 8.7%.

The financing agreement with HSBC Trinkaus & Burkhardt KG (H.E.A.T. Mezzanine II Fund) creates the basis for further investments by the Splendid Group. The Group has a stable financing and liquidity structure and is in a position to honour its payment obligations at any time.



At present deferred taxes on losses carried forward are set at 40%, the rate expected in the long run. A reduction of this tax rate to 30% is being discussed. A change of the tax rate may adversely affect future yield reports.

The Splendid Group has been able to continue the positive business development of the 2006 financial year in the first months of 2007 and expects equivalent positive effects on the development of sales and profits.

Investments

In the financial year 2006 the Group invested € 7.6 (previous year: 3.3) million into film assets – 130% more than in the year before. The titles acquired include the adventure film “Bloodrayne” and its sequel “Bloodrayne II”; the horror comedy “Severance”; the action thriller “No Good Deed” featuring Samuel L. Jackson and Milla Jovovich, the Japanese top productions “Sinking of Japan” and “Dororo”, as well as additional films belonging to the action and horror genre. With “Planet Erde” (OT: Planet Earth) in the Special Interest segment it has been possible to acquire a top product under an Output Deal with the BBC, which was also met with wide interest on television and of which the Group was

able to sell more than 100,000 units at the end of 2006 alone, when the release was launched. In addition, the Simon Wiesenthal Moriah Collection was acquired, a programme of 10 films dealing with Jewish history. The first film “I have never forgotten you” was shown with great success at Berlinale 2007. Further, the music documentations “Glastonbury”, “Beasty Boys” and “Kurt Cobain” have been acquired as Special Interest titles, as well as the new Barbara Becker Fitness series, the predecessor version of which had already been successfully marketed in the past. In the TV segment the ProSieben series “Alles ausser Sex” was acquired. The segment for family and children’s programmes was, for example, extended by rights to the current “Lassie” remake and by additional classics such as “Babar, the elephant” and “Wind in den Weiden” (OT: The Wind in the Willows). If looking at each of the group companies separately, Splendid Film again substantially increased investments in the business year 2006, whereas Polyband’s investments only slightly exceeded those made in the year before. A certain part of the contracts signed in the financial year 2006 will become payment-effective in the financial year 2007.

Employees

As per the end of the year the number of staff totalled 66 (previous year: 64). In 2006 10 staff members were recruited, most of them in product marketing and in the license purchase division. 8 staff members left the company in 2006.

Number of permanent employees in the Group companies

	2006
Splendid Medien AG	6
Splendid Film GmbH	8
Polyband Medien GmbH	7
Splendid Synchron GmbH	11
Interactive GmbH	19
WVG Medien GmbH	15

*Kids for Kids had no permanent employees in the year 2006.

The majority of the Group employees can look back to many years of experience in the industry or employment with the Group. Senior staff, especially the managing directors, maintain close contacts with key customers.

Length of service of employees

	2006
Up to 1 year	11
1–2 years	6
2 to 5 years	16
> 5 years	33

Risk report

As a global player, Splendid Medien AG is exposed to various risks. The Group aims to integrate suitable risk precaution measures into its decisions and business processes and to adjust, develop and optimise such measures on a continuous basis.

Risk assessment places special emphasis on analysing the fields of activity below, as they are directly related to the company's financial, asset and earnings position.

Acquisition and sale of film licenses

In film license acquisitions the focus is on the marketing potential at all value-added stages. The managing directors of the subsidiaries who are responsible for film acquisitions, co-operating with distributors, work out acquisition proposals for this purpose, analysing – in addition to a project-related analysis – also the effects on the profitability and liquidity of the company as a whole in the process. The risk of whether the given film will be to the taste of the audience and thus become an economic success still remains. This applies to all stages of the value-added chain. Regardless of the economic risks, legal risks may ensue from the purchase and sales contracts, which are highly complex in part. For this reason the subsidiaries of Splendid Medien AG engaged in film license acquisitions regularly obtain third-party legal advice.

TV exploitation

A certain amount of profits is generated from selling films to Free TV and Pay TV. Declining advertising proceeds or an insufficient number of subscribers substantially affect the purchase budget of TV channels. The economic situation in the media landscape, especially the changes in modes of payment unilaterally imposed, may thus have negative effects on Splendid Group's financial and earnings position. This risk is limited, however, given the practice of exploiting through several value-added stages.

Product piracy

The film industry – much like the music industry – has been complaining for some time now about the possibilities of illegal downloads from the internet, which have sharply increased as a result of DSL transmission. Also other forms of product piracy, such as the dissemination of illegal DVD copies, are clearly detrimental to the film industry, in particular the DVD segment. Those engaged in this industry have launched a number of initiatives designed to prevent product piracy in the future. Generally, it should be noted that the products of the Group companies are affected by illegal downloads to varying degrees. The products of Polyband GmbH and Kids for Kids GmbH, with their Special Interest and children's programmes, are exposed to a much lower risk than the feature film products

of Splendid Film GmbH. This is mainly attributable to the different target groups of the respective genres. Generally, the economic risk for Splendid Group is to be assessed as low.

Currency risks

Among other countries, the Splendid Group acquires film licenses from the USA and the Far East. Given that these licenses are predominantly exploited in German-speaking regions, exchange rate fluctuations between Euro/Dollar may either have a positive or negative impact on the company's earnings position. The Splendid Group makes its estimates of projects and investments on the basis of planned rates. Any marked difference between actual and planned rates will trigger an examination of suitable security instruments. Rate-fixing measures are only taken in exceptional cases.

Risks arising from non-payment or delayed payment

The Splendid Group exploits most of the licensing rights acquired by it in Home Entertainment and in deals with TV corporations in German-speaking regions. The Group counters risks from non-payment or delayed payment by means of standardised reports. A large portion of receivables for DVDs sold is secured under credit insurance policies of the distribution partner.



Shadowless Sword

Financing

The availability of sufficient capital for the acquisition of film licenses is of major importance to the Group. In the financial year 2006 the Splendid Group agreed on a long-term financing deal, involving € 7.5 million, with HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T. Mezzanine II Fund). Thanks to the positive business trend and the funds received, the Splendid Group has a solid finance and liquidity structure. With a view to continuing the growth strategy pursued, the Executive Board is examining additional financing options. However, the economic stability of Splendid Medien AG is ensured regardless of additional financing agreements.

Key personnel risk

Managers and senior experts at the subsidiaries are a decisive factor for the Group's economic success. A sudden loss of such key personnel may adversely affect business activities of the subsidiaries and the Group. The company responds to this risk by succession and replacement arrangements. Profit-sharing schemes, flat hierarchies and incentive pay models ensure work satisfaction and the loyalty of staff members at the companies.

Legal risks

Splendid Medien AG and its subsidiary Splendid Film GmbH jointly face liability risks arising from the former subsidiary Splendid Pictures, Inc. An equivalent reserve had already been set up at Splendid Film GmbH in the financial year 2002. In the past business year 2006 Splendid Medien AG and Splendid Film AG were involved in a legal dispute with Fireman's Fund Insurance Company ("Fireman's Fund") in connection with the film "U-Boat" produced by "U-Boat LLC", the former indirect subsidiary of Splendid Medien AG. The reason behind the dispute was a claim asserted by Fireman's Fund against Splendid Film GmbH for payment of USD 566,000 in consideration of payments made by Fireman's Fund under the "Completion Bond". In April 2006 the opponents agreed on a composition arrangement requiring Splendid to subsequently pay USD 350,000 to Fireman's Fund. By such arrangement Splendid has assumed the legal position of Fireman's Fund and will thus share in potential future receipts. The residual risks associated with the former subsidiary Splendid Pictures, Inc. had already been reviewed in the year before, also in connection with the composition arrangement. This led to the dissolution of parts of the reserves at Splendid film GmbH. The positive outcome of



the settlement with Fireman's Fund enabled the Splendid Group to dissolve an additional amount of € 0.1 million in 2006. The remaining amount of reserves now totals € 530,000.

Risks of the subsidiaries

Potential risks of the subsidiaries, with an impact on the Group, are identified through a standardised monthly reporting system, by which any differences between targets/actual figures are made known to the Executive Board. In addition, the Supervisory Board is informed about important developments within the Group as part of the monthly reporting system. The Executive Board optimised the existing systems in the year under review.

In the process of a separate evaluation the existing risk insurance portfolio was restructured and optimised so as to reflect the Group's needs in the financial year 2006. Business processes, especially those applied in respect of outgoing invoices and cash transactions, were likewise reviewed.

Forecast

For the next two years, and beyond, the Group aims at growth in all fields of business activity. In the Home Entertainment segment the follow-up formats HD-DVD and Blue-Ray are expected to ensure growing sales. In addition, the digital ex-

ploitation formats in Home Entertainment, such as VoD, electronic sell-through (EST), etc., will gain more and more importance. In the TV License Trade segment continuing digitalisation will produce additional channels that will need film products in competing for advertising income, creating corresponding demand. Also the service divisions will profit from greater demand for additional contents and features.

Splendid Group does not fully rely on any of the two alternative DVD successor formats, but is in a position to provide its films in all playoff formats. In digital exploitation forms in Home Entertainment, such as VoD, EST, etc., the Splendid Group is again well-positioned thanks to cooperative ventures with important market participants. Given that digital exploitation forms represent a young market with numerous providers, it will be important to place own products with a large number of the providers at an early stage. Even if the sales revenues from digital exploitation forms are still marginal, digital film distribution is bound to grow in importance, even explosively so after technical downloading facilities have been further simplified and the consumer is able to use a film on all terminal units in an easy way. At that stage it may be considered to shift the focus away from DVD to the new exploitation formats.



As regards the focus on film genres, the Group has a strong foothold in Special Interest offers in fields such as history, nature, fitness and wellness, in addition to its significant market position in Horror and Asia Action. Also the marketing of children's programmes and TV series have gained importance for the Splendid Group. The Splendid Group is going to invest systematically into these genres and expand its own market position in the coming years, too.

