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„DIESER FILM WIRD
DEUTSCHLAND AUFWÜHLEN!“
 „EIN FURIOSE FILM!“
 „EIN EREIGNIS!“
 „EIN GEWALTIGER FILM!“

JETZT AUF DVD

ROSE ALEXANDRA MARIA CORINNA JULIANE URSULA
 GANZ LARA HARFOUCH KÖHLER NOETHER

DER UNTERGANG

IM OLIVER HIRSCHBIEGEL FILM
 IM BERND EICHINGER PRODUKTION

KEY FIGURES GROUP

	01.01.-31.12.2004 € million	01.01.-31.12.2005 € million
Sales	246.9	213.8
of which in-house productions	186.0	176.7
of which third-party productions	60.9	37.1
EBITDA	100.9	81.4
Gross profit	32.3	31.3
EBIT	14.8	10.9
Result attributable to the shareholders of the parent company	7.0	3.9
Investments in film asset	69.0	119.4
Depreciation of film assets	84.3	67.9
	31.12.2004	31.12.2005
Film assets	143.5	195.1
Equity	73.7	60.7
Balance sheet total	305.2	391.2
Employees (number)	235	213
Earnings per share in € (undiluted)	0.55	0.31



Dear shareholders,
dear friends of Constantin Film AG,

Following the record year in 2004, 2005 was an eventful year for Constantin Film AG that presented all sorts of different challenges. A difficult theatrical market because of a poor range of products, piracy and a noticeable change in consumers' behaviour patterns had an impact on the industry as a whole as well as on the box office admissions of our films.

The figures for 2005, with total box office admissions of 127.3 million and sales of € 754.0 million, were a disappointment to German theatres and distributors. They represent a drastic reduction over the 2004 theatrical year: a drop of 16.6 per cent in sales and of as much as 18.8 per cent by box office admissions – the lowest admissions since the 1995 theatrical year (all figures according to FFA).

This performance is attributable mainly to large audience shortfalls with films from the major US studios. However, also for German films 2005 was weaker in contrast to 2004, when domestic products – driven by such megablockbusters as **Dreamship Surprise – Period 1, Seven Dwarfs** or **Downfall** – generated 36.7 million box office admissions and reached a market share of 23.8 per cent, German films accounted for 17.1 per cent of the total market last

year with 21.5 box office admissions. This was still a high level that was considerably better than the average of the past ten years.

Germany was not the only country where the theatrical industry suffered substantial shortfalls in both sales and box office admissions last year; on the contrary, the same phenomenon was experienced almost everywhere in the world. In the USA, theatre operators and studios reported a sizable sales reduction of almost 6 per cent, in France the industry had box office admissions that were down more than 10 per cent, in Spain the drop was more than 12 per cent and in Italy figures were 7 per cent lower. Some Asian countries, which have become accustomed to boom years, experienced percentage reductions in the double-digit range too. Great Britain was the only exception in Europe: the box office record set in 2004 was only missed by just under 4 per cent last year. All in all, however, 2005 brought the worst global box office receipts in the past 20 years.

Constantin Film's fiscal year in 2005

The plan announced in August 2003 to broaden the basis of Constantin's business was implemented to full effect for the first time in 2004 and produced substantial success. However, the much more difficult theatrical year in 2005 was the real acid test for the new business strategy, when it became very clear that the

“5-pillar strategy” adopted by Constantin Film AG is a great success. By adding three more areas of operation – licence trading, in-house exploitation of video and DVD rights and intensified TV service production (TV entertainment in particular) – to production and distribution, our two classic areas of operation, we have reduced the inherent volatility of the film business, expanded the core business purposefully and strengthened our leading position on the European media market.

Our theatrical films in 2005

Constantin Film adapted the distribution programme to the poorer market situation last year and only released 16 films to German theatres: 7 of them were in-house and co-productions, while 9 were licensed films. German films accounted for almost 50 per cent of the distribution programme, the highest level for years. A market share of 6.4 per cent was reached with 7.8 box office admissions. Constantin Film was therefore once again the most successful independent German distributor after the 5 major US studios. Every third ticket that was bought at theatres last year for a German film was for a film distributed by Constantin Film.

Two in-house productions by Constantin Film were among the top 10 theatrical films of German origin in 2005. The film of Corinne Hofmann's bestseller

The White Maasai came in 1st with more than 2.2 million box office admissions. The authentic love story between a white woman and a Maasai warrior was directed sensitively by Hermine Huntgeburth (**Bibi Blocksberg**). Nina Hoss (**Das Mädchen Rosemarie**) was awarded the 2005 Bavarian Film Prize in Munich on January 13, 2006 for her outstanding performance as the main character "Carola".

The comedy highlight **Siegfried** by successful director Sven Unterwaldt jr. (**Seven Dwarfs**) was the fifth most popular German film in 2005. Tom Gerhardt, who has been getting audiences in Germany to laugh for more than 15 years now with films and sitcoms produced by Constantin Film (**Ballermann 6, Voll normaal, Hausmeister Krause**), plays the leading role brilliantly in this delightful persiflage of the Nibelungen saga and attracted almost 1.3 million enthusiastic cinema-goers to German theatres.

The Olga Film / Constantin Film / Seven Pictures production **Napola – Elite für den Führer** impressed German theatre audiences in the first quarter of last year (462,000 box office admissions). Dennis Gansel directed the story of a boarding school for the Nazi elite from the point of view of a 16-year-old schoolboy, who is initially attracted by the regime but then slowly begins to doubt the system. The main parts are played by Max Riemelt (**Mädchen Mädchen!**) and

Tom Schilling (**Verschwende deine Jugend**). Dennis Gansel received the prize for best director at the Bavarian Film Prize ceremony on January 14, 2005 for his convincing achievement.

In the romantic comedy **Vom Suchen und Finden der Liebe** (released to theatres on January 27, 2005), star director and master of social and media satire Helmut Dietl painted a pointed and entertaining film picture of the trials and tribulations of earthly and heavenly love. Alexandra Maria Lara (**Downfall**) and Moritz Bleibtreu (**Agnes und seine Brüder**) play the leading parts. The Constantin Film / Diana Film production was seen by a total audience of almost 600,000 in Germany.

In the horror segment, we released the fantasy suspense thriller **The Grudge**, which recorded more than 410,000 box office admissions, in early March. The adaptation of the unusual Japanese horror story was staged by cult director Takashi Shimizu; ex-"Buffy" Sarah Michelle Gellar gets to the gloomy bottom of the diabolic secrets of the past in the leading role.

We provided perfect family entertainment at Easter by releasing the animal comedy **Racing Stripes** to German theatres. Such popular stars as Günther Jauch, Iris Berben, Ottfried Fischer and Oliver Pocher lent their voices to the main animal characters for the German version. A total theatrical audience of more

than 500,000 wanted to see the zebra that thinks it is a racehorse.

We released the international Bernd Eichinger production **Fantastic Four** to German theatres in the summer of the past distribution year. Constantin Film had adapted the extremely successful Marvel Comic series of the same name for the theatre screen together with the US studio Twentieth Century Fox and with Tim Story as director. Twentieth Century Fox holds the foreign exploitation rights to this film. **Fantastic Four** generated box office receipts of USD 155 million at US theatres alone by the end of the year. The action-packed comic film attracted more than 680,000 admissions in Germany.

In September, Constantin Film started theatrical distribution of **Paradise Now**, a film by the Palestinian director Hany Abu-Assad that takes the audience right into the heart of the explosive issue of the Israeli occupation and has made a huge contribution to the international debate about the current political situation. At the Berlinale last year, it was awarded the prestigious audience prize, the Blue Angel, as "Best European Film" as well as the peace prize of the human rights organisation Amnesty International. It was chosen as "Best Foreign Language Film" at the Golden Globe® Awards in January this year, while a special highlight was the Oscar® nomination by the



Academy of Motion Picture Arts and Sciences in the same category in January 2006.

The co-productions **Kammerflimmern** and **Der Fischer und seine Frau** as well as the licensed films **Die Bluthochzeit**, **Seed of Chucky** and **Domino** unfortunately did not meet our expectations.

New productions

Constantin Film started in-house and co-production of 8 theatrical feature films and 17 TV movies last year.

The projects are a clear reflection of the Management Board's strategy in the in-house production field: in addition to event productions, we are focussing on German family products and international genre films.

Principal photography of the film based on the million-selling classic children's book and audio cassette **Hui Buh – Das Schlossgespenst** started in February. We continued our extremely successful co-operation with audience favourite Michael "Bully" Herbig (**Dreamship Surprise – Period 1**) on this project. Herbig brings the main figure, the charming ghost "Hui Buh", to life under the direction of Sebastian Niemann (**Das Jesus Video**). He is supported in this CGI/real film by his fellow actors Hans Clarin (**Pumuckl und sein Zirkusabenteuer**), who has died in the meantime, Christoph Maria Herbst (**Der Wixxer**),

Heike Makatsch (**Love Actually**) and Rick Kavanian (**Dreamship Surprise – Period 1**). The producer is Christian Becker with Rat Pack Filmproduktion GmbH, a subsidiary of Constantin Film AG. **Hui Buh – Das Schlossgespenst** is one of the highlights of our distribution programme in 2006 and will be released to theatres all over Germany on July 20.

At the beginning of May 2005, shooting of **Dead or Alive** (aka **DoA**) began in China under the direction of Corey Yuen (**The Transporter**) with the actors Devon Aoki (**Sin City**), Sarah Carter (**Final Destination**), Natassia Malthe (**Elektra**), Matthew Marsden (**Black Hawk Down**) among many others. This film is based on the bestselling video game franchise "Dead or Alive" from Tecmo and continues the close co-operation between our subsidiary Impact Pictures and the video game industry. The Tecmo "Dead or Alive" franchise, a genuine success story in the video game world, was already a million seller as software for the Sony Playstation platform before its relaunch as an exclusive X-Box title in 2002, which quickly became one of that platform's premium titles. The fast-moving, action-packed film is to be released to German theatres on August 10, 2006. The international exploitation rights are held by Weinstein Company, the new company established by the Weinstein brothers, in North America and by Universal Pictures in most other countries.

Principal photography of the Bernd Eichinger / Oliver Berben production **Elementarteilchen** started in mid-May last year with a unique cast of German stars. Oskar Roehler (**Agnes und seine Brüder**) wrote the screenplay and directed the filming of the cult novel of the same name by Michel Houellebecq. Moritz Bleibtreu (**Vom Suchen und Finden der Liebe**), Martina Gedeck (**Mostly Martha**), Christian Ulmen (**Berlin Blues**), Franka Potente (**The Bourne Supremacy**) and Nina Hoss (**The White Maasai**) were chosen to play the leading roles. **Elementarteilchen** caused a sensation as one of four German entries in the Berlinale competition this year. Moritz Bleibtreu was awarded the Silver Bear for his acting performance. The film has already attracted enthusiastic audiences of over 700,000 since it was released to theatres on February 23, 2006.

Shooting of the collina Filmproduktion / Constantin Film co-production **Der Räuber Hotzenplotz**, in which the successful, legendary book of the same name by Otfried Preußler is being filmed, began at the end of May 2005. More than 6.5 million copies of the books of the Hotzenplotz series – translated into 34 languages – have been sold in the meantime. Armin Rohde (**Die Bluthochzeit**) plays the main part of the highway robber, while Rufus Beck (**Tabaluga**), Katharina Thalbach (**King of Thieves**) and Piet Klocke (**Das fliegende Klassenzimmer**) are some of the

actors appearing in other roles. The fairy-tale, humorous and exciting film was directed by Gernot Roll (**Ballermann 6**). Both children and adults were looking forward to March 23, 2006 when Constantin Film released the film to theatres throughout Germany.

The first scene of the international Bernd Eichinger production **Perfume – The Story of a Murderer** was shot on July 12, 2005. This production is the long-awaited film of the global bestseller of the same name by Patrick Süskind with sales of 12 million copies all over the world that was on the Spiegel bestseller list for 8 years. Tom Tykwer (**Run Lola Run**) is directing the feature film on the basis of a screenplay written by Andrew Birkin (**The Name of the Rose**), Bernd Eichinger and Tom Tykwer. The 25-year-old British shooting star Ben Whishaw (**Hamlet**), Hollywood star Dustin Hoffman (**Meet the Fockers**), Alan Rickman (**Harry Potter**) and the up-and-coming actress Rachel Hurd-Wood are playing the leading roles in this European co-production. Indoor filming took place at Bavaria Film Studios in Munich, while the lavish outdoor scenes were shot on location in Spain and France. Shooting of this major production was completed successfully on October 17, 2005 after more than three months. Constantin Film is releasing **Perfume – The Story of a Murderer** to theatres all over Germany on September 14, 2006. The US

studio Dreamworks is responsible for exploitation in the USA.

Die Wilden Hühner, a film based on the extremely successful series of books by bestseller author Cornelia Funke about the coolest and cheekiest gang of girls ever, was also shot in the third quarter of last year. Güzin Kar and Uschi Reich wrote the screenplay and Vivian Naefe (**2 Männer, 2 Frauen, 4 Probleme**) was the director. Constantin Film is continuing its successful co-operation with Uschi Reich, Peter Zenk and Bavaria Filmproduktion on this co-production. Uschi Reich is the most successful German producer in the family entertainment field, with such feature films as **Das fliegende Klassenzimmer**, **Bibi Blocksberg** and **Emil and the Detectives**. **Die Wilden Hühner** has already impressed more than 1.0 million film fans since it was released to theatres on February 9, 2006.

