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KEY FIGURES GROUP

	01.01.-31.12.2002 € million	01.01.-31.12.2003 € million
Sales	131.2	114.3
of which in-house productions	104.1	87.0
of which third-party productions	27.1	27.3
EBITDA	58.3	52.0
Gross profit	18.3	3.6
EBIT	4.8	-11.8
Net income/loss for the year	-1.1	-9.9
Investments in film assets	43.9	129.3
Depreciation of film assets	52.5	61.4
	31.12.2002	31.12.2003
Film assets	91.0	158.9
Equity	74.7	64.2
Balance sheet total	233.0	315.9
Employees (number)	141	270
Earnings per share in €	-0.08	-0.78

Dear shareholders,
dear friends of Constantin Film AG,

2003 was an eventful and turbulent year for Constantin Film AG. A difficult market environment due to consumers' continuing reluctance to spend, piracy, the excellent summer weather and a generally poorer product range left their mark on the entire industry as well as on admissions to the films we distributed. The industry as a whole recorded a shortfall of 9.1 per cent over the previous year with only 149 million theatrical admissions last year. In view of the difficult situation on the market in general, it is particularly important to continue increasing our successful distribution business in addition to the national and international in-house theatrical and TV productions.

All in all, the Management Board of Constantin Film AG did, however, also take advantage of this year to eliminate all the output deals that were still burdening the company, to consolidate and to take the necessary steps to make sure that the Group is more broadly aligned in future alongside the volatile film production and distribution business. The action taken in this context included redefinition of the relationship to the main shareholder Highlight Communications AG, partly involving a plan to co-operate closely on the exploitation of video and DVD rights in 2004, and

concentration on the expansion of such new areas of operation as licence trading (exploitation of the Constantin product throughout the exploitation chain) and TV entertainment production, for which there is strong market demand.

Our films in 2003

Production of 12 in-house and co-produced theatrical films and 12 TV films began last year. Constantin Film released a total of 20 films to German theatres.

At the beginning of the year, we succeeded in reaching 1.9 million theatrical admissions with the Uschi Reich production **Das fliegende Klassenzimmer**, thus providing further impressive evidence of the skills and leading position we have in the family entertainment field.

Further films we distributed successfully in 2003 were the new adventures of the cult figure Werner, **Werner – Gekotzt wird später!**, with 1.1 million admissions and the thriller **Swimming Pool** (director: François Ozon) with Charlotte Rampling and Ludivine Sagnier in the leading parts, which recorded almost 500,000 admissions in the late summer. One of the press and audience highlights of the last theatrical year was **City of God**, which achieved 450,000 admissions and was nominated for an Oscar in the four categories of "Best

Director", "Best Cinematography", "Best Editing" and "Best Screenplay" in January 2004. Our co-production with collina Filmproduktion GmbH **Sams in Gefahr**, the imaginatively told sequel to the theatrical film **Das Sams** which was released in December, has managed to top 1 million admissions to German theatres so far and was awarded the Bavarian Film Prize for the "Best Children's Film" in January 2004.

Constantin Film reached a market share of 4.2 per cent in the 2003 distribution year with 5.9 million theatrical admissions.

One very special highlight in the past fiscal year was the Academy Awards ceremony in Los Angeles in March 2003, at which the Constantin co-production **Nowhere in Africa** by Caroline Link received the Oscar for the "Best Foreign Language Film". 23 years after Volker Schlöndorff won an Oscar with **The Tin Drum**, the most important film prize in the world in this category went to Germany again for the second time.

The 2003 fiscal year

Bernd Eichinger and Highlight Communications AG concluded a pool agreement to safeguard the long-term strategy of Constantin Film AG in June 2003. A key basis for continuing the successful development of our company was created as a result.

We succeeded in broadening our added-value chain significantly by entering the TV entertainment field in September 2003, when we acquired 61 per cent of the shares in KirchMedia Entertainment GmbH, a market-leading German show and entertainment production company. KirchMedia Entertainment GmbH has been renamed **Constantin Entertainment GmbH**. With productions like **Das Strafgericht** (RTL), **Richter Alexander Hold** (SAT.1) and **Arabella** (ProSieben), Constantin Entertainment GmbH has already contributed sales of € 19.3 million to the Group's overall performance.

We will be participating as a strong partner in the growing home entertainment market in future too: as part of the co-operation agreement concluded with Highlight Communications AG in November 2003, Constantin Film AG has been exploiting the video and DVD rights to in-house productions and licensed films independently since January 1, 2004 and is able in this context to take advantage of the know-how and many years of experience Highlight Communications AG has had in this field.

New productions

Shooting of the Bernd Eichinger production **The Downfall** with Oliver Hirschbiegel (**The Experiment**) as director was completed successfully and on schedule

in November 2003. Based on the bestseller of the same name by Professor Dr Joachim Fest as well as on "Bis zur letzten Stunde", the records kept by Hitler's secretary Traudl Junge which were published by Melissa Müller, this major theatrical production paints an impressive and stirring picture of the final days of the Third Reich. The theatrical release date in Germany is September 16, 2004.

Filming of **Autobahnraser** (director: Michael Keusch), a turbulent action comedy based on the computer game of the same name by Davilex that has already sold millions in Germany, was also completed successfully. Constantin Film produced this theatrical film with Delux Productions and in co-operation with MOOVIE – the art of entertainment GmbH and released it to German theatres on February 19, 2004 with a large cast of exciting young theatrical faces, such as Luke J. Wilkins (**Nesthocker**), Niels-Bruno Schmidt (**Die Klasse von '99**), Alexandra Neldel (**Erkan & Stefan**) and many others.

We finished shooting of the theatrical film **Mädchen Mädchen 2** (provisional title) with Diana Amft, Jasmin Gerat and Karoline Herfurth in the main roles successfully in the third quarter of 2003. Our subsidiary Olga Film GmbH produced the "sequel" to the successful comedy **Mädchen Mädchen!**, that attracted more

than 1.8 million enthusiastic visitors to theatres two years ago, under the direction of Peter Gersina. The refreshing experiences of the heroes – who are adults in the meantime – are being released to theatres on June 24, 2004.

Kammerflimmern with Matthias Schweighöfer (**Die Klasse von '99**) and Jessica Schwarz (**Verschwende Deine Jugend**) in the leading parts is another German theatrical co-production that we completed in 2003. Hendrik Hölzemann has staged a sensitive drama about everyday life with **Kammerflimmern**, which will be released to theatres in the summer of 2004.

The Olga Film/Constantin Film/Seven Pictures production **Napola**, filming of which was completed in October 2003, impressively tells the story of a friendship between two boys around 1942, which is ended abruptly by the cruel mechanisms and manipulations of the Nazi regime. The film starring Max Riemelt (**Mädchen Mädchen!**) and Tom Schilling (**Verschwende Deine Jugend**) was awarded the German Film Prize for the "Best Screenplay" in 2003 and is being released to theatres in the autumn of 2004 too.

Our international in-house production **Resident Evil – Apocalypse** (director: Alexander Witt) with Milla

Jovovich in the lead is the “sequel” to the successful horror thriller **Resident Evil** (director: Paul W.S. Anderson) Constantin Film produced, with which we have generated international box office receipts of more than USD 100 million since it was released in the USA on March 15, 2002. Global video and DVD exploitation of **Resident Evil** is also going successfully, with receipts of over USD 38 million so far in the USA alone.

Our subsidiary MOOVIE – the art of entertainment GmbH successfully finished shooting a two-part romantic comedy **Reiche Witwen küssen besser** (director: Carlo Rola) with Iris Berben and Peter Sattmann in the leading parts for SAT.1 in the fiction TV production field. Filming of three further programmes for the ZDF channel’s popular thriller series **Rosa Roth** (director: Carlo Rola) starring Iris Berben was completed successfully too: **Rosa Roth – Kolibri**, **Rosa Roth – Freundeskreis** and **Rosa Roth – Flucht nach vorn**. The two-part documentary **Und jetzt, Israel?** – a very personal account of everyday life in the Holy Land by Iris Berben – was produced in September 2003. The TV sitcom **Bewegte Männer**, which we also produced with MOOVIE, was broadcast successfully on SAT.1 in April 2003. We established a second sitcom on the German TV market alongside our long-running series **Hausmeister Krause** (featuring Tom Gerhardt) with

Bewegte Männer, which is based on the theatrical blockbuster **Der bewegte Mann**. Production of the second series of **Bewegte Männer** began as early as the end of 2003.

One of the projects successfully completed by the Constantin Film subsidiary Rat Pack Filmproduktion GmbH in 2003 was the TV production **Ratten 2 – Bis das Blut gefriert** (director: Jörg Lüdorf), the sequel to the successful thriller **Ratten – Sie werden dich kriegen**.

Our subsidiary Olga Film GmbH produced another TV thriller **Untreu** aka **Die Stimmen 2** (director: Rainer Matsutani). Its predecessor **Die Stimmen** with Mariele Millowitsch in the leading part, was an outstanding success with 5.88 million viewers when it was aired for the first time on RTL in May 2003.

In the show and entertainment production field, Constantin Entertainment GmbH succeeded in establishing the new daily documentary formats **Lenßen & Partner** (SAT.1) and **K 11 – Kommissare im Einsatz** (SAT.1) and produced extremely successful prime time shows with **Family Date** (SAT.1), **Frauentausch** (RTL II), **Lego Show** (SAT.1), **Hit Giganten** (SAT.1), **Deutschlands wahre Helden** (SAT.1), **Wer zuletzt lacht** (SAT.1) and **Aids-Gala 2003** (SAT.1).

Constantin Film AG generated sales of € 114.3 million in the 2003 fiscal year. As was announced and explained in the plan that was revised in August 2003, negative EBIT of € -11.8 million and a net loss for the year of € -9.9 million were recorded.

Prospects for 2004

We will be releasing at least 20 films, 9 of them in-house and co-productions and the remaining 11 third-party productions, to German theatres in 2004. The third-party productions include the last three films from the output deals that have been terminated. The adverse impact on earnings that is anticipated was already taken into account in the 2003 financial statements.

Lost in Translation, Sofia Coppola’s brilliant comedy featuring Bill Murray (**Groundhog Day**), Scarlett Johansson (**The Horse Whisperer**) and Giovanni Ribisi (**Heaven**), got our new distribution year off to a very positive start. More than 810,000 visitors to German theatres have already given this film an enthusiastic reception since it was released on January 8, 2004 with only 90 copies. **Lost in Translation** won as many as three awards at the 61st Golden Globe ceremony in Los Angeles at the end of January (“Best Comedy”, “Best Screenplay” and “Best Actor”). Sofia Coppola has in the meantime been presented an Oscar for the “Best Screenplay” too.

Further highlights of our distribution programme apart from our in-house productions include the unique screen epic **The Passion of the Christ** directed by Mel Gibson that has been eagerly awaited all over the world (release date: March 18, 2004) and the new masterpiece by and with Michael "Bully" Herbig **(T)Raumschiff Surprise – Periode 1** (release date: July 22, 2004), a persiflage of space adventure movies.

We are particularly looking forward to the theatrical release of **Alexander** in the autumn of 2004. This historical film about Alexander the Great featuring such stars as Colin Farrell, Anthony Hopkins and Angelina Jolie was directed by Oscar prizewinner Oliver Stone.

We are convinced that our intensive development efforts will pay off in the 2004 theatrical productions. The joint exploitation operations with Highlight in the video and DVD sector will also help to strengthen our market position substantially and we are expecting our business to be stimulated by the successful integration of Constantin Entertainment too.

We are therefore planning a considerable increase in sales to more than € 180 million and positive EBIT of at least € 6 million in 2004.

The turbulence of the past year has taken its toll. Thanks to a responsible corporate policy, Constantin Film AG was one of the few German media companies that succeeded in confirming its position on the market.

We are making a confident start to 2004 owing to a team of creative, well-qualified staff, the intensive contacts we have maintained successfully for decades with the crucial people and companies in the global film business and our conservative financial policy.

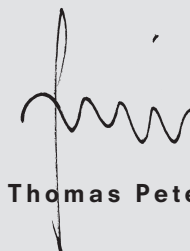
We would like to thank you for the confidence you have placed in us and look forward to a successful year in 2004.



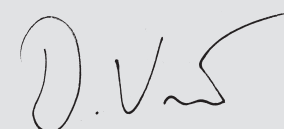
► **Fred Kogel** / Chairman of the Management Board; licence trading, legal affairs, human resources and TV entertainment



► **Martin Moszkowicz** / production



► **Thomas Peter Friedl** / sales, marketing, home entertainment and central services



► **Dr Daniel Wiest** / finance and accounting, investor relations



The Supervisory Board carried out its advisory and control assignment throughout the 2003 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 held a total of eight meetings in the 2003 fiscal year, at which it 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 on the basis of reports by the Management Board, discussing these issues with the Management Board afterwards too.

The subjects that the Supervisory Board focussed on in particular in the 2003 fiscal year included the signing of the pool agreement between the shareholders Bernd Eichinger and Highlight Communications AG, Pfäffikon/Switzerland, in June 2003 and their joint mandatory offer to the shareholders of Constantin Film AG. The Supervisory Board gave close attention to this new shareholder structure and its consequences for the company at several meetings before and during the implementation of the mandatory offer. Another emphasis in the activities of the Supervisory Board was the company's acquisition of an interest of 61 per cent in the share capital of Constantin Entertainment GmbH (previously KirchMedia Entertainment GmbH). This interest was acquired at a time when Mr Fred Kogel was

no longer a member of the Supervisory Board. In addition to this, the Supervisory Board dealt in particular with several in-house productions as well as with the future exploitation strategy of the company in the home entertainment rights field in the 2003 fiscal year. The Supervisory Board also reviewed the ongoing development of corporate governance by the company and its compliance with the recommendations of the German Corporate Governance Code. The statement specified in § 161 of the German Companies Act (AktG) that has been issued by the Management Board and the Supervisory Board of Constantin Film AG is being made available to the shareholders on a permanent basis in the Internet (www.constantin-film.de).

