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KEY FIGURES GROUP

	01.01.-31.12.2001 € million	01.01.-31.12.2002 € million
Sales	127.3	131.2
of which in-house productions	84.5	106.1
of which third-party productions	42.8	25.1
EBITDA	73.7	58.3
Gross profit	-4.0	18.3
EBIT	-15.9	4.8
Net income/loss for the year	-10.8	-1.1
Investments in film assets	118.0	43.9
Depreciation of film assets	88.9	52.5
	31.12.2001	31.12.2002
Film assets	99.5	91.0
Equity	75.8	74.7
Balance sheet total	254.7	233.0
Employees (number)	143	141
Earnings per share in €	-0.85	-0.08

Dear shareholders,
dear friends of Constantin Film AG,

In spite of the generally difficult market environment in the German media industry, Constantin Film had a successful year in all areas of its business in 2002 and was able to strengthen its leading position on the German distribution and production market considerably.

2002 was quite a good theatrical year in Germany, with annual sales of € 960.1 million (according to Nielsen/EDI) and 163.9 million admissions – comparable to the figures for 2000.

With 12.7 million theatrical admissions in 2002 and a market share of 8.2 per cent, Constantin Film was – like in 2000 and 2001 – the most successful independent German distributor and was once again the only German player to match the admissions performance of the five US studio distributors. Constantin Film alone recorded more theatrical admissions than its five largest independent competitors together.

Seven films distributed by Constantin Film were among the top 10 films that originated in Germany in 2002. **Bibi Blocksberg** (director: Hermine Huntgeburth), a production by Bavaria Film/KIDDINX Filmproduction, topped the list. This film of one of the most popular children's books of all time, with Corinna Harfouch, Katja Riemann and Ulrich Noethen in the leading roles, recorded more than 2.1 million ad-

missions to German theatres. The Uschi Reich/Peter Zenk production won the prize for the "Best Production" in the Bavarian Film Competition in January 2003 (shared with **Das fliegende Klassenzimmer**, which Constantin Film has also been distributing very successfully since January 2003).

The Constantin Film co-production **Nowhere in Africa**, with 1.3 million theatrical admissions, reached second place. In addition to many German awards, this moving epic by Caroline Link won the Oscar for the "Best Foreign Language Film" in the Academy Awards this year. The most prestigious film prize in the world went to Germany for the second time, 23 years after Volker Schlöndorff won an Oscar with **The Tin Drum**.

In 3rd place was our in-house production **Knallharte Jungs** (director: Granz Henman), another film with more than one million admissions, featuring the up-and-coming young stars Tobias Schenke and Axel Stein in the main parts.

The international Constantin Film production **Resident Evil** (director: Paul Anderson), which made the best start ever by a German production in the USA in March 2002, was also one of the top 10 productions in Germany, with more than 950,000 theatrical admissions. This horror thriller starring Milla Jovovich and Michelle Rodriguez has proved to be extremely successful all over the world too, recording international box office receipts of more than USD 100 million so far.

Further top 10 hits landed by Constantin in the 2002 theatrical year were the Doris Dörrie comedy **Nackt** (940,000 admissions), the re-release of the blockbuster **Der Schuh des Manitu** (11.7 million admissions in total) and **Erkan & Stefan 2** (690,000 admissions) – all of them co-produced by Constantin Film.

Our 50.7 per cent share of theatrical admissions to all of the German productions released in 2002 is impressive confirmation of the leading position we have built up on the German production and distribution market over a period of decades. This is attributable to a large extent, among other things, to the close ties between talented and successful German professionals and our company, which we will be expanding further in future as well. We are, for example, continuing our extremely successful cooperation with Michael "Bully" Herbig following **Der Schuh des Manitu** and have secured the German-speaking theatrical and video/DVD exploitation rights to his new theatrical film **(T)Raumschiff Surprise – Periode 1**.

Another highlight in our 2002 distribution year was the theatrical comedy **8 Women** starring Cathérine Deneuve, Isabelle Huppert, Emmanuelle Béart, Fanny Ardant, Virginie Ledoyen and Danielle Darrieux, that won the "Silver Bear" at the Berlinale 2002 and has generated more than 1.4 million theatrical admissions in Germany so far.

The US high school comedy **National Lampoon's Van Wilder** from the service co-operation agreement we concluded with the RTL Group in 2001 contributed almost one million admissions to the success of our distribution operations too.

The TV productions by Constantin Film performed excellently in the generally difficult market environment in 2002 as well. **Das Jesus Video** (production: Rat Pack Filmproduktion GmbH, a Constantin Film subsidiary) was the most successful TV movie of the year on ProSieben. Constantin Film provided the two biggest TV movies of the year on Sat.1 too as early as January 2002 with its two-part international in-house production **The Mists of Avalon**. The productions **Wer liebt, hat Recht** (6.41 million viewers) with Iris Berben and Robert Atzorn in the principal roles and two more programmes in the popular thriller series **Rosa Roth** (director: Carlo Rola, producer: Oliver Berben) with 4.85 million viewers (**Rosa Roth – Die Abrechnung**) and 5.84 million viewers (**Rosa Roth – Geschlossene Gesellschaft**) by the Constantin subsidiary MOOVIE – the art of entertainment GmbH obtained excellent ratings on ZDF and confirm the leading position **Rosa Roth** holds as the most successful ZDF thriller series. Shooting of 13 programmes for our new sitcom **Bewegte Männer** (production: Constantin Film and MOOVIE – the art of entertainment GmbH), a "TV sequel" to the theatrical blockbuster **Der bewegte Mann**, with which we recorded more than 6.6 million admissions to German theatres in 1994, was also completed.

The Constantin Group started to produce a total of seven theatrical and fourteen TV films in 2002.

We completed filming of the international theatrical in-house production **Wrong Turn** (director: Rob Schmidt) in Canada at the end of 2002 and will be releasing it to German theatres in the summer of 2003.

Together with our subsidiary Olga Film GmbH, with which we already produced **Mädchen, Mädchen!**, one of the most successful German high-school comedies of recent years, we finished shooting **Ganz und Gar** (director: Marco Kreuzpaintner), a humorous story about the exciting time of growing up. Theatrical release in Germany is scheduled for June 2003.

Sales in 2002 were 3 per cent higher than in the previous year at € 131.2 million. The gross profit improved by € 22.3 million to € 18.3 million. The targets were reached in spite of the difficult market situation and positive EBIT of € 4.8 million were generated.

We are planning to release 21 films to German theatres in 2003: eight in-house and co-productions, six third-party productions and seven productions from service agreements with the RTL Group and Highlight Communications AG. They include **The Hours**, which won the Golden Globe and brought each of the three main actresses – Oscar prizewinner Meryl Streep (**Out of Africa**), Julianne Moore (**Hannibal**) and Golden Globe winner Nicole Kidman (**Moulin Rouge**) – a

"Silver Bear" at the Berlinale. Nicole Kidman was awarded an Oscar as "Best Actress" for her outstanding performance in **The Hours**. We will be releasing the opulently staged drama **Hero**, a story about love, jealousy, loyalty and intrigue at the time of the first Chinese sovereign by Zhang Yimou, the director who has been nominated for an Oscar twice, to German theatres on June 5, 2003. **Hero**, the new production by the team behind **Crouching Tiger, Hidden Dragon**, was another official entry in the Berlinale 2003 competition, where it was awarded the "Alfred Bauer Bear" in honour of the founder of the Berlinale because of its unique visual impact and camera effects.

After **Werner – Beinhart!**, **Werner – Das muß kesseln!!!** and **Werner – Volles Rooää!!!**, which were enjoyed by millions, we are releasing **Werner – Ein Volk, ein König** – the new adventure about the cult figure Werner that his many fans are already longing to see – to German theatres in the summer of 2003.

We will also be releasing **Das Sams in Gefahr**, the long-awaited, imaginatively told sequel to the theatrical film **Das Sams**, which received an enthusiastic reception from more than 1.7 million visitors to German theatres in the autumn of 2001, with Ulrich Noethen (**Bibi Blocksberg**, **Das fliegende Klassenzimmer**), Armin Rohde (**Das Sams, 666 – Traue keinem, mit dem du schläfst!**) and Eva Mattes (**Das Sams, Herbstmilch**) in the leading parts.

In view of the turbulent media environment in 2001 and 2002 and the continued instability of the industry in 2003 as well, we are planning sales of between € 120 million and € 135 million in 2003. The corridor we are planning to reach with the EBIT margin in 2003 is between 2 and 5 per cent.

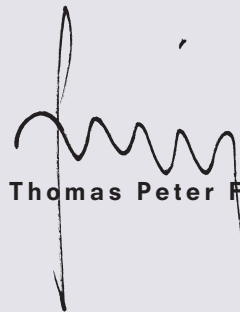
Since the fundamental market shake-out appears to have ended, it is now important for the few remaining media companies that have a stock market listing to regain the confidence of disillusioned investors.

The resegmentation of the German stock market by Deutsche Börse is definitely a sensible move in this context. Constantin Film AG was admitted to the "Prime Standard" by Deutsche Börse on January 1, 2003. The "Prime Standard" is the quality segment with the most demanding information and transparency requirements. As part of our efforts to maintain responsible and sound corporate management, Constantin Film AG will be implementing all the recommendations made by the government commission appointed to compile the "German Corporate Governance Code" that have been published by the German Ministry of Justice.

We can only achieve the success we have enjoyed for many years now thanks to the excellent performance

of a team of creative and qualified production and management staff. Intensive contacts maintained over decades with the crucial individuals and companies in the film business all over the world and a conservative financial policy contribute just as much to our success.

We would like to express our thanks to everyone involved for their commitment and confidence.



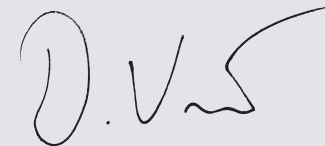
▶ **Thomas Peter Friedl** / Sales and marketing



▶ **Jochen Kamlah** / Organisation, legal affairs, licence trading and human resources



▶ **Martin Moszkowicz** / Production



▶ **Dr Daniel Wiest** / Finance and investor relations, spokesman for the Management Board

▶ **MANAGEMENT BOARD** // **Thomas Peter Friedl** / Sales and marketing
Jochen Kamlah / Organisation, legal affairs, licence trading and human resources
Martin Moszkowicz / Production
Dr Daniel Wiest / Finance and investor relations / spokesman for the Board

▶ **SUPERVISORY BOARD** //

Fred Kogel // Chairman // Lawyer
Herbert Schroder // Deputy Chairman // Banker
Bernhard Burgener / Chairman of the Board of Highlight Communications AG / (since 10.10.2002)
Franz Jung / Member of the Board of Commerzbank AG, Munich / (up to 31.12.2002)
Werner E. Klatten / Board Chairman of EM.TV & Merchandising AG / (since 11.02.2002)
Professor Dr Günter Rohrbach / Independent film producer
Stephan Sager / Film businessman / (up to 12.09.2002)

Bernd Eichinger / Film producer / (since 03.01.2003 – for information)

The Supervisory Board carried out its advisory and control assignment throughout the 2002 fiscal year. The Management Board kept the Supervisory Board informed promptly and in detail by providing oral and written reports. The Supervisory Board and the Management Board remained in close contact above and beyond this as well.

The Supervisory Board made an intensive review of all the main issues of business policy, particularly the economic and financial development of the company, strategy and planning, important business events and business transactions that required its approval, at four meetings in the 2002 fiscal year as well as in resolutions taken in writing on the basis of reports by the Management Board, discussing these issues with the Management Board too.

The subjects that the Supervisory Board focussed on in particular in the 2002 fiscal year included the international productions **Wrong Turn** and **The Perfume**. The Supervisory Board also took the introduction of the German Corporate Governance Code as an opportunity to review and update corporate governance at the company. The statement

of compliance by the company, in which all the recommendations made in the Corporate Governance Code are recognised, was approved at the meeting of the Supervisory Board held on December 13, 2002. Changes to the company's previous corporate governance standards were only necessary in a few cases. The revisions of the company's articles of association that have been agreed at the meetings of the Supervisory Board are to be implemented at the Annual Shareholders' Meeting on May 13, 2003. The rules of procedure of the Supervisory Board and the rules of procedure of the Management Board were also revised appropriately to meet the requirements of the Corporate Governance Code and were approved. The Supervisory Board established an Audit Committee too. The assignments of the Audit Committee include in particular accounting and risk management issues and the compilation of rules for co-operation with the auditor, especially the commissioning procedure, specification of the focal points in the audit and the audit fee as well as control of the auditor's independence.

The Audit Committee has met twice since it was established in December 2002. Following the end of

the 2002 fiscal year, it studied the financial statements of Constantin Film AG and the Group, reviewed the risk monitoring system and discussed the audit report with the auditor.

At the request of the Supervisory Board, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, audited the bookkeeping records, the financial statements, the consolidated financial statements and the combined management report about the company and the Group for the 2002 fiscal year. The auditor issued an unqualified certificate in each case. The financial statements, the consolidated financial statements and the combined management report about the company and the Group as well as the audit report by the auditor were submitted to and examined by the Supervisory Board. The Supervisory Board discussed the financial statements, the consolidated financial statements and the combined management report as well as the audit reports in detail at the meeting it held for this purpose in the presence of the auditor, who presented a report about the main outcome of his audit. The Supervisory Board approved the results of the audit. No objections to the financial statements,

the consolidated financial statements and the combined management report about the company and the Group for the 2002 fiscal year were raised after the Supervisory Board subsequently completed its own internal review either. At its meeting on March 27, 2003, the Supervisory Board approved the financial statements of Constantin Film AG submitted by the Management Board and the consolidated financial statements; the financial statements have therefore been adopted.

During the year under review, Mr Werner E. Klatten was appointed to be a member of the Supervisory Board of Constantin Film AG, first of all by court order and then by the Annual Shareholders' Meeting on May 14, 2002. Mr Stephan Sager resigned from his position as a member of the Supervisory Board with effect from September 12, 2002. Until an election is held by the Annual Shareholders' Meeting, the registration court appointed Mr Bernhard Burgener, Chairman of the Board of Highlight Communications AG, Pfäffikon, Switzerland, to be a temporary member of the Supervisory Board on October 10, 2002, in order to complete the number of six members of the Supervisory Board stipulated by the articles of

association. Mr Franz Jung also resigned his position as a member of the Supervisory Board of the company with effect from December 31, 2002. The registration court appointed Mr Bernd Eichinger, film producer, Munich, to be a temporary member of the Supervisory Board on January 3, 2003 until the Annual Shareholders' Meeting holds an election.

The Supervisory Board would like to express its thanks to the Management Board of Constantin Film AG, to the directors of its subsidiaries and associated companies and to all the company staff for their hard work in 2002.

Munich, March 2003

For the Supervisory Board



► **Fred Kogel** / Chairman of the Supervisory Board

COMPANY PORTRAIT – STRENGTHS AND STRATEGY

Constantin Film has established itself as the most successful independent producer and distributor in the German media industry over the past 25 years. The company succeeded in positioning itself impressively in the international film production community too as long as 18 years ago with such international in-house productions as **The Neverending Story**. This was followed by further global hits such as **The Name of the Rose** or **The House of the Spirits**. We proved our ability to satisfy international market requirements again in 2002 with the action horror thriller **Resident Evil**.

Six of the top 10 German blockbusters of the last 20 years were produced by Constantin Film: 17 of the top 50 German theatrical films since 1982 were released to German theatres by the company. 13 of the 25 most successful theatrical films of the past ten years were distributed by Constantin Film. (Source: Top 50 List since 1982, SPIO statistics).

Constantin Film AG with its subsidiaries and associated companies has performed successfully on the market ever since it was founded in 1977 and went public on the Neuer Markt at Frankfurt Stock Exchange in 1999. The secret to our success is the unique combination of national and international theatrical and TV production with distribution and licence trading operations, which has proved to be effective for decades.

Constantin Film managed to continue the expansion of its leading position on the German distribution market last year: we have been the top independent distributor for three years in succession. In spite of what was in general a difficult market situation, we alone generated more admissions to German theatres in 2002 than the five other biggest distributors together and reached a market share of 8.2 per cent. For years now, we have been the only independent German distributor to match the admissions achieved by the five major US studios.

The film highlights that Constantin Film has released to German theatres in recent years include the most successful German film ever (**Der Schuh des Manitu**), further in-house German productions like **Nowhere in Africa, Mädchen, Mädchen!, Harte Jungs, Erkan & Stefan** and their "sequels" **Knallharte Jungs** and **Erkan & Stefan gegen die Mächte der Finsternis** or family entertainment productions like **Bibi Blocksberg, Emil und die Detektive** or **Das fliegende Klassenzimmer**. Blockbusters such as **The Sixth Sense** with Bruce Willis and **American Pie**, the most successful film in 2000, or **Sleepy Hollow** are other successes achieved by our company, as are the international in-house production **Resident Evil** and the theatrical comedy **8 Women**.

Constantin Film has developed into a broad-based mainstream distributor in the past few years. We obtain the minimum number of 15 to 20 films per year that are

required to make our distribution business a success not only from our very important in-house production operations but also from the acquisition of individual licences (known as "pick-ups") from our many longstanding production partners in Germany and elsewhere. The product portfolio is supplemented by our service agreements with Highlight Communications AG and the RTL Group. We exploit theatrical rights on a service basis in our partnerships with RTL and – since October 2002 – with Highlight Communications AG too. This involves us making our successful distribution structure and our know-how available to premium partners, who in turn have to pass a percentage of the sales on to us and are required to pay the costs of film licences and advertising too.

It is becoming less and less important to cover our film requirements by what are known as "output deals". Output deals guarantee the supply of a specific number of films for a price that is arranged in advance (normally a percentage of the production costs), but they restrict quality and cost control considerably at the same time. Since the number of rivals for German film rights decreased noticeably last year, we are working on the assumption that sufficient free film licences will be available on the market again.

We already reduced the number of films from output deals substantially in our distribution programme for 2002.

One of our most important strategic objectives is and will remain the expansion of national and international in-house production operations. They enable us to become more independent from third-party products and thus from other producers. The combination of production and distribution from a single integrated source will be important in future too in order to maintain a leading position. We have, for example, continued to expand our co-operation with successful producers: in addition to the subsidiaries Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Engram Pictures GmbH, Rat Pack Filmproduktion GmbH and Westside Filmproduktion GmbH, our partners include Bavaria Filmverleih- und Produktions-GmbH, Claussen & Wöbke Filmproduktion GmbH, Collina Filmproduktion GmbH (Ulrich Limmer) and Hofmann & Voges Entertainment GmbH. Some of our German productions for 2003 are **Das Sams in Gefahr** (together with Ulrich Limmer), **Werner – Ein Volk, ein König** (together with Achterbahn AG); in the second quarter: **Porta Westfalica** (director: Michael Keusch) and **Mädchen, Mädchen! 2** (director: Peter Gersina), **Pornorama** (director: Marc Rothemund) and **Napola** (director: Dennis Gansel).

