08

Annual Report

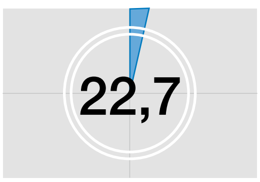
splendid medien AG

Key data per IFRS

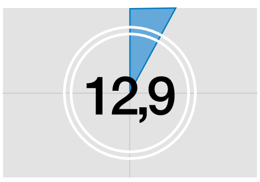
in € million	2008	2007
Total sales	**35.1**	**28.1**
License sales	4.6	3.8
Home Entertainment	27.2	21.0
Postproduction	3.3	3.3
EBITDA	11.0	9.1
EBIT	2.1	-1.9
EBT	1.5	-2.4
Consolidated net income after taxes	0.7	-1.2
Cash flow from current business activities	9.4	5.9
Balance sheet total	36.2	33.6
Equity	14.7	14.0
Equity ratio	40.7 %	41.6 %
Cash in hand and cash at banks (liquid funds) at balance sheet date	9.8	7.7
Liquid funds less long-term loan	2.5	0.5
Film assets (incl. advance payments)	9.2	9.5
Investments in film rights	8.3	9.4
Investment ratio (from balance sheet total)	22.9 %	28.0 %
Depreciation of film assets	8.7	10.7
Depreciation ratio (from sales revenue)	24.8 %	38.1 %
Earnings per share in Euro*	0.07	-0.12
Number of employees on balance sheet date	82	79

*Average number of shares in circulation 2007 and 2008: 9,789,999

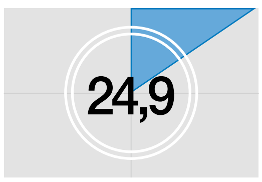
Sales 2006 - 2008



2006: Growth in %

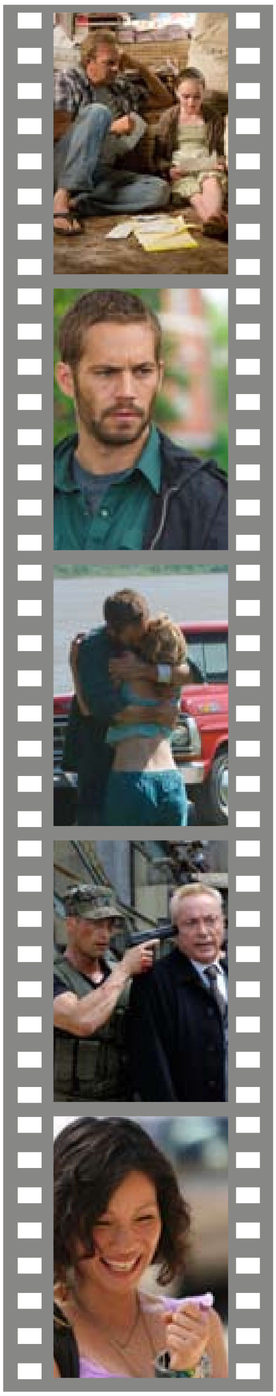


2007: Growth in %



2008: Growth in %

Contents



History of the Company

1974	Splendid Film founded by Albert E. Klein
1980	Andreas R. Klein takes over as head of Distribution & Marketing
1997	The company sets up its own synchronisation studios at its new location
1998	Distribution partnership reached with Polyband and Warner Music for cassettes and DVDs Start of global presence through investment in Initial Entertainment Group, Inc. (IEG), Santa Monica
1999	Listed on the stock market
2000	Acquisition of Polyband, founding of Enteractive and Splendid Television Co-operation agreement with 20th Fox International, L.A., for distribution of Splendid films Production of “Traffic“, “Dr. T & The Women“, “Gangs of New York“
2001	The Splendid production “Traffic“ wins four Oscars Sale of the minority shareholding in the IEG film production company, Santa Monica

2002	Golden Globe for the Splendid production “James Dean“ Founding of the film production company Splendid Pictures Holdings, Los Angeles, with a majority shareholding Three Emmy awards for the Splendid productions “James Dean” and “Victoria & Albert“
2003	Two Golden Globes for the Splendid production “Gangs of New York“ Separation from Splendid Pictures Holdings, Inc.
2004	Majority shareholding in WVG Medien GmbH, distribution company, Hamburg Focus on core business segments (Home Entertainment, License Trade)
2005	Increased share capital by issue of 889,999 new ordinary bearer shares
2006	Conclusion of a long-term financing agreement for EUR 7.5 million with HSBC Trinkaus & Burkhardt KG, Düsseldorf Splendid Synchron and FFS Film und Fernseh-Synchron GmbH, Munich/Berlin form a joint venture
2007	Development of the Video-on-demand (VoD) segment Launch of the edutainment product “Discover English with Ben & Bella” on various international markets Presentation of “Sudokia” – the world’s first interactive game for High-Definition-Disc formats
2008	Further improve of market position in Home Entertainment Enteractive Presentation of the first Blu-ray game worldwide Splendid expands exploitation of film library to Benelux

For our Shareholders

Swing Vote - Die beste Wahl (Kevin Costner)

Foreword by the Board of Management

Alexander Welzhofer
Director of Marketing and Distribution

Andreas R. Klein
Chairman of the Board
Director of Licensing Operations and Strategic Planning

Michael Gawenda
Director of Finance and Investor Relations

Ladies and Gentlemen,
Members of Staff and Partners of Splendid Medien AG,

In the 2008 financial year, we succeeded in increasing revenues by 25% from EUR 28.1 million to EUR 35.1 million. We also improved our earnings position compared with the previous year: the Splendid Group achieved earnings before interest and taxes (EBIT) of EUR 2.1 million and an EBIT margin of 6%. Net income after taxes reached EUR 0.7 million. At EUR 9.8 million, we continue to hold substantial liquidity; cash and cash equivalents improved by EUR 2 million compared with the previous year.

In Home Entertainment, we recorded a sharp increase in revenues through marketing our titles on DVD and Blu-ray disc (BD) as well as on video-on-demand (VoD). We achieved growth in revenues here of 23% to EUR 27.2 million (previous year: EUR 21.0 million). This outstanding performance was attributable, in particular, to our best-selling titles, “Schwerter des Königs” (In the Name of the King), the epic fantasy starring Jason Statham, and Ray Liotta, and the top quality BBC science and nature documentary “Planet Earth”. Our top-selling video premieres such as the sci-fi thriller “Mutant Chronicles” starring John Malkovich, Benno Führmann and Thomas Jane and the horror film “Alone in the Dark 2” made a major contribution to total revenues. In the 2008 financial year, we restarted marketing DVDs in the Benelux countries in cooperation with a new distribution and logistics partner. We are also planning a large number of releases there in the coming year. Our subsidiary WVG Medien GmbH, which is responsible for marketing titles from the Splendid film library as well as those owned by other distributors in the Home Entertainment sector, has consolidated its position in this market. Currently WVG ranks as one of the leading companies in the sector after the major Hollywood studios’ distributors and the largest independent distributors.

In the Licensing Operations division, a number of license agreements with TV broadcasters, including ProSiebenSat.1, Premiere, RTL and RTL II started to generate revenues, allowing us to increase revenues year on year in this division as well.

Revenues in the Post Production division equalled the level of the previous year. Among other things, business development was affected by the repercussions of the format competition between the competing formats BD and HD-DVD. Service revenues in this division only picked up later in the 2008 financial year, when the competition had ended with a positive outcome for BD.

Our investment reached EUR 8.3 million in the 2008 financial year. Our newly acquired titles include entertainment films for the whole family, high quality documentaries and action films, which we shall also release in cinemas in selected cases.

In the 2008 financial year, our share was unable to replicate the prices achieved in the previous year. It closed the financial year down on the level at the beginning of the year. In the wake of the poor performance by stock markets in reaction to the global financial crisis, there is very little buyer interest in the market.

Although it is too early to draw any final conclusions regarding the impact of the financial crisis on the sector environment and, in particular, on the Splendid Group's operations, the Splendid Group will strive to achieve growth in every division in the coming year. We aim to expand our strong position in the Home Entertainment sector further in future. In addition to releasing top-selling new titles, we aim to press ahead with marketing our catalogue titles and capitalise on the potential offered by exploiting them in the new BD and VoD formats. We also aim to press ahead with the exploitation of DVD titles in the Benelux countries.

Allowing for the macroeconomic and sector-specific imponderables against the background of the economic crisis, we are assuming that revenues and earnings in the 2009 financial year will match the level of the 2008 financial year.

We would like to thank our employees for their dedication and competence. We should also like to thank our business partners and our shareholders for their support and the confidence they have demonstrated in working with us.

Cologne, March 2009

Andreas R. Klein
Chairman of the Board
Director of Licensing Operations and Strategic Planning

Alexander Welzhofer
Director of Marketing and Distribution

Michael Gawenda
Director of Finance and Investor Relations

Report of the Supervisory Board

During the 2008 financial year, the Supervisory Board was kept informed by the Managing Board of all significant business transactions, of general business development and strategic planning; it supervised management and supported it in an advisory capacity. These functions were exercised in meetings and as part of a regular exchange of information and opinions between the Chairman of the Supervisory Board and the Chairman of the Managing Board. The Supervisory Board has played a part in the affairs of the Company to the extent required by law, the Articles of Association and the Managing Board's rules of procedure, and adopted resolutions on these affairs whenever necessary.

The reports by the Managing Board, which were submitted in writing each month and supplemented by verbal discussions if there was particular cause, kept the Supervisory Board informed on the course of business transactions, strategic planning as well as the revenues, earnings and liquidity of Splendid Medien AG and other companies within the Splendid Group. The Supervisory Board was therefore fully in a position to discharge its obligations under the law and the Articles of Association in the 2008 financial year and these obligations were discharged in full. It has not set up any special committees.

Composition of the Managing Board

As per the resolutions of the Supervisory Board on 26 November 2008, the appointments of Messrs Andreas R. Klein and Alexander Welzhofer as members of the Managing Board of Splendid Medien AG were each extended until 31 December 2011.

Meetings of the Supervisory Board

The Supervisory Board met for four ordinary meetings in the 2008 financial year. In the first meeting of 23 April 2008, the Management Board reported that, following various discussions with TV stations, it had decided at the end of 2007 – as had a number of our competitors – to value film assets individually. An external surveyor had been commissioned to do this. The surveyor's report, which had been sent to all the members of the Supervisory Board before the meeting, was the subject of a detailed discussion, in which the Company's auditor also participated. The result of the discussion was that the Managing Board, Supervisory Board and auditor agreed that the accounts as at 31 December 2007 should continue to be based on the surveyor's valuations. This resulted in the need for extraordinary write-downs, about which the Annual General Meeting on 10 June 2008 has already been informed in greater detail. The meeting also discussed the conclusions of the internal audit in 2007. The topics for the internal audit in 2008 were stipulated jointly by the Managing Board and Supervisory Board.

Managing Board members' entitlement to a bonus was established on the basis of the annual financial statements of Splendid Medien AG and the consolidated financial statements as at 31 December 2007. The draft agenda for the Annual General Meeting submitted by the Managing Board was approved. The Supervisory Board seconded the resolutions proposed by the Managing Board. The Managing Board also reported on imminent discussions concerning the restructuring of individual Group companies' distribution agreements.

At the meeting on 9 June 2008, the Supervisory Board concentrated on the shortfall in planned revenue in the first few months of 2008. At the request of the Supervisory Board, the Managing Board explained the reasons for this from its viewpoint. This was followed by a discussion of the various strategic options available to improve the sales and earnings position. The Supervisory Board saw no grounds for objections either in the market assessment by the Managing Board or with regard to the business development measures planned (and to some extent already implemented) by it. The Managing Board and the Supervisory Board also discussed the HR situation in the Splendid Group. The Managing Board also informed the Supervisory Board of the successful conclusion of negotiations on financing and on progress on further contractual negotiations.

At its meeting on 27 August 2008, the Supervisory Board requested detailed information from the Managing Board on business development at Kids for Kids GmbH. The Managing Board explained the success that had already been achieved in licensing its Ben & Bella product in various countries. The necessity of additional investment in this connection was debated. The trend in business in the License sales segment was discussed in depth by the Managing Board and the Supervisory Board. The Interim Report submitted to the Supervisory Board by the Managing Board, which reflected this trend in business, was approved by the Supervisory Board following careful scrutiny. The Management Board and Supervisory also debated the extent to which the latest amendments to the German Corporate Governance Code required organisational changes at Splendid Medien AG. It was agreed that no changes or addenda to the existing declaration of conformity by the Managing Board and Supervisory Board pursuant to Article 161 of the German Stock Corporation Act (AktG) were required. The Supervisory Board meeting ended with a debate on HR issues.

Having debated business development in recent months in its meeting on 26 November 2008, the Supervisory Board dealt with the question of the extent to which the regulations on the depreciation of film assets previous applied should be modified. A suggestion on this was submitted by the Managing Board. Following an extensive discussion, the Managing Board and Supervisory Board reached agreement on future depreciation practice. The Supervisory Board noted the findings obtained as part of the internal audit in the course of 2008. They gave no indications that corrective action by Supervisory Board was required. The debate of the budget for the 2009 financial year submitted by the Managing Board then took up a great deal of time. The Supervisory Board considered that the assumptions by the Managing Board, particularly those regarding growth in sales and earnings, on which this budget is based are plausible. The budget was therefore adopted unchanged. The Supervisory Board also reviewed and affirmed the remuneration system for the Managing Board in connection with the resolutions on extending the appointments of Messrs Klein and Welzhofer to the Managing Board and their contracts of employment. The criteria by which Managing Board members' bonuses for 2009 are to be calculated were agreed with the relevant Managing Board members. In accordance with the guidelines of the German Corporate Governance Code, the Supervisory Board also reviewed the efficiency of its own work. In so doing, it came to the conclusion that the Supervisory Board performs the functions incumbent upon it efficiently and action to improve efficiency was not needed. Updates to the Risk Management Report, which were prompted by the financial crisis among other things were debated by the Managing Board and Supervisory Board and adopted jointly. Finally, the Supervisory Board addressed the preconditions for the buyback of treasury shares by the Splendid Medien Group. The Managing Board and Supervisory Board are unanimous that a buyback of this kind will only be considered if the existing loss carryforwards are first netted off with the capital reserve. A decision on this was reserved to a later date in view of the tax inspections that are still to be carried out.

Audit of the annual financial statements and consolidated financial statements

At the Annual General Meeting on 10 June 2008, the Cologne-based auditors BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft were chosen as the auditors for 2008. Having obtained a declaration of independence pursuant to clause 7.2.1 of the German Corporate Governance Code, the auditors were commissioned by the Supervisory Board. BFJM Bachem Fervers Janßen Mehrhoff GmbH Wirtschaftsprüfungsgesellschaft audited the annual financial statements of Splendid Medien AG and the consolidated financial statements and management reports for Splendid Medien AG and the Group as at 31 December 2008 on the basis of the applicable statutory regulations and issued an unqualified auditors' certificate.

The annual financial statements and management report of Splendid Medien AG, the consolidated financial statements and the Group management report as well as the auditors' audit report were sent to all members of the Supervisory Board well ahead of the balance sheet meeting on 26 March 2009. The responsible representative of the auditors also attended the balance sheet meeting. He reported the key findings of the audit to the Supervisory Board. The audit documentation was discussed by the Supervisory Board with the Managing Board in depth at the balance sheet meeting. Discussions focused, in particular, on the methodology and the amount of the extraordinary write-downs. All the questions raised by the Supervisory Board on this and in connection with other things were answered comprehensively by the Managing Board and the responsible representative of the auditors. On the basis of these discussions and additional checks undertaken by it, the Supervisory Board came to the conclusion that there were no grounds for objections. The compulsory disclosures by the Managing Board in the management report of Splendid Medien AG pursuant to Article 289 Paragraph 4 of the German Commercial Code (HGB) and in the Group management report pursuant to Article 319 Paragraph 4 of the HGB were subjected to special examination by the Supervisory Board. The Supervisory Board considers the disclosures by the Managing Board there are complete and accurate and agrees with them.

Following its own review and in conformity with the findings in the auditors' audit reports, the Supervisory Board endorsed the annual financial statements and consolidated financial statements. The annual financial statements of Splendid Medien AG as at 31 December 2008 are therefore approved. The Supervisory Board has noted and approves the management reports and, in particular, the Managing Board's forecast of the future development of Splendid Medien AG and the Group.

Compliance

The Managing Board established a comprehensive compliance system in consultation with the Supervisory Board in 2007. Its aim is to guarantee compliance with laws, official decrees and ethical rules throughout the Group. In the 2008 financial year, the Supervisory Board assured itself that the Managing Board has taken the necessary action to guarantee that the behaviour of all the Group's employees complies with the law and the various rules. The Supervisory Board considers itself obliged for its part to do all that is necessary to prevent any breaches of the law, official regulations or ethical guidelines for conduct in business. If it becomes aware of breaches of this kind, the Supervisory Board will impose strict sanctions.

Corporate Governance

Splendid Medien AG deviates from the recommendations and suggestions of the German Corporate Governance Code in only a few respects. These deviations are in any case advisable for objective reasons. The Managing Board and Supervisory Board have published their justifications for this in a joint declaration of conformity pursuant to Article 161 of the AktG. This declaration of conformity, together with all previous declarations of conformity, is available on the Splendid Medien AG website. Please also refer to the Managing Board's Corporate Governance Report, which, in the opinion of the Supervisory Board, presents corporate governance at Splendid Medien AG correctly.

Risk early warning system

As in previous years, the Group's risk early warning system has again been updated by the Managing Board in 2008. Further improvements were also discussed jointly by the Managing Board and the Supervisory Board. In the opinion of the Supervisory Board the existing system is capable of identifying risks to the company in good time and reacting appropriately to risks of this kind.

The Supervisory Board would like to thank the management and all the employees of the Splendid Group for their dedication and performance in the 2008 financial year.

Cologne, 26 March 2009

Dr. Ralph Drouven
Chairman of the Supervisory Board

Our Business Model

The Splendid Group is a medium-sized, integrated media group, which has been operating as a successful independent for more than 30 years in German-speaking Europe. The Group's sales and revenue come from the exploitation of films and edutainment programmes (Content), distribution services for retailers in the Home Entertainment segment (Distribution) and post production services (Service).

Content

Splendid Film GmbH and Polyband Medien GmbH acquire rights to feature films, TV productions, Special Interest and children's programmes from a variety of sources including international film trade fairs such as AFM in Los Angeles, the Berlin Film Festival, the Toronto International Film Festival, the Pusan International Film Festival (Korea) and various trade fairs in Cannes, including MIP TV, MIPCom and the Cannes Festival. Special screenings are held at these fairs where license buyers can get a taste of completed films but licenses can also be purchased before shooting starts. If the story and the director and other assessable quality indicators show that the film has sufficient marketing potential, the decision to buy a license can go ahead. Polyband also works in the Special Interest segment with highly regarded organisations such as the BBC and Discovery Channel. With its first-look rights Polyband can decide on the exploitation of selected high quality documentaries from its partners' programmes. Having received the material and dubbed it, if necessary, completed any postediting of the sound track and digital formatting, exploitation of the films along the entire value-added chain (cinema, Home Entertainment and TV) in German-speaking regions and the Benelux countries starts.

Film Exploitation

Cinema: selected films, where the ratio of acquisition and marketing costs to anticipated box office returns warrant it, are first exploited in cinemas. Splendid releases these films both in its own right and via outside distributors such as Twentieth Century Fox. Box office success makes a film more valuable and boosts the chances of exploiting it on TV as well as in video, DVD and BD* formats.

Home Entertainment: four to six months after its cinema release, the film will be exploited in video outlets as DVD rentals. Splendid also sells its programmes on DVD/BD to the retail trade under the labels “Splendid Film”, “Polyband” and “Kids for Kids”.