After Mr Bernd Eichinger had been appointed to be a member of the Supervisory Board by the registration court on January 3, 2003, the Supervisory Board approved the contracts between the company and/or the Group companies and Mr Eichinger that had already been in existence before he was appointed to be a member of the Supervisory Board as well as further contracts that needed to be concluded at its meeting on March 27, 2003. In view of the conflict of interest situation, Mr Bernd Eichinger abstained from voting when the relevant decisions were taken by the Supervisory Board.

Following its establishment in December 2002, the Audit Committee started its work in February 2003 and met a total of four times in the 2003 fiscal year. Following the end of both the 2002 fiscal year and the 2003 fiscal year, it studied the financial statements of

Constantin Film AG and the Group, reviewed the risk monitoring system and discussed the audit reports 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 2003 fiscal year. On the basis of his audit, 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 reports by the auditor were submitted to and examined by the Supervisory Board. The Supervisory Board discussed these documents 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 2003 fiscal year were raised after the Supervisory Board subsequently completed its own internal review either. At its meeting on March 24, 2004, the Supervisory Board approved the financial statements of Constantin Film AG submitted by the Management Board and the consolidated financial statements; the financial statements of Constantin Film AG have therefore been adopted.

Since there is no control contract with the majority shareholder, the Management Board of Constantin Film AG was obliged to prepare a report about the relationships to affiliated companies in accordance with § 312 of the German Companies Act (AktG). This report covered the relationships to the Highlight Group and the companies that belong to the Constantin Group. The Management Board states in accordance with § 312 paragraph 3 of the AktG that the company received reasonable compensation for the legal transactions that were carried out on the basis of the circumstances known at the time. No activities that required reporting were carried out in the 2003 fiscal year.

Following Mr Franz Jung's resignation from 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 in order to complete the number of six members of the Supervisory Board stipulated by the articles of association until the Annual Shareholders' Meeting held an election. Mr Fred Kogel resigned his position as Chairman and member of the Supervisory Board with effect from the end of March 26, 2003. Mr Bernd Eichinger was elected Chairman of the Supervisory Board at the meeting of the Supervisory Board held on March 27, 2003. Mr Bernhard Burgener resigned from his position as a member of the Supervisory Board with effect from the end of June 27, 2003 and Mr Werner E. Klatten and Mr Herbert Schroder resigned from their positions as

members of the Supervisory Board with effect from the end of June 30, 2003. In a decision taken on July 23, 2003, the registration court appointed Mr Martin Wagner, lawyer, Rünenberg/Switzerland, to be a temporary member of the Supervisory Board of the company until the Annual Shareholders' Meeting held an election. Mr Marc Conrad, film producer, Cologne, Mr Bernd Eichinger, film producer, Munich, Mr Marco Syfrig, lawyer, Horgen/Switzerland, Mr Martin Wagner, lawyer, Rünenberg/Switzerland and Mr Franz Woodtli, businessman, Laufen/Switzerland, were then elected to be members of the Supervisory Board at the Annual Shareholders' Meeting held on August 29, 2003. The Supervisory Board confirmed Mr Bernd Eichinger in his office as Chairman of the Supervisory Board; Mr Martin Wagner was elected to be Deputy Chairman of the Supervisory Board. Mr Marco Syfrig resigned from his position as a member of the Supervisory Board of the company with effect from the end of February 24, 2004.

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 2003.

Munich, March 2004



► **Bernd Eichinger** / Chairman of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD*

Bernd Eichinger / Chairman // Film producer
Martin Wagner / Deputy Chairman // Lawyer
Marc Conrad // Film producer
Prof Dr Günter Rohrbach // Independent producer
Marco Syfrig // Lawyer
Franz Woodtli // Businessman

* See also the notes to the consolidated financial statements, page 46

COMPANY PORTRAIT – STRENGTHS AND STRATEGY

The name “Constantin Film” has stood for success in the German and international film industry for 25 years now. This exceptional achievement is closely associated with the person of Bernd Eichinger, who took over responsibility for the company in 1979 and has developed it steadily ever since then.

Constantin Film succeeded in positioning itself impressively on the international film production market 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**. In 2002 we achieved further global success with the action horror thriller **Resident Evil** (worldwide box office receipts of more than USD 100 million, USD 40 million of them in the USA alone); we built on this success by producing the sequel (**Resident Evil – Apocalypse**) in 2003.

6 of the top 10 German blockbusters of the last 20 years were produced by Constantin Film; 20 of the top 50 German theatrical films since 1984 were released to German theatres by the company. 10 of the 25 most successful theatrical films of the past ten years were distributed by Constantin Film. (Source: Top 50 List since 1984, SPIO statistics)

Constantin Film AG with its subsidiaries and associated companies has established itself as by far the most successful independent German production and distribution company since it was founded in 1979 and went public in 1999.

Constantin Film led the independent German distribution market by a long way in 2000, 2001 and 2002. In the 2003 distribution year, we occupied 2nd place with 5.9 million theatrical admissions and a market share of 4.2 per cent – due to a difficult market situation and a poorer product range.

The film highlights that Constantin Film has released in recent years include the most successful German film ever (**Manitou’s Shoe**) and further in-house German productions like the screen epic **Nowhere in Africa** that won an Oscar, the comedies **Mädchen, Mädchen!**, **Harte Jungs, Knallharte Jungs, Erkan & Stefan** and **Werner – Gekotzt wird später!** as well as the family entertainment productions **Bibi Blocksberg, Emil und die Detektive, Das fliegende Klassenzimmer** and **Sams in Gefahr**. Blockbusters such as **The Sixth Sense** 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**, the film **8 Women** that we distributed and the drama **City of God** that was nominated for several Oscars.

Constantin Film’s partners include many well-known and experienced German producers such as our subsidiaries Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Engram Pictures GmbH, Rat Pack Filmproduktion GmbH, Westside Filmproduktion GmbH and Constantin Entertainment GmbH as well as Bavaria Filmverleih- und Produktions-GmbH, Claussen & Wöbke Filmproduktion GmbH, Ulrich Limmer’s collina Filmproduktion GmbH, Hofmann & Voges Entertainment GmbH and Helmut Dietl’s Diana Film GmbH. It is particularly important to us in this context to

forge close ties between successful German artists and our company. We are therefore delighted that we are able to continue our extremely productive cooperation with Michael “Bully” Herbig following **Manitou’s Shoe** and will be releasing his new theatrical film (**T**)**Raumschiff Surprise – Periode 1** to German theatres in the summer of 2004. Longstanding intensive contacts to the most important nationally and internationally respected authors, directors and actors are another elementary feature of our successful film business.

In recent years, we have expanded Constantin Film’s distribution operations systematically into a mainstream business that is involved in all the interesting areas – our film portfolio includes the complete range, from art house products to comedies, family entertainment and horror thrillers. We have been positioning ourselves more and more intensively on what is known as the art house market for over two years now, for example, because we are convinced that this market, which in particular attracts a somewhat older and more sophisticated public, still has considerable growth potential in Germany. Such successes as **8 Women, The Hours, Swimming Pool** and **Lost in Translation** are confirmation of this strategy.

We obtain the minimum number of about 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. Since the licence market is

cooling down more and more – in 2003 as well – following the hype years, not least of all because of the large reduction in the number of German competitors for film rights, it is now possible to buy individual films sensibly on a pick-up basis again. This means that we will be able to cover our future film requirements without what are known as “output deals” again. In fiercely competitive times, output deals guaranteed the supply of a specific number of films for a price that was arranged in advance (normally a percentage of the production costs), but they restricted quality and cost control considerably at the same time. We already reduced the number of films from output deals substantially in our distribution programmes for 2002 and 2003. We will be distributing the final three films from output deals to German theatres in 2004 – after this, we will not have any firm distribution commitments any more.

One of Constantin Film’s most important strategic objectives is and will remain the expansion of national and international in-house production operations. It enables us to become more independent from third-party products and thus from other producers. What this means specifically for 2004 is that we intend to complete six to eight film productions in the German-speaking theatrical in-house and co-production field and probably two productions at the international level. International products have become increasingly important in our in-house production operations in recent years and this area will be continuing to grow in the next few years too.

Constantin Film has an effective and successful structure for the production of fiction TV programmes

as well, thanks to its subsidiaries Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Rat Pack Filmproduktion GmbH, Westside Filmproduktion GmbH and Engram Pictures GmbH.

We incorporated TV show and series production operations in the Constantin Group for the first time in September 2003, when we acquired 61 per cent of the shares in KirchMedia Entertainment GmbH from Taurus Produktion GmbH, a wholly-owned subsidiary of the insolvent company KirchMedia GmbH & Co. KGaA (KirchMedia), which is in the process of being liquidated. KirchMedia Entertainment GmbH has been renamed **Constantin Entertainment GmbH**. It is one of the most successful German companies in this market segment, with such productions as the daily formats **Das Strafgericht** for RTL, the court show **Richter Alexander Hold** and the crime documentary/detective show **Lenßen & Partner** for SAT.1 stations, which are market leaders in their individual slots. They are supplemented by event shows, such as **Lego-Show** or **Hit Giganten**, the most successful SAT.1 shows in 2003. Mr Fred Kogel continues to own an interest of 30 per cent in the company following the entry of Constantin Film, while the remaining 9 per cent of the company shares are held by the management of Constantin Entertainment GmbH.

Another positive development is the intensification of our TV licence sales, which used to be carried out by KirchMedia for practically all of Constantin Film’s TV rights. This means that Constantin Film AG is now responsible for complete exploitation at all rights levels again, i.e. we exploit the pay TV rights directly via Premiere or the video-on-demand (VOD) rights via

T-Online, for example. The co-operation in the VOD field arranged with T-Online in October 2003 gives us access to an innovative new sales channel. We are convinced that digital distribution will become increasingly significant in future – something that is being demonstrated by the growth in Internet piracy, among other things. Chronologically speaking, VOD comes before pay TV rights in the exploitation chain, although it still follows theatrical and video/DVD exploitation.

We will be able to benefit from the success potential of the growing home entertainment market in future on the basis of the co-operation agreement concluded with Highlight Communications AG in November 2003: since January 1, 2004, Constantin Film AG has been exploiting the video and DVD rights to in-house productions and licensed films independently. We are of the opinion that the possible synergies with our core business have grown considerably as home entertainment exploitation has developed. In addition to this, we have secured a stable supply of video licences with what is in the meantime a constant number of 20 to 25 films a year, which are being exploited in close co-operation with Highlight Communications AG. Highlight acts as the service partner here, assuming responsibility for operational marketing and sales.

Broadening our core operations of film production and film distribution by expanding and intensifying TV entertainment production, home entertainment and licence trading as three further areas of business helps to continue reducing the volatility of our business – an excellent basis for increasing sales and profit margins.

**THE STOCK MARKET IN 2003:
RALLY AFTER A DIFFICULT START**

At the beginning of 2003, it appeared that the stock markets would turn out to be a further disappointment following the substantial drops in share prices in 2000, 2001 and 2002. In the first quarter, stock markets were hit considerably by uncertainty attributable to the Iraq conflict and the DAX reached its lowest level since 1996 on March 12, 2003, when it stood at 2,189 points.

In the USA too, the Dow Jones dropped close to the lowest price level since September 11, 2001 at 7,417 points. The war against Iraq began on

March 20, 2003. Stock markets all over the world started a sustained recovery once it became clear that the war would be ending unexpectedly quickly.

Share prices rose emphatically in some cases, in spite of further delays in the economic upturn, ongoing uncertainty in Iraq, the lung disease SARS and the continuing weakness of the dollar.

The global political situation stabilised as the year went on, while the signs of an economic recovery strengthened the confidence and optimism of market players and prompted impressive increases in share

prices up to the end of the year. Most stock exchanges around the world improved by about 20 per cent last year. Japan managed to leave its stock market slump for the first time in 13 years; the Dow Jones index for blue chips in the USA went up by 25 per cent over the year and the Nasdaq technology exchange reported a 51 per cent increase. The DAX in Germany closed on December 31, 2003 37 per cent higher than at the end of the previous year on 3,965 points. The TecDax, which was established by Deutsche Börse as the successor to the NEMAX 50, increased by more than 51 per cent between its start on March 24, 2003 and the end of the year.

▶ **PERFORMANCE COMPARISON from 13.09.1999 to 31.12.2003 / in per cent**

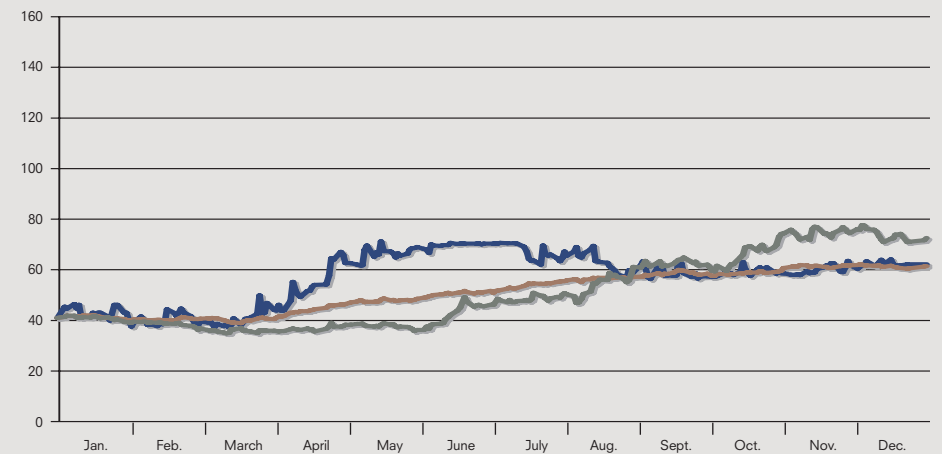


13.09.1999 / Issue price € 29.00

31.12.2003 / Final price € 3.92

- Constantin Film Xetra weighted
- SDAX Performance Index weighted
- Prime Media Performance Index weighted

▶ **PERFORMANCE COMPARISON from 31.12.2002 to 31.12.2003 / in per cent**



31.12.2002 / Final price € 2.56

31.12.2003 / Final price € 3.92

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

THE CONSTANTIN FILM SHARE

In line with the market as a whole, the price of the Constantin Film share, which has been listed in the Prime Standard since the beginning of 2003, was volatile in the initial months of the year. The low for the year of € 2.32 was reached in the first week of March. The share price then increased by 40 per cent to € 3.25 by mid-April. After this, the price of the share was influenced more by corporate factors than by general market or stock exchange developments. Highlight Communications AG acquired the 16.4 per cent interest held in Constantin Film AG by EM.TV & Merchandising AG on April 23, 2003 and the share price jumped by 12 per cent to more than € 4.00 within a day. The high for the year of € 4.50 – an increase of 76 per cent over the beginning of the year – was reached in mid-May. The share remained at this level for a number of weeks following the pool agreement concluded between Bernd Eichinger and Highlight Communications AG on June 5, 2003 and the mandatory offer both these shareholders made to all the Constantin Film AG shareholders on June 12, 2003. After the publication of the figures for the first half of the year and changes in the plans for 2003 as a whole in mid-August, the share price dropped below the € 4.00 mark and stayed in this area with minor fluctuations until the end of the year. The share ended the year at a price of € 3.92 on December 31, 2003, which represented a substantial increase of 53 per cent by comparison with December 31, 2002.