The exploitation of film titles in the Benelux countries, begun in 2006, will be continued. In addition to Asian film contents, other programme contents from Splendid's library will be presented, too. Moreover, the Splendid Group is examining opportunities in TV license trading. The Splendid Group will not set up organisational capacities of its own in Benelux, but pursue marketing activities via existing capacities in Germany and via partners such as Twentieth Century Fox Home Entertainment BV, Amsterdam. The Splendid Group is also exploring distribution and licensing opportunities in other European territories.

The cooperative deals and joint ventures agreed with international partners in connection with the "Ben & Bella" programme in 2006 will ensure sales and profit contributions in the course of the business year 2007.

As regards the TV segment, there will be many new channels and new methods of dissemination in the

years to come. Against this background, TV broadcasters will require a growing number of high-quality programmes to satisfy audiences and advertisers alike. The Splendid Group believes that thanks to its longstanding relations with key customers in TV License Trade it is in a good position to further expand its TV license trading activities. In addition, the Group plans to operate a specialised channel of its own, predominantly with Asian films and TV programmes. In this context, the Splendid Group will initially focus on titles from its own library. If the venture proves a business success, additional programmes will be systematically acquired.

The Group plans the cinema release of additional films next year. The films will be carefully selected, as the Group does not wish to position itself as a classic film distributor. Cinema represents a minor field of activity within the Group's overall portfolio. The Group will select such films currently owned by it under licenses for cinematic exploitation as promise more favourable marketing conditions, taking into account the cost/benefit ratio and future exploitation opportunities.

In the post production segment the Group plans to develop Special Interest contents of its own by means of interactive DVD formats.

For the financial year 2007 the Splendid Group expects percentage growth in sales in the lower two-digit range, associated with further growth in the operative result before taxes.



Bittersweet Life



Events after the end of the business year

At the beginning of the business year 2007 Splendid Medien AG started initial talks specifically concerning the launch of a specialised digital Pay TV channel. Its programme will focus on Asian action films. The Group plans to launch the channel within the course of the second half of the year 2007.

At the beginning of the year 2007 Splendid Medien AG was sued by a former business partner of Splendid Pictures, Inc., asserting claims for bills receivable against the former indirect subsidiary Splendid Pictures, Inc. Having examined the facts of the matter in detail, the Executive Board believes that the legal action will be unsuccessful. This view is based on the comments received from Splendid Medien AG's legal advisers. In the first instance, the legal action against Splendid Medien AG was dismissed by a US court.

Remuneration Report

Executive Board

The members of the Executive Board are:

- **Andreas R. Klein**, Director of License Trade & Strategic Planning, CEO
- **Alexander Welzhofer**, Director of Marketing & Distribution; additional board mandate: Federal Association for Audiovisual Media (BvV), Hamburg
- **Michael Gawenda**, Director of Finance & Investor Relations (since 1 July 2006)
- **Frank Preuss**, Director of Finance & Investor Relations (until 30 June 2006)

The Executive Board members receive a contractually agreed fixed pay and performance-related royalties. Royalties depend on sales & yield-related components and other defined performance targets that are newly fixed every year. Benefits in kind (exclusively cars) constitute an additional part of the Executive Board's remuneration.

Alexander Welzhofer was granted 33,375 stock options in the year 2001. These options have not been exercised as yet. On the date when the first tranche was issued, the exercise price was € 3.43. The term of the options is 15 years. The subscription rights may be exercised no earlier than two years after allocation and then – spread over 4 years – within exercise periods and time frames depending on the achievement of performance targets.

The contracts of the Board members have a term until 31 December 2008 in the cases of Andreas R. Klein and Alexander Welzhofer and until 30 June 2008 in the case of Michael Gawenda.

None of the Executive Board members has been promised benefits in the event that his activity is terminated. Nor has any member of the Executive Board received any benefits or equivalent commitments by a third party with regard to his activity as a Board member in the previous financial year. Pensions are not granted to any of the Board members. Nor do Board members receive any loans by the company.

Remuneration of Executive Board 2006 in €

Annual income

in €	Fixed pay	Royalties Board	Royalties Managing Director	Benefits in kind	Total
Andreas R. Klein (CEO)	251,058	131,288	0	5,654	388,000
Alexander Welzhofer	244,011	44,182	-20,992	6,537	273,738
Michael Gawenda (since 1 July 2006)	69,352	0	0	4,983	74,335
Frank Preuss (until 30 June 2006)	80,723	70,000	0	2,000	152,723
Total	645,144	245,470	-20,992	19,174	888,796

Managing director's royalties totalling € 40,000, as reserved for Alexander Welzhofer in the year before, were not disbursed in the year under review. For this reason the above table reports a negative amount of royalties for Mr. Welzhofer's activity as managing director.

In 2006 Alexander Welzhofer, as a minority shareholder in WVG Medien GmbH, has a claim to payment of compensation amounting to € 55,000.

Supervisory Board

The members of the Supervisory Board are:

- **Dr Ralph Drouven**, lawyer, Cologne, chairman; additional supervisory board mandates: Easyway AG, Gesellschaft für Biotechnologie, Monheim
- **Mr. Bernd Kucera**, auditor/tax consultant, Bonn, deputy chairman; additional supervisory board mandates: AssFINET AG, Gracftschaf bei Bonn (chairman), pact Finanz AG, Düsseldorf
- **Mr. Michael Baur**, business consultant, Munich

According to Splendid Medien AG's Articles of Association the Supervisory Board members exclusively receive a fixed pay as follows:

in €	2006
Dr Ralph Drouven	20,000.00
Bernd Kucera	15,000.00
Michael Baur	10,000.00

In the year under review Dr Drouven (CMS Hasche Sigle) charged € 61,000 for advisory services. Mr. Kucera (Kucera & Hüttner) charged € 12,000 for payroll accounting for the Splendid Group in the financial year (including k€ 12 treated as expenditure).

Reporting re § 315 para. 2 no. 4 HGB (Commercial Code)

Capital and voting rights

As per 31 December 2006 Splendid Medien AG's capital stock totalled € 9,789,999.00, divided into 9,789,999 bearer shares with a nominal value of € 1.00 each. Pursuant to §26 para. 1 of Splendid

Medien AG's Articles of Association each share commands one vote. The Executive Board is not aware of any restrictions affecting voting rights or the transfer of shares, even if such restrictions may arise from agreements between shareholders. The shares do not grant any privileges conferring control powers.

As per the end of the year under review the shareholder structure was as follows:

in €	Number	Shares in %
Andreas R. Klein	5,308,984	54.2286
Familie Klein GbR	617,285	6.3053
Portfolio investments	3,863,730	39.4661

Appointment and dismissal of Executive Board members

Pursuant to § 8 para. 1 of the Articles of Association, the Executive Board of Splendid Medien AG consists of one or more persons. The Supervisory Board may appoint one Executive Board member as Chief Executive Officer. Further, it is possible to appoint alternate Executive Board members; with regard to the company's representation in dealings with third parties the alternate members have the same rights as regular members. At present the Executive Board of Splendid Medien AG is composed of three members. According to § 8 para. 2 of the Articles of Association, the Supervisory Board determines the number of Executive Board members, decides on their appointment and dismissal and on entering into, changing and terminating employment contracts with Executive Board members.

Change of Articles of Association

As a matter of principle, the general meeting of shareholders is competent for any change of the Articles of Association (§ 179 para. 1 sentence 1 AktG [German Stock Corporation Law]). Pursuant to § 22a the Supervisory Board is empowered to resolve changes of the Articles of Association which only relate to their amended version.

Material provisions for the event of a takeover bid

Splendid Medien AG has not agreed on material provisions concerning the event of a change of control. Under the long-term financing agreement with HSBC Trinkaus & Burkhardt, KG, Düsseldorf/H.E.A.T Mezzanine S.A., Luxembourg, a clause concerning a change of control will only take effect if such change of control leads to a worse balance sheet evaluation.

Powers of the Executive Board to issue shares

The Executive Board's powers to issue shares are defined in §5 paragraphs 5 to 7 of the Articles of Association.

Approved Capital

Approved Capital I

By resolution of the general meeting of shareholders on 2 July 2004 the Executive Board was empowered to increase – with the Supervisory Board's consent – the company's capital stock for



a period ending on 20 July 2009 – once or several times against contributions in cash or kind by up to a total of € 3,560,000.00 by issuance of new bearer shares having a nominal value of € 1.00 each (Approved Capital I). The Executive Board was further empowered to decide in each case – with the Supervisory Board's consent – on the exclusion of statutory subscription rights of the shareholders. Please consult Notes for more details.

Approved Capital II/2005

By resolution of the general meeting of shareholders on 6 July 2005 the Executive Board was empowered to increase – with the Supervisory Board's consent – the company's capital stock for a period ending on 1 August 2010 – once or several times against contributions in cash or kind by up to a total of € 978,000.00 by issuance of new bearer shares having a nominal value of € 1.00 each (Approved Capital II/2005). The Executive Board is empowered to decide in each case – with the Supervisory Board's consent – on the exclusion of statutory subscription rights of the shareholders. Please consult Notes for more details.

Conditional Capital

Conditional Capital I

By resolution of the general meeting of shareholders on 20 June 2001 the company's capital stock was conditionally increased by up to nominally € 890,000.00 (Conditional Capital I) by issuance of new bearer shares in the nominal amount of € 1.00 each. The conditional capital increase exclusively serves to honour subscription rights granted under the 2001 Stock Option Plan. Competence for the granting of subscription rights to Executive Board members exclusively lies with the Supervisory Board. Please consult Notes for more details.

Conditional Capital II

By resolution of the general meeting of shareholders on 6 July 2005 the capital stock was conditionally increased by issuance of up to 3,000,000 shares in the nominal amount of € 1.00 each (Conditional Capital II/2005). The conditional capital increase exclusively serves to honour conversion and option rights, which result from convertible and option bonds to be issued by 5 July 2010 according to the relevant resolution passed by the general meeting of shareholders on 6 July 2005. The Executive Board is empowered to determine the additional contents of the stock option rights and the additional details concerning the implementation of the conditional capital increase. Please consult Notes for more details.