Thanks to a series of cooperation agreements, Splendid is well positioned to exploit the expanding video-on-demand (VoD) and electronic sell-through (EST) markets. These formats allow customers 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 the start of exploitation in the Home Entertainment segment, the film is exposed to television. As a rule, it is first broadcast on Pay TV and subsequently on Free TV. The Splendid Group sells licenses for a contractually fixed period (such as seven years) and for a contractually fixed number of broadcasts in a cerain period (for example, five broadcasts in seven years). Once the license agreement expires, the film can be exploited on television once more (secondary exploitation).

Edutainment: the Group company Kids for Kids for Kids GmbH acquires, produces and markets entertainment and edutainment programmes for family audiences. Its premium programme “Discover English with Ben & Bella”, a high quality learning game for pre-school children, has been launched and distributed on international markets in collaboration with international partners including the renowned international publishing house Encyclopaedia Britannica.

Games: in 2008, the Group company Enteractive GmbH launched the first interactive Blu-ray game for the new high definition disc format – “Sudokia”, a registered trademark of the Splendid Group. “Sudokia” can be played on BD* consoles by up to five players using remote control. Other games are under development.

Distribution

The Splendid subsidiary WVG Medien GmbH, which is one of Germany's leading independent distributors, distributes films on the Splendid, Polyband and Kids for Kids labels to the retail trade. To this end, WVG maintains an extensive network of contacts with all the major over-the-counter retail chains in Germany as well as with Internet retailers and develops innovative marketing concepts with affiliated sectors. WVG's expertise is increasingly sought after by other license distributors and producers for the distribution of their own products on the Home Entertainment market. This is why WVG Medien now works for some 20 partners in the film and media industry.

Service

Through its Service division, the Splendid Group provides dubbing, soundtrack post production and DVD/Blu-ray production. Its in-house facilities for dubbing and scoring as well as for converting films to DVD/ BD format not only guarantee consistently high quality standards for its own films but are heavily in demand from external customers. Films are dubbed and their soundtracks processed before being released on the cinema and Home Entertainment markets. The Company also converts analogue film material – the vast majority – to the digital DVD and BD media. In addition to designing the menu navigation, this involves generating added content (making of, bonus material, games etc.) for the DVD/BD formats.

* Blu-ray-Disc

The Splendid Share

Shares in Splendid Medien AG have been listed on the German Stock Exchange in Frankfurt since September 1999 and are quoted in the Prime Standard.

Previous year's share price level not met

In the 2008 financial year, Splendid shares were unable to replicate the share price level achieved in the previous year. At the end of the financial year, the price had fallen below its level at the beginning of the year. In 2008, stock markets were dominated by the global financial crisis, which started on the US mortgage market in autumn 2007 and has spread to the general economy since then. In the wake of the stock market's poor performance, there was little buyer interest generally, especially for stocks with a low market capitalisation. Shares in Splendid Medien AG were also affected by this.

Share buyback programme cancelled

Following the announcement by the Managing Board at the end of October 2008 that the company would make use of the authorisation by the Annual General Meeting to buy back up to 10% of its own shares, a detailed examination of the facts showed that the preconditions of Germany company law for the implementation of a share buyback programme were not met in their entirety. Implementation of the share buyback programme was cancelled without delay.

Continuous exchange with investors and analysts

Despite the subdued market environment, Splendid Medien was involved in a continuous exchange of information with the capital market through presentations and conferences, including the German Equity Forum in Frankfurt in 2008, aimed at explaining the business model and business development. Investors were also able to contact the Investor Relations team by telephone or e-mail at any time.

Majority resolution by the Annual General Meeting

The ordinary Annual General Meeting of Splendid Medien AG on 10 June 2008 held at Komed in Cologne resolved by a majority to approve the actions of the Managing Board and the Supervisory Board for the 2007 financial year 2007 and to appoint the auditors for the financial year 2008. Furthermore, it authorised the company to acquire own shares.

Voting rights acquired

In mid-February 2008, the Stadtsparkasse Gelsenkirchen acquired a stake of 3.575% or 350,000 shares in Splendid Medien AG. The shares are administered by Metzler Investment GmbH, which also issued a declaration of voting rights.

Market price as per balance sheet date and market capitalisation *

	Price	Market capitalisation
31.12.2006	1,25	EUR 12.23 million
28.12.2007	1,45	EUR 14.20 million
31.03.2008	1,30	EUR 12.72 million
30.06.2008	1,07	EUR 10.48 million
30.09.2008	0,74	EUR 7.24 million
30.12.2008	0,52	EUR 5.09 million

*Closing prices in Xetra on the balance sheet date

Shareholder structure

As at 31 December 2008, the share capital of Splendid Medien AG was divided into 9,789,999 bearer shares. The shareholder structure was as follows:

	Percentage of total capital
Andreas R. Klein	54.23 %
Familie Klein GbR	6.31 %
COMMIT GmbH	5.06 %
Sparkasse Gelsenkirchen	3.58 %
Free float	30.82 %

*from a 3% share in the share capital

The lock-up periods that were agreed to voluntarily in the context of supervisory regulations at the time of the IPO have already expired. There are no further agreements. In the reporting period, the company did not undertake any reportable securities transactions. Details of the reportable securities portfolio are to be found in the notes.

The Splendid share at a glance

ISIN	DE0007279507
Reuters Instrument Code	SPMG.DE
Stock market abbreviation	SPM
Index data (inter alia)	DAXsubsector Movies&Entertainment
Trading segment	Prime Standard
Type of instrument (class)	Ordinary no par bearer shares
Authorised capital	EUR 9,789,999.00
Authorised capital in shares	9,789,999
Share capital	EUR 9,789,999.00
Share capital in shares	9,789,999
First trading day	24. September 1999
Designated sponsor	VEM Aktienbank AG, Munich (until 30 September 2008); ICF Kursmakler AG, Frankfurt (since 1 October 2008)
Capital measures:	29 August 2001 issue of stock options to Group employees. Total number: 222,494
	11 May 2005 Capital increased through issue of 889,999 new bearer share

Corporate Governance

The Managing Board – acting both on its own behalf and that of the Supervisory Board – has submitted the following report on corporate governance at Splendid Medien AG pursuant to Article 3.10 of the German Corporate Governance Code:

Declaration of Conformity

On 13 March 2008 and on 26 November 2008 the Managing Board and Supervisory Board submitted the declaration of conformity pursuant to Article 161 of the German Joint Stock Corporation Act (AktG), which states that, with four exceptions, Splendid Medien AG, fulfils the recommendations of the German Corporate Governance Code, as amended on 6 June 2008.

Cooperation between the Managing Board and the Supervisory Board

The Managing 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 advised the Managing Board in its management of company affairs. The Managing Board provides the Supervisory Board with regular, up-to-date and comprehensive reports on the course of business, strategic developments, the Group's situation and all issues of relevance to corporate planning. The rules of procedure for the Managing Board stipulate that major transactions require the approval of the Supervisory Board. The Report of the Supervisory Board provides more details on this subject.

Consulting agreements or other agreements on the provision of services between members of the Supervisory Board and the company have been reached in the case of Dr. Ralph Drouven and Mr Bernd Kucera. Dr. Drouven is both a member of our company's Supervisory Board and a partner in the law firm CMS Hasche Sigle; Mr Kucera is both a member of our company's Supervisory Board and a partner in Kucera & Hüttner GmbH, auditors and tax consultants. Insofar as CMS Hasche Sigle and/or Kucera & Hüttner GmbH advised the company in the period under review, this took place with the approval of the Supervisory Board. There were no conflicts of interest on the part of members of the Managing Board and Supervisory Board, which would have required immediate disclosure to the Supervisory Board.

The term in office of members of the Supervisory Board ends on conclusion of the Annual General Meeting at which a resolution approving the actions of the Supervisory Board in the 2009 financial year is adopted.

The company has arranged a Directors' & Officers' Liability policy with an appropriate excess for members of the Managing and Supervisory Boards of Splendid Medien AG.

Directors' Dealings

Pursuant to Article 15a of the German Securities Trading Act (WpHG), members of the company's Managing Board and Supervisory Board as well as certain persons with management responsibilities and persons closely related to them are obliged to disclose the purchase or sale of shares in Splendid Medien AG or financial instruments based on them, if the value of transactions undertaken by the member or persons closely related to him within one calendar year reaches or exceeds EUR 5,000 in total. Splendid Medien AG discloses these transactions as soon as the company receives notification of them. The information is published on the Internet and can be accessed at www.splendidmedien.com/Investor Services. No such transactions occurred in the 2008 financial year.

Corporate Compliance

Pursuant to No. 4.1.3, the Managing Board is responsible for ensuring that the statutory provisions and internal guidelines are complied with and works towards ensuring that they are observed by Group Companies. In the 2007 financial year, the Managing Board adopted a corporate compliance directive, which is designed, in particular, to prevent cases of corruption and other breaches of the law. The Managing Board and the management are responsible for compliance with the directive. The management and employees were instructed accordingly in 2008. Reports of possible breaches are submitted as part of a regular monitoring process. Furthermore, a compliance manager has been appointed as the point of contact in the event of possible breaches of the list of principles being discovered. There have been no breaches of the directive to date.

Shares owned by the Managing Board and the Supervisory Board

Pursuant to Article 6.6 of the German Corporate Governance Code, the Corporate Governance Report should contain information on holdings of the company's shares or financial instruments based upon them by members of the Managing Board and Supervisory Board if these holdings, whether direct or indirect, exceed 1% of the shares issued by the company. Splendid Medien AG reports all shares or financial instruments based upon them held by members of the Managing Board or Supervisory Board individually.

	Number	% share	Options
Managing 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

Total number of shares: 9,789,999

Remuneration of the Managing Board

in EUR	Remuneration				
	Fixed salary	Bonus Management Board	Bonus Managing Director	Non-cash benefits	Total
Andreas R. Klein (Chairman)	253,554	64,285		10,006	327,845
Alexander Welzhofer	231,351	21,798	21,409	8,803	283,361
Michael Gawenda	130,078	24,903		8,691	163,672
Total	614,983	110,986	21,409	27,500	774,878

The Managing Board of Splendid Medien AG receives a contractually agreed fixed salary and a performance-related bonus. The bonus is based on revenue and earnings-related components and on further defined performance targets, which are reset every year. Benefits in kind (esentially cars) represent a further component of the Managing Board's remuneration. In 2008, Alexander Welzhofer is entitled to a compensation payment of EUR 55 thousand as a minority shareholder in WVG Medien GmbH.

Supervisory Board

The members of the Supervisory Board are:

- Dr. Ralph Drouven, lawyer, Cologne, Chairman; additional Supervisory Board mandates: TX Logistik AG, Bad Honnef
- Mr Bernd Kucera, auditor/tax consultant, Bonn, Deputy Chairman; additional Supervisory Board mandates: AssFINET AG, Grafschaft bei Bonn (Chairman), pact Finanz AG, Düsseldorf
- Mr Michael Baur, management consultant, Munich

In accordance with the Articles of Association of Splendid Medien AG, members of the Supervisory Board only receive the following fixed remuneration:

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

Dr. Drouven (CMS Hasche Sigle) also charged EUR 24 thousand for consultancy services (of which EUR 24 thousand was charged to the income statement) in the period under review. In the financial year, Mr Kucera (Kucera & Hüttner GmbH) charged EUR 15 thousand for preparing the Splendid Group's payroll accounts (of which EUR 15 thousand was charged to the income statement) in addition to his Supervisory Board remuneration.

Declaration of conformity with the Germany Corporate Governance Code

The Managing Board and Supervisory Board of Splendid Medien AG submitted their declaration of conformity pursuant to Article 161 of the German Joint Stock Corporation Act (AktG) on 13 March 2008 and 26 November 2008. The text of the declaration of conformity dated 26 November 2008 is as follows:

Declaration

The Managing Board and Supervisory Board of Splendid Medien AG submitted the last declaration of conformity pursuant to Article 161 of the German Joint Stock Corporation Act (AktG) on 13 March 2008. The following declaration relates to the version of the Code dated 14 June 2007 for the period from 14 March 2008 to 8 August 2008. For the period from 9 August 2008, the following declaration relates to the requirements of the Code, in the version dated 6 June 2008 published in the online Federal Gazette for the period from 9 August 2008. The Managing Board and Supervisory Board of Splendid Medien AG declare that the recommendations of the "Government Commission of the German Corporate Governance Code have been and will be met with the following measures.

1. Article 5.3.2 Clause 1

The Supervisory Board shall set up an Audit Committee, which, in particular, handles issues of accounting, risk management and compliance, 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 has not set up a separate Audit Committee.

Justification: the Supervisory Board of Splendid Medien AG consists of three members. In view of fact that it is so small, the setting up of committees is unnecessary.

2. Article 5.3.3

The Supervisory Board shall form a Nomination Committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.

The Supervisory Board of Splendid Medien AG has not formed a separate Nomination Committee.

Justification: the Supervisory Board of Splendid Medien AG consists of three members. In view of the fact that it is so small, the setting up of committees is unnecessary.

3. Article 5.4.7 Paragraph 2 Clause 1

The members of the Supervisory Board should receive a performance-related remuneration in addition to a fixed remuneration.

According to the Articles of Association of Splendid Medien, members of the Supervisory Board only receive the following fixed remuneration:

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

Justification: the Supervisory can only influence the company's success to a limited extent, since it has no authority to manage the business and cannot induce the management to carry out specific measures. The Supervisory Board does not need either an incentive or a reward in the form of remuneration based on the company's successes to fulfil its statutory supervisory responsibilities.

Article 7.1.2. Clause 3

The consolidated financial statements should 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 statements within 90 days of the end of the financial year. Interim reports are published within 60 days of the end of the reporting period.

Justification: regular publication of interim reports within the period recommended by the German Corporate Governance Code would only be feasible if the internal accounting department was expanded, which would cost money.

Splendid Medien AG prepares its consolidated financial statements in accordance with International Reporting Standards (IFRS), as applicable in the European Union. The auditor has checked the declaration of conformity by the Managing Board and Supervisory Board pursuant to Article 161 of the German Joint Stock Corporation Act (AktG) and has raised no objections.

Group Management Report

Das Lazarus Projekt (Heavens Project, Linda Cardellini)

Group Management Report

Company and operations

Splendid Medien AG is the holding company for its subsidiaries and investments covering the value-added chain in the film sector with cinema, DVD and Blu-ray disc (BD), video-on-demand (VoD) as well as pay-TV and free-TV. Six Group companies are directly affiliated to the parent company, Splendid Medien AG, (holding company). FFS Köln is 51% owned by Splendid Synchron GmbH, while the remaining 49% is held by FFS Film- & Fernseh-Synchron GmbH, Munich. The managing directors of the operating subsidiaries are wholly responsible, in consultation with the Managing Board, for the success of their companies. The managing directors of Enteractive GmbH and WVG Medien GmbH hold shares in their respective companies. Splendid Medien AG is a management holding company and, as the parent company, assumes Group-wide holding functions such as accounting, strategic development, administrative services, controlling, public relations and investor relations at Group level. Profit pooling agreements have been in place with its subsidiaries Enteractive GmbH and Splendid Synchron GmbH since 2007. Control and profit transfer agreements have been in place with Polyband Medien GmbH and WVG Medien GmbH since 2004.

Splendid Film GmbH and Polyband Medien GmbH, in particular, acquire rights to feature films, TV productions, Special Interest and children's programmes and exploit these along the value-added chain (cinema, Home Entertainment and TV) in the German-speaking region and in Benelux countries. WVG Medien GmbH is responsible for distribution in the Home Entertainment sector. It distributes DVDs under the labels Splendid Film, Polyband, Kids for Kids and other distributors to retailers. Kids for Kids GmbH acquires, produces and markets entertainment and edutainment programmes for families. Enteractive GmbH in Hamburg devises and develops digital value-added services such as animation, trailers, DVD and Internet games. It complements Splendid Medien AG's Internet/New Media division and, together with Splendid Synchron GmbH, forms the Post Production division. Splendid Synchron GmbH and its subsidiary FFS Köln, which are both based in Cologne, dub foreign language films and TV series and adapt their soundtracks.

Splendid Medien AG
Alsdorfer Str. 3, 50933 Cologne

100 % **Splendid Film GmbH**
Alsdorfer Str. 3, 50933 Cologne

100 % **Polyband Medien GmbH**
Otto-Hahn-Str. 20, 85609 Munich

100 % **Kids for Kids GmbH**
Neumühlen 17, 22763 Hamburg

90 % **WVG Medien GmbH**
Neumühlen 17, 22763 Hamburg

85 % **Enteractive GmbH**
Esplanande 38, 20354 Hamburg

100 % **Splendid Synchron GmbH**
Alsdorfer Str. 3, 50933 Cologne

51 % **FFS Köln Film- & Fernseh-Synchron GmbH**
Alsdorfer Str. 3, 50933 Cologne

Internal management systems

The Splendid Group is managed on the principles of value-oriented management. The most important goal is to achieve profitable growth in the core business of each operating company within the Group. The key benchmarks are revenues, earnings before interest and taxes (EBIT) and – in terms of single investments – return on investment analyses comparing target and actual figures in each Group company. Liquidity and cash flow management is also of prime importance. The Group Managing Board believes that the use of EBIT, EBT, ROI analyses and the financing structure to scrutinise Group performance provides meaningful information on the company's earning and financial power. Value-oriented management is based on an internal planning, reporting and control system. Current revenues, earnings and cash flow trends are recorded and analysed on a monthly basis using variance analysis. Corrective action is taken immediately, if required.

General conditions

Economic growth halved

The German economy was affected, most notably in Q4 2008, by the effects of the financial crisis and their consequences: gross domestic product (GDP) for the months from October to December fell by up to 2% compared with the third quarter. According to estimates by the Federal Statistical Office, GDP in 2008 as a whole only increased by 1.3% (previous year: 2.5%). In view of the impact of the financial crisis, experts are expecting a sharp fall in economic growth in 2009.

Fall in retail sales less than anticipated

According to information from the Federal Statistical Office, retail sales, which are critical for the DVD and BD market, fell by 0.4% in real terms in 2008 compared with the previous year, which is less than many sector experts anticipated. German retailers expect a tough year in 2009: while it is likely that sales can be maintained at the previous year's level in H1 2009, given rising wages and a stagnant savings ratio, consumers' reluctance to spend will become palpable in the second half. Actual repercussions may differ from sector to sector and may offer opportunities as well as risks: while, on the one hand, it can be assumed for example that products on which consumers start to economise, in particular – including the book trade among others – will be affected in particular, past experience shows that media consumption does not decrease in times of crisis but can even increase.

German market for Home Entertainment shrinks slightly in 2008

With total sales of EUR 1.555 billion (previous year: EUR 1.605 billion), the German video market was 3% down on the previous year. At 103.7 million, the number of DVD titles purchased almost matched the previous year's figure (104.5 million), revenues reached EUR 1.291 million (previous year: EUR 1.331 million). The average price of audiovisual media (DVD, BD, VHS), at EUR 12.44, had fallen slightly on the previous year (EUR 12.73). The rentals market reached EUR 264 million (previous year: EUR 274 million).

Next gen formats (BD as well as remaining stocks of the inferior HD DVD format) contributed an increasing share of total turnover with revenues of EUR 48 million (previous year: EUR 14 million). For 2009 as a whole, the Bundesverband Audiovisuelle Medien (BVV = Federal Association of Audiovisual Media) expects annual BD turnover well in excess of EUR 100 million for 2009 as a whole.

In the medium term, experts are assuming moderate growth in the Home Entertainment sector. While the BD is emerging as an important growth driver for the sales market with a forecast market share of around 30% in 2012, the share of digital download in the rental market (most notably video-on-demand (VoD)) will become increasingly important.