Intensive communication with institutional and private investors, financial analysts and representatives of the business press was maintained again throughout the stock exchange year in 2003 with the help of roadshows, telephone conferences and regular press releases. The management held the annual conference for analysts in the autumn of 2003 at the German Equity Forum organised in Frankfurt by Deutsche Börse, which attracted a record number of participants.

The number of studies published about Constantin Film decreased last year too due to the large reduction in the teams of analysts deployed by banks in the media field. Four teams followed our share in 2003 and two further analysts have compiled studies for the first time in the new year. All of the three most recent studies recommended that the share is bought.

► PRICES / in €, indicating the final Xetra prices

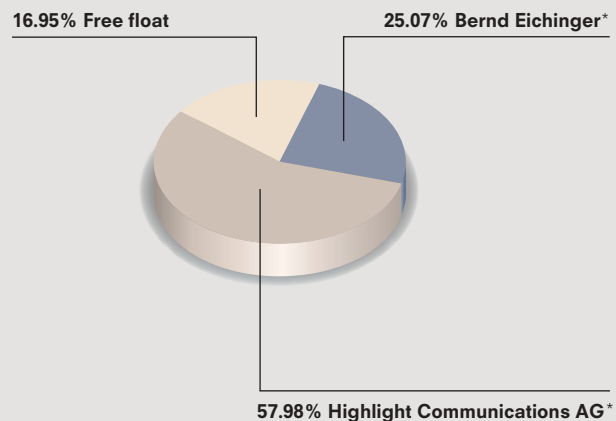
Number of shares on 31.12.2003	12,742,600
Issue price on 13.09.1999	29.00
Year-end price in 1999	42.50
Year-end price in 2000	19.29
Year-end price in 2001	4.04
Year-end price in 2002	2.56
Highest price on 15.05.2003	4.50
Lowest price on 06.03.2003	2.32
Year-end price in 2003	3.92

THE CONSTANTIN FILM AG SHAREHOLDER STRUCTURE

The total number of shares in Constantin Film AG was 12,742,600 on December 31, 2003. Bernd Eichinger held 25.07 per cent, Highlight Communications AG 57.98 per cent and the free float, i.e. the proportion of the shares that is traded freely, was 16.95 per cent.

Highlight Communications AG committed itself to limit its holding in Constantin Film AG to a maximum of 50.10 per cent in the shareholders' agreement that was concluded on June 5, 2003. The free float is to be increased to 24.83 per cent in the short term by selling the 7.88 per cent of the shares that were acquired additionally via the mandatory offer in such a way that the market is not disrupted.

▶ SHAREHOLDER STRUCTURE AS PER 31.12.2003



* The shares were pooled by a shareholders' agreement of June 5, 2003.

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

Dr Daniel Wiest sold 2,267 Constantin Film AG shares in the context of the mandatory offer made by Highlight Communications AG and Bernd Eichinger that ended on July 14, 2003. The members of the Management and Supervisory Boards of the company did not carry out any other securities business transactions in the period between January 1, 2003 and December 31, 2003. The company did not hold any of its own shares on December 31, 2003.

Shares and options held by the members of the Management and Supervisory Boards on December 31, 2003:

Fred Kogel 6,150 shares, Thomas Peter Friedl 29,400 options, Martin Moszkowicz 32,000 options, Dr Daniel Wiest 29,200 options, Bernd Eichinger 3,194,630 shares, Marc Conrad 1,500 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 2003

The German economy declined for the first time since 1993 last year. The war in Iraq, the global economic slump and the uncertainty felt by both consumers and companies depressed overall economic performance in 2003.

The Gross Domestic Product increased by 0.2 per cent over the previous year in 2002. According to information provided by the German statistical authorities, the German Gross Domestic Product (GDP) decreased slightly in real terms by 0.1 per cent over the previous year in 2003.

Exports increased by 1.1 per cent in 2003, while imports were 2.0 per cent higher. In real terms, German consumers spent 0.2 per cent less, after private consumption had already dropped by 1.0 per cent in 2002. This economic performance was achieved by 38.3 million employed persons last year; this was 392,000 or 1.0 per cent fewer than in the previous year.

According to the German employment authorities, the average number of unemployed in 2003 was 4.37 million, which was an increase of 315,700 or 8.0 per cent by comparison with the previous year. The unemployment rate on the basis of all people in civilian employment amounted to 10.5 per cent (previous year: 9.8 per cent).

The inflation rate was lower than in the previous year and amounted to 1.1 per cent on average in 2003, according to the calculations made by the German statistical authorities. This was the lowest level since 1999.

Economic experts are forecasting economic growth of 1.5 to 2.0 per cent for 2004 – more than in the past three years together. Their hopes are based primarily on export business, which is expected to benefit from the strong upswing in the global economy.

MARKET DEVELOPMENT

Theatrical market

2003 was a theatrical year with ups and downs. In addition to the economic recession, the increasing amount of film piracy, the excellent summer weather that lasted from April until September and a poorer overall product range led, on the one hand, to comparatively low sales and admission figures. With 149.0 million theatrical admissions in 2003, 9.1 per cent or 14.9 million fewer admissions were recorded than in the previous year. Sales totalled € 850 million and were therefore € 110 million lower than in the previous year; this corresponds to a reduction of 11.5 per cent.

According to the FFA statistics, German films succeeded in increasing their market share considerably to 17.5 per cent (previous year: 11.9 per cent), in spite of the large reduction in the total number of admissions. German films accounted for up to 31 per cent of admissions in the months of March, October and November. The previous year's performance (19.0 million admissions) was exceeded by

6.3 million or 33.2 per cent with a total of 25.3 million admissions. As many as five German films attracted more than one million admissions in 2003 compared with only three films in 2002: **Good bye, Lenin!** (6.4 million), **Das Wunder von Bern** (3.2 million) and **Luther** (2.3 million) as well as the Constantin films **Das fliegende Klassenzimmer** (1.9 million) and **Werner – Gekotzt wird später!** (1.1 million). German films are more attractive than ever before at the international level too. Following the Oscar for the Constantin Film production **Nowhere in Africa**, the European Film Prize and the French César for **Good bye, Lenin!**, a German film – Fatih Akin's **Gegen den Wind** – succeeded in winning the Golden Bear at the 2004 Berlinale recently after a gap of eighteen years.

Statistically speaking, every inhabitant of Germany bought 1.81 theatre tickets in 2003, which is slightly less than in the previous year. The average ticket price was € 5.70; this represents an average reduction of 2.7 per cent or 16 cents by comparison with the previous year.

The decline in the number of theatrical admissions did not have any impact on the number of theatre screens at the end of 2003: the number of new theatres opened and existing ones reopened corresponded to the number of closures, so that there was no change in the number of theatre screens in Germany (4,868); the only difference was a reduction of 7,000 to 878,000 seats.

Germany was not the only country to report an average performance for the 2003 theatrical year. The cinema market all over the world reacted to the decline in the economy and the poorer film range in 2003. France, Great Britain, Italy and Spain recorded lower box office

receipts, while a reduction in box office receipts was registered in the USA as well for the first time following eleven years of uninterrupted growth.

The increasing amount of film piracy had a particularly strong impact on the industry's sales and admission figures. A survey by the FFA (Brenner-Studie 2, 11/03) based on interviews with 10,000 participants proved that there is an increasing trend towards copying films. About 30.3 million feature films were, for example, copied onto data storage media by 5.1 million users in the period between January and August 2003. The corresponding figure for the whole of 2002 was only about 27 million films. Illegal copying in its various forms, from unauthorised private downloading and the exchange of DVDs between schoolchildren to criminal commercial duplication on a mass scale, represents a tremendous threat to all forms of film exploitation. According to industry estimates, German film and video distributors lost sales of more than € 800 million last year as a result of the increasing circulation of illegal copies.

TV market

Following a poor start in the first three months, the German advertising market recovered slowly in the course of 2003 and recorded substantial growth of 10.0 per cent over the previous year (Nielsen Media Research, January 2004) in December, although there were seasonal reasons for this.

The television industry generated the highest advertising sales of the classic media (€ 7.4 billion). This corresponds to gross growth of 2.7 per cent over 2002. Cost pressure at the stations remained as high as

ever. This had the particular effect on the industry last year of order and budget reductions in in-house production and licence acquisition business. There is a trend in rights trading toward adoption of a pick-up acquisition strategy with the focus on individual films instead of the conclusion of large output deals, with the emphasis in film selection continuing to be on the target groups of interest to advertisers.

The German television market continues to be characterised 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.

KirchMedia GmbH & Co. KGaA, which has been insolvent and in the process of liquidation since April 2002, was able to announce positive news again in August 2003 too: in liaison with a group of investors, the Saban Capital Group took over a majority interest in ProSiebenSat.1 Media AG at the second attempt for € 525 million. Other companies in the KirchMedia portfolio, such as Janus Filmproduktion GmbH, neue deutsche Filmgesellschaft mbH (ndF) or DSF, were sold to industry investors. Negotiations about a sale of the rights to the film and television library that are still available are continuing at the present time.

The station RTL succeeded in remaining overall market leader for the fifth year in a row in 2003 with a viewer market share of 14.9 per cent. The public stations

maintained their second and third positions in spite of small losses in each case: ARD had 14.0 per cent of the market and ZDF 13.2 per cent. SAT.1 managed to record growth again for the first time since 1999 with 10.2 per cent of the total viewer market. ProSieben, on the other hand, stagnated at 7.1 per cent.

Television consumption in Germany increased slightly last year. Every German watched television for an average of 203 minutes per day and thus spent two minutes longer in front of the TV than in 2002. According to figures compiled by the GfK consumer, market and sales research company, the largest increase among the individual target groups was by the 14- to 29-year-olds. This target group watched television for an average of 137 minutes a day in 2003, six minutes longer than in 2002. TV consumption by 14- to 49-year-olds, the group of interest to advertisers, increased to a disproportionately large extent by five minutes to 182 minutes last year.

Video/DVD market

In spite of the excellent summer weather and the large increase in piracy, the home entertainment industry managed to achieve record sales again for the fourth year in succession in 2003. According to data compiled by GfK on behalf of BVV (the German audiovisual media association), the sale and rental of DVDs and VHS videos produced total turnover of € 1.5 billion, which corresponds to further growth of 11.0 per cent after € 1.4 billion in 2002.

This sales success is attributable in particular to the DVD boom, which more than made up for shortfalls with VHS videos: DVDs worth € 1,053.3 million were

sold, for example – almost 48 per cent more than in 2002. Sales of VHS cassettes, on the other hand, decreased by 39.1 per cent to € 199.6 million. With total sales of 84.9 million cassettes and discs, three of every four were DVDs (75.5 per cent), with which 84.1 per cent of the total revenues were generated.

Video stores suffered a drop of 15.8 per cent to € 302.1 million in rental sales last year (2002: € 358.6 million). Sales in the rental market account for somewhat less than one fifth of the total market sales at 19.4 per cent. The reduction in rental transactions of 17.0 million to only 113.6 million in 2003 demonstrates how hard video stores in particular are being hit by the spread of illegal copies. This was the poorest year since the GfK began its analyses in 1985. The trend towards DVDs is continuing at video stores too: in more than seven out of every ten rental transactions (70.2 per cent), video store customers are choosing DVDs in the meantime.

POSITION OF THE GROUP

PRODUCTION OPERATIONS

Project development

More than 80 German and English film projects are currently at different stages of development by Constantin Film and its subsidiaries or associated companies. It is essential that the development volume is expanded steadily, as the basis for a further increase in our production output to be made as planned. Our English and American Group companies act as a particularly valuable interface to the international production market in this context.

Theatrical productions

A start was made on filming twelve in-house and co-productions in 2003, including the major Bernd Eichinger production **The Downfall**, the international in-house production **Resident Evil – Apocalypse**, the sequel to our global theatrical hit **Resident Evil**, and the action comedy **Autobahnraser**.

We completed **Sams in Gefahr** in the summer of 2003 in co-production with collina Filmproduktion GmbH and it has received an enthusiastic response since it was released to theatres in December 2003, reaching more than one million admissions.

Our subsidiary Olga Film GmbH produced the comedy **Mädchen Mädchen 2** (provisional title), with Diana Amft, Caroline Herfurth and Jasmin Gerat in the leading parts, as well as the drama **Napola** with Tom Schilling and Dennis Gansel as the director.

We finished shooting of the theatrical productions **Der Wixxer** and **Jazzclub – Der frühe Vogel fängt den Wurm** in 2003 with our subsidiary Rat Pack Filmproduktion GmbH.

Filming of **Kammerflimmern**, the German theatrical co-production with Bavaria Filmverleih- und Produktions-GmbH that is being produced by Uschi Reich, was completed in October 2003 with Hendrik Hölzemann as director.