Die Erde von oben (OT: The Earth from above)



Authorisation concerning the acquisition and use of own shares

By resolution of the general meeting of shareholders of Splendid Medien AG on 30 May 2006 the Executive Board was authorised to acquire – with the Supervisory Board’s consent – within a period of 18 months of the date of the resolution shares of Splendid Medien AG equalling up to 10% of the capital stock existing as per the date of the resolution. In the process, the shares acquired by virtue of this authorisation, together with other shares held by the company or attributable to the company according to §§ 71a et seq. AktG, must never exceed ten per cent of the capital stock. The authority must not be used for the purpose of trading with own shares. At the election of the Executive Board, obtaining the Supervisory Board’s prior consent, the shares may be acquired via the stock exchange or by means of a public purchase offer addressed to all shareholders or a public request for the submission of sales offers addressed to the shareholders of the company. At the election of the Executive Board, obtaining the Supervisory Board’s prior consent, the acquisition may be effected in a different manner, even by excluding any put option on the shareholders’ part, if the acquisition is transacted as part of a merger with or acquisition of companies, investments in companies or parts thereof or if a package acquisition of at least 1%

of the current capital stock is involved and such acquisition serves a purpose which is primarily in the company’s interest and is suitable and necessary in order to achieve this purpose. The Executive Board is empowered, obtaining the Supervisory Board’s prior consent, to sell shares in Splendid Medien AG acquired by virtue of the above authorisation via the stock exchange or through an offer to all other shareholders and to use the same for any other legally permitted purposes, in particular for initially offering shares of Splendid Medien AG at stock exchanges where they are not admitted for trading as yet, for using them in the context of company mergers or company acquisitions, investments in companies or parts thereof, for selling them to third parties or to all shareholders, as well as for purposes of redemption.

Cologne, this 27 March 2007

Splendid Medien AG
The Executive Board

Andreas R. Klein
Alexander Welzhofer
Michael Gawenda

Consolidated Balance Sheet

Assets

in k€	31.12.2006	31.12.2005
Short-term assets		
Liquid funds	10,727	7,693
Accounts receivable for goods and services	6,040	5,160
Accounts receivable for goods and services (affiliated companies)	0	0
Inventories	1,539	952
Income tax receivables	956	555
Deferred charges and other short-term assets	307	182
Short-term assets, total	19,569	14,542
Medium and long-term assets		
Tangible assets	351	397
Intangible assets	141	129
Financial assets	0	0
Film rights	7,965	5,702
Advance payments made for film rights	2,827	2,372
Goodwill	326	326
Deferred taxes	3,207	2,039
Medium and long-term assets, total	14,817	10,965
Assets, total	34,386	25,507

Equity and liabilities

in k€	31.12.2006	31.12.2005
Short-term liabilities		
Short-term share of finance leasing liabilities	32	66
Short-term loans and long-term share of long-term loans	1	577
Accounts payable	4,543	3,448
Due to affiliated companies	0	0
Advance payments received	605	440
Reserves	4,892	6,158
Earnings-tax liabilities	784	373
Other short-term liabilities	895	2,065
Short-term liabilities, total	11,752	13,127
Medium and long-term liabilities		
Long-term loans	7,223	0
Long-term finance leasing obligations	40	30
Deferred taxes	70	1
Medium and long-term liabilities, total	7,333	31
Equity		
Subscribed capital	9,790	9,790
Capital reserve	66,949	66,951
Balance sheet profit/loss	-61,549	-64,463
Currency differences	0	0
Minority shareholdings	111	71
Total equity	15,301	12,349
Total liabilities	34,386	25,507

Consolidated profit and loss account pursuant to IAS

(Cost of sales accounting format)

in k€	2006	2005
Sales revenues	24,885	20,334
Production costs	-16,000	-12,462
Gross result of sales	8,885	7,872
Distribution costs	-4,396	-4,013
Administrative expenses	-3,600	-3,914
Other operating earnings	1,694	2,306
Other operating expenses	-249	-408
Depreciation of goodwill	0	0
Operating result	2,334	1,843
Interest earnings	209	91
Interest expenses	-493	-127
Earnings / expenses in connection with affiliated companies	0	0
Currency profits/losses	-51	26
Pre-tax earnings (and minority shareholdings)	1,999	1,833
Taxes from income and earnings	942	272
Net income or loss for the year	2,941	2,105
Minority shareholdings	-27	-36
Profit/loss carried forward	-64,463	-66,532
Balance sheet profit/loss	-61,549	-64,463
Result per share (undiluted)	0,30	0,22
Result per share (diluted)	0,30	0,22
Average number of shares in circulation (undiluted)	9,789,999	9,493,333
Average number of shares in circulation (diluted)	9,789,999	9,493,333

Consolidated cash flow account pursuant to IAS

in k€	2006	2005
Consolidated net income before interest and taxes	2,283	1,868
Depreciations of assets	267	352
Write-up/depreciation of film rights	4,875	2,637
Dissolution of Discount	24	0
+/- increase/decrease of short-term reserves	-1,439	-396
-/+ increase/ decrease of inventories, receivables for goods and services as well as other assets not allocable to investment or financing activities	-1,786	2,387
+/- increase/decrease of liabilities from goods and services not allocable to investment or financing activities	477	-301
+ tax payments received	0	700
- taxes paid	-160	-687
+ interest payments received	179	74
- interest paid	-493	-133
Cash flow from current business activities	4,227	6,501
Payments received due to disposal of tangible asset items and intangible asset items	5	4
Payments made for investments in tangible assets and intangible assets	-238	-242
Payments made for investments in film assets	-7,637	-3,329
Payment received as reimbursement of advance payments made	44	0
Cash flow from investment activities	-7,826	-3,567
Payments to minority shareholders/ Aquisition of shares in subsidiaries	-2	0
Payments received from loans taken out	7,200	0
Payments made to service loans	-577	-1,261
Capital increase	0	849
Other changes in value of capital	0	63
Cash flow from investment activities	6,621	-349
Payments leading to changes in financial resources	3,022	2,585
Changes in the consolidated entity	12	-21
Financial resources at the beginning of the period	7,693	5,129
Financial resources at the end of the period	10,727	7,693

Consolidated statement of fixed asset movements (acc. to IAS)

	Acquisition and production costs					
in k€	01.01.2006	Additions	Disposals	Repostings	Disposales – deconsoli- dation	31.12.2006
I. Intangible assets						
1. Industrial property rights and similar rights and values	391	64	0	63	0	518
2. Goodwill	5,590	0	0	0	0	5,590
3. Advance payments	63	0	0	-63	0	0
Total intangible assets	6,044	64	0	0	0	6,108
II. Fixed assets						
1. Properties and buildings including buildings on third-party property	687	11	0	0	0	698
2. Technical equipment and machines	476	55	0	0	0	531
3. Other equipment, office equipment and furniture	811	108	9	0	0	910
4. Equipment under construction and advance payments	0	0	0	0	0	0
Total tangible assets	1,974	174	9	0	0	2,139
III. Financial assets						
1. Shares in affiliated companies	336	0	0	0	0	336
2. Loans to affiliated companies	0	0	0	0	0	0
3. Investments	0	0	0	0	0	0
4. Advance payments re financial assets	0	0	0	0	0	0
Total financial assets	336	0	0	0	0	336
Total assets	8,354	238	9	0	0	8,583

Depreciations						Residual book values	
01.01.2006	Additions	Disposals	Rep postings	Disposals – deconsoli- dation	31.12.2006	31.12.2006	31.12.2005
325	52	0	0	0	377	141	66
5,264	0	0	0	0	5,264	326	326
0	0	0	0	0	0	0	63
5,589	52	0	0	0	5,641	467	455
637	36	0	0	0	673	25	50
337	78	0	0	0	415	116	139
603	101	4	0	0	700	210	208
0	0	0	0	0	0	0	0
1,577	215	4	0	0	1,788	351	397
336	0	0	0	0	336	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
336	0	0	0	0	336	0	0
7,502	267	4	0	0	7,765	818	852

Development of equity

in k€	Subscribed capital	Capital reserve	Balance sheet profit/Balance sheet loss	Currency difference (CTA)	Minority shareholdings	Total
01.01.2005	8,900	66,992	-66,532	-63	35	9,332
Currency difference				63		63
Capital increase	890	-41				849
Consolidated net income for the year			2,069		36	2,105
31.12.2005	9,790	66,951	-64,463	0	71	12,349
Currency difference						0
Result after minority shareholdings					13	13
Offsetting purchased minority shareholdings		-2				-2
Consolidated net income for the year			2,914		27	2,941
31.12.2006	9,790	66,949	-61,549	0	111	15,301

Appendix to the 2006 Consolidated Financial Statements

General information

A. General information

Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne, is a stock corporation (Aktiengesellschaft) under German law. The company is based in Cologne and has been registered in the local trade register under No. HRB 31022. As parent company of a single-tiered group for the purposes of Section 315a HGB (German Commercial Code), Splendid Medien AG has prepared consolidated financial statements in accordance with IFRS.

B. Foundation and methods employed


Splendid Medien AG's consolidated financial statements for the financial year starting 01 January and ending 31 December 2006 have been prepared in accordance with IFRS; all binding IFRS stipulations applicable on or before 31 December 2006 have been observed. All IAS and IFRS provisions resolved and adopted by the EU by the effective date 31 December 2006 and to be applied on a mandatory basis have been observed. The consolidated financial statement thus conforms to the IFRS.

The individual accounts have been prepared in accordance with uniform accounting and valuation principles; the reporting and valuation principles employed by the parent company have also been observed by the subsidiaries. Monetary amounts are stated in terms of thousand euro (k€).

Beginning from the present financial statement, Splendid Medien AG reports accounts receivable from earnings tax, which were previously reported under "deferred charges and other short-term assets," under a separate item. Pursuant to IAS 27.33 the minority shares are reported as part of equity capital. Relevant figures of the year before have been restructured to ensure comparability.

The positions in the balance sheet are sorted by the date they are due; short-term liabilities and short-term assets are due within a period of one year or less.

The profit and loss account is prepared using the cost of sales method and the cash flow statement using the indirect method.