International in-house production remains the biggest growth area – and Constantin Film has been operating successfully in this field for more than 15 years now. There will be greater emphasis on the American market in future – the tremendous success of **Resident Evil**,

which had a budget of USD 35 million and has in the meantime generated global box office receipts of more than USD 100 million (USD 40 million in the USA alone), is an encouragement to us to focus on further international productions, such as **Resident Evil 2**, **Wrong Turn** or **The Perfume**.

We took another step to expand our international production capacities in the USA in October 2002: Constantin Film International GmbH, a wholly-owned subsidiary of Constantin Film AG, concluded a production and financing contract with the US production company Freestyle Pictures Inc., which was established by Adam Platnick. Among other things, Adam Platnick was a co-founder of Mandalay Pictures LLC and was responsible for the production and financing of 17 films during his six years as President of the company, including the hits **Sleepy Hollow** and **Seven Years in Tibet**.

On the basis of the three-year agreement, Freestyle Pictures Inc. will be producing theatrical films for Constantin Film that will be financed jointly and distributed internationally.

**THE STOCK MARKET IN 2002:
SLUMP WITH RECORD LOSSES**

2002 was a year of constant insecurity, further consolidation and dashed hopes. Share prices on the international stock markets plummeted again following the disappointing stock exchange year in 2001.

Major corporate bankruptcies on the one hand and a profound loss of confidence in the accounting standards applied by American companies on the other had a negative impact on the markets. Uncertainty about political developments in the Middle East depressed them even more in addition to the fear of new terrorist attacks. While the poor economic situation and generally bad company results, finally, helped to create a fundamentally negative environment.

At the international level, the stock exchanges in New York and Tokyo recorded losses of 17 and 21 per cent respectively over the year as a whole. The stock exchanges in Europe reported average drops of between 25 and 35 per cent.

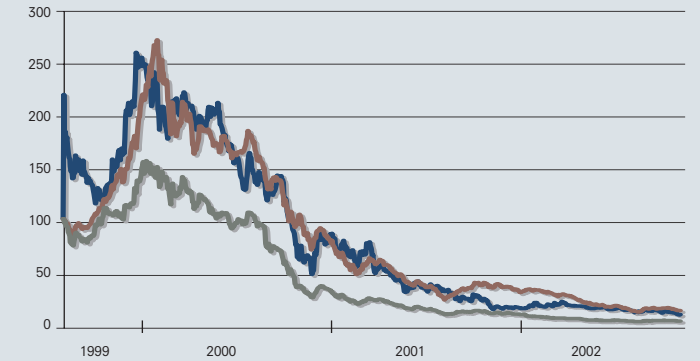
Developments in Germany were far more negative. DAX, the main index here, increased moderately in the first quarter and reached a high for the year of 5,463 points on March 19. A steady downward trend then began; important marks were passed repeatedly and new lows were reached. The DAX reached its low for the year of 2,597 points on October 9, when it had lost 50 per cent compared with the beginning of the

year. The Christmas rally that had been hoped for failed to materialise and the index only managed to recover slightly by the end of the year. It closed 2002 on 2,892 points and brought up the rear in an international stock exchange comparison with a loss of 44 per cent over the beginning of the year.

Turnover reported by Deutsche Börse decreased severely last year too. Business in 2002 as a whole fell by more than 20 per cent from € 4.5 billion in the previous year to about € 3.5 billion. The picture with IPOs was similar: only 1 company went public on the Neuer Markt in 2002, whereas 78 companies left the market.

The growth segment of the stock exchange was not only a disappointment as far as new issues were concerned. Only the first few days of 2002 went positively, so that the Nemax All-Share Index reached its high of 1,215 points for the year as early as January 9. It was downhill all the way from there – with the exception of a few weak recoveries – and the important support lines were broken on regular occasions here too. The low for the year of 358 points and a loss of almost 70 per cent compared with the beginning of the year were reached on October 8. A volatile sideward movement that continued until the end of the year only led to a weak recovery and the index closed 2002 on 405 points, corresponding to a loss of 64 per cent over the year.

▶ **PERFORMANCE COMPARISON**
from 13.09.1999 to 31.12.2002 / in per cent



13.09.1999 / Issue price € 29.00 31.12.2002 / Final price € 2.56

▶ **PERFORMANCE COMPARISON**
from 31.12.2001 to 31.12.2002 / in per cent



31.12.2001 / Final price € 4.15 31.12.2002 / Final price € 2.56

— Constantin Film AG (weighted)
— NEMAX 50 (weighted)
— NEMAX Media & Entertainment (weighted)

▶ **SECURITIES IDENTIFICATION NUMBER 580 080**
▶ **INTERNATIONAL SECURITIES IDENTIFICATION NUMBER**
ISIN: DE0005800809

THE CONSTANTIN FILM SHARE

The Constantin Film AG share was depressed in the second half of the year in particular by the slump of the market in general as well as by the negative publicity about the media segment.

The share started 2002 on € 4.65 and succeeded in maintaining its position well against the trend in an increasingly weak environment following a sideward movement in the first two months. The share price reached a high for the year of € 6.20 on May 15 in the context of a change in the shareholder structure. After this, it was no longer able to withstand the decline of the market in general. At the end of June, the share dropped below the price at which it started the year and was quoted at a price of € 2.56 on the final day of trading in 2002. The overall development in the price of the Constantin Film AG share was very unsatisfactory with a drop of 45 per cent by comparison with the beginning of the year, even though the Neuer Markt "Media & Entertainment" sub-index recorded a loss in value of 74 per cent over the same period.

► **PRICES** / in €, indicating the final prices on the floor of the Frankfurt stock exchange

Issue price on 13.09.1999	29.00
Year-end price in 1999	45.00
Year-end price in 2000	19.00
Year-end price in 2001	4.15
Highest price on 15.05.2002	6.20
Lowest price on 27.12.2002	2.46
Year-end price in 2002	2.56

2002 was not just a year in which share prices in general slumped; it was also the year in which the Neuer Markt suffered permanent damage as the symbol of the German march into the new economy. In connection with a rearrangement of the stock market segments by Deutsche Börse, a decision was taken to discontinue the Neuer Markt, probably on December 31, 2003. Since January 1, 2003, the German stock market has been restructured into two new segments, the "Prime Standard" and the "General Standard". The aim of this change in stock exchange organisation is to strengthen investors' confidence and to make the capital market more attractive. As part of this resegmentation exercise, Constantin Film AG has been admitted to the "Prime Standard" by Deutsche Börse and thus belongs to the quality segment with the most exacting information and transparency requirements.

The Management Board and Supervisory Board of Constantin Film AG also decided to implement the recommendations issued by the government commission appointed to compile the "German Corporate Governance Code" that have been published by the German Ministry of Justice and to comply with them without any limitations. This Code presents major legal regulations about the management and monitoring of German companies with a stock market listing and includes internationally recognised standards of good and responsible corporate management. The aim of the Code is to strengthen the confidence of international and national investors as well as the

general public in the management and monitoring of German companies with a stock market listing.

In a difficult stock exchange year, our investor relations department maintained the existing contacts with financial analysts, investors and representatives of the business press on a regular basis in 2002.

In an assessment of the annual reports produced by more than 200 of the most important German companies that was made by the financial magazine Focus Money (issue no. 30/2002), we reached first place among media companies for the quality of the information we provided.

The national and international banks have reduced their teams of analysts considerably in recent months; definite concentration on surveys of large and mid-cap companies is apparent. 17 banks conducted studies of Constantin Film AG in 2002 in spite of this development. The share was rated a "buy" by both DZ Bank and Bayerische Landesbank in the two most recent analyses published in November.

► **IMPORTANT DATES** / for the year 2003

Annual Shareholders' Meeting	May 13, 2003
Publication of the results for the first three months	May 13, 2003
Publication of the results for the first six months	August 13, 2003
Publication of the results for the first nine months	November 13, 2003
DVFA analysts' conference	November 2003

THE CONSTANTIN FILM AG SHAREHOLDER STRUCTURE

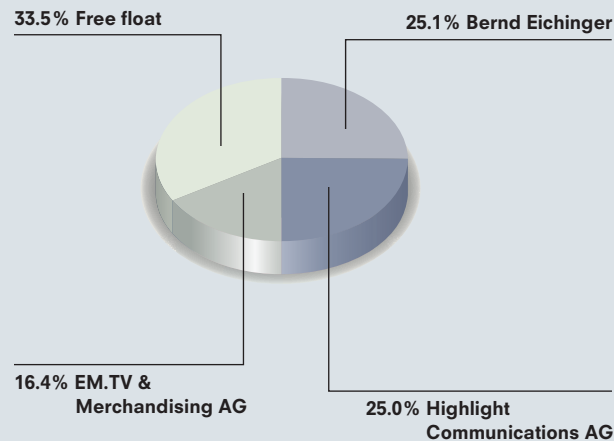
The total number of shares in Constantin Film AG was 12,742,600 on December 31, 2002.

We succeeded in obtaining one of the soundest media companies with a stock market listing as a major shareholder in May 2002: the Swiss company Highlight Communications AG, which has also been quoted on the Neuer Markt since May 1999. Highlight acquired an interest of 23 per cent in the share capital of Constantin Film AG from Kirch Beteiligungs GmbH & Co. KG and the free float. Highlight increased its holding to 25 per cent in October 2002 by buying shares on the market.

In view of Highlight's impressive skills in the international marketing of such event products as the UEFA Champions League and its in-depth know-how about the fast-growing home entertainment market, Highlight's involvement is a valuable contribution to the continued development of Constantin Film AG.

The free float, i.e. the proportion of shares in circulation, amounted to 33.5 per cent on December 31, 2002.

▶ SHAREHOLDER STRUCTURE AS PER 31.12.2002



SHARES AND OPTIONS HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS OF CONSTANTIN FILM AG

The members of the Management and Supervisory Boards of Constantin Film AG did not carry out any securities business transactions in the period between March 1, 2002 (start of mandatory reporting) and December 31, 2002. The company did not hold any of its own shares on December 31, 2002.

Shares and options held by the members of the Management and Supervisory Boards on December 31, 2002:

Thomas Peter Friedl 56,900 options, Jochen Kamlah 3,800 shares and 56,900 options, Martin Moszkowicz 72,000 options, Dr Daniel Wiest 2,267 shares and 55,700 options, Fred Kogel 6,150 shares and Professor Dr Günter Rohrbach 1,000 shares.

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MANAGEMENT REPORT ABOUT THE COMPANY AND THE GROUP

GENERAL ECONOMIC SITUATION IN GERMANY IN 2002

The German economy developed very slowly last year. Economic growth amounted to 0.2 per cent, which was lower than the forecast for 2002 (0.75 per cent) and represents a decrease of 0.4 percentage points by comparison with the previous year. The economy has continued to develop sluggishly since the end of the year too and is still being depressed heavily by great uncertainty, e.g. about the consequences of the Iraq conflict and other global risks. The fundamental data still point to an economic recovery, however. They include in particular the increases in income in the second half of 2002, the small price rises and the stable capital market interest rates.

The inflation rate decreased substantially compared with the previous year and amounted to 1.3 per cent on average in 2002, according to provisional calculations made by the German statistical authorities.

The German Ministry of Economics and Labour has calculated that the number of unemployed was about 4.1 million (seasonally adjusted figure) on average in 2002, so that the unemployment rate was 9.8 per cent – an increase of 0.4 percentage points compared with the previous year.

According to information provided by the German statistical authorities, the Gross Domestic Product amounted in absolute terms to € 2,112 billion in 2002 (previous year: € 1,980 billion).

Economic growth of 1.0 per cent is forecast for 2003. The economy is expected to continue its recovery in 2004, which is to be driven by growth in private consumption, in capital expenditure on machinery and equipment and in exports as well as by a noticeable overall increase in the speed of economic development. The forecasts range from 1.0 per cent to 2.5 per cent. A reduction in the number of unemployed to an average of 4.2 million is expected in 2003 due to the improvement in the economic situation. An increase in the average unemployment rate for the year to 10 per cent is also forecast.

MARKET DEVELOPMENT

Theatrical market

2002 was a successful theatrical year, producing results comparable to those generated in 1999 and 2000. 163.9 million theatrical admissions were counted in total (compared with 177.9 million in 2001, which included the German blockbuster **Der Schuh des Manitu**). The second-best annual performance since German reunification was achieved with total box office sales of € 960.1 million (statistics published by the German film promotion authorities on February 5, 2003). January, May, July and November 2002 proved to be good theatrical months: the sales recorded in the same months the previous year were exceeded. The

most successful German film of the year was **Bibi Blocksberg**, which was distributed by Constantin and attracted more than 2 million admissions.

According to the FFA statistics, the share of the market held by German films decreased from 18.4 per cent and 30.9 million admissions in 2001 to 11.9 per cent and 19.0 million admissions in the year under review. The figures for 2002, which were down by the almost 11 million admissions to **Der Schuh des Manitu** in the previous year, definitely represent a good average for the past five years, however. Only three national productions or German co-productions (compared with nine in 2001) managed to record more than one million admissions (**Bibi Blocksberg**, **Nowhere in Africa** and **Knallharte Jungs**).

The top 10 German films attracted a total of almost 10 million visitors to theatres in 2002. With 7 of the top 10 films and almost 8 million admissions, the Constantin films **Bibi Blocksberg**, **Nowhere in Africa**, **Der Schuh des Manitu** (re-release), **Knallharte Jungs**, **Resident Evil**, **Nackt** and **Erkan & Stefan 2** occupied the positions 1 to 6 and 8 on the charts for the year. This means that Constantin Film was the most successful German theatrical distributor and producer, as was already the case in 2000 and 2001.

Statistically speaking, every inhabitant of Germany bought 1.99 theatre tickets in 2002, which is slightly less than in the previous year. The average ticket price went up to € 5.86; this represents an increase of 5.6 per cent compared with the previous year.

The number of theatrical admissions has increased by about a quarter in the past ten years. This increase is attributable not only to a larger number of films but also and in particular to the expansion and remodelling of traditional cinemas and the opening of further new multiplex theatres. The high growth rates recorded in the opening of new theatres and the reopening of existing ones stopped as long ago as the end of 2001, however, (cf. FFA analysis 10/02). The number of screens in Germany increased to a total of 4,868 in 2002, as a result of which the total number of theatre seats was 757 higher at 884,790.

TV market

The stagnation on the TV advertising market which had already been apparent in 2001 continued in 2002 as well. An upswing does not appear to be likely in the short term and a recovery of the market cannot be expected before 2004. Total advertising income – the main source of finance for all the private stations – amounted to € 7.2 billion in 2002 and was therefore € 0.4 billion lower than in the previous year (ACI Nielsen). Cost pressure at the stations remains as high as ever on the other hand, which had the particular effect on the industry last year of decreases in in-house production and licence acquisition. The main trend on the rights trading market is a reduction in large output deals in favour of a short-term purchasing strategy focussing on the target groups of interest to advertisers.

The German television market continues to be dominated by an oligopolistic structure consisting of the public stations ARD (including a number of additional ARD channels that varies from region to region, such as BR3, HR3, NDR3 etc.) and ZDF (including arte, Kinderkanal, Phoenix and 3sat), the ProSiebenSat.1 Media AG Group (including Kabel1 and N24) and the RTL Group, to which the stations RTL, RTL II, Super RTL and VOX belong.

The RTL Group ended 2002 as market leader with a viewer market share of 29.8 per cent in the groups targeted by advertisers, ahead of the stations belonging to ProSiebenSat.1 Media AG (total viewer market share of 28.1 per cent). The public stations ARD and ZDF accounted for 25.6 per cent of the market, while the remaining stations shared 16.5 per cent.

In view of the positive progress made in the turnaround process at Premiere Fernsehen GmbH & Co. KG, there is reason to be optimistic about pay TV in Germany in future. New markets for TV suppliers will be continuing to develop, although this is taking longer than expected up to now. The delay in the sale of the TV cable network by Deutsche Telekom to regional operating companies is, for example, leading to a postponement in the development of additional sources of revenue for the stations, such as the multiplication in the number of channels and the creation of new content services (video on demand etc.).

Video/DVD market

The home entertainment division succeeded in achieving high growth rates in the 2002 fiscal year. According to data compiled by the GfK consumer, market and sales research company on behalf of BVV (the German audiovisual media association), the sale and rental of DVDs and VHS videos generated record total turnover of € 1.4 billion last year. This corresponds to an increase of 22.1 per cent in the overall market by comparison with the previous year.

This sales success is attributable in particular to the DVD boom: DVDs worth € 713.3 million were sold, for example, which represents an increase of 75 per cent over 2001. This means that revenues from DVD sales were 117 per cent higher than sales of VHS cassettes (€ 327.5 million). With total sales of 64.1 million cassettes and discs, far more than every second one is in the meantime a DVD (55.4 per cent).

Video stores accounted for a quarter of total sales in this market with rental sales of € 358.6 million. Although the high level reached in rental business in the previous year (134.3 million) was not quite matched in 2002 (130.6 million), rental sales still increased by 0.7 per cent. The trend towards DVDs is continuing at video stores too: DVD rental sales more than tripled to € 40.6 million. The German home entertainment industry anticipates further growth in the current year too.

POSITION OF THE GROUP

PRODUCTION

Project development

More than 80 different German and English projects are currently being developed by Constantin Film and its subsidiaries or associated companies. It is essential that the development volume is expanded steadily so that a further increase can be made in our production output.

Our American Group companies, which were consolidated for the first time in 2002 because of the increase in development volume, form a particularly valuable interface to the international production market.

Theatrical productions

We completed seven in-house and co-productions in 2002, including the Constantin/Achterbahn co-production **Werner – Ein Volk, ein König**. The fourth Werner film – following the hits **Werner – Beinhart**, **Werner – Das muß kesseln!!!** and **Werner – Volles Rooäää!!!** that attracted millions of visitors – is being released to German theatres in July 2003.

We finished another co-production with Achterbahn AG, **Wie die Karnickel** (director: Sven Unterwaldt) in the spring of 2002.

The comedy **Germanikus** starring Gerhard Polt was produced in co-operation with Vision Film GmbH and B.A. Produktion oHG and is being released to German theatres in August 2003.

Shooting of our international in-house production **Wrong Turn**, the next action horror thriller after our successful international film **Resident Evil**, was also finished.

Our subsidiary Olga Film GmbH produced the coming-of-age comedy **Ganz und Gar** with Diana Amft and Herbert Knaup in the leading parts.

In the second quarter of 2002, we completed shooting of **Der letzte Lude**, a co-production with Hofmann & Voges Entertainment GmbH starring Alexandra Neldel and Tobias Schenke.

Filming of the German theatrical co-production **90/99 – Die Zeit ändert alles** with Modesto Film GbR and Bavaria Filmverleih- und Produktions-GmbH (director: Marco Petry) finished in the last quarter of 2002.