Further co-productions in the 2003 fiscal year were the turbulent high school comedy **Die Nacht der lebenden Loser** (director: Mathias Dinter) with

Hofmann & Voges Entertainment GmbH, the family entertainment production **Sergeant Pepper** (provisional title) under the direction of Sandra Nettelbeck with MTM (Medien & Television München GmbH) and Bavaria Filmverleih- und Produktions-GmbH (among others) and **Polly Pinn**, a co-production with Equinox Film GmbH & Co and magnolia Filmproduktion GmbH, with Tomy Wigand as director.

TV productions

In 2003, our subsidiary MOOVIE – the art of entertainment GmbH produced 13 programmes for the second series of the sitcom **Bewegte Männer** (director: Michael Zens; producers: Oliver Berben and Herman Weigel). We have established the “TV sequel” to our theatrical hit **Der bewegte Mann** (6.6 million admissions) successfully on television as a result.

Filming of the two-part romantic comedy **Reiche Witwen küssen besser** (director: Carlo Rola) featuring Iris Berben and Peter Sattmann was completed for SAT.1. MOOVIE also produced three more programmes for the popular ZDF thriller series **Rosa Roth** (director: Carlo Rola) with Iris Berben in the lead: **Rosa Roth – Kolibri**, **Rosa Roth – Freundeskreis** and **Rosa Roth – Flucht nach vorn**. The two-part documentation **Und jetzt, Israel?** – a very personal account by Iris Berben – is being aired by ZDF on April 9, 2004.

Our subsidiary Rat Pack Filmproduktion GmbH produced **Ratten 2 – Bis das Blut gefriert** (director: Jörg Lüdorf), the sequel to the successful thriller **Ratten – Sie werden dich kriegen**, for ProSieben. Further productions by Rat Pack Filmproduktion GmbH/

Westside Filmproduktion GmbH in 2003 were **Kalkofes Ost-West Special**, the TV comedy **Was nicht passt, wird passend gemacht** and the comedy **Déjà vu** (director: Stefan Holtz).

We produced the TV thriller **Untreu** aka **Die Stimmen 2** (director: Rainer Matsutani) with Mariele Millowitsch in the leading part, for RTL with our subsidiary Olga Film GmbH.

We also produced the fourth series (eight more programmes) of the popular sitcom **Hausmeister Krause** with Tom Gerhardt in the main role in 2003.

FILM DISTRIBUTION AND LICENCE TRADING OPERATIONS

Theatrical distribution

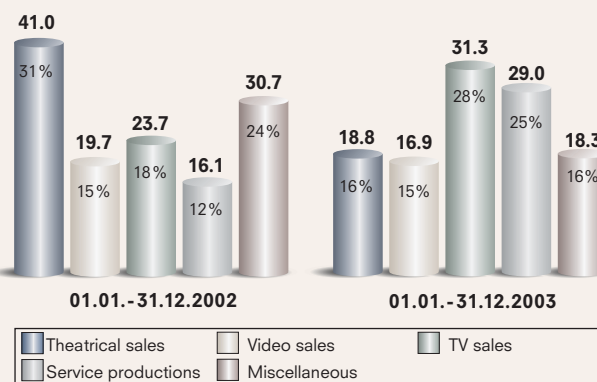
Constantin Film distributed 20 films in the year under review, with which 5.9 million theatrical admissions were achieved. The German family entertainment productions **Das fliegende Klassenzimmer** (director: Tomy Wigand) and **Sams in Gefahr** (director: Ben Verbong) were particularly successful. Our co-production **Werner – Gekotzt wird später!** received an enthusiastic response, with 1.1 million theatrical admissions. In our art house segment, the thriller **Swimming Pool** (director: François Ozon) and the film **City of God** that was nominated for four Oscars were two of the extremely successful projects.

We also released the martial arts production **Hero**, our international in-house production **Wrong Turn** and the coming-of-age film **Die Klasse von '99 – Schule war gestern, Leben ist jetzt**. As part of our service contract

with RTL, we released the thriller **Basic**, the animation film **Spirited Away, Killing Me Softly, And Now ... Ladies and Gentlemen** and **Abgezockt** to German theatres. We released the drama **The Hours**, for which Nicole Kidman was awarded an Oscar for her performance as leading actress, for Highlight Communications AG.

The sales generated in theatrical distribution amounted to € 18.818 million in the year under review (previous year: € 41.013 million) and therefore accounted for 16 per cent of total sales volume. Total theatrical sales were € 22.195 million lower than in the previous year. The proportion of sales accounted for by in-house productions was 35 per cent. These overall figures demonstrate the weakness of the product range compared with the previous year, as regards both the Constantin productions and the third-party films distributed in 2003.

SALES BREAKDOWN / in € million



in % of total sales

Video/DVD exploitation

The Constantin Group generated sales of € 16.890 million (previous year: € 19.706 million) in the video/DVD segment in 2003. Sales of € 14.099 million (previous year: € 14.239 million) were achieved with the in-house productions. The video sales revenues from international exploitation of the film **Resident Evil** contributed most to this performance in 2003. Further films that were exploited successfully were **Nackt, 8 Women** and **Manitou's Shoe**. Third-party productions accounted for sales of € 2.791 million (previous year: € 5.467 million).

TV exploitation

Sales from the licensing of TV rights to theatrical films are not realised until legal or contractually agreed hold-back periods have expired (with pay TV 15 - 18 months after theatrical release, with free TV after 18 to 24 months). The TV sales in 2003 were attributable to films that were released to theatres in 2001 and 2002 as well as to revenue from licences for purely TV productions and TV service productions.

€ 19.819 million (previous year: € 18.299 million) of the total TV sales of € 31.284 million (previous year: € 23.703 million) were accounted for by in-house and co-produced films.

These sales are attributable essentially to the licensing of TV rights to theatrical films like **Nowhere in Africa** and **The Calling** as well as to licences for the first series of the sitcom **Bewegte Männer** and the third series of the sitcom **Hausmeister Krause**. The income from the licensing of the TV rights to third-party productions primarily includes films like **Enemy at the Gates, One Night at McCool's, Not a Girl** and **The Score**.

Sales with service productions amounted to € 28.968 million in the year under review (previous year: € 16.125 million) and correspond to 25 per cent of total sales; they include the TV productions by our subsidiaries Olga Film GmbH, MOOVIE – the art of entertainment GmbH, Rat Pack Filmproduktion GmbH and Westside Filmproduktion GmbH as well as the revenues of € 19.324 million from the marketing of the non-fiction productions by Constantin Entertainment GmbH, which was consolidated for the first time in 2003.

RESULTS GENERATED IN THE CONSTANTIN FILM AG GROUP

The Constantin Film Group recorded sales of € 114.316 million in the 2003 fiscal year (previous year: € 131.214 million). This is a decrease of 13 per cent over the previous year. The TV operations were the biggest source of sales in 2003, contributing € 31.284 million (see the notes to the consolidated financial statements, page 41).

The other sales totalled € 18.356 million in 2003 (previous year: € 30.667 million). The subsidies received amounted to € 9.552 million (previous year: € 14.893 million). The other sales also include the sales of € 2.269 million (previous year: € 10.784 million) by INNOVUM Smart Products GmbH.

The costs of goods sold include depreciation charges that are risk provision for films that are being exploited in subsequent years. The risk provision of € 5.711 million for films in subsequent years relates to films that had not yet begun exploitation on the balance sheet date.

▶ CONSOLIDATED INCOME STATEMENTS / in € thousand 01.01.-31.12.2002 01.01.-31.12.2003

Sales	131,214	114,316
Costs of goods sold	111,974	105,026
Risk provision for films from subsequent years	976	5,711
Gross profit on sales	18,264	3,579
Selling expenses	2,000	2,640
General administration expenses	12,023	13,257
Other operating income	2,674	3,065
Other operating expenses	1,032	209
Amortisation of goodwill	525	1,574
Depreciation of tangible assets and amortisation of other intangible assets	593	758
EBIT	4,765	-11,794
Interest income	413	449
Interest expenditure	2,879	307
Income/expenditure from/by associated companies and other equity interests	-4,196	11
Exchange rate profits/losses	-3,085	-1,912
Result before tax and minority interests	-4,982	-13,553
Taxes on income	3,697	4,835
Other taxes	0	-227
Result before minority interests	-1,285	-8,945
Minority interests	202	-966
Net income/loss for the year	-1,083	-9,911
Earnings per share in €	-0.08	-0.78
Average number of shares in circulation	12,742,600	12,742,600

The earnings before interest and tax (EBIT) amounted to € -11.794 million. Corrected for the risk provision for films in subsequent years, EBIT totalled € -6.083 million. The negative earnings are attributable essentially to the lower sales than expected in the theatrical operations, to the depreciation charges because of shortfalls primarily with the last three films distributed on the basis of the output deals with Spyglass Entertainment and USA Films and to the change in valuation of the TV licences to take account of the poor market environment. Additional consulting costs were in addition incurred in the year under review in connection with the take-over by Highlight Communications AG. The goodwill of INNOVUM Smart Products GmbH was written down by € 1.058 million in the fourth quarter following an impairment test.

EBITDA amounted to € 51.954 million (previous year: € 58.334 million).

The interest expenditure of € 307,000 was incurred mainly due to the non-capitalisable financing costs in connection with the high investments in film assets. The interest balance amounted to € 142,000. Valuation of the foreign currency items led to an exchange rate loss of € 1.912 million. After allowing for these factors in the financial result, earnings before tax and minority interests amounted to € -13.553 million.

The main deferred tax effects were due to capitalisation of the film production costs (deferred tax expenditure), the increase in the accumulated losses at Constantin Film AG of € -13.606 million and the differences in sales realisation between the German Commercial Code (HGB) and IFRS (deferred tax income). The total deferred tax income amounted to € 5.405 million.

A net loss for the year of € -9.911 million was made due to the positive effect of taxes on income of € 4.835 million and after taking the minority interests into account.

FINANCIAL POSITION OF THE CONSTANTIN FILM AG GROUP

The balance sheet assets amounted to € 315.926 million on December 31, 2003, which is € 82.948 million higher than in the previous year.

The current assets amounted to € 119.424 million (previous year: € 119.656 million). The changes in the individual items are attributable essentially to consolidation of Constantin Entertainment GmbH for the first time.

The film assets totalled € 158.867 million on December 31, 2003 and were therefore 75 per cent higher than in the previous year (previous year: € 90.957 million). The significant increase is due mainly to the investments made in in-house and co-productions. Constantin Film values its film assets in accordance with the strict US GAAP standards (SOP 00/2). This involves capitalisation of the production and development costs and depreciation of them by the matching principle.

Investments in the film assets of in-house productions amounted to € 108.442 million on December 31, 2003 (previous year: € 34.289 million). This means that the volume invested in in-house productions increased by 216 per cent over the previous year. These productions included, for example, **Resident Evil – Apocalypse** (international theatrical in-house production), **The Downfall**, **Autobahnraser**, **Werner – Gekotzt wird**

später! (national theatrical in-house productions), the sitcoms **Bewegte Männer** (second series) and **Hausmeister Krause** (fourth series). Depreciation of in-house productions amounted to € 38.199 million. Film assets attributable to in-house productions therefore increased by € 70.243 million (109 per cent) to € 134.749 million compared with the previous year.

€ 20.884 million were invested in the acquisition of exploitation rights for distribution and licence trading (previous year: € 9.615 million). The investments in third-party films were offset by depreciation totalling € 23.217 million. The film assets attributable to third-party productions amounted to € 24.118 million on December 31, 2003 as a result (previous year: € 26.451 million).

Fixed assets were € 2.204 million higher than in the previous year. The change over the previous year is attributable mainly to consolidation of Constantin Entertainment GmbH for the first time.

► CONSOLIDATED FINANCIAL POSITION / in € thousand

	2002	2003
Balance sheet total	232,978	315,926
Equity	74,703	64,232
Total film assets	90,957	158,867
Film assets / in-house productions	64,506	134,749
Film assets / third-party productions	26,451	24,118
Investments in film assets	43,904	129,326
Depreciation of film assets	52,451	61,416
Funds	84,972	71,454
Funds minus liabilities to banks	30,121	-15,712

FINANCING

The Constantin Film Group had cash and cash equivalents of € 71.454 million on December 31, 2003, while bank liabilities totalled € 87.166 million. Net liquidity was € 45.833 million lower than on December 31, 2002. This change corresponds essentially to the investments in film assets.

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 € 43.369 million.

Equity decreased by € 10.471 million by comparison with the previous year and amounted to € 64.232 million on December 31, 2003. See the statement of changes in equity on page 27 for a detailed explanation. The theoretical equity ratio is 20 per cent (previous year: 32 per cent). If the cash and cash equivalents and the bank liabilities on December 31, 2003 as well as the film assets and the advance payments received are balanced, the adjusted equity ratio is 43 per cent (previous year: 68 per cent).

HUMAN RESOURCES

Consolidation of Constantin Entertainment GmbH for the first time increased the number of employees by 129, so that the Group had a total of 270 employees on December 31, 2003. Staff with temporary contracts to carry out specific projects are included in the total number if their employment contracts still have at least six months to run on the qualifying date.

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 (AktG).

▶ AG FIGURES / in € thousand

	2002	2003
Balance sheet total	83,206	68,067
Equity	72,463	58,857
Equity as a percentage of total capital	87%	86%
Income from continuing operations	37,893	-13,401
Net income/loss for the year	37,903	-13,606

RESULTS GENERATED BY CONSTANTIN FILM AG

The general administration expenses and the other operating expenses amounted to € 8.374 million and € 26,000. The other operating income and interest balance totalled € 4.016 million and € 932,000. Due to the profit and loss transfer agreements between Constantin Film AG and its subsidiaries, there was expenditure from loss transfers amounting to € 11.514 million and income from profit transfers of € 1.566 million. The earnings from continuing operations amounted to € -13.401 million. All in all,

Constantin Film AG reported a net loss for the year of € -13.606 million in the past fiscal year. This is attributable essentially to the large volume of the films produced in 2003 (**The Downfall**, **Autobahnraser**) and to the depreciation charges made because of impairment (see page 18 of the consolidated management report) in the case of the third-party productions.

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 2003. This continued to lead to a change in the general market conditions that affected sales prices as well as transaction volumes between companies. In the past, the Constantin Group has, however, managed to develop good 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.