The preparation of annual financial statements in accordance with IFRS stipulations requires that estimates and assumptions be made that influence the values stated for the assets, accounts payable and financial liabilities as of the balance sheet date as well as the income and expenses reported for the financial year. The actual results may deviate from these estimates and assumptions.

Estimates and assumptions which may involve a significant risk in so far as book values need to be substantially adjusted within the next business year are shown below:

The economic success of capitalized film licenses depends on the marketing success in the individual value-added stages. If the assumptions made in this respect prove inaccurate (e.g. because of a change in the taste of audiences), this may lead to reduced value in the following years.

The future usefulness of the estimate concerning capitalized deferred taxes on tax losses carried forward will depend on the company's future ability to generate the positive tax income forecast in a substantiated manner in the corporate budget.

At present deferred taxes on losses carried forward are set at a tax rate of 40%, as expected in the long term. A reduction of this tax rate to 30% is being discussed. Such change of the tax rate – not yet adopted by the legislator – may have adverse effects on future yield reports.

Splendid Medien AG and its subsidiary Splendid Film GmbH jointly face liability risks arising from the former subsidiary Splendid Pictures, Inc. An equivalent reserve had already been set up at Splendid Film GmbH in the business year 2002. The residual risks from this reserve were again reviewed at the end of the year after a composition arrangement made in the course of the business year had been transacted. If the assumptions made in this respect prove to be inaccurate, there may be a need for adjustments to this reserve, which may either have positive or negative effects on the asset, financial and earnings position.

C. Consolidation principles

Beside the parent company, the following subsidiaries were included in the consolidated financial statements:


Affiliated companies Share in %	Seat	Share in %
Splendid Film GmbH	Cologne	100
Splendid Synchron GmbH	Cologne	100
Kids for Kids GmbH	Hamburg	100
Polyband Medien GmbH	Dornach	100
eNterActive GmbH	Hamburg	85
WVG Medien GmbH	Hamburg	90
FFS Köln Film- und Fernseh-Synchron GmbH	Cologne	51

Splendid Film GmbH (100%), Cologne, acquires films on the global market and markets them mainly in the German-language regions.

Polyband Medien GmbH (100%), Dornach, acquires and produces videos and DVDs intended for sale in the German-language regions.

Splendid Film, Polyband and Kids for Kids distribute their videos and DVDs via **WVG Medien GmbH** (90%), Hamburg. In addition, WVG Medien distributes its own range of products, and also distributes videos and DVDs for other companies. Last year WVG Medien GmbH entered into a control and profit transfer agreement with Splendid Medien AG, as controlling company. The compensation arrangement with the minority shareholder, Mr. Alexander Welzhofer, provides for an annual compensation payment of € 55,000.

Kids for Kids GmbH (100%), Hamburg, acquires, produces and markets family-oriented entertainment and edutainment programmes. By a share purchase and transfer agreement dated 14 February 2006 Splendid Medien AG acquired from the former managing director of Kids for Kids GmbH the latter's 10% share in Kids for Kids GmbH.



eNterActive GmbH (85%) in Hamburg conceives and develops digital value-added services such as animations, trailers, and games for DVD and for the Internet. This company complements Splendid Medien AG's Internet /New Media segment and together with **Splendid Synchron GmbH** (100%) represents the post-production division. Splendid Synchron GmbH, located in Cologne, dubs foreign-language movies and TV series and reengineers their soundtrack. Together with FFS Film- und Fernseh-Synchron GmbH, Munich, Splendid Synchron GmbH founded **FFS Köln Film- und Fernseh-Synchron GmbH**, Cologne, on 16 October 2006. Splendid Synchron GmbH holds 51% of the capital stock of the company, which was entered in the local trade register on 30 November 2006. The cost of acquisition of this stake totalled € 13,000. The company has not developed any major business activity in the business year as yet. The annual result of this company amounted to € – 2,000 in the business year.

The affiliated companies are all subject to unified management by Splendid Medien AG and are fully consolidated in the consolidated financial statements.

Last year the company decided to close down Splendid Television International LLC (90%), New York. The company was consolidated for the last time in that year. The closure of the company was initiated last year and will be completed in the year 2007. There were no longer any business activities in the year under review.

Splendid Entertainment, Inc., Los Angeles, Delaware, acquired with equity capital amounting to € 0.08 as per 13 June 2003, was not consolidated on account of negligibility. The closure of the company will be completed in 2007.

Companies making use of the exemption option pursuant to § 264 paragraph 3 HGB

WVG Medien GmbH, Hamburg and Polyband Medien GmbH Dornach made use of the preparation simplifications and exemption possibilities contained in Section 264 para. 3 of the German Commercial Code (Handelsgesetzbuch).

Consolidation methods

Pursuant to IAS 22 (1998), capital consolidation for mergers prior to 31 March 2004 was in accordance with the book value method. The costs of acquiring the shares were offset against the book value of the proportionate equity capital of the subsidiary at the time of acquisition. For mergers after 31 March 2004, consolidation took place applying the acquisition method in accordance with IFRS 3.

in k€	Acquisition Prorate	Company costs equity	Difference
Splendid Film GmbH	5,192	36	5,156
Splendid Synchron GmbH	28	25	3
Kids for Kids GmbH	524	507	17
Polyband Medien GmbH	341	-52	393
eNterActive GmbH	45	42	3
WVG Medien GmbH	228	210	18
	6,358	768	5,590

Up to the financial year 2004, the asset difference on the part of Polyband Medien GmbH resulting from the first time consolidation was written down as goodwill using straight-line amortisation over a period of 20 years, corresponding to its prospective useful life. In the year under review, the value of the remaining goodwill (k€ 308) was verified in accordance with IAS 36 and not amortised. The value of the goodwill arising from the consolidation of WVG Medien GmbH (k€ 18) was verified according to IAS 36 and not amortised. The entire remaining goodwill was written off in previous years.

The purchase price of k€ 2 for the residual shares acquired in 2006 in the subsidiary Kids for Kids GmbH, which had already been included by way of full consolidation in previous years was offset against reserves.

No amount of difference resulted from the incorporation of FFS Köln Film- und Fernseh-Synchron GmbH, Cologne.

Accounts receivable and accounts payable among the consolidated companies were offset against one another. Sales revenue and other internal income were offset against the corresponding expenses incurred by the concerned subsidiary. Intercompany profits were eliminated.

D. Financial instruments

The financial instruments shown on the balance sheet consisted of cash in hand and cash at banks amounting to k€ 10,727 (k€ 7,693 in the previous year), accounts receivable (k€ 6,040, previous year: k€ 5,160) and accounts payable (k€ 4,543, previous year k€ 3,448), bank loans (k€ 7,224) as well as other assets and liabilities. The other short-term assets essentially include tax liabilities as well as debit balances. There are no

derivative financial instruments. According to IAS 32, all financial instruments reported in the balance sheet are to be classified in the “trading” category, while the term of the other short-term assets in each case is less than one year. There is no interest risk for this category. The term of the long-term loan due at the maturity date that comes under the category “held to maturity” is seven years. It is a question of a long-term financing agreement with HSBC Trinkaus & Burkhardt KG, Düsseldorf of € 7.5 million and an interest rate of 7.933% p.a. The loan less the disagio was shown on the balance sheet under “long term loans.” Distribution of the discount was in accordance with the effective interest method, the effective rate of interest being 8.7%. The terms of the medium and long-term other liabilities are for up to five years. There were no deviations of any significance between the balance sheet values and the current values of the financial instruments shown on the balance sheet.

In accounting for income from financial instruments, the provisions contained in IAS 18 were observed..

E. Cost for old age pensions

Payments for contribution-oriented pension plans are booked as expenditure when due, payments for state pension plans are dealt with as contribution-oriented pension plans.

F. Principles of currency conversion

Currency transactions are recorded at the exchange rate applicable at the time they occur. The value of monetary assets and liabilities stated in a foreign currency is converted using the historical exchange rate. Exchange gains and losses are recorded affecting current-period results.

Notes pertaining to the Group profit and loss account

(1) Sales revenues

The Group companies generate sales revenue from the exploitation of film rights as well as from providing services for the film and TV industry.

On the basis of their exploitation rights, the Group companies grant licences to clients mainly located in Germany and German-speaking Europe subject to time-related and geographical restrictions. The sales revenue is realised at the time the contract is fulfilled in favour of the licensee provided the Group companies have essentially satisfied their contractual obligations.

The Group companies generate sales revenue from the exploitation of films in cinemas, video/DVD as well as TV. In the case of movies, revenues are realised as of the moment the film is launched. As a rule, video/DVD and TV (Pay TV and Free TV) exploitation begins between six and 24 months after regular cinema exploitation has commenced. Sales are realised at the moment the materials have been accepted by the licensee, or when the goods have been delivered.

Sales generated from services provided in the audio- and video-post-production segment are realised after completion and acceptance.

Concerning sales by individual segments (business segments and regions), please consult the information contained in the segmental reporting. Sales in the licences segment concern licence revenue, while sales in the home entertainment segment concern deliveries, and sales in the post-production segment relate to services.

(2) Other operating income

Other operating income amounted to k€ 1,694 in the 2006 financial year (previous year: k€ 2,306).

in k€	2006	2005
Income from reduction of provisions/from written off debts	24	107
Income from dissolution of reserves	1,485	621
Income from dissolution of liabilities	0	603
Income from revaluation of film assets	0	758
Other	185	217
Total	1,694	2,306

No income was generated from the sale of assets during the year under review (previous year: k€ 0).

(3) Production costs

The production costs of obtaining the sales revenues were k€ 16,000 in the 2006 financial year (previous year: k€ 12,462). The production costs break down as follows:

in k€	2006	2005
Depreciation of film rights	4,825	3,395
License payments/royalties	2,127	1,811
Personnel expenses	1,347	1,208
Purchased services	6,089	4,804
Depreciation of assets	135	131
Artists' fees	1,278	983
Other	199	130
Total	16,000	12,462

The depreciation of film rights includes special depreciation of k€ 324 (previous year: k€ 814). The depreciation of assets included depreciation of intangible assets in an amount of k€ 27.