TV productions

In 2002 our subsidiary MOOVIE – the art of entertainment GmbH produced 13 programmes for the sitcom **Bewegte Männer** (director: Mike Zens), the "TV sequel" to the very successful theatrical film **Der bewegte Mann** (6.6 million admissions).

Filming of the TV movie **Der Todesengel** (provisional title), a two-part thriller with Iris Berben, Sylvia Rosch, Ken Duken and Henry Hübchen in the main roles, was completed successfully.

Two more programmes were produced for the successful thriller series **Rosa Roth – Das leise Sterben des Kolibri** and **Rosa Roth – Die Gedanken sind frei**, which are also to be shown on ZDF.

Our subsidiary Olga Film GmbH produced the TV movies **No risk, no love** and **Tabatah** (with Esther Schweins and Erika Marozsán) as well as the pilot film **Kommissarin Lucas** with Ulrike Kriener in the leading role.

The most successful TV movie of the year on ProSieben, the two-part film **Das Jesus Video**, was produced by Rat Pack Filmproduktion GmbH, a company which was established in April 2002 and in which Constantin Film holds 51 per cent of the shares. Further successful productions by Rat Pack Filmproduktion GmbH/Westside Filmproduktion GmbH for ProSieben are **Kubaner küssen besser** and **Alles getürkt!**

We produced the thriller **Die Stimmen** (director: Rainer Matsutani) with our subsidiary Engram Pictures GmbH, which is being shown on RTL in the spring of 2003.

We also produced the third series of 8 more programmes for the popular sitcom **Hausmeister Krause** with Tom Gerhardt in the leading role in 2002.

FILM DISTRIBUTION AND LICENCE TRADING

Theatrical distribution

Constantin Film distributed 20 films in the year under review, with which 12.7 million theatrical admissions were achieved. The German productions **Bibi Blocksberg** (director: Hermine Huntgeburth), **Nowhere in Africa** (director: Caroline Link), **Nackt** (director: Doris Dörrie) and our international in-house production **Resident Evil** (director: Paul Anderson) were particularly successful. Seven of the top 10 German theatrical films in 2002 were released to German theatres by Constantin Film. This means that

we confirmed the leading position we have held for years as the most successful German producer and distributor once again in 2002. Other successes were the exploitation of the French third-party production **8 Women** (director: François Ozon) with 1.4 million admissions and the US high school comedy **National Lampoon's Van Wilder** with almost 1 million admissions.

The sales generated in theatrical exploitation amounted to € 41.013 million (previous year: € 46.410 million) in the year under review and therefore accounted for 31 per cent of total sales. The proportion of sales accounted for by in-house productions (65 per cent) confirms our strategy of increasing in-house production volume.

Video / DVD exploitation

The proportion of sales in the video/DVD segment accounted for by in-house and co-productions increased by 472 per cent, from € 2.489 million to € 14.239 million.

Der Schuh des Manitu, **Nowhere in Africa** and **Knallharte Jungs** are some of the films that were exploited successfully in 2002. National and international rental exploitation of the successful international film **Resident Evil** started at the end of 2002.

Third-party productions accounted for sales of € 5.467 million.

TV exploitation

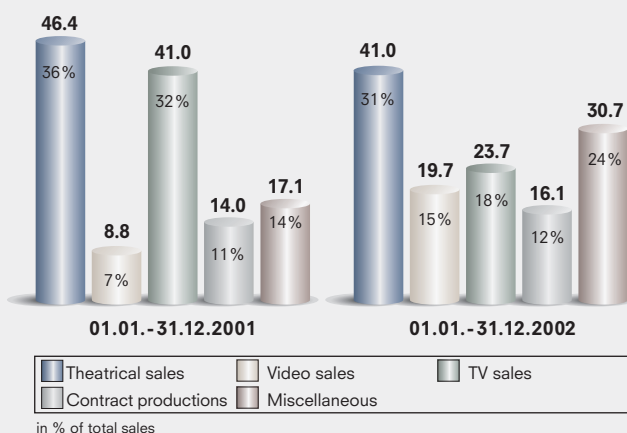
Sales from the licensing of the TV rights to theatrical films are not realised until legal or contractually agreed holdback periods have expired (with pay TV 15-18 months after theatrical release, with free TV after 18 to 24 months). The TV sales in 2002 were attributable to films that were released to theatres in 2000 and 2001 as well as to revenue from licences for purely TV productions.

€ 18.299 million of the total TV sales were accounted for by in-house and co-produced films (previous year: € 16.423 million). They included such films as **Erkan & Stefan** and **Timeshare**. Sales were also generated by the licensing of the second series of the TV production **Hausmeister Krause**. This sitcom, which has been established successfully on Sat.1, is being continued by a third series in 2003 as well.

The proportion of the TV sales that are due to third-party productions like **Sleepy Hollow** decreased significantly to € 5.404 million.

Contract productions within the Group accounted for € 16.125 million in 2002 (previous year: € 14.040 million). This corresponds to 12 per cent of total sales. The sales include productions by Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Rat Pack Filmproduktion GmbH and Westside Filmproduktion GmbH.

SALES BREAKDOWN / in € million



RESULTS GENERATED BY THE CONSTANTIN FILM AG GROUP

The Constantin Film Group recorded sales of € 131.214 million in the 2002 fiscal year. This is an increase of 3 per cent over the previous year's sales of € 127.306 million. The theatrical operations were again the biggest source of sales in 2002, contributing € 41.013 million (see the notes to the consolidated financial statements, page 44).

Subsidies amounted to € 14.893 million (previous year: € 9.803 million). The other sales totalled € 15.774 million in 2002 (previous year: € 7.231 million). The other sales include the sales of € 10.784 million by INNOVUM Smart Products GmbH.

The costs of goods sold include depreciation charges for films that will not be exploited until subsequent years. The risk provision of € 0.976 million for films in subsequent years relates to films that had not yet begun exploitation on the balance sheet date.

The earnings before interest and tax (EBIT) amounted to € 4.765 million, compared with € -15.916 million in the previous year. Corrected for the risk provision for films in subsequent years, EBIT totalled € 5.741 million. The improvement in the margin is due essentially to the successful in-house and co-productions (national and international) as well as to

▶ **CONSOLIDATED INCOME STATEMENTS** / in € thousand **01.01.-31.12.2001** **01.01.-31.12.2002**

Sales	127,306	131,214
Costs of goods sold	125,894	111,974
Risk provision for films from subsequent years	5,459	976
Gross profit on sales	-4,047	18,264
Selling expenses	3,316	2,000
General administration expenses	9,856	12,023
Other operating income	2,288	2,674
Other operating expenses	296	1,032
Amortisation of goodwill	289	525
Depreciation of tangible assets and amortisation of other intangible assets	400	593
EBIT	-15,916	4,765
Interest income	1,334	413
Interest expenditure	187	2,879
Income/expenditure from/by associated companies and other equity interests	-4,379	-4,196
Exchange rate profits/losses	1,161	-3,085
Result before tax and minority interests	-17,987	-4,982
Taxes on income	6,997	3,697
Result before minority interests	-10,990	-1,285
Minority interests	205	202
Net income/loss for the year	-10,785	-1,083
Earnings per share	-0.85	-0.08
Average number of shares in circulation	12,717,950	12,742,600

the substantial reduction in third-party production charges (cf. also the notes to the consolidated financial statements, page 44). The EBIT margin was 3.6 per cent or 4.4 per cent when adjusted for the risk provision for future films.

The negative interest balance of € 2.466 million is attributable essentially to the interest expenditure of € 2.391 million incurred in connection with the unwinding of a licence agreement with the Kirch Group in the first quarter of 2002. Valuation of the balance sheet items in foreign currencies led to an exchange rate loss of € 3.085 million. Expenditure of € 4.196 million was incurred due to risk provisions with the equity interests, particularly at Escape Artists LLC (€ 3.917 million).

After allowing for these three effects that depressed the financial result, earnings before tax and minority interests amounted to € -4.982 million.

The net loss amounted to € -1.083 million due to the income from taxes on income of € 3.697 million and after taking minority interests into account.

The main deferred tax effects were due to capitalisation of film production costs, the reduction in the accumulated losses according to HGB (German

Commercial Code) at Constantin Film AG of € 37.903 million (deferred tax expenditure) and the differences in sales realisation between HGB and IFRS (deferred tax income). The total deferred tax income amounted to € 3.905 million.

FINANCIAL POSITION OF THE CONSTANTIN FILM AG GROUP

The balance sheet assets amounted to € 232.978 million on December 31, 2002, which is 9 per cent lower than in the previous year – essentially because of the balancing of deferred taxes at the wholly-owned subsidiaries.

The current assets increased by 3 per cent over the previous year to € 119.656 million. The film assets amounted to € 90.957 million on December 31, 2002 and were therefore 9 per cent lower than the figure of € 99.504 million in the previous year.

Constantin Film values its film assets in accordance with the strict US GAAP standards (SOP 00/2). This involves capitalisation of the costs of goods sold and depreciation of them by the matching principle.

Investments in the film assets of in-house productions amounted to € 34.289 million on December 31, 2002 (previous year: € 68.745 million). The in-house productions include, for example, **Wrong Turn** (international in-house production), **Die Krauses 3** and **Bewegte Männer**. Depreciation of in-house productions amounted to € 40.379 million. Film assets attributable to in-house productions therefore decreased by € 6.090 million (9 per cent) to € 64.506 million compared with the previous year.

€ 9.615 million were invested in the acquisition of exploitation rights for distribution and licence trading (previous year: € 49.253 million). The investments in third-party films were offset by depreciation totalling € 12.072 million. The film assets attributable to third-party productions amounted to € 26.451 million on December 31, 2002 as a result.

Fixed assets were € 2.688 million lower than in the previous year. The change over the previous year is attributable mainly to depreciation of the equity interest in Escape Artists LLC and to the addition of a building in the context of the consolidation of Constantin Holdings Inc. for the first time.

▶ CONSOLIDATED FINANCIAL POSITION / in € thousand

	2001	2002
Balance sheet total	254,708	232,978
Equity	75,786	74,703
Total film assets	99,504	90,957
Film assets / in-house productions	70,596	64,506
Film assets / third-party productions	28,908	26,451
Investments in film assets	117,998	43,904
Depreciation of film assets	88,918	52,451
Funds	79,890	84,972
Funds minus liabilities to banks	-1,880	30,121

FINANCING

Constantin Film had cash and cash equivalents of € 84.972 million on December 31, 2002, while bank liabilities totalled € 54.851 million. This adds up to a net liquidity position of € 30.121 million. The increase of € 32.001 million in net liquidity is due essentially to the cash flow from ordinary activities generated in the 2002 fiscal year.

The revolving syndicate loan of USD 140.000 million concluded in 2001 with a term until the end of 2004 is safeguarding the planned growth in production volume for the medium term too.

There are also licence trading and working capital credit lines of € 38.511 million.

Equity decreased by € 1.083 million by comparison with the previous year and amounted to € 74.703 million on December 31, 2002. See the statement of changes in equity on page 27 for a detailed explanation. The theoretical equity ratio is 32 per cent. If the cash and cash equivalents and the bank liabilities as per December 31, 2002 are balanced, the adjusted equity ratio is 42 per cent.

HUMAN RESOURCES

Personnel was increased in the course of the year because of the consolidation of further companies and the recruitment of new staff. The number of employees was reduced by 14 in December 2002 in connection with the carve-out of the trading business of INNOVUM Smart Products GmbH. The Group had a total of 141 employees on December 31, 2002 (December 31, 2001: 143).

POSITION OF THE AG

FINANCIAL STATEMENTS OF CONSTANTIN FILM AG (HGB)

The position and development of the company can be found in the following summary. The financial statements of Constantin Film AG were prepared in accordance with the provisions of German commercial law and the supplementary provisions of the German Companies Act.

► AG FIGURES / in € thousand

	2001	2002
Balance sheet total	44,893	83,206
Equity	34,560	72,463
Equity as a percentage of total capital	77%	87%
Income from continuing operations	-45,921	37,893
Net income/loss for the year	-45,922	37,903

RESULTS GENERATED BY CONSTANTIN FILM AG

The general administration expenses and the other operating expenses amounted to € 7.159 million and € 0.504 million. The other operating income and other interest totalled € 2.396 million and € 2.161 million. Due to the profit and loss transfer agreements between Constantin Film AG and its subsidiaries,

there was expenditure from loss transfers amounting to € 7.807 million and income from profit transfers of € 48.808 million. The earnings from continuing operations amounted to € 37.893 million. All in all, Constantin Film AG reported net income for the year of € 37.903 million in the past fiscal year. This is attributable essentially to income from the international film **Resident Evil** as well as to successful theatrical exploitation and licence sales in the year under review.

RISKS AND PROBABLE DEVELOPMENT

1. Industry-specific risks in the buying and exploitation of feature films

The success that Constantin Film achieves in its distribution of in-house and third-party productions depends on a number of industry-specific risks, the probability of occurrence and impact of which on the financial position and profitability of the company are difficult to estimate.

Risks can develop because of changes in the market situation affecting the companies exploiting rights in the theatre, video/DVD and television fields. Changes in media legislation, the advertising market and the form of TV broadcasting rights (pay TV, TV on demand) can, for example, influence what films are selected by rights exploiters as well as the choice of

programmes by TV stations and their programme buying policy. Changes in consumer behaviour patterns and preferences and developments on the advertising market can lead to market changes by rights exploiters as well. The strong trend towards concentration among television channels and video labels could, finally, cause changes to be made in sales markets. A decline in TV station advertising revenues and bankruptcies of market players were major elements in the negative development of the media industry in 2002. This led to a change in the general market conditions that affected sales prices as well as transaction volumes between companies. In the past, Constantin Film has, however, managed to develop longstanding business relationships to all television stations.

Strong concentration processes are influencing the buying markets. While all that the "independent" companies do is produce, so that they are dependent on sales partners to market the films, the majors have large film studios and global sales channels of their own. The entry of new players and an increase in competitive pressure as a result could also have an adverse effect on market conditions.

Up to now, Constantin Film AG has not had any difficulty in strengthening its sound position on the market and in developing an impressively high profile,

even in a recessionary market environment. It will be able to adapt flexibly to changes in the competitive situation in the future as well. There is on the other hand no guarantee that changes in competitive conditions or possible wage disputes will not have a negative impact on the company's business, financial position and profitability.

2. Financial risks of film production

The in-house and co-production of cinema and television films are expensive and therefore involve a financial risk. The production costs of an average German theatrical film amount to between € 3 million and € 6 million, while the amount can be many times higher in the case of international productions. The company has to finance some of these costs in advance, as the budget concerned cannot be covered completely by licence sales and film subsidies. In view of the large amount of money that is required for a film production, the complete or partial failure of individual film projects could have substantial negative consequences for the Group's business, financial position and profitability. The production of a film can in addition lead to budget overruns that the company has to pay. Thanks to its experience in film production, the Constantin Group has in the past generally succeeded in covering all the production costs by the income from film exploitation. The company has also

succeeded in completing film productions within the planned time and budget as well as in avoiding unplanned costs to a very large extent and/or in hedging the risk by obtaining appropriate insurance cover. A guarantee that the company will manage to limit itself to successful film projects in the future as well cannot, however, be given.

3. Exchange rate risk in the buying and exploitation of film rights

Most of the licences that Constantin Film buys on the international film markets and the production costs of international films are charged in US dollars. The sales generated in exploiting these rights are, on the other hand, received mainly in euros. The revenues from the exploitation of our international film productions are mainly received in US dollars. Fluctuations in the €/USD exchange rate in both directions can have an effect on the company's business operations, financial position and profitability – particularly operating margins – and lead to both exchange rate profits and losses. As in the past, the Constantin Group will in future be minimising the risk of exchange rate losses by taking advantage of hedging instruments. No guarantee can, however, be given that the hedging transactions carried out by the company will be successful in every case. Upper limits are in addition specified for exchange rates wherever possible in

licence purchasing contracts that are transacted on the basis of US dollars. The purpose of these USD "caps" is to make sure that Constantin Film is not put at a financial disadvantage by rising USD exchange rates.

DEVELOPMENT OF THE ACCOUNTING SYSTEMS

Thanks to the experienced staff in the accounting department, it was again possible in 2002 to make sure that the Constantin Film quarterly reports and 2002 financial statements were completed by the required deadlines. Development of the risk management system that has been built up in recent years is being continued steadily, in order to be able to identify potentially dangerous developments at an early stage and take countermeasures in good time with the help of a standardised monitoring system.

PROSPECTS

The Constantin Group again succeeded in defending its position as the leading independent company on the German theatrical market in both its distribution and production operations in 2002 – seven of the ten most successful German theatrical films came from Constantin Film, six of which were in-house and co-productions. This outstanding performance is an encouragement to us to continue our intensive activities as a project developer and producer as well, in order to create products that are successful on the national market.

We are focussing on individual products that promise critical and economic success at international level too – forthcoming international theatrical productions include **Resident Evil 2**, **Wrong Turn** and **The Perfume**, for example.

So far we are planning a total of 21 theatrical releases in our 2003 distribution year: eight in-house and co-productions, six third-party productions and seven films from service contracts with the RTL Group and Highlight Communications AG.

The promising German films we will be distributing include the in-house production **Ganz und Gar**

(director: Marco Kreuzpaintner), a humorous and affectionate story about love and coming of age that is being realised by the Constantin subsidiary Olga Film GmbH, the producer of one of the most successful comedies of recent years (**Mädchen, Mädchen!**). Theatrical release in Germany is scheduled for June 5. We are releasing the co-production **Germanikus** (director: Hanns Christian Müller), a historical comedy starring Gerhard Polt (**Kehraus, Man spricht deutsch**), Gisela Schneeberger (**Kehraus, Man spricht deutsch**), Tom Gerhardt (**Hausmeister Krause, Ballermann 6**) and Anke Engelke (**LiebesLuder**), to German theatres in August 2003.

In the summer of 2003, we will also be releasing **Swimming Pool**, the new film by the successful director François Ozon, who attracted more than 1.4 million visitors to German theatres in 2002 with **8 Women** – which was distributed by Constantin Film. In the family entertainment field, we will be bringing **Spirited Away**, a film by the Japanese director Hayao Miyazaki (**Princess Mononoke**), to German screens in the early summer. This animated film is the most successful film of all time in Japan, where it recorded more than 21 million theatrical admissions and appealed to people from all age groups. **Spirited Away** was awarded an Oscar as the "Best Animated Feature Film" in March 2003.

Six German and three international theatrical in-house and co-productions are planned in total for 2003 at the present time. A total of thirteen productions are scheduled in the TV operations.

The emphasis of our corporate strategy continues to be concentration on our core business and an increase in the volume of our national and international in-house productions. We are aiming to reach realistic quality growth targets on the basis of sound financial resources. Our responsible corporate policy makes us a reliable business partner who is in great demand.