Shooting of **TKKG und die rätselhafte Mind-Maschine** began on location in Bavaria at the end of August in a further project involving co-operation with Uschi Reich and Bavaria. The likeable young detectives are being brought to the big screen in this theatrical adaptation of the popular series of children's books and audio cassettes of the same name by Stefan Wolf, 26 million copies of which have been sold so far. The screenplay was written by Marco Petry

(**No More School**) and Tomy Wigand (**Das fliegende Klassenzimmer**) was chosen as director. Constantin Film is planning to release the exciting family entertainment production to theatres throughout Germany on September 28, 2006.

Our subsidiary Rat Pack Filmproduktion co-produced **Französisch für Anfänger** (aka **Échange**) in co-operation with Neos Film in August and September 2005. The producers are Christoph Menardi (**Weiß Stille**) and Christian Becker (**Der Wixxer**). Paula Schramm and François Göske are playing the leading roles in this feature film about falling in love for the first time against the background of a German-French school exchange programme that has been directed by newcomer Christian Ditter (TV series **Schulmädchen**).

TV productions

In the production operations for fiction TV programmes, we completed what is now the fifth series of our long-running hit sitcom **Hausmeister Krause** with audience favourite Tom Gerhardt (**Voll normaal**) in the leading part successfully at the beginning of 2005. Hausmeister Krause is by far the most successful series produced by Constantin Film and is one of the most successful TV productions on the German sitcom market.



The second series (10 programmes) of **Typisch Sophie**, which is being aired on Sat.1 from February 27, 2006 onwards, was filmed in co-operation with AllMedia Pictures GmbH. The main actors in the successful prime-time series, Sophie Schütt and Jochen Horst, were nominated in the "Best Series Actor" category of the 2005 German Television Awards.

The first series of the new Sat.1 programme **Freunde für immer – Das Leben ist rund** was shot in co-operation with Little Shark Entertainment and is to be shown from May 2006 onwards. The directors Sönke Wortmann (**The Miracle of Bern**), Wolfgang Groos and Heinrich Hadding (**Wenn zwei sich streiten ...**) are adapting the successful Dutch TV comedy series "Allstars" in a charming and authentic way in this project. The focus is on seven very different young men, played by such actors as André Röhner, Matthias Gall and Stefan Feddersen Clausen, whose longstanding friendship is based exclusively on their involvement in an amateur football team.

Our subsidiary MOOVIE – the art of entertainment GmbH completed two new programmes of the popular ZDF thriller series **Rosa Roth** with Iris Berben in the leading role and Carlo Rola as director last year. Shooting of the third series of the popular Sat.1 sitcom **Bewegte Männer** (director: Michael Zens) was also completed successfully.

More than 1000 Words is a documentary film by MOOVIE about the Israeli war photographer Ziv Koren. Solo Avital, a film-maker who was born in Israel, directed this Oliver Berben production.

The TV drama **Silberhochzeit** ("Silver Wedding") based on motifs from a short story by Elke Heidenreich was filmed on behalf of Das Erste and arte. Matti Geschonneck was the director. Iris Berben (**Rosa Roth**), Matthias Habich (**Downfall**), Axel Milberg (**Speer and Hitler: The Devil's Architect**), Gisela Schneeberger (**Germanikus**) and Ulrich Noethen (**Downfall**) are part of the "wedding party". **Silberhochzeit** has been nominated not only for the Golden Camera award but also for the coveted Grimme Prize.

The three-part family saga **Die Patriarchin** (director: Carlo Rola) with Iris Berben in the leading role was a sensational success when it was shown on ZDF. The first part on January 3, 2005 attracted 8.17 million enthusiastic viewers (market share: 22.7 per cent), two days later the market share increased to 24.3 per cent (8.26 million viewers) and the ratings increased to an outstanding 9.38 million viewers and a market share of 24.1 per cent for the final part. This meant that the MOOVIE production was the most-watched television film in 2005 and won the TV movie prize at the DIVA German Entertainment Awards this year.

The two-part TV version of the Bernd Eichinger production **Downfall** was also a great success when it was shown on ARD. The first part reached an impressive market share of 21.5 per cent with 7.2 million viewers on October 19, 2005, while the second part attracted a television audience of 6.9 million the next evening.

Our subsidiary Rat Pack Filmproduktion GmbH made ten more programmes for the popular ProSieben series **Kalkofes Mattscheibe** at the beginning of 2005. In the spring, the Rat Pack team filmed the Sat.1 TV movie **Ich bin ein Berliner** (director: Franziska Meyer Price) with Thomas Heinze (**Der Wixxer**) and Sophie von Kessel (**Die Rückkehr des Vaters**) in the leading parts. A market share of 8.6 per cent was reached when it was aired in a prime-time slot on September 27, 2005.

Rat Pack made the service production **Vollgas – Gebremst wird später** too. Lars Montag was the director, while Jan Sosniok (**Siegfried**) and Valerie Niehaus (**Donna Leon: Beweise, dass es böse ist**) were cast in the leading roles. The action TV movie was shown on ProSieben on October 13, 2005, when it recorded a market share of 10.6 per cent.

The TV movie **Meine verrückte türkische Hochzeit**, a film about the love affair between a young German man and a Turkish woman, was shot in the autumn

under the direction of Stefan Holtz (**Mädchen Nr. 1**). Florian David Fitz (**Mädchen Mädchen 2 – Loft oder Liebe**) and Mandala Tayde (**Das Traumhotel: Zauber von Bali**) play the leading roles in this sensitive ProSieben comedy.

The Constantin Film subsidiary Olga Film GmbH produced the ProSieben TV comedy **Mein Vater, seine Neue und Ich** (director: Peter Gersina) last year with Herbert Knaup (**Agnes und seine Brüder**), Katharina Müller-Elmau (**In Liebe eine Eins**) and young actress Sidney Gersina in the leading parts. The melodrama **Mathilde liebt** (director: Wolfram Paulus) with Christiane Hörbiger (**Julia – Eine ungewöhnliche Frau**) in the leading role and the moving family drama **Liebe Amelie** (director: Maris Pfeiffer) were made for Das Erste on a WDR commission. Thomas Berger directed the shooting of two more programmes for the series **Die Kommissarin** with Ulrike Kriener in the lead. Olga Film is continuing this successful ZDF series with **Das Verhör** and **Skizze einer Toten**.

In the show and entertainment production operations, our subsidiary Constantin Entertainment GmbH continued to expand its excellent market position last year. The company's outstanding performance and the generally positive development of the market in the TV entertainment field are confirmation of the strategy adopted by the Management Board to expand the

TV service production segment. A total of about 1 000 hours of programmes were produced last year with the successful daily formats it has established. Particularly the two court shows **Das Strafgericht** (RTL) and **Richter Alexander Hold** (Sat.1) and the crime documentaries **Lenßen & Partner** (Sat.1) and **K11 – Kommissare im Einsatz** (Sat.1) reached top ratings in the target group relevant to the advertising industry in their individual slots.

Constantin Entertainment is operating successfully in the comedy field with the popular sketch show **Die Dreisten Drei**. The weekly format featuring Mirja Boes, Markus Majowski and Mathias Schlung is aired on Sat.1 on Friday evenings with excellent ratings.

The weekly science show **clever! – Die Show, die Wissen schafft** (hosts: Barbara Eligmann and Wigald Boning) is a prizewinning format. At the 2005 German Television Awards the jury presented the audience favourite the prize in the top category "Best Entertainment Programme / Best Hosting".

The Constantin Entertainment prime-time events last year included the exciting action event **Stars am Limit** and the event show **Die Comedy-Falle**. Both productions are hosted by the presenter Kai Pflaume; the programmes achieved excellent ratings when they

were shown on Sat.1 in a prime-time evening slot. Hugo Egon Balder hosted further editions of the popular music show **Die Hit Giganten** on Sat.1 and since the end of September Kabel1 has been offering its viewers an exciting journey back in time to see what television was like in the past with the prime-time show **Top 10 TV** (host: Steven Gätjen).

Constantin Entertainment had the right programme for special occasions as well: it produced the moving and extremely successful Sat.1 charity gala **Deutschland hilft!** at short notice on January 3, 2005, for example, when German stars from the political, business, cultural and sports communities helped to generate impressive donations of € 10.6 million for the victims of the tsunami. The opening of the new Allianz Arena in Munich by TSV 1860 München on May 30, 2005 was another highlight of Constantin Entertainment's productions. The tremendous opening ceremony was seen live by 66,000 enthusiastic spectators in the stadium as well as by millions of Germans on TV and brought the Bayerische Rundfunk channel a sensational rating of 21.8 per cent in Bavaria alone.

Home entertainment

Following our market entry as an independent video and DVD programme supplier on January 1, 2004, we succeeded in strengthening Constantin Film's position on the home entertainment market in 2005 too,



establishing ourselves as one of the leading independent programme producers in the German-speaking world with the "Constantin Film" product brand.

On the basis of our successful feature films from 2004 and 2005 combined with the additional licensed films from the film and TV field that were bought specially for the home entertainment segment, we managed to reach or even exceed the targets set for in-house marketing. Constantin Film increased its share of the sell-through DVD market to 3.0 per cent last year. Our programmes reached the impressive market share of as much as 6.0 per cent in the DVD rental business at video stores. The market position achieved in 2005 is even more impressive when it is taken into account that Constantin Film still only has a limited programme catalogue compared with the competition because of its former practice of selling licences to third parties.

Right at the beginning of 2005, we made a successful start with the teen comedy **Mädchen Mädchen 2 – Loft oder Liebe**, which was produced by our subsidiary Olga Film. This was followed shortly afterwards by the first major release in our programme: our in-house production **Resident Evil: Apocalypse**, which has been a success all over the world. The action film, in which Milla Jovovich plays the leading

female role, is based on the video game of the same name. The film developed into our first real blockbuster in the course of the year with more than 325,000 copies sold in German-speaking countries.

The long-awaited DVD release of **Downfall**, the film produced by Bernd Eichinger, then followed in March 2005. It immediately entered the hit parade compiled by "media control" at the top. The figures are impressive: including the extended version released in October 2005, more than 680,000 copies of the film were sold by the end of the year, making it one of the most successful DVD products in the whole of last year with this performance, which was achieved solely in the first marketing phase.

The first quarter of last year was rounded off by the release of the film **The Chorus** produced by Arthur Cohn, which followed the great success it achieved at theatres by attracting a large video audience too.

The second quarter began with the April release of the road movie **The Motorcycle Diaries**, which was directed by Walter Salles and was based on the authentic diaries kept by the young Che Guevara.

The historical drama **Alexander** with a star-studded cast led by Colin Farrell and Angelina Jolie that was directed by Oliver Stone was our main release in the

second quarter. **Alexander** entered the top 3 in the hit parade published by "media control" as soon as it was released and 345,000 copies of the film were sold by the end of the year.

We concluded the second quarter successfully with the release of the teen comedy **Harold & Kumar Go to White Castle** by director Danny Leiner and the horror comedy **Die Nacht der lebenden Loser**, which was directed by the humour expert Matthias Dinter.

An initial highlight in the third quarter was the in-house production **Napola – Elite für den Führer**, for which Dennis Gansel received the Bavarian Film Prize as director. The film was produced by Constantin Film AG in liaison with its subsidiary Olga Film.

The spotlight was on a German film when the romantic comedy **Vom Suchen und Finden der Liebe** by Helmut Dietl was released. With a cast starring Moritz Bleibtreu and Alexandra Maria Lara, the film proved to be very popular with the female audience in particular.

The fairy-tale martial arts film **House of Flying Daggers** by the Chinese director Zhang Yimou, which was released in August, was targeted more at male viewers and the fan community had been waiting keenly for it to appear.

The creepy thriller **The Grudge** produced by legendary horror film-maker Sam Raimi (director of **Spiderman 1 & 2**) was released at the beginning of September. The film is a US adaptation based on the Japanese horror thriller **Ju-On** and was staged by cult director Takashi Shimizu. Sarah Michelle Gellar (**Buffy**) performs convincingly in the leading female part.

Both young and old were enthusiastic about the family comedy **Racing Stripes**, which was also released successfully, shortly before the end of the third quarter, thanks in part to the voices that were dubbed for the German version by Günther Jauch, Jeanette Biedermann, Christian Tramitz, Oliver Pocher and Iris Berben.

Technology and innovation attracted attention in the third quarter of 2005: in the context of the launch of the new PSP ("PlayStation Portable") by Sony, Constantin Film AG also decided to support the new "Universal Media Disk" (UMD) format and already released its first films on the new storage medium in September.

The large number of nominations for the 2005 DVD Champion confirmed that Constantin Film not only stands for high-quality theatrical films but also unusual DVD productions. The special-edition DVD for **Downfall** was chosen as the 2005 DVD Champion in the "German Film" category at the

event that has been held by years now by the Entertainment Verlag publishing company.

Another highlight was the release in the fourth quarter on October 20, 2005 of **Downfall – Extended Version** at the same time the film was shown on TV by ARD. In addition to the extended version of the film produced for ARD (177 minutes), the DVD box set includes a large amount of bonus material that had not been published before.

The remake of John Carpenter's classic thriller **Assault on Precinct 13** was our focal point in rental operations in October. The film starring Ethan Hawke and Laurence Fishburne in the leading roles established itself in the charts immediately.

The two main characters played by Armin Rohde and Uwe Ochsenknecht made it clear in **Die Bluthochzeit** that a wedding ceremony can also prove to be very tricky. This extremely black comedy was very popular with video fans.

