

## **Nine-Month Report 2001**

- **€28.7 million in revenues, €0.3 million EBIT**
- **Good growth in revenues in trading with German TV companies and with exploitation for video/DVD**
- **€3.5 million in cash and cash equivalents, capital to assets ratio at 77 per cent**

Ladies and Gentlemen,

In the third quarter of 2001 Splendid Medien AG has continued its positive business course. We attained distinctly higher revenues from the beginning of July to the end of September alone than in the six months prior to then. Our diversified strategy has paid off just as much as the high demands we make on the quality of our films. We expect this positive trend to continue throughout the last quarter of the year and that we will attain our revenues target for 2001. The target figure is €51 million.

All in all, the Splendid Group achieved revenues of €28.7 million in the first nine months of the current financial year. This means that we have exceeded the figures for the comparable period in the previous year by 16.5 per cent. Of this, we earned €15.3 million in the third quarter of 2001 alone.

In the third quarter, we not only increased our revenues but were able to raise our earnings further. The fact that most of our important key figures for the company were nevertheless lower than the comparable figures for the previous year is attributable on the one hand to the enormous advertising and distribution/sales costs incurred in the cinema and video exploitation of our films and, on the other hand, to our conservative accounting principles. This means that we spent some €7.3 million for the promotion and marketing of our films and wrote off €16 million in amortization on title licences.

We created particular interest in our branch of industry in the last quarter by selling a large package of film rights to KirchMedia, the most significant private television group in Germany apart from the Bertelsmann/RTL Group. Within the scope of this agreement, we have made available to the Kirch Group the initial exploitation licences for 22 films for the German television market. The contract covers a total volume of €23.3 million. It came about in an extremely difficult market environment which is still continuing to exhibit great reticence to buy on the part of the German television companies and in which very few experts in the branch would have considered possible at this period in time. That we succeeded in concluding this contract with KirchMedia proves just how attractive our films are.

One film with very high potential is "Gangs of New York" with Leonardo DiCaprio. Contrary to our original plans, we shall not be launching this epic into the cinema circuit until 2002. The reason for this decision is the tragic events of 11 September 2001. The cinema première was postponed following the assaults on America. Despite the shift in revenues, we are standing by our forecasts for this year.

Unfortunately, our share prices did not remain unaffected by the general slump on the stock exchanges and, in particular, by the downswing in media share values in the third quarter. Nor was this situation changed in principle by the indications of recovery, especially at the end of the third quarter. Because of the negative situation on the stock exchanges, we cannot use our shares at present as a financing instrument. Irrespective of the share price trends, we are planning to make recourse to alternative instruments to finance investment in international co-productions, in the expansion of our film library and to extend our value creation. Here, we shall be making deliberate use of promising possibilities on offer as a result of the continuing rehabilitation of the market. We accept the market consolidation as an opportunity and have both the intention and the potential to emerge from this situation with a distinctly better position than before.

In the continuous expansion of our business, Dr. Thomas Weber will also play an important role. He is the new member of the Managing Board of Splendid Medien AG responsible for finance since 1 September 2001.

Kind regards,



Andreas R. Klein  
Chief Executive Officer

**Splendid Medien AG at a glance**

<b>EUR million</b>	<b>as at 30.09.2001</b>	<b>as % of sales</b>	<b>as at 30.09.2000</b>
<b>Total revenues</b>	28.7	100.0	24.6
<b>Total licence fees</b>	22.3	77.7	19.7
- of which Germany	11.0	38.3	2.9
- of which international	3.9	13.6	16.8
- of which theatre exploitation	7.4	25.8	0.0
<b>Total video/DVD</b>	5.1	17.8	3.4
- of which video rental	1.4	4.9	1.7
- of which sell through video/DVD	3.7	12.9	1.7
<b>Total post-production</b>	1.4	4.9	1.5
- of which audio postproduction	0.9	3.1	1.3
- of which DVD/video post-production	0.5	1.7	0.2
<b>EBITDA</b>	16.8	58.5	19.3
<b>EBIT</b>	0.3	1.0	1.4
<b>Result of ordinary operations operations</b>	1.0	3.5	7.0
<b>Consolidated earnings after taxes</b>	0.7	2.4	5.4
<b>DVFA earnings</b>	0.7	2.4	5.4
<b>Balance sheet total</b>	104.5		90.2
<b>Shareholders' equity</b>	80.5		82.0
<b>Liquid funds as at 30.09.</b>	3.5		2.4
<b>Fixed assets</b>	68.8		68.7
<b>Investment in title rights</b>	9.7		38.0
<b>Amortization on title rights</b>	16.0		17.5
<b>Taxes</b>	0.3		1.5
<b>DVFA earnings per share in EUR</b>	0.08		0.61
<b>Number of employees (at end of quarter)</b>	38		30