In view of the turbulent media environment in 2001 and 2002 and the continued instability of the industry in 2003 as well, we are planning sales of between € 120 million and € 135 million in 2003. The corridor we are planning to reach with the EBIT margin in 2003 is between 2 and 5 per cent.

Munich, March 2003

► The Management Board

ASSETS		2) 31.12.2001	31.12.2002	EQUITY AND LIABILITIES		2) 31.12.2001	31.12.2002
		€ thousand	€ thousand			€ thousand	€ thousand
A. Current assets				A. Liabilities and deferred income	5.4/5.5		
I. Cheques, cash in hand and at banks	3.1	79,890	84,972	I. Liabilities to banks		81,770	54,851
II. Receivables	3.2/5.1			II. Trade payables	3.7	21,936	8,270
1. Trade receivables		18,990	18,031	III. Liabilities to affiliated/associated companies		204	1
2. Receivables from affiliated/associated companies		3,015	1,403	IV. Advance payments received	3.8	30,061	68,701
III. Inventories: stocks of unfinished contract productions		5,423	5,735	V. Provisions	3.9		
IV. Other assets	3.2	9,053	9,413	1. Tax provisions		292	148
V. Prepaid expenses		79	102	2. Other provisions	5.6	9,617	9,141
Total current assets		116,450	119,656	VI. Other liabilities	5.7	6,850	8,032
B. Film assets	3.3/5.2			VII. Deferred income		309	0
I. In-house productions		70,596	64,506	VIII. Medium-/long-term loans	5.7	6,584	5,575
II. Third-party productions		28,908	26,451	Total liabilities and deferred income		157,623	154,719
Total film assets		99,504	90,957	B. Adjustment item for minority interests		495	358
C. Fixed assets	5.3			C. Equity	3.10/5.9		
I. Intangible assets	3.4			I. Subscribed capital		12,743	12,743
1. Goodwill		5,177	5,344	II. Capital reserves		70,183	70,183
2. Others		411	388	III. Retained earnings		3,645	-7,140
II. Tangible assets	3.5	555	3,471	IV. Net income/loss for the year		-10,785	-1,083
III. Financial assets	3.6	6,105	357	Total equity		75,786	74,703
Total fixed assets		12,248	9,560	D. Deferred tax liabilities¹⁾	3.12/5.8	20,804	3,198
D. Deferred tax claims¹⁾	3.12/5.8	26,506	12,805	Total equity and liabilities		254,708	232,978
Total assets		254,708	232,978				

1) Long-term deferred taxes, shown in point D for clarity's sake

2) See the relevant number in the notes to the consolidated financial statements for further information

	2)	01.10.-31.12.2001 ⁴⁾	01.10.-31.12.2002 ⁴⁾	01.01.-31.12.2001	01.01.-31.12.2002
		€ thousand	€ thousand	€ thousand	€ thousand
Sales	3.11/6.1	41,413	36,538	127,306	131,214
Costs of goods sold ¹⁾	6.2	58,366	30,351	131,353	112,950
Gross profit on sales		-16,953	6,187	-4,047	18,264
Selling expenses		1,088	725	3,316	2,000
General administration expenses		2,291	3,069	9,856	12,023
Other operating income		997	934	2,288	2,674
Other operating expenses		30	391	296	1,032
Amortisation of goodwill		70	153	289	525
Depreciation of tangible assets and amortisation of other intangible assets	6.3	141	95	400	593
EBIT		-19,516	2,688	-15,916	4,765
Interest income		154	177	1,334	413
Interest expenditure	6.5	96	202	187	2,879
Income/expenditure from/by associated companies and other equity interests		-3,979	-279	-4,379	-4,196
Exchange rate profits/losses	6.6	1,944	-1,085	1,161	-3,085
Result before tax and minority interests		-21,493	1,299	-17,987	-4,982
Taxes on income	3.12/5.8	9,029	5,539	6,997	3,697
Result before minority interests		-12,464	6,838	-10,990	-1,285
Minority interests		648	-557	205	202
Net income/loss for the year		-11,816	6,281	-10,785	-1,083
Earnings per share³⁾	6.7	-0.93	0.49	-0.85	-0.08
Average number of shares in circulation		12,717,950	12,742,600	12,717,950	12,742,600

1) See the management report, page 18, for detailed information

2) See the relevant number in the notes to the consolidated financial statements for further information

3) Undiluted = diluted

4) The quarterly figures are not part of the audited consolidated financial statements

	01.01. - 31.12.2001	01.01. - 31.12.2002
	€ thousand	€ thousand
Result before tax and minority interests	-17,987	-4,982
Net income/loss for the year after minority interests	-10,785	-1,083
Minority interests	-205	-202
Amortisation/depreciation of other intangible assets, tangible assets and financial assets	4,819	4,789
Amortisation of goodwill	289	525
Losses on the disposal of fixed assets	18	98
Change in net working capital		
Change in trade receivables	-9,368	1,632
Other income affecting payment	-63	-125
Change in the other non-interest bearing receivables and other assets	-12,625	2,143
Additions to film assets / in-house productions	-68,745	-34,289
Amortisation of film assets / in-house productions	38,069	40,379
Additions to film assets / third-party productions	-49,253	-9,615
Amortisation of film assets / third-party productions	50,849	12,072
Change in trade payables	13,439	-14,683
Change in advance payments received	-18,991	38,640
Change in non-interest bearing liabilities, provisions and other liabilities	2,599	-4,825
Change in deferred taxes	-7,323	-3,905
Cash flows from ordinary activities	-67,276	31,551
Inflow of funds from disposals of fixed assets	0	299
Investments in other fixed assets	-722	-677
Investments in financial assets	-6,324	-215
Cash flows from investing activities	-7,046	-593
Inflow/outflow of funds from principal payments	-80	0
Change in liabilities to banks	79,803	-26,919
Cash flows from financing activities	79,723	-26,919
Change in cash and cash equivalents	5,401	4,039
Change in cash and cash equivalents due to changes in the companies consolidated	870	1,043
Funds at the beginning of the period	73,619	79,890
Funds at the end of the period	79,890	84,972

▶ STATEMENT OF CHANGES IN EQUITY AS PER JANUARY 01, 2002 THROUGH DECEMBER 31, 2002 / in € thousand

	Subscribed capital	Capital reserves	Retained earnings	Earnings	Retained earnings after net income/loss	Total
On 01.01.2002	12,743	70,183	-7,140	0	-7,140	75,786
On 31.03.2002	12,743	70,183	-7,140	2,843	-4,297	78,629
On 30.06.2002	12,743	70,183	-7,140	-6,048	-13,188	69,738
On 30.09.2002	12,743	70,183	-7,140	-7,364	-14,504	68,422
On 31.12.2002	12,743	70,183	-7,140	-1,083	-8,223	74,703

▶ CONSOLIDATED STATEMENT
OF CHANGES IN FIXED ASSETS

	Acquisition or production costs				31.12.2002 € thousand
	01.01.2002 € thousand	Additions to the companies consolidated € thousand	Additions € thousand	Disposals € thousand	
I. Intangible assets					
1. Goodwill	5,975	0	893	201	6,667
2. Software	420	0	364	88	696
3. Franchises, industrial rights	308	0	11	0	319
	6,703	0	1,268	289	7,682
II. Tangible assets					
1. Land and buildings, including buildings on third-party land	615	1,942	1,142	0	3,699
2. Other equipment, operating and office equipment	1,794	930	302	208	2,818
	2,409	2,872	1,444	208	6,517
III. Financial assets					
1. Equity investments in associated companies	4,379	0	0	0	4,379
2. Equity investments in other companies	5,791	0	0	1,555	4,236
3. Long-term investments	291	0	94	94	291
4. Other loans	38	0	3	0	41
	10,499	0	97	1,649	8,947
	19,611	2,872	2,809	2,146	23,146

Accumulated depreciation					Book value	
01.01.2002	Additions to the companies consolidated	Additions	Disposals	31.12.2002	01.01.2002	31.12.2002
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
798	0	525	0	1,323	5,177	5,344
240	0	88	9	319	180	377
77	0	231	0	308	231	11
1,115	0	844	9	1,950	5,588	5,732
603	362	12	0	977	12	2,722
1,251	740	262	184	2,069	543	749
1,854	1,102	274	184	3,046	555	3,471
4,379	0	0	0	4,379	0	0
15	0	4,196	0	4,211	5,776	25
0	0	0	0	0	291	291
0	0	0	0	0	38	41
4,394	0	4,196	0	8,590	6,105	357
7,363	1,102	5,314	193	13,586	12,248	9,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) OF CONSTANTIN FILM AG FOR THE 2002 FISCAL YEAR

Constantin Film AG was admitted for trading on the Neuer Markt on September 13, 1999. Deutsche Börse included Constantin Film AG in the "Prime Standard" on January 1, 2003.

The rules of the "Prime Standard" require financial statements to be prepared in accordance with one of the internationally recognised accounting codes IFRS or US GAAP or to be restated to an international standard from national accounts based on the HGB.

1. Application of the International Financial Reporting Standards (IFRS)

Constantin Film AG prepares its consolidated financial statements in accordance with § 292a of the HGB (German Commercial Code) on the basis of the International Financial Reporting Standards (IFRS). This means that the company is not required to prepare consolidated financial statements according to the provisions of §§ 290 ff. of the HGB.

Constantin Film AG does this by restating all the balance sheets and income statements of individual consolidated companies that have been prepared on

the basis of local rules to the international accounting standard IFRS and then compiles consolidated financial statements in accordance with IFRS on this basis. The consolidated financial statements are compiled in accordance with uniform accounting and valuation principles.

The strict industry rules specified by US GAAP (SOP 00/2), which were observed for the first time in the 2001 consolidated financial statements, are applied to film asset accounting as per December 31, 2002.

The IFR standards in force on the balance sheet date are applied in the consolidated financial statements. The interpretations by the International Financial Reporting Interpretations Committee (IFRIC, formerly: SIC) are observed as well.

2. Description of the Constantin Film AG Group

Together with its subsidiaries and associated companies, Constantin Film AG (hereinafter referred to as "Constantin Group") is a major German producer and distributor of theatrical, video/DVD and television films. The Group's operations include all the different forms of film rights acquisition and marketing. In addition to in-house and co-production, Constantin Film AG also obtains exploitation rights for third-party productions. The rights to these films are exploited at

all the different stages, from theatres to video/DVD and television. Third-party productions are distributed essentially in German-speaking countries. The subsidiaries abroad are used in the implementation of international in-house productions.

2.1 Companies consolidated

The consolidated financial statements include Constantin Film AG as well as its main subsidiaries and associated companies.

The following changes were made to the companies consolidated in the year under review:

RAT PACK FILMPRODUKTION GMBH, MUNICH

Constantin Film AG acquired a 51 per cent interest in Rat Pack Filmproduktion GmbH in the first quarter of 2002. The company was included in the consolidated financial statements of the Constantin Group for the first time on March 31, 2002. Rat Pack's operations consist of the production of theatrical and television films.

WESTSIDE FILMPRODUKTION GMBH, KREFELD

Constantin Film AG established Westside Filmproduktion GmbH on June 30, 2002 together with the Rat Pack Filmproduktion GmbH shareholders.

Constantin Film AG holds 51 per cent of the new company, which was included in the consolidated financial statements of the Constantin Group in the second quarter. The company is based in Krefeld, Germany, and produces theatrical and television films.

CONSTANTIN FILM DEVELOPMENT INC., LOS ANGELES

Constantin Film Development Inc. is a wholly-owned subsidiary of Constantin Film AG. As a result of the increase in business volume in connection with the international productions by the Constantin Group, the company based in Los Angeles was included in the consolidated financial statements of Constantin Film AG for the first time with effect from January 1, 2002. Its assignments are to advise about the buying of film rights and to provide support in the development of projects, particularly in the USA.

CONSTANTIN HOLDINGS INC., LOS ANGELES

Constantin Holdings Inc. is a wholly-owned subsidiary of Constantin Film Produktion GmbH. The company based in Los Angeles was included in the consolidated financial statements of Constantin Film AG for the first time with effect from January 1, 2002 following the decision to integrate the American subsidiaries of the Constantin Group in the consolidated financial statements of Constantin Film AG. Constantin Holdings Inc. carries out a holding function for American subsidiaries of the Constantin Group.

CONSTANTIN PRODUCTION SERVICES INC., LOS ANGELES

Constantin Production Services Inc. is a wholly-owned subsidiary of Constantin Holdings Inc. Constantin Production Services Inc. was included in the consolidated financial statements of Constantin Film AG for the first time with effect from January 1, 2002 because of the increase in international film production transactions. The company is involved in project development and film production.

CONSTANTIN INTERNATIONAL B.V., AMSTERDAM

Constantin International B.V. is a wholly-owned subsidiary of Constantin Film AG. The company was included in the consolidated financial statements of Constantin Film AG for the first time with effect from January 1, 2002 because of the increase in business volume in connection with the international exploitation of the film **Wrong Turn**. It is involved in the international exploitation of film productions by the Constantin Group.

The increase in the number of companies consolidated by adding the already existing foreign companies that were consolidated for the first time in the year under review had the following impact on the asset situation and profitability of the Group:

► IMPACT OF INITIAL CONSOLIDATION

	31.12.2002 € thousand
Financial position:	
Fixed assets	3,685
Other assets	14
Other liabilities	2,239
Results:	
Sales	118
Costs of goods sold	2,326
Other operating income	1,410
Other operating expenses	6

In addition to Constantin Film AG as the parent company, the following companies in which Constantin Film AG directly or indirectly holds an equity interest are consolidated:

▶ **DIRECT CAPITAL INTEREST** / in per cent

		Company operations
Constantin Script & Development GmbH , Munich	100.0	Acquisition and development of material rights
Constantin Media GmbH audiovisuelle Produktionen , Munich	100.0	Acquisition and development of material rights
Constantin Film Development Inc. , Los Angeles/USA*	100.0	Acquisition and development of material rights
Constantin Film Produktion GmbH , Munich	100.0	Film and television production
Constantin Film International GmbH , Munich	100.0	International film production
Constantin Entertainment GmbH , Munich**	100.0	International film and television production
Constantin Holdings Inc. , Los Angeles/USA**/**	100.0	International film production
Constantin Production Services Inc. , Los Angeles/USA**/**	100.0	International film production
Olga Film GmbH , Munich*	51.0	Film and television production
MOOVIE – the art of entertainment GmbH , Berlin*	51.0	Film and television production
Engram Pictures GmbH , Munich*	75.5	Film and television production
Rat Pack Filmproduktion GmbH , Munich*	51.0	Film and television production
Westside Filmproduktion GmbH , Krefeld*	51.0	Film and television production
Hahn Film AG , Berlin**/**	25.1	Film and television production (animation)
Constantin Film Verleih GmbH , Munich	100.0	Licence trading and cinema distribution
Classic Media Werbeagentur GmbH , Munich	100.0	Advertising and event marketing
Constantin International B.V. , Amsterdam/NL*	100.0	Licence trading
Constantin Music Verlags- GmbH , Munich	100.0	Exploitation of music rights
Constantin Propaganda GmbH , Munich	100.0	Licence trading
Constantin Inter@ctive GmbH , Munich	100.0	Development and production of Internet content
INNOVUM Smart Products GmbH , Cologne*	51.0	Internet marketing and Web design

(See also the summary of equity interests on page 65)

- * No profit/loss transfer agreement
- ** Indirect equity interest
- *** Consolidation at equity

Both alone and together, the following 8 subsidiaries (previous year: 12) had only a minor impact on the provision of an accurate and true picture of the asset situation, financial position and profitability of the Group. These companies, in which indirect equity interests are held, are not therefore consolidated by Constantin Film AG:

Société Nouvelle Torii S.A.R.L. , Paris/France
Laurentic Cement Garden Ltd. , London/Great Britain
Greenland Film Production A.B. , Stockholm/Sweden
Smilla Film A.S. , Copenhagen/Denmark
She's French LLC , Los Angeles/USA
ProCon Pictures LLC , Delaware/USA
Impact Pictures LLC , Delaware/USA
Impact Pictures Ltd. , London/Great Britain

(See also the summary of equity interests on page 65)

2.2 Summary of the results generated by the consolidated companies with which no profit/ loss transfer agreement has been concluded

	Share- holding in per cent	Net income/loss in 2002 (local GAAP) *) € thousand	Net income/loss in 2002 (IFRS) € thousand
Olga Film GmbH , Munich	51.0	33	12
MOOVIE – the art of entertainment GmbH , Berlin	51.0	382	44
Engram Pictures GmbH , Munich	75.5	3,789	16
Rat Pack Filmproduktion GmbH , Munich	51.0	161	161
Westside Filmproduktion GmbH , Krefeld	51.0	35	35
Hahn Film AG , Berlin	25.1	-107	-401
INNOVUM Smart Products GmbH , Cologne	51.0	-463	-303
Constantin Film Development Inc. , Los Angeles/USA	100.0	196	196
Constantin Holdings Inc. , Los Angeles/USA	100.0	930	930
Constantin Production Services Inc. , Los Angeles/USA	100.0	164	164
Constantin International B.V. , Amsterdam/NL	100.0	5	5

*) German Commercial Code (HGB) / German Companies Act (AktG) when the registered office is in Germany

2.3 Consolidation methods

The consolidated financial statements are based on the financial statements compiled in accordance with consistent valuation and accounting principles as per December 31, 2002 by the companies included and certified by the auditors and/or on the audit of the financial statements of the companies included that has been carried out in the context of the audit made of the consolidated financial statements.

Capital consolidation of the subsidiaries included has been carried out by the acquisition method (book value method) in accordance with IFRS 22. The acquisition costs are offset against the equity of the subsidiary acquired on a pro rata basis in this method. The differences are capitalised in fixed assets as goodwill and are depreciated over a period of 15 years using the straight-line method in accordance with IFRS 22, after taking existing hidden reserves and hidden charges into consideration.

Companies on which significant influence can be exercised (associated companies) have been valued by the equity method (book value method) in accordance with IFRS 28.

Sales, expenses and income within the Group and all receivables and liabilities between the consolidated companies have been eliminated. Appropriate adjustments have been made for profits generated in intra-group deliveries that are not realised by sale to third parties.

2.4 Currency translation

The financial statements of the companies included that are prepared in a foreign currency are translated into euros on the basis of the concept of the functional currency in accordance with IFRS 21. The functional currency of all the consolidated companies outside Germany is the currency of the parent company of the Group, because the foreign companies are individual foreign units that are integrated in the business operations of the reporting company. The assets and liabilities are therefore translated at the average exchange rates on the qualifying date for the consolidated financial statements, while expenses and income are translated at the average exchange rates for the year. The currency translation adjustments resulting from this are included in the income statements in accordance with IFRS 21.15.