We were able to release **Hausmeister Krause**, our most successful TV comedy series production, on DVD for the first time in October too. Tom Gerhardt has become a cult figure in Germany in his role as "Hausmeister Krause" – the pig-headed, thoroughly German caretaker with a cord hat and a grey jacket

who is always in a bad mood has been delighting audiences for years now.

Best of Harald Schmidt 2005, which was released on DVD in November, stood for satirical humour coupled at the same time with irresistible charm and sophisticated wit. It shows the most successful TV programmes of entertainer Harald Schmidt from the past year – sheer enjoyment for his fans. The DVD was produced in co-operation with Das Erste.

With **Fantastic Four**, a Bernd Eichinger production that Constantin Film made in co-operation with the US studio Twentieth Century Fox, we were able to launch another unusual blockbuster at the beginning of December in good time for the Christmas season. Tim Story directed a spectacular action film here based on the Marvel Comic series of the same name that can be compared with its great predecessors like **Spiderman** or **X-Men**. The figures speak for themselves: although it was released shortly before the end of the year, the large fan community bought the unique action film in considerable numbers, so that almost 200,000 copies were sold before the year ended.

Licence trading

We succeeded in expanding the licence trading operations substantially at the beginning of 2005:



in addition to the strategic alliance already entered into with Premiere in the pay TV field in February 2004, Constantin Film Verleih GmbH, a subsidiary of Constantin Film AG, concluded an output deal with the ProSiebenSat.1 Group about the exploitation of free TV rights in February 2005. The deal covers the national and international in-house and co-productions by Constantin Film AG and its subsidiaries with principal photography between July 1, 2004 and December 31, 2006 and their free TV rights which are available to Constantin Film. The deal therefore includes the free TV licence rights to the comedy **Siegfried**, the film of the million-selling book **The White Maasai** and **Hui Buh – Das Schlossgespenst**. ProSiebenSat.1 Media AG is a preferred marketing partner for Constantin Film AG in all theatrical releases and film premieres too. The strategic partnership is not restricted to Constantin Film's in-house and co-productions alone, however. ProSiebenSat.1 has also acquired numerous international free TV theatrical hits from Constantin Film, such as **The Dark**, **The Passion of the Christ**, **The Grudge** and **Assault on Precinct 13**.

Constantin Film has outstanding partners for marketing its TV rights in Germany with ProSiebenSat.1 as well as ARD/Degeto and ZDF, which has – among other things – acquired the licence rights to the sequel to **Basic Instinct** featuring Hollywood star Sharon Stone

from Constantin Film, where free TV rights are concerned and Premiere and T-Online for pay TV rights. The aim of our rights trading activities is to satisfy the requirement of our theatrical distribution and home entertainment marketing operations for a sufficiently large volume of promising products when buying films and if possible to acquire all the rights to these films throughout the exploitation chain. All the rights to both the films we have licensed and our in-house productions are exploited in the sales activities. The aim in this context is to minimise the risk for all the players involved by means of close co-ordination before transactions are carried out.

In the 2005 fiscal year, Constantin Film AG managed to exceed the targets it revised upwards in the autumn. The company generated sales of € 213.8 million. The gross profit was € 31.3 million and EBIT were substantially positive at € 10.9 million.

Prospects for 2006

Constantin Film will probably be releasing at least 15 films, 9 of them in-house and co-productions and 6 of them licensed productions, to German theatres in 2006.

The highlights of our distribution programme are our in-house and co-productions **Die Wilden Hühner**, **Elementarteilchen**, **Hui Buh – Das Schlossgespenst**,

Dead or Alive and **Perfume – The Story of a Murderer**.

As far as our licensed productions are concerned, we are particularly looking forward to the exciting erotic thriller **Basic Instinct 2: Risk Addiction** featuring Hollywood star Sharon Stone in the leading part. Not only Rowan Atkinson fans will enjoy the thoroughly black comedy **Keeping Mum** in the spring and **Apocalypto**, the new film by successful director Mel Gibson, is being released in August.

In the TV service production operations, we are aiming to continue the positive development with fiction programmes in particular, not only with our subsidiaries but also with the newly established company Constantin Television GmbH.

Although the home entertainment division is exploiting the somewhat weaker theatrical distribution programme of 2005 in 2006, we are planning to continue establishing ourselves as strong player on the market with such successful films as **Siegfried** and **The White Maasai** as well as with the help of the steadily growing selection of library films.

We are expecting larger licence trading sales than in 2005, because the extensive efforts started by the

Management Board in 2004 to market the Constantin films throughout the exploitation chain are now starting to produce initial results.

Our attractive and varied distribution programme, the intensive development and production activities and the ongoing integration of all the company's operations will enable us to make further progress in the current year.

We are therefore planning to generate sales of about € 250 million and positive EBIT of about € 12 million in 2006.



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



► **Martin Moszkowicz** / production

Dear shareholders,
dear friends of Constantin Film AG,

The past fiscal year was interesting and presented all sorts of different challenges. Thanks to the responsible corporate policy and the improvement in the strategic alignment of the company, the business developed soundly – although without any major positive surprises – in spite of the very difficult situation in the entire media segment last year. The purposeful expansion of the core business has reduced the inherent volatility of the film business and we have succeeded in maintaining our position on the market as one of the most important German media companies. This continues to be our objective in future too.



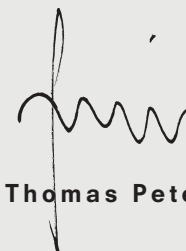
► **Hanns Beese** / finance and accounting



► **Franz Woodtli** / home entertainment

The clear alignment of our company, our team of creative and qualified staff and the proven, intensive contacts we have established and maintained over decades to key people and companies in the media business all over the world are important factors that will help us to continue operating successfully.

We would like to thank you for the confidence you have placed in us and the loyalty you have demonstrated.



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



The Supervisory Board carried out its advisory and control assignment throughout the 2005 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.

All the main issues of business policy, particularly the economic development of the company, strategy and planning, relevant business events and business transactions that required approval, were reviewed and discussed intensively, in detail, analytically and empirically on the basis of reports by the Management Board at the four meetings held in the 2005 fiscal year as well as in written decision-making processes, including discussion of these issues with the Management Board too. On several occasions in the 2005 fiscal year, the Supervisory Board exercised its right to inspect the company's books, other documentation and assets.

The issues that the Supervisory Board focussed on in particular during the 2005 fiscal year were the international production **Perfume – The Story of a Murderer**, expansion of the activities in the TV service production operations (specifically the increase to 100 per cent in the interest held in Constantin

Entertainment GmbH) and the difficult situation on the German theatrical distribution market throughout 2005. 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 is being made available to the shareholders on a permanent basis in the Internet (www.constantinfilm.de).

The Supervisory Board has only formed one committee, the Audit Committee. Following the end of both the 2004 fiscal year and the 2005 fiscal year, the Audit Committee reviewed the financial statement documents of Constantin Film AG and the Group, checked the risk monitoring system and discussed the audit reports with the auditor. The Committee met a total of 4 times in the 2005 fiscal year.

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 2005 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 2005 fiscal year were raised after the Supervisory Board subsequently completed its own internal review either. At its meeting on March 29, 2006, 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.

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 about it by the auditor. The auditor issued the following unqualified 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 and
3. there are no reasons to make a significantly different assessment from the Management Board with respect to the measures outlined in the report.”

The auditor took part in the discussions held by the Supervisory Board about the report on the relationships to affiliated companies and presented a report about the main results of his audit. The Supervisory Board saw no need to raise any objections after it completed its review of the report by the Management Board and the audit report by the auditor; the Supervisory Board approves the results of the audit by the auditor. Following the completion of its review, the Supervisory Board does not have any objections to the statement made by the Management Board at the end of the report about the relationships between Constantin Film AG and affiliated companies.

In a resolution passed by the Annual Shareholders' Meeting of the company that was held on May 12, 2005, Dr Paul Graf, businessman, Rheinfelden, Switzerland, and Mr Marc Conrad, film producer, Cologne, were elected to be members of the Supervisory Board. This means that the Supervisory Board has 6 members again.

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 2005.

Munich, March 2006



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

MEMBERS OF THE SUPERVISORY BOARD*

Bernd Eichinger / Chairman // Film producer

Martin Wagner / Deputy Chairman // Lawyer

Bernhard Burgener // Chairman of the Board of
Highlight Communications AG

Marc Conrad // Film producer

Dr Paul Graf // Businessman, Secretary General of the
Board of Highlight Communications AG

Professor Dr Günter Rohrbach // Independent producer

* See also the notes to the consolidated financial statements, page 66



COMPANY PORTRAIT – STRENGTHS AND STRATEGY

Over the past 25 years, Constantin Film has positioned itself in both the German media community and the international film industry as the most successful independent German producer and distributor.

Constantin Film has always succeeded in attracting millions of enthusiastic film fans with major German productions: **Der bewegte Mann**, **Werner – Beinhart**, **Ballermann 6** or **The Superwife** are just a few of the early theatrical hits. However, Constantin Film made a name for itself on the international film production market too as long as more than 20 years ago with such international in-house productions as **The Neverending Story** or **The Name of the Rose**. They were followed by further global hits such as **The House of the Spirits** or the action horror thriller **Resident Evil** and its sequel **Resident Evil: Apocalypse**, which have generated total worldwide sales of more than USD 700 million so far in the various stages of exploitation.

5 of the top 10 German blockbusters of the last 20 years were produced by Constantin Film; 22 of the top 50 German theatrical films since 1986 were released to theatres by the company. 11 of the 25 most successful German theatrical films of the past 10 years were distributed by Constantin Film, 7 of

them in-house productions (source: Top 50 List since 1986, 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 1977 by Bernd Eichinger, who is still one of Constantin Film's most important producers, and went public in 1999. We have improved the company's strategic alignment, continued to broaden our business base purposefully and developed into an integrated media group in recent years by the systematic addition of licence trading, in-house home entertainment exploitation and intensified TV service production, with a particular focus on TV entertainment to the two classic areas of operation.

In the past 5 years, Constantin Film has led the independent German distribution market by a long way, consistently competing at the same level as the major US studios in this context too. In the 2004 distribution year, we reached a record market share of 14.7 per cent with more than 22 million box office admissions. In spite of the difficult market situation and a poorer product range last year, Constantin Film managed to top the list of independent German distributors again. Every third ticket that was bought at theatres last year for a German film was for a film distributed by Constantin Film.

The film highlights that Constantin Film has released in recent years include the most successful German film ever (**Manitou's Shoe**) and the sensational blockbuster from 2004 **Dreamship Surprise – Period 1**. Bernd Eichinger's production **Downfall**, that was nominated for an Oscar®, and the Oscar® winner **Nowhere in Africa** were box office successes, as were our German in-house productions **The White Maasai**, **Siegfried, Mädchen, Mädchen!** and **Ants in my Pants**. Excellent admission figures have been recorded with the family entertainment productions **Die Wilden Hühner**, **Bibi Blocksberg**, **Emil and the Detectives**, **Das fliegende Klassenzimmer** and **Sams in Gefahr** in the last few years too. We reached top positions in the theatrical charts with the distribution of such international blockbusters as **The Sixth Sense** and **American Pie** – the most successful film in 2000 – or **Sleepy Hollow**. The art house films we distribute satisfy the increasing demand for sophisticated, high-quality products, making us German market leader in this sector with such theatrical films as **8 Women**, **Lost in Translation**, **The Passion of the Christ** or **The Chorus**, a film that was also nominated for an Oscar®.

One of Constantin Film's most important strategic objectives is and remains expansion of the national and international in-house production operations. What this means specifically for 2006 is that we intend to complete 6 to 7 film productions in the German-

speaking theatrical in-house and co-production field and probably up to 3 productions at the international level. International projects have become increasingly important in our in-house production operations in recent years and this area will continue to grow in the next few years.

Our German in-house and co-production partners include many well-known and experienced producers, such as Bernd Eichinger, Uschi Reich, Peter Zenk and Bavaria Filmproduktion, Professor Günter Rohrbach, Sönke Wortmann's Little Shark Entertainment and Ulrich Limmer's collina Filmproduktion GmbH. Our subsidiaries and associated companies Olga Film, MOOVIE – the art of entertainment, Rat Pack Filmproduktion and Westside Filmproduktion are important partners too. For our international projects, we count on successful co-operation with our subsidiary Impact Pictures. Longstanding intensive contacts to the most important nationally and internationally respected writers, directors and actors are another elementary feature of our successful film business. Constantin Film has developed exceptional specialised know-how that is unique in Germany in the production financing field in recent years and takes advantage of all sources of funding that are available at international level for its projects in order to minimise the risks involved. This enables us to arrange customised financing concepts according to the particular requirements of the individual projects.

Constantin Film has developed positively in the area of advance sales and global marketing of our German and international films and has become market leader in Germany in this field as well. Last year, for example, contracts for our productions worth USD 55 million were, concluded at the American Film Market. We co-operate with many of the major studios in the USA.

In the production operations for fiction TV programmes Constantin Film has already had a respected and successful position for years now with its subsidiaries Olga Film, MOOVIE, Rat Pack Filmproduktion and Westside Filmproduktion. The establishment of the subsidiary Constantin Television in early 2006 has rounded off these operations and has at the same time structured them more clearly by adding a further profit centre. Constantin Entertainment, which has been part of the Constantin Group since September 2003, is one of the German market leaders in the TV show and entertainment production field.