The growing amount of piracy may lead to significant sales shortfalls. The increase in the number of illegal copies could have the effect that the number of box office admissions decreases and that the licence prices for home entertainment and the TV exploitation of films go down in future. Making viewers more aware of the situation, expanding legal Internet opportunities and supporting various associations that represent our interests are measures that Constantin Film has already taken.

2. Financial risks of film production

In-house and co-productions 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 € 7 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. There is also the risk involved when screenplay/filming rights are acquired that the future exploitation revenues after the productions in question have been completed have to cover the costs of acquiring these rights too. The legal effectiveness of the screenplay/filming rights has to be evaluated in this context as well. The company has acquired the rights to film **The Perfume** from Bernd Eichinger, as was already explained at the last Annual Shareholders’ Meeting. The acquisition was made with the approval of the Supervisory Board and after careful consideration by the Management Board, including external expertises and observing all the legal regulations. Since an intensive review was made in particular of the issues of the appropriateness of the purchase price and the legal effectiveness of the contract before the acquisition was made, the Management Board is convinced that the acquisition was made legally effectively. 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 the licences obtained are, on the other hand, received mainly in euros. The revenues from the exploitation of our international film productions are received essentially 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 2003 to make sure that the Constantin Film quarterly reports and 2003 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.

REPORT ABOUT THE RELATIONSHIPS TO AFFILIATED COMPANIES

The Management Board compiled its report about the relationships between the company and affiliated companies and submitted it to the Supervisory Board with the report prepared by the auditor. The auditor issued the following certificate:

“On the basis of the audit and evaluation we have made in accordance with professional standards, we confirm that

1. the factual details of the report are correct,
2. the payments made by the company in respect of the legal transactions listed in the report were not unreasonably high.”

The review of the report by the Supervisory Board did not lead to any objections being made. The Supervisory Board therefore agrees with the findings of the auditor. No objections need as a result to be raised about the

statement of the Management Board about the relationships between the company and affiliated companies.

PROSPECTS

So far we are planning 20 theatrical releases in the 2004 distribution year: 9 in-house and co-productions, 3 films from output deals and 8 films from pick-up deals.

The high-quality international films in our distribution programme this year include **21 Grams** (release date: 26. February), an unusual drama about love, deception, death, guilt and revenge. This work was artistically staged by the director Alejandro González Iñárritu, who received an Oscar nomination for **Amores perros**, and tells the story of three people, played by Sean Penn (**Mystic River**), Benicio Del Toro (**Traffic**) and Naomi Watts (**Mulholland Drive**), whose fates are irrevocably linked by a tragic accident. **21 Grams** was nominated for an Oscar this year in the two categories “Best Leading Actress” (Naomi Watts) and “Best Supporting Actor” (Benicio Del Toro).

Mel Gibson’s unique screen epic **The Passion of the Christ** shows the last 12 hours in the life of Jesus Christ with chilling authenticity and stunning scenes. This moving masterpiece with Jim Caviezel (**The Thin Red Line**) in the lead, is being distributed to German theatres by Constantin Film starting on March 18.

We are also releasing the unusual little romantic comedy **Eternal Sunshine of a Spotless Mind** on May 13, which stars such top actors as Jim Carrey (**Bruce Almighty**), Kate Winslet (**Titanic**), Tom

Wilkinson (**The Patriot**), Kirsten Dunst (**Spiderman**) and Elijah Wood (**The Lord of the Rings** trilogy).

Director and action specialist Alexander Witt has staged an exciting and action-packed sequel to our horror thriller **Resident Evil** that has been a global success with the Constantin Film in-house production **Resident Evil – Apocalypse** which is being released in the USA in September and to German theatres on October 7.

Following the great success we achieved with both the public and the press with the martial arts epic **Hero**, we are releasing **House of the Flying Daggers**, the new masterpiece by the Oscar-nominated director Zhang Yimou, to German screens in September.

The Bernd Eichinger production **The Downfall** (director: Oliver Hirschbiegel) is being released to German theatres in September as well. This portrayal of what is probably the most tragic chapter of German history features a star cast of German actors: Alexandra Maria Lara (**Nackt**), Bruno Ganz (**Luther**), Juliane Köhler (**Nowhere in Africa**), Ulrich Noethen (**Das fliegende Klassenzimmer**), Ulrich Matthes (**Aimée & Jaguar**), Corinna Harfouch (**Erkan & Stefan 2**), Götz Otto (**Der Clown**), Thomas Kretschmann (**U-571**) and Heino Ferch (**The Tunnel**).

We are releasing another highlight from our distribution programme this year in November: **Alexander**, the opulent portrait of Alexander the Great directed by Oscar prizewinner Oliver Stone, tells the story of Alexander’s rise to become one of the most impressive

figures in world history in unforgettable scenes and with an ensemble of first-class actors led by Colin Farrell (**Phone Booth**), Anthony Hopkins (**The Silence of the Lambs**) and Angelina Jolie (**Girl, Interrupted**).

The absolute highlight in the German films that are being distributed this year is **(T)Raumschiff Surprise – Periode 1** (release date: July 22), the new comedy by and with Michael “Bully” Herbig, who is pulling out all the stops again with his two associates Rick Kavanian and Christian Tramitz following the sensational success of **Manitou’s Shoe** – this time with a breathtaking persiflage of all the adventures that have been set in the vast expanses of outer space.

The co-production **Germanikus** (director: Hanns Christian Müller) that fans are already longing to see is being released to German theatres on March 25 starring the who’s who of German comedy – Gerhard Polt (**Man spricht deutsch**), Gisela Schneeberger (**Man spricht deutsch**), Tom Gerhardt (**Ballermann 6**) and Anke Engelke (**LiebesLuder**).

We will be releasing the turbulent high school comedy **Die Nacht der lebenden Loser** with Tino Mewes (**Liegen lernen**), Thomas Schmieder (**Die Klasse von ’99**) and Manuel Cortez (**Cuba**) in the leading parts on July 1, right at the start of the summer holidays.

In the family entertainment field, in which Constantin Film has had great theatrical success in recent years, we will also be releasing a premium film to German screens at the end of September with the new adventures of **Bibi Blocksberg**, Germany’s most well-

known little witch: **Bibi Blocksberg und das Geheimnis der blauen Eulen**. Sidonie von Krosigk (**Bibi Blocksberg**), Nina Petri (**Der alte Affe Angst**), Corinna Harfouch (**Bibi Blocksberg**) and Ulrich Noethen (**Sams in Gefahr**) are playing the main roles.

We are currently planning a total of 6 to 8 German and 2 international theatrical in-house and co-productions for 2004, including Bernd Eichinger’s film of the world bestseller by Patrick Süskind: **The Perfume**. This book is the most successful novel in German of all time since Erich Maria Remarque’s “All Quiet on the Western Front”, with 12 million copies printed worldwide and translations into about 40 different languages.

In addition to the successful daily formats for SAT.1, Constantin Entertainment GmbH will in the first quarter be producing a first series of the knowledge show **Clever** that it has developed itself. Six programmes for a new half-hour comedy show with the star comedian Michael Mittermeier are being produced for RTL, while the big weekly prime time live music show **Comeback** is being launched by ProSieben on February 9, in which ten former music stars try to make a comeback and the TV audience decides who wins. The start of another daily crime documentary series with the title **Einsatz für Ellrich** is planned on RTL at the beginning of the second quarter.

In our distribution operations, we will be maintaining our successful strategy of combining national and international in-house and co-productions with high-quality third-party films again unchanged in 2004. We will be continuing to concentrate on our core business and on

increasing the volume of our national and international in-house productions. We are obtaining access to fast-growing areas of business by expanding our added-value chain to include the TV entertainment and home entertainment fields.

We are planning to increase sales considerably to more than € 180 million while generating positive EBIT of at least € 6 million in 2004.

Munich, March 2004

► The Management Board

ASSETS		2) 31.12.2002	31.12.2003	EQUITY AND LIABILITIES		2) 31.12.2002	31.12.2003
		€ thousand	€ thousand			€ thousand	€ thousand
A. Current assets				A. Liabilities and deferred income			
I. Cheques, cash in hand and at banks	3.1	84,972	71,454	I. Liabilities to banks		54,851	87,166
II. Receivables	3.2/5.1			II. Trade payables	5.4	8,270	19,226
1. Trade receivables		18,031	23,381	III. Liabilities to affiliated/associated companies		1	1,730
2. Receivables from affiliated/associated companies		1,403	899	IV. Advance payments received	3.8/5.5	68,701	93,655
III. Inventories: stocks of unfinished service productions		5,735	12,613	V. Provisions	3.9		
IV. Other assets	3.2	9,413	10,897	1. Tax provisions		148	2,524
V. Prepaid expenses		102	180	2. Other provisions	5.6	9,141	25,524
Total current assets		119,656	119,424	VI. Other liabilities	5.7	8,032	3,551
B. Film assets	3.3/5.2			VII. Medium-/long-term loans		5,575	5,571
I. In-house productions		64,506	134,749	Total liabilities and deferred income		154,719	238,947
II. Third-party productions		26,451	24,118				
Total film assets		90,957	158,867	B. Adjustment item for minority interests		358	1,888
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		5,344	7,570	II. Capital reserves		70,183	70,183
2. Others		388	227	III. Retained earnings		-7,140	-8,783
II. Tangible assets	3.5	3,471	3,632	IV. Net income/loss for the year		-1,083	-9,911
III. Financial assets	3.6	357	335	Total equity		74,703	64,232
Total fixed assets		9,560	11,764	D. Deferred tax liabilities¹⁾	3.12/5.8	3,198	10,859
D. Deferred tax claims¹⁾	3.12/5.8	12,805	25,871	Total equity and liabilities		232,978	315,926
Total assets		232,978	315,926				

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. - 31.12.2002 ⁴⁾	01.10. - 31.12.2003 ⁴⁾	01.01. - 31.12.2002	01.01. - 31.12.2003
		€ thousand	€ thousand	€ thousand	€ thousand
Sales	3.11/6.1	36,538	43,908	131,214	114,316
Costs of goods sold ¹⁾	6.2	30,351	41,984	112,950	110,737
Gross profit on sales		6,187	1,924	18,264	3,579
Selling expenses		725	518	2,000	2,640
General administration expenses		3,069	3,600	12,023	13,257
Other operating income		934	544	2,674	3,065
Other operating expenses		391	63	1,032	209
Amortisation of goodwill		153	1,232	525	1,574
Depreciation of tangible assets and amortisation of other intangible assets	6.3	95	522	593	758
EBIT		2,688	-3,467	4,765	-11,794
Interest income		177	117	413	449
Interest expenditure	6.5	202	226	2,879	307
Income/expenditure from/by associated companies and other equity interests		-279	-1	-4,196	11
Exchange rate profits/losses	6.6	-1,085	-738	-3,085	-1,912
Result before tax and minority interests		1,299	-4,315	-4,982	-13,553
Taxes on income	3.12/5.8	5,539	1,213	3,697	4,835
Other taxes		0	-13	0	-227
Result before minority interests		6,838	-3,115	-1,285	-8,945
Minority interests		-557	-989	202	-966
Net income/loss for the year		6,281	-4,104	-1,083	-9,911
Earnings per share in €³⁾	6.7	0.49	-0.32	-0.08	-0.78
Average number of shares in circulation		12,742,600	12,742,600	12,742,600	12,742,600

1) See the management report, page 18, for 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. - 31.12.2002	01.01. - 31.12.2003
	€ thousand	€ thousand
Result before tax and minority interests	-4,982	-13,553
Net income/loss for the year after minority interests	-1,083	-9,911
Minority interests	-202	966
Amortisation/depreciation of fixed assets	5,314	2,332
Losses on the disposal of fixed assets	98	42
Change in net working capital		
Change in trade receivables	1,632	-4,752
Other income not affecting payment	-125	0
Change in the other non-interest bearing receivables and other assets	2,143	-2,759
Additions to film assets / in-house productions	-34,289	-108,442
Depreciation of film assets / in-house productions	40,379	38,199
Additions to film assets / third-party productions	-9,615	-20,884
Depreciation of film assets / third-party productions	12,072	23,217
Change in trade payables	-14,683	9,199
Change in advance payments received	38,640	21,229
Change in non-interest bearing liabilities, provisions and other liabilities	-4,825	4,608
Change in deferred taxes	-3,905	-5,405
Cash flows from ordinary activities	31,551	-52,361
Inflow of funds from disposals of fixed assets	299	221
Investments in other fixed assets	-677	-581
Investments in financial assets	-215	-4,785
Currency translation differences	0	303
Cash flows from investing activities	-593	-4,842
Inflow of funds from capital increases	0	69
Inflow/outflow of funds from principal repayments	0	-4
Change in liabilities to banks	-26,919	32,315
Currency translation differences	0	-560
Cash flows from financing activities	-26,919	31,820
Change in cash and cash equivalents	4,039	-25,383
Change in cash and cash equivalents due to changes in the companies consolidated	1,043	11,865
Funds at the beginning of the period	79,890	84,972
Funds at the end of the period	84,972	71,454

► **STATEMENT OF CHANGES IN EQUITY AS PER JANUARY 1, 2003 THROUGH DECEMBER 31, 2003 / in € thousand**

	Subscribed capital	Capital reserves	Retained earnings	Income/loss	Total equity 01.01.-31.12.2003	Total equity 01.01.-31.12.2002
On 01.01.	12,743	70,183	-8,223	0	74,703	75,786
Income/loss 01.01.-31.03.				364	364	2,843
Currency translation difference from consolidation			-261		-261	0
On 31.03.	12,743	70,183	-8,484	364	74,806	78,629
Income/loss 01.04.-30.06.				-3,005	-3,005	-8,891
Currency translation difference from consolidation			-137		-137	0
On 30.06.	12,743	70,183	-8,621	-2,641	71,664	69,738
Income/loss 01.07.-30.09.				-3,166	-3,166	-1,316
Currency translation difference from consolidation			-16		-16	0
On 30.09.	12,743	70,183	-8,637	-5,807	68,482	68,422
Income/loss 01.10.-31.12.				-4,104	-4,104	6,281
Currency translation difference from consolidation			-146		-146	0
On 31.12.	12,743	70,183	-8,783	-9,911	64,232	74,703