Goodwill arising from the capital consolidation of foreign companies is translated at the exchange rates applicable at the time of acquisition and/or initial consolidation.

Currency translation within the Group was based on the following main exchange rates:

Country	Currency	Exchange rate on the qualifying date		Average exchange rate	
		31.12.2001	31.12.2002	2001	2002
USA	US\$ 1.00	1.1289	0.9593	1.1170	0.9448
Great Britain	£ 1.00	1.6383	1.5368	1.6091	1.5916
Canada	Can\$ 1.00	0.7097	0.6094	0.7217	0.6759

3. ACCOUNTING AND VALUATION PRINCIPLES

3.1 Cash and cash equivalents

All the funds originally due within three months are classified by the Constantin Group as cash and cash equivalents for the purposes of the statement of cash flows in accordance with IFRS 7. This item consists essentially of credit balances at banks, cheques and cash in hand.

3.2 Receivables and other assets

Receivables and other assets are included at their nominal value minus any appropriate specific individual provisions. Receivables that are due in more than one year are not included in the trade receivables.

3.3 Film assets

Film asset accounting as per December 31, 2002 is carried out in the consolidated financial statements of Constantin Film AG in accordance with the strict US GAAP standards. The regulation SOP 00/2 has been applied since the 2001 fiscal year. Constantin Film AG has decided to implement these strict rules with the aim of providing the recipients of the financial

statements with more easily understandable information that is more comparable to other media companies which operate internationally. Since the IFRS do not include any separate rules for the film industry, it is – like in other areas of business such as insurance and banking in particular – an obvious solution to make use of the industry-specific US GAAP rules for the film industry.

The "film assets" item includes not only rights acquired to third-party productions (i.e. films not produced within the Group) but also rights to films produced within the Group (in-house and co-productions) as well as costs of the development of new projects. Third-party productions generally involve theatrical, video/DVD and TV rights. In-house productions also include non-genuine contract productions by the Group that are exploited by the Group.

Genuine contract productions are included in the "inventories: stocks of unfinished contract productions" item, provided that they have not been completed by the balance sheet date and have not therefore generated any sales yet. They are valued at their production costs.

The acquisition costs of third-party productions include the minimum guarantees as well as the guarantees above and beyond these amounts that are already definite. Capitalisation is carried out when licensing begins.

In-house productions are shown with their costs. What are known as "P&A costs" are not included in these costs; they are immediately charged as expenses when they are incurred. The P & A costs include the costs that are incurred in film exploitation, such as press and marketing costs. The costs of producing copies of films etc. are allocated and are charged as expenses when the relevant theatrical sales are received. Financing costs that can be allocated directly are capitalised by the rules outlined in the FASB Statement 34 in accordance with the reference in SOP 00/2.

Film rights (both third-party and in-house productions) are depreciated by the "individual film forecast method". By this method, the depreciation charge for a film in a period is determined on the basis of the following quotient (revenues generated by the film in the period : estimated total remaining revenues generated by the film x residual book value of the film). The maximum period for the revenue estimate amounts to ten years for the kind of films that are accounted for in the film assets of Constantin Film and that do not count as "library products". The estimate of total revenues is checked at the end of every quarter and is adjusted if necessary. The quotient for the depreciation charge in the period is determined on the basis of the total revenues after they have been adjusted if necessary. What is known as an "impairment test" is carried out with every film. If the acquisition costs or the book value of a film plus any distribution costs that may still be incurred are not covered by the estimated

total revenues, depreciation is made on the basis of the impairment test. The estimated sales can change significantly due to a number of factors, such as market acceptance and the probable advertising income generated by the film. The Constantin Group reviews and revises the sales expectations and the depreciation charges as soon as there are any changes from the assumptions made to date.

Costs of the development of new projects (particularly script rights) are checked regularly to see if they are still to be used as the basis for the production of a film. If the start of film shooting or sale of the rights cannot be specified definitely three years after initial capitalisation of the costs of a project, the costs are written off completely.

3.4 Intangible assets

They include software and licences associated with it as well as goodwill that is attributable exclusively to capital consolidations.

Acquired intangible assets are carried at their acquisition costs. Software and licences are depreciated over their probable useful life of three years using the straight-line method. Extraordinary depreciation is made wherever necessary.

Goodwill is depreciated over a period of 15 years using the straight-line method in view of the long-term strategic significance of the equity interests. Changes

to the length of their useful life and extraordinary depreciation are checked regularly (impairment test). Appropriate extraordinary depreciation charges are made if there are indications of a reduction in value.

3.5 Tangible assets

Tangible assets are valued at acquisition costs minus depreciation. Depreciation is made using the straight-line method. Extraordinary depreciation is made wherever necessary. Appropriate write-ups are made when the reasons no longer apply. Minor-value assets are written off immediately and are eliminated as disposals in the year of acquisition.

The useful lives applied are summarised in the following table:

► TANGIBLE ASSETS / in years

Computers and associated equipment	3-6
Other operating and business equipment	10-11
Office equipment	7-13
Vehicles	2-5
Fixtures	12
Buildings	27.5

3.6 Financial assets

The equity interests in associated companies are valued by the equity method in accordance with IFRS 28. On the basis of the acquisition costs at the time when the shares are purchased, the book value of each individual equity interest is increased or decreased by the changes in the equity of the associated companies to the extent that they are accounted for by the shares held by Constantin Film AG.

The other equity interests, particularly shares in non-consolidated companies, are carried at acquisition costs, less depreciation if applicable. Extraordinary depreciation is made if there are permanent reductions in value. The value is increased again when the reasons no longer apply.

Long-term investments are allocated to the "trading" category in accordance with IFRS 39. They are included at their market value, provided that this can be determined reliably. Changes in the market value are posted in the income statements.

The other loans continue to be valued at current acquisition costs.

3.7 Liabilities

The liabilities are carried at their redemption value.

3.8 Advance payments received

Sales are shown at the time when the licence begins or at the time when the licensee can exploit the film rights. If the Group receives payments from licensees before these revenue realisation dates, such payments are posted initially as advance payments received. The advance payments received also include the sales realised in accordance with HGB that are realised at a later date because of their different treatment under IFRS rules.

3.9 Provisions

The provisions take all identifiable commitments to third parties from a past event into account in accordance with IFRS 37. The probable amount is included in each case.

3.10 Equity

The breakdown and development of the equity can be found in the statement of changes in equity (see page 27) and the explanatory notes about the balance sheets (see 5.9 to 5.11).

3.11 Realisation of sales

Theatrical film sales start to be realised when the film is released to theatres. The size of the sales depends directly on the number of people who go to the theatre to watch it. The film rent paid to the distributor by the theatre operators is posted as the distribution share of the total theatre revenues in accordance with

standard industry practice and IFRS 18. The film rent is calculated on the basis of a percentage of the box office receipts.

Sales generated by video/DVD and TV (pay and free TV) rights are realised from when the licence begins – generally 6 to 24 months after theatrical exploitation starts. In these forms of exploitation of the film rights, sales are realised when the relevant contractually agreed holdback period for exploitation has ended. This means that sales do not start to be realised until licence availability begins in each case. Sales realisation with contract productions starts when the material is supplied to the commissioning party. The "percentage of completion method" is not applied in the case of the contract productions. This method complies with the requirements of the US GAAP standard SOP 00/2 too.

The Group generally receives a minimum guarantee for the exploitation rights sold (theatrical, video/DVD and TV rights) in global distribution. This guarantee is allocated to the different sales sources and realisation takes place when licence exploitation begins in each case. Allocation to the theatrical, video/DVD and TV rights is made at the following flat rates on the basis of past experience in accordance with corporate planning: 25 per cent for the theatrical right, 15 per cent for the video/DVD right and 60 per cent for the TV right. If the licence begin is close to the qualifying

date, these flat rates are periodised. Sales are realised on theatrical release in territories without a holdback period.

Sales realisation is based on the licence account settlements by the licensees in the case of global distribution sales without a minimum guarantee.

Income from subsidies and film promotion loans granted by public authorities that only have to be repaid under specific conditions is realised as sales when the subsidy/loan is granted and is shown as sales at this time – although not before theatrical exploitation begins. Provided that repayment of the loan is likely, a provision the size of the probable repayment amount is charged as an expense.

3.12 Taxes on income and deferred taxes

The taxes on income are determined in accordance with IFRS 12. According to these rules, all the tax liabilities or assets in the financial statements of the companies consolidated that develop in the course of the fiscal year in relation to taxes on income have to be included in accordance with the tax legislation that applies to the consolidated companies. Deferred tax assets and liabilities are included when an impact on tax can be expected in future that is attributable either to differences between the book values of existing assets and liabilities according to IFRS and tax balance sheet figures or to existing accumulated

losses and positive tax balances. Deferred tax assets and liabilities are calculated on the basis of the tax rates that will probably apply in view of the current tax legislation about income that is liable to tax in the years in which these chronological differences are reversed or eliminated. The effects of changes in tax rates on deferred tax assets and liabilities are taken into account in the result in the period in which the changes have been decided by the government and/or in the period for which a change in legislation that has already been decided is to apply.

4. INFORMATION IN ACCORDANCE WITH § 292a, PARAGRAPH II, NO. 4b, OF THE HGB

4.1 Background information

While the priorities in German law are prudence and creditor protection and while results can in addition be influenced by tax-motivated valuation (reverse authority), the IFRS aim more at the provision of information for existing and potential investors. This difference in approach leads to a number of variations in the accounting and valuation principles applied in the financial statements of Constantin Film AG (HGB) and the consolidated financial statements (IFRS).

4.2 Deferred taxes

The balance sheet-oriented "temporary" concept is applied. This means that the definition of the chronological differences for which deferred taxes need to be determined is broader in IFRS 12 than it is in the HGB. In contrast to the HGB, deferred tax assets from accumulated tax losses have to be capitalised as well. As far as their valuation is concerned, an examination has to be made whether realisation of these credit balances is "probable". Under commercial law, deferred tax assets can be included in the financial statements. IFRS stipulates their inclusion.

4.3 Realisation of sales

As is the case with HGB accounting, theatrical rights sales are realised in accordance with revenue inflow.

Where (national and international) video/DVD and TV exploitation rights are concerned, sales and the appropriate depreciation are realised according to SOP 00/2 when the contractual holdback period for exploitation has ended. Under HGB rules, sales of both kinds are realised when the material is supplied to the customer. The same applies mutatis mutandis for the time when depreciation is charged.

4.4 In-house productions

Under SOP 00/2 rules, the production costs of in-house Group productions that represent non-current assets are capitalised. Under HGB rules, on the other hand, these costs may not be capitalised in accordance with § 248, paragraph 2, of the HGB.

4.5 Translation of receivables and payables in foreign currencies

According to IFRS 21, receivables and payables in foreign currencies are translated at the exchange rate on the qualifying date and the changes in value resulting from this are posted to earnings. Although the realisation principle is a major element in the IFRS, "unrealised" profits have to be included in earnings reporting in certain cases – in contrast to German accounting law. The balance sheet items for receivables and payables in foreign currencies are, for example, valued at the exchange rates on the balance sheet date, even if this leads to the reporting of "unrealised" profits compared with the exchange rates when they originated.

4.6 Securities

According to IFRS 39, securities ("investments") are allocated to the categories "trading", "available for sale" and "held to maturity" depending on the holder's intentions with the securities. In contrast to HGB, unrealised profits are generally shown in the income statements (in the case of "trading" securities) or in equity (in the case of "available for sale" securities), so

that these securities are always included in the balance sheet at market values. The current acquisition costs are not adjusted in the case of "held to maturity" securities, except when there are permanent reductions in value.

4.7 Derivative accounting

Commercial regulations stipulate that derivative financing instruments – as pending transactions – are only included in the statements if their valuation on the balance sheet date reveals that a loss is imminent. According to IFRS 39, these derivatives are generally included with their market value on the balance sheet date. It is possible to show the difference outside the income statements directly in equity under certain circumstances (cash flow hedge). Inclusion of the pending secured basic transaction in the statements is also stipulated in some cases (fair value hedge).

4.8 Other provisions

According to IFRS 37, provisions may only be formed if they relate to a commitment. Under HGB rules, provisions can be formed with the purpose of taking future expenses into account as such in the past fiscal year. This is ruled out by IFRS 37.

5. EXPLANATORY NOTES ABOUT THE BALANCE SHEETS

5.1 Receivables

The trade receivables are shown after deduction of allowances for bad debts.

"In-house productions" accounted for € 14.578 million of the trade receivables (previous year: € 12.533 million), while "third-party productions" accounted for € 3.453 million (€ 6.457 million).

Receivables from affiliated companies that are not consolidated amounted to € 1.399 million (previous year: € 2.819 million) and relate to Impact Pictures Ltd., London.

The reduction in receivables from affiliated companies is attributable essentially to the inclusion of Constantin Film Development Inc. and Constantin Holdings Inc. in the consolidated financial statements of Constantin Film AG for the first time.

The receivables from associated companies amounted to € 0.004 million (previous year: € 0.196 million).

All of the receivables are due for payment within one year.

5.2 Film assets

The film assets can be broken down as follows:

► FILM ASSETS / in € thousand

	31.12.2001	31.12.2002
In-house productions		
Films being exploited	20,968	44,394
Films being developed and produced	49,628	20,112
Total in-house productions	70,596	64,506
Third-party productions		
Films being exploited	19,486	16,043
Films being prepared and advance payments received	9,422	10,408
Total third-party productions	28,908	26,451
Film assets	99,504	90,957

The item "Films being prepared and advance payments received" includes advance payments for films that still have to be supplied as well as rights to third-party productions that are not yet being exploited.

Financing costs of € 1.289 million (previous year: € 1.069 million) that could be allocated directly were capitalised in the 2002 fiscal year.

5.3 Fixed assets

Information on the development of the fixed assets is presented in the statement of changes in fixed assets (pages 28/29), which is part of the notes to the consolidated financial statements.

The value of € 3.917 million included for the equity interest in Escape Artists LLC was reduced to € 0 in the 2002 fiscal year. Items totalling € 0.279 million for equity interests, particularly in Société Nouvelle Torii S.A.R.L. and Smilla Film A.S., were written down to € 0 in the year under review.

5.4 Residual time to maturity of the liabilities

► LIABILITIES / in € thousand

	31.12.2001			31.12.2002		
	Due within one year	Due in more than one year	Total	Due within one year	Due in more than one year	Total
Liabilities to banks	81,770	0	81,770	54,851	0	54,851
Trade payables	21,936	0	21,936	8,270	0	8,270
Liabilities to affiliated/ associated companies	204	0	204	1	0	1
Advance payments received	30,061	0	30,061	68,701	0	68,701
Other liabilities, including medium- and long-term items	6,850	6,584	13,434	8,032	5,575	13,607
Liabilities	140,821	6,584	147,405	139,855	5,575	145,430

5.5 Segmentation of the liabilities and the advance payments received

€ 6.686 million (previous year: € 11.407 million) of the trade liabilities were accounted for by "in-house productions" and € 1.584 million (previous year: € 10.529 million) by "third-party productions". The advance payments received can be broken down into € 50.315 million (previous year: € 19.840 million) for "in-house productions" and € 18.386 million (previous year: € 10.221 million) for "third-party productions".

5.6 Other provisions

The other provisions due within one year developed as follows:

▶ PROVISIONS / in € thousand

	31.12.2001	Required	Released	Added	31.12.2002
Provision for outstanding invoices	4,041	568	2,165	2,364	3,672
Provision for profit-sharing schemes and licensor shares	3,526	1,777	1,477	793	1,065
Provision for conditional loan repayment	939	73	266	2,049	2,649
Provision for personnel expenses	731	665	52	700	714
Miscellaneous	380	1,898	258	2,817	1,041
Provisions	9,617	4,981	4,218	8,723	9,141

5.7 Other liabilities

The other liabilities have been included in the balance sheets with their redemption amount and can be broken down as follows:

▶ OTHER LIABILITIES AND MEDIUM-/LONG-TERM LOANS / in € thousand

	31.12.2001	31.12.2002
Financial commitment to Wrongfully Accused Production Limited Partnership and Wrongfully Accused Production Limited Partnership No. 2	6,584	5,575
Eurimage liabilities	712	0
Escape Artists LLC	1,989	1,989
Wages, salaries, social security contributions	1,199	1,114
VAT for November und December 2002	0	1,305
LfA loan	1,654	0
Contributions to the co-financing of "Wrong Turn"	0	2,636
Miscellaneous	1,296	988
Other liabilities and medium-/long-term loans	13,434	13,607

5.8 Taxes on income

The taxes on income relate essentially to the parent company Constantin Film AG. On the basis of the profit/loss transfer agreements that have been concluded, Constantin Film AG is the parent company of the following subsidiaries for corporation tax and trade tax purposes:

- ▶ Constantin Script & Development GmbH
- ▶ Constantin Media GmbH audiovisuelle Produktionen
- ▶ Constantin Film Produktion GmbH
- ▶ Constantin Film International GmbH
- ▶ Constantin Entertainment GmbH
- ▶ Constantin Film Verleih GmbH
- ▶ Classic Media Werbeagentur GmbH
- ▶ Constantin Music Verlags- GmbH
- ▶ Constantin Propaganda GmbH
- ▶ Constantin Inter@ctive GmbH

Within the framework of this integrated group structure, the income that is subject to corporation tax and the income for trade tax purposes for all the relevant subsidiaries in the Group as well as for the parent company is determined and if necessary charged at the level of the parent company. The taxpayer is therefore the parent company alone. The following companies remain independent taxpayers for the purposes of corporation tax and trade tax:

- ▶ Olga Film GmbH
- ▶ MOOVIE – the art of entertainment GmbH

- ▶ Engram Pictures GmbH
- ▶ Rat Pack Filmproduktion GmbH
- ▶ Westside Filmproduktion GmbH
- ▶ Hahn Film AG
- ▶ INNOVUM Smart Products GmbH
- ▶ Constantin Film Development Inc.
- ▶ Constantin Production Services Inc.
- ▶ Constantin Holdings Inc.
- ▶ Constantin International B.V.

A uniform corporation tax rate of 25 per cent has been used for the Group companies in 2002. Reunification tax amounting to 5.5 per cent of the assessed corporation tax has to be paid in addition. The trade tax rate depends on the location of the registered office of the company in each individual case. The actual trade tax rate for the companies included in the consolidated financial statements is between 17 and 20 per cent. The local rates for taxes on income applied for foreign Group companies vary between 29 and 40 per cent. An average tax rate of 40.86 per cent is used to calculate the deferred taxes.

Tax expenditure for the 2001 and 2002 fiscal years is as follows:

▶ TAXES / in € thousand	2001	2002
Current tax revenue/expenditure	-326	-208
Deferred tax revenue/expenditure	7,323	3,905
Taxes on income	6,997	3,697

The calculated tax income amounts to € 2.036 million in the year under review. The actual tax income generated is € 3.905 million after deduction of expenses (goodwill) of € 0.525 million that are not tax-effective and after taking the effect of the differences in sales realisation between HGB and IFRS into consideration (see notes to the consolidated financial statements 4.3).