A slight increase in TV advertising income

The trend in advertising income is an important indicator for TV companies when deciding on their programme buying and consequently also for the chances of the Splendid Group selling film licenses to the TV stations. In 2008, TV companies' gross advertising income trended upwards by 4.5 % (previous year: 5.2%) to EUR 9.1 billion (previous year: EUR 8.7 billion). In view of the anticipated decline in net advertising income (gross advertising income less rebates and discounts offered by the broadcasters) and a fraught economic situation, broadcasters' expenditure on purchasing programmes has fallen. The sector expects 2009 to be a difficult year.

Higher revenue and audience figures in German cinemas

The German cinema market recorded an increase in revenues of 4.9% on the previous year to EUR 794.7 million (previous year: EUR 757.9 million). Audience figures rose by 3.2% (from 125.4 million to 129.4 million). This confirmed experts' expectations, which assumed a sustained recovery from the weak previous year. The successful marketing of high quality German film productions certainly contributed to this development. For the next few years, given a moderate increase in ticket revenues, experts assume annual average growth in revenues in the cinema sector in the order of 3.7% (previous year's forecast: 4.2%).

Sustained price pressures in the Service division

The market for audiovisual post production services has been characterised by intense price pressures in recent years, which continued in 2008. For TV companies and production companies, the question of cost is an absolute priority in the case of both dubbing services and DVD productions. The large number of broadcasters, which compete for viewers as full programme broadcasters, niche broadcasters, shopping channels or pay TV channels, will, on the one hand, expose the sector to sustained price pressures over the next few years. On the other hand, broadcasters' demand for dubbing and other adaptation-related services will offer significant opportunities for growth.

Business development

Splendid Group revenues increase by 25%

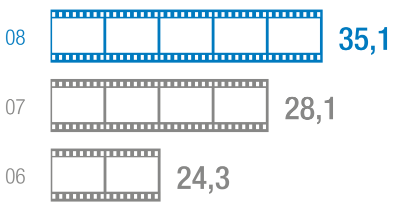
In the 2008 financial year, the Splendid Group achieved total revenue of EUR 35.1 million (previous year: EUR 28.1 million). As a result, the Group outperformed the previous year's figures by 24.9%. The successful fourth quarter alone contributed revenues of EUR 11.0 million (previous year: EUR 8.4 million).

The Home Entertainment division was the most important part of the Group's business. Its share of total revenues increased from the previous year's figure of 74.8% to 77.4%. The Group's second most important source of revenues was its Licensing Operations division with a share of 13.1% (previous year: 13.4%). In the reporting year, the Post Production division accounted for 9.5% of revenues compared with 11.8% in the previous year.

At EUR 11.0 million, earnings before interest, taxes and depreciation (EBITDA) were 20.8% up on the previous year's figure of EUR 9.1 million; the EBITDA margin amounted to 31.3% and reached approximately last year´s level. Operating earnings before interest and taxes came to EUR 2.1 million (previous year: EUR -1.9 million). The previous year's earnings were adversely affected by extraordinary write-downs on film assets owned by Splendid Film GmbH totalling EUR 4.3 million (current year: EUR 0.8 million).

Earnings before taxes amounted to EUR 1.5 million (previous year: EUR -2.4 million). Consolidated net income improved from EUR -1.2 million in the previous year to EUR 0.7 million, whereby tax expenses in the previous year was heavily affected by deferred taxes on loss carryforwards.

Turnover in € million



Home Entertainment

The Home Entertainment division recorded a marked increase in revenues of 29.2% to EUR 27.2 million (previous year: EUR 21.0 million).

Of this figure, EUR 9.2 million (previous year: EUR 8.5 million) is attributable to Splendid Film, while EUR 15.2 million (previous year: EUR 10.3 million) is attributable to Polyband. The contribution to revenues by Kids for Kids stood at EUR 0.8 million (previous year: EUR 0.6 million), while WVG Medien's contribution from distribution services came to EUR 2.0 million (previous year: EUR 1.7 million).

Top-selling video premieres among the Splendid titles

Of the new releases from the Splendid Film Library the epic fantasy "Schwerter des Königs" (In the Name of the King) starring Jason Statham and Ray Liotta, which achieved top rankings in the rental and retail charts following its cinema release, the sci-fi thriller "Mutant Chronicles" starring John Malkovich, Benno Führmann and Thomas Jane as well as the horror film "Alone in the Dark 2" were particularly successful. The last two ranked among the top video premieres in the German charts. Other top-selling titles in the comedy and family entertainment sectors included "Ein Nachbar zum Verlieben?" (The Neighbours) with Matthew Modine and "Liebe lieber ungewöhnlich" (Watching the Detectives) with Lucy Liu.

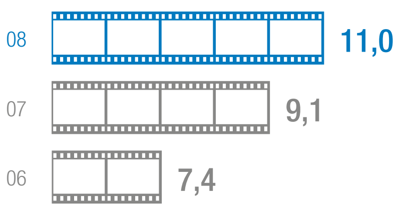
DVD exploitation in Benelux continues

Exploitation of Asian action films in Belgium, Luxembourg and the Netherlands, which started at the end of 2006 and was interrupted in the course of the 2007 financial year, was continued successfully with a new distribution and logistics partner in the course of the year. A total of 14 films under the Splendid label have been exploited in Benelux countries.

Polyband – outstanding market position in the documentary and Special Interest sectors confirmed

In the past financial year, Polyband confirmed its outstanding market position in the documentary and Special Interest sectors. Polyband achieved outstanding revenues by exploiting top titles, which are already familiar and popular from broadcasts by various TV stations (ARD/ZDF, Pro7, Sat.1), in the Home Entertainment sector. Among the documentaries, the high quality BBC

EBITDA in € million



science and nature documentaries “Planet Earth”, “Wild China” and “Our Blue Planet” were particularly successful. In the Special Interest sector, the Britcom series “Little Britain” and “Absolutely Fabulous” were front-runners in the Polyband programme. The adventure series “Primeval – Die Rückkehr der Urzeitmonster” (Primeval) as well as the popular German crime series “Der Bulle von Tölz” were among the top titles.

BD releases promoted

Following the decision by the market in favour of the BD format as the successor to the DVD format in Q1 2008, the Splendid Group could concentrate its capacity for releasing titles on BD. When releases first started, Splendid was able to race to the top of the charts with its first title released in high definition technology, namely “Planet Earth” and consequently to leave top titles such as “Die Hard 4.0” and “The Complete Matrix Trilogy” standing. 23 Splendid Group titles have been released on BD.

“Ben & Bella” are slowly gaining ground

The “Ben & Bella” product group came up with new educational schemes, most notably in the markets of South East Asia, in 2008. While the product is primarily marketed via direct distribution agreements in most Asian countries, the Group has a cooperation agreement with the international publishers Encyclopaedia Britannica for Korea and Japan as well as North and South America. The first releases in these countries are expected in 2009. Despite the basically very positive market prospects for this high quality edutainment product, market penetration is proving extremely time-consuming, however, revenues for “Ben & Bella” increased last year compared with the previous year.

Distribution performance up

WVG Medien is the distribution specialist for DVD and BD in German-speaking Europe. With more than 2,000 titles at its disposal now, WVG ranks among the leading independent DVD providers in the German-speaking region. The company has close relations with the major department store chains, specialist outlets and other retail companies. In addition to the Group’s own labels, Splendid, Polyband and Kids for Kids, WVG markets DVDs and BDs for a further 20 distributors and consequently combines its market position and expertise. In the 2008 financial year, the company increased distribution performance sharply to EUR 30.8 million (previous year: EUR 23.6 million). Accordingly WVG Medien’s market share increased to virtually 3% (previous year: 2%) compared with the previous year.

Growing significance of specialist marketing

For some time, the use of product bundling (combination of DVD with another product to form a package) to market DVDs has become established as an additional source of revenue in the Home Entertainment sector. Marketing instruments such as “covermount” (DVDs provided with magazines) or “add-ons” (DVDs provided with other products) are combined under the generic term “bundling”. Through targeted and intensive marketing, additional revenue of EUR 0.9 million (previous year: EUR 0.5 million) was generated from specialist marketing agreements. Covermount agreements have already been negotiated with various leading publishers for subsequent financial years.

Stable trend in VoD

Having achieved substantial growth in VoD revenues in the 2007 financial year, this division remained at a stable level in the 2008 financial year (EUR 0.4 million, 2007: EUR 0.4 million). The trend in revenues takes account of the fragmentation of the market and individual providers’ previously insufficient market breadth in this market. However, the Splendid Group considers that it is well positioned in this market through various agreements concluded with maxdome, t-online, Arcor and other important providers.

Growth in the Licensing Operations division

In the reporting period, revenues in the Licensing Operations division increased from EUR 3.8 million in the previous year to EUR 4.6 million. Revenues are significantly affected by the sale of TV licenses to TV stations. Licensing revenues resulting from a number of licensing agreements concluded with TV stations, including ProSiebenSat.1, Premiere, RTL and RTL II, in the 2007 financial year were reflected in the income statement in the 2008 financial year. These include the comedy horror film “Severance”, the action film “Der Bodyguard – Für das Leben des Feindes” (Body Armour) with Til Schweiger, the stunning manga spectacular “Battle of Kingdoms” (Battle of Wits) and other titles from the action and comedy genres. In 2008, sales of TV licenses were negotiated or completed with various stations in the RTL Group, some of which will be reflected in the income statement from 2009. Recent TV license sales include the romantic comedies “Ein Nachbar zum Verlieben” (The Neighbours) starring Matthew Modine and “Dein Ex – Mein Albtraum” (Fast Track) starring Amanda Peet and Zach Braff, the horror thriller “Demon Days – Im Bann der Dämonen” (They Wait) with Jaime King and Michael Biehn, as well as the Jackie Chan action comedy “Rob-B-Hood”.

Selective cinema releases aimed at optimising subsequent marketing

For the Splendid Group, cinema, as a phase in the value-added chain, primarily serves to optimise the opportunities for marketing the Group's film library to TV stations and in the Home Entertainment market. In particular, the major stations among the public sector (ARD, ZDF) and private sector (RTL, ProSieben, Sat.1) broadcasting groups focus on titles, which are already more familiar through being shown in cinemas previously.

In 2008, the Splendid Group released three films for rental by cinemas (previous year: 3). It started with two Polyband documentaries: "Sharkwater" – the moving plea for the fascinating and by no means blood thirsty shark was released in German cinemas in spring. It was followed in summer by the "Die Todesreiter von Darfur" (Devil Came on Horseback), which reports in shattering terms on the brutal genocide in the Darfur region of western Sudan. In autumn, the feature film adaptation of the action game "Far Cry" with Til Schweiger attracted an audience of ca. 73,000 to German cinemas.

Subdued business development at Post Production

As in the previous year, revenues at the Post Production division reached EUR 3.3 million. Of this figure, a share of EUR 1.8 million (previous year: EUR 2.1 million) is attributable to Enteractive GmbH, while revenues totalling EUR 1.5 million (previous year: EUR 1.2 million) are attributable to Splendid Synchron and FFS Köln. The trend in revenues at Enteractive was influenced by the repercussions of the format war between the competing BD and HD-DVD formats, with service revenues in this division only recovering in the rest of the 2008 financial year following the decision in favour of BD.

The work of Splendid Synchron was nominated twice for the German Prize for Dubbing at the beginning of 2008 – in the categories "Best Dubbing Script" and "Best Male Dubbing Performance" for the film "Harsh Times".

In autumn 2008, Enteractive received the Video Entertainment Business Award for its pioneering work as a developer of BD games. Having launched the world's first high definition game "Sudokia" at the Internationale Funkausstellung in Berlin (IFA) in 2007, Enteractive dispatched the first BD games in 2008. The market launch was preceded by a development phase, which was characterised by the final spurt in the format war between the competing formats to succeed the DVD, HD-DVD and BD. Enteractive had developed expertise in both formats. Additional investment, including training staff in BD programming, followed the decision by the market in favour of the BD format. Additional BD games developed by Enteractive have not yet been released since a market launch would be premature in view of the current market potential. The expertise developed through games programming has subsequently been deployed in developing and expanding existing and new service divisions.

Summary: business development

Overall, business development in 2008 was characterised by marked growth by the Home Entertainment division. The Licensing Operations division also recorded growth while the Post Production division, where revenues only picked up in the course of the 2008 financial year, achieved revenues in line with the previous year's figures.

As a consequence of this development, earnings before depreciation and earnings before interest and taxes exceeded the previous year's figures. Consolidated net income in 2008 was also subject to far lower unscheduled write-downs on film assets, whereas the previous year's consolidated net income benefited significantly from the capitalisation of deferred taxes on loss carryforwards.

Income, assets and financial position

Income position

At EUR 11.0 million, earnings before interest taxes and depreciation (EBITDA) was 20.8% (previous year: 23.0%) up on the figure for the previous year of EUR 9.1 million. Operating earnings before interest and taxes came to EUR 2.1 million (previous year: EUR -1.9 million). Earnings before tax amounted to EUR 1.5 million (previous year: EUR -2.4 million). Consolidated net income came to EUR 0.7 million (previous year: EUR -1.2 million).

Production costs came to EUR 24.5 million (previous year: EUR 21.8 million). The ratio of production costs to revenues stood at 69.8% (previous year: 77.6%) in 2008. The largest items included depreciation of film assets amounting to EUR 8.7 million (previous year: EUR 10.7 million), which included significant amounts for extraordinary write-downs last year, expenses for services purchased (e.g. production of film copies) of EUR 9.6 million (previous year: EUR 6.5 million) and expenses for licenses and royalties amounting to EUR 3.3 million (previous year: EUR 1.8 million). The latter are attributable to the recent increase in license acquisitions, as consequence of which additional royalties were paid following the successful exploitation of rights.

Distribution costs of EUR 5.0 million (previous year: EUR 5.2 million) comprise, in particular, advertising expenses of EUR 1.9 million (previous year: EUR 2.3 million), personnel expenses amounting to EUR 1.3 million (previous year: EUR 1.1 million) and costs for GEMA/film promotion totalling EUR 0.8 million (previous year: EUR 0.6 million). Slightly lower advertising costs year-on-year mainly reflected lower advertising costs for cinema movies versus the previous year. Distribution-related personnel expenses are attributable to an intensification of our Home Entertainment activities, which was accompanied by an increase in employee numbers. The ratio of distribution costs to revenues declined from 18.4 % to 14.2%.

General administrative expenses increased slightly year on year from EUR 3.7 million to EUR 3.8 million. This figure includes administration-related personnel expenses of EUR 1.9 million (previous year: EUR 1.7 million) (including the salaries and bonuses of the Managing Board) as well as consultancy fees amounting to EUR 0.4 million (previous year: EUR 0.5 million).

Other operating income totalled EUR 0.3 million (previous year: EUR 0.8 million) and resulted primarily from the reversal of provisions and the reduction in value adjustments. Interest expense was unchanged at EUR 0.8 million. Interest expenses were primarily incurred in connection with a long-term financing package provided by HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T Mezzanine II Fund) for EUR 7.5 million, which was agreed in April 2006, over a term of seven years with an effective annual interest rate of 8.7%.

Assets and financial position

In the past financial year, the Group's total assets rose from EUR 33.6 million to EUR 36.2 million.

Compared with the previous year, current assets rose from EUR 18.5 million to EUR 21.7 million. Cash and cash equivalents increased from EUR 7.7 million to EUR 9.8 million. The Group's financial position, measured by the ratio of cash and cash equivalents less non-current loans, stands at EUR 2.5 million (previous year: EUR 0.5 million) in 2008.

Trade receivables increased from EUR 7.7 million to EUR 9.3 million compared with the previous year. In particular, this figure includes receivables from the Home Entertainment division, which are connected with the increase in revenues in this division. Inventories rose slightly from EUR 1.4 million to EUR 1.5 million. At the balance sheet date medium and long-term assets were slightly down on the previous year's figure of EUR 15.1 million, at EUR 14.4 million. This figure also includes the item for "deferred taxes" in the amount of EUR 4.3 million (previous year: EUR 4.6 million). The items for "film rights" and "advance payments made on film rights and films under production" changed from EUR 9.5 million in total to EUR 9.2 million.

Current liabilities rose from EUR 11.9 million to EUR 13.8 million. Trade liabilities increased from EUR 5.1 million to EUR 5.9 million. In essence, these are liabilities to distribution partners in the Home Entertainment sector, which are connected with the increase in revenues from this division. The item for “provisions” rose from EUR 4.7 million to EUR 6.2 million. The increase was attributable, in particular, to higher provisions for rebates and returns caused by the increase in revenues. The item for “other current liabilities” increased from EUR 0.7 million to EUR 1.2 million.

Medium and long-term liabilities remained at the level of the previous year (EUR 7.7 million) in the reporting period. In particular, this figure represents a long-term, bullet repayment loan, which was drawn down in 2006. The amount, less a discount, was shown in the item “long-term loans”.

Given the background of the consolidated net profit, shareholders’ equity rose from EUR 14.0 million to EUR 14.7 million. The equity ratio stands at 40.7% (previous year: 41.6%). At this point, it should be noted that TEUR 66,615 was withdrawn from the capital reserve on 31 December 2008 to offset a loss carryforward remaining from the previous year in the individual financial statements of Splendid Medien AG after netting off the net profit for 2008.

Cash flow from the Group’s operating activities rose from EUR 5.9 million to EUR 9.4 million. This increase is substantially attributable to the rise in consolidated net profit year on year and lower cash outflow compared with the previous year.

Cash flow from investing activity stood at EUR -7.4 million (previous year: EUR -9.0 million). Cash in the amount of EUR 7.1 million (previous year: EUR 8.6 million) was invested in film assets.

Cash flow from financing activities of EUR 0.0 million was recorded (previous year: EUR 0.1 million).

The Splendid Group has cash and cash equivalents of EUR 9.8 million (previous year: EUR 7.7 million). The Group has a stable financing and liquidity structure and is able to meet its payment obligations at any time.

Summary: income, assets and financial position

In the reporting year, the Splendid Group increased its income situation compared with the previous year. The EBIT margin stood at 6% and the net profit at EUR 0.7 million (previous year: EUR -1.2 million).

At EUR 9.8 million, the Group has substantial holdings of cash and cash equivalents, which have increased by more than EUR 2 million compared with the previous year. The Group's financial position, measured by the ratio of cash and cash equivalents less long-term loans, has also improved, at EUR 2.5 million, compared with the previous year (EUR 0.5 million). Operating cash flow increased in the reporting year from EUR 5.9 million to EUR 9.4 million.

Investments

The Group invested EUR 8.3 million (previous year: EUR 9.4 million) in film assets in the 2008 financial year. The newly acquired titles include, among others, the family comedy "Swing Vote" starring Kevin Costner in the leading role, "Das Königreich der Yan" (An Empress and the Warriors), a spectacular, action-packed Asian films featuring the Hong Kong-based superstars Donnie Yen and Leon Lai, "The Good, the Bad and the Weird", a homage to the Sergio Leone western, "I Hate Valentine's Day", a romantic comedy with one of the cinema's most successful twosome of recent years (Nia Vardalos and John Corbett) as well as the US action film "The Expendables", which unites the talents of younger and established superstars such as Sylvester Stallone, Arnold Schwarzenegger, Mickey Rourke, Dolph Lundgren, Jet Li and Jason Statham. In the area of Special Interest programmes, the company acquired a classic TV story "Holocaust – Die Geschichte der Familie Weiss" (Holocaust – The Story of the Weiss Family). It also acquired a documentary about the Apollo Moon programme, "Im Schatten des Mondes" (In the Shadow of the Moon) by the Oscar winning Hollywood director Ron Howard as well as "Die zwei Pferde des Dschingis Khan" (The Two Horses of Genghis Khan), the new film by director Byambasuren Davaa ("The Weeping Camel"). The output agreement with Discovery Channel was also extended.