**Highlights of the third quarter 2001**

<b>15. August</b>	Première of the Splendid co-production "James Dean" on the US American TV station TNT. With more than 6.5 million viewers, the film gains a Top Ten position.
<b>26./27. August</b>	The Splendid co-production "Victoria & Albert" achieves a market share of 24 per cent on its TV première in the British TV company BBC.
<b>28. August</b>	Splendid Television concludes a distribution contract with Abandon Entertainment, New York. In future, Splendid Television will hold the international distribution rights to the TV films from this US company.
<b>30. August</b>	Splendid Film concludes a licence contract with KirchMedia for a package of 22 films with a volume to the sum of €23.3 million.
<b>31. August</b>	Splendid Medien AG appoints Dr. Thomas Weber as new member of the Managing Board with responsibility for finance with effect from 1 September 2001.
<b>5. September</b>	International première of "James Dean" at the Deauville Film Festival, France. The international press gave it an enthusiastic reception.
<b>28. September</b>	Enteractive GmbH concludes a cooperation agreement with the Time Warner subsidiary CVC. In future, Enteractive will belong to an international network in the digital processing of DVDs with considerable revenues potential.

## Business trends and order situation

In the third quarter of the current financial year, the Splendid Group achieved revenues of € 15.3 million, thus reinforcing the upward trend in the preceding three-month period. Together with the € 13.4 million obtained in revenues in the first half of the year, Splendid had a total turnover of € 28.7 million in the first nine months of 2001. This means that the group has increased its revenues by 16.5 per cent in comparison with the same period last year.

Once more, the broad diversification of Splendid paid off with the three leading business sectors "Trading in licences", "Video/DVD" and "Post-production" in the first nine months of 2001. Accounting for just under 78 per cent, "Trading in licences" made the largest contribution to revenues. It consists of the segments "Theatre exploitation", "Film rights trading Germany" and "Film rights trading international". Whilst the movie theatre exploitation segment generated the highest revenues in the first half of the current year, this shifted in the third quarter to trading in TV rights throughout the whole of Germany as shown in the segment "Film rights trading Germany". The "Video/DVD" sector also showed a satisfactory trend in the third quarter. In the first nine months of 2001, it earned just under 18 per cent of Group revenues. Post-production contributed just under five per cent to total revenues with its segments "Audio post-production" and "DVD and video post-production".

## The market for sales and procurement

Despite the weak economic situation world-wide and in the face of stiff competition, the Splendid Group is operating in a market environment with overall positive tendencies. For example, in the course of the last year movie theatre revenues showed a distinct increase in virtually every important industrialised country. In Germany this increase amounted to 15.4 per cent to DM 1.36 billion up to 30 September 2001 according to details provided by the German Federal Film Board FFA. For this reason, the pundits are forecasting that 2001 will be a record year for the cinema branch. They are also expecting similar developments for the sales of image recording media. In the first nine months of 2001, this branch of industry sold a total volume of videos and DVDs amounting to DM 921.3 million, i.e. 32.6 per cent more than in the same period last year. This trend was borne primarily by the furious pace in demand for DVDs. Revenues from DVDs in the first nine months of 2001 amounted to DM 477.2 million, revenues from VHS cassettes amounted to DM 444.1 million.

Apart from these positive developments, there are also quite a few negative aspects as well. For example, a large number of film premières were postponed as a result of the tragic events of 11 September 2001. In concrete terms, this meant for Splendid the film "Gangs of New York". It will not – as originally planned – enter the theatre circuit before the end of this year, but in 2002 instead.

In the course of the year to date trading in TV licence rights showed itself in a different hue. As expected, the reticence shown by TV companies to buy persisted on the especially difficult German market. In addition, an increase in the concentration process in the film and television branch prevailed in some important western European markets. On the other hand, dealers in film licence rights in the other regions of the world are meeting with primarily prospering markets with a lot of demand. Splendid is proceeding on the basis that the situation on the markets which are in difficulty at the moment will also undergo distinct improvement in the medium to long term.

The procurement market for films enjoyed a positive trend. Whereas a tough price war for good licence rights dominated particularly in 2000, the situation has continued to ease over the last

few months. This ought to have a positive effect on the acquisition of new projects in the long term.

### **Film rights trading**

In the licence trading sector, the Splendid Group recorded revenues to the sum of € 22,3 million in the first nine months of 2001, representing an increase of 13 per cent over the same period last year. This business sector is made up of the segments " Film rights trading Germany", "Film rights trading international" and "Theatre exploitation".

### **Film rights trading Germany**

Although the German TV market still continued to exhibit great reticence to buy on the part of the television companies, Splendid managed to conclude a wide-ranging sales/distribution contract with KirchMedia. This title rights contract comprises a package of 22 films from the Splendid film library with a total volume of € 23.3 million. In addition to such top titles as "Traffic" and "Dr. T & The Women", the package also includes high-quality films which have not been released for movie theatre presentation such as "Cutaway" with Tom Berenger and "If These Walls Could Talk II" with Sharon Stone.