The deferred taxes relate to the following items:

	2001 € thousand	2002 € thousand
Deferred taxes (assets)		
Accumulated tax losses	22,495	5,855
Advance payments received	4,011	32,618
Deferred taxes (assets)	26,506	38,473
Deferred taxes (liabilities)		
Film assets/in-house productions	18,329	22,699
Film assets/third-party productions	1,654	6,057
Miscellaneous	821	110
Deferred taxes (liabilities)	20,804	28,866
Deferred taxes (net)	5,702	9,607

The deferred tax assets and liabilities from the wholly-owned subsidiaries are balanced in accordance with IFRS 12 for the first time as per December 31, 2002. The deferred tax assets amount to € 12.805 million, while the deferred tax liabilities total € 3.198 million.

The accumulated tax losses amounted to € 14.329 million (previous year: € 55.054 million) on December 31, 2002. The deferred tax assets relating to them amount to € 5.855 million (previous year: € 22.495 million). The reduction in accumulated tax losses led to a tax expenditure of € 16.640 million (previous year: tax income of € 20.690 million) for the Group in the year under review.

5.9 EQUITY

Subscribed capital

The subscribed capital continues to amount to € 12,742,600 and consists of 12,742,600 bearer ordinary shares with no par value, each of which accounts for € 1.00 of the subscribed capital.

Capital reserves

The capital reserves were generated essentially by the inflow of the premium from the proceeds of the public offering in 1999 minus the directly allocated IPO costs and the goodwill charge for the equity interests acquired in 1999. The capital reserves are the same as in the previous year.

Retained earnings

See the statement of changes in equity, page 27, for the development of the retained earnings in the year under review.

5.10 Authorised capital

In accordance with a resolution passed at the shareholders' meeting on May 9, 2000, the Manage-

ment Board has been authorised to increase the subscribed capital of Constantin Film AG by up to € 4,800,000 by May 8, 2005 with the approval of the Supervisory Board by issuing new shares with no par value in the name of the holder on one or more occasions in return for the injection of cash and/or physical assets (authorised capital I). The number of shares has to increase at the same ratio as the subscribed capital. The Management Board has also been authorised to suspend the subscription right of the shareholders – in each case with the approval of the Supervisory Board – provided this is required

- a) as compensation for necessary marginal amounts and/or
- b) as a capital increase with a non-cash contribution to acquire a company or an equity interest in a company and the other legal conditions for this have been met.

€ 98,600 of the authorised capital I was used in 2001.

In accordance with a resolution passed at the shareholders' meeting on May 9, 2000, the Management Board has also been authorised to increase the subscribed capital of Constantin Film AG by up to € 1,200,000 by May 8, 2005 with the approval of the Supervisory Board by issuing new shares with no par value in the name of the holder on one or more occasions in return for the payment of cash (authorised capital II). The number of shares has to increase at the same ratio as the subscribed capital.

The Management Board of Constantin Film AG has been authorised to suspend the subscription right of the shareholders – in each case with the approval of the Supervisory Board – if the issue price is not substantially lower than the stock exchange price and the other legal conditions for this have been met.

The revised version of the authorised capital I and II was entered in the commercial register on June 26, 2000.

5.11 Conditional capital

In accordance with a resolution passed at the shareholders' meeting on July 12, 2001, the existing conditional capital of € 750,000 was reduced to € 423,900. The purpose of this amount is to safeguard the subscription rights from the 1st employee stock option plan based on the authorisation given by the shareholders' meeting on August 18, 1999 (see 8.1.1).

In accordance with a resolution passed at the shareholders' meeting on July 12, 2001, the conditional capital of Constantin Film AG was increased in addition by up to € 600,000. This conditional capital increase will only be made to the extent that subscription rights from the 2nd employee stock option plan are issued and the holders of these subscription rights exercise their option right (see 8.1.2).

The conditional capital of up to € 600,000 was entered in the commercial register on July 27, 2001.

6. EXPLANATORY NOTES ABOUT THE INCOME STATEMENTS

6.1 Sales/division reporting

The Constantin Group distinguishes in its reporting between two different divisions (segments) that are subject to regular review by the Management Board. These two divisions are known as "in-house production (or co-production)" and "third-party production":

In the case of in-house production (or co-production), the Group contributes services of its own to the production of a film. In the initial phase, these services include monitoring trends, finding the right material and developing the script. Two possible approaches are adopted here: not only the development of internal ideas but also the acquisition of film rights. When a decision has been taken about further implementation of the film project, the next stage involves choosing the organisational and artistic personnel. This is followed by the shooting of the film. Technical post-production of the film starts when shooting has been completed. Where co-productions are concerned, the Group participates by contributing resources to a film project. The Constantin Group and the co-production partner each receive a pre-specified share of the proceeds of film exploitation. The "in-house production" division also covers genuine and non-genuine contract production. A customer commissions the Constantin Group to produce a film in both genuine and non-genuine

contract production. The right to the film production is held and remains directly with the customer. The Group actually produces the film in genuine contract production, while it acts as a service provider in the case of non-genuine contract production – generally for film funds that carry out the financing of individual films. In most cases some of the exploitation rights to these films are acquired by Constantin Film by concluding licence contracts.

The exploitation of acquired rights – American productions in particular – is another division of the Constantin Group's operations alongside in-house production (or co-production). Films are bought via package deals and output deals in addition to the buying of rights to individual films. A package deal involves the acquisition of a package of specific films and/or films that can already be named. The exploitation rights to all the films made by a particular producer are acquired before production begins in the case of output deals. First look agreements are also concluded between the producer and rights buyers, according to which the potential buyer is granted a right of first look and last refusal. This means that the producer has an obligation to offer a film to the potential rights buyer, while the latter has the right to negotiate and buy first. These Group operations are organised in the "third-party production" division.

More detailed explanations about the individual divisions are given in the management report about the company and the Group.

There are no business relationships between the in-house production (or co-production) division and the third-party production division. The management of the Constantin Group uses "sales", "amortisation" and "gross profit" as indicators to assess the success achieved by the two divisions.

It is not possible to provide a more detailed and accurate breakdown of the expenses. The total sales figure includes proceeds of € 25.069 million (previous year: € 14.387 million) from the international exploitation of film rights.

A breakdown of the film assets and the receivables/liabilities by divisions is given in 5.1, 5.2 and 5.5.

▶ BREAKDOWN BY DIVISIONS / in € thousand

	2001	2002	2001	2002	2001	2002
	In-house and co-production		Third-party production		Total	
Sales:						
Theatrical sales	34,536	26,753	11,874	14,260	46,410	41,013
Video sales	2,489	14,239	6,346	5,467	8,835	19,706
TV sales	16,423	18,299	24,564	5,404	40,987	23,703
Contract productions	14,040	16,125	0	0	14,040	16,125
Subsidies	8,507	12,924	1,296	1,969	9,803	14,893
Others	7,231	15,774	0	0	7,231	15,774
Total	83,226	104,114	44,080	27,100	127,306	131,214
Costs of goods sold	68,632	86,000	62,721	26,950	131,353	112,950
Gross profit on sales	14,594	18,114	-18,641	150	-4,047	18,264
Percentage of sales	17.5	17.4	-42.3	0.6	-3.2	13.9
Selling expenses					3,316	2,000
General administration expenses					9,856	12,023
Other operating income					2,288	2,674
Other operating expenses					296	1,032
Depreciation of goodwill					289	525
Depeciation of tangible assets and amortisation of other intangible assets					400	593
EBIT					-15,916	4,765

6.2 Costs of goods sold

The costs of goods sold shown consist of depreciation of film rights and capitalised development costs, of film release expenditure as well as of the costs of goods sold of contract productions and – if applicable – of expenses relating to the repayment of subsidies and licensor shares. This item also includes

the costs of goods sold of INNOVUM Smart Products GmbH. The depreciation charge for film rights includes expenditure based on the impairment test, including risk provision for films that are not yet being exploited.

6.3 Depreciation of tangible assets and amortisation of other intangible assets

The depreciation charges in this item relate to the administration field.

6.4 Personnel expenses

Wages and salaries in the year under review amounted to € 8.504 million (previous year: € 7.697 million). Social security expenditure amounted to € 1.060 million (previous year: € 0.791 million).

The Constantin Film AG Group had an average of 148 employees over the past year (previous year: 138). (See also the human resources section of the management report, page 20).

6.5 Financial result

Interest expenses in the year under review amount in total to € 2.879 million. € 2.391 million are accounted for by the special effect of the unwinding of a licence agreement for USD 3.000 million with the Kirch Group in the first quarter of 2002.

6.6 Currency translation

There were large exchange rate fluctuations in the year under review, which led to a weak dollar. An exchange rate loss of € 3.085 million was generated because of the valuation on the qualifying date of the transactions carried out in US dollars in the film assets and of the foreign currency portfolio in accordance with IFRS 21. The exchange rate income amounts to € 5.194 million, whereas the exchange rate expenses total € 8.279 million.

6.7 Earnings per share

The undiluted earnings per share are calculated by dividing the proportion of earnings attributable to the shareholders of Constantin Film AG by the weighted average number of shares in circulation during the fiscal year. The earnings per share are diluted by what are known as "potential shares". These include option rights, although they only dilute earnings when they have the consequence that shares are issued at a value lower than the average stock exchange price for the share. The exercise prices that apply in the case of the two stock option plans at Constantin Film AG were higher than the average stock exchange price of the share on December 31, 2002. This means that the option rights are not potential shares, so they do not have any diluting effect. The earnings per share amount to € -0.08 after € -0.85 in the previous year.

7. EXPLANATORY NOTES ABOUT THE STATEMENT OF CASH FLOWS

Income tax and interest payments are as follows:

	2001 € thousand	2002 € thousand
Payments received for taxes on income	13	134
Payments made for taxes on income	-25	-296
Interest payments received	1,334	413
Interest payments made minus the capitalised amounts	-187	-488

The Group improved net liquidity by € 32.001 million over the previous year following investments of € 30.958 million, mainly because of the cash flow generated by ordinary activities (see also the management report – financing – page 20).

The following table shows the credit lines that were available to the Group on the balance sheet date. Use was made of them with the different banks to some extent:

► CREDIT LINES

DZ Bank, Bayerische Landesbank, BHF-Bank, Bankhaus Reuschel & Co., syndicate loan, production financing	US\$ thousand	140,000
Bayerische Landesbank, licence trading, working capital	€ thousand	38,000
Commerzbank, working capital	€ thousand	511

8. OTHER EXPLANATORY NOTES

8.1 Employee stock option plan

There are two employee stock option plans at Constantin Film AG at the present time. Stock options are issued to employees in both stock option plans. The granting of stock options has no impact on either the balance sheets or the income statements.

The 1st stock option plan was introduced in connection with the IPO; no new stock options have been issued on the basis of this plan since 2001. The options that have already been issued on the basis of this 1st stock option plan have a remaining term of two to three years. This 1st stock option plan was replaced by a new 2nd stock option plan in the 2001 fiscal year; stock options have been issued to employees on the basis of this new plan since the 2001 fiscal year.

8.1.1 1999 stock option plan

The options which have been issued on the basis of the 1st stock option plan that was introduced in 1999 have a term of five years and enable the company staff to exercise one third of their options two, three and four years respectively after the options were granted. This means that the options issued in 1999 will expire at the end of 2004 at the latest. The options issued in 2000 will therefore expire at the end of 2005 at the latest.

The price of € 29.00 at which the options can be exercised applies to the 386,500 options granted up to December 31, 1999. The price at which the 37,400 options granted to new employees in 2000 can be exercised corresponds to the average stock exchange price of the share during the last ten stock exchange trading days before they were granted, i.e. before October 2, 2000, which was € 39.91.

The options granted entitle the company's employees to buy a total of 423,900 shares – 161,500 of them being reserved for the Management Board. The options can be exercised if the average market price of the company share exceeds the price at which the options can be exercised by at least 15 per cent during the last ten stock exchange trading days before the options are exercised, i.e. amounts to at least € 33.35 for the options granted in 1999 and to at least € 45.90 for the options granted in 2000. Another fundamental rule is that the option can only be exercised as long as the owner of the option has an untermiated employment contract; the options of staff who leave the company in the course of a year therefore expire and have to be deducted again in each case. 38,300 option rights have already expired in accordance with these rules of the stock option plan. This means that 385,600 options are still in force. Conditional capital totalling € 423,900 (see 5.11) is available to permit the option rights granted on the basis of the 1999 stock option plan to be exercised.

▶ 1999 OPTION PLAN	Number in 1999	Number in 2000	Number in 2001	Number in 2002
Options granted	386,500	423,900	423,900	423,900
Options issued as per 01.01.	0	386,500	412,400	395,400
Additions in the fiscal year	386,500	37,400	0	0
Options exercised	0	0	0	0
Options expired	0	-11,500	-17,000	-9,800
Options issued as per 31.12.	386,500	412,400	395,400	385,600
	31.12.1999	31.12.2000	31.12.2001	31.12.2002
Exercise price in €	29.00	29.00 / 39.91	29.00 / 39.91	29.00 / 39.91
Share price in €	45.00	19.00	4.15	2.56
Remaining term of the options (years)	5	4-5	3-4	2-3
Options that can be exercised	0	0	0	0
▶ 2001 OPTION PLAN			Number in 2001	Number in 2002
Options granted			350,000	350,000
Options issued as per 01.01.			0	342,500
Additions in the fiscal year			350,000	0
Options exercised			0	0
Options expired			-7,500	-13,000
Options issued as per 31.12.			342,500	329,500
			31.12.2001	31.12.2002
Exercise price in €			9.72	9.72
Share price in €			4.15	2.56
Remaining term of the options (years)			5	4
Options that can be exercised			0	0

8.1.2 2001 stock option plan

The options which have been and will be issued on the basis of the 2nd stock option plan that was introduced in 2001 have a term of five years and enable the company's staff to exercise one third of their options two, three and four years respectively after the options were granted. This means that the options issued for the first time in 2001 will expire at the end of 2006 at the latest.

The price at which the 350,000 options issued in 2001 can be exercised corresponds to the average stock exchange price of the company share during the last ten stock exchange trading days before they were granted (August 27, 2001), i.e. € 9.72.

The options granted entitle the company's employees to buy a total of 350,000 shares – 120,000 of them being reserved for the Management Board. The options can be exercised if the stock exchange price of the company share exceeds the price at which the options can be exercised by at least 15 per cent on at least one day before the option is exercised, i.e. has amounted to at least € 11.18 for the options granted in 2001. Another rule is that the option can only be exercised as long as the owner of the option has an unterminated employment contract; the options of staff who leave the company in the course of a year therefore expire and have to be deducted again in each case. 20,500 option rights have already expired in accordance with the rules of the stock option plan. This means that 329,500 options are still in force.

Conditional capital totalling € 600,000 (see 5.11) is available to permit the option rights granted on the basis of the 2001 stock option plan to be exercised.

8.2 Financial commitments and contingent liabilities

The Group leases and rents vehicles, equipment and buildings that are all subject to operating lease contracts. Leasing and rental expenditure in the year under review amounted to € 1.012 million (previous year: € 0.798 million).

There is also a rent guarantee for business premises rented by Constantin Film AG amounting to € 0.135 million (previous year: € 0.135 million). The Group has in addition issued two guarantees for contract productions with a total value of € 3.261 million to RTL Television GmbH and ZDF.

The following table is a summary of future minimum payments within the framework of operating lease/rental agreements that have initial or remaining periods of notice of more than one year.

► FUTURE RENT AND LEASING FEE PAYMENTS

/ in € thousand

	31.12.2001	31.12.2002
Remaining term up to 1 year	110	619
Remaining term 1-5 years	3,670	1,518
Remaining term more than 5 years	0	0
Total	3,780	2,137

The Group obtains access to future film rights by concluding package deals, output deals and individual licence contracts.

Purchasing films leads to financial commitments for the future that amount to an estimated € 23.000 million. The impact on the asset situation, financial position and profitability from 2004 onwards cannot be estimated with sufficient certainty at the present time.

8.3 Financing instruments

The Constantin Group concludes hedging contracts (with particular emphasis on the US dollar) in order to reduce the currency translation risks of its business operations. These derivative financing instruments are arranged with banks. The financing instruments relate to foreign currency flows that are planned in future for film projects. The Group does not hold and issue any derivative financing instruments for trading purposes. The Constantin Group makes sure as a fundamental rule that the amount of the hedging contract does not exceed the basic business transaction. The strict conditions for hedge accounting in accordance with IFRS 39 do not, however, exist. Since no hedging contracts were in force on the balance sheet date, no valuation is necessary.

8.4 Connections to related parties

The Management Board and the Supervisory Board of Constantin Film AG and the company's shareholders are potential related parties as defined by IFRS 24.

The members of the Management Board receive annual remuneration consisting of fixed and variable elements (see 8.6.1). The members of the Supervisory Board receive fixed annual remuneration (see 8.6.2).

Individuals and companies that have a significant or controlling influence are among the related parties specified by IFRS 24 when an assessment is made of the shareholders.

Constantin Holding GmbH & Co. KG held 7,958,333 shares of the total subscribed capital of Constantin Film AG consisting of 12,742,600 shares (62.45 per cent) until May 2002. Mr Bernd Eichinger owned 40.05 per cent of Constantin Holding GmbH & Co. KG, while Kirch Beteiligungs GmbH & Co. KG (Kirch Group) had an interest of 33.77 per cent and EM.TV & Merchandising AG (EM.TV) held 26.18 per cent. In May 2002, the shareholders of Constantin Holding GmbH & Co. KG withdrew the shares in Constantin Film AG from Constantin Holding GmbH & Co. KG. In accordance with IFRS 24, the shareholders in Constantin Holding GmbH & Co. KG were not related parties for Constantin Film AG during the period from January to May 2002 either, because they did not

individually exercise any controlling or significant influence.

The shareholder structure of Constantin Film AG changed after the withdrawal of the shares in Constantin Film AG from Constantin Holding GmbH & Co. KG and the sale of the shares held by Kirch Beteiligungs GmbH & Co. KG to Highlight Communications AG (see also page 12). The shareholders are not related parties as specified by IFRS 24 in the new shareholder structure either.

8.5 Events since the balance sheet date

No special events have occurred since the balance sheet date that have an impact on the economic situation of the Group.

8.6 BOARD MEMBERS

8.6.1 Management Board of Constantin Film AG

The Management Board of Constantin Film AG has four members at the moment:

Mr Thomas Peter Friedl / film businessman

Mr Jochen Kamlah / film businessman and lawyer

Mr Martin Moszkowicz / businessman and producer

Dr Daniel Wiest / economics graduate (spokesman for the Management Board)

Dr Daniel Wiest is a member of the Supervisory Board of Hahn Film AG, Berlin.