(4) Distribution expenses

Distribution costs in the 2006 financial year amounted to k€ 4,396 (previous year: k€ 4,013). The following table shows the way distribution expenses broke down.

in k€	2006	2005
Advertising	1,780	1,685
Sales commission	466	291
Personnel expenses	985	1,209
GEMA/film promotion	582	518
Travel expenses	202	152
Other	381	158
Total	4,396	4,013

Depreciation/amortisation of fixed assets contained in the "Other" item includes amortisation of intangible assets in the amount of k€ 8.

(5) Administrative expenses

Administrative costs in the 2006 financial year amounted to k€ 3,600 in total (previous year: k€ 3,914). The administrative expenses broke down as follows:

in k€	2006	2005
Legal and consulting costs	419	817
Personnel expenses - administration	1,705	1,566
Rents, leasing, operating costs	638	598
Public relations	78	43
Office expenses, insurance, etc.	288	258
Postage, telephone	143	137
General shareholders' meeting	82	80
Depreciation of assets	118	208
Other	129	207
Total	3,600	3,914

Depreciation included depreciation of intangible assets in an amount of k€ 17. The fees of the auditors included under legal and consultancy costs amount to k€ 66. The fee for tax consultancy services amounts to € 65,000 and the fee for other services to € 8,000.

(6) Amortisation of goodwill

Amortisation of goodwill amounted to k€ 0 in the year under review (previous year: k€ 0).

(7) Other operating expenses

Other operating expenses totalled k€ 249 in the 2006 financial year (previous year: k€ 408). The expenses broke down as follows:

in k€	2006	2005
Discount on accounts receivable	13	55
Losses on receivables	59	99
Settlement payment to minority shareholder	55	55
Deconsolidation of Splendid Television	0	62
Other	122	137
Total	249	408

(8) Interest income/expenses

Interest income and expenses are reported according to the accruals principle, taking into account the applicable interest rate.

Interest income was essentially income earned on cash at banks. The net interest income broke down as follows:

in k€	2006	2005
Interest income		
Interest income from cash at banks	209	75
Interest income from tax liabilities	0	1
Interest income from other receivables	0	15
	209	91
Interest expenses		
Interest expenses arising from accounts due to banks	1	19
Interest expenses arising from other liabilities	0	2
Interest expenses arising from finance leasing liabilities	5	9
Interest expenses arising from leasing company loan	32	97
Interest expenses arising from HSBC loan	455	0
	493	127
Net interest income	-284	-36

Interest in the amount of k€ 493 was paid (previous year: k€ 133) and interest of k€ 179 was earned (previous year: k€ 74).

(9) Currency gains/losses

There were currency losses of k€ 51 in the year under review (previous year: currency profits of k€ 26).

(10) Taxes on income

The “taxes on income” item reports corporate income tax and trade tax including deferred taxes, foreign input taxes that cannot be offset as well as taxes relating to losses carried forward.

The taxes are composed as follows:

in k€	2006	2005
Corporation tax	137	185
Trade tax	116	175
Current tax income from loss carryback	0	0
Trade tax, previous years	0	0
Corporation tax, previous years	-96	0
Foreign input taxes that cannot be offset	0	13
Deferred taxes	87	-25
Dissolution of deferred capitalised taxes on loss carryback, previous year	277	291
Use of deferred capitalised taxes on loss carried forward	183	354
Capitalisation of deferred taxes on loss carried forward	-1,646	-1,265
	-942	-272

The deferred taxes are the result of temporary differences.

For the purpose of determining deferred taxes, corporate income tax was calculated at the rate of 25%, the applicable rate for 2006. The trade tax rate used was 19%, and the solidarity surcharge was taken into consideration at a rate of 5.5% of corporate income tax. Claims to tax refunds relating to losses carried forward were capitalised to the extent that the losses carried forward can be offset against taxable income within a planning horizon of five years. For estimated assessments, cf. B.

Within the Group (after setoff of deferred taxes caused by underlying consolidation differences) there are loss carry-forwards totalling € 61.7 million in respect of corporate income tax and € 57.7 million in respect of trade tax, for which no deferred tax claim exists on balance.

The transition of gross expenditure took place as follows:

in k€	2006	2005
Taxes on income and earnings based on a tax rate of 40% (previous year: 40%)	800	728
Non-tax deductible expenses and tax-free income	-130	-124
Taxes on losses carried forward not included	-237	354
Taxes on losses carried forward	-1,369	-1,243
Tax income and expenses not related to the accounting period/Other	-6	13
Actual tax expenditure	-942	-272

The tax rate of 40% used in the calculations does not represent the year's tax rate, but rather the tax rate expected in the long term.

(11) Earnings per share

The earnings per share in average circulation amounted to € 0.30 (previous year: € 0.22). The dividends per share amounted to € 0.00 (previous year: € 0.00). Calculation of the earnings per share was based on 9,789,999 shares (previous year: 9,493,333) shares. A potential dilution of value per share may in future arise from the approved and/or conditional capital stock. See on this subject (13) Equity Capital.

Notes pertaining to the consolidated balance sheet

(1) Liquid funds

Liquid funds (k€ 10,727, previous year; k€ 7,693) consisted of cash in hand and at banks. They have been shown at their nominal value. Cash at banks in foreign exchange was converted at the exchange rate on the balance sheet date. The cash at banks contained a payment of k€ 1,000 received in error the previous year that could not be retransferred until the year under review.

(2) Receivables, deferred charges and other short-term assets

As a matter of principle, receivables and other assets were recorded at their nominal value. In the case of receivables that involve discernible risks, adequate individual valuation adjustments were carried out. In addition to the required individual valuation adjustments, the discernible risks arising from the general credit risk are taken into consideration by establishing general valuation adjustments.

Currency receivables were valued at the historical exchange rate applicable on the cut-off date.

Receivables with a residual term of more than one year did not exist at the cut-off date.

The receivables and other assets can be itemised as follows:

in k€	31.12.2006	31.12.2005
Receivables from goods and services provided	6,040	5,160
Tax refund claims	1,006	560
Other short-term assets and prepayments and accrued income	257	177
	7,303	5,897

The accounts receivable for goods and services contain receivables vis-à-vis Splendid Pictures Holdings, Inc., which are, however, value-adjusted in their full amount.

(3) Inventories

Inventories were valued at their costs of acquisition or costs of production less impairment of value on the balance sheet date.

Composition of inventories:

in k€	31.12.2006	31.12.2005
Finished goods and merchandise	1.496	902
Unfinished goods, unfinished services	43	50
	1.539	952

The “finished goods” position essentially refers to videotapes, DVDs as well as a small proportion of merchandise. Goods were valued at average costs of acquisition, subsequently applying a percentile marketability deduction. The “unfinished goods and services” category refers mainly to services in the area of dubbing. The increase in the inventory by k€ 587 was accounted for by changes in the inventories amounting to k€ 651 as well as decreases in value entered in the year under review and amounting to k€ 64.

(4) Fixed assets

Concerning the development of fixed assets and depreciation in the financial year, we refer to the “schedule of fixed assets” enclosed in the appendix.

(5) Tangible assets

Tangible assets were recorded at their historical costs of acquisition or production, less scheduled depreciation on account of use. Assets attributable to the company due to finance-leasing were capitalised at the present value of the future leasing payments, in accordance with IAS 17. The present values were determined on the basis of average interest rates that apply in the case of equivalent bank financing. The depreciation of the tangible assets is accounted for in the production costs (k€ 108), the distribution expenses (k€ 7) and the administrative expenses (k€ 100).

Depreciation on tangible assets was based on the straight-line method. Assets on account of finance leasing were written down pro rata temporis, assuming a useful life of between three and five years, using the straight-line method.

The following useful life spans were assumed for the scheduled depreciation of those assets that were not capitalised due to existing leasing contracts:

Tenants' conversions	0 to 5 years
Furniture and fittings	3 to 13 years
Technical equipment and machines	3 to 5 years

Leasing relationships

IAS 17 was applied to the leasing relationships. Operate-leasing relationships essentially concerned leased cars and office equipment. The term of the leasing relations as a rule amounts to three years. Future liabilities associated with leasing payments are reported as "other financial liabilities".

The finance-leasing relationships include technical studio equipment.

Contracts are concluded for terms between three and five years. All leasing relationships are based on fixed instalments.

in k€	Minimum leasing payments		Cash value of minimum leasing payments	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Liabilities from finance leasing				
due within one year	36	70	32	66
due within between one year and five years	43	32	40	30
	79	102	72	96
less future financing costs	-7	-6		
Cash value of leasing liabilities	72	96	72	96

The capitalised assets carried in the assets categories 'furniture and fittings' and 'technical equipment and machines' were entered at k€ 68 on 31.12.2006 (previous year: k€ 86).

(6) Intangible assets

The intangible assets valued at acquisition cost relate to acquired software. Pursuant to IAS 38, they are capitalised at acquisition cost and are written off over a useful life of three to five years, applying straight-line depreciation. Depreciation broke down as k€ 17 (previous year: k€ 48) for administrative expenses, k€ 8 (previous year: k€ 6) for distribution expenses and k€ 27 (previous year: k€ 3) for production costs.

(7) Financial assets

This position is used to report interests in non-consolidated holdings. It refers to an interest in the amount of 1% in Central Organisation of Technology, Inc. (COT), which Splendid Medien AG received in the context of contributing its 80% share in Splendid Pictures Holdings, Inc. to COT. The holding was recorded at the value of the transferred shares in Splendid Pictures Holdings, Inc., which amounted to € 0 at the time of transfer.

(8) Film rights and advance payments made for film rights

The film rights and advance payments made for film rights have been reported as separate items. In the absence of industry-specific HGB or IFRS-regulations, valuation was based on general principles. The applied method concerning the realisation of sales revenue is presented in the sales revenue section. The applied valuation of the film assets is presented in greater detail in the following paragraphs:

The film rights reported as "film assets" are capitalised at acquisition cost at the time of their technical acceptance, and written down in accordance with their commercial exploitation. Accounting occurred on the

basis of the experience and assessment of management regarding the opportunities for exploitation that the licenses present. In the prevalent cases in which we own full rights, film rights in the video rentals / video sales business (incl. DVD) when exploited are subject to a depreciation of 20% of acquisition costs (10% for the exploitation of both video rentals and video sales). In the event that TV rights were sold, depreciation was reported in the amount of 80% of acquisition costs.