We obtain the roughly 15 to 20 films per year that are required to make our distribution business a success not only from our very important in-house production operations but also from the acquisition of individual licences (known as pick-ups) from our many long-standing production partners in Germany and elsewhere. The strategic significance of this licence trading has increased enormously, not only because of the expansion of our own capabilities but also because

of market developments. Since the licence market for film rights has cooled down more and more in recent years, not least of all because of the reduction in the number of German competitors, it is possible to buy individual films on a pick-up basis at acceptable conditions again.

Another positive development is the intensification of our TV licence sales. Whereas the licensing of practically all of Constantin Film's TV rights was carried out by KirchMedia in the past, Constantin Film AG has been responsible for complete exploitation at all rights levels since July 1, 2004. In this context, we concluded a general licence contract and several package deals with Premiere Fernsehen GmbH & Co. KG about the exploitation of pay TV rights in February 2004. The contracts cover all the in-house and co-productions of Constantin Film AG and its subsidiaries produced between January 1, 2004 and December 31, 2006 as well as further films from Constantin Film's entire distribution programme.

In February 2005, we were able to conclude an output deal with the ProSiebenSat.1 Group about the exploitation of our free TV rights too. The agreement covers the national and international in-house and co-productions by Constantin Film AG and its subsidiaries with principal photography in the period between July 1, 2004 and December 31, 2006, provided the free TV exploitation rights are held by Constantin.

As far as the films we acquire in Germany and abroad on the basis of individual licences are concerned, the very good contacts to all TV stations guarantee consistently successful sales of our high-quality films.

An important strategic broadening of the core business has been achieved with the in-house marketing of home entertainment as well. In co-operation with Highlight Communications AG and the sales organisation of Paramount Home Entertainment, Constantin Film is exploiting what is in the meantime the stable number of 20 to 25 DVD rights from in-house productions and licensed films independently. After we entered the market on January 1, 2004, we have succeeded in establishing the "Constantin Film" brand as one of the leading independent programme suppliers on the German-speaking home entertainment market.

Personnel and structural developments in 2005

Constantin Film AG and producer Bernd Eichinger extended the general producer contract between them until March 31, 2009 in the second quarter of 2005. The agreement ensures that Bernd Eichinger will produce exclusively for Constantin Film AG over a lengthy period of time and guarantees continuity in the successful co-operation between the two parties. Bernd Eichinger is also available to the company as a consultant for productions for which he is not responsible as producer.

Fred Kogel extended his contract as CEO and Chairman of the Management Board of Constantin Film AG until the summer of 2007 in the second quarter of 2005 too.

Robert Kulzer was appointed to be Co-President of the subsidiary Constantin Development Inc., Los Angeles, effective May 1, 2005. Since then, Robert Kulzer, who had been Head of Production at Constantin Development Inc. since 2000 and had already been responsible for international project development at Constantin Film for more than 10 years, has been sharing management of the international production operations and co-ordination of the strategic international production partnerships with Martin Moszkowicz at the location in Los Angeles.

On June 14, 2005, the main shareholders of Constantin Film AG, Bernd Eichinger and Highlight Communications AG, signed an option agreement about the purchase by Highlight Communications AG of the 25.1 per cent interest held by Bernd Eichinger Holding GmbH & Co. KG. Subsequently it was announced on January 19, 2006 that Highlight Communications AG had exercised the call option. The increase in the interest held in Constantin Film AG associated with this emphasises the successful co-operation between the two media companies.

In June 2005, Constantin Film AG acquired the remaining shares in Constantin Entertainment GmbH from the shareholders Kogel Beteiligungs- und Verwaltungs GmbH, Mr Ulrich Brock and Mr Otto Steiner. With economic effect from January 1, 2005, we therefore secured a 100 per cent interest in one of the leading TV entertainment production companies on the German market and our most successful subsidiary. In connection with the agreement, the directors of Constantin Entertainment GmbH, Ulrich Brock, Otto Steiner and Onno Müller, signed multi-year extensions to their contracts. This further long-term commitment of the management of the company guarantees not only the ongoing development of Constantin Entertainment GmbH but also the optimum exploitation of the synergy benefits between Constantin Film and its subsidiary.

At the 6th Annual Shareholders' Meeting of Constantin Film AG that was held in Munich on May 12, 2005, Dr Paul Graf, Secretary General of the Board of Highlight Communications AG, and Mr Marc Conrad, film producer, were appointed to be members of the Supervisory Board of Constantin Film AG.

Due to a lack of space at the existing location, Constantin Film AG moved into new rented offices in Feilitzschstrasse, Munich, in October 2005.

**THE STOCK MARKETS IN 2005:
LARGE-SCALE SHARE PRICE INCREASES**

In contrast to the theatrical industry, 2005 was in general a successful year for the stock markets. Following a positive start made at the beginning of the new year, sideways movements and consolidation were the dominant features in the following months. The DAX reached its low for the year at a final level of 4,178 points on April 28. The stock markets recovered in May and announcements of a possible general election in the autumn led to large increases in share prices.

The positive mood was depressed temporarily in July by the terrorist attacks in London, but investors regained confidence after a few days thanks to the fundamentally intact stock market environment and the stock exchanges were quick to get moving again. The German market was stimulated in particular by the stock market players' hope that there would be a change in the government coupled with the adoption of a more liberal economic policy. The stock markets came to terms relatively fast with the fact that the Conservatives and Liberals did not win a majority after all and that the general election "only" led to a "grand coalition". The "Merkel effect" finally pushed the DAX over the 5,000 point mark.

Not even the hurricanes "Katrina", "Rita" and "Wilma", that devastated cities on the US coast at intervals of a few weeks between August and October and drove the oil price to new heights, were able to stop the clear upward trend on the stock markets. Share prices set off on a year-end rally in November, regularly reaching new highs and ending the 2005 stock market year with a bang. Following a high for the year of 5,459 points on December 29, the DAX closed 2005 a day later on 5,408 points, which represented an increase of 27.1 per cent over the same date the previous year. The main German index increased for the third year in succession and outperformed the US stock markets emphatically too: Dow Jones and Nasdaq only recorded minimal growth over the year. The DAX did better than the EuroStoxx 50 as well. The European stock market barometer only went up 21.3 per cent.

The other indices ended the past stock market year even more impressively. The MDAX rose by 36.0 per cent compared with the previous year, for example. The SDAX, the small share segment, also performed particularly well, increasing by 35.2 per cent over the previous year. Technology shares developed considerably less well, on the other hand. The TecDAX grew by a comparatively moderate 14.7 per cent.

Turnover by all the German stock exchanges amounted to about € 3.800 billion in 2005 – growth of 15 per cent over the previous year. The market for new issues in Germany recovered considerably in 2005 too. Frankfurt Stock Exchange experienced numerous new issues last year; there were 14 IPOs and 2 first trading days in the Prime Standard alone.

▶ PERFORMANCE COMPARISON

from 13.09.1999 to 31.12.2005 / in per cent



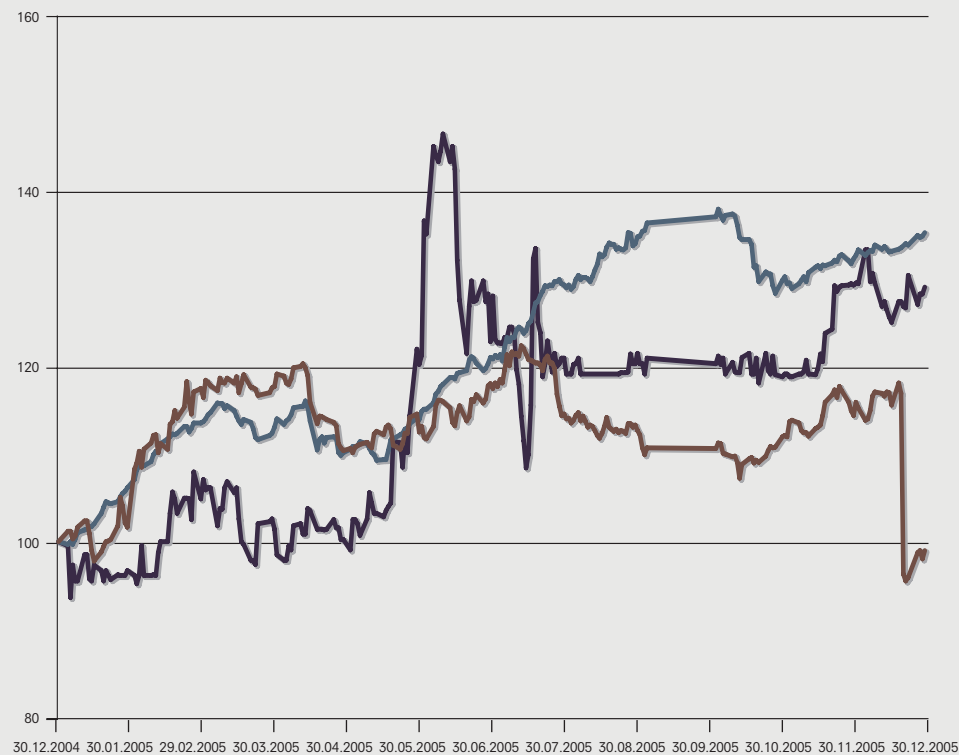
13.09.1999 / Issue price € 29.00

31.12.2005 / Final price € 10.94

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

▶ PERFORMANCE COMPARISON

from 31.12.2004 to 31.12.2005 / in per cent



31.12.2004 / Final price € 8.48

31.12.2005 / Final price € 10.94

▶ SECURITIES IDENTIFICATION NUMBER 580 080

▶ INTERNATIONAL SECURITIES IDENTIFICATION NUMBER ISIN:
DE0005800809

THE CONSTANTIN FILM SHARE

The overall development of the Constantin Film share, which is listed in the Prime Standard, was encouraging in 2005. The share price moved sideways in the first few weeks of the new year. In mid-February the announcement of the conclusion of the output deal with the ProSiebenSat.1 Group about the exploitation of free TV rights stimulated the share. The share price rose to € 9.15 on February 25 before the Oscar® award ceremony, where the Bernd Eichinger production **Downfall** was nominated as the “Best Foreign Language Film”. The share dropped back below the € 9 mark in mid-March and followed the market in general during the next two months, as a result of which the share price mainly moved sideways again.

The price of the Constantin Film share started to increase impressively in mid-May. The closing price was above € 9 again for the first time on May 20 and a week later the € 10 mark was exceeded for the first time since September 2001. Driven to some extent by speculation about the future shareholder structure and stock market listing of Constantin Film AG, which was attributable to comments by a major new shareholder of Highlight Communications AG, the Constantin Film shareholder, the share price reached one high after another. The € 11 and € 12 marks were passed within a few days; on June 10, the share reached not only the high for 2005 with a closing price of € 12.42; this

was also the highest closing price for 4 years. On June 14, the announcement of the conclusion of an option agreement between Bernd Eichinger and Highlight Communications AG ended the speculation about the future shareholder structure, the share price started to consolidate as expected, settled at the € 10 level at the end of July following a volatile phase and did not go through any major fluctuations until mid-November.

On November 16, 2005, we published the figures for the third quarter and were able to raise our forecast for the year as a whole on the basis of the positive development of the business. The market response to this news was positive and the price of the Constantin Film share increased substantially in the following days. In the first week of December, it reached a level of € 11.30, then dropped again slightly to reach a year-end price of € 10.94 on December 30, 2005. This means that the share price rose by 29.0 per cent over the year (December 31, 2004: € 8.48), which was a considerably better performance than the Prime Media Performance Index, that fell by 1.1 per cent over the same period.

Contact with institutional and private investors, financial analysts and representatives of the business press was again maintained throughout the stock exchange year in 2005 with the help of roadshows,

telephone conferences and regular press releases. The 6th Annual Shareholders’ Meeting of Constantin Film AG was held in the Wappenhalle in Munich on May 12, 2005. 84.46 per cent of the share capital was represented and all seven points on the agenda were passed with a majority of more than 99 per cent. In November 2005, the management held the annual conference for analysts at the German Equity Forum organised in Frankfurt by Deutsche Börse, KfW Mittelstandsbank and Ernst&Young.

The Constantin Film share was covered by five teams of analysts in 2005. 4 of the current reports by the research companies have a “Buy” recommendation, one is a “Hold” recommendation.

▶ PRICES / in €, indicating the final Xetra prices

Number of shares on 31.12.2005	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
Year-end price in 2003	3.92
Year-end price in 2004	8.48
Highest price on 10.06.2005	12.42
Lowest price on 04.01.2005	7.94
Year-end price in 2005	10.94

THE CONSTANTIN FILM AG SHAREHOLDER STRUCTURE

The total number of shares in Constantin Film AG is 12,742,600. On December 31, 2005, Bernd Eichinger Holding GmbH & Co. KG held 25.07 per cent and Highlight Communications AG 57.98 per cent. The free float, i.e. the proportion of the shares that is traded freely, was 16.95 per cent.

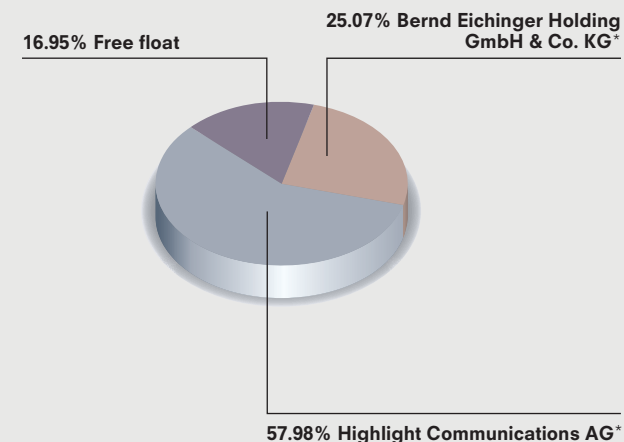
On June 14, 2005, Bernd Eichinger and Highlight Communications AG signed an option agreement about the purchase by Highlight Communications AG of the 25.07 per cent interest held by Bernd Eichinger Holding GmbH & Co. KG. On January 19, 2005, it was announced that the call option had been exercised. Following further purchases by Highlight Communications AG from the free float, the company owned 90.58 per cent of the shares in Constantin Film AG on January 25, 2006. The free float of Constantin Film AG amounts to 9.42 per cent. As far as we know, Highlight Communications AG does not intend to make any changes to the stock market listing or shareholder structure of Constantin Film AG at the present time.