Employees

At the year end, the number of permanent staff totalled 82 (previous year: 79). Ten employees were recruited in 2008, predominantly in product marketing and in the Post Production division. Seven employees left the company in 2008.

Number of permanent employees (incl. Managing Board/management) in Group companies

	2008	2007
Splendid Medien AG	8	8
Splendid Film GmbH	7	7
Polyband Medien GmbH	12	12
Kids for Kids GmbH	1	1
Splendid Synchron GmbH	12	12
Enteractive GmbH	24	22
WVG Medien GmbH	18	17

*FFS Köln did not employ any permanent staff in 2007 and 2008

The majority of the Group's employees have many years' experience in the sector and/or have worked for the Group for long periods. Senior employees, particularly the managing directors, maintain close contacts with key customers.

Employees' length of service

	2008	2007
up to 1 year	10	21
between 1 and 2 years	23	12
between 2 and 5 years	9	14
more than 5 years	40	32

Events after the balance sheet date

No circumstances have occurred that need to be reported.

Risk report

As an internationally operating company, Splendid Medien AG is exposed to various risks. It aims to integrate appropriate risk and preventative measures in its decisions and business processes and to adjust, refine and optimise these measures continuously.

The timely and complete recording of existing and potential material risks forms part of the process of continuous risk identification pursued by the Managing Board, managing directors and management. The material risks to which the Group is exposed are combined in catalogue of risks and assessed in terms of their "economic loss potential" and "degree of probability". Appropriate countermeasures are devised. Wherever possible, sector-typical risks are reduced through countermeasures and insurance taken out against risks caused by third-parties or force majeure.

The effectiveness of the measures to control risk and the risk situation as a whole is reviewed and updated at least twice a year.

The Managing Board has overall responsibility for risk management. It stipulates risk policies and decides on the totality of the risks to be borne by the Splendid Group as well as on the measures to avoid and reduce risk. The Managing Board ensures that the central catalogue of risks, which details all material risks, the assessment of these risks and measures to counter them, is kept up-to-date. A report based on the catalogue of risks is prepared for the Managing Board at least twice a year. If risks arise in the meantime, which have a material influence on the Group's risk situation, the Managing Board is informed immediately. The Supervisory Board receives a detailed report on the Splendid Group's risk management at least once a year.

The design and effectiveness of the risk management system is covered in the audit of the consolidated financial statements.

The following areas are analysed to a particular degree in the risk assessment, since they are directly associated with the company's income, assets and financial position.

Acquisition and sale of film licenses

When acquiring film licenses, the company focuses on their marketing potential along the value-added chain. To this end, managing directors of subsidiaries with responsibility for film acquisitions prepare acquisition proposals in consultation with the Distribution division, which include both a project-related analysis and an analysis of the effect on the profitability and liquidity of the company as a whole. Nevertheless, the risk of whether the respective film will appeal to the public and whether it will be an economic success remains. This is true for all stages on the value-added chain. Apart from economic risks, legal risks may emerge from the purchase and sale contracts, some of which are extremely complex. This is why the Splendid Medien AG subsidiaries involved in the acquisition of film licenses regularly seek legal advice outside the company.

Home Entertainment

The Splendid Group achieves a major proportion of total revenues in the Home Entertainment sector. In principle, there is a risk that this market could also be affected by the repercussions of the financial crisis. However, it is still too early to see whether this is the case.

TV exploitation

Among other things, the Splendid Group generates revenues from the sale of films to free TV and pay TV. Falling advertising income or a smaller number of subscribers have a significant impact on TV stations' purchasing budgets. The economic situation in the media landscape, including possible negative repercussions of the economic crisis as well as unilateral changes to payment arrangements may have an adverse effect on the Splendid Group's financial and income position under certain circumstances.

Product piracy

For some time now, the film industry has complained about the possibility of illegal downloads from the Internet, which have increased dramatically with the spread of DSL. Other forms of product piracy, such as the dissemination of illegal DVD copies, are clearly detrimental to the film industry and the DVD sector in particular. The industry has launched a number of initiatives designed to place increasing restrictions on product piracy in future. In general terms it should be noted that the impact of illegal downloads varies from company to company within the Group. The products marketed by Polyband GmbH and Kids for Kids GmbH with their Special Interest and children's programmes are exposed to a much lower risk of piracy than the feature films marketed by Splendid Film GmbH. This can be largely explained by the different target groups to which the respective genres appeal. In the previous year, the Splendid Group took further measures to optimise the copy protection system for DVD products and introduced copy protection systems for its new BD products in the reporting year. Generally speaking, the economic risk to which the Splendid Group is exposed can be said to be in line with the market.

Currency risks

Among other countries, the Splendid Group acquires film licenses in the USA and the Far East. Since these licenses are predominantly exploited in German-speaking countries, fluctuations in the euro/dollar exchange rate may have a positive or negative effect on the company's income position. The Splendid Group bases its project and investment calculations on assumed rates. Any marked deviations between actual rates and assumed rates will trigger an examination of suitable hedging tools. Transactions are hedged on a case-by-case basis.

Risks arising from non-payment or delayed payment

The Splendid Group exploits the overwhelming majority of the license rights it acquires in the Home Entertainment sector and in deals with TV companies in German-speaking countries. Economic developments, in particular, the business situation and payment policy of the entities it does business with, which may result in non-payment or deferred payments for the Splendid Group, are monitored through regular reports. The existing receivables management system is undergoing a modernisation and improvement process that will be completed by the end of April 2009. A large portion of the receivables from DVD sales is covered by distributors' credit insurance policies.

Financing

Access to sufficient capital for the acquisition of film licenses is of crucial importance for the Group. In the 2006 financial year, the Splendid Group agreed a long-term financing package with HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T Mezzanine II Fund) for EUR 7.5 million. Further details of this are provided in the notes to the consolidated financial statements. In the 2007 financial year, Splendid Medien AG reached an agreement on cooperation with National Bank, Essen, under which it was given an operating credit line, which is still available to the company. The Managing Board is negotiating additional financing.

The Splendid Group benefits from a stable financial and liquidity structure. The Managing Board is examining additional financing options to ensure that it can continue its expansionary course. Irrespective of whether additional financing agreements are concluded or not, the economic stability of Splendid Medien AG is guaranteed.

Key personnel risk

The Group's economic success is heavily influenced by management and key experts in the subsidiaries. A sudden loss of this personnel may have an adverse impact on the subsidiaries' and the Group's operations. The company counters the risk by putting in place succession and deputisation arrangements. Stock option programmes, flat hierarchies and performance related remuneration schemes ensure job satisfaction and loyalty among staff members across the companies.

Legal risks

Splendid Medien AG and its subsidiary Splendid Film GmbH are exposed to risks of liability arising from the former subsidiary Splendid Pictures, Inc. An appropriate provision was created by Splendid Film GmbH in the 2002 financial year. The Managing Board has taken future latent risks from this division into consideration and is maintaining the existing provision.

Risks from the subsidiaries

A standardised monthly reporting system, under which deviations between actual and target figures are reported to the Managing Board, is used to counter potential risks from the subsidiaries that could affect the Group. The Supervisory Board is also notified of the most important developments within the Group as part of the monthly reporting process. In the reporting year, the Managing Board again adjusted and optimised existing systems to meet current requirements.

Corporate compliance

The internal corporate compliance directive serves to prevent cases of corruption and other illegal activities. The Managing Board and management are responsible for compliance with the directive and report on possible breaches as part of the regular monitoring process. Moreover, a compliance manager has been appointed as the point of contact in the event of possible breaches of the list of principles being discovered. There have been no breaches of the directive to date.

Every year, the Splendid Group identifies, in consultation with the Supervisory Board, additional areas to be included in the audit as part of the risk management process. Audits are carried out by independent auditors and tax consultants, as a rule. In 2008, several business processes were subjected to an audit and, where necessary, optimised.

Forecast report

It is still too early to forecast the repercussions of the financial crisis on the sector environment and, in particular, on the operations of the Splendid Group. However, for the next two years and beyond, the Group will continue to strive to achieve growth in all its divisions. Considered on a division by division basis, this will mean:

Home Entertainment will remain the Group's most important segment

Although the German video market shrank slightly overall in 2008, experts are predicting moderate growth in the short to medium term. Overall, the Home Entertainment market will continue to play a key role in the film business. Revenues in the Home Entertainment sector were twice as high as in the cinema sector. The Home Entertainment division will also play a central role over the next two years for the Splendid Group. In addition to releasing top-selling new titles, the Splendid Group plans to intensify marketing of its catalogue titles.

Prices of direct-to-DVD and Special Interest products remain high

Average prices for audiovisual media have fallen again in the 2008 financial year. The fall in prices was even relatively more marked for BDs than for DVDs. However, the Splendid Group considers that it is well placed: the average prices achieved in the market for feature films, which were released direct-to-DVD, were actually higher than those of cinema films. The average price of Special Interest products per audiovisual medium actually increased by almost 20% compared with the previous year. Both product groups will represent a material component of the Splendid Group's film library. The Splendid Group assumes that growth in revenues – particularly in the Special Interest segment – from the release of very high quality documentaries will remain high.

More BD releases planned

Over the next few years, the DVD market will increasingly be replaced by the BD format. However, given the current economic situation, it can be assumed that it will take longer for BD hardware to become established in people's homes than would have been the case under normal circumstances, meaning that market penetration by the BD will also take correspondingly longer. Experts are therefore forecasting that the BD will not achieve its anticipated market dominance until the next decade. The Splendid Group will increasingly release titles in BD format over the next few years. In addition to new releases, the Splendid Group will also exploit the additional potential value-added offered by releasing its catalogue programmes on BD.

VoD will be a cornerstone of Home Entertainment in the medium term

Although the Splendid Group's VoD revenues have not grown as rapidly as anticipated, the Group nevertheless expects the significance of BD to increase further over the next few years. More and more Home Entertainment providers now release their content of DVD and VoD.

While market growth is currently still inhibited by a limited online range and long download times, experts expect that revenues in this segment will increase significantly in the medium term, as market penetration of broadband Internet access increases. Over the next few years, the Splendid Group will continue to strive to work with the leading and major players in this area in order to be well placed and exploit the existing potential.

Expanding business in Benelux under new direction

In 2008, the Splendid Group restarted marketing of DVD in Benelux countries with a new distribution and logistics partner. Ca. 40 title releases are planned for the 2009 financial year, predominantly from the Asian action and horror genres. Gradually titles from other genres, including comedies and documentaries, are to be released in the Benelux countries.

Extending and diversifying the educational game “Ben & Bella”

Although the Group’s cooperative ventures with leading distributors have not generated the revenues and earnings that had been hoped for, the Splendid Group continues to believe in the innovative and high quality product concept. The “Ben & Bella” umbrella brand is to be expanded selectively by extending and diversifying the programmes.

Expanding distribution services

The assumption of distribution services for Home Entertainment products both for the Group and for third parties by WVG Medien will also be of major importance over the next few years. The market can be ideally monitored here and this will allow us to generate the expertise to market products optimally. Collaboration with other distributors in addition to Group companies will create economies of scale and consolidate the Group’s position in the market. WVG is striving to increase its market share in traditional business and will expand both its activities in the online sector (including VoD, eCommerce, Download-to-own) and in alternative forms of distribution such as covermount and business with companies from other industries.

TV market offers opportunities for Splendid products

The TV market is currently characterised by falling advertising income and changes to viewers’ behaviour. TV stations financed by advertising have recently undertaken drastic – in some cases – cost cutting and restructuring measures to remain competitive. More and more TV stations are pursuing a cross-media approach and establishing their own Internet presence to exploit opportunities in the online market and to retain advertising customers at the same time. Despite this perceptible change, TV consumption remains four times as high as online consumption. An increase in advertising income is also expected in the medium term. In principle, a cost-conscious acquisition policy plays to the Splendid Group’s product portfolio. In this economic situation, the Splendid Group expects broadcasters to focus on licensing programmes rather than initiating their own productions. The Group assumes that it will be able to conclude significant TV licensing agreements involving both its existing catalogue and new programmes over the course of the next two years.

Mass market titles in addition to the tried and tested Special Interest programmes

In the past year, in addition to purchasing licenses in the tried and tested genres (including, most notably, Asian action films, horror films and Special Interest programmes), the Splendid Group also acquired titles that will appeal to a wider audience because of a well-known cast and the genre involved. In selected cases, these titles are also destined for cinema release. Despite the moderate increase in cinema releases planned for the next couple of years, the Splendid Group's marketing strategy will still concentrate on cinema release as a means of exploiting its assets. Selective cinema titles will increase the appeal of the programme as a whole when marketing to both the TV and Home Entertainment sectors.

Service division: develop new areas of business

The market for Post Production services continues to be characterised by intense pressure on margins. Prices are stagnant at best in both the dubbing segment and the digitalisation segment. The Splendid Group expects moderate growth in dubbing services over the next year, which will be driven primarily by third party clients. In the digital Post Production segment, the Splendid Group is aiming to extend its services to additional territories where it can achieve more generous margins. The Group is also planning to develop more high quality services in the BD segment.

Exploit potential in the Games segment

In the previous year, the Splendid Group had started to develop its own games. In the 2008 financial year, it launched the world's first interactive BD game on the market. Additional games are under development but have not yet been released. The Games market in Germany picked up significantly in 2008. TV stations and other media companies are increasingly involved in expanding their distribution teams and manufacturing their own games and gaming platforms. Predictive market studies indicate substantial potential in the Games segment. The Splendid Group will therefore examine additional investment in this area from a strategic viewpoint. Building on the existing potential for growth in the Games market, this segment is expected to contribute significant revenues and earnings in the medium term.

The Splendid Group reported positive business development in the first months of the 2009 financial year and anticipates correspondingly positive effects on trends in revenues and earnings.

In view of the performance of the individual segments as discussed above, the Management Board estimates 2009 sales and earnings will come in at the levels recorded for the 2008 financial year. Nonetheless, the overall business and industry outlook is particularly difficult to assess in light of the ongoing economic crisis.

Remuneration report

Managing Board

The members of the Managing Board are:

- Andreas R. Klein, Director of Licensing Operations and Strategic Planning, Chairman
- Alexander Welzhofer, Director of Marketing and Distribution; also a member of the Managing Board of the Federal Association for Audiovisual Media (BVV), Hamburg
- Michael Gawenda, Director of Finance and Investor Relations

Members of the Managing Board of Splendid Medien AG receive a contractually agreed fixed salary as well as a performance-related bonus. The bonus is based on revenues and earnings related components and on additional defined performance targets, which are reset every year. Benefits in kind (essentially cars) constitute a further component of the Managing Board's remuneration.

Alexander Welzhofer was granted 33,375 stock options in 2001. These options have not been exercised to date. The exercise price at the date when the first tranche was issued stood at EUR 3.43. The options have a term of 15 years. Subscription rights may be exercised no earlier than two years after being allocated and then over the following four years within exercise periods and windows depending on the performance goals achieved. Mr Welzhofer did not exercise his subscription right last year.

The contracts of the Managing Board members Andreas R. Klein and Alexander Welzhofer were extended until 31 December 2011. Michael Gawenda's contract runs until 30 June 2011. No Managing Board member has been promised any benefits in the event of their work ending. Neither has any member of the Managing Board received benefits or promises to this effect from a third party with regard to his member of the Managing Board. No member of the Managing Board has been granted a pension and members of the Managing Board do not receive loans either.

Remuneration of the Managing Board in 2008 in EUR

	Remuneration				
in €	Fixed salary	Bonus Management Board	Bonus Managing Director	Non-cash benefits	Total
Andreas R. Klein (chairmen)	253,554	64,285		10,006	327,845
Alexander Welzhofer	231,351	21,798	21,409	8,803	283,361
Michael Gawenda	130,078	24,903		8,691	163,672
Insgesamt	614,983	110,986	21,409	27,500	774,878

In 2008, Alexander Welzhofer is entitled to compensation of TEUR 55 as a minority shareholder in WVG Medien GmbH.

Supervisory Report

The members of the Supervisory Board are:

- Herr Dr. Ralph Drouven, lawyer, Cologne, Chairman; also a member of the Supervisory Board of TX Logistik AG, Bad Honnef
- Herr Bernd Kucera, auditor/tax consultant, Bonn, Deputy Chairman; also a member of the Supervisory Boards of AssFINET AG, Grafschaft bei Bonn (Chairman), pact Finanz AG, Düsseldorf
- Dipl-Kfm. Michael Baur, management consultant, Munich

In accordance with the Articles of Association of Splendid Medien AG, members of the Supervisory Board only receive the following fixed remuneration

	2008
Dr. Ralph Drouven	TEUR 20
Bernd Kucera	TEUR 15
Michael Baur	TEUR 10

Dr. Drouven (CMS Hasche Sigle) also charged TEUR 24 for consultancy services (of which TEUR was charged to the income statement) in the reporting period. M Kucera (Kucera & Hüttner GmbH) charged TEUR 15 for preparing the Splendid Group's payroll accounts (of which 15 TEUR was charged to the income statement) in addition to his Supervisory Board remuneration.

Minority shareholders

The settlement agreement with minority shareholders provides for the following annual compensation payments:

	2008
Alexander Welzhofer	TEUR 55
Hans Henseleit	TEUR 58

Reporting pursuant to Section 315 Paragraph 4 of the German Commercial Code (HGB)

Capital and voting right structure

As at 31 December 2008, the share capital of Splendid Medien AG amounted to EUR 9,789,999.00 and is divided into 9,789,999 bearer shares each with a nominal value of EUR 1.00. According to Article 26 Paragraph 1 of the Articles of Association of Splendid Medien AG, each share entitles the holder to one vote. The Managing Board is not aware of any restrictions, which affect voting rights or the transfer of shares even if they may arise from agreements between shareholders. The shares do not grant any special rights giving powers of control.

At the end of the reporting year, the shareholder structure is as follows:

	Number of shares	% share of the share capital
Andreas R. Klein	5,308,984	54.2286
Familie Klein GbR	617,285	6.3053
COMMIT GmbH	495,437	5.0606
Sparkasse Gelsenkirchen	350,000	3.575

* in excess of 3% of the share capital

Appointment and dismissal of members of the Managing Board

In accordance with Article 8 Paragraph 1 of the Articles of Association, the Managing Board consists of one or more persons. The Supervisory Board may appoint a Managing Board member as Spokesman or Chairman of the Managing Board. Deputy Managing Board members may also be appointed; they will have the same rights as ordinary members of the Managing Board in terms of representing the company externally. The Managing Board of Splendid Medien AG currently consists of three members. In accordance with Article 8 Paragraph 2 of the Articles of Association, the Supervisory Board determines the number of members of the Managing Board, their appointment and dismissal as well as the conclusion, amendment and termination of contracts of employment with Managing Board members.

Amendments to the Articles of Association

In principle, the Annual General Meeting is responsible for amending the Articles of Association (Section 179 Paragraph 1 Clause 1 of the AktG). According to Article 22a of the Articles of Association, the Supervisory Board is authorised to resolve changes to the Articles of Association that only affect their wording.

Material agreements in the event of a takeover bid

Splendid Medien AG has not concluded any material agreements regarding a change of control. This also applies to possible compensation agreements with Managing Board members or employees. Under the terms of the long-term financing agreement with HSBC Trinkaus & Burkhardt, KG, Düsseldorf/H.E.A.T Mezzanine S.A., Luxemburg, an agreement on a change of control would only take effect if the change of control would lead to deterioration in the balance sheet valuation.

Managing Board’s authority to issue shares

The Managing Board’s authority to issue shares is regulated in Article 5 Paragraph’s 3 to 7 of the Articles of Association:

Authorised capital

Authorised capital I

The Managing Board was authorised, subject to the consent of the Supervisory Board, through the resolution by the Annual General Meeting on 2 July 2004 to increase the company's share capital by up to EUR 3,560,000.00 in total on one or more occasions up to 20 July 2009 by issuing new bearer shares each with a nominal value of EUR 1.00 in return for cash contributions or contributions in kind (authorised capital I). The Managing Board was also authorised, subject to the consent of the Supervisory Board to decide on the exclusion of shareholders' statutory subscription rights. Further details are provided in the Notes.