For the exploitation of Pay TV rights, depreciation in the amount of 10% was recorded as expense. For primary exploitation of Free TV rights, depreciation amounts to 49% of acquisition cost, and 21% of acquisition cost for secondary exploitation. As a general rule, the period assumed for generating revenue that is used for determining depreciation was limited to a maximum of ten years. For the movie theatre exploitation stage, depreciation in the amount of 10% of acquisition cost is recorded. The corresponding amount of depreciation is reduced at the TV rights exploitation stage.

At variance with the above depreciation method, low-budget films that give rise to relatively low revenue expectations compared to overall TV exploitation revenue expectations when exploiting the film rights in the video rentals/video sales business (incl. DVD) are subject to depreciation in the amount of 50% of acquisition costs (25% for the exploitation of both video rentals and video sales).

In the case that TV rights were sold, depreciation was also recorded in the amount of 50% of acquisition costs. If it could be seen in the individual case that the above depreciation method will not produce a proper result, depreciation that is revenue proportional is used.

Our innovative educational series "Ben & Bella" represents an exception to these depreciation rules. For this newly developed product, we have not yet been in a position to gain any experience. It was depreciated in a straight-line over a period of ten years.

The stated value of the licenses is verified at each balance sheet date within the context of an impairment test. The audit of the film library at the end of the year led to special depreciations of k€ 374 in the year in

question. Non-scheduled depreciation amounted to k€ 814 the previous year. At the same time there were value reinstatements in the previous year of k€ 758. For estimated assessments, cf. B.

Since the film assets satisfy criteria for current assets as well as fixed assets, they have been – in accordance with common historic accounting practise – reported in the past in the individual accounts under commercial law as separate balance sheet item, between fixed and current assets. As a result of this accounting practise, the licenses' historic acquisition costs that in the previous year had already been entirely written down and that were not subject to appreciations in value during the year under review were not continued within the scope of an asset history sheet. Therefore, the reported historic acquisition costs only relate to licenses that as of 31 December 2004 were on the record as having residual book values.

in k€	Acquisition and production costs				
	01.01.2006	Additions	Disposals	Repostings	31.12.2006
I. Film assets					
1. Film rights	51,929	5,205	42	1,883	58,975
2. Films in progress and advance payments	2,372	2,432	94	-1,883	2,827
Total film assets	54,301	7,637	136	0	61,802

in k€	Depreciation					Residual book values	
	01.01.2006	Additions	Disposals	Write-ups	31.12.2006	31.12.2006	31.12.2005
I. Film assets							
1. Film rights	46,227	4,825	42	0	51,010	7,965	5,702
2. Films in progress and advance payments	0	50	50	0	0	2,827	2,372
Total film assets	46,227	4,875	92	0	51,010	10,792	8,074

(9) Goodwill

Goodwill (k€ 326, previous year: k€ 326) arose from the capital consolidation. It was reviewed pursuant to IFRS 3 in conjunction with IAS 36 in terms of its continuing value and was not depreciated.

(10) Deferred taxes, taxes resulting from losses carried forward

The following deferred taxes recorded in the balance sheet are a result of accounting and valuation differences in the various balance sheet items as well as tax losses carried forward:

in k€	31.12.2006	31.12.2005
Losses carried forward	3,097	1,911
Film assets	103	88
Tangible assets	0	1
Inventories	7	4
Liabilities	0	18
Other	0	17
Total	3,207	2,039

(11) Liabilities

The liabilities have been recorded at their respective payback amounts. Liabilities denominated in foreign currencies are valued at the exchange rate on the balance sheet date. The liabilities' residual terms are disclosed in the schedule of liabilities:

2006 in k€	Amount	of which over 1 year	Security provided	Type
Finance leasing liabilities	72	40		
Loan	7,224	7,223		
Accounts payable for goods and services	4,543			
Advance payments received	605			
Liabilities from taxes on earnings	784			
Deferred taxes	70	70		
Other liabilities	895			
	14,193	7,333		

At a level of € 32,000 deferred taxes relate to intangible assets, at € 27,000 to tangible assets and at € 11,000 to liabilities.

2005 in k€	Amount	of which over 1 year	Security provided	Type
Finance leasing liabilities	96	30		
Loan leasing company (AGV)	577		577	Pledging of film rights
Accounts payable for goods and services	3,448			
Advance payments received	440			
Liabilities from taxes on earnings	373			
Deferred taxes	1	1		
Other liabilities	2,065			
	7,000	31	577	

The loan granted by a leasing company that was shown the previous year was redeemed in the year under review. A long-term financing agreement with HSBC Trinkaus & Burkhardt KG (H.E.A.T. Mezzanine II Fund) was concluded in the year under review. We refer to our remarks under D.

(12) Reserves

Pursuant to IAS 37, other reserves are established in the amount corresponding to the best possible estimation of the outflow of funds required to fulfil the current obligations on the balance sheet date. All discernible risks and contingent liabilities that are based on past events, and whose amount and due date are uncertain, were taken into consideration. All reserves are short-term in nature.

Of the reserves for taxes amounting to k€ 420 (previous year: k€ 247) k€ 163 accounted for taxes on earnings in the current year.

The other reserves include the following items:

in k€	31.12.2006	31.12.2005
Obligations from license agreements	1,647	2,215
Liability risks from Splendid Pictures, Inc.	530	1,000
Legal and consulting costs	37	136
Film subsidy charges etc.	964	1,088
Returns	201	530
Bonuses	1,018	753
Other	75	189
	4,472	5,911

Reserve schedule

in k€	01.01.2006	Addition	Consumption	Dissolution	31.12.2006
Reserves for taxes on earnings	247	173	0	0	420
Reserves for liability risks	1,000	0	335	135	530
Reserves for liabilities from license agreements	2,215	441	98	911	1,647
Film subsidy charges	1,088	346	184	286	964
Bonuses	753	804	539	0	1,018
Returns	530	174	402	101	201
Other reserves	325	32	193	52	112
Total	6,158	1,970	1,751	1,485	4,892

Reserves established for liability risks relate to risks arising from the former subsidiary, Splendid Pictures, Inc., in particular to risks arising from furnishing collateral in the context of film acquisitions. All reserves are due within one year. Reserves will in all probability correspond to an outflow of funds in the amount of k€ 2,566 within one year; the times of the outflows corresponding to the other amounts cannot be determined in greater detail due to legal uncertainties.

(13) Equity capital

Regarding the development of equity capital, we refer to the table "Schedule of changes in equity capital". In the previous year, the company's subscribed capital was increased by € 889,999.00, to the current € 9,789,999.00, by means of a capital increase in exchange for cash. The company was registered in the local trade register on 31 May 2005. The share capital is divided into 9,789,999 ordinary bearer shares in the nominal amount of € 1.00 per share.

Authorised capital

Authorised Capital I

A resolution adopted by the General Shareholders' Meeting on 2 July 2004 authorised the Executive Board to increase the share capital of the company for the period up to 20 July 2009 once or a number of times by issuing new bearer shares with a nominal value of € 1.00 per share in return for cash contributions or non-cash contributions by up to an amount of € 3,560.000,00 (Authorised capital I). Also, the Management Board was authorised to decide on the exclusion of the shareholders' statutory pre-emptive subscription rights in each case, subject to the Supervisory Board's approval. However, exclusion of subscription rights is only permissible for the following purposes:

- for the compensation of residual amounts, as well as
- in the case of capital increases in exchange for non-cash contributions for issuing shares of the company for the purpose of acquiring companies or parts of companies or investing in companies.

Furthermore, the Management Board is authorised to – with the Supervisory Board's approval – determine the further details of executing capital increases from the Authorised Capital I. The Supervisory Board is authorised to adapt the articles of association after a complete or partial execution of the capital increase from the Authorised Capital I, or after the authorisation period has expired, in accordance with the scope of the capital increase from the Authorised Capital I.

Authorised Capital II/2005

The Management Board was authorised by resolution adopted by the General Shareholders' Meeting on 06 July 2005 to increase – with the Supervisory Board's approval – during the period up to 01 August 2010 the company's share capital in one step or in several steps in exchange for cash or non-cash contributions by a total of up to € 978,000.00 by issuing new bearer shares having a nominal value of € 1.00 per share (Authorised Capital II/2005). With the Supervisory Board's approval, the Management Board is authorised to decide in each instance on the exclusion of the shareholders' statutory subscription rights. However, an exclusion of subscription rights is only permissible for the following purposes:

- for the compensation of residual amounts,
- in the case of capital increases in exchange for non-cash contributions for issuing shares of the company for the purpose of acquiring companies or parts of companies or investing in companies, as well as
- if the increase of the share capital occurs in exchange for cash contributions and the proportion of the share capital corresponding to the new shares neither exceeds a total of ten percent of the share capital in existence at the time of registration of this authorised capital nor exceeds ten percent of the share capital in existence at the time the new shares are issued, and the issue price of the new shares does not for the purposes of Section 203 subsections 1 and 2, Section 186, subsection 3 clause 4 German Stock Corporation Law (Aktiengesetz) substantially fall short of the stock exchange price of the shares already listed at the time of the final determination of the amount for which shares are issued by the Management Board.

Furthermore, the Management Board is authorised to determine the further details of executing capital increases from the Authorised Capital II, subject to the Supervisory Board's approval. The Supervisory Board is authorised to adapt the articles of association after a complete or partial execution of the capital increase from the Authorised Capital II/2005, or after the authorisation period has expired, in accordance with the scope of the capital increase from the Authorised Capital II.