The members of the Management Board are appointed for a period of two to four years.

The total remuneration paid to the Management Board (January 1 to December 31, 2002) amounted to € 1.350 million (previous year: € 1.717 million).

8.6.2 Supervisory Board of Constantin Film AG

	Main profession	Membership of other Supervisory Boards
Fred Kogel Chairman of the Supervisory Board	Lawyer	H.O.T. Networks AG
Herbert Schroder Deputy Chairman	Banker	H.O.T. Networks AG HSE Home Shopping Europe AG
Bernhard Burgener (since 10.10.2002)	Chairman of the Board of Highlight Communications AG	Member of the Board of Escor Casino Entertainment SA Chairman of the Board of Lechner Marmor AG
Franz Jung (up to 31.12.2002)	Member of the Board of Commerzbank AG, Munich	Bavaria Filmkunst GmbH
Werner E. Klatten (since 11.02.2002)	Board Chairman of EM.TV & Merchandising AG	None
Professor Dr Günter Rohrbach	Independent film producer	None
Stephan Sager (up to 12.09.2002)	Film businessman	Teleclub AG
Bernd Eichinger (since 03.01.2003 – for information)	Film producer	None

The Supervisory Board consists of six members. The remuneration paid to the members of the Supervisory Board amounted in total to € 71,000 in 2002 (previous year: € 83,000).

Munich, March 2003

▶ The Management Board

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Constantin Film Aktiengesellschaft, Munich for the business year from January 1, 2002 to December 31, 2002. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into

account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Constantin Film Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2002 to December 31, 2002, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group

management report for the business year from January 1, 2002 to December 31, 2002 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, March 6, 2003

▶ **KPMG Deutsche Treuhand-Gesellschaft**

Aktiengesellschaft / Wirtschaftsprüfungsgesellschaft

Kilgert / Wirtschaftsprüfer

Schipper / Wirtschaftsprüfer

In case of publication or transmission of the consolidated financial statements in a version different to the version confirmed by us (including translations into other languages), in so far as our audit opinion is quoted or our review referred to, a new statement is to be obtained from us. Please refer to § 328 HGB.

Page 52	-- AG balance sheets
Page 53	-- AG income statements
Page 53	-- AG statement of cash flows
Page 54	-- AG statement of changes in fixed assets
Page 55 onwards	-- Notes to the AG financial statements

Page 57	-- Summary of the equity interests held by Constantin Film AG
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Page 61 onwards	-- Terminology
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Page 65	-- Summary of equity interests as of January 01, 2003
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ASSETS / HGB	31.12.2001 € thousand	31.12.2002 € thousand
A. Fixed assets		
I. Intangible assets	155	63
II. Tangible assets	277	228
III. Financial assets	7,295	7,387
Total fixed assets	7,727	7,678
B. Current assets		
I. Receivables and other current assets		
1. Receivables from affiliated companies	33,362	75,220
2. Receivables from companies in which an equity interest is held	196	4
3. Other assets	1,616	192
II. Cash in hand and at banks, cheques	1,926	50
Total current assets	37,100	75,466
C. Prepaid expenses	66	62
Total assets	44,893	83,206

EQUITY AND LIABILITIES / HGB	31.12.2001 € thousand	31.12.2002 € thousand
A. Equity		
I. Subscribed capital	12,743	12,743
II. Capital reserves	72,854	72,854
III. Revenue reserves	0	0
IV. Retained earnings	-5,115	-51,037
V. Net profit/loss for the year	-45,922	37,903
Total equity	34,560	72,463
B. Provisions		
Other provisions	1,080	1,063
Provisions	1,080	1,063
C. Liabilities		
1. Liabilities to banks of which due within 1 year: € 0 (previous year: € 7.503 million)	7,503	0
2. Trade payables of which due within 1 year: € 0.121 million (previous year: € 0.150 million)	150	121
3. Liabilities to affiliated companies of which due within 1 year: € 8.157 million (previous year: € 1.186 million)	1,186	8,157
4. Other liabilities of which due within 1 year: € 1.402 million (previous year: € 0.414 million) of which from taxes € 1.324 million (previous year: € 0.094 million) of which in connection with social security: € 0.056 million (previous year: € 0.061 million)	414	1,402
Total liabilities	9,253	9,680
Total equity and liabilities	44,893	83,206

INCOME STATEMENTS / HGB	01.01.-31.12.2001	01.01.-31.12.2002
	€ thousand	€ thousand
General administration expenses	7,659	7,159
Other operating income	2,231	2,396
Other operating expenses	1,553	504
Income from profit transfer agreements	28	48,808
Other interest and similar income of which from affiliated companies € 2.145 million (previous year: € 2.165 million)	2,788	2,161
Amortisation of financial assets	4,366	0
Interest and similar expenses of which to affiliated companies € 0 (previous year: € 0)	57	2
Costs of loss absorption	37,333	7,807
Income from continuing operations	-45,921	37,893
Taxes on income	0	-11
Other taxes	1	1
Net income/loss for the year	-45,922	37,903

CONSOLIDATED STATEMENT OF CASH FLOWS / HGB*	01.01.-31.12.2001	01.01.-31.12.2002
	€ thousand	€ thousand
Net profit/loss for the year	-45,922	37,903
Amortisation and depreciation of fixed assets	4,600	191
Change in provisions	2	-17
Profit/loss on the disposal of fixed assets	10	-83
Change in receivables and other assets that cannot be allocated to investing or financing activities	-315	-40,238
Change in trade liabilities and other liabilities that cannot be allocated to investing or financing activities	-702	7,930
Cash flows from current activities	-42,327	5,686
Inflow of funds from disposals of fixed assets	0	201
Outflow of funds for investments in intangible assets	-83	-39
Outflow of funds for investments in tangible assets	-134	-82
Outflow of funds for investments in financial assets	-4,400	-139
Cash flows from investing activities	-4,617	-59
Inflow of funds from loans obtained	7,503	0
Outflow of funds for the repayment of loans	0	-7,503
Cash flows from financing activities	7,503	-7,503
Change in cash and cash equivalents affecting payment	-39,441	-1,876
Funds at the beginning of the period	41,367	1,926
Funds at the end of the period	1,926	50

* The statement of cash flows is not part of the audited financial statements

▶ STATEMENT OF CHANGES IN
FIXED ASSETS (HGB) / in € thousand

	Acquisition or production costs			Accumulated depreciation				Book value		
	Balance on 01.01.2002	Additions	Disposals	Balance on 31.12.2002	Balance on 01.01.2002	Depreciation in the current fiscal year	Disposals	Balance on 31.12.2002	31.12.2001	31.12.2002
I. Intangible assets										
1. Software	269	7	0	276	185	60	0	245	84	31
2. Advance payments made	71	32	71	32	0	0	0	0	71	32
	340	39	71	308	185	60	0	245	155	63
II. Tangible assets										
1. Buildings on third-party land	612	0	0	612	601	11	0	612	11	0
2. Other equipment, operating and office equipment	926	82	9	999	660	120	9	771	266	228
	1,538	82	9	1,611	1,261	131	9	1,383	277	228
III. Financial assets										
1. Shares in affiliated companies	7,295	139	47	7,387	0	0	0	0	7,295	7,387
2. Equity investments	4,366	0	0	4,366	4,366	0	0	4,366	0	0
	11,661	139	47	11,753	4,366	0	0	4,366	7,295	7,387
	13,539	260	127	13,672	5,812	191	9	5,994	7,727	7,678

NOTES TO THE FINANCIAL STATEMENTS OF CONSTANTIN FILM AG FOR THE 2002 FISCAL YEAR

1. PRELIMINARY REMARKS

1.1 Information about the company

Constantin Film AG holds the shares in the production and distribution companies of the Constantin Group.

Deutsche Börse admitted Constantin Film AG to the "Prime Standard" on January 1, 2003. The rules of the "Prime Standard" require financial statements to be prepared in accordance with one of the internationally recognised accounting codes IFRS or US GAAP. Constantin Film AG prepares consolidated financial statements that comply with the exemption requirements laid down in § 292a of the HGB (German Commercial Code) in accordance with the rules of the International Financial Reporting Standards (IFRS) and the conditions for admission to the Neuer Markt in Frankfurt.

1.2 Accounting principles applied

The financial statements of Constantin Film AG as of December 31, 2002 have been prepared in accordance with the stipulations of the German Commercial Code (HGB) for large limited companies with appropriate application of § 267, Paragraph 3, Sentence 2, of the HGB as well as of the supplementary regulations of §§ 150 ff. of the German Companies Act (AktG).

1.3 Balance sheets

The intangible assets are carried at their acquisition costs and are amortised over their probable useful life on a pro rata basis using the straight-line method.

The tangible assets are capitalised at their acquisition or production costs and are depreciated over their probable useful life on a scheduled basis using the straight-line method. The simplification rule included in R 44 Paragraph 2 of German income tax legislation (EStR) is applied.

Minor-value assets are written off immediately and are eliminated as disposals in the year of acquisition.

Financial assets are carried at acquisition costs, less write-downs to the lower present value if applicable.

Receivables and other assets are carried at their nominal amount. Write-downs are made to take account of specific individual risks that can be identified.

Expenses before the qualifying date are shown on the "assets side" as prepaid expenses when they represent expenses for a specific time after the balance sheet date.

The other provisions have been formed in accordance with the stipulations of § 249 of the HGB and are based on prudent business judgement. Liabilities are carried at their redemption value.

Where the financial statements include items in foreign currencies, these items are translated into euros on the basis of the exchange rate on the transaction date. Items are included in the balance sheets on the basis of the exchange rate on the balance sheet date, in accordance with the recognition-of-loss principle.

1.4 Income statements

The income statements have been prepared by the cost of sales method in accordance with § 275, Paragraph 3, of the HGB.

2. EXPLANATORY NOTES ABOUT INDIVIDUAL ITEMS IN THE BALANCE SHEETS

2.1 Fixed assets

The development of the fixed assets and depreciation charges has been summarised in the AG fixed assets table (see page 54).

2.2 Interests in affiliated companies

Constantin Film AG holds direct shares in the following companies detailed in the table "Summary of the equity interests held by Constantin Film AG" on page 57 (see also the equity interest summary on page 65).

CONSTANTIN SCRIPT & DEVELOPMENT GMBH, MUNICH

Buying and selling of ideas, treatments, scripts and other preparatory work for the implementation of audiovisual productions, development and processing of appropriate materials and production of or involvement in audiovisual productions and marketing of such rights and productions in Germany and other countries apart from America.

CONSTANTIN MEDIA GMBH AUDIOVISUELLE PRODUKTIONEN, MUNICH

Buying and selling of ideas, treatments, scripts and other preparatory work for the implementation of audiovisual productions, development and processing of appropriate materials and production of or involvement in audiovisual productions and marketing of such rights and productions in the USA.

CONSTANTIN FILM DEVELOPMENT INC., LOS ANGELES

Provision of advice on the buying of rights and assistance in the development of projects in the USA in particular as well as generation of filmable rights and arrangement of co-operation agreements with film studios.

CONSTANTIN FILM PRODUKTION GMBH, MUNICH

Production of theatrical and television films of all kinds as well as activities of all kinds in the film and television field.

CONSTANTIN FILM INTERNATIONAL GMBH, MUNICH

Production and/or exploitation of international film and television productions.

OLGA FILM GMBH, MUNICH

Development, production and exploitation of film and television productions as well as other audiovisual productions. Acquisition and sale of rights to materials.

MOOVIE – THE ART OF ENTERTAINMENT GMBH, BERLIN

Acquisition, production and exploitation of feature films, television productions, music rights and books.

ENGRAM PICTURES GMBH, MUNICH

Production and marketing of feature, advertising and television films of all kinds.

RAT PACK FILMPRODUKTION GMBH, MUNICH

Production of theatrical and television films of all kinds as well as activities of all kinds in the film and television field.

WESTSIDE FILMPRODUKTION GMBH, KREFELD

Production of theatrical and television films of all kinds as well as activities of all kinds in the film and television field.

HAHN FILM AG, BERLIN

Hahn Film AG specialises in productions in the animation field, where it is one of the leading European companies.

CONSTANTIN FILM VERLEIH GMBH, MUNICH

Marketing (particularly distribution) and exploitation/trading of licences and ancillary rights to films (including television productions), other audiovisual and multimedia productions as well as the completion of activities directly or indirectly associated with marketing, licence trading or the exploitation of rights and ancillary rights.

CLASSIC MEDIA WERBEAGENTUR GMBH, MUNICH

Planning and implementation of marketing activities to promote in-house and third-party productions.

CONSTANTIN INTERNATIONAL B.V., AMSTERDAM

Implementation of international licence trading co-operation.

CONSTANTIN MUSIC VERLAGS- GMBH, MUNICH

Production, reproduction and marketing of audio and video recording media of all kinds as well as all other standard music business transactions in Germany and abroad.

**CONSTANTIN PROPAGANDA GMBH,
MUNICH**

Development, production, distribution, exploitation and trading of licences and ancillary rights to films (including television productions) and other audio-visual and multimedia productions.

**CONSTANTIN INTER@CTIVE GMBH,
MUNICH**

Development, production and marketing of products and services of all kinds in the new media field, particularly the production of multimedia CD-ROMs, DVDs, Internet Web sites and interactive software as well as the development, marketing and distribution of multimedia products of all kinds in the Internet.

**INNOVUM SMART PRODUCTS GMBH,
COLOGNE**

INNOVUM Smart Products GmbH operates as a digital communication agency and trade marketing company.

All the direct equity interests held by Constantin Film AG are shown in the following table:

► **SUMMARY OF THE EQUITY INTERESTS HELD BY CONSTANTIN FILM AG (ACCORDING TO LOCAL GAAP*)**

Company	Equity 31.12.2002 in € thousand	Equity interest in %	Sales in 2002 in € thousand	Net income/ loss in 2002 in € thousand
Constantin Script & Development GmbH, Munich**)	26	100.0	31	-460
Constantin Media GmbH audiovisuelle Produktionen, Munich**)	26	100.0	48	-177
Constantin Film Development Inc., Los Angeles***)	1,380	100.0	2,556	178
Constantin Film Produktion GmbH, Munich**)	105	100.0	29,861	15,939
Constantin Film International GmbH, Munich**)	105	100.0	7,793	-2,992
Olga Film GmbH, Munich	692	51.0	3,588	33
MOOVIE – the art of entertainment GmbH, Berlin	-767	51.0	11,934	382
Engram Pictures GmbH, Munich	211	75.5	3,508	3,789
Rat Pack Filmproduktion GmbH, Munich	256	51.0	6,187	161
Westside Filmproduktion GmbH, Krefeld	138	51.0	1,467	35
Hahn Film AG, Berlin	-475	25.1	5,615	-107
Constantin Film Verleih GmbH, Munich**)	2,710	100.0	133,204	32,900
Classic Media Werbeagentur GmbH, Munich**)	105	100.0	310	-167
Constantin International B.V., Amsterdam	-33	100.0	0	5
Constantin Music Verlags- GmbH, Munich**)	70	100.0	179	16
Constantin Propaganda GmbH, Munich**)	100	100.0	0	-9
Constantin Inter@ctive GmbH, Munich**)	99	100.0	33	-103
INNOVUM Smart Products GmbH, Cologne	1,383	51.0	10,785	-464

*) German Commercial Code (HGB) / German Companies Act (AktG) when the registered office is in Germany

***) The net income/net loss for the year has been transferred to Constantin Film AG in accordance with profit/loss transfer agreements

****) Translated using the rate on the qualifying date

See the notes to the consolidated financial statements, page 32, for more detailed information about the indirect equity interests held by Constantin Film AG.

2.3 Receivables from affiliated companies

The receivables from affiliated companies amounted to € 75.220 million as per December 31, 2002. They are attributable essentially to the transfer of earnings, to loans and to receivables relating to administrative charges and sales taxes. All of the receivables are due for payment within one year.

2.4 Other assets

They total € 0.192 million and consist of the following main amounts:

	31.12.2002 € thousand
Receivables purchased	86
Receivables from interest withholding tax	40
Miscellaneous	66
Total	192

2.5 Equity

The subscribed capital was not changed in the 2002 fiscal year (see notes to the consolidated financial statements, 5.9).

2.5.1 Number of shares

See the notes to the consolidated financial statements, 5.9.

2.5.2 Capital reserves

See the notes to the consolidated financial statements, 5.9.

2.5.3 Authorised capital

See the notes to the consolidated financial statements, 5.10.

2.5.4. Conditional capital

See the notes to the consolidated financial statements, 5.11.

2.5.5 Revenue reserves

No allocation was made to the legal reserves in accordance with § 150 AktG, because the capital reserves exceed one tenth of the subscribed capital.

2.5.6 Net income for the year

Constantin Film AG recorded a net income of € 37.903 million in the past fiscal year. The net retained loss recorded as per December 31, 2002 was reduced by € 37.903 million to € 13.134 million thanks to the net income generated in 2002. The net income is due essentially to income from the international film **Resident Evil** as well as to the successful theatrical exploitation of and licence sales from national film productions like **Bibi Blocksberg**, **Nowhere in Africa**, **8 Women** and **Nackt**.

2.6 Other provisions

The other provisions are accounted for essentially by provisions for holiday entitlements (€ 0.198 million), legal advice, auditing of the financial statements and outstanding invoices (€ 0.415 million) and tantièmes, supervisory board remuneration and quarterly reports (€ 0.437 million).

2.7 Credit lines

As the parent company of the Group, Constantin Film AG has short-term credit lines to cover requirements for further loans within the Constantin Film AG Group. Most of these amounts are secured by the assignment of receivables and by the transfer of film rights. See the notes to the consolidated financial statements 7. for more details about this.

3. EXPLANATORY NOTES ABOUT INDIVIDUAL ITEMS IN THE INCOME STATEMENTS

3.1 General administration expenses

The general administration expenses total € 7.159 million. Personnel expenses account for € 4.629 million of this amount. Depreciation of other equipment, operating and office equipment amounted to € 0.120 million. Buildings on third-party land accounted for € 0.011 million. The software depreciation charge in 2002 was € 0.060 million; this includes a depreciation charge of € 0.043 million for the premature replacement of a database. Rent expenditure for business premises was € 0.569 million. The other expenses and services totalled € 1.770 million. Expenditure from other periods totalling € 0.091 million was incurred in the year under review for other consulting services.

3.2. Other operating income

The other operating income of € 2.396 million can be broken down as follows:

	31.12.2002 € thousand
Exchange rate income	256
Rental income / internal sales	12
Income from charged costs	1,980
Income from the release of provisions	94
Miscellaneous	54
Total	2,396

The other operating income includes income from other periods due to the release of provisions amounting to € 0.094 million.