Within the scope of the contract, KirchMedia acquired pay and free TV rights to the films for the German-speaking area for a limited period of time. Splendid recorded the first revenues resulting from this contract in the third quarter of 2001 and there will be further revenues in the last quarter of 2001 and in the 2002 fiscal year. Over and above this first contract, Splendid is proceeding on the basis of long-term cooperation with KirchMedia.

In addition, Splendid has concluded a licence contract with RTL II for a package of 13 films in secondary and tertiary exploitation. Amongst the titles involved are some Jackie Chan classics. Splendid is also negotiating the sale of TV rights with other TV companies.

### **Film rights trading international**

In the first nine months, Splendid has achieved revenues of € 3.9 million through the marketing of international television rights. The Managing Board expects that the revenues in this sector will rise further in the last months of the current year. This depends, amongst others, on successful television starts in August for the two Splendid Television co-productions "Victoria & Albert" and "James Dean". On its television première on the BBC in Britain, "Victoria & Albert" reached a market share of 24 per cent, and "James Dean" moved into a Top Ten position on its initial broadcast on the US American TNT television station with more than 6.5 million viewers. At the film festival in Deauville, France, the TV production on the legendary actor James Dean, who would have been 70 in this year, also won an excellent position. The film was part of a festival focus dedicated to James Dean and received highly positive comments from the press.

At the end of August 2001, Splendid Television signed a distribution contract with Abandon Entertainment of New York. This agreed that the international rights to all television broadcasts internally produced by Abandon or acquired externally by them would be distributed all over the world with the exception of North America by Splendid Television.

### **Theatre exploitation**

In the first nine months of 2001 Splendid obtained € 7.4 million in revenues from the theatre exploitation of films. The third quarter contributed € 0.1 million to this figure. The films exploited for the theatre already in this year are: "Dr. T. & The Women", "Traffic", "Gorgeous", "Under Suspicion" and "Shadow of the Vampire". Of these, the most successful film was "Traffic": This drug-trade thriller starring Michael Douglas, Catherine Zeta-Jones and Benicio Del Toro won two Golden Globe awards and four Oscars and has been seen by more than 1.7 million people in the German-speaking areas.

### **Video and DVD sector**

In the video and DVD sector, Splendid operates in the fields of sales and distribution (retail and rental). Both segments underwent positive development as expected in the third quarter. Here, Splendid concentrated primarily on the video and DVD exploitation of its cinema films. In addition, the marketing of the "Jackie Chan Masterpiece Edition" continued its highly satisfactory course. By the end of September 120,000 copies had been sold.

The decision to handle video and DVD sales through the joint venture Warner Vision Vertriebs GmbH, in which Splendid has a 49 per cent holding, has had a highly positive effect. In the third quarter alone, Warner Vision launched 18 titles on to the market as retail DVDs or retail video cassettes for the Splendid Entertainment and Polyband labels including "Dr. T. & The Women" as well as titles from the "Jet Li Masterpiece Edition". This means that the sell through video/DVD segment managed to maintain between July and September the positive business course of the preceding quarters. In the first three quarters it recorded revenues of € 3.7 million which is some 118 per cent of the figure for the same period last year.

The cooperation with Warner Home in the rental video and rental DVD segment agreed at the beginning of this year also bore its first fruits. Warner Home Video launched the first five titles within the scope of this cooperation agreement into the video rental stores in August and September, including "Dr. T & The Women" and "Gorgeous" with Jackie Chan. In this way, Splendid had revenues in the rental sector in the first nine months of 2001 amounting to € 1.4 million, € 1.3 million of that alone in the third quarter. The figure for the same period last year was € 1.7 million.

The Splendid subsidiary Polyband GmbH of Munich, specialised in the production of special interest films for DVD and VHS, is increasingly concentrating on the growth market for fitness and health programmes. In the last nine months Polyband produced three fitness videos of which the title "Cardio Boxing" in particular met with a highly positive response. Polyband has also been working on additional distribution channels for its products such as video on demand and the Internet.

### **Post-production**

In the post-production sector, the Splendid Group had revenues to the sum of € 1.4 million in the first nine months of 2001. In the comparable period last year, this figure was € 1.5 million. This sector consists of the subordinate segments "Audio Post-production" (including, amongst others, dubbing and sound post-treatment) and DVD and video post-production.