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

The members of the Management and Supervisory Boards of the company did not carry out any securities business transactions in the period between January 1, 2005 and December 31, 2005. The company did not hold any of its own shares on December 31, 2005.

The members of the Management and Supervisory Boards held the following shares and options on December 31, 2005: Fred Kogel 6,150 shares, Thomas Peter Friedl 29,400 options, Martin Moszkowicz 32,000 options, Bernd Eichinger 3,194,630 shares (via Bernd Eichinger Holding GmbH & Co. KG, which he controls), Marc Conrad 1,500 shares, Dr Paul Graf 500 shares.

▶ SHAREHOLDER STRUCTURE AS PER 31.12.2005



* Shares pooled by shareholders' agreement of June 5, 2003.

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MANAGEMENT REPORT ABOUT THE COMPANY AND THE GROUP

GENERAL ECONOMIC SITUATION IN GERMANY IN 2005

The figures that the statistics experts were forced to present about the past year were disappointing: the German economy only grew moderately in 2005, the German Gross Domestic Product (GDP) was only slightly higher than in the previous year in real terms on average over the year (+ 0.9 per cent). The statistics experts had reported growth of 1.6 per cent for 2004.

As in the previous years, the moderate growth was driven by dynamic export trade. While imports increased by 8.7 per cent to € 625.6 billion, exports were 7.5 per cent higher at € 786.2 billion, so that the foreign trade surplus was € 160.6 billion. This led to a positive contribution to growth of 0.6 percentage point.

Whereas state expenditure on consumption increased by 0.1 per cent over 2004, the figures at the private level stagnated at the same level as in the previous year. Reasons for consumers' reluctance to spend – savings went up from 10.5 per cent to 10.6 per cent – were a drop in purchasing power in real terms in employees' households and the extremely large increases in energy prices.

Economic output last year was achieved by 38.8 million employed persons. According to the German statistical authorities, this was 85,000 or 0.2 per cent lower than in the previous year. This means that the number of people employed decreased again to roughly the same level as in 2003 following an increase in 2004. A larger reduction was prevented by such employment market programmes as the introduction of the new "one euro" jobs.

According to the German employment authorities, the average number of unemployed in 2005 was 4.86 million, which was an increase of 482,000 over the previous year. The unemployment rate therefore remained unchanged at 11.7 per cent.

The inflation rate increased in 2005 by comparison with the previous year. The substantially higher energy prices were reflected in the consumer price index too. At 2.0 per cent, the inflation rate reached its highest level for five years. It was 2.0% in 2001 as well. In 2004, it was 1.6 per cent after 1.1 per cent in 2003. If energy prices are disregarded, the average inflation rate last year would have been only 1.1 per cent.

After the poor performance last year, most experts are optimistic about the current year and are forecasting an increase in GDP of up to 2 per cent in 2006. The German Minister of Economics Glos considers this estimate to be realistic too, in view of the fact that the general conditions are better than they have been

since the early summer of 2001 as far as consumption is concerned.

MARKET DEVELOPMENT

Theatrical market

2005 was a difficult year for the theatrical industry. According to the FFA statistics, at 127.3 million box office admissions were 18.8 per cent or 29.4 million lower than in the previous year and thus dropped to a level last recorded in 1995. Sales totalled € 745.0 million and were therefore € 147.9 million less than in the previous year; this represents a reduction of 16.6 per cent.

The market share achieved by German films fell to 17.1 per cent in 2005, but this was still a high level that was considerably better than the average over the last ten years. In the previous year, domestic films – driven by the megablockbusters **Dreamship Surprise – Period 1**, **Seven Dwarfs** and **Downfall** – reached a market share of 23.8 per cent with 36.7 million box office admissions. A different quality feature became more important in 2005 instead: a total of 10 German films reached a box office admission level of more than a million – a considerable increase over the previous years (4 in 2002, 5 in 2003 and 6 in 2004).

German films continue to be attractive at the international level too. **Sophie Scholl – The Final**

Days by director Marc Rothemund was awarded the German Film Prize. Julia Jentsch won the European Film Prize as Best Actress and this was followed by the Oscar® nomination as "Best Foreign Language Film". This means that a German film was nominated in this category for the third time in 4 years.

There were 19 more theatre screens in Germany last year; 129 new ones were opened or existing ones reopened, whereas 110 were closed. The number of theatres increased by 9. The number of seats decreased by 5,668 in 2005, on the other hand, which makes a total loss of about 26,200 in the last three years. These figures are clear evidence that the theatre operators have responded to the changes in audiences' taste in these challenging times and have been taking account of the interest in more comfortable theatres.

The average ticket price was € 5.85 in 2005, which is € 0.15 more than in the previous year. Statistically speaking, every inhabitant of Germany only goes to a theatre 1.5 times a year now, compared with 1.9 times in the previous year. Reasons for this are a change in audiences' behaviour patterns, increasing competition from other media as well as consumers' general reluctance to spend.

The development in the piracy field continued to be a cause for concern last year: the fourth representative survey made by FFA (Brenner-Studie 4, 2006) on the

basis of special interviews by GfK AG (a company specialising in consumer, market and sales research) with 10,000 participants shows that the threat posed by digital theft is still increasing.

By comparison with the same period the previous year, German households now have more than twice as much access to DVD burners and DVD recorders. Almost half of all Germans over the age of 10 have a CD burner at home in the meantime. 1.7 million people downloaded 11.9 million films from the Internet free of charge in the first half of 2005. This represents an increase of 30 per cent in the number of people and 16 per cent more films than in the same period the previous year. As far as the burning of films is concerned, 7 million people burned 58.4 million feature films - another substantial increase of 15 per cent over the first 6 months of 2004.

It is an alarming fact that illegal downloading is developing into a widespread pastime. Although the FFA survey continues to classify 20- to 29-year-olds with sophisticated technical equipment as the "most active illegal copiers", there was also a disproportionately large increase in the number of kids (10- to 19-year-olds) and "best agers" (50+) who participated in the legally prohibited downloading of feature films from January to August 2005.

In spite of a number of concerted activities by the film industry, including the closure of gaps in the

distribution chain as well as in the delivery and showing of films and the prosecution of offenders via GVV (the German association for the prosecution of copyright infringements), stealing intellectual property continues to be a serious threat to the entire film industry.

We will be working on the improvement and implementation of countermeasures, particularly coding exercises, investigation and prosecution, the provision of information to and lobbying in the political community and the closure of legal gaps in future as well.

TV market

According to the gross advertising statistics published by Nielsen Media Research GmbH, gross advertising investments in the classic media in 2005 amounted to € 19.1 billion, which corresponds to an increase of 5.3 per cent over the previous year. This means that the advertising market grew for the third time in succession. The television industry again generated the highest advertising sales of the classic media (€ 8.1 billion) and recorded growth of 4.2 per cent over 2004.

It does, however, need to be taken into consideration that the net expenditure is generally considerably lower and that advertising slots in the television market in particular are frequently sold with substantial discounts. Cost pressure at the stations therefore

remained as high as ever last year due to the fact that there was no sustained growth of the advertising market and this had the particular effect of order and budget restrictions in in-house productions and licence acquisition business, as had already been the case in the two previous years.

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, RTLII, Super RTL, VOX and n-tv belong.

In view of the availability of new digital broadcasting capacities, more new channels were created last year than has been the case for a long time now: in the free TV field, a new feature film station known as the Das Vierte was launched by Universal, a new channel for children was started with the Viacom subsidiary Nick and a new music television station called Deluxe Music was introduced with adults as the target group. The Munich company Tele 5 transformed itself into a film channel, Focus TV began a health channel and the Sony Pictures action station AXN came on the air.

According to television research carried out by GfK, the first and third channels operated by ARD were

again the ones watched most in Germany in 2005. The market leaders were the third channels with a share of 13.6 per cent. Das Erste came in a close second with 13.5 per cent of television consumption, sharing this position with ZDF, which reached the same percentage. They were followed at a somewhat larger interval by RTL (13.2 per cent), Sat.1 (10.9 per cent) and ProSieben (6.7 per cent). In the target group relevant to the advertising industry – the 14- to 49-year-olds – the Cologne station RTL again led the market with a share of 16.0 per cent, although this was 0.8 percentage point lower than before. The Sat.1 channel headed by Roger Schawinski caught up considerable ground and reached 2nd place: it obtained a market share of 12.3 per cent in the target group, which is an increase of 0.7 percentage point.

Almost three quarters of the population watched television on an average day in 2005. Average television viewing increased for the sixth time in succession. Daily viewing reached a new record of 211 minutes, which was 1 minute more than in the previous year. The list was topped by the over 50s: they spent an average of 277 minutes watching television every day in 2005, an increase of 3 minutes over the previous year. There was no change in viewing by the 30- to 49-year-olds: as in the previous year, they watched television for an average of 209 minutes. The 14- to 29-year-olds reduced their daily television viewing by 1 minute, watching for 141 minutes on average. (Source: AGF / GfK)

Video/DVD market

After years of growth, the home entertainment market in Germany reported a reduction of 3.5 per cent with sales of € 1.69 billion, due in particular to the weakness of the theatrical product range but also because of the ongoing drop in prices on the sell-through video market. While the rental business increased, the market for sell-through products experienced difficulties for the first time.

Sales in the home entertainment market continued to be driven by sell-through DVDs. Almost 100 million feature film DVDs were sold in Germany for the first time last year, an increase of 9.5 per cent. The ongoing drop in DVD prices had considerable impact, however: as a result of the fierce competitive pressure in the retail trade, there was another price reduction of 8.8 per cent in the industry (average sales price: € 13.39) compared with the previous year. This led to a small reduction in sales value of 0.1 per cent over the previous year to € 1.3 billion in spite of the increase in sales volume. The German market for sell-through DVDs was, however, depressed by consumers' reluctance to spend too. Buying intensity only increased minimally compared with the previous year to 5.2 (5.0 in 2004). There was even a small reduction in the average proportion of consumers' budgets spent on DVD recordings.

Since a large number of programme suppliers have already discontinued the production of recorded VHS

video cassettes or only release programmes on this medium sporadically, retail sales of what used to be such a successful medium fell substantially below the hundred million mark for the first time in 2005. In percentage terms, VHS cassettes suffered a drop of 62.4 per cent last year; the retail sales of the medium amounted to only € 44.0 million at the end of the year. The share of the market for sell-through products held by VHS cassettes fell to 3.0 per cent in the course of the year.

The rental market increased considerably over the previous year (€ 306.4 million in 2004) with retail sales of € 319.9 million. It should, however, be taken into consideration here that the growth rate of 4.4 per cent is attributable essentially to expansion into new sales channels. The video rental vending machines that are not limited by shop opening times are in particular increasingly popular with consumers – they account for 4.0 per cent of sales in the meantime. The rental business of suppliers that specialise in online trading is also developing encouragingly: this sector managed to grow slightly compared with conventional retail outlets too, reaching a market share of 8.0 per cent. The increasing appeal of the rental channel is also demonstrated by the rental intensity figures – they went up 10.3 per cent to a factor of 12.4 in 2005 – and by the average amount spent by video rental customers, which rose by 7.9 per cent to the average level of € 32.0.

POSITION OF THE GROUP

PRODUCTION OPERATIONS

Project development

More than 70 German and English film projects are currently at different stages of development by Constantin Film and its subsidiaries or associated companies.

Theatrical productions

In 2005, 8 in-house and co-productions were produced, including the long-awaited international Bernd Eichinger production **Perfume – The Story of a Murderer** (director: Tom Tykwer) and the film of the cult novel **Elementarteilchen** (director: Oskar Roehler).

Together with our subsidiary Impact Pictures Ltd., we produced **Dead or Alive**, the international action film of a bestselling video game franchise.

Our subsidiary Rat Pack Produktion GmbH shot the new Michael “Bully” Herbig comedy **Hui Buh – Das Schlossgespenst** and, together with Neos Film, the teen love film **Französisch für Anfänger**.

In co-operation with Uschi Reich, Peter Zenk and Bavaria Filmverleih und -produktions GmbH, Constantin Film successfully produced the film of the cult series **Die Wilden Hühner** as well as the

theatrical adaptation of the popular children’s book and audio cassette series **TKKG und die rätselhafte Mind-Maschine**.

Two of the successful books from Otfried Preußler’s legendary series **Der Räuber Hotzenplotz** were filmed as a co-production with collina Filmproduktion GmbH.

TV productions

In the fiction production operations, we completed the fifth series of our successful sitcom **Hausmeister Krause** with Tom Gerhardt in the leading role. The second set of 10 programmes for the series **Typisch Sophie** was filmed in co-operation with AllMedia Pictures GmbH; the first of them was shown on Sat.1 on February 27, 2006.