Conditional capital*Conditional Capital I*

Following a resolution adopted by the General Shareholders' Meeting on 20 June 2001, the share capital of the company was increased conditionally by a nominal amount of up to € 890,000.00 (Conditional Capital I) by issuing new bearer shares with a nominal value of € 1 each. The conditional capital increase exclusively

serves to redeem subscription rights that were granted in the context of the 2001 stock option plan. Concerning members of the company's Management Board, the responsibility for issuing subscription rights resides exclusively with the Supervisory Board. On 29 August 2001, a total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. The strike price for the first tranche is € 3.43.

Conditional Capital II

By resolution of the General Shareholders' Meeting adopted on 06 July 2005, the share capital was conditionally increased by up to € 3,000,000.00 by issuing up to 3,000,000 shares in the nominal amount of € 1.00 per share (Conditional Capital II/2005).

The conditional capital increase will only be executed to the extent that

- the bearers or creditors of conversion rights or warrants associated with the convertible bond or warrant issues that are to be conducted by 05 July 2010 by the company or its direct or indirect majority shareholders pursuant to the authorisation resolution adopted by the General Shareholders' Meeting on 06 July 2005 exercise their conversion or option rights, or
- the bearers or creditors of the convertible bond issues that are to be conducted by the company or its direct or indirect majority shareholders by 05 July 2010 pursuant to the authorisation resolution adopted by the General Shareholders' Meeting on 06 July 2005 obliged to convert fulfil their conversion obligation.

The new shares participate in the profits as of the beginning of the financial year in which they are created on account of exercise of conversion or warrant rights or by fulfilment of conversion obligations; notwithstanding the above, the Management Board may, subject to the Supervisory Board's approval, determine that the new shares participate in the profits as of the beginning of the financial year for which at the moment of exercising the conversion or warrant rights or the fulfilment of the conversion obligations the General Shareholders' Meeting has not yet adopted a resolution concerning the appropriation of the balance sheet profit.

The Management Board is authorised – subject to the Supervisory Board's approval – to determine the further contents of the rights associated with the share certificate and the further details of execution of the conditional capital increase.

By the balance sheet date on 31 December 2005, no new shares from the Conditional Capital II have been issued.

Capital reserve

The capital reserve contained premium amounts from the issue of new shares in 1999 in an amount of k€ 49 and k€ 69,278 respectively (the latter resulting from the IPO) as well as the issue of new shares in the context of the capital increase the previous year in an amount of k€ 9. The costs of the IPO and the capital increase were, pursuant to IAS 32, offset net (costs less taxes on earnings) against equity (capital reserve). The amount of k€ 49 was offset the previous year. The payment re acquisition of the remaining shares in Kids for Kids GmbH in an amount of k€ 2 was offset in the year under review.

2001 stock option plan

Some staff members, the Management Board as well as managing directors of affiliated companies were given the opportunity of purchasing stock options issued to the bearer for purchasing up to a maximum of 890,000 ordinary bearer shares of Splendid Medien AG in a nominal value of € 1.00 per share.

The strike price that is to be paid for purchasing a nominal value share in Splendid Medien AG when executing the stock option corresponds to the average of the closing rates of the share determined at the Frankfurt Stock Exchange of the last thirty days of trading prior to the date of issue of the stock options; however, at least to the nominal value of the share that is to be purchased. On 29 August 2001, a total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. At the time the first tranche was issued, the strike price was € 3.43.

The maximum term of the issued subscription rights is fifteen years. The subscription rights may be exercised for the first time two years after allocation, and thereafter over the following four years within certain exercise periods and intervals that depend upon the achievement of certain performance targets.

Minority shares

The shares held by other shareholders (k€ 111, previous year: k€ 71) were recorded at the time of acquiring the respective company on the basis of the share of the fair present value of the assets and liabilities acquired in the context of the share purchase that is attributable to the minority shareholders, plus annually accrued prorate contributions to income, to the extent that they can be offset.

Risk management

As an internationally operating company, Splendid Medien AG is exposed to a variety of risks. The objective is to make appropriate risk and precautionary measures an integral part of the decisions and business processes, and to continuously adapt, further develop and optimise these measures.

Currency risks

Splendid Group acquires film licenses mainly in the US and the Far East. Since these licenses are exploited in the German-speaking regions, the company's earnings can be positively or negatively influenced by exchange rate variations between the € and the Dollar. The Splendid Group uses budgeted exchange rates as the basis upon which to calculate projects and investments. A clear deviation of actual rates from budgeted rates triggers a review of suitable hedging instruments. Exchange rate hedging instruments are only used in exceptions.

Risks resulting from shortfalls or delays in payment

Splendid Group exploits the majority of the acquired license rights in the home entertainment segment as well as in deals with TV companies in the German-speaking regions. The Group addresses the risks resulting from shortfalls or delays in payment by means of standardised reports. A major part of the receivables from sales of DVDs is secured by loan insurance of the distribution partner.

Notes pertaining to the cash flow statement pursuant to IFRS

Splendid Medien AG's cash flow calculation is based on the indirect method, according to which the profit or loss from that period is adjusted by the effects of the non-cash transactions, by accruals and deferrals of inflows and outflows of funds associated with current business operations in the past or in the future, and by income and expense items connected with the cash flow from investment or financing activities.

(1) Cash flow from current business activities

The cash flow from current business activities amounted to k€ 4,227 (previous year: k€ 6,501).

(2) Cash flow from investment activities

The cash flow from investments amounting to k€ 7,826 (previous year: k€ 3,567) essentially resulted from the acquisition of film assets (k€ 7,637) as well as tangible assets and intangible assets (k€ 238).

(3) Cash flow from financing activities

The repayment of loans (k€ -577) in 2006 and income from borrowing under a subordinated loan (HSBC Trinkaus & Burkhardt KG (H.E.A.T. Mezzanine II Fund)) (k€ 7,200) resulted in a cash flow from financing activities amounting to k€ 6,621 (previous year: k€ -349).

(4) Financial resources

The financial resources of k€ 10,727 (previous year: k€ 7,693) consisted of the cheques, cash in hand and at banks shown on the balance sheet. The financial resources for the previous year included a payment received in error amounting to k€ 1,000 which could not be retransferred until after the balance sheet date.

Group segmental reporting

Splendid Medien AG's areas of business are licensing transactions, home entertainment and post-production. In order to achieve greater transparency, the Holding's activities in the year under review were for the first time reported individually. The data pertaining to the previous years was adjusted accordingly. The definition of the individual segments occurred on the basis of the internal reporting system. In doing so, only such items were taken into consideration that could be directly attributed to a segment, or that could be allocated to certain segments on a reasonable basis. Inter-segmental expenses and income were eliminated.

The key figures relating to the segments are:

2006							
in k€	License trading	Home Entertainment	Post-production	Holding	Sum	Consolidation	Total
External sales	2,514	19,127	3,244	0	24,885		24,885
Internal Group sales	13	2,565	1,418	1,052	5,048		5,048
Total sales	2,527	21,692	4,662	1,052	29,933		29,933
EBITDA	1,448	6,436	705	-828	7,761	-336	7,425
Depreciation – film rights	-1,824	-3,300	0	0	-5,124	249	-4,875
Depreciation – real estate and tangible assets	-3	-36	-163	-65	-267		-267
Depreciation – goodwill	0	0	0	0	0		0
EBIT	-379	3,100	542	-893	2,370	-87	2,283
Financial result							-284
Taxes on earnings							942
Group net profit for the year							2,941
Segment assets	7	396	322	93	818		818
Film rights	7,464	3,600	0	0	11,064	-272	10,792
Other assets	3,044	10,666	1,423	7,585	22,718	58	22,776
Total assets	10,515	14,662	1,745	7,678	34,600	214	34,386
Total liabilities	4,173	6,294	733	7,941	19,141	55	19,196
Investments – film rights	4,570	3,367	0	0	7,937	-300	7,637
Investments – real estate and tangible assets	7	25	188	18	238		238
Employees	4	23	30	6	63		63
Sales per employee in k€	629	831	108	0	395		395

The non-scheduled depreciation (k€ 374) related to the license trading segment.

2005

in k€	License trading	Home Entertainment	Post-production	Holding	Sum	Consolidation	Total
External sales	2,056	15,583	2,695		20,334		20,334
Internal Group sales	0	2,178	922	996	4,096		4,096
Total sales	2,056	17,761	3,617	996	24,430		24,430
EBITDA	1,618	3,906	682	-1,820	4,386	472	4,858
Depreciation – film rights	-1,074	-1,672	0	0	-2,746	109	-2,637
Depreciation – real estate and tangible assets	-3	-36	-153	-160	-352		-352
Depreciation – goodwill	0	0	0	0	0		0
EBIT	541	2,198	529	-1,980	1,288	581	1,869
Financial result							-36
Taxes on earnings							272
Group net profit for the year							2,105
Segment assets	3	409	295	145	852	0	852
Film rights	5,438	2,856	0	0	8,294	-220	8,074
Other assets	2,860	9,820	804	2,998	16,482	99	16,581
Total assets	8,301	13,085	1,099	3,143	25,628	-121	25,507
Total liabilities	5,143	6,738	668	719	13,268	-39	13,229
Investments – film rights	969	2,566	0	0	3,535	-206	3,329
Investments – real estate and tangible assets	4	21	189	28	242		242
Employees	2	25	29	7	63		63
Sales per employee in k€	1,028	623	93	0	323		323

Due to the close interrelation of the individual segments, further segmentation was not considered to be particularly meaningful. The present segmental reporting is essentially based on a segmentation according to sales revenue.

Sales by geographical regions are as follows:

Sales revenues in k€	2006	2005
Germany	23,259	18,920
Rest of Europe	747	687
USA	697	569
Other	182	158
Total	24,885	20,334

Geographically, the assets are situated in Germany. The transfer prices applicable to intra-Group sales are guided by market prices ("at arm's length principle").