3.3 Other operating expenses

This item includes the following individual amounts:

	31.12.2002 € thousand
Exchange rate expenses	228
Costs of raising funds and money transactions	28
Miscellaneous	248
Total	504

3.4 Taxes on income

Reimbursements of € 0.011 million were received for capital yield tax and reunification tax in the year under review.

4. ADDITIONAL INFORMATION

4.1 Corporate governance

The Management Board and Supervisory Board of Constantin Film AG have issued the statement stipulated in § 161 of the AktG. This statement has been made available to the shareholders on a permanent basis in the Internet.

4.2 Contingent liabilities / other financial commitments

On December 31, 2002, there was a rent guarantee for business premises rented by the company amounting to € 0.135 million. Other financial commitments include rental contracts (€ 0.283 million) within the next five years and leasing contracts (€ 0.224 million) within the next four years. There were neither contingent liabilities nor other financial commitments to affiliated companies on December 31, 2002.

4.3 Exchange rate hedging transactions

There were no exchange rate hedging transactions on December 31, 2002.

4.4 Number of employees

Constantin Film AG had an average of 48 employees in the period under review. There were 48 employees on the qualifying date of December 31, 2002.

4.5 Personnel expenses

The personnel expenses amounted to € 4.629 million (previous year: € 4.766 million) in 2002. They include salaries totalling € 4.281 million (previous year: € 4.391 million) and social security contributions of € 0.348 million (previous year: € 0.375 million). No old-age pension costs were incurred in the year under review.

4.6 BOARD MEMBERS

4.6.1 The Management Board of Constantin Film AG

See the notes to the consolidated financial statements, 8.6.1.

4.6.2 The Supervisory Board of Constantin Film AG

See the notes to the consolidated financial statements, 8.6.2.

Munich, March 2003

► The Management Board

INDEPENDENT AUDITORS' REPORT

We have audited the annual financial statements, together with the bookkeeping system, of the Company Constantin Film Aktiengesellschaft as well as its report on the position of the Company and the Group prepared by the Company for the business year from January 1, 2002 to December 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in

accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting.

On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Munich, March 6, 2003

▶ **KPMG Deutsche Treuhand-Gesellschaft**

Aktiengesellschaft / Wirtschaftsprüfungsgesellschaft

Kilgert / Wirtschaftsprüfer

Schipper / Wirtschaftsprüfer

In case of publication or transmission of the financial statements and/or the report on the position of the Company and the Group in a version different to the version confirmed by us (including translations into other languages), in so far as our audit opinion is quoted or our review referred to, a new statement is to be obtained from us. Please refer to § 328 HGB.

▶ **AVAILABLE FOR SALE**

Financial assets that are available for sale – in contrast to **Trading**.

▶ **BACK END**

Share of the revenues generated in film exploitation.

▶ **BEARER SHARE**

A share that is issued to the bearer and is not registered by name in the company's books. Bearer shares can be transferred quickly and simply (by agreement and delivery) in accordance with § 929 of the German Civil Code (BGB).

▶ **BLOCKBUSTER**

A very successful film (box office receipts of at least about USD 100 million in the USA; audiences of at least 3 million in Germany).

▶ **BOX OFFICE**

Receipts from the sale of cinema tickets.

▶ **COMPLETION BOND INSURANCE**

Guarantee about the completion of a film that is given by special insurance companies.

▶ **CONTRACT PRODUCTION**

A film produced on the basis of a commission – e.g. by a TV station – to which the commissioning party receives all the rights (see also **Licence production**).

▶ **COPYRIGHT**

Legal right about original material granted to an author etc. for a specific period of time.

▶ **DEFERRED TAXES**

In view of the differences between US GAAP and the German Commercial Code (HGB) in the determination of results (realisation of sales, depreciation of film assets according to revenue generation, capitalisation of film production costs), there are deviations from the actual assessment basis under German tax legislation. This difference involves an underlying deferred increase or decrease in the tax burden, which is expressed in the deferred tax items included in assets/liabilities.

▶ **DIGITISATION**

Electronic conversion of analog text, image or sound information into computer-readable data.

▶ **DISTRIBUTION COSTS ("P&A")**

Costs incurred in connection with a cinema release, particularly for making copies of the film and advertising it (Prints & Advertising).

▶ **DVD**

Digital Versatile Disc

A digital storage medium for films (similar to a CD).

▶ **EBITDA**

Earnings before interest, tax and depreciation amortisation.

▶ **EBIT**

Earnings before interest and tax.

▶ **EBT**

Earnings before tax.

▶ **EPS**

Earnings per share

The net profit attributable to one share. This figure is used to determine the price-earnings ratio.

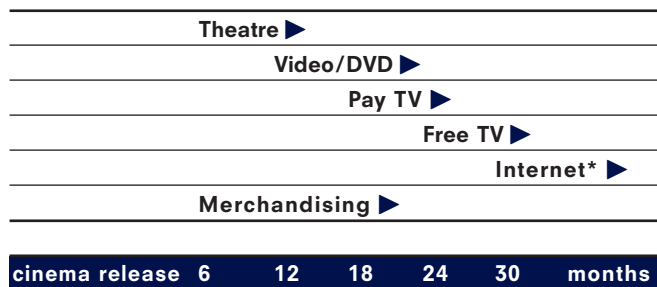
▶ **EQUITY METHOD**

Consolidation method in Group accounting for shares in associated companies. The pro rata net income/loss made by the company is included in the consolidated income statements as income/loss from equity interests.

▶ **EVENT MOVIE**

High-quality TV feature film that provides a cinema-like experience.

▶ **EXPLOITATION CHAIN
(ADDED-VALUE CHAIN)**



* Form of exploitation in the future

▶ **EXPLOITATION WINDOW**

Time available for a specific exploitation phase (see also **Exploitation chain**).

▶ **FAS 139**

(Financial Accounting Standard 139)
Accounting principle issued by the Financial Accounting Standards Board (FASB) that stipulates the application of SOP 00/2 for US GAAP.

▶ **FASB STATEMENT 34**

Financial Accounting Standards Board Statement 34
Rule about capitalisation of the financing costs that can be allocated directly to a film.

▶ **FILM STOCK (LIBRARY)**

Stock of film rights a producer and/or supplier has available.

▶ **FIRST LOOK DEAL**

Contract about the right of first refusal to films and/or rights.

▶ **FREE FLOAT**

Term used for the shares of an issue that are circulating on a market and do not therefore have a specific individual owner.

▶ **FREE TV**

Television that is financed by licence fees or advertising (see also **Pay TV**).

▶ **GERMAN CORPORATE GOVERNANCE CODE**

This Code presents major legal regulations about the management and monitoring of German companies with a stock market listing and includes internationally recognised standards for responsible corporate management.

▶ **HEDGING**

Obtainment of protection against currency risks for unsettled items by undertaking an opposite risk in the form of a security instrument (hedge) that is intended and suitable for the provision of protection. The basic business transaction and the security instrument are considered to be a single valuation unit in **hedge accounting**.

▶ **CASH FLOW HEDGE**

Protection against the risk involved in future payments of interest at variable rates relating to a balance sheet transaction by means of a swap. Valuation is carried out at fair value.

▶ **FAIR VALUE HEDGE**

Balance sheet item with a fixed interest rate that is protected against the market risk by means of a swap. Valuation is carried out at fair value.

▶ **HELD TO MATURITY**

Financial investments held until their final maturity date.

▶ **IFRS**

(International Financial Reporting Standards)
International accounting standards that are issued by the International Accounting Standards Board (IASB).

▶ **IMPAIRMENT**

Review of the value of a film right on the basis of a comparison between the film investment and the estimated total revenues.

▶ **INDEPENDENT**

A producer who is not tied to a major studio.

▶ **INDIVIDUAL FILM FORECAST METHOD**

Depreciation method for film rights based on the ratio of the periodic sales to the total expected sales.

▶ **INTEGRATED MEDIA GROUP**

A corporate group with companies that cover the entire exploitation chain in addition to developing and producing films.

▶ **INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)**

The ISIN is being introduced as the primary identification code for securities on April 22, 2003. The existing WKN security identification number system in Germany is being continued at the same time so that a flexible transition is possible.

▶ **LABORATORY ACCESS LETTER**

Authorisation for copies to be made.

▶ **LARGE CAPS**

Classification of a company with a stock market listing according to the size of its market capitalisation. The exact size can vary, a rough guide is market capitalisation from about € 1 billion upwards. At Frankfurt Stock Exchange, the members of the DAX are considered to be large caps.

▶ **LIBRARY PRODUCT**

Productions with an initial release date that is at least three years before the date on which they are acquired.

▶ **LICENCE PRODUCTION**

An in-house production to which the producer holds all the rights and only licenses limited chronological and geographical exploitation rights (e.g. to TV stations) (see also **Contract production**).

▶ **MAJOR STUDIO**

US studio companies with global marketing operations (Disney, Warner Bros., Columbia Tristar, Universal Pictures, Paramount, 20th Century Fox, MGM).

▶ **MARKET CAPITALISATION**

Stock market capitalisation, stock exchange value – Market price/value of a public limited company on the stock exchange. It is determined by multiplying the total number of shares by the stock exchange price per share.

▶ **MATCHING PRINCIPLE**

Principle of the accurate allocation of expenditure to the corresponding income.

▶ **MATERIAL RIGHTS**

Rights to film a "material" (e.g. a novel).

▶ **MEDIA & ENTERTAINMENT INDEX**

Ten industry indices, including the Media & Entertainment Index, were introduced on the Neuer Markt on May 15, 2000. The aim of the new index is to make this fast-growing, international part of the Frankfurt stock exchange more transparent and comparable and to give investors an opportunity to compare the development of different companies within the same industry.

▶ **MERCHANDISING**

Selling of products that tie in with films (e.g. T-shirts, toys).

▶ **MID-CAPS**

Classification of a company with a stock market listing according to the size of its market capitalisation. The exact size can vary, a rough guide is market capitalisation between € 250 million and € 1 billion. At Frankfurt Stock Exchange, the members of the MDAX are considered to be mid-caps.

▶ **MINIMUM GUARANTEE**

The purchase price for rights to a film that has to be paid even if it is not a success. A share of the proceeds of exploitation has to be paid as well if it is a success.

▶ **MULTI-CHANNEL SOURCING**

Making sure that a continuous flow of high-quality products is maintained by exploiting several different "channels":

1. National and international in-house production
2. International output deals
3. National and international first look deals and the acquisition of individual films.

▶ **MULTIPLEX THEATRE**

A theatre with several (about six to 20) screening rooms of different sizes.

▶ **NEMAX ALL SHARE INDEX**

This index measures the development of the Neuer Markt, part of the stock exchange that contains both German and non-German companies.

▶ **NET PROFIT PARTICIPATION**

Share of the net profit of a film given e.g. to actors.

▶ **OUTPUT DEAL**

Licence agreement about all the films a producer and/or studio will be making within a specific period of time.

▶ **PACKAGE DEAL**

Licence agreement about a film package consisting of several different productions.

▶ **PAY PER VIEW**

Individual films or sports programmes that can only be received if the viewer pays a fee.

▶ **PAY TV**

Television programmes that can be received on payment of a monthly fee (see also **Free TV**).

▶ **PERCENTAGE OF COMPLETION METHOD**

Method for realisation of a percentage of profits according to the progress made in completion.

▶ **POST-PRODUCTION**

Completion of the film after shooting has finished.

▶ **PRE-SALE**

Licence agreement about a feature film that is concluded before shooting begins, e.g. solely on the basis of the script, cast and budget.

▶ **PRIME STANDARD**

The Prime Standard is the quality segment with the most demanding information and transparency requirements, which was introduced on January 1, 2003 as part of the German stock market resegmentation exercise.

▶ **PRIME TIME PROGRAMME**

Programme that can be shown when audiences are potentially largest (about 20.00 to 22.00).

▶ **RIGHT OF FIRST NEGOTIATION AND LAST REFUSAL**

Agreement by which a film is offered to the buyer first, who is also entitled to match the offers submitted by other prospective buyers even if his original offer is rejected.

▶ **SECONDARY RIGHTS**

Rights to audio and video recording media, secondary printing rights, merchandising rights.

▶ **SOP 00/2**

Statement of Opinion 00/2

Rule about the valuation and accounting of film rights for film producers and film traders issued by the American Institute of Certified Public Accountants (AICPA).

▶ **TRADING**

A financial asset held for trading purposes – in contrast to **Available for sale**.

▶ **US GAAP**

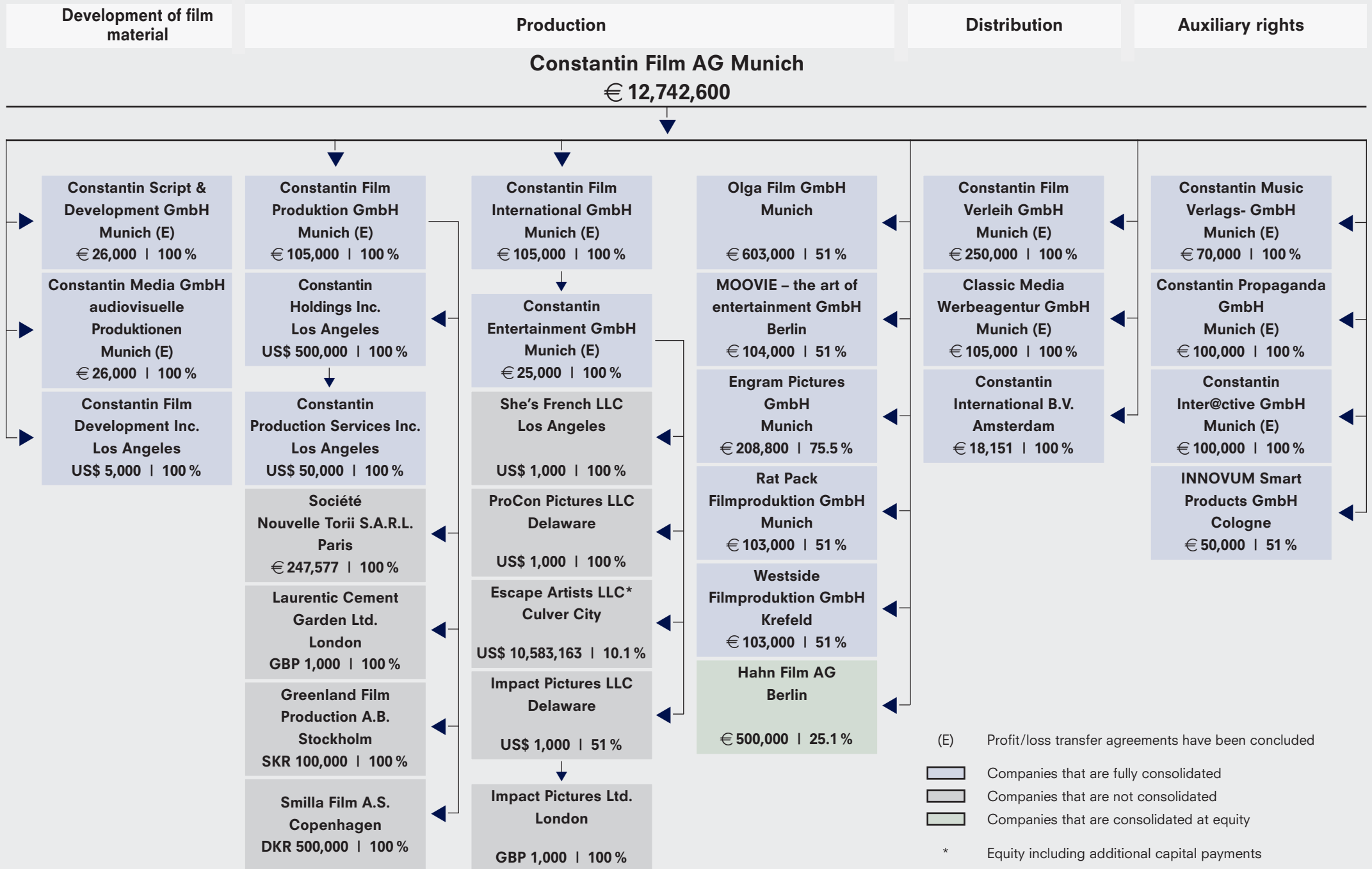
(Generally Accepted Accounting Principles)

US accounting principles – Deutsche Börse AG has stipulated that companies listed in the Prime Standard are required to publish financial statements in accordance with IFRS or US GAAP.

▶ **VIDEO ON DEMAND**

Films, for example, that are shown when specifically ordered.

SUMMARY OF EQUITY INTERESTS as of January 01, 2003



(E) Profit/loss transfer agreements have been concluded

Companies that are fully consolidated
 Companies that are not consolidated
 Companies that are consolidated at equity

* Equity including additional capital payments

▶ **INTERNATIONAL SECURITIES IDENTIFICATION NUMBER ISIN: DE0005800809**

▶ **SECURITY IDENTIFICATION NUMBER 580 080**

▶ **CONTACT**

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HOLLYWOOD



ANNUAL REPORT OF *Constantin Film* AG 2002

MANAGEMENT BOARD MEMBERS THOMAS PETER FRIEDL JOCHEN KAMLAH MARTIN MOSZKOWICZ DR DANIEL WIEST
SUPERVISORY BOARD FRED KOGLER BERNHARD BURGNER FRANZ JUNG WERNER E. KLATTEN PROFESSOR DR GÜNTER ROHRBACH HERBERT SCHRODER
DEVELOPMENT OF THE FILM MATERIAL SCRIPTS CONSTANTIN SCRIPT & DEVELOPMENT GMBH CONSTANTIN MEDIA GMBH CONSTANTIN FILM DEVELOPMENT INC.
INTERNATIONAL AND GERMAN CINEMA PRODUCTION TV PRODUCTION CONSTANTIN FILM PRODUKTION GMBH CONSTANTIN FILM INTERNATIONAL GMBH
EQUITY INTERESTS OLGA FILM GMBH MOOVIE – THE ART OF ENTERTAINMENT GMBH ENGRAM PICTURES GMBH
RAT PACK FILMPRODUKTION GMBH WESTSIDE FILMPRODUKTION GMBH HAHN FILM AG INNOVUM SMART PRODUCTS GMBH
BUYING CINEMA DISTRIBUTION LICENCE TRADING FREE TV PAY TV VIDEO GLOBAL SALES CONSTANTIN FILM VERLEIH GMBH CLASSIC MEDIA WERBEAGENTUR GMBH CONSTANTIN INTERNATIONAL B.V.
SECONDARY RIGHTS EXPLOITATION MERCHANDISING MUSIC PRINT INTERNET CONSTANTIN MUSIC VERLAGS- GMBH CONSTANTIN PROPAGANDA GMBH CONSTANTIN INTER@CTIVE GMBH

More information about the company is available online: <http://www.constantinfilm.de>

Constantin Film 2002