### **Audio post-production**

As a result of the difficult market environment in the first half of 2001, Splendid Synchron GmbH recorded nine-month revenues for 2001 to the sum of € 0.9 million as compared with € 1.3 million in the same period last year. Here, amongst others, Splendid Synchron processed two feature films for Splendid Film, two cinema films for 20<sup>th</sup> Century Fox and series for the German TV companies ProSieben, Super RTL and RTL. In the post-dubbing, sound recording and DVD remix fields, Splendid Synchron had more than 50 orders, about half of which in the third quarter. Splendid Synchron expects the positive trend to continue throughout the next quarter.

The dubbing team has received many orders thanks to recommendations from within the industry. This is evidence of the high quality of its efforts. To be able to cope with the demand and to make even better use of the market opportunities, Splendid Synchron is extending its technical capacities further and is rounding off the range of services being offered by Audio Post-production.

### **DVD and video post-production**

The DVD & Video Post-production sector, which is covered by the Splendid subsidiary Enteractive GmbH, is operating in a burgeoning market environment because of the sales boom for DVDs and their digital contents which are becoming ever more important and more complex. The logical consequence is that this new sector has already managed to generate revenues of € 0.5 million in the first three quarters of this year. In this way, Enteractive has processed more than 100 DVD productions to date. In addition to the fellow Group subsidiaries Splendid Film and Polyband, Enteractive can count amongst its clients such famous players from the home entertainment branch as Universal Music, Warner Home and Eurovideo.

In the year 2000, DVD productions in which Enteractive was involved to a decisive degree were awarded the DVD Champion Award. In this year again, Enteractive productions have once more been nominated for this coveted award, viz. the two films processed for Warner Home Video "Gran Paradiso" and "The Little Vampire". In addition, Enteractive was also nominated for the special award "Best DVD studio".

Enteractive is expecting strong growth impulses as a result of the cooperation agreement with the Time Warner subsidiary California Video Center (CVC) which was signed at the end of September. On the basis of this agreement, Enteractive is a sub-licencee of CVC, which is specialised in the Time Warner Group in the DVD processing and production fields. As one of the eight participants throughout the world within the international CVC network, Enteractive will process DVD premastering orders in future for Time Warner and other clients of the network.

### **Earnings situation**

In the third quarter of 2001, the Splendid Group has been writing figures exclusively in the black. In all, Splendid recorded earnings of € 0.7 million in accordance with IAS accounting principles in the first nine months of the current year as compared with € 5.4 million in the same period last year. Because of the profit carried forward, the balance sheet profit was € 4.7 million, compared with € 5.9 million for the first three quarters of 2000.

The main reasons for this profit development were in particular the difficult situation on the television rights market in Germany, our conservative amortization and accounting policies and

the high advertising and distribution costs entailed by the launching of films into the cinema circuit.

Earnings before interest, taxes, depreciation and amortization (EBITDA) at € 16.8 million were still, admittedly, 12.8 per cent below the comparable figures for last year. However, the EBITDA margin at 58.5 per cent is still at a respectable level.

As at the end of September 2001, the earnings before interest and taxes (EBIT) amounted to € 0.3 million as compared with € 1.4 million for the same period last year. The result before income tax and minority interests amounted to € 1.0 million as compared with € 7.0 million for the same period last year. The DVFA earnings per share amounted to € 0.08 for the first nine months of this year against € 0.61 last year.

In particular, the production costs for services provided amounting to € 19.7 million (same period last year: € 19.9 million) negatively affected the earnings. A significant part of these production costs consists primarily of the amortization on the film rights to a volume of € 16 million. Major amortization was undertaken in respect of "Traffic" and "Shadow of the Vampire".

Distribution costs amounted to € 7.3 million (€ 0.9 million in the same period last year). The major portion of these were costs for the theatre exploitation of films in the first half of the year. In addition, costs for video exploitation of the cinema films were incurred in the third quarter.

The general administrative costs in the first nine months of 2001 amounted to € 3.2 million and exceeded the figure for the same period last year by 20 per cent. These costs include personnel expenses, the costs of legal and economic advice and the costs incurred in connection with investor relation and public relation measures.

## **Equity situation**

By the end of the third quarter of 2001, the Splendid Group increased its cash and cash equivalents in comparison to the end of the 2000 fiscal year by 169.2 per cent to € 3.5 million. In comparison with year-end 2000, trade accounts receivable increased from € 0.9 to € 15.3 million. These include in the main receivables from the sale of the film package to KirchMedia and receivables from the sale of film rights to RTL II. In addition, as at the end of September 2001, there were receivables from within the Group to the sum of € 3.4 million. These involved IEG and Warner Vision. Title rights amounted to € 68.8 million. This figure was € 85.4 million at year-end 2000.

In the first three quarters of 2001 Splendid invested € 9.7 million in its stock of film rights. These funds were invested amongst others in the films "Victoria & Albert", "Shadow of the Vampire", and "Layover". Title rights account for 65.8 percent of the balance sheet total as compared with 57.6 per cent at year-end 2000. In comparison with fiscal 2000, the balance sheet total increased by 3.1 per cent to € 104.5 million.