▶ CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

	Acquisition or production costs					
	01.01.2003	Currency translation differences	Additions to the companies consolidated	Additions	Disposals	31.12.2003
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets						
1. Goodwill	6,667	0	0	3,800	0	10,467
2. Software	696	0	0	81	29	748
3. Franchises, industrial rights	319	0	119	96	10	524
	7,682	0	119	3,977	39	11,739
II. Tangible assets						
1. Land and buildings, including buildings on third-party land	3,699	-336	0	0	0	3,363
2. Other equipment, operating and office equipment	2,818	-134	1,167	404	174	4,081
	6,517	-470	1,167	404	174	7,444
III. Financial assets						
1. Equity investments in associated companies	4,379	0	0	0	0	4,379
2. Equity investments in other companies	4,236	0	0	0	3,942	294
3. Long-term investments	291	0	0	207	197	301
4. Other loans	41	0	0	2	0	43
	8,947	0	0	209	4,139	5,017
	23,146	-470	1,286	4,590	4,352	24,200

Accumulated depreciation/amortisation						Book value	
01.01.2003	Currency translation differences	Additions to the companies consolidated	Additions	Disposals	31.12.2003	01.01.2003	31.12.2003
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1,323	0	0	1,574	0	2,897	5,344	7,570
319	0	0	312	0	631	377	117
308	0	85	21	0	414	11	110
1,950	0	85	1,907	0	3,942	5,732	7,797
977	-63	0	1	0	915	2,722	2,448
2,069	-104	689	415	172	2,897	749	1,184
3,046	-167	689	416	172	3,812	3,471	3,632
4,379	0	0	0	0	4,379	0	0
4,211	0	0	0	3,917	294	25	0
0	0	0	9	0	9	291	292
0	0	0	0	0	0	41	43
8,590	0	0	9	3,917	4,682	357	335
13,586	-167	774	2,332	4,089	12,436	9,560	11,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) OF CONSTANTIN FILM AG FOR THE 2003 FISCAL YEAR

Constantin Film AG was admitted for trading on the Neuer Markt on September 13, 1999. 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 or to be restated to an international standard from national accounts based on the German Commercial Code (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 on the basis of the International Financial Reporting Standards (IFRS) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). 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 standards 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 in film asset accounting as per December 31, 2003.

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 Constantin Group added non-fiction TV productions to its "service production" operations in the year under review. The Group's operations include the production of films and the exploitation of acquired film rights. The rights to these films are exploited at all the different stages, from theatres to video/DVD and television. The films produced in-house are generally exploited all over the world. 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:

CONSTANTIN ENTERTAINMENT GMBH, ISMANING

Constantin Film AG acquired a 61 per cent interest in what used to be KirchMedia Entertainment GmbH, Ismaning, in September 2003. This interest was consolidated in full from September 16, 2003 onwards. The name of the company was changed to **Constantin Entertainment GmbH** after the acquisition. The purchase price amounted to € 4.480 million and was transferred in full to KirchMedia GmbH & Co. KGaA (which is in the process of being liquidated). The company develops concepts for television formats and produces and/or processes films of all kinds. The emphasis in the company's operations is on the production of non-fiction TV entertainment formats.

CONSTANTIN FILM (UK) LTD., LONDON

Constantin Film (UK) Ltd. was established in April 2003 and is a wholly-owned subsidiary of Constantin Film Produktion GmbH. The company focussed in the year under review on production of the film **Resident Evil – Apocalypse**.

The Constantin Group was able to consolidate sales of € 19.324 million, unfinished services (service productions that have not been completed yet) of € 6.315 million and film assets of € 2.238 million for the first time as a result of the increase in the number of companies consolidated by the companies acquired or established in the year under review.

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 ⁴⁾	100.0	Acquisition and development of material rights
Constantin Media GmbH audiovisuelle Produktionen , Munich ⁴⁾	100.0	Acquisition and development of material rights
Constantin Film Development Inc. , Los Angeles/USA ¹⁾	100.0	Acquisition and development of material rights
Constantin Film Produktion GmbH , Munich ⁴⁾	100.0	Film and television production
Constantin Film International GmbH , Munich ⁴⁾	100.0	International film production
Constantin Pictures GmbH , Munich ^{2)/4)}	100.0	International film and television production
Constantin Holdings Inc. , Los Angeles/USA ^{1)/2)}	100.0	International film production
Constantin Production Services Inc. , Los Angeles/USA ^{1)/2)}	100.0	International film production
Constantin Film (UK) Ltd. , London/Great Britain ^{1)/2)}	100.0	International film production
Constantin Entertainment GmbH , Ismaning ¹⁾	61.0	TV entertainment production
Olga Film GmbH , Munich ¹⁾	51.0	Film and television production
MOOVIE – the art of entertainment GmbH , Berlin ¹⁾	51.0	Film and television production
Engram Pictures GmbH , Munich ¹⁾	75.5	Film and television production
Rat Pack Filmproduktion GmbH , Munich ¹⁾	51.0	Film and television production
Westside Filmproduktion GmbH , Krefeld ¹⁾	51.0	Film and television production
Hahn Film AG , Berlin ^{1)/3)}	25.1	Film and television production (animation)
Constantin Film Verleih GmbH , Munich ⁴⁾	100.0	Licence trading and cinema distribution
Classic Media Werbeagentur GmbH , Munich ⁴⁾	100.0	Advertising and event marketing
Constantin International B.V. , Amsterdam/NL ¹⁾	100.0	Licence trading
Constantin Music Verlags- GmbH , Munich ⁴⁾	100.0	Exploitation of music rights
Constantin Propaganda GmbH , Munich ⁴⁾	100.0	Licence trading
Constantin Inter@ctive GmbH , Munich ⁴⁾	100.0	Development and production of Internet content
INNOVUM Smart Products GmbH , Cologne ¹⁾	51.0	Internet marketing and Web design

1) No profit/loss transfer agreement

2) Indirect equity interest

3) Consolidation at equity

4) Advantage was taken of the possibility of exemption from disclosure requirements for these subsidiaries in accordance with § 264 paragraph 3 of the German Commercial Code (HGB)

(See also the summary of equity interests on page 53)

Both alone and together, the following 8 subsidiaries (previous year: 8) 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 53)

2.2 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, 2003 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 IAS 22. The acquisition

costs are offset against the pro rata revalued equity of the subsidiary at the time of acquisition and establishment and/or at the time of inclusion for the first time in the consolidated financial statements in this context. Assets and liabilities are included at their present values. The remaining 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 IAS 22.

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

Sales, expenses and income within the Group and 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.

2.3 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 IAS 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 IAS 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. The currency translation differences attributable to subsequent valuation after initial consolidation are included in consolidated equity.

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

Country	Currency	Exchange rate on the qualifying date		Average exchange rate	
		31.12.2002	31.12.2003	2002	2003
USA	US\$ 1.00	0.9593	0.7930	0.9448	0.8833
Great Britain	£ 1.00	1.5368	1.4172	1.5916	1.4443
Canada	CAN\$ 1.00	0.6094	0.6139	0.6759	0.6319

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 IAS 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, 2003 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 this strict regulation 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 production costs of 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 service productions by the Group that are exploited by the Group.

Genuine service productions are included in the “inventories: stocks of unfinished service productions” item, provided that they have not been completed and supplied to the customer 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 overages that are already definite. Full capitalisation is carried out when the material is supplied.

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 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 sales on which calculation of the depreciation charge is based include all the revenues generated with a film. In the case of the video sales, the video costs are eliminated from the external sales used to determine the depreciation charge. 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 P&A 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.

Capitalised costs of the development of new projects (particularly screenplay 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 amortised 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 with acquisition costs of up to € 410.00 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 IAS 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 IAS 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 are valued at their nominal value.

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 IAS 37 as well as IAS 19, if appropriate. They are valued on the basis of the best possible estimate of the size of the commitment.

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 IAS 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 service productions starts when the material is supplied to the commissioning party. The “percentage of completion” method is not applied in the case of the service 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 allo-

cated 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 IAS 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 2, 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 IAS 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 stipulate 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/rough cut is supplied. The same applies *mutatis mutandis* for the time when depreciation is charged. There are no differences between the two accounting systems in the realisation of sales where the in-house exploitation of video and DVD rights is concerned.

4.4 In-house productions

Under SOP 00/2 rules, the development and 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 IAS 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 IAS 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 IAS 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). When there is neither a cash flow hedge nor a fair value hedge, the income and expenses arising from the valuation of the financing instruments are included in earnings.

4.8 Other provisions

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

5. EXPLANATORY NOTES ABOUT THE BALANCE SHEETS

5.1 Trade receivables

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

“In-house productions” accounted for € 17.805 million of the trade receivables (previous year: € 14.578 million), while “third-party productions” accounted for € 5.576 million (€ 3.453 million).

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

Write-downs are made in respect of the items concerned where default risks are identifiable with individual receivables.

In view of the good credit ratings of the debtors, any possible concentration of default risks from business relationships to individual debtors or debtor groups is not considered to be material.

5.2 Film assets

The film assets can be broken down as follows:

► FILM ASSETS / in € thousand

	31.12.2002	31.12.2003
In-house productions		
Films being exploited	44,394	40,137
Films being developed and produced	20,112	94,612
Total in-house productions	64,506	134,749
Third-party productions		
Films being exploited	16,043	12,043
Films being prepared and advance payments received	10,408	12,075
Total third-party productions	26,451	24,118
Film assets	90,957	158,867

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 and/or have not yet been supplied by producers.

► PROVISIONS / in € thousand

	31.12.2002	Change in the companies consolidated	Required	Released	Added	31.12.2003
Provision for outstanding invoices and film expenses	3,672	333	1,288	126	14,004	16,595
Provision for profit-sharing schemes and licensor shares	1,065	0	506	310	3,163	3,412
Provision for conditional loan repayment	2,649	0	1,373	338	989	1,927
Provision for personnel expenses	714	349	1,050	13	1,973	1,973
Miscellaneous	1,041	182	372	179	945	1,617
Provisions	9,141	864	4,589	966	21,074	25,524

Financing costs of € 1.258 million (previous year: € 1.289 million) that could be allocated directly were capitalised in the 2003 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 goodwill of INNOVUM Smart Products GmbH was written down by € 1.058 million to € 510,000 on the basis of an impairment test.

No financial assets were written down in the year under review (previous year: € 4.196 million).

5.4 Trade payables

The trade payables are carried at their redemption value. € 12.904 million (previous year: € 6.686 million) of the trade payables were accounted for by "in-house productions" and € 6.322 million (previous year:

€ 1.584 million) by "third-party productions". All of the trade payables are due for payment within one year.

5.5 Advance payments received

The advance payments received are attributable primarily to the allocation of TV and global distribution revenues. The advance payments received can be broken down into € 75.064 million (previous year: € 50.315 million) for "in-house productions" and € 18.591 million (previous year: € 18.386 million) for "third-party productions". All of the advance payments received are due within one year.

5.6 Other provisions

The other provisions due within one year developed as follows:

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

	31.12.2002	31.12.2003
Financial commitment to Wrongfully Accused Production Limited Partnership and Wrongfully Accused Production Limited Partnership No. 2	5,575	5,571
Escape Artists LLC	1,989	0
Salaries, income tax, social security contributions	1,114	2,052
VAT for November und December 2003	1,305	58
Withholding tax	128	455
Contributions to the co-financing of "Wrong Turn"	2,636	0
Miscellaneous	860	986
Other liabilities and medium-/long-term loans	13,607	9,122

€ 3.551 million (previous year: € 8.032 million) of the other liabilities shown are due for payment within one year, while € 5.571 million (previous year: € 5.575 million) are due in more than one year.

5.8 Taxes on income

The taxes on income relate to the parent company of the Group Constantin Film AG and the subsidiaries included in the Group. On the basis of the profit/loss transfer agreements that have been concluded, Constantin Film AG is parent 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 Pictures 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 are pooled at the level of the parent company.

Taxes are incurred at the level of the parent company alone. The following consolidated companies remain independent taxpayers for the purposes of corporation tax and trade tax:

- ▶ Constantin Entertainment GmbH
- ▶ 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 Film (UK) Ltd.
- ▶ Constantin Holdings Inc.
- ▶ Constantin International B.V.

A uniform corporation tax rate of 25 per cent has been used for the German Group companies in 2003. 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 German 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.

A composite tax rate of 40.86 per cent was used to calculate the deferred taxes for the German companies. The local tax rates applied to calculate the

deferred taxes for the foreign companies vary between 29 and 40 per cent.

Tax revenue for the 2002 and 2003 fiscal years is as follows:

► **TAXES** / in € thousand

	2002	2003
Current tax revenue/expenditure	-208	-570
Deferred tax revenue/expenditure	3,905	5,405
Taxes on income (revenue)	3,697	4,835

The deferred tax revenue of € 5.405 million (previous year: € 3.905 million) shown can be broken down into tax assets and liabilities relating to temporary differences amounting to € -6.696 million (previous year: € 1.950 million) and tax assets relating to accumulated tax losses amounting to € 12.101 million (previous year: € 5.855 million).

The actual tax income arising from the consolidated result generated by the Constantin Group can be reconciled to the calculated tax income as follows:

	2003
Theoretical tax income (40.86%)	5,538
Expenses and income with no tax impact and other effects (goodwill)	-576
Differences/foreign tax rates	-127
Actual tax income	4,835

The deferred taxes relate to the following items:

	2002 € thousand	2003 € thousand
Deferred taxes (assets)		
Accumulated tax losses	5,855	12,101
Advance payments received	32,618	41,031
Deferred taxes (assets)	38,473	53,132
Deferred taxes (liabilities)		
Film assets/in-house productions	22,699	34,147
Film assets/third-party productions	6,057	3,331
Miscellaneous	110	642
Deferred taxes (liabilities)	28,866	38,120
Deferred taxes (net)	9,607	15,012

The deferred tax assets and liabilities from the Group companies are balanced in accordance with IAS 12. The deferred tax assets therefore amount to € 25.871 million (previous year: € 12.805 million), while the deferred tax liabilities total € 10.859 million (previous year: € 3.198 million).