We shot the first programmes for the new Sat.1 series **Freunde für immer – Das Leben ist rund** with Little Shark Entertainment GmbH. They were directed by Sönke Wortmann, Wolfgang Groos and Heinrich Hadding and are to be broadcast from May 2006 onwards.

Our subsidiary MOOVIE – the art of entertainment GmbH produced two new programmes for the popular ZDF thriller series **Rosa Roth** with Iris Berben in the leading part and with Carlo Rola as director last year. Shooting of the third series of the popular Sat.1 sitcom **Bewegte Männer** (director: Michael Zens) was also completed successfully.

The TV drama **Silberhochzeit** was filmed on behalf of Das Erste and arte with a cast including Iris Berben, Matthias Habich, Axel Milberg, Gisela Schneeberger and Ulrich Noethen and with Matti Geschonneck as director.

Our subsidiary Rat Pack Filmproduktion GmbH produced ten further programmes for the series **Kalkofes Mattscheibe** last year. The Rat Pack team also shot the TV comedy **Ich bin ein Berliner** (director: Franziska Meyer Price) with Thomas Heinze and Sophie von Kessel, the TV action comedy **Vollgas – Gebremst wird später** with Lars Montag as director and with Jan Sosniok and Valerie Niehaus in the leading roles and the TV movie **Meine verrückte türkische Hochzeit** (director: Stefan Holtz) with Florian David Fitz and Mandala Tayde.

Last year, the Constantin Film subsidiary Olga Film GmbH produced the TV comedy **Mein Vater, seine Neue und ich** (director: Peter Gersina) with Herbert Knaup, Katharina Müller-Elmau and Sidney Gersina in the leading parts. Further productions were the melodrama **Mathilde liebt** (director: Wolfram Paulus) with Christiane Hörbiger and the family drama **Liebe Amelie** (director: Maris Pfeiffer). Two more programmes for the series **Die Kommissarin** with Ulrike Kriener in the leading role were shot under the direction of Thomas Berger.

In the show and entertainment production operations, our subsidiary Constantin Entertainment GmbH

produced a total of about 1 000 hours of programmes last year with its established and successful daily formats, including the court shows **Das Strafgericht** and **Richter Alexander Hold** as well as the crime documentaries **Lenßen & Partner** and **K11 – Kommissare im Einsatz**.

The other productions by Constantin Entertainment included the weekly sketch show **Die Dreisten Drei** with Mirja Boes, Markus Majowski and Mathias Schlung and the science show **clever! – Die Show, die Wissen schafft** (hosts: Barbara Eligmann and Wigald Boning), which is also shown once a week.

Among the Constantin Entertainment prime-time events were the exciting action event **Stars am Limit** and the event show **Die Comedy Falle**, both of them hosted by Kai Pflaume. Hugo Egon Balder presented further programmes in the popular music show **Die Hit Giganten** and Steven Gätjen has been hosting the prime-time show **Top 10 TV** since the end of September.

FILM DISTRIBUTION AND LICENCE TRADING OPERATIONS

Theatrical distribution

Constantin Film distributed 16 films in the year under review, with which 7.8 million box office admissions were achieved. Two of our films were among the top 10 theatrical films in Germany.

The most successful German production shown in 2005 was the film of Corinne Hofmann's million-selling book **The White Maasai** with Nina Hoss in the leading role, which recorded more than 2.2 million box office admissions.

The comedy **Siegfried** (director: Sven Unterwaldt jr.), a persiflage of the Nibelungen saga with Tom Gerhardt, attracted an enthusiastic theatrical audience of almost 1.3 million.

The Olga Film / Constantin Film / Seven Pictures production **Napola – Elite für den Führer** impressed 462,000 cinema-goers in the art house segment.

A total German audience of 680,000 watched the international Bernd Eichinger production **Fantastic Four**, a theatrical adaptation of the successful Marvel Comic series directed by Tim Story.

In the family entertainment distribution segment, the animal comedy **Racing Stripes** produced more than 500,000 box office admissions, while audiences of almost 600,000 were attracted by the romantic comedy **Vom Suchen und Finden der Liebe** (director: Helmut Dietl).

In the art house segment, we also distributed **Paradise Now**, the political drama by director Hany Abu-Assad about two Palestinian suicide bombers that has won several awards and was nominated for an Oscar®.

Theatrical exploitation

The sales generated in theatrical distribution amounted to € 23.703 million in the year under review (previous year: € 71.613 million) and accounted for 11 per cent of the total sales volume. Theatrical sales therefore decreased by € 47.910 million compared with the previous year, as expected. The reduction was anticipated primarily because of the exceptionally strong performance of the tremendous theatrical successes in 2004: **Dreamship Surprise – Period 1** and **Downfall**. The theatrical sales in 2005 were driven essentially by the in-house productions **The White Maasai** and **Siegfried**, which also produced better-than-average box office receipts but were unable to match the record figures of the previous year's hits.

Video/DVD exploitation

The home entertainment segment brought the Constantin Group sales of € 52.949 million (previous year: € 22.728 million). The substantial increase was due to the co-operation with Highlight Communications AG as well as to synergy benefits obtained by exploiting the entire added-value chain in this field. The sales included in this segment are attributable primarily to the results achieved with the in-house productions **Downfall**, **Resident Evil: Apocalypse** and the national licence exploitation of **Fantastic Four**, **Alexander**, **House of Flying Daggers** and **Dreamship Surprise – Period 1**.

TV exploitation

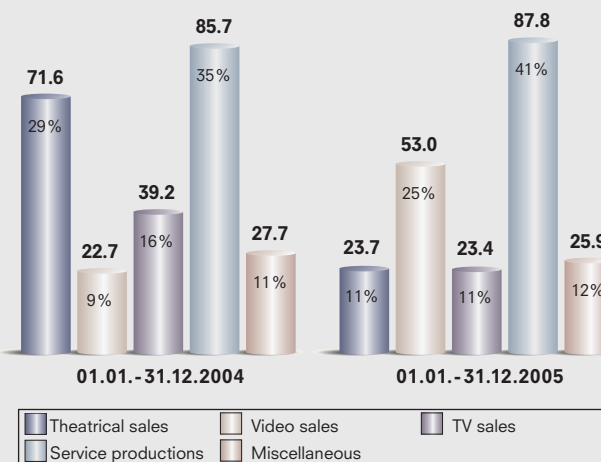
Sales from the licensing of the TV rights to theatrical films are not realised until legal or contractually agreed holdback periods have expired (with pay TV 15 to 18 months after theatrical release, with free TV after 24 to 32 months). The TV sales in 2005 were therefore attributable to films that were released to theatres in 2003 and 2004 as well as to revenue from licences for TV productions and TV service productions.

TV sales in 2005 totalled € 23.423 million (previous year: € 39.245 million), € 18.088 million of them (previous year: € 34.217 million) being accounted for by the licensing of TV rights to in-house and co-produced films. Sales were generated here with such films as **Die Klasse von '99**, **Ganz und Gar** and **Werner – Gekotzt wird später**. The sales from the licensing of TV in-house and co-productions like **Vollgas – Gebremst wird später** or the sitcom **Hausmeister Krause 5** are shown in this segment too. The main contributors to the income from the licensing of TV rights to third-party productions were films like **Serving Sarah**, **21 Grams** and **Verschwende Deine Jugend**.

Sales with service productions amounted to € 87.760 million in the year under review (previous year: € 85.749 million) and corresponded to 41 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 and in particular the revenues from the marketing of the non-fiction productions by Constantin Entertainment GmbH.

► SALES SEGMENTATION / in € million



in % of total sales

**RESULTS GENERATED IN THE
CONSTANTIN FILM AG GROUP**

The Constantin Film Group generated sales of € 213.787 million in the 2005 fiscal year (previous year: € 246.915 million). This is the expected reduction of 13 per cent over the record figures achieved in 2004. The service production operations were the biggest source of sales in 2005, contributing € 87.760 million (see the notes to the consolidated financial statements, page 60).

The other sales totalled € 25.952 million in 2005 (previous year: € 27.580 million). They include subsidies received of € 13.724 million (previous year: € 16.886 million).

The Constantin Film Group is planning an increase in business in 2006. The in-house productions such as **Elementarteilchen, Hui Buh – Das Schlossgespenst** and **Perfume – The Story of a Murderer** will contribute particularly strongly to the positive development of the business in the theatrical operations. Further contributions will be made by the TV operations. The fiction production operations will be expanded by the newly established subsidiary Constantin Television GmbH and implementation of the telenovela **Lotta in Love** (details about this can be found in the "Prospects" section).

▶ CONSOLIDATED INCOME STATEMENT / in € thousand	01.01.-31.12.2004	01.01.-31.12.2005
Sales	246,915	213,787
Costs of goods sold	214,482	182,417
Risk provision for films from subsequent years	126	90
Gross profit on sales	32,307	31,280
Selling expenses	1,675	2,697
General administration expenses	15,182	16,769
Other operating income	2,343	2,481
Other operating expenses	1,181	815
Amortisation of goodwill	1,214	1,818
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	610	790
EBIT	14,788	10,872
Interest income/interest expenditure	-446	356
Exchange rate profits/losses	3,178	665
Result for the year before tax	17,520	11,893
Taxes on income	-8,701	-6,301
Other taxes	-46	270
Result for the year	8,773	5,862
- of which attributable to the shareholders of the parent company	7,039	3,890
- of which attributable to the minority shareholders	1,734	1,972

The costs of goods sold include depreciation charges which are risk provision for films that are being exploited in subsequent years. This risk provision amounts to € 90,000 (previous year: € 126,000).

The increase in the gross profit margin from 13.1 to 14.6 per cent is due to the change in the sales structure in the fiscal year.

The change in the selling expenses is attributable to larger allowances for bad debts, e.g. in relation to receivables from theatre operators. The general administration expenses increased mainly because of higher personnel costs.

The earnings before interest and tax (EBIT) amounted to € 10.872 million (previous year: € 14.788 million). Corrected for the risk provision for films in subsequent years, EBIT totalled € 10.962 million. The international marketing of our in-house productions, the success achieved in independent marketing of the DVD rights and the very good results in the fiction and non-fiction TV entertainment operations formed the basis for this very positive performance in spite of the difficult market situation.

The interest expenditure relates to general funding that cannot be allocated to individual projects. The interest balance amounted to € 356,000 (previous year: € -446,000). Valuation of the foreign currency items led to an exchange rate gain of € 665,000

(previous year: € 3.178 million) After allowing for these factors in the financial result, the result before tax amounted to € 11.893 million (previous year: € 17.520 million).

The main deferred tax effects were due to capitalisation of the film production costs (deferred tax expenditure) and the differences in sales realisation between the German Commercial Code (HGB) and IFRS (deferred tax income). The total deferred tax expenditure amounted to € -5.404 million (previous year: € -4.355 million).

Earnings attributable to the shareholders of the parent company of € 3.890 million (previous year: € 7.039 million) were generated after deduction of taxes on income of € -6.301 (previous year: € -8.701 million).

The key financial figures presented here are used for internal control of the Group as well.

FINANCIAL POSITION OF THE CONSTANTIN FILM AG GROUP

The balance sheet total amounted to € 391.188 million on December 31, 2005, which is € 85.946 million higher than in the previous year (€ 305.242 million). This is due essentially to the investments in film assets as well as to the increase in trade receivables and inventories.

The film assets totalled € 195.060 million on December 31, 2005 and were therefore 36 per cent higher than in the previous year (€ 143.543 million). The increase is attributable primarily to the extensive production operations in 2005 relating to films where exploitation has not yet begun. Constantin Film values its film assets in accordance with the US GAAP standards (SOP 00/2). This involves capitalisation of the costs of goods sold and depreciation of them by the matching principle.

Investments in the film assets of in-house productions amounted to € 83.981 million on December 31, 2005 (previous year: € 49.458 million). This means that the volume invested in in-house productions increased substantially by 70 per cent over the previous year. The investments in the year under review included such theatrical films as **Perfume – The Story of a Murderer** and **Dead or Alive** (international in-house theatrical productions), **Hui Buh – Das Schlossgespenst** and **Elementarteilchen** and the in-house TV productions **Vollgas – Gebremst wird später** and **Hausmeister Krause 5**. Depreciation of in-house productions amounted to € 54.295 million. Film assets attributable to in-house productions therefore increased by € 29.686 million (26 per cent) to € 144.601 million compared with the previous year.

€ 35.464 million were invested in the acquisition of exploitation rights for distribution and licence trading (previous year: € 19.547 million). The investments in

third-party films were offset by depreciation totalling € 13.633 million. The film assets attributable to third-party productions amounted to € 50.459 million on December 31, 2005 as a result (previous year: € 28.628 million).

Fixed assets were € 1.419 million lower than in the previous year. The change over the previous year is attributable mainly to goodwill impairments of € 1.818 million.

▶ **CONSOLIDATED FINANCIAL POSITION /**
in € thousand

	2004	2005
Balance sheet total	305,242	391,188
Equity	73,707	60,739
Total film assets	143,543	195,060
Film assets/in-house productions	114,915	144,601
Film assets/third-party productions	28,628	50,459
Investments in film assets	69,005	119,445
Depreciation of film assets	84,329	67,928
Funds	85,345	88,184
Funds minus liabilities to banks	10,405	-23,678

FUNDING SITUATION

The Constantin Film Group had funds of € 88.184 million on December 31, 2005 (previous year: € 85.345 million), while bank liabilities totalled € 111.862 million (previous year: € 74.940 million). Net liquidity was € 34.083 million lower than on December 31, 2004. This change corresponds essentially to

the investments in new film projects minus the inflows from the investments made in previous years.