As at the end of the third quarter of 2001, the Splendid Group had at its disposal shareholders' equity amounting to € 80.5 million. This represents an increase of 0.9 per cent over the figure as at 31 December 2000. As at the end of September 2001 the capital to asset ratio was 77.0 per cent as compared to 78.7 per cent at the end of December 2000. In addition to providing financing funds from its own resources, Splendid draws upon outside capital to finance films. This is reflected in the borrowings position, shown as at the end of September 2001 to the sum of € 12.0 million (€ 4.1 million at year-end 2000). As at the end of the reporting period, total liabilities amounted to € 24.0 million. As at year-end 2000, liabilities amounted to € 21.6 million.

### **Important events since the end of the nine-month period of 2001**

In the period following the end of the third quarter of 2001 until the printing of this report, there were several important events which allow the expectation of a continuation of the overall satisfactory business developments at Splendid.

In the meantime, Splendid Television is marketing the TV series "Glory Days" by the star author Kevin Williamson internationally for their cooperation partner Abandon Entertainment. The series is produced by Abandon. "Glory Days" is provisionally scheduled for initial showing in the USA in January 2002. Amongst others, the film scripts for the three "Scream" cinema films and for the successful TV series "Dawson's Creek" were also penned by Williamson.

The cooperation agreement with Abandon Entertainment which was only signed in August 2001 has brought in another international marketing order for Splendid Television in October 2001. This involves the TV series "Project Greenlight". It tells the unusual story of the origins of the cinema film "Stolen Summer", in which such international stars as Ben Affleck and Matt Damon star and which will be broadcast in the USA in 12 sequences lasting 30 minutes from December 2001.

Post-production on the cinema film "The Dangerous Lives of Altar Boys" starring Jodie Foster was completed on schedule. It is expected that this film will be sent out to international customers before the end of this year.

In October, work began on the processing of "Traffic - Die Macht des Kartells" for DVD and VHS in the German-speaking areas. Having sold some 14,000 DVDs in all in the start-up week, "Traffic" made its way to second place in the Top Ten DVD/video sales statistics. In the rental video sector, "Traffic" also went straight into the Top Ten.

In October 2001 Polyband signed a cooperation agreement with the international distribution company True Stories. The Splendid subsidiary expects to gain a distinct boost for the international marketing of its own internally-produced fitness videos. In addition, the MIPCOM TV Fair in Cannes in October took a promising course for Polyband. Here Polyband presented the videos "Power Yoga", "Men's Power Body" and "QiGong Dancing".

In October, Graham King, member of the Managing Board of the Splendid affiliate IEG, left the Managing Board of Splendid Medien AG. King was responsible for Production and World Wide Sales and Distribution. Responsibility for this portfolio has been assumed by Andreas R. Klein, the Chief Executive Officer.

In November 2001 filming began on the action thriller "Piano Player". Splendid will hold all world-wide rights to the film and is financing it together with other European co-producers. The leading roles are played by Christopher Lambert and Dennis Hopper. The film tells the story of a highly promising on-going pianist who witnesses the murder of his parents and then slides into the criminal underworld himself.

### **Future prospects**

Notwithstanding the difficult economic situation, Splendid expects the present positive business trend to continue through the last quarter and into the year 2002. The Managing Board is proceeding on the assumption that Splendid will achieve the target revenues of €51 million by the end of 2001.

Amongst others, Splendid is expecting for the last quarter of 2001 additional revenues from the sale of film rights to television stations in Germany, from the international marketing of films and from the video exploitation of the cinema films from the first six months of 2001. Splendid is expecting to confirm in the fourth quarter of 2001 the positive developments particularly in the video and DVD sector. This applies both to the rental and the retail sectors. In particular, the DVD sector ought to confirm its high growth rates. Splendid expects good revenue figures especially from the drug-trade thriller "Traffic" both in rental and in retail business.

On the other hand, the Martin Scorsese drama "Gangs of New York" will no longer reach the cinemas in this year as a result of the events of 11 September 2001. The start date is now scheduled for early 2002. Accordingly, Splendid will not be able to record revenues from the cinema exploitation of this film until 2002 as well.

The difficult overall situation in the TV licence rights business in Germany is not likely to improve in the short term. However, Splendid can see an upward trend in the medium and long term in the TV licence rights market in Germany. The reason is that, despite the plunge in advertising income caused by the current recession and a steep increase in internally produced TV shows, the television stations have a long-term requirement for high-quality films.

Even in the short term, Enteractive GmbH expects a distinct boost in revenues for the coming years as a result of the cooperation with the Time Warner subsidiary CVC and the attendant inclusion in a global production network.