Authorised capital II/2005

The Managing Board was authorised, subject to the consent of the Supervisory Board, through the resolution by the Annual General Meeting on 6 July 2005 to increase the company's share capital by up to EUR 978,000.00 in total on one or more occasions up to 1 August 2010 by issuing new bearer shares each with a nominal value of EUR 1.00 in return for cash contributions or contributions in kind (authorised capital II/2005). The Managing Board is authorised, subject to the consent of the Supervisory Board, to decide on the exclusion of shareholders' statutory subscription rights. Further details are provided in the Notes.

Conditional capital

Conditional capital I

Through the resolution by the Annual General Meeting on 20 June 2001, the company's share capital is conditionally increased by up to a nominal EUR 890,000.00 (conditional capital I) through the issue of new bearer shares each with a nominal amount of EUR 1.00. The conditional capital increase will be used exclusively to convert subscription rights granted within the framework of the stock option plan 2001. Responsibility for granting subscription rights to members of the company's Managing Board lies solely with the Supervisory Board. Further details are provided in the Notes.

Conditional capital II

Through the resolution by the Annual General Meeting on 6 July 2005, the share capital is conditionally increased by up to EUR 3,000,000.00 by issuing up to 3,000,000 each with a nominal amount of EUR 1.00 (conditional capital II/2005). The conditional capital will be used solely to service conversion and option rights resulting from the authorisation by the Annual General Meeting to issue conversion and option bonds up to 5 July 2010.

The Managing Board is authorised, subject to the consent of the Supervisory Board, to stipulate the additional content of the share rights and additional details of the implementation of the conditional capital increase. Further details are provided in the Notes.

Authorisation to acquire and use treasury shares

The Managing Board was authorised, subject to the consent of the Supervisory Board, through the resolution of the Annual General Meeting on 10 June 2008 to acquire shares in Splendid Medien AG in an amount of up to 10% of the existing share capital at the time the resolution was adopted or – if this amount is lower – of the existing share capital at the time the present resolution is exercised for every permissible purpose within the restrictions of the law up to 18 months from the date of the resolution. At the same time, the shares acquired on the basis of this authorisation together with other shares in the company owned by the company or attributable to it under Sections 71a et seq. of the AktG may not make up more than ten per cent of the share capital at any time. The authorisation may not be used for the purpose of trading in treasury shares. The acquisition may take place, at the discretion of the Managing Board with the consent of the Supervisory Board, via the stock exchange or by means of a public offer to purchase addressed to all shareholders or a public request to the company's shareholders to submit offers for sale. The acquisition may, at the discretion of the Managing Board with the consent of the Supervisory Board, also take place subject to shareholders' put options being excluded in some other way, if the acquisition takes place as part of a merger with companies or the acquisition of companies, investments in companies or parts of companies or if a parcel acquisition of at least 1% of the current share capital is involved and an acquisition of this kind serves a purpose, which is in the overwhelming interest of the company and is suitable and necessary to achieve this purpose. The Managing Board is authorised, subject to the consent of the Supervisory Board, to sell the shares in Splendid Medien AG acquired on the basis of the above authorisation via the stock exchange or through an offer to all the shareholders and use them for all other purposes permitted by law, in particular, to introduce shares in Splendid Medien AG to stock exchanges, in which they have not previously been admitted for trading, to use them as part of mergers or in the acquisition of companies, investments in companies or parts of companies, for sale to third parties and to al shareholders and for calling in.

Cologne, 24 March 2009

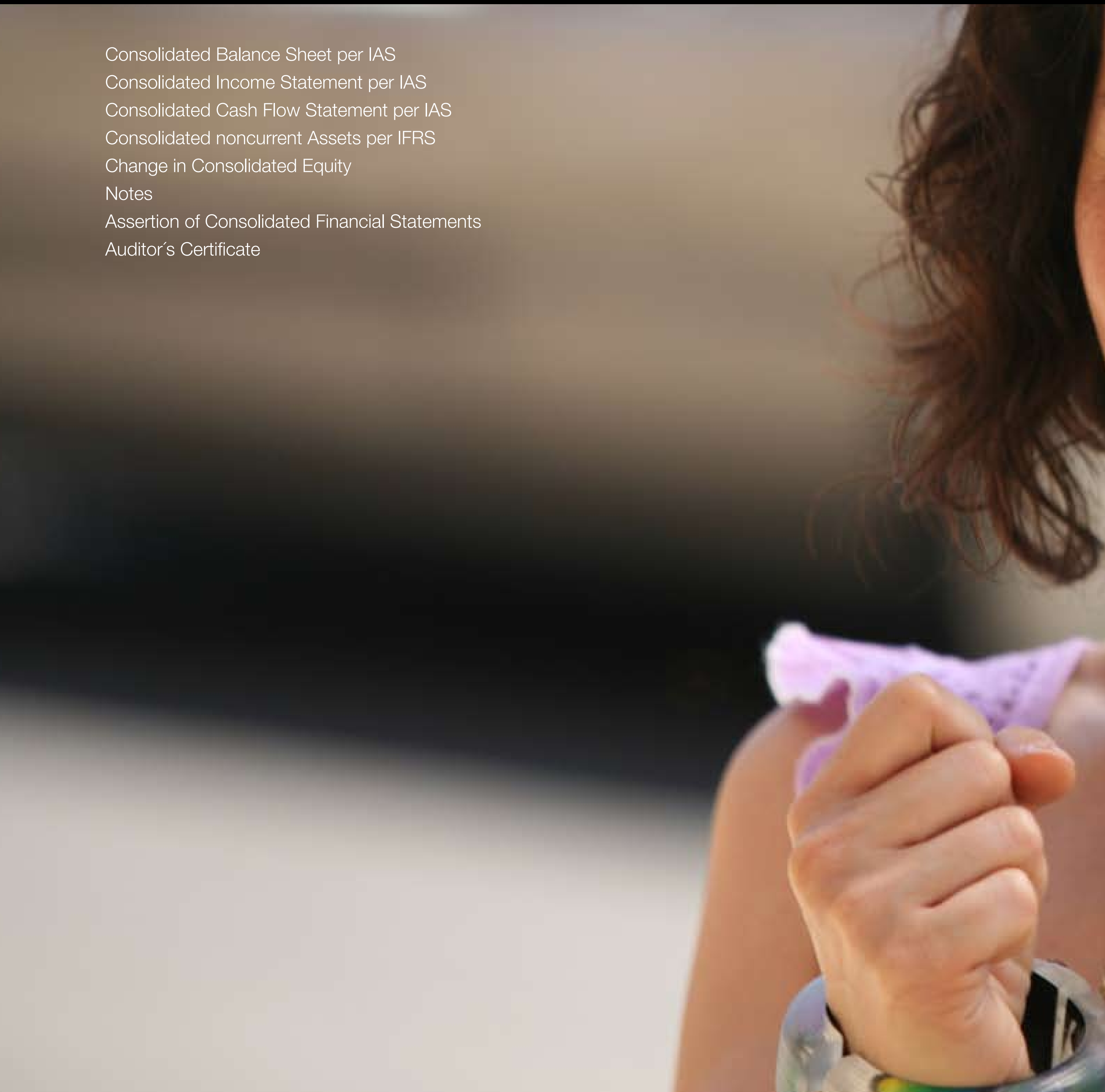
Splendid Medien AG
The Managing Board:

Andreas R. Klein
Chairman of the Board
Director of Licensing Operations and Strategic Planning

Alexander Welzhofer
Director of Marketing and Distribution

Michael Gawenda
Director of Finance and Investor Relations

Group Financial Statements



Liebe lieber ungewöhnlich – Eine Beziehung mit Hindernissen
(Watching the Detectives, Lucy Liu)

Consolidated balance sheet per IAS

Assets

in k EUR	Notes	31/12/2008	31/12/2007
A. Short-term assets			
I. Cash and cash equivalents	5.1	9,776	7,740
II. Trade receivables	5.2	9,263	7,741
III. Inventories	5.3	1,508	1,400
IV. Income tax receivables	5.2	957	883
V. Other current assets	5.2	244	733
Short-term assets, total		21,748	18,497
B. Medium and long-term assets			
I. Property, plant and equipment	5.5	526	485
II. Intangible assets	5.6	65	103
III. Film rights	5.8	5,648	6,494
IV. Advance payments for film rights	5.8	3,507	3,007
V. Goodwill	5.9	326	326
VI. Deferred taxes	4.10	4,296	4,610
VII. Other assets	5.2	33	32
Medium and long-term assets, total		14,401	15,057
Total assets		36,149	33,554

Liabilities

in k EUR	Notes	31/12/2008	31/12/2007
A. Short-term liabilities			
I. Short-term portion of finance lease liabilities	5.10, 5.5	65	53
II. Trade payables	5.10	5,889	5,092
III. Advance payments received	5.10	458	848
VI. Provisions	5.11	6,167	4,724
V. Income taxes payable	5.10	0	493
VI. Other short-term liabilities	5.10	1,179	654
Short-term liabilities, total		13,758	11,864
B. Medium and long-term liabilities			
I. Long-term loans	5.10, 3.	7,296	7,258
II. Long-term finance lease obligations	5.10, 5.5	107	134
III. Deferred taxes	5.10, 4.10	91	80
IV. Other medium and long-term liabilities	5.10	199	263
Medium and long-term liabilities, total		7,693	7,735
C. Shareholders’ equity	5.12		
I. Subscribed capital		9,790	9,790
II. Capital reserves		332	66.860
III. Group balance sheet profit/loss		4,552	-62,708
IV. Minority interests		24	13
Total shareholders’ equity		14,698	13,955
Total liabilities & shareholders’ equity		36,149	33,554

Consolidated Income statement per IAS

in k EUR	Notes	31/12/2008	31/12/2007
1. Sales	4.1	35,136	28,136
2. Production costs	4.3	-24,510	-21,761
3. Gross profit on sales revenues		10,626	6,374
4. Distribution expenses	4.4	-5,005	-5,175
5. Administrative expenses	4.5	-3,800	-3,701
6. Other operating income	4.2	349	831
7. Other operating expenses	4.7	-351	-165
8. Operating profit		1,819	-1,836
9. Interest income	4.8	221	295
10. Interest expense	4.8	-791	-794
11. Foreign currency gains (previous year: losses)	4.9	260	-71
12. Earnings before taxes		1,509	-2,406
13. Taxes from revenue and income	4.10	-853	1,248
14. Consolidated net profit (previous year: net loss)		656	-1,158
15. Minority interests		-11	-1
16. Earnings attributable to Splendid Medien AG shareholders		645	-1,159
17. Group losses carried forward		-62,708	-61,549
18. Withdrawals from capital reserves		66,615	0
18. Group balance sheet profit / loss		4,552	-62,708
Earnings per share (undiluted)	4.11	0.07	-0.12
Earnings per share (diluted)	4.11	0.07	-0.12
Average number of shares outstanding (undiluted)		9,789,999	9,789,999
Average number of shares outstanding (diluted)		9,789,999	9,789,999

Consolidated cash flow statement per IAS

in k EUR	Notes	31/12/2008	31/12/2007
Consolidated net profit (previous year: net loss) before interest and taxes		2,079	-1,907
+ Depreciation/amortisation of noncurrent assets		268	260
+ Amortisation of film rights		8,658	10,718
+ Reversal of debt discounts		38	35
+/- Increase/decrease in current provisions		957	252
-/+ Gains/losses from disposal of assets		-5	0
-/+ Increase/decrease in inventories, trade receivables and other assets not associated with investing or financing activities		-1,189	-1,828
-/+ Increase/decrease in liabilities, trade payables and other liabilities not associated with investing or financing activities		-386	-529
+ Tax refunds received		140	835
- Taxes paid		-730	-1,563
+ Interest received		205	303
- Interest paid		-612	-641
Cash flow from operating activities	7	9,423	5,935
+ Inflows from disposals of property, plant and equipment and noncurrent intangible assets		21	0
- Outflows for investment in property, plant and equipment and noncurrent intangible assets		-287	-356
- Outflows for investment in film assets		-7,125	-8,644
+ Inflows from refunded advance payments		4	16
Cash flow from investing activities	7	-7,387	-8,984
- Outflows for debt redemption		0	-1
+/- Other changes in capital		0	63
Cash flow from financing activities	7	0	62
Change in cash and cash equivalents		2,036	-2,987
Change in scope of consolidation		0	0
Cash and cash equivalents at start of period		7,740	10,727
Cash and cash equivalents at end of period	7	9,776	7,740

Consolidated noncurrent assets per IFRS

in k EUR	Acquisition and Production costs			
	Balance at 01/01/2008	Additions	Disposals	Balance at 31/12/2008
I. Intangible assets				
1. Commercial property rights and similar rights/IP	554	57	17	594
2. Goodwill	5,590			5,590
Total intangible assets	6,144	57	17	6,184
II. Property, plant and equipment				
1. Land and buildings, including buildings on third-party land	698	5		703
2. Technical equipment and machinery	455	64		519
3. Other equipment, operating and office equipment	1,036	161	3	1,194
Total property, plant & equipment	2,189	230	3	2,416
III. Financial assets				
1. Shares in affiliated companies	0			0
Total non-current assets	8,333	287	20	8,600

Depreciation/amortisation				Residual carrying value	
Balance at 01/01/2008	Additions	Disposals	Balance at 31/12/2008	Balance at 31/12/2008	Balance at 31/12/2007
451	79	1	529	65	103
5,264			5,264	326	326
5,715	79	1	5,793	391	429
680	4		684	19	18
217	83		300	219	238
807	102	3	906	288	229
1,704	189	3	1,890	526	485
0			0	0	0
7,419	268	4	7,683	917	914

Change in consolidated equity

in k EUR	Subscribed capital	Capital reserves	Balance sheet profit/loss	Minority interests	Total
Balance at 01/01/2007	9,790	66,949	-61,549	111	15,301
Adjustment IPO costs		63			63
Adjustment for minority interests		-152		0	-152
Minority interest reclassified as debt		0		-99	-99
Consolidated net loss			-1,159	1	-1,158
Balance at 31/12/2007	9,790	66,860	-62,708	13	13,955
Adjustment for minority interests		87			87
Withdrawals from capital reserves		-66,615	66,615	0	0
Consolidated net profit			645	11	656
Balance at 31/12/2008	9,790	332	4,552	24	14,698

Notes

1. Standards and fundamentals

The Splendid Medien AG consolidated financial statements for financial year 2008 were prepared in accordance with International Financial Reporting Standards (IFRS) applicable in the EU as of 31 December 2008, and with Article 315a (1) of German Commercial Code (HGB). All interpretations applicable for financial year 2008 issued by the International Financial Reporting Interpretations Committee (IFRIC) were observed.

The consolidated financial statements are prepared in euros, all figures provided are in euro thousands (k EUR).

Splendid Medien AG, Alsdorfer Str. 3, 50933 Cologne, is a stock corporation under German law with registered office in Cologne, commercial register record number HR B 31022. As the parent company of the Splendid corporate group entity per Article 315a HGB, Splendid Medien AG prepares consolidated financial statements in accordance with IFRS.

First-time adoption of new standards

The following standards were adopted by Splendid Medien AG for the first time or in revised form for the financial year under review:

IFRIC 11: IFRS 2- Group and Treasury Share Transactions
IAS 39: Financial instruments: Recognition and measurement (revised)
IFRS 7: Financial instruments: Disclosures (revised)

The following standards have been adopted by the EU, but do not apply to Splendid

IFRIC 12: Service Concessions Arrangements
IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Applying these interpretations had no effect on the results and financial position of the corporate group.

The following standards issued by the IASB and/or IFRIC were not applied to the Splendid Medien AG IFRS consolidated financial statements dated 31 December 2008, as their adoption by the EU is still pending or their application is only mandatory starting the following financial year:

IAS 1 (2007):	Presentation of Financial Statements (starting 01/01/2009)
IAS 23 (2007):	Borrowing costs (starting 01/01/2009)
IAS 27 (2008):	Consolidated and Separate Financial Statements under IFRS (starting 01/07/2009)
IAS 32/IAS 1:	Financial instruments: Disclosure and presentation (starting 1 January 2009)
IFRS 1/IAS 27:	First-time adoption, recognition and measurement of investments (starting 1 January 2009)
IFRS 2:	Share-based payment forms (starting 01/01/2009)
IFRS 3:	Business combinations (starting 1 July 2009)
IFRS 8:	Operating segments (starting 1 January 2009)
IFRIC 13:	Customer bonus programs (starting 1 July 2008)

Improvements to IFRSs (2007): primarily terminological and editing adjustments to a range of standards as part of annual ‘Improvement’ project

The above standard changes are not anticipated to have any effect on the presentation of the consolidated financial statements for 2009 and thereafter.

2. Consolidation

Scope of consolidated financial statements

The following subsidiaries were included within the scope of the consolidated financial statements in addition to the parent company:

Subsidiaries	Registered office	Interest in %
Splendid Film GmbH	Cologne	100
Polyband Medien GmbH	Aschheim	100
Kids for Kids GmbH	Hamburg	100
WVG Medien GmbH	Hamburg	90
Enteractive GmbH	Hamburg	85
Splendid Synchron GmbH	Cologne	100
FFS Köln Film- & Fernseh-Synchron GmbH	Cologne	51

Splendid Film GmbH (100%), Cologne, purchases film rights on the global market and markets these primarily in German-speaking Europe and the Benelux countries.

Polyband Medien GmbH (100%), Aschheim, purchases and produces special interest and family entertainment programming to generate sales down the entire supply chain in German-speaking Europe. Polyband Medien GmbH is the controlling entity in a profit transfer agreement with Splendid Medien AG.

Kids for Kids GmbH (100%), Hamburg, purchases, produces and markets family entertainment and edutainment programming.

Splendid Film, Polyband and Kids for Kids distribute DVDs via WVG Medien GmbH (90%) of Hamburg. WVG Medien also distributes proprietary programming and acts as a distributor of third-party videos and DVDs. The control and profit transfer agreement between WVG Medien GmbH and controlling entity Splendid Medien AG provides for annual compensation payments of EUR 55 thousand to minority shareholder Mr. Alexander Welzhofer.

Enteractive GmbH (85%) of Hamburg develops and provides value-added digital products such as animation, trailers, and DVD/Internet games. Enteractive is also a leading international interactive programming developer for Blu-ray technology. Enteractive thus complements the Internet/New Media segment of Splendid Medien AG, comprising the Post-production segment together with Splendid Synchron GmbH (100%). In financial year 2007 Enteractive GmbH concluded a profit transfer agreement with Splendid Medien AG, the latter as controlling entity. The compensation settlement with minority shareholder Mr. Hans Henseleit provides for a compensation payment of EUR 58 thousand in financial year 2008.

Splendid Synchron GmbH with registered office in Cologne synchronises and performs sound editing for foreign-language movies and TV series. In financial year 2007 Splendid Synchron GmbH concluded a profit transfer agreement with Splendid Medien AG, the latter as controlling entity. In 2006 Splendid Synchron GmbH and FFS Film- & Fernseh-Synchron GmbH, Munich jointly founded in FFS Köln Film- & Fernseh-Synchron GmbH, Cologne. Splendid Synchron GmbH holds a 51% interest in this joint venture.

Companies taking exemption in accordance with § 264 (3) of the German Commercial Code (HGB)

WVG Medien GmbH, Hamburg, Polyband Medien GmbH, Aschheim, Splendid Synchron GmbH, Cologne, and Enteractive GmbH, Hamburg have elected for exemption under Article 264 (3) HGB from requirements to publish annual financial statements and a management report for the financial year under review.