The accumulated tax losses amounted to € 29.960 million (previous year: € 14.329 million) on December 31, 2003. The deferred tax assets relating to them amounted to € 12.101 million (previous year: € 5.855 million). The increase in accumulated tax losses led to tax income of € 6.246 million (previous year: tax expenditure of € 16.640 million) for the Group in the year under review.

It is assumed that the value of the deferred tax assets is accurate.

5.9 Equity

5.9.1 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.

5.9.2 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.

5.9.3 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 Management 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) for 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 were 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 August 29, 2003, the existing conditional capital (1999) of € 423,900 was reduced to € 27,500. The purpose of this amount is to safeguard the subscription rights from the 1st employee stock option plan according to the resolution passed by the shareholders' meeting on August 18, 1999 (see 8.1.1).

In accordance with a resolution passed at the shareholders' meeting on August 29, 2003, the existing conditional capital (2001), the purpose of which is to safeguard the subscription rights from the 2nd employee stock option plan based on the authorisation given by the shareholders' meeting on July 12, 2001 (see 8.1.2), was reduced from € 600,000 to € 329,500.

In accordance with a resolution passed at the shareholders' meeting on August 29, 2003, the conditional capital of Constantin Film AG was increased in addition by up to € 600,000 (conditional capital / 2003). This conditional capital increase will only be made to the extent that subscription rights from the 3rd employee stock option plan are issued and the holders of these subscription rights exercise their option right (see 8.1.3).

The change in the conditional capitals / 1999 and 2001 as well as the new conditional capital / 2003 were entered in the commercial register on October 7, 2003.

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 productions (or co-productions)" and "third-party productions":

In the case of in-house productions (or co-productions), 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 screenplay. 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 share of the proceeds of film exploitation in accordance with a key that is specified in advance. The "in-house productions" division also covers genuine and non-genuine service productions. A customer commissions the Constantin Group to produce a film in both genuine and non-genuine service production. The right to the

film production is held and remains directly with the customer. The Group actually produces the film in genuine service production, while it acts as a service provider in the case of non-genuine service production – generally for film funds that carry out the financing of individual films. Some of the exploitation rights to these films are in most cases 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 productions” 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 productions (or co-productions)” division and the “third-party productions” 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 € 25.707 million (previous year: € 25.069 million) from the international exploitation of film rights.

A breakdown of the film assets and the receivables/payables by divisions is given in 5.1, 5.2, 5.4 and 5.5.

► **BREAKDOWN BY DIVISIONS** / in € thousand

	2002	2003	2002	2003	2002	2003
	In-house and co-productions		Third-party productions		Total	
Sales:						
Theatrical sales	26,753	6,639	14,260	12,179	41,013	18,818
Video sales	14,239	14,099	5,467	2,791	19,706	16,890
TV sales	18,299	19,819	5,404	11,465	23,703	31,284
Service productions	16,125	28,968	0	0	16,125	28,968
Subsidies	12,924	8,723	1,969	829	14,893	9,552
Others	15,774	8,804	0	0	15,774	8,804
Total	104,114	87,052	27,100	27,264	131,214	114,316
Costs of goods sold	86,000	74,544	26,950	36,193	112,950	110,737
Gross profit on sales	18,114	12,508	150	-8,929	18,264	3,579
Percentage of sales	17.4	14.4	0.6	-32.7	13.9	3.1
Selling expenses					2,000	2,640
General administration expenses					12,023	13,257
Other operating income					2,674	3,065
Other operating expenses					1,032	209
Amortisation of goodwill					525	1,574
Depreciation of tangible assets and amortisation of other intangible assets					593	758
EBIT					4,765	-11,794

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, of the costs of goods sold incurred in connection with video exploitation as well as of the costs of goods sold of service 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 the risk provision for films that are not yet being exploited.

6.3 Depreciation of tangible assets and 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 € 9.854 million (previous year: € 8.504 million). Social security expenditure amounted to € 1.274 million (previous year: € 1.060 million).

The Constantin Film AG Group had an average of 183 employees over the past year (previous year: 148). (See also the human resources section of the management report, page 20).

6.5 Financial result

Interest expenses in the year under review amounted in total to € 307,000 (previous year: € 2.879 million). The special effect of the unwinding of a licence agreement for USD 3.000 million with the Kirch Group accounted

for interest expenses of € 2.391 million in the first quarter of the previous year.

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 € 1.912 million (previous year: € 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 IAS 21. The exchange rate income amounted to € 3.715 million (previous year: € 5.194 million), whereas the exchange rate expenses totalled € 5.627 million (previous year: € 8.279 million).

6.7 Earnings per share

The diluted 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 active stock option plans at Constantin Film AG were higher than the average stock exchange price for the share on December 31, 2003. This means that the option rights are not potential shares, so they do not have any diluting effect. The earnings per share amounted to € -0.78 after € -0.08 in the previous year.

7. EXPLANATORY NOTES ABOUT THE STATEMENT OF CASH FLOWS

Income tax and interest payments are as follows:

	2002 € thousand	2003 € thousand
Payments received for taxes on income	134	40
Payments made for taxes on income	-296	-601
Interest payments received	413	449
Interest payments made minus the capitalised amounts	-488	-306

Net Group liquidity decreased by € 45.833 million over the previous year to € -15.712 million. The reduction is mainly attributable to the high investments in film assets.

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	5,369

8. OTHER EXPLANATORY NOTES

8.1 Employee stock option plan

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

8.1.1 1999 stock option plan

The 1st stock option plan was introduced in connection with the IPO in 1999. The 1st stock option plan was terminated in the 2001 fiscal year, so that no more options have been issued on the basis of it. All the options still outstanding in connection with the 1st stock option plan were waived in the 2003 fiscal year (see 5.11).

8.1.2 2001 stock option plan

A 2nd stock option plan was agreed in the 2001 fiscal year, on the basis of which stock options have been issued to employees since the 2001 fiscal year. The 2nd stock option plan was terminated in the 2003 fiscal year, so that no more options are being issued on the basis of it. The options which were 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 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's share during the last ten stock exchange trading days before they were granted, i.e. before August 27, 2001, which was € 9.72. No more options were issued in 2002.

The options issued 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 market price of the company share exceeded the exercise price by at least 15 per cent on at least one day before the options are

exercised, i.e. amounted to at least € 11.18 in the case of the options issued in 2001. Another fundamental rule is that the option can only be exercised as long as the owner of the options 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. 58,400 option rights have already expired in accordance with these rules of the stock option plan. This means that 291,600 options are still in force. Conditional capital totalling € 329,500.00 (see 5.11) is available to permit the option rights granted on the basis of the 2001 stock option plan to be exercised.

► 2001 OPTION PLAN

	Number in 2001	Number in 2002	Number in 2003
Options granted	350,000	350,000	350,000
Options issued as per 01.01.	0	342,500	329,500
Additions in the fiscal year	350,000	0	0
Options exercised	0	0	0
Options expired	-7,500	-13,000	-37,900
Options issued as per 31.12.	342,500	329,500	291,600
	31.12.2001	31.12.2002	31.12.2003
Exercise price in €	9.72	9.72	9.72
Share price in €	4.15	2.56	3.92
Remaining term of the options (years)	5	4	3
Options that can be exercised	0	0	0

8.1.3 2003 stock option plan

A 3rd stock option plan was agreed in the 2003 fiscal year. In the 2003 fiscal year, no options were issued in connection with the stock option plan introduced in 2003. The options which can be issued on the basis of the 3rd stock option plan that was introduced in 2003 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 are granted.

The options issued in the 2003 stock option plan entitle the company's employees to buy a total of 600,000 shares – 200,000 of them being reserved for the Management Board. The options can be exercised if the stock market price of the company share exceeded the original price by at least 15 per cent on at least one day before the options are exercised. The average stock market price of the company share during the last 10 stock exchange trading days before the option is granted is taken to be the original price. Another fundamental rule is that the option can only be exercised as long as the owner of the option has an untermiated employment contract. Conditional capital totalling € 600,000.00 (see 5.11) is available to permit the option rights granted on the basis of the 2003 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 € 1.295 million (previous year: € 1.012 million).

There is also a rent guarantee for business premises rented by Constantin Film AG amounting to € 135,000 (previous year: € 135,000). The Group has in addition issued guarantees for service productions with a total value of € 3.584 million (previous year: € 3.261 million) to various TV stations.

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

	31.12.2002	31.12.2003
Remaining term up to 1 year	619	752
Remaining term 1-5 years	1,518	2,831
Remaining term more than 5 years	0	0
Total	2,137	3,583

The Group obtains access to future film rights by concluding package deals and individual licence contracts. Purchasing films leads to financial commitments for the future that amount to about € 21.000 million (previous year: € 23.000 million). The impact on the asset situation, financial position and profitability from 2005 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 IAS 39 do not, however, exist. Changes in the valuation of hedging contracts concluded to reduce currency translation risks are shown in the income statements. The market value of the original financing instruments corresponds to the book values shown in the other assets. Valuation is carried out by the net present value method. The nominal amounts of the derivative financing instruments correspond to the purchase or sale amounts and/or the contract values of the basic business transactions. Foreign exchange hedging contracts were in force on December 31, 2003. They are due in 2004. Their nominal value amounted in total to € 30.477 million. The market value on December 31, 2003 amounted to € 1.538 million and is shown in the "other assets" item of the balance sheets.

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 IAS 24.

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

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

The shareholder structure was as follows until April 22, 2003: Bernd Eichinger owned 25.07 per cent, Highlight Communications AG 25.00 per cent, EM.TV & Merchandising AG 16.35 per cent and the free float was 33.58 per cent. The Constantin Film AG shareholders were not "related parties" in this structure, because they did not individually exercise any controlling or significant influence.

Highlight Communications AG acquired the shares in Constantin Film AG held by EM.TV & Merchandising AG on April 23, 2003. Following the compulsory offer, Highlight Communications AG owns 57.98 per cent of Constantin Film AG. Mr Bernd Eichinger was appointed Chairman of the Supervisory Board on March 27, 2003. A pool agreement about joint management of Constantin Film AG was concluded between Highlight Communications AG and Bernd Eichinger on June 5, 2003. The potential influence that can be exercised by the shareholders changed after these events. Since the shareholders exercise a controlling or significant influence in this structure, they are "related parties".

The amounts received by Bernd Eichinger essentially include the salary from the producer contract, screenplay fees and the purchase price of the rights to film **The Perfume** and totalled € 14.318 million. Outstanding liabilities with respect to Bernd Eichinger amounting to € 17,000 were shown on December 31, 2003.

The sales of € 311,000 generated by the Constantin Film Group with Highlight Communications AG in 2003 relate essentially to the licensing of video rights; the expenses for the year under review amounted to € 1.627 million and consist primarily of commission payments for films from the service deal with Highlight Communications AG. There were receivables of € 899,000, payables of € 388,000 and advance payments received of € 1.342 million on December 31, 2003.

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 Fred Kogel / lawyer and producer
Chairman of the Management Board
(since April 1, 2003)

Mr Thomas Peter Friedl / film businessman

Mr Martin Moszkowicz / businessman and producer

Dr Daniel Wiest / economics graduate

Mr Jochen Kamlah / film businessman and lawyer
(until March 31, 2003)

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 three years.

The total remuneration paid to the Management Board (January 1 to December 31, 2003) amounted to € 1.733 million (previous year: € 1.350 million).

8.6.2 Supervisory Board of Constantin Film AG

The Supervisory Board consists of six members (see also page 46).

The remuneration paid to the members of the Supervisory Board amounted in total to € 73,000 in 2003 (previous year: € 71,000).



	Main profession	Membership of other Supervisory Boards
Bernd Eichinger Chairman of the Supervisory Board (since 27.03.2003) (since 03.01.2003)	Film producer	None
Martin Wagner Deputy Chairman (since 29.08.2003) (since 23.07.2003)	Lawyer	Birkhäuser + GBC AG, Birkhäuser + GBC Spezialprodukte AG, CM CrossMedia AG, Eletta International AG, Eletta Level & Weighing AG, Highlight Communications AG, IPWR Institut für Politik, Wirtschaft und Recht AG, IWF Institut für Wirtschaftsförderung AG, Jean Frey AG, T.E.A.M. Television Event And Media Marketing AG, Team Football Marketing AG, Team Holding AG
Marc Conrad (since 29.08.2003)	Film producer	ish GmbH & Co. KG (since 29.11.2003)
Prof Dr Günter Rohrbach (since 13.07.2001)	Independent producer	None
Marco Syfrig (since 29.08.2003) [up to 24.02.2004 – for information]	Lawyer	Crossmedia AG, Escor Casinos & Entertainment SA, Fumapharm AG, Highlight Communications AG, Taxpartner AG, T.E.A.M. Television Event And Media Marketing AG, Team Holding AG, Team Football Marketing AG
Franz Woodtli (since 29.08.2003)	Businessman	None
Fred Kogel Chairman of the Supervisory Board (up to 26.03.2003)	Lawyer and producer	ProSiebenSat.1 Media AG (up to 16.06.2003)
Bernhard Burgener (up to 27.06.2003)	Chairman of the Board of Highlight Communications AG	Escor Casinos & Entertainment SA, Lechner Marmor AG
Werner E. Klatten (up to 30.06.2003)	Board Chairman of EM.TV & Merchandising AG	EM.TV Vermögensverwaltungs AG (since 17.11.2003)
Herbert Schroder (up to 30.06.2003)	Banker	None

Munich, March 2004

► **The Management Board**

INDEPENDENT AUDITOR'S 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, 2003 to December 31, 2003. 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 is

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 management report for the Company and the group prepared by the Company's management for the business year from January 1, 2003 to December 31, 2003 has not led to any reservations. In our opinion on the whole the management report for the Company and the group 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 management report for the Company and the group for the business year from January 1, 2003 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial

statements and the management report for the Company and the group in accordance with German law.