## **The shares**

### **Staff share option scheme**

Following on from the resolution passed at the shareholders' meeting held in June this year to introduce a staff share option scheme which envisioned a ten per cent increase in capital and the issue of additional ordinary shares at a nominal value of €1, Splendid issued the first tranche of this share option to senior staff and executives within the Group on 29 August.

### **Price trend**

The poor state of the Neuer Markt in general once more had its effect on the price of the Splendid share in the third quarter of 2001 as well. The share price trend is in stark contrast to the positive business trend for Splendid. Because of the high costs entailed by notation on the Neuer Markt and the general criticism of this market segment, many of the companies listed there are considering moving to some other market segment. The Managing Board of Splendid is observing this development very closely. However, we do not intend to turn our backs on the Neuer Markt at present.

### **Relaunch of the website**

Splendid Medien AG has completely revamped its Internet site. The primary focus here in particular was to create a much greater service offer for shareholders and journalists. Important information such as press releases, key company figures, reports and also photographs and logos are available on [www.splendidmedien.com](http://www.splendidmedien.com) ready for downloading.

### Dividend

The Managing Board of Splendid Medien AG intends to propose to the shareholders' meeting that no dividend be paid for the 2001 fiscal year but to plough back the profit into investment in the future development of the company.

### Notifiable trading in securities

On 29 August 2001 a total of 222,494 share options in all were issued for senior managers and staff in the Splendid Group.

On 6 September the Chief Executive Officer of Splendid Medien AG, Andreas R. Klein, transferred 500,000 ordinary bearer shares from his possession to two members of the Managing Board: Dr. Thomas Weber received 350,000 and Alexander Welzhofer 150,000 of these ordinary bearer shares.

As at 30 September 2001, the share capital of Splendid Medien AG was spread over 8.9 million bearer shares. These include the following notifiable holdings:

	Shares	Percentage of total equity	Share options
<b>Managing Board</b>			
Andreas R. Klein	4,509,079	50.6638%	0
Dr. Thomas Weber	350,000	3.9326%	33.375
Graham King	346,050	3.8882%	0
Alexander Welzhofer	153,060	1.7198%	33.375
<b>Supervisory Board</b>			
Dr. Ralph Drouven	3,060	0.0344%	0

### Employees

With effect from 1 September the Supervisory Board of Splendid Medien AG has nominated Dr. Thomas Weber to take responsibility for Finance in the Managing Board. This 37-year-old finance expert was in leading positions to date with internationally operating enterprises, most recently as Chief Finance Officer of the national Turkish company of Metro, in the cash- and carry sector. At Splendid Medien AG Weber will also assume responsibility for the Investor Relations portfolio and for the operational management of associated and affiliate companies in addition to his responsibilities for Finance. As at 30 September 2001, the Splendid Group had a workforce of 38 employees. Eight staff members were employed at Splendid Medien AG, four more at Splendid Film. Splendid Synchron had 11 staff. Ascot had one employee, Polyband three, Enteractive nine and Splendid Television two.

		<b>Consolidated Income Statement (IAS)</b> <b>1 January to 30 September 2001</b> <b>(cost of sales principle)</b>			
<b>Income Statement</b>		Quarterly Report 3/2001	Quarterly Report 3/2000	Quarterly Report (current year to date)	Quarterly Report (comparative period previous year)
	(€000)	1.7.2001- 30.9.2001	1.7.2000- 30.9.2000	1.1.2001- 30.9.2001	1.1.2000- 30.9.2000
Revenues		15,298	10,827	28,701	24,637
Cost of revenues		-12,798	-9,053	-19,701	-19,914
<b>Gross profit/loss</b>		<b>2,500</b>	<b>1,774</b>	<b>9,000</b>	<b>4,723</b>
Selling and marketing expenses		-1,304	-268	-7,276	-936
General and administrative expenses		-1,009	-987	-3,184	-2,651
Other operating income and expenses		210	-169	267	131
Amortization (and impairment) of goodwill		-89	-70	-208	-198
<b>Operating income / loss</b>		<b>308</b>	<b>280</b>	<b>-1,401</b>	<b>1,069</b>
Interest income and expenses		78	749	658	1,672
Income from investments and participations		-68	1,435	33	3,915
Foreign currency exchange gains / losses		1	308	1,721	308
<b>Result before income tax (and minority interest)</b>		<b>319</b>	<b>2,772</b>	<b>1,011</b>	<b>6,964</b>
Income tax		-34	-704	-316	-1,536
Extraordinary income / expenses		0	0	0	0
<b>Result before minority interest</b>		<b>285</b>	<b>2,068</b>	<b>695</b>	<b>5,428</b>
Minority interest		16	-2	33	-2
<b>Net income/loss</b>		<b>301</b>	<b>2,066</b>	<b>728</b>	<b>5,426</b>
Consolidated profit/loss carried forward		3,940	499	3,940	499
<b>Consolidated balance sheet profit</b>		<b>4,241</b>	<b>2,565</b>	<b>4,668</b>	<b>5,925</b>
Net income per share (basic, in €)				0.08	0.61
Weighted average shares outstanding (basic, in €000)				8,900	8,900