Principles of consolidation

In accordance with IAS 27, all companies in which Splendid AG is able to exercise influence on financial and business policies directly or indirectly so as to derive benefit from company operations (subsidiaries) are to be included in the consolidated financial statements.

The financial statements of consolidated companies are produced on the basis of uniform accounting policies as applied by Splendid Medien AG. The financial statements of subsidiaries have the same balance sheet date as the parent company financial statements.

Capital consolidation per IFRS 3 is done exclusively by subtracting cost from the fair value of assets, liabilities and contingent liabilities as of the date of their acquisition (purchase method). Any resulting difference is recognised as goodwill. Goodwill is initially carried at cost, and at cost less cumulative impairment in subsequent periods.

Group companies	Goodwill cost in k EUR	Goodwill residual carrying amount in k EUR
Splendid Film GmbH	5,156	0
Polyband Medien GmbH	393	308
Kids for Kids GmbH	17	0
WVG Medien GmbH	18	18
eNter Active GmbH	3	0
Splendid Synchron GmbH	3	0
	5,590	326

Prior to financial year 2004, goodwill from initial consolidation was amortised in straight-line fashion over an expected 20-year useful life. Since then, the Group performs annual. Impairment testing on goodwill at the end of each financial year in line with IFRS 3. Goodwill is also tested in light of events or circumstances indicate that impairment may be in evidence. Impairment is recognised in the amount of the difference between the carrying amount of and the recoverable amount of cash generating units (subsidiaries). Once recognized, either before or at year end, impairments cannot be reversed again in subsequent reporting periods.

Receivables, provisions, liabilities, expenses and income between consolidated companies are eliminated as intragroup profits.

Financial statement items of all consolidated companies are measured in the currency of the economic environment in which the Group operates (functional currency). The reporting currency for the consolidated financial statements is euros. This is the functional currency of the parent company and of consolidated subsidiaries.

3. Accounting policies

There were no changes in the accounting policies applied to this year's consolidated financial statements versus the previous year. The balance sheet is organised according into the categories of current and non-current; current liabilities and assets are to be redeemed/ liquidated wthin one year or less. The income statement is prepared in using the nature of cost of sales method.

Sales recognition

Group companies generate sales from the commercial utilisation of film rights and service providing to the film and television industry. Film rights are utilised through limited-term, regional licensing, primarily in Germany and German-speaking Europe. Group companies generate sales from distribution via such channels as cinema, video/DVD and free/pay TV.

Sales are recognised when the material economic opportunities and risks connected with ownership of the property have been passed to the buyer, the amount of sales generated can be reliably determined, the accrual of the economic benefits is sufficiently likely and Group companies have no other obligations regarding or control over the property.

Sales from cinema movie licensing are recognised from the respective premiere release date. Video/DVD and TV sales are recognised upon acceptance of the material by the licensee, or after a set date following delivery as contractually specified.

Sales from audio and video postproduction are recognised after completion and acceptance, as these orders are generally completed in the short term.

Income and expense recognition

Other operating income is recognised when the product/service concerned has been provided, the income amount can be reliably determined and there is sufficient likelihood of Group companies deriving economic benefit in connection therewith. Expenses are recognised either upon receipt of the product/service concerned or the relevant order date, as our borrowing costs. Interest income and expense is deferred to the relevant period, taking into account in the applicable interest rate.

Defined contribution pension plan contributions are expensed when due, contributions to state pension plans are treated as defined contribution plans.

Intangible assets

Purchased assets are recognised per IAS 38 when the assets are expected to generate future benefit and the cost thereof can be reliably measured. Cost is amortised and written down for impairment as required. The assets are amortised over their useful life using the straight-line method. Purchased software is amortised over 3 to 5 years using the straight-line method. Additionally, goodwill is not amortised, but rather tested for impairment at least once a year in line with IFRS 3.

See below concerning the measurement of film assets.

Property, plant and equipment

Property, plant and equipment are carried at cost less depreciation and impairments as applicable. Assets recognisable by the Company from finance leases were carried at the lower of market or the present value of minimum lease payments in line with IAS 17. Average bank financing interest rates for the respective financing options utilised are applied to determine present value. Property, plant and equipment are depreciated over the applicable useful life using the straightline method. Assets recognisable from finance leases are depreciated pro rata temporis using the straightline method over a useful life of 3 to 5 years.

The following useful lives are assumed for a straightline depreciation of non-finance leasing assets:

Leasehold improvements	0	until	5 years
Operating and office equipment	3	until	13 years
Technical equipment and machinery	3	until	5 years

Since 2008, low-value assets with a cost of between EUR 150 and EUR 1,000.00 have been annually depreciated in a pooled account over a 5-year period.

Impairment losses

According to IAS 36, reporting entities must assess at each balance sheet date if there are indications that an asset may potentially be impaired. If there are such indications, an estimate is made of the recoverable amount from the asset. If the carrying value is higher than this amount, an impairment is recorded on the asset and the amount recognised in income. The recoverable amount represents the greater of fair value less point-of-sale costs and the present value of future income expected to be generated from ongoing utilisation of the asset. At each balance sheet date it must be assessed whether impairment is still in evidence. If the reasons for recognising an impairment no longer apply, the asset is written up to the amount it would have been carried at if the impairment had not been recognised.

This does not apply to impairment losses on goodwill.

Financial instruments

Financial instruments are any contracts causing the recognition of a financial asset or liability. Financial assets held by the Splendid Medien Group include primarily cash and cash equivalents, trade receivables, derivate financial instruments with positive market value and available-for-sale financial assets. Financial liabilities include in particular liabilities due to banks, trade payables, lease liabilities and derivative financial instruments with negative market value. Financial assets classified as ‘held to maturity’ are not held, nor are financial assets and liabilities falling under the fair value option.

Financial instruments are recognised on the trade date of purchase/sale, i.e. the date upon which an obligation to buy or sell an asset or liability accrued.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and time deposits maturing in less than three months. These are carried at amortised cost. Foreign currency cash holdings are carried at the exchange rate as of the reporting date.

Loans and receivables

Loans and receivables (trade receivables, other assets) are non-derivative financial assets involving fixed or defined payments that are not listed on an active market. Loans and receivables are carried initially at fair value, which typically corresponds with the cost, adjusted for transaction costs, and at amortised cost at subsequent dates; the effective interest method is applied in connection with non-current assets. Bad debt allowances are recorded in separate accounts for receivables given indications of collection risks. Such indications include late or irregular receipt of payment, insolvency and legal disputes over insufficient collateral. Historical data is also evaluated for measuring the value of receivables. If in a subsequent period collection risk decreases in connection with an objective event occurring, the bad debt allowance recorded is reversed accordingly up to no higher than amortised cost and the amount recognised in income. Receivables are derecognised upon being deemed uncollectible.

With trade receivables and other assets, it is assumed that the nominal amount less specific bad debt allowances corresponds to fair value. Loans and receivables are generally current in nature, due within less than three months. No material non-current financial assets were held. No material interest rate risks are connected with items in this account.

Available-for-sale financial assets

Shareholdings in unconsolidated investments are classified and reported as available-for-sale financial assets. This item represents a 1% interest held in Central Organisation of Technology, Inc. (COT) acquired by Splendid Medien AG in connection with contributing its 80% interest in Splendid Pictures Holdings, Inc. to COT. The investment was carried at the value of contributed shares in Splendid Pictures Holdings, Inc., which at the date of transfer was EUR 0. The investment is carried at cost, as no relevant market exists and fair value cannot be reliably determined via other measurement methods.

Financial liabilities

Financial liabilities (loans payable, trade payables, other liabilities) are initially carried at fair value less any transaction costs. Subsequent measurement is at amortised cost using the effective interest method, except for derivative financial instruments. Differences between the disbursed amount (after deducting transaction costs) and the repayment amount of liabilities are without exception distributed over the applicable term per the loan agreement using the effective interest method (applying the original effective interest rate) and recognised in income. The carrying value of trade payables and other current liabilities is assumed to correspond with fair value. Liabilities are classified as non-current if the applicable contract terms provide for redemption within periods exceeding 12 months. Borrowing costs are thus expensed in the period incurred.

Loans payable concern a longterm EUR 7.5 million loan from HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T. Mezzanine II Fonds) with final redemption in 2013 and an interest rate of 7.933% p. a. The effective interest rate is 8.7%. There is no risk of the interest rate rising. Only if the credit rating should fall below a specific rating level for two successive financial years would the interest rate increase by 50 basis points p.a. following the second annual assessment. The fair value of long-term fixed-rate loans held principally reflects interest rate expectations, but also company credit quality. There is no active market for this type of liability. It is assumed that the liabilities' fair value corresponds to their carrying value. It is deemed that fair value cannot be reliably measured.

A financial liability is derecognised when the underlying debt is redeemed, cancelled or otherwise expires. Future payments to minority shareholders as part of contractual compensations are recognisable as financial liabilities pursuant to IAS 32.16 (a)(i) (see 5.12 'Minority interests'). The amount recorded is the future redemption amount determined using the effective interest method.

Derivative financial assets held for trading

Derivative financial assets held for trading is the classification for derivatives not in a hedging relationship. The Splendid Medien Group employs derivative financial instruments in the form of currency options and futures to hedge currency risk. Currency risk arises from licensing fees payable in USD. These derivatives do not meet the IAS 39 requirements for hedge accounting despite representing a hedge from a non-accounting standpoint.

Derivative financial instruments are carried at fair value, gains and losses from subsequent measurement are recognised in income. Derivative financial instruments are recognised as of the trade date. Long currency options are initially recognised as other assets measured as the option premium, and subsequently carried at market value.

Film rights

Film rights and advance payments for film rights are shown as separate positions. Generally accepted accounting principles were applied for measurement in view of there being no relevant industry-specific provisions under HGB or IFRS.

Film rights reported as film assets are recognised upon the date of technical acceptance of the film material and carried at cost. Film rights are amortised exclusively via a utilisation-based method to reflect the eroding value of utilised film rights over time in relation to revenue obtainable from utilisation. Historical data and management estimates concerning potential revenues are applied for measurement purposes. A maximum 10-year period is generally applied for estimated revenue for the purpose of calculating amortisation.

In the typical case of acquisition of full rights, 20% of cost is written down upon utilisation of rights for DVD rental/sale (10% for rental and 10% for sales respectively). When TV rights are sold, amortisation of 80% of cost is recorded.

Upon utilisation, pay TV rights are written down 10% and this amount expensed. Free TV rights are written down to 49% of cost upon initial utilisation, and to 21% of cost upon second utilisation.

A write-down of 10% of cost is performed on the cinema movie rights level. The corresponding amortisation amount is reduced on the TV rights level.

In contrast to the above amortisation method, low-priced films expected to generate relatively low revenue as compared to revenue from TV rights utilisation in general are written down by 50% of cost (25% for rental and 25% for sales) upon utilisation of film rights for DVD rental/sale. When TV rights are sold, amortisation of 50% of cost is likewise recorded.

Whenever amortisation according to the above methods is identified in particular cases to produce inaccurate results, adjustments are made accordingly. There were no material changes in the financial year with regard to previous periods due to revised estimates.

These amortisation rules are not applied to our innovative Ben & Bella educational games. In view of expected utilisation, amortisation is performed in straight-line fashion over a ten-year period.

The Splendid Medien AG Management Board had an external appraisal performed of the Splendid Film GmbH film portfolio as of the 31 December 2007 reporting date. On the basis of the appraisal findings, individual titles were revalued in view primarily of future utilisation opportunities through TV licensing and in home entertainment. Significant one-time write-downs were performed on film assets for financial year 2007 as a result. Higher utilisation potential was however identified for individual titles based on estimated future revenues, for which write-ups could not be performed. Starting in financial year 2008, individual home entertainment titles are amortised in straight-line fashion over the remaining license term on the basis of appraisal findings.

The carrying value of licenses is subjected to impairment testing at every balance sheet date. For additional information, see the discussion provided under the section ‘Estimates and assumptions’.

Inventories

Inventories are carried at cost adjusted for write-downs as of the balance sheet date. The net realisable value determined represents the estimated sale price less additional conversion and estimated distribution costs expected to accrue. Write-downs are reversed when the reasons for the write-down no longer apply. Finished products and goods mainly concern DVDs, and to a minor extent videocassettes and merchandising articles. Work in progress primarily represents synchronisation services. The carrying amount of finished goods and goods for resale is progressively written down to reflect stock turnover. Write-downs are additionally performed in connection with the revised FSK designation and labelling rules going into effect in Q2 2010.

Deferred taxes

Deferred taxes are recognised for all temporary differences between tax and IFRS consolidated accounting, and for tax loss carryforwards, in line with IAS 12. Unused tax loss carryforwards are recognisable as deferred tax assets and as long as there is sufficient likelihood of future taxable income allowing carryforwards to be used. A planning horizon of 5 years is used here. The tax rates applied for calculation are those expected to apply in view of current tax law.

Provisions

Other provisions are recognised in amounts determined as the best estimate of resource outflows required to settle outstanding obligations as of the balance sheet date, in line with IAS 37. Provisions are recorded when the Company has a legal or de facto obligation in connection with a past event that is expected to result in future net cash outflows. Pursuant to IAS 37, provisions are only to be recorded when there likelihood of such is greater than 50%. Cash obligations on which no interest is payable are carried at present value. All provisions are current items.

Leases

Leased assets recognised upon concluding a lease contract and carried at the lower of market value or the present value of minimum lease payments when all material opportunities and risks in connection with the lease accrue to Splendid Medien, which thereby is the economic owner pursuant to IAS 17. Finance lease liabilities are recognised in the corresponding amount, which are amortised using the effective interest method in subsequent periods and adjusted regularly.

Finance leases are held for technical studio equipment. This equipment is depreciated straight-line over a useful life of 3 to 5 years.

Operating leases are primarily for vehicles and office equipment. These leases generally have a 3-year term. Future lease payment obligations are shown under other financial obligations.

Leases are concluded for terms of 3 to 5 years. All leases are based on fixed interest rates and are denominated in EUR.

Currency translation in separate financial statements

Foreign currency transactions are recorded applying the applicable exchange rate at the time of the transaction. For monetary assets and liabilities valued in foreign currency, the closing rate is used for currency translation. Exchange rate gains and losses are recognised in income.

The following closing rates were employed by the Group for currency translation:

	Closing rates USD
31/12/2008	1.39810
31/12/2007	1.47510

Estimates and assumptions

Producing IFRS-compliant annual financial statements requires making estimates and assumptions that influence the reported values of assets, liabilities and financial obligations as of the balance sheet date, and of income and expenses reportable for the financial year. Actual results may differ from these estimates and assumptions. Estimates and assumptions made involving a significant risk of having to restate carrying value in the following financial year are presented in the following.

The performance of film license assets depends on the success of marketing efforts on the individual value chain levels. If the assumptions made prove inaccurate (due for example to changing audience tastes), amortisation may have to be adjusted and impairment recognised in subsequent years.

The film portfolio was valued at 31 December 2007 on the basis of an external appraisal, and again in financial year 2008 on the same basis. Individual film titles continued to be analysed as to their current and projected economic performance for the film business. Title performance out of line with expectations was considered in accordingly, though this was only the case to a minor extent.

The carrying value of deferred tax assets on tax loss carryforwards depends upon the future usability of carryforwards by the Company, in turn dependent on sufficient taxable income being generated in future in accordance with corporate planning. A planning horizon of 5 years is used here. Deferred tax assets from loss carryforwards are measured applying a projected long-term tax rate of 31.58%.

Splendid Medien AG and subsidiary Splendid Film GmbH are subject to liability risk through the former subsidiary Splendid Pictures, Inc. Provisions were allocated accordingly by Splendid Film GmbH in the 2002 financial year. The residual risk in connection with these provisions (carrying value: EUR 482 thousand; previous year EUR 482 thousand) was remeasured at year-end. The Management Board determined that there was no need to adjust these provisions at 31 December 2008, maintaining the existing amount allocated to cover latent risks. Should the assumptions made in this regard prove inaccurate, the amount of provisions may have to be adjusted, having potentially a positive or negative effect on results and the financial position.

Estimates and assumptions also play a particular role in the measurement of other provisions and goodwill impairment, the classification of leases and the determination of uniform useful lives Group-wide.

4. Income statement disclosures

4.1 Sales

See the section 'Segment reporting' for data on sales by segment (business areas and regions). Sales are generated in the Licensing segment from licensing fees, in the Home Entertainment segment from product sales and distribution services, and in the Post-production segment exclusively from services.

4.2 Other operating income

in k EUR	2008	2007
Income from impairment reversals / receivables written down	38	76
Income from the reversal of provisions	124	349
Income from the reversal of liabilities	13	78
Income from disposals of assets	5	0
Other	169	328
Total	349	831

The measurement of derivative financial assets held for trading purposes resulted in income of EUR 47 thousand (previous year: EUR 0 thousand).

4.3 Production costs

The table below provides a breakdown of selling costs:

in k EUR	2008	2007
Amortisation of film rights	8,658	10,718
License fees / royalties	3,260	1,758
Staff costs	1,672	1,479
Purchased services	9,571	6,531
Amortisation of noncurrent assets	162	146
Artists fees	1,024	972
Other	163	157
Total	24,510	21,761

Film rights amortisation includes impairments of EUR 789 thousand (previous year: EUR 4,316 thousand).

4.4 Distribution Expenses

The table below provides a breakdown of selling costs.

in k EUR	2008	2007
Advertising	1,882	2,259
Sales commissions	490	598
Staff costs	1,310	1,128
GEMA / film subsidies	811	611
Travel costs	267	222
Other	245	357
Total	5,005	5,175

4.5 Administrative expenses

The table below provides a breakdown of administrative expenses.

in k EUR	2008	2007
Legal and advisory costs	392	494
Administration staff costs	1,872	1,665
Rent, leasing, operating costs	685	660
Public relations	139	134
Office expenses, insurance etc.	298	333
Postage, telephone	128	123
Amortisation of fixed assets	101	102
Other	185	190
Total	3,800	3,701

Legal and advisory expenses include the auditor's fee of EUR 72 thousand, tax consulting fees of EUR 42 thousand and miscellaneous fees of EUR 10 thousand.

4.6 Goodwill impairment

Impairment recorded on goodwill totalled EUR 0 thousand for the year under review (previous year: EUR 0 thousand).

4.7 Other operating expenses

Other operating expenses break down as follows:

in k EUR	2008	2007
Write-downs of receivables	326	47
Receivables charged off	1	0
Write-downs of advance payments on film assets	0	51
Other	24	67
Total	351	165

4.8 Interest income/expenses

Net interest breaks down as follows:

in k EUR	2008	2007
Interest income		
Bank balances	156	232
Tax refunds due	41	57
Other	24	6
Total interest income	221	295
Interest expense		
Liabilities with banks	-13	-6
Taxes payable	-7	-36
Finance lease liabilities	-2	-4
H.E.A.T. II loan	-633	-630
Minority shareholder compensation claims	-136	-106
Other	0	-12
Total interest expense	-791	-794
Net interest	-570	-499

Interest paid totalled EUR 612 thousand (previous year: EUR 641); interest received totalled EUR 205 (previous year: EUR 303).

4.9 Foreign currency gains and losses

For the year under review a foreign currency gain of EUR 260 thousand was recorded (previous year: foreign currency loss of EUR 71 thousand).

4.10 Income tax expense

Current and deferred corporate and trade taxes, non-imputable foreign tax withholdings and tax loss carryforwards are shown under income tax expense.