Equity changed by € 12.968 million by comparison with the previous year and amounted to € 60.739 million on December 31, 2005. See the statement of changes in equity on page 41 for a detailed explanation. The theoretical equity ratio is 16 per cent (previous year: 24 per cent). If the funds and the bank liabilities on December 31, 2005 as well as the film assets and the advance payments received and deferred sales are balanced, the adjusted equity ratio is 36 per cent (previous year: 53 per cent).

The operating cash flow amounted to € -21.750 million and was attributable essentially to the investments in new film projects outlined above. The cash flows from investing activities totalled € 25.753 million. The main influencing factor here was the increase in the liabilities to banks to finance the investments in film assets.

HUMAN RESOURCES

The Group had a total of 213 employees (excluding Management Board members) on December 31, 2005. Staff with temporary contracts to carry out specific projects are included in the total number if their employment contracts still have at least 6 months to run on the qualifying date. Information about the remuneration system for the Management Board can be found in the notes to the consolidated financial statements (7.4.).

POSITION OF THE AG

**FINANCIAL STATEMENTS OF
CONSTANTIN FILM AG (HGB)**

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).

The position and development of the company can be found in the following summary.

	2004 € thousand	2005 € thousand
Balance sheet total	75,768	80,681
Equity	49,807	52,900
Equity as a percentage of total capital	66%	66%
Income from continuing operations	-9,049	2,843
Net income/loss for the year	-9,050	3,093

RESULTS GENERATED BY CONSTANTIN FILM AG

The general administration expenses, the other operating expenses and depreciation of financial assets amounted to € 9.111 million, € 306,000 and € 1.760 million respectively. The other operating income and the interest balance totalled € 4.888 million and € 1.133 million. Due to the profit and loss transfer agreements between Constantin Film AG and its subsidiaries, there was expenditure from loss transfers amounting to € 17.812 million (previous year: € 31.615 million) and income from profit transfers of € 21.949 million (previous year: € 26.010 million). The income from continuing operations amounted to € 2.843 million. All in all, Constantin Film AG reported a net income for the year of € 3.093 million in the past fiscal year. The positive result for the year was attributable essentially to smaller losses from result transfers from subsidiaries and to the increase in the result generated by equity interests. Since January 1, 2005, Constantin Film AG has been entitled to all the annual earnings of Constantin Entertainment GmbH.

FINANCIAL POSITION OF CONSTANTIN FILM AG

The balance sheet total amounted to € 80.681 million on December 31, 2005 (previous year: € 75.768 million), which is € 4.913 million higher than in the previous year.

Fixed assets were € 15.013 million higher than in the previous year. The change over the previous year is attributable mainly to the increase in the interest held in Constantin Entertainment GmbH to 100 per cent.

The current assets amounted to € 55.444 million (previous year: € 65.523 million). They consist mainly of receivables from affiliated companies relating to loans, taxes and result transfers.

RISKS AND OPPORTUNITIES: PROBABLE DEVELOPMENT

The information presented below applies to both the Constantin Group and Constantin Film AG.

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 TV 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 can lead to market changes by rights exploiters as well. The strong trend towards concentration among television channels could, finally, cause changes to be made in sales markets.

On the marketing side, the Constantin Group has been supplying TV stations as direct customers since 2004 and the home entertainment market is being covered directly by a new Management Board assignment too. This extension of the added-value chain not only increases the risks Constantin faces, on the one hand; it also improves considerably the opportunities the company has to make profits, on the other hand. Constantin is profiting in this area from its excellent contacts to the television stations as well as from the synergy benefits generated with Highlight Communications AG.

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 global sales channels of their own in addition to large film studios. 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 illegal copying 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. These measures combined with the aggressive prosecution of offenders made an important contribution to combatting piracy in 2005.

2. Financial risks

The in-house and co-production of theatrical and television films and the marketing of them are expensive and involve financial risks. 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 already have substantial negative consequences for the Group's business, financial position and profitability. The production of a film can in addition lead to budget overruns that the company has to pay. Thanks to its experience in film production, the Constantin Group has in the past generally succeeded in covering all the production costs by the income from film exploitation. The company has also succeeded in completing film productions within the planned time and budget as well as in avoiding unplanned costs to a very large extent and/or in hedging the risk by obtaining appropriate insurance cover. A guarantee that the company will manage to limit itself to successful film projects in the future as well cannot, however, be given.

Following the introduction of § 15b in the German Income Tax Act (EstG), it has been practically impossible to finance films in Germany via what are known as "media investment funds" since November 11, 2005. Constantin Film and its

subsidiaries have made use of this source of funds for a number of productions. The Management Board has been and still is involved in the discussions that are being held with the German government with the aim of finding an alternative solution for the industry. If it is not possible to do this soon enough, we intend to reduce the costs of our future production operations partly by transferring more production abroad and taking advantage of funding sources there.

The Constantin Group could face interest rate change risks in the in-house marketing of TV rights, if there is a lengthy period of time between the acquisition of the rights and payment by the TV stations. This potential interest rate change risk is monitored actively and is if necessary hedged with the help of suitable financial instruments.

Risks can arise in connection with the creditworthiness of the contractual partners in the marketing and/or licensing of film rights in the various exploitation phases (theatre, video/DVD, TV). These risks are minimised by restricting business transactions to contractual partners with an excellent credit standing. There is no apparent concentration of default risks from business relationships to individual debtors or debtor groups.

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 is trying to minimise the risk of exchange rate losses by taking advantage of suitable derivative financial instruments. No guarantee can, however, be given that the hedging transactions carried out by the company will be successful in every case. Constantin Film also tries to specify upper limits for exchange rates in licence purchasing contracts that are transacted on the basis of US dollars.

DEVELOPMENT OF THE ACCOUNTING SYSTEMS

Thanks to the experienced staff in the accounting department, it was again possible in 2005 to make sure that the Constantin Film quarterly reports and 2005

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 stated in it "that Constantin Film AG, Munich, received an appropriate consideration for every legal transaction and for every measure that was taken or not taken and is covered by this report about the relationships to affiliated companies and was not disadvantaged by the fact that a measure was taken or not taken."

The auditor issued an unqualified certificate in accordance with § 313 paragraph 3 of the German Companies Act (AktG).

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 made by the Management Board about the relationships between the company and affiliated companies.

EVENTS AFTER 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.

A new subsidiary, Constantin Television GmbH, has been established and 25 per cent of the record label Königskinder Schallplatten GmbH have been acquired.

PROSPECTS

So far, Constantin Film is planning 15 theatrical releases in the 2006 distribution year: 9 national and international in-house and co-productions as well as 6 licensed films.

We started the distribution year on January 26 with the low-budget suspense thriller **The Dark**, an international in-house production by our subsidiary Impact Pictures with the two producers Jeremy Bolt and Paul Anderson. This haunted house thriller about a couple that – following the death of their own daughter – is tormented by the spirit of a girl who died 60 years before was directed by John Fawcett (**Ginger Snaps**). Sean Bean (**Troy**) and Maria Bello

(**Coyote Ugly**) are cast in the leading roles. The box office admissions to the creepy thriller, which is given special appeal by the mystical atmosphere and the graphic portrayal of the narrow path between life here and now and life in the world to come, have reached the expected level of 143,000 so far. International markets are the main focus in exploitation of this film.

Die Wilden Hühner, a highlight from our family entertainment programme this year, was released on February 9. The film of the cult series by bestseller author Cornelia Funke is a co-production between Constantin Film, Uschi Reich, Peter Zenk and Bavaria Filmproduktion. The delightful teenager adventure about five girls and their gang directed by Vivian Naefe and with Veronica Ferres, Jessica Schwarz and Benno Fürmann in the leading parts has attracted an enthusiastic theatre audience of 1.0 million so far.

We released the Bernd Eichinger and Oliver Berben production **Elementarteilchen** to German theatres on February 23. Oskar Roehler (**Agnes und seine Brüder**) wrote the screenplay and directed a cast that included Moritz Bleibtreu (**Vom Suchen und Finden der Liebe**), Christian Ulmen (**Der Fischer und seine Frau**), Franka Potente (**The Bourne Supremacy**), Martina Gedeck (**Mostly Martha**) and Nina Hoss (**The White Maasai**). The adaptation of the controversial cult novel of the same name by Michel Houellebecq is

outstanding German theatre and celebrated its world premiere in the competition for the "Golden Bear" at the 56th International Film Festival in Berlin this year. The box office admissions to this Constantin Film in-house production have totalled over 700,000 so far.

Basic Instinct 2: Risk Addiction promises to be torrid theatrical entertainment full of electric, erotic tension (theatrical release date: March 30). Its predecessor **Basic Instinct** was the outstanding film event in 1992 and is still extremely popular on the TV and home entertainment market even today. The erotic thriller generated global box office receipts of USD 360 million and attracted audiences of 4.5 million to theatres in Germany alone. Catherine Tramell is back on the big screen at last and Hollywood star Sharon Stone succeeds in enthralling male audiences all over again.

Manuale d'amore (theatrical release date: April 13) is a romantic comedy that links four love stories in Rome, varying between the thoroughly amusing and the sentimental before returning to the exuberant. The film is a heart-warming ode to love and its different facets with Carlo Verdone (**Love is eternal while it lasts**), Silvio Muccino (**The Card Player**), Sergio Rubini (**The Passion of the Christ**) and Margherita Buy (**The Vanity Serum**) in the leading parts. Director Giovanni Veronesi (**What will happen to us?**) at the

same time pays homage to the Italians' irresistible *joie de vivre* and the city of Rome. The hit comedy already conquered more than 2.5 million hearts in Italy in the first few weeks and has received critical acclaim as well in the form of 12 nominations for the Donatello awards, the Italian equivalent of the Oscar®.

The highlight of our theatrical summer this year will be the in-house production **Hui Buh – Das Schlossgespenst** by successful producer Christian Becker (**Der Wixxer**) and his Rat Pack Filmproduktion colleagues. The fantasy comedy is the first film of the legendary, million-selling classic children's book and audio cassette of the same name about the charming but clumsy ghost "Hui Buh" that is brought to life spectacularly with the help of modern computer animation facilities. Audience favourite Michael "Bully" Herbig (**Dreamship Surprise – Period 1**) plays the ghostly main character in the film directed by Sebastian Niemann (**Das Jesus Video**). He is supported by his fellow actors Hans Clarin (**Pumuckl und sein Zirkusabenteuer**), who has died in the meantime, Christoph Maria Herbst (**Der Wixxer**), Heike Makatsch (**Love Actually**) and Rick Kavanian (**Dreamship Surprise – Period 1**). The summer event for the entire family is being released to theatres all over Germany on July 20.

Following the sensationally successful **The Passion of the Christ** and **Braveheart**, **Apocalypto** is the long-awaited new project directed by Hollywood star Mel Gibson. The epic film is set at a time when the Mayas were the all-powerful rulers of the Mexican peninsula of Yucatán. Closely based on historical records, **Apocalypto** justifies its title and shows the downfall of one of the oldest and most mysterious advanced civilisations of all time. This action-packed historical film is currently being shot in Mexico. Constantin Film is planning to release it to German theatres on August 24, 2006.

The international Bernd Eichinger production **Perfume – The Story of a Murderer** is most definitely the film event of the autumn. This drama directed by Tom Tykwer (**Heaven**) tells the story of the short life of the brilliant and deadly Jean-Baptiste Grenouille, who does everything in his power to acquire the fragrance of the people who inspire him to love. Shooting star Ben Whishaw (**Hamlet**) is convincing in the lead part, while world star Dustin Hoffman (**Meet the Fockers**), Alan Rickman (**Harry Potter**) and up-and-coming actress Rachel Hurd-Wood are appearing in further roles. The film is being released to theatres throughout Germany on September 14, 2006.

Production

We are currently planning a total of 6 to 7 German and up to 3 international theatrical in-house and co-productions for 2006, including the third film of the “Resident Evil” franchise based on the bestselling video game – a keenly anticipated event all over the world. Constantin Film is continuing the successful co-operation with Milla Jovovich in the international in-house production **Resident Evil: Extinction** and has cast the Hollywood star to play the leading role again. Shooting under the direction of Russell Mulcahy, who has been considered a specialist for spectacular action films since the fantasy blockbuster **Highlander**, is scheduled for the beginning of May 2006.

In the children’s book film operations, the successful co-operation with collina Filmproduktion (**Der Räuber Hotzenplotz**, **The Slurb**, **Das Sams in Gefahr**) is being continued with **Herr Bello**. **Herr Bello** is based on a story by Paul Maar and Ulrich Limmer. The children’s book has already sold 90,000 copies in its first nine months and reached the top of the bestseller lists. The film is being staged by the successful director Ben Verbong, who has already been responsible for such films as **The Slurb**, **Das Sams in Gefahr** and **Es ist ein Elch entsprungen** in the past.

Another promising project is the Bernd Eichinger production **Pornorama**. In the screenplay developed

by Stephan Puchner and Granz Henman (**Ants in my Pants**, **More Ants in the Pants**), a budding policeman allows himself to be talked into acting as “director” in a sex education film in the 70s.

The film project **Helden in Flecktarn** (provisional title) is currently being developed with the successful up-and-coming producers Wiedemann & Berg and Seven Pictures. Life in the army is portrayed in this amusing comedy.

Another highlight that we are planning is the classic **Effi Briest** by Theodore Fontane. This book, which was already filmed by Rainer Werner Fassbinder in 1974, is to be filmed again now with a star cast and a successful team: Professor Günter Rohrbach (**The White Maasai**, **The Boat**) is to produce the story of Effi Briest for Constantin Film with Hermine Huntgeburth (**The White Maasai**, **Bibi Blocksberg**) as director.