<b>Cash Flow Statement</b>	<b>Consolidated Cash Flow Statement (IAS) as at 30 September 2001</b>	
	Quarterly Report (current year to date)	Quarterly Report (comparable period previous year)
(€000)	1.1.2001- 30.9.2001	1.1.2000- 30.9.2000
<b>Cash flows from operating activities:</b>		
Net profit / loss	728	5,426
Adjustments for:		
Minority Interest	-33	2
Depreciation and amortization on intangible assets and Goodwill	513	403
Amortization on title rights	15,955	17,497
Increase / decrease in provisions and accruals	374	-625
Losses / gains on the disposal of fixed asset	0	-15
Foreign exchange gains / losses	-1,721	-308
Other	32	1
Change in net working capital	-21,988	-2,527
<b>Net cash provided by (used in) operating activities</b>	<b>-6,140</b>	<b>19,854</b>
<b>Cash flows from investment activities:</b>		
Acquisition of subsidiaries	-32	-3,915
Purchase of property, plant and equipment	-276	-784
Advance payments offset	10,442	0
Purchase of film rights	-9,748	-37,996
Proceeds from sale of equipment	0	44
<b>Net cash used in Investing activities</b>	<b>386</b>	<b>-42,651</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	7,960	185
Other	-4	4
<b>Net cash provided by (used in) financing activities</b>	<b>7,956</b>	<b>189</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,202</b>	<b>-22,608</b>
Cash and cash equivalents at beginning of period	1,320	24,960
<b>Cash and cash equivalents at end of period</b>	<b>3,522</b>	<b>2,352</b>

Assets	Consolidated Balance Sheet As at 30 September 2001	
	Quarterly Report 3/2001	Annual Report 2000
	(€000) 30.9.2001	31.12.2000
<b>Current assets</b>		
Cash and cash equivalents	3,522	1,320
Trade accounts receivable	15,331	936
Accounts receivable from related parties	3,359	0
Inventories	578	462
Deferred tax asset	24	28
Prepaid expenses and other current assets	1,688	1,778
<b>Total current assets</b>	<b>24,502</b>	<b>4,524</b>
<b>Title rights</b>		
Title rights	34,176	36,870
Advance payments	34,606	48,561
<b>Total title rights</b>	<b>68,782</b>	<b>85,431</b>
<b>Non current assets</b>		
Property, plant and equipment	997	1,028
Intangible assets	113	112
Goodwill	4,948	5,155
Investments	5,201	5,169
<b>Total non current assets</b>	<b>11,259</b>	<b>11,464</b>
<b>Total assets</b>	<b>104,543</b>	<b>101,419</b>

Liabilities and Shareholders' equity  (€000)	Consolidated Balance Sheet As at 30 September 2001	
	Quarterly Report 3/2001	Annual Report 2000
	30.9.2001	31.12.2000
<b>Liabilities and deferred charges</b>		
Trade accounts payable	4,607	2,590
Accounts payable due to related parties	229	10,077
Advance payments received	1,348	6
Accrued expenses	4,247	3,873
Other liabilities	1,542	986
Loans	12,015	4,055
<b>Total liabilities and deferred charges</b>	<b>23,988</b>	<b>21,587</b>
<b>Minority Interest</b>	<b>11</b>	<b>12</b>
<b>Shareholders' equity</b>		
Share capital	8,900	8,900
Additional paid-in capital	66,992	66,992
Retained earnings / accumulated deficit	4,668	3,940
Others	-16	-12
<b>Total shareholders' equity</b>	<b>80,544</b>	<b>79,820</b>
<b>Total liabilities and shareholders' equity</b>	<b>104,543</b>	<b>101,419</b>

(€000)	Changes in shareholders' equity at Splendid Medien AG				
	Company capital	Capital reserves	Balance sheet profit, consolidation	Currency difference	Total
as at 1.1.2000	8,900	67,107	497	40	76,544
Earnings after taxes			5,426		5,426
<b>as at 30.9.2000</b>	<b>8,900</b>	<b>67,107</b>	<b>5,923</b>	<b>40</b>	<b>81,970</b>
as at 1.1.2001	8,900	66,992	3,940	-12	79,820
Earnings after taxes			728		728
Currency conversion				-4	-4
<b>as at 30.9.2001</b>	<b>8,900</b>	<b>66,992</b>	<b>4,668</b>	<b>-16</b>	<b>80,544</b>

## Notes to the Nine-Month report 2001 of Splendid Medien AG

### Preliminary remarks on accounting and valuation methods

The consolidated financial statements of Splendid Medien AG for the period from 1 January 2001 to 30 September 2001 have been drawn up in accordance with the provisions contained in the International Accounting Standards (IAS). As a result of the fact that the company is listed at the Neuer Markt of the Deutsche Börse AG (German Stock Exchange), Splendid Medien AG is obliged to draw up its consolidated financial statements in accordance with the provisions contained in IAS or US-GAAP.