The table below provides a breakdown of taxes on income.

in k EUR	2008	2007
Corporation tax	267	38
Trade tax	289	0
Trade tax – previous years	-48	71
Corporation tax – previous years	19	36
Deferred taxes	11	120
Derecognition of deferred tax assets on previous year loss carryforward	0	1,897
Utilisation of deferred tax assets on loss carryforward	1,088	335
Deferred tax assets recognised on loss carryforward	-773	-3,745
Total	853	-1,248

Projected future tax rates were applied for deferred taxes in connection with the elimination of temporary differences. Lower tax rates effective pursuant to the 2007 rate reduction were factored in. For deferred taxes, a corporation tax rate of 15% was applied for the year 2008 and thereafter. The trade tax rate applied was 15.75%; the solidarity surcharge rate applied was 5.5% charged on corporation tax due. The expected future income tax rate for the Splendid Medien Group is thus 31.58%.

The table below shows the calculation of projected versus actual tax expense.

in k EUR	2008	2007
Income tax expense based on 32% tax rate (prev. yr.: 40 %)	476	-960
Non-tax deductible expenses and tax-free income	785	1,182
Unrecognised deferred tax assets on previous year loss carryforward	371	123
Remeasurement of deferred tax assets on loss carryforward	-773	-1,965
Change in deferred taxes due to rate change	0	260
Tax income and expenses from other periods	-29	107
Other	23	5
Actual tax expense	853	-1,248

Deferred taxes break down as follows:

in k EUR	31/12/2008		31/12/2007	
	Assets	Liabilities	Assets	Liabilities
Intangible assets		42		34
Property, plant and equipment		5		12
Loss carryforwards	4,295		4,610	
Receivables		1		
Other assets		15		
Loans		6		
Advance payments received	1			
Liabilities		22		34
Total	**4,296**	**91**	**4,610**	**80**
Netting				
Net total recorded	4,296	91	4,610	80

Tax offset claims from loss carryforwards were reduced, as consolidated earnings were slightly revised within the five-year planning horizon, leading to lower projected taxable income offsettable by losses. See the discussion provided under the section entitled 'Estimates and assumptions' for further details. The Group recognises loss carryforwards on corporation tax of EUR 53.4 million and trade tax of EUR 50.7 million (after setting off deferred taxes due to underlying consolidation differences), for which a deferred tax asset was not recognised.

4.11 Earnings per share

Earnings per share based on the average number of shares outstanding during the year under review came to EUR 0.07 (previous year: -EUR 0.12). The dividend per share for the year under review was EUR 0.00 (previous year: EUR 0.00). Earnings per share was calculated on the basis of 9,789,999 shares outstanding (previous year: 9,789,999). Authorised and contingent capital may result in dilution of earnings per share in future. See section 5.12 'Shareholders' equity' for additional information.

4.12 Other disclosures

Staff costs totalled EUR 4,870 thousand for the year under review (previous year: EUR 4,272 thousand). This includes social security contributions of EUR 609 thousand (previous year: EUR 537 thousand) and retirement plan contributions of EUR 1 thousand (previous year: EUR 2 thousand). Social security also includes employer contributions of EUR 295 thousand to the national pension scheme (previous year: EUR 254 thousand).

The annual average number of salaried employees is shown in the table below.

	2008	2007
Management Board	3	3
Salaried Staff	79	71

5. Consolidated balance sheet disclosures

5.1 Cash and cash equivalents

Cash and cash equivalents (EUR 9,776 thousand, previous year: EUR 7,740 thousand) consist of cheques, cash in hand and bank account balances which are due within three months. These are carried at nominal value.

5.2 Receivables and other current assets

Other assets convertible into cash in over 1 year were held totalling EUR 33 thousand as of the reporting date. Other miscellaneous assets and short-term receivables have a remaining duration of less than one year. Receivables and other current assets broke down as shown in the table below.

in k EUR	2008	2007
Trade receivables	9,263	7,741
Income tax refund receivables	957	883
Other assets	277	765
Total	10,498	9,389

Allowances written and reversed in the year under review for receivables and other assets totalled EUR 326 and EUR 38 thousand respectively (previous year: EUR 26 and EUR 75 thousand respectively).

The table below shows the year-on-year change in allowances:

in k EUR	
Status as at 31/12/2006	16,597
Dissolution	75
Availment	0
Allocation	26
Status as of 31/12/2007	16,548
Dissolution	38
Availment	0
Allocation	326
Status as of 31/12/2008	16,836

Allowances on trade receivables and other assets totalled EUR 16,836 thousand (previous year: EUR 16,548 thousand).

Maturity of selected assets:

in k EUR	Neighter impaired nor past due as of the reporting date		Not impaired nor past due as of the reporting date	
		< 2 months	2-12 months	> 12 months
Trade receivables	8,682	280	264	37
Other current assets	1,141	41	11	8
Carrying value 31/12/2008	**9,823**	**321**	**275**	**45**
Trade receivables	6,745	785	179	32
Other current assets	1,555	0	4	57
Carrying value 31/12/2007	**8,300**	**785**	**183**	**89**

5.3 Inventories

in k EUR	31/12/2008	31/12/2007
Finished goods and goods for resale	1,433	1,351
Work in progress	75	49
	1,508	1,400

The net increase of EUR 108 thousand consisted of changes in inventories of EUR 366 thousand and impairment recognised in the reporting year of EUR 258 thousand.

5.4 Non-current assets

See schedule 'Change in Consolidated Fixed Assets' attached to the notes concerning the change in non-current assets and depreciation/amortisation in the financial year under review.

5.5 Property, plant and equipment

Depreciation on property, plant and equipment was recorded on production costs (EUR 98 thousand), distribution expenses (EUR 4 thousand) and administrative expenses (EUR 87 thousand).

Leases

The table below provides a breakdown of minimum lease payments.

in k EUR	Minimum lease payments		Present value of minimum lease payments	
	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Finance lease liabilities				
With remaining term of ≤ 1 year	74	64	65	53
With remaining term of >1 – 5 years	115	146	107	134
	189	210	172	187
Less future financing costs	-17	-23	0	
Present value of lease obligations	172	187	172	187

Assets classified as operating and office equipment and technical equipment and machinery totalled EUR 127 thousand at 31 December 2008 (previous year: EUR 182 thousand).

5.6 Intangible assets

Intangible assets carried at cost represent purchased software. Amortisation is included in production cost in the amount of EUR 64 thousand (previous year: EUR 51 thousand) administrative costs in the amount of EUR 14 thousand (previous year: EUR 17 thousand), and distributions expenses in the amount of EUR 1 thousand (previous year: EUR 7 thousand).

5.7 Financial assets

This account shows interests in unconsolidated investments. The item concerned is a 1% investment interest in Central Organisation of Technology, Inc. (COT), acquired by Splendid Medien AG in connection with contributing its 80% interest in Splendid Pictures Holdings, Inc. to COT. The investment was carried at the value of the shares in Splendid Pictures Holdings, Inc. contributed, which at the date of transfer was EUR 0.

5.8 Film rights and advance payments for film rights

in k EUR	Acquisition & Production Costs				
	Status 01/01/2008	Additions	Disposals	Reposting	Status 31/12/2008
I. Film assets					
1. Film rights	67,987	5,504	45	2,353	75,799
2. Films in progress and advance payments	3,208	2,857	4	-2,353	3,708
Total film assets	71,195	8,361	49	0	79,507

in k EUR	Depreciation					Rest of book value	
	Status 01/01/2008	Additions	Disposals	Write-ups	Status 31/12/2008	Status 31/12/2008	Status 31/12/2007
I. Film assets							
1. Film rights	61,493	8,658			70,151	5,648	6,494
2. Films in progress and advance payments	201				201	3,507	3,007
Total film assets	61,694	8,658	0	0	70,352	9,155	9,501

Additions during the financial year concern exclusively purchased film rights.

Because film assets qualify as both current and non-current assets, in the past the general accounting practise has been to show a separate category between current and non-current assets on the balance sheet produced in line with German Commercial Code. Because of this accounting practise, the historical cost of licenses acquired prior to 31 December 2004, which had already been fully amortised by that date, is no longer shown in the statement of change in non-current assets. The stated historical cost thus only reflects licenses having residual value as of 31 December 2004.

Impairment testing is conducted at every balance sheet date to identify the potential need to restate the carrying value of licenses. The year-end review of the film portfolio led to the recording of impairments of EUR 691 thousand (previous year Q4: EUR 4,179 thousand) and reversals of EUR 0 thousand (previous year: EUR 49 thousand). Impairments and losses on film assets totalled EUR 789 thousand for the year under review (previous year: EUR 4,367 thousand). See also the section ‘Estimates and assumptions’.

5.9 Goodwill

Goodwill was not written down in the financial year as a result of impairment testing in line with IFRS 3.

5.10 Liabilities

The table below provides a breakdown of liabilities by remaining term:

2008 in k EUR	Amount	Of wich over 1 year	Security provided
Finance lease liabilities	172	107	
Loans	7,296	7,296	
Trade payables	5,889		
Advance payments received	458		
Income taxes due	0		
Deferred taxes	91	91	
Minority shareholder compensation claims	312	199	
Other liabilities	1,066	0	
	15,284	7,693	0

2007 in k EUR			
Finance lease liabilities	187	134	
Loans	7,258	7,258	
Trade payables	5,092		
Advance payments received	848		
Income taxes due	493		
Deferred taxes	80	80	
Minority shareholder compensation claims	369	263	
Other liabilities	548		
	14,875	7,735	0

In 2006 a long-term finance lease was concluded with HSBC Trinkaus & Burkhardt KG (H.E.A.T. Mezzanine II Fonds). See the discussion provided under section (3).

5.11 Provisions

The table below shows the change in other provisions during the financial year.

in k EUR	Provisions for taxes on earning	Provisions for liability Risks	Provisions for obligations from lisense contracts	Film subsidy charges
Status 01/01/2008	0	482	1,618	1,104
Additions	486	0	334	522
Consumption	0	0	165	206
Dissolution	0	0	107	0
Status 31/12/2008	486	482	1,680	1,420

	Bonuses	Returns	Other Provisions	Total
Status 01/01/2008	1,231	213	76	4,724
Additions	1,397	345	25	3,109
Consumption	968	198	5	1,542
Dissolution	0	17	0	124
Status 31/12/2008	1,660	343	96	6,167

Included in provisions are obligations from licensing agreements for titles produced by third parties, film subsidy charges (including GEMA fees), and returns of DVDs sold to dealers and dealer incentives.

Provisions for liability risk concern risks in connection with former subsidiary Splendid Pictures, Inc. See item 3. concerning estimates/assumptions. All provisions are due without one year. Provisions in the amount of EUR 5,036 thousand reflect an expected outflow within one year's time; the timing of outflows concerning the remaining amount cannot be reliably determined in view of legal uncertainties.

5.12 Shareholders' equity

See the table entitled 'Statement of changes in equity' for the relevant details.
The subscribed capital of the Company totals EUR 9,789,999.00. Share capital consists of 9,789,999 bearer shares with a nominal value of EUR 1.00.

Capital management

Capital management activities are primarily focused on ensuring the Group maintains the necessary financial flexibility. This includes maintaining an appropriate equity ratio. Management activities are conducted the based on the IFRS definition of equity. At 31 December 2008, the equity ratio was 40.7%, within the internally established target range (previous year: 41.6%)
In the financial year under review the Splendid Medien Group met lenders' credit quality requirements at all times.

Authorised capital

Authorised capital I

Per shareholder resolution at the 2 July 2004 Annual General Meeting, the Management Board was authorised to increase Company share capital through 20 July 2009 up to a maximum EUR 3,560,000.00 through one or more issuances of bearer shares with a nominal value of EUR 1.00 versus cash or noncash consideration (Authorised Capital I), subject to Supervisory Board approval. The Management Board was further authorised to disapply statutory shareholder subscription rights on a case-by-case basis, subject to Supervisory Board approval. However, shareholder subscription rights may only be disapplied:

- to avoid fractional shares, or
- in connection with asset deals in which Company shares are issued versus non-cash consideration for the purpose of buyouts, partial acquisitions or investments in companies.

The Management Board is furthermore authorised, subject to Supervisory Board approval, to determine the further specific modalities of raising capital through the issuance of shares pursuant to Authorised Capital I. The Supervisory Board is authorised to amend the charter accordingly upon the increasing of share capital through share issuance as per Authorised Capital I, or adjust the capital increase amount per Authorised Capital I upon expiration of the authorisation period.

Subscribed capital II/2005

The Management Board was authorised in a 6 July 2005 resolution passed at the Annual General Meeting, to increase Company share capital through the date 1 August 2010 up to a maximum of EUR 978,000.00 through one or more issuances of bearer shares with a nominal value of EUR 1.00 versus cash or noncash consideration (Authorised Capital II/2005), subject to Supervisory Board approval. The Management Board is authorised to disapply statutory shareholder subscription rights on a case-by-case basis, subject to Supervisory Board approval. Shareholder subscription rights may only be disapplied however:

- to avoid fractional shares,
- in connection with asset deals in which Company shares are issued versus non-cash consideration for the purpose of buyouts, partial acquisitions or investments in companies, and
- for non-asset deals (share offerings versus cash) neither exceeding ten percent of share capital as of adoption of the authorised capital authorisation, nor at the time of issuance, and providing the offering price of shares issued is not materially below the market price of shares already trading in the secondary market on the exchange at the time the final offering price is set by the Management Board, in line with Article 203 Paragraphs 1 and 2, and Article 186 Paragraph 3 Sentence 4, Stock Corporation Act.

The Management Board is furthermore authorised to determine the further specific modalities of raising capital through the issuance of shares pursuant to Authorised Capital II, subject to Supervisory Board approval. The Supervisory Board is authorised to amend the charter accordingly upon the increasing of share capital through share issuance as per Authorised Capital II/2005, or adjust the capital increase amount per Authorised Capital II upon expiration of the authorisation period.

Contingent capital

Contingent capital I

Per shareholder resolution at the 20 June 2001 Annual General Meeting, Company share capital was increased on a contingent basis to a maximum nominal EUR 890,000.00 (Contingent Capital I) through the issuance of bearer shares with a nominal amount of EUR 1.00. This contingent increase in capital is exclusively in connection with the exercise of options for shares under of the 2001 Share Options Plan. The Supervisory Board has exclusive authority concerning the granting of share options to Management Board members of the

Company.
On 29 August 2001, a total 222,494 share options were granted to Splendid Group managers and staff. No options had been exercised through the date 31 December 2008. The exercise prise for the first tranche is EUR 3.43.

Contingent capital II
Per shareholder resolution at the 6 July 2005 Annual General Meeting, Company share capital was increased on a contingent basis to a maximum nominal EUR 3,000,000.00 through the issuance of 3,000,000 bearer shares with a nominal amount of EUR 1.00 (Contingent Capital II/2005).

This contingent increase of capital will only be implemented to the extent

- the holders or beneficiary owners of convertible securities or warrants issued through 5 July 2010 by the Company or by investments in which it directly or indirectly holds a majority interest pursuant to an authorisation resolved at the 6 July 2005 Annual General Meeting should exercise their conversion/warrant rights, or

- the holders or beneficiary owners of convertible securities or warrants issued through 5 July 2010 by the Company or by investments in which it directly or indirectly holds a majority interest obligated to exercise conversion/warrant rights pursuant to an authorisation resolved at the 6 July 2005 Annual General Meeting should fulfil their exercise obligations.

Newly issued shares are dividend-paying from the start of the financial year of issuance due to the exercise of conversion/warrant rights or fulfilment of exercise obligations; alternatively, the Management Board may determine that newly issued shares are dividend-paying from the start of the financial year in which the appropriation of retained profit has not yet been resolved by shareholders at the Annual General Meeting at the time of exercise of conversion/warrant rights or fulfilment of exercise obligations, subject to Supervisory Board approval.

The Management Board is authorised to determine other specifics concerning equity rights and the modalities of implementing the contingent increase of capital, subject to Supervisory Board approval.

At the 31 December 2008 balance sheet date, no shares had been issued from Contingent Capital II.

Capital reserves

In previous years, capital reserves consisted mainly of premiums in the amounts of EUR 49 thousand and EUR 69,278 thousand from shares issued in 1999 (the latter from the IPO), and EUR 9 thousand from shares issued in 2005 to raise capital. Costs in connection with the initial public and secondary share offerings were charged against equity (capital reserves) on a net basis (cost less income taxes), in line with IAS 32. Settlement amounts due to minority shareholders are also charged against capital reserves after deducting the equity portion (see 'Minority interests'). As of 31 December 2008, an amount of EUR 66,615 thousand was withdrawn from the capital reserves. This amount was used to offset a residual loss carry forward in the seperate financial statements of Splendid Medien AG as of 31 December 2008 after offsetting the consolidated net income for 2008.

2001 Share Options Plan

Certain staff members, Management Board members and managing directors of subsidiaries were given an opportunity to acquire Splendid Medien AG bearer shares with a nominal amount of EUR 1.00, up to a maximum total of 890,000 shares. Because the share options were granted prior to 7 November 2002, the benefit is not expensed on the income statement.

The exercise price payable upon exercise of share options to acquire Splendid Medien AG shares with nominal value on the Frankfurt Stock Exchange is the average official closing price of the shares for the 30 trading days preceding the share option grant date, subject to a minimum of the nominal value of shares acquired. On 29 August 2001 222,494 share options were granted to Splendid Group managers and staff. No options had been exercised as of 31 December 2008. The exercise price was EUR 3.43 upon issuance of the first tranche.

The options granted have a maximum expiration of 15 years. The options may be exercised no earlier than 2 years from the grant date, after which exercise periods and windows apply over the next 4 years determined in accordance with performance targets.

Minority interests

Minority interests are recognised without exception in the amount of the portion of fair value of assets and liabilities plus annual percentage earnings accruing attributable to minority shareholders – to the extent attributable – at the time of the respective company acquisition.

Minority interests for which a fixed contractual compensation obligation exists (Article 304 AktG) are carried as hybrid financial instruments. Contractual future compensation claims constitute financial liabilities per IAS 32.16 (a)(i). The future fulfilment amount was recorded applying the effective interest method. The following method was employed in view of a lack of clear treatment under IFRS: the present value of future compensation payments within the contractually fixed minimum term is shown as a liability. This is set off against the carrying value of minority interests and the difference shown in shareholders' equity. If the difference is negative, the amount by which the liability exceeds the carrying value of minority interests is charged against the reserves of the parent company, Splendid Medien AG. Recurring compensation payments are recorded as an interest expense.

6. Financial risk management

Objectives and methods of financial risk management

The primary financial liabilities employed by the Group are bank loans, bank overdrafts, finance leases, trade payables, hire purchase contracts and other loans. These financial liabilities are primarily employed to finance the Group's business activity. The Group holds a range of financial assets such as trade receivables, cash and short-term deposits directly connected with business activity.

Liquidity, currency and credit risks are the principal risks incurred by the Group through the use of financial instruments. Strategies and methods employed by management to manage specific risk types are presented in the following.

Interest rate risk

The majority of risk incurred by the Group through fluctuating market interest rates could result from non-current liabilities with variable interest rates. Because the Splendid Group only holds current liabilities and financial assets and non-current liabilities at fixed interest rates, no material risks exist in this regard. Only by failing creditors' credit assessment 2 financial years in a row would a 50 basis point rate increase result.

This interest rate increase would result in additional interest expense of EUR 36 per year based on the current outstanding balance.

Liquidity risk

The Splendid Medien Group manages liquidity risk by monitoring actual versus projected cash flows on an ongoing basis, maintaining sufficient bank account balances and credit lines. In financial year 2007 Splendid Medien AG concluded a partnership agreement with National-Bank, Essen including an operational credit line now available to Splendid Medien AG. The final redemption date for the EUR 7.5 million in financing provided by HSBC Trinkaus & Burkhardt KG, Düsseldorf, (H.E.A.T. Mezzanine II Fonds) is in 2013.