Munich, March 19, 2004

▶ **KPMG Deutsche Treuhand-Gesellschaft**

Aktiengesellschaft / Wirtschaftsprüfungsgesellschaft

Kilgert / Independent Auditor

Schipper / Independent Auditor

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.

ASSETS / HGB	31.12.2002 € thousand	31.12.2003 € thousand
A. Fixed assets		
I. Intangible assets	63	99
II. Tangible assets	228	150
III. Financial assets	7,387	12,070
Total fixed assets	7,678	12,319
B. Current assets		
I. Receivables and other current assets		
1. Receivables from affiliated companies	75,220	54,880
2. Receivables from companies in which an equity interest is held	4	0
3. Other assets	192	789
II. Cash in hand and at banks, cheques	50	3
Total current assets	75,466	55,672
C. Prepaid expenses	62	76
Total assets	83,206	68,067

EQUITY AND LIABILITIES / HGB	31.12.2002 € thousand	31.12.2003 € thousand
A. Equity		
I. Subscribed capital	12,743	12,743
II. Capital reserves	72,854	72,854
III. Retained earnings	0	0
IV. Accumulated losses	-51,037	-13,134
V. Net profit/loss for the year	37,903	-13,606
Total equity	72,463	58,857
B. Provisions		
Other provisions	1,063	1,608
Total provisions	1,063	1,608
C. Liabilities		
1. Trade payables of which due within 1 year: € 0.186 million (previous year: € 0.121 million)	121	186
2. Liabilities to affiliated companies of which due within 1 year: € 7.210 million (previous year: € 8.157 million)	8,157	7,210
3. Other liabilities of which due within 1 year: € 0.206 million (previous year: € 1.402 million) of which from taxes € 0.143 million (previous year: € 1.324 million) of which in connection with social security: € 0.052 million (previous year: € 0.056 million)	1,402	206
Total liabilities	9,680	7,602
Total equity and liabilities	83,206	68,067

INCOME STATEMENTS / HGB	01.01.-31.12.2002	01.01.-31.12.2003
	€ thousand	€ thousand
General administration expenses	7,159	8,374
Other operating income	2,396	4,016
Other operating expenses	504	26
Income from profit transfer agreements	48,808	1,566
Other interest and similar income of which from affiliated companies € 0.917 million (previous year: € 2.145 million)	2,161	932
Interest and similar expenses of which to affiliated companies € 0 (previous year: € 0)	2	1
Costs of loss absorption	7,807	11,514
Income from continuing operations	37,893	-13,401
Taxes on income	-11	0
Other taxes	1	205
Net income/loss for the year	37,903	-13,606

CONSOLIDATED STATEMENT OF CASH FLOWS / HGB *	01.01.-31.12.2002	01.01.-31.12.2003
	€ thousand	€ thousand
Net profit/loss for the year	37,903	-13,606
Amortisation and depreciation of fixed assets	191	159
Change in provisions	-17	545
Profit/loss on the disposal of fixed assets	-83	6
Change in receivables and other assets that cannot be allocated to investing or financing activities	-40,238	19,733
Change in trade liabilities and other liabilities that cannot be allocated to investing or financing activities	7,930	-2,078
Cash flows from current activities	5,686	4,759
Inflow of funds from disposals of fixed assets	201	0
Outflow of funds for investments in intangible assets	-39	-74
Outflow of funds for investments in tangible assets	-82	-49
Outflow of funds for investments in financial assets	-139	-4,683
Cash flows from investing activities	-59	-4,806
Outflow of funds for the repayment of loans	-7,503	0
Cash flows from financing activities	-7,503	0
Change in cash and cash equivalents affecting payment	-1,876	-47
Funds at the beginning of the period	1,926	50
Funds at the end of the period	50	3

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

▶ **ART HOUSE**

High-quality independent films for a sophisticated audience.

▶ **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 theatre tickets.

▶ **COMPLETION BOND INSURANCE**

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

▶ **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.

▶ **DISTRIBUTION COSTS ("P&A")**

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

▶ **EBIT**

Earnings before interest and tax.

▶ **EBITDA**

Earnings before interest, tax and depreciation amortisation.

▶ **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.

▶ **EVENT MOVIE**

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

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

Theatre ▶

Video/DVD ▶

Pay per view ▶

Video-on-demand (Internet) ▶

Free TV ▶

Pay TV ▶

▶ Merchandising

Theatre release 12 15 18 24 30 months

▶ **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.

▶ **FICTION PRODUCTIONS**

Productions that are based essentially on imaginary plot elements (e.g. feature films and TV series).

▶ **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.

▶ **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 was introduced as the primary identification code for securities on April 22, 2003.

▶ **LABORATORY ACCESS LETTER**

Authorisation for copies to be made.

▶ **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 **Service 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.

▶ **MEDIA & ENTERTAINMENT INDEX**

Ten industry indices, including the Media & Entertainment Index, were introduced on the Neuer Markt on May 15, 2001. The aim of this 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).

▶ **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.

▶ **MULTIPLEX THEATRE**

A theatre with several (about 6 to 20) screening rooms of different sizes.

▶ **NET PROFIT PARTICIPATION**

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

▶ **NON-FICTION TV PRODUCTIONS**

Productions that reproduce events which really happen (e.g. documentaries, quiz and game shows, documentary soap operas).

▶ **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**).

▶ **PER**

Price-earnings ratio – the ratio of the price of a share to the net earnings (EPS) attributable to the share.

▶ **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.

▶ **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).

▶ **SECONDARY RIGHTS**

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

▶ **SERVICE 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**).

▶ **SOP 00/2**

Statement of Position 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).

▶ **US GAAP**

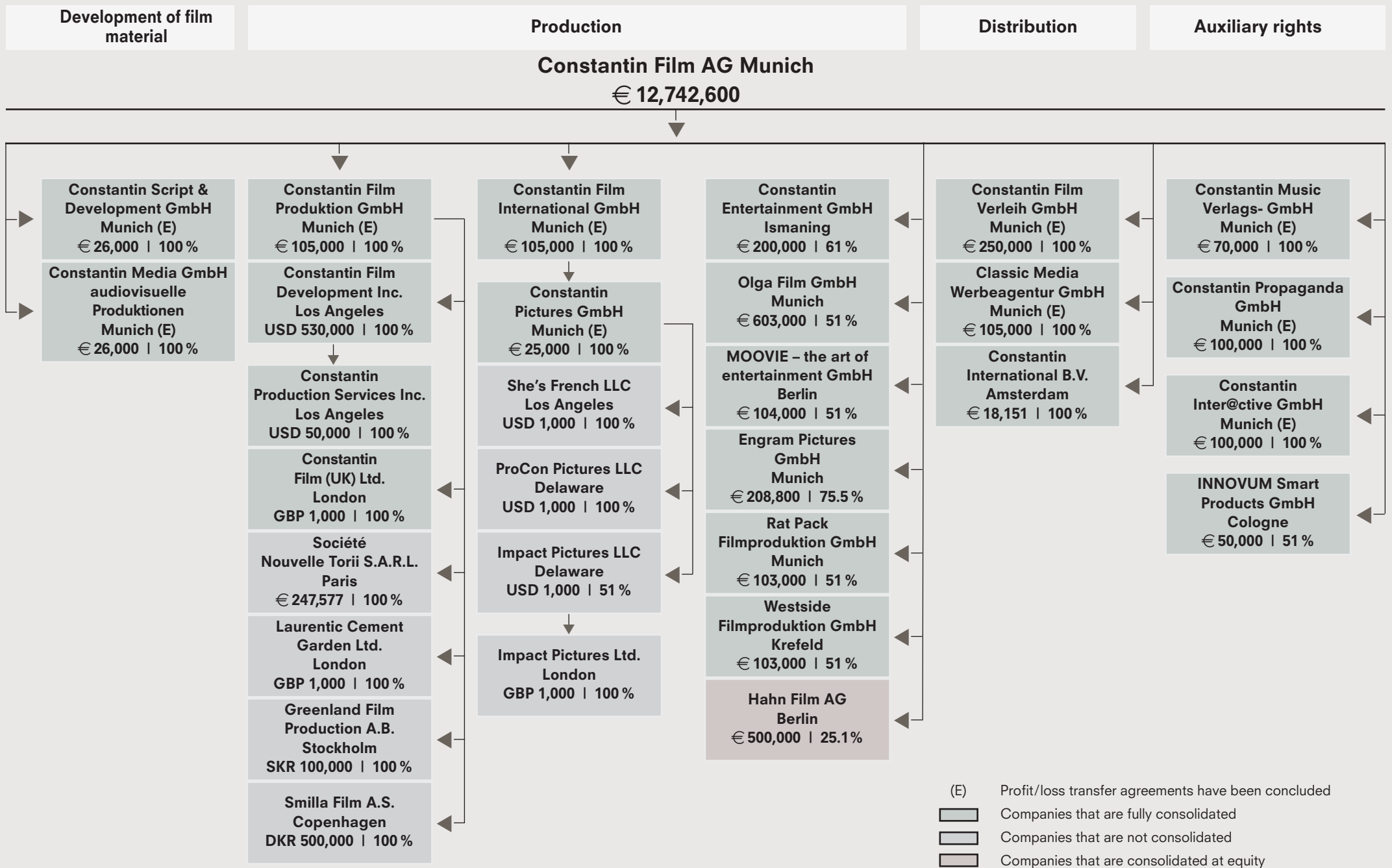
(Generally Accepted Accounting Principles)

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 1, 2004



▶ **IMPORTANT DATES** / for 2004

- | | |
|---|-------------------|
| ▶ Annual Shareholders' Meeting | May 5, 2004 |
| ▶ Publication of the results for the first three months | May 13, 2004 |
| ▶ Publication of the results for the first six months | August 13, 2004 |
| ▶ Publication of the results for the first nine months | November 12, 2004 |
| ▶ DVFA analysts' conference | November 2004 |

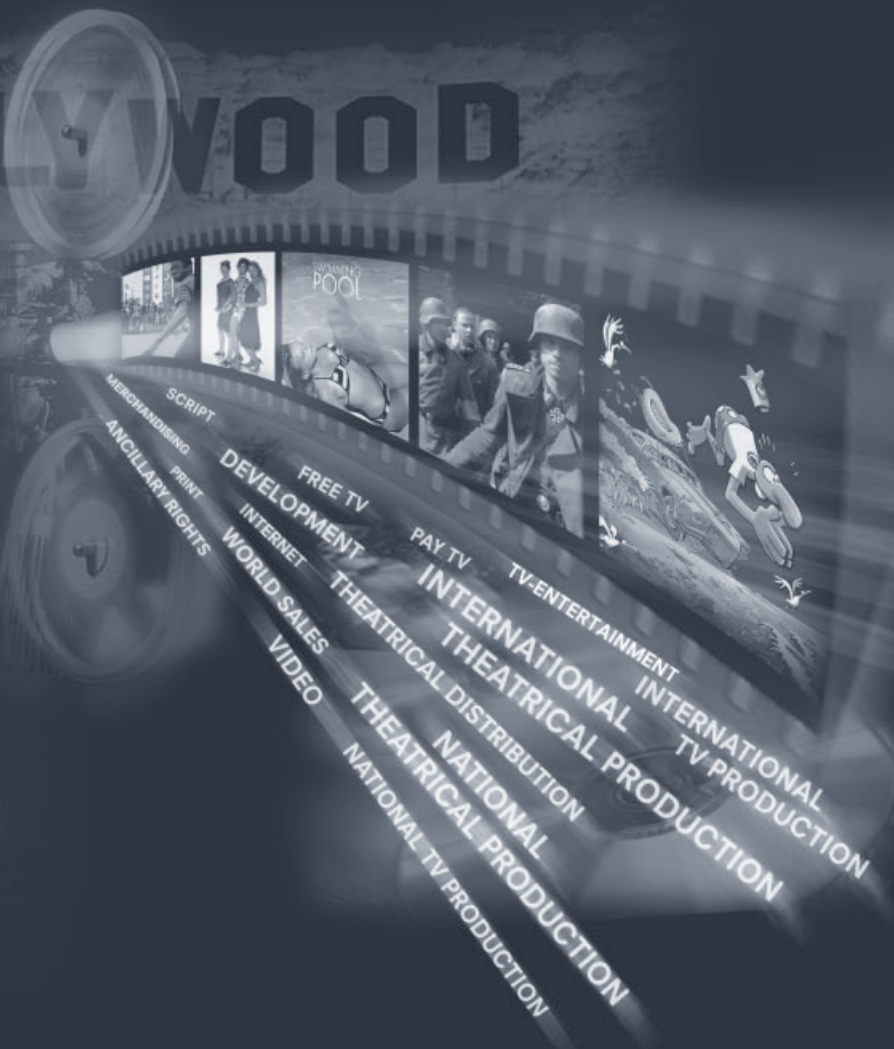
▶ **INTERNATIONAL SECURITIES IDENTIFICATION NUMBER ISIN: DE0005800809**

▶ **SECURITIES IDENTIFICATION NUMBER 580 080**

▶ **CONTACT**

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E-mail investorrelations@constantin-film.de / www.constantinfilm.de

HOLLYWOOD



ANNUAL REPORT OF *Constantin Film* AG 2003

MANAGEMENT BOARD MEMBERS FRED KOGEL (CHAIRMAN) THOMAS PETER FRIEDL MARTIN MOSZKOWICZ DR DANIEL WIEST

SUPERVISORY BOARD MEMBERS BERND EICHINGER (CHAIRMAN) MARTIN WAGNER MARC CONRAD PROF DR GÜNTER ROHRBACH MARCO SYFRIG FRANZ WOODTLI

DEVELOPMENT OF THE FILM MATERIAL SCRIPTS CONSTANTIN SCRIPT & DEVELOPMENT GMBH CONSTANTIN MEDIA GMBH CONSTANTIN FILM DEVELOPMENT INC.

INTERNATIONAL AND GERMAN THEATRICAL PRODUCTION TV PRODUCTION CONSTANTIN FILM PRODUKTION GMBH CONSTANTIN FILM INTERNATIONAL GMBH

EQUITY INTERESTS CONSTANTIN ENTERTAINMENT GMBH 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 THEATRICAL 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 2003