### Principles of consolidation

#### Uniform accounting and valuation within the Group

The consolidated financial statements of the Splendid Group have been prepared in accordance with uniform accounting and valuation methods based on the quarterly reports of the companies included in the consolidation reconciled to the reference date of these statements. Only in the case of associated companies valued in accordance with the equity method, are differing accounting and valuation methods retained in the consolidated statements.

#### Consolidated companies

In addition to Splendid Medien AG, the following companies are also included in the consolidated financial statements:

	<b>Company</b>	<b>Registered office</b>	<b>Equity holding in %</b>
<b>Affiliated companies</b>	Splendid Film GmbH	Cologne	100
	Splendid Synchron GmbH	Cologne	100
	Ascot Medien GmbH	Essen	100
	Polyband Gesellschaft für Bild- und Tonträger m.b.H. & Co. Betriebs KG	Munich	100
	Polyband Gesellschaft für Bild- und Tonträger mit beschränkter Haftung	Munich	100
	Enteractive GmbH	Hamburg	85
	Splendid Television, LLC	New York, USA	80
	<b>Associated companies</b>	Initial Entertainment Group, Inc.	Santa Monica, USA
Warner Vision Vertriebs GmbH		Hamburg	49

### **Principles of consolidation**

The individual financial statements of the fully consolidated companies have been prepared in accordance with uniform accounting and valuation methods and the fully consolidated subsidiaries have also used the same statement and valuation rules as the parent undertaking. Income and expenses arising from inter-company goods and services provided have been eliminated. Deferred charges and prepaid expenses and also trade liabilities between companies included in the consolidation have been set off against each other.

All the fully consolidated Group companies are under the uniform direction of Splendid Medien AG.

### **Capital consolidation**

Capital of the fully consolidated companies has been consolidated in accordance with the book value method.

## **Accounting and valuation methods**

### **Film rights**

The film rights shown under the heading screen rights are capitalised at the time of technical take-over of the film material at their cost of purchase and written down as sub-rights are exploited or sold.

For the movie theatre exploitation stage, amortisation is undertaken at 10 per cent of the procurement costs. Where the film rights are exploited in rental or retail video business (incl. DVD) the rate of amortisation chosen is 20 per cent of the procurement costs. For TV rights (Pay TV and Free TV) amortisation is calculated at 49 per cent of the procurement costs for initial exploitation and 21 per cent for subsequent exploitation.

The accounting practice used for the sub-rights acquired is based on the experience and assessment of executive management regarding the exploitation possibilities even if different breakdowns of the purchase price in relation to the individual sub-rights are agreed in individual contracts. In addition, due consideration has been given to the particular nature of licence agreements (e.g. long periods of duration for initial exploitation) by reasonable changes adopted in the amortisation rates.

### **Financial investments**

Holdings in associated companies are included under this heading. The holdings in associated companies involved are the 49 per cent stake in Initial Entertainment Group, Inc., Santa Monica, and a further holding of the same proportion in Warner Vision Vertriebs GmbH, Hamburg.

## **Notes to the consolidated income statement**

### **Revenues**

Splendid Medien AG generates its revenues from the exploitation of film rights and from services provided for the film and television branches of the entertainment industry.

The Group acquires exploitation rights for specific countries and periods of time. On the basis of the exploitation rights acquired, the companies belonging to the group in turn grant licences to their clients all over the world. Revenues are due at the time of fulfilment of the contract in respect of the licensee providing the Group companies have fulfilled their contractual obligations in essential points.

Splendid Medien AG obtains revenues from the exploitation of films in the theatre segment, through video and DVD and also through television in the German-speaking regions. In the case of films shown in theatres, revenues begin to flow from the première of the film. Exploitation through video and DVD and also television (Pay TV and Free TV) begins as a rule six to 24 months after the regular theatre exploitation has begun. Revenues are received at the start of the licence exploitation in question.

Revenues from services provided in the audio and video post-production sectors are received on completion.

Revenues are broken down into the segments "Revenues from licences", "Video/DVD" and "Post-production". A table showing the revenues of the various segments can be found on Page 4 of this Nine-Month Report.

Alsdorfer Str. 3 • 50933 Cologne • Germany  
Tel.: +49 (0) 221- 95 42 32 - 32 • Fax: +49 (0) 221- 95 42 32 - 8  
e-Mail: [info@splendid-medien.com](mailto:info@splendid-medien.com)  
[www.splendid-medien.com](http://www.splendid-medien.com)