Currency risk

The Splendid Group purchases film licences in the US, East Asia and other markets. Because these licenses are primarily commercially utilised in German-speaking Europe, euro/US dollar exchange rate fluctuations may positively or negatively impact Group earnings. The Splendid Group employs estimated exchange rates for project and investment budgeting. Substantial differences between projected and actual rates trigger a review to identify suitable hedging options. Currency hedging is only done in certain cases. The derivative financial instruments employed are utilised only to hedge existing risks, not for speculation. US dollars were purchased at the going rate in connection with a film acquisition at the time of transaction and deposited for the purchase of film rights. Put and call options on the US dollar were also taken out in financial year 2008 to hedge against exchange rate movements, also in connection with a film acquisition.

The nominal volume of options contracts to buy USD (calls) was USD 1,080,000 at 31 December 2008. As the buyer or seller of currency options, Splendid Medien AG receives the right, but not an obligation, to respectively buy or sell USD for euros at specific exchange rates in return for payment of the premium. The nominal contract volume, exchange rate and expiration are fixed upon transacting a contract. The Black/Scholes options pricing model is employed to determine the market value of currency options at the balance sheet date. Currency futures are also employed in certain cases for payment obligations at specific dates. At the balance sheet date a currency futures position was held for USD 480,000.

in k EUR			Year of maturity	Nominal value	Market value
	2009 k USD (< 1 year)	2010-2013 (1-5 years)	From 2014 (> 5 years)	as at 31/12/2008 in k USD	as at 31/12/2008 in k USD
Currency options	1,080			1,080	47
Currency futures	480			480	15

Note: the market value of currency futures contracts was not shown on the 31 December 2008 balance sheet due to immateriality.

Licensing fees payable in USD totalled USD 8,987 thousand at 31 December 2008. The table below provides a sensitivity analysis of the effect of ten percent appreciation in the euro versus the USD:

in k EUR	31/12/2008	Sensitivity effekt
Gross foreign currency exposure	1,026	-157
Currency options	47	-38
Currency futures	15	-31
Net foreign currency exposure	964	-88

Financial assets and liabilities denominated in US dollars and currency options held were included in the exchange rate sensitivity analysis. The analysis reflects the net hedged position and currency hedging instruments based on an assumed 10 percent appreciation in the euro versus the US dollar. Exchange rate risk thus totals EUR 157 thousand.

Credit risk
The Group seeks to conduct transactions exclusively with creditworthy parties. Most purchased licenses are commercially utilised in the Home Entertainment segment and through trade with TV companies in German-speaking Europe. The Group addresses the risk of payment default or delay through receivables management based on regular, standardised reporting providing an overview of the business situation and the payment record of key customers. Receivables from DVD sales are largely covered under distribution partners' credit insurance. The maximum credit risk on receivables at the balance sheet date was EUR 4.3 million (previous year: EUR 4.8 million). The Group had no significant concentrations of credit risk.

Carrying and fair value of financial instruments
Because cash, receivables and other assets, trade payables, advance payments received and other liabilities have short-term conversion/redemption horizons, their carrying value at the reporting date corresponds with fair value. There are no indications that the carrying value of long-term loans differs from fair value. There are no indications that the fair value of investments differs from carrying value.

Financial assets in k EUR		Book value		Attributable value	
	Class	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Cash and cash equivalents	1	9,776	7,740	9,776	7.740
Current trade receivables	2	9,263	7,741	9,263	7,741
Other current financial assets	2	1,154	1,616	1,154	1,616
Other non-current financial assets	2	33	32	33	32
Investments	4	0	0	0	0
Financial assets held for trading (derivatives)	4	47	0	47	0
Total		20,273	17,129	20,273	17,129

Financial liabilities in k EUR		Book value		Attributable value	
	Class	31/12/2008	31/12/2007	31/12/2008	31/12/2007
Loans (long-term)	3	7,296	7,258	7,296	7,258
Lease liabilities (current)	3	65	53	65	53
Lease liabilities (non-current)	3	107	134	107	134
Trade payables	3	5,889	5,092	5,889	5,092
Other current liabilities	3	1,179	1,147	1,179	1,147
Other non-current liabilities	3	199	263	199	263
Total		14,735	13,947	14,735	13,947

1. Cash
2. Loans and receivables, measurred at amortised cost
3. Financial liabilities, measured at amortised cost
4. Available for sale, measured of fair value

See 4.8 concerning interest income/expense from financial assets and interest not measured at fair value through profit or loss. See 4.2 concerning income from derivatives measured at fair value through profit or loss.

7. Notes on the cash flow statement per IFRS

The cash flow statement was produced in accordance with IAS 7. The statement presents the change in cash held through cash in- and outflows in the course of the financial year. Splendid Medien AG employs the indirect method to measure cash flow from operating activities, in which profit or loss for the period is adjusted for the effect of non-cash transactions, cash in/outflows from operating activities deferred from/to previous/future periods and investment and financing-related income/expense items.

The cash balance shown on the cash flow statement includes cash and cash equivalents (cheques, cash in hand and bank account balances) carried on the balance sheet with remaining maturities of less than three months.

8. Segment reporting

The Splendid Medien AG business segments are Licensing, Home Entertainment and Post-production. These segments are recognised on the basis of separate internal reporting. Only those items are included that can be directly attributed to a segment or divided among different segments in an appropriate fashion. Intersegment expenses and income are eliminated.
The table below provides an overview of key segment reporting data.

Segment reporting 2008 (Group)

2008 in k EUR	License Trade	Home Entertainment	Post-production	Holding	Total	Consolidation	Total
External sales	4,587	27,207	3,342	0	35,136		35,136
Inter-group sales	0	3,692	1,646	1,118	6,456		6,456
Total sales	4,587	30,899	4,988	1,118	41,592		41,592
EBITDA	**752**	**12,346**	**657**	**-2,539**	**11,216**	**-211**	**11,005**
Film rights amort.	-3,683	-5,274	0	0	-8,957	299	-8,658
Intngbl. assets, PPE depr./amort.	-3	-27	-209	-29	268		268
Goodwill impairment	0	0	0	0	0		0
EBIT	-2,934	**7,045**	**448**	**-2,568**	**1,991**	**88**	**2,079**
Financial result							-570
Income taxes							-853
Consolidated net profit							656
Segment non-current assets	3	420	444	50	917		917
- of which goodwill	0	326	0	0	326		326
Film rights	4,207	5,136	0	0	9,343	-188	9,155
Other assets	2,863	12,962	1,332	9,369	26,526	-449	26,077
Total assets	7,073	18,518	1,776	9,419	36,786	-637	36,149
Financial liabilities	3,400	8,587	756	8,546	21,289	162	21,451
Net investments film rights	2,874	5,675	0	0	8,549	-237	8,312
Investments intngbl. asset + PPE	3	62	206	16	287		287
Employees	3	35	36	8	82		82
Sales per employee in k EUR	1,529	777	93	0	428		428

Segment reporting 2007 (Group)

2007 in k EUR	License Trade	Home Entertainment	Post-production	Holding	Total	Consolidation	Total
External sales	3,764	21,061	3,310	0	28,135		28,135
Inter-group sales	0	2,626	1,310	922	4,858		4,858
Total sales	3,764	23,687	4,620	922	32,993		32,993
EBITDA	**2,435**	**6,805**	**1,073**	**-864**	**9,449**	**-378**	**9,071**
Film rights amort.	-6,511	-4,611	0	0	-11,122	404	-10,718
Intngbl. assets, PPE depr./amort.	-3	-33	-183	-41	-260		-260
Goodwill impairment	0	0	0	0	0		0
EBIT	-4,079	**2,161**	**890**	**-905**	**-1,933**	**26**	**-1,907**
Financial result							-499
Income taxes							1,248
Consolidated net profit							-1,158
Segment non-current assets	5	382	465	62	914		914
- of which goodwill	0	326	0	0	326		326
Film rights	5,328	4,423	0	0	9,751	-250	9,501
Other assets	3,074	9,629	1,789	8,682	23,174	-35	23,139
Total assets	8,407	14,434	2,254	8,744	33,839	-285	33,554
Financial liabilities	4,590	6,331	624	7,712	19,257	342	19,599
Net investments film rights	4,956	4,870	0	0	9,826	-383	9,443
Investments intngbl. asset + PPE	2	19	326	9	356		356
Employees	4	28	32	7	71		71
Sales per employee in k EUR	1,004	752	103	0	396		396

EUR 763 thousand (previous year: EUR 4,407 thousand) of write-downs (before consolidation) related to the License Trade segment, with the Home Entertainment segment accounting for EUR 26 thousand (previous year: EUR 93 thousand).

No further segmentation was implemented due to close affinities between the individual segments.

The table below provides a breakdown of sales by geographic region.

Sales in k EUR	2008	2007
Germany	33,519	26,717
Rest of Europe	662	774
USA	705	356
Other	250	288
Total	35,136	28,135

The assets are geographically located in Germany. Intra-group sales are priced at market rates (applying the arm's length principle).

9. Other financial obligations

in k EUR	up to 1 year	2 up to 5 years	over 5 years	Total
Type of liability				
Rent	274	241	0	515
Operating lease	144	118	0	262

In the year under review operating lease expenses of EUR 127 thousand were recorded (previous year EUR 122 thousand). Purchase obligations specifically for investments in film assets totalled EUR 7,023 thousand (previous year: € 4,768 thousand).

10. Contingent liabilities

No contingent liabilities per Article 251 HGB were recorded as of 31 December 2008.

11. Management and Supervisory Boards

Management Board

The members of the Management Board are:

- Andreas R. Klein, Managing Director, Licensing and Strategic Planning, Chairman
- Alexander Welzhofer, Managing Director, Marketing and Distribution; additional management board positions: Bundesverband Audiovisuelle Medien (BVV), Hamburg
- Michael Gawenda, Managing Director, Finance and Investor Relations

Management Board 2008 remuneration in EUR

	Remuneration				
in k EUR	Fixed salary	Bonus Management Board	Bonus Managing director	Non-cash benefits	Total
Andreas R. Klein (Chairman)	253,554	64,285		10,006	327,845
Alexander Welzhofer	231,351	21,798	21,409	8,803	283,361
Michael Gawenda	130,078	24,903		8,691	163,672
Total	614,983	110,986	21,409	27,500	774,878

Alexander Welzhofer was entitled to a compensation payment of € 55 thousand as a minority shareholder of WVG Medien GmbH in 2008.

See the relevant discussion provided in the Management Report (Remuneration report) for additional information on Management Board remuneration.

Supervisory Board

The members of the Supervisory Boards are:

- Dr. Ralph Drouven, solicitor, Cologne, Chairman; other supervisory board memberships: TX Logistik AG, Bad Honnef
- Mr. Bernd Kucera, CPA/Tax, Bonn, Vice Chairman; additional supervisory board memberships: AssFINET AG, Grafschaft bei Bonn (chairman), pact Finanz AG, Düsseldorf
- Dipl.-Kfm. Michael Baur, consultant, Munich

In accordance with the Splendid Medien AG charter, Supervisory Board members receive fixed remuneration only, in the following amounts:

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

See the information provided under ‘Related party disclosures’ regarding other services billed by Supervisory Board members.

Board member shareholdings

On 29 August 2001, 222,494 share options were granted to Splendid Group managers and staff. No options had been exercised as of December 31, 2007. The earliest exercise date was stipulated as 29 August 2003.

At 31 December 2008, Splendid Medien AG share capital totalled EUR 9,789,999.00, consisting of 9,789,999 bearer shares.

The table below shows board member shareholdings at 31 December 2008.

	2008			2007		
in k EUR	No. shares	Shareholdings in%	Options	No. shares	Shareholdings in%	Options
Management Board						
Andreas R. Klein	5,308.984	54.2286	0	5,308.984	54.2286	0
Alexander Welzhofer	28,621	0.2923	33,375	28,621	0.2923	33,375
Supervisory Board						
Dr. Ralph Drouven	3,060	0.0313	0	3,060	0.0313	0
Michael Baur	10,000	0.1021	0	10,000	0.1021	0

12. Related party disclosures

Pursuant to IAS 24, individuals and companies exercising control or substantial influence over Splendid Medien Group, or controlled by or substantially influenced by the Group constitute related parties of Splendid Medien Group. Accordingly, Splendid Medien AG Management and Supervisory Board members and company's/individuals controlled or substantially influenced by them constitute related parties. Additionally, Mr. Albert Klein represents a related party as company founder and a member of the Klein family.

Transactions with significant subsidiaries are eliminated in consolidation without special notes being provided. In addition to business relationships with significant subsidiaries, the following business relationships exist with related parties:

Name	Amt. in k EUR	of which: expense	of which: outstanding	Service rendered	Billing mode
Kucera & Hütter GmbH	15	15	2	Payroll services	Billable by number of staff for whom payroll conducted
Albert Klein	46	46	9	Consulting	As per contract
Dr. Drouven (CMS Hasche Sigle)	24	24	5	Consulting	Billing by the hour
Albert Klein	118	118	0	Office building leasing	As per lease contract

Compensation agreements with minority shareholders provide for the following annual compensation payments:

Alexander Welzhofer:	k EUR 55
Hans Henseleit:	k EUR 58

13. Events after the balance sheet date

No disclosable events occurred.

14. Net income and net accounting profit

Splendid Medien AG recorded net profit of EUR 2,447 thousand on its (single-entity) annual financial statements dated 31/12/2008. This net profit was offset by the loss carried forward from the previous year. The remaining loss carryforward was utilised through a withdrawal of EUR 66,615 thousand from capital reserves. Splendid Medien AG thus now records a net accounting profit of EUR 0.00.

15. Disclosures per Article 26 WpHG (Article 160 Paragraph 1 No. 8 AktG)

The following mandatory disclosure was released on 20 March 2008:

“Disclosure per Article 26 Paragraph 1 WpHG for Europe-wide dissemination

Metzler Investment GmbH, Frankfurt, Germany, disclosed to us on 18 March 2008 in line with Article 21 Paragraph 1 WpHG that its holdings of voting shares in Splendid Medien AG, ISIN: DE0007279507, WKN identifier: 727950 exceeded the 3% threshold on 12 February , at which date it held 3.575% of voting shares (350,000 votes). Of this number, 3.575% (350,000 votes) was attributable to Metzler Investment GmbH, Frankfurt, Germany via Stadt-Sparkasse Gelsenkirchen, Gelsenkirchen, Germany in accordance with Article 22 Paragraph 1 Sentence 1 No. 6 WpHG.

On 25 February 2008 the following mandatory disclosure was released:

“Disclosure per Article 26 Paragraph 1 WpHG for Europe-wide dissemination

Sparkasse Gelsenkirchen, Gelsenkirchen, Germany, disclosed to us on 20 February 2008 in line with Article 21 Paragraph 1 WpHG that its holdings of voting shares in Splendid Medien AG, ISIN: DE0007279507, WKN identifier: 727950 exceeded the 3% threshold on 12/02/2008, at which date it held 3.575% of voting shares (350,000 votes).

The following mandatory disclosure was released on 14 March 2007:

“Disclosure per Article 26 Paragraph 1 WpHG for Europe-wide dissemination;

COMMIT GmbH, Cologne, Germany, disclosed to us on 12 March 2007 in line with Article 21 Paragraph 1 WpHG that its holdings of voting shares in Splendid Medien AG, ISIN: DE0007279507, WKN identifier: 727950 exceeded the 5% threshold on 09/03/2007, at which date it held 5.06% of voting shares (495,437 shares).

Michel Aloui of Germany disclosed to us on 12 March 2007 in line with Article 21 Paragraph 1 WpHG that his holdings of voting shares in Splendid Medien AG, ISIN: DE0007279507, WKN identifier: 727950 exceeded the 5% threshold on 09/03/2007, at which date he held 5.06% of voting shares (495,437 shares). Of this amount, 5.06% is attributable to Mr. Michel Aloui, Germany, (495,437 shares) via COMMIT GmbH in accordance with Article 22 Paragraph 1 Sentence 1 No. 6 WpHG.

16. Declaration per Article 161 AktG

The declaration of compliance with the Corporate Governance Code per Article 161 AktG issued by the Splendid Medien AG Management and Supervisory Boards has been posted on the Splendid Medien AG website where it is accessible to shareholders at all times.

These consolidated financial statements were approved by the Management Board for submission to the Supervisory Board on March 26, 2009.

Cologne, 24 March 2009
The Management Board:

Andreas R. Klein
Chairman of the Board
Director of Licensing Operations and Strategic Planning

Alexander Welzhofer
Director of Marketing and Distribution

Michael Gawenda
Director of Finance and Investor Relations

Assertion of Consolidated Financial Statements

Responsibility statement by the Managing Board pursuant to Action 37y No. 1 of the German Securities Trading Act (WpHG) in conjunction with Action 297 Paragraph 2 Clause 3 and Action 315 Paragraph 1 Clause 5 of the German Commercial Code (HGB)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of Splendid Medien AG, Cologne, as at 31 December 2008, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Cologne, 24 March 2009

The Managing Board

Andreas R. Klein
Chairman of the Board
Director of Licensing Operations and Strategic Planning

Alexander Welzhofer
Director of Marketing and Distribution

Michael Gawenda
Director of Finance and Investor Relations

Auditor´s Certificate

We audited the consolidated financial statements prepared by Splendid Medien AG, Cologne, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, in addition to the group management report for the financial year January 1 to December 31, 2008. The preparation of the consolidated financial statements and group management report in accordance with IFRSs as adopted by the EU and German commercial law regulations under § 315a Paragraph 1 HGB are the responsibility of corporate management. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit findings.

We conducted an audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted principles of German financial statement auditing issued by the German Institute of Independent Auditors (IDW). Pursuant to these principles, audits are to be conducted in such manner as to reasonably ensure the identification of misstatements materially affecting the presentation of the results and financial position in the consolidated financial statements and the group management report, in accordance with applicable financial reporting rules. The audit was also structured based on knowledge of the corporate group's business activity and business and legal environment, as well as awareness of the potential for misstatements. As part of the audit, the effectiveness of internal accounting-related control systems was reviewed in addition to documentation for data provided in the consolidated financial statements and the group management report, primarily by means of spot checks. The audit involved review of the separate annual financial statements of group companies included in the consolidated financial statements, of accounting and consolidation rules applied, and of material forward-looking statements made by company officers, as well as providing an opinion on the overall view conveyed by the consolidated financial statements and group management report. We believe that the audit conducted provides a sufficiently reliable basis for the opinion given here.

Our audit did not give rise to any objections.

On the basis of our audit findings, the consolidated financial statements conform with IFRSs applicable in the EU, applicable Commercial Code provisions pursuant to Section 315a Paragraph 1 HGB, and the relevant charter provisions, thus providing a true and fair view of the corporate group's results and financial position. The group management report accords with the consolidated financial statements, providing on the whole a true and fair view of the status quo for the corporate group and of relevant opportunities and risks going forward.

Cologne, March 24, 2009

Ebner Stolz Mönning Bachem GmbH & Co. KG
Financial & Tax Accountants

Dr. Werner Holzmayer
Public Accountant

Dipl.-Kfm. Marcus Lauten
Public Accountant

More Information

Far Cry (Til Schweiger)

Disclaimer and legal

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Concept and layout
Contigo Finance
www.contigo-finance.de

Annual report on the internet
The Splendid Medien AG annual report is available on the internet at www.splendidmedien.com as a PDF document. An English-language version of the annual report is also available. The German-language annual report has precedence in case of doubt.

The separate Splendid Medien AG HGB financial statements and further information on the corporation are likewise posted on the website www.splendidmedien.com. You may also request that this information be sent to you. To do so, contact:

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Financial Calendar

29/05/2009	**Q1 2009 Quarterly Report** **Release of report for Q1 2009**
10/06/2009	**2009 Annual General Meeting**
31/08/2009	**2009 Half-year Report** **Release of report for H1 2009**
31/08/2009	**2009 Nine Months' Report** **Release of report for quarters 1 – 3 of 2009**

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