Executive Board and Supervisory Board

Executive Board

The members of the Executive Board are:

- Andreas R. Klein, Director of License Trading and Strategic Planning, Chairman
- Alexander Welzhofer, Director of Marketing and Distribution; further area of responsibility: Bundesverband Audiovisuelle Medien (Federation of Audiovisual Media) – BVV - Hamburg
- Michael Gawenda, Director of Finances and Investor Relations (since 01.07.2006)
- Frank Preuss, Director of Finances and Investor Relations (until 30.06.2006)

Emoluments of the Executive Board in 2006

Annual income in €	Fixed pay	Royalties – Executive Board	Royalties – Managing Director	Nonmonetary compensation	Total
Andreas R. Klein, Chairman	251,058	131,288	0	5,654	388,000
Alexander Welzhofer	244,011	44,182	-20,992	6,537	273,738
Michael Gawenda (since 01.07.2006)	69,352	0	0	4,983	74,335
Frank Preuss (until 30.06.2006)	80,723	70,000	0	2,000	152,723
Total	645,144	245,470	-20,992	19,174	888,796

A managing director royalty for Alexander Welzhofer amounting to k€ 40 that was deferred the previous year was not disbursed and was dissolved with an effect on net income. This is the reason why a negative amount is stated for Mr. Welzhofer in the table above as management bonus (tantieme) for his work as Managing Director.

As a minority shareholder in WVG Medien GmbH, Alexander Welzhofer had a claim to a compensatory payment in 2006 of k€ 55.

Concerning remuneration of Executive Board cf. in addition relevant comments in the Management Report (Remuneration Report).

Supervisory Board

The following persons are members of the Supervisory Board:

- Dr Ralph Drouven, lawyer, Cologne, chairman; also member of the supervisory board of: Easyway AG, Gesellschaft für Biotechnologie, Monheim
- Mr. Bernd Kucera, auditor/tax advisor, Bonn, deputy chairman; member of the supervisory boards of: AssFINET AG, Graftschaft near Bonn (chairman); pact Finanz AG, Dusseldorf
- Mr. Michael Baur, management consultant, Munich

According to Splendid Medien AG's articles of association, the members of the Supervisory Board receive as sole compensation a fixed remuneration in the following amounts:

Dr Ralph Drouven:	€ 20,000.00
Bernd Kucera:	€ 15,000.00
Michael Baur:	€ 10,000.00

Concerning other services charged by the Supervisory Board members we refer to the details contained in item "Relations to affiliated persons"

Other information

Staff

At the end of the year, the number of salaried employees amounted was:

	2006	2005
Directors	3	3
Employees	63	61

Total personnel costs amounted to k€ 4,045 in the 2006 financial year (previous year: k€ 3,877).

Shareholdings by members of the corporate bodies

On 29 August 2001, a total of 222,494 stock options was issued to Splendid Group's managers and employees. No options were exercised by 31 December 2005. The earliest possible exercise date was 29 August 2003.

As of 31 December 2006, Splendid Medien AG's share capital stood at € 9,789,999.00, and consisted of 9,789,999 bearer shares.

The shareholdings of members of the corporate bodies as of 31 December 2006 were as follows:

in k€	2006			2005		
	Number	Shareholding in %	Options	Number	Shareholding in %	Options
Executive Board						
Andreas R. Klein	5,308,984	54,2286	0	5,308,984	54,2286	0
Alexander Welzhofer	28,621	0,2923	33,375	7,321	0,0748	33,375
Supervisory Board						
Dr Ralph Drouven	3,060	0,0313	0	3,060	0,0313	0
Michael Baur	10,000	0,1021	0	0	0,0000	0

Relationships with affiliated persons

in k€	Amount	of which expenses	of which outstanding	Type of activity	Payment
Dr Drouven (CMS Hasche Sigle)	61	34	2	Consulting service	by the hour
Kucera & Hüttner GmbH	12	12	1	Preparation of personnel accounting	based on the number of employee accounts
Albert Klein	118	118	0	Rent of office building	pursuant to tenancy agreement
Albert Klein	34	34	10	Consulting	pursuant to contract

The settlement agreement with the minority shareholder, Mr. Alexander Welzhofer, provides an annual compensation payment in the amount of k€ 55.

Other financial liabilities

in k€	up to 1 year	2 to 5 years	over 5 years	Total
Type of obligation				
Rent	292	188	0	480
Operating leasing	118	130	0	248

Expenditure in connection with operating leasing of k€ 107 was entered in the year under review with an effect on net income.

Order commitments for investments amounted to k€ 4,286 (previous year: k€ 5,540).

Contingencies

Bank guarantees exist in the amount of k€ 484.

Events that took place after the balance sheet date

Splendid Medien AG began the 2007 financial year with the first concrete talks on setting up a digital pay-TV segment channel. The focus of programmes is to be on Asian action films. The Group plans to start broadcasting in the second half of 2007.

An action was brought against Splendid Medien AG at the beginning of 2007 by a former business partner of Splendid Pictures Inc. for claims arising from bills of exchange against its former subsidiary, Splendid Pictures Inc. After examining the facts of the matter in detail, the Executive Board of Splendid Medien AG has come to the conclusion that the action has no likelihood of being successful. This view is borne out by the opinion given by the legal advisers of Splendid Medien AG. In the first instance, the legal action against Splendid Medien AG was dismissed by a US court.

Proposal for the appropriation of profits and dividends per share

The Executive Board of Splendid Medien AG will propose to the General Shareholders' Meeting that no dividends be paid out for the 2006 financial year. The Executive Board proposes offsetting the net income for the year of Splendid Medien AG in an amount of € 2,779,681.67 against the loss carried forward in an amount of € 69,004,501.56 and to carry this forward to new account as a balance sheet loss of € 66,224,819.89.

Notices published according to § 25 WpHG (§ 160 para. 1 no. 8 AktG)

On 14 March 2007 the following mandatory notice was published:

Publication pursuant to § 26 para. 1 WpHG for Europe-wide dissemination

“COMMIT GmbH, Cologne, Germany, informed us on 12 March 2007 according to § 21 para. 1 WpHG that their share in voting rights to Splendid Medien AG, ISIN: DE0007279507, WKN: 727950, had exceeded the 5% threshold on 09 March 2007, totalling 5.06% (absolute: 495,437) on that date.

Mr. Michel Aloui, Germany, informed us on 12 March 2007 according to § 21 para. 1 WpHG that his share in voting rights to Splendid Medien AG, ISIN: DE0007279507, WKN: 727950, had exceeded the 5% threshold on 09 March 2007, totalling 5.06% (absolute: 495,437 shares) on that day, of which 5.06% (absolute: 495,437 shares) are allocable to Michel Aloui, Germany, via COMMIT GmbH, pursuant to § 22 para. 1, sentence 1, no. 1 WpHG.”

Declaration according to § 161 AktG

The declaration of conformity by the Executive Board and the Supervisory Board of Splendid Medien AG on the Corporate Governance Code pursuant to Section 161 German Stock Corporations Act was published on the homepage of Splendid Medien AG.

These Consolidated financial statements were released to the Supervisory Board by the Executive Board on 27 March 2007.

Cologne, 27 March 2007

Executive Board

Andreas Ralf Klein

Alexander Welzhofer

Michael Gawenda

Auditor's certificate

"We have audited the consolidated financial statements prepared by Splendid Medien AG, Cologne, for the financial year from 01 January to 31 December 2006, consisting of balance sheet, profit and loss statement, schedule of changes in equity, cash flow statement and notes as well as the group status report. The preparation of the consolidated financial statements and the group status report according to IFRS as applicable in the EU, and according to the stipulations under commercial law that are to be applied additionally pursuant to Section 315a subsection 1 German Commercial Code (HGB), as well as according to the supplemental provisions contained in the articles of association, is the responsibility of the company's legal representatives. It is our task to prepare an assessment of the consolidated financial statements and the group status report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German standards for auditing financial statements issued by the German Institute of Auditors (Institut der Wirtschaftsprüfer (IDW)). These specifications require that the audit be planned and conducted in such a manner that inaccuracies and infringements that substantially affect the view of the assets, financial and earnings position as provided by the consolidated financial statements - taking into account the applicable accounting standards - and by the group status report are identified with a sufficient degree of certainty. The scope of the audit was planned taking into account our knowledge of the Group's business activities, the economic and legal environment as well as expectations of possible errors. Within the scope of the audit, the effectiveness of the accounting-related internal control system as well as documentation for the statements contained in the consolidated financial statements and the group status report are evaluated, mainly on the basis of samples. The audit comprises the assessment of the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidated entity, the applied accounting and consolidation principles and the legal representatives' essential assessments as well as an appreciation of the overall presentation of the consolidated financial statements and the group status report. We believe that our audit provides a sufficiently secure basis for our assessment.

Our audit did not give rise to any qualification.

Our assessment on the basis of insights obtained in the course of the audit is that the consolidated financial statements comply with the IFRS as applicable in the EU, the stipulations under commercial law that are to be applied additionally pursuant to Section 315a subsection 1 German Commercial Code (HGB), as well as the supplemental provisions contained in the articles of association, and provide an accurate view of the Group's assets, financial and earnings position – taking into account the applicable accounting standards. The group status report corresponds to the consolidated financial statements and provides a true overall view of the Group's position, and accurately represents the risks and opportunities of its future development."

Cologne, 27 March 2007

BFJM Bachem Fervers Janßen Mehrhoff GmbH
Auditing company

(Dr Werner Holzmayer)
Auditor

(Dipl.-Kfm. Marcus Lauten)
Auditor

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Annual report on the Internet

The Splendid Medien AG annual report can be viewed as a PDF file in the Internet at www.splendidmedien.com. This Annual Report is also available in German. In the event of conflicts the German language version shall prevail.

We gladly send you the financial statements of Splendid Medien AG according to German Trade Law (HGB), as well as any further information on the company. Please send your request to the contact stated below.

Financial calendar 2007

31.05.2007	Report of the first quarter of 2007 Press release of the financial figures of the first quarter of 2007. Publication of the interim report on the first quarter of 2007.
12.06.2007	Annual general meeting 2007 11 h, Komed, Cologne. 8th ordinary annual shareholders' meeting of Splendid Medien AG.
31.08.2007	Semi-annual report 2007 Press release of the financial figures of the first six months of 2007. Publication of the interim report on the first six months of 2007.
30.11.2007	Nine-month report 2007 Press release of the financial figures of the first nine months of 2007. Publication of the interim report on the first nine months of 2007.