Our subsidiary Rat Pack Filmproduktion is planning the sequel to the sensational 2004 hit by producing **Wixxer 2**. Tobi Baumann’s **Wixxer** attracted audiences of almost 2 million to German theatres with a cast of Germany’s best comedians – including Bastian Bastewka and Oliver Kalkofe as well as popular TV stars Anke Engelke and Olli Dittrich. The second part of the Edgar Wallace persiflage, which is creepily



funny throughout, promises to be another highly entertaining film with no end of excellent gags.

Our subsidiary Olga Film has just finished shooting the comedy **Schwere Jungs** with director Marcus H. Rosenmüller (**Wer früher stirbt, ist länger tot**). It is a film about the true story of two rival bobsleigh teams from Garmisch-Partenkirchen, who fulfil their dream of participating in the Olympic Games. Shooting took place in St. Moritz, Garmisch-Partenkirchen, Munich and Liberec until mid-March.

The film project of the bestseller **Pope Joan** by Donna Cross is currently in pre-production. This is a fascinating historical novel that tells the story that has long been denied but seemingly cannot be disproved by the Vatican of Joan, who was Pope from 853 to 855. Millions of copies of the book have been sold all over the world, skilfully integrating the moving fate of a strong woman in what could hardly be a more difficult time and the story of her impossible love affair in an verified historical setting. It stayed on the bestseller list for weeks in Germany too after it appeared in 1996. The Constantin Film production is being staged by the successful director Volker Schlöndorff.

TV production

Constantin Television, the subsidiary we established in January 2006, will be producing the existing TV series **Typisch Sophie** with Sophie Schütt and **Hausmeister Krause** with Tom Gerhardt in the current fiscal year. The development and acquisition of further TV fiction products and formats, such as series, sitcoms, mini-series and TV events, are planned too.

The subsidiary MOOVIE - the art of entertainment GmbH is currently producing a special 3-part programme for the popular ZDF thriller series **Rosa Roth** (director: Carlo Rola) with Iris Berben in the leading role.

With **Die im Herzen barfuß sind** and **Von der Kunst, den Männern hinterher zu gehen**, two exciting thriller films are being produced for ZDF on the basis of the pilot film **21 Liebesbriefe** from 2004. Katja Flint (**The White Maasai**) is playing the role of the involuntary detective Franziska Luginsland in them, with support from Günther Maria Halmer, Henning Baum, Gundi Ellert and many others.

Our subsidiary Rat Pack Filmproduktion has been producing the new telenovela **Lotta in Love** with the former Viva host Janin Reinhardt in the leading role on behalf of ProSieben since February. It is being shot at the Bavaria studios in Munich-Grünwald. The tele-

novela focusses on the laundry employee Carlotta "Lotta" Wiesner, who is mistaken for the famous pop singer Alex at a concert. This has far-reaching consequences, because Lotta has fallen head over heels in love with the guitarist Michael and can only get really close to him if she does not reveal her true identity.

The new comedy series **Die ProSieben Märchenstunde** is another Rat Pack production. It was shot in Prague between the end of October 2005 and the beginning of March 2006. Mike Krüger, Annette Frier, Karl Dall, Christian Tramitz, Axel Stein and Christian Ulmen are just some of the actors playing in this eight-part series, in which the classic fairy tales from the Grimm brothers to Wilhelm Hauff are being re-enacted. The directors are the comedy experts Tommy Krappweis, Eric Haffner, Cyrill Boss and Philip Stennert.

Chartbreak-Hotel is the music comedy newly developed by Constantin Entertainment that has been shown regularly on Sat.1 since March. The show was a tremendous success with a market share of 16.3 per cent when it was aired for the first time in June 2005. The two hosts Mirja Boes and Hugo Egon Balder give an impressive foretaste of the coming holiday season with amusing stand-up comedy routines about travel, hotel, sport and holiday subjects in addition to an excellent selection of music.

“Eddie Cool”, an animated polar bear, has been presenting the latest, brand new countdown of the 20 funniest clips in **Clip Charts** on Kabel1 since January. Constantin Entertainment’s new daily programme is achieving very good ratings on a regular basis that are considerably higher than the channel average.

In our distribution operations, we are maintaining our successful strategy of combining national and international in-house and co-productions with high-quality third-party films in 2006. We are continuing to concentrate on increasing the quality and volume of our national and international in-house productions. We have managed to extend our added-value chain very successfully by the addition of TV entertainment, licence trading and home entertainment operations, making a further improvement in our strategic alignment as a result. Constantin Entertainment is now one of the leading entertainment production companies on the German market. The establishment of Constantin Television with its TV series activities is rounding off the fiction TV production operations and is at the same time structuring the Constantin Film production portfolio more clearly by adding a further profit centre. By concluding output sales deals for our in-house and co-productions in free TV (ProSiebenSat.1) and pay TV (Premiere/Disney Channel) in 2004 and 2005, we have obtained the

biggest German television channels as long-term partners, while our new home entertainment operations will be making an important contribution to sales this year too.

We are therefore planning to continue the positive development of the business in 2006.

Munich, March 2006

► **The Management Board**

ASSETS		1) 31.12.2004	31.12.2005	EQUITY AND LIABILITIES		1) 31.12.2004	31.12.2005
		€ thousand	€ thousand			€ thousand	€ thousand
Current assets				Current liabilities			
I. Funds	3.1.	85,345	88,184	I. Liabilities to banks		74,940	111,862
II. Receivables	3.2./4.1.1.			II. Trade payables	4.3.1.	21,168	13,988
1. Trade receivables		19,468	30,639	III. Liabilities to affiliated companies	7.4.	13	7
2. Receivables from affiliated companies		2,295	3,604	IV. Advance payments received and deferred sales	3.10./4.3.2.	92,188	135,286
III. Inventories: stocks of unfinished service productions		12,221	27,606	V. Provisions	3.11.		
IV. Other assets ²⁾	3.2./4.1.3.	10,664	7,802	1. Tax provisions		2,786	1,295
V. Current tax assets ²⁾		321	1,134	2. Other provisions	4.3.3.	22,285	37,434
Total current assets		130,314	158,969	VI. Other liabilities ²⁾	3.9./4.3.4.	5,374	9,109
				VII. Current tax liabilities ²⁾		43	1,030
Non-current assets				Total current liabilities		218,797	310,011
I. Intangible assets	3.5.	6,537	4,650	Non-current liabilities			
II. Tangible assets	3.6.	878	1,341	I. Other liabilities	3.9./4.4.1.	5,483	10,333
III. Financial assets	3.8.	343	348	II. Deferred tax liabilities	3.15./4.5.	7,255	10,105
IV. Film assets	3.4./4.2.3.			Total non-current liabilities		12,738	20,438
1. In-house productions		114,915	144,601	Equity	3.12./4.6.		
2. Third-party productions		28,628	50,459	I. Subscribed capital		12,743	12,743
V. Receivables	3.2./4.2.4.			II. Capital reserves		70,183	55,546
1. Trade receivables		0	9,777	III. Retained earnings		-11,655	-7,765
2. Receivables from banks		5,483	5,483	IV. Other comprehensive income		-335	-296
VI. Deferred tax claims	3.15./4.5.	18,144	15,560	Equity attributable to the shareholders of the parent company		70,936	60,228
Total non-current assets		174,928	232,219	Equity attributable to the minority shareholders		2,771	511
				Total equity		73,707	60,739
Total assets		305,242	391,188	Total equity and liabilities		305,242	391,188

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

2) The figures for the previous year have been adjusted according to IAS 1

	2)	01.10. - 31.12.2004 ⁴⁾ € thousand	01.10. - 31.12.2005 ⁴⁾ € thousand	01.01. - 31.12.2004 € thousand	01.01. - 31.12.2005 € thousand
Sales	3.13./5.1.	71,401	64,982	246,915	213,787
Costs of goods sold	5.2.	63,156	54,658	214,608	182,507
Gross profit on sales¹⁾		8,245	10,324	32,307	31,280
Selling expenses		437	1,501	1,675	2,697
General administration expenses		3,770	4,887	15,182	16,769
Other operating income		818	617	2,343	2,481
Other operating expenses		1,078	648	1,181	815
Amortisation of goodwill		280	1,267	1,214	1,818
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	5.3.	178	398	610	790
EBIT		3,320	2,240	14,788	10,872
Interest income/interest expenditure	5.5.	6	151	-446	356
Exchange rate profits/losses	5.6.	1,485	351	3,178	665
Result for the year before tax		4,811	2,742	17,520	11,893
Taxes on income	3.15./4.5.	-2,551	-1,997	-8,701	-6,301
Other taxes		-25	324	-46	270
Result for the year		2,235	1,069	8,773	5,862
- of which attributable to the shareholders of the parent company		1,138	571	7,039	3,890
- of which attributable to the minority shareholders		1,097	498	1,734	1,972
Earnings per share in € (undiluted)³⁾	5.7.	0.09	0.04	0.55	0.31
Average number of shares in circulation		12,742,600	12,742,600	12,742,600	12,742,600

1) See the management report, page 28, for information

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

3) Attributable to the shareholders of the parent company. Diluted: € 0.3052 (previous year: € 0.5524)

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

	01.01. - 31.12.2004	01.01. - 31.12.2005
	€ thousand	€ thousand
Result for the year	8,773	5,862
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	1,824	2,608
Profits/losses on the disposal of fixed assets	441	20
Change in net working capital		
Change in trade receivables	3,698	-20,948
Other expenses not affecting payment ¹⁾	273	43
Change in the other non-interest bearing receivables and other assets	-1,359	-14,664
Additions to film assets / in-house productions	-49,458	-83,981
Depreciation of film assets / in-house productions	69,292	54,295
Additions to film assets / third-party productions	-19,547	-35,464
Depreciation of film assets / third-party productions	15,037	13,633
Change in trade payables	2,014	-7,180
Change in advance payments received and deferred sales	-1,467	43,098
Change in non-interest bearing liabilities, provisions and other liabilities	-3,087	15,524
Change in deferred taxes	4,355	5,404
Cash flows from ordinary activities	30,789	-21,750
Inflow of funds from disposals of tangible assets and financial assets	2,387	0
Investments in intangible and tangible assets	-553	-1,189
Investments in financial assets	-145	-58
Currency translation differences	-6	-12
Cash flows from investing activities	1,683	-1,259
Acquisition of shares in companies already controlled	0	-8,700
Profit distributions	-721	-2,469
Change in liabilities to banks	-12,226	36,922
Cash flows from financing activities	-12,947	25,753
Currency translation difference in relation to funds¹⁾	-4	45
Change in funds	19,521	2,789
Change in funds due to changes in the companies consolidated	-59	50
Funds at the beginning of the period	65,883	85,345
Funds at the end of the period	85,345	88,184

1) The figures for the previous year have been adjusted to improve comparability

▶ **STATEMENT OF CHANGES IN EQUITY AS PER JANUARY 1, 2005 THROUGH DECEMBER 31, 2005** / in € thousand

	Equity attributable to the shareholders of the parent company					Equity attributable to the minority shareholders	Total equity 01.01.-31.12.2005	Total equity 01.01.-31.12.2004
	Subscribed capital	Capital-reserves	Retained-earnings	Other comprehensive income	Total	Minority-interests		
As of 01.01.	12,743	70,183	-11,655	-335	70,936	2,771	73,707	66,120
Quarterly result January 1 - March 31			826		826	457	1,283	2,337
Currency translation difference/hedging				314	314		314	2
Other change in minority interests							0	-598
As of 31.03.¹⁾	12,743	70,183	-10,829	-21	72,076	3,228	75,304	67,861
Quarterly result April 1 - June 30			728		728	1,015	1,743	956
Currency translation difference/hedging				-501	-501		-501	19
Other change in minority interests and Acquisition of shares in companies already controlled		-14,637			-14,637	-4,233	-18,870	-78
As of 30.06.¹⁾	12,743	55,546	-10,101	-522	57,666	10	57,676	68,758
Quarterly result July 1 - September 30			1,765		1,765	3	1,768	3,245
Currency translation difference/hedging				194	194		194	-52
Other change in minority interests							0	-24
As of 30.09.¹⁾	12,743	55,546	-8,336	-328	59,625	13	59,638	71,927
Quarterly result October 1 - December 31			571		571	498	1,069	2,235
Currency translation difference/hedging				32	32		32	-304
Other change in minority interests							0	-151
As of 31.12.	12,743	55,546	-7,765	-296	60,228	511	60,739	73,707

¹⁾ The quarterly figures are not part of the audited consolidated financial statements

▶ CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS / IFRS

Acquisition or production costs/in € thousand

▶ 2004	01.01.2004	Currency translation differences	First-time consolidated companies	Additions	Disposals	31.12.2004
I. Intangible assets						
1. Goodwill	10,467	0	0	0	1,568	8,899
2. Software	748	0	-329	71	8	482
3. Franchises, industrial rights	524	0	-207	60	2	375
	11,739	0	-536	131	1,578	9,756
II. Tangible assets						
1. Land and buildings, including buildings on third-party land	3,363	0	0	0	2,746	617
2. Other equipment, operating and office equipment	4,081	-24	-331	422	459	3,689
	7,444	-24	-331	422	3,205	4,306
III. Financial assets						
1. Equity investments in associated companies	4,379	0	0	0	4,379	0
2. Equity investments in other companies	294	0	0	0	0	294
3. Long-term investments	301	0	0	95	93	303
4. Other loans	43	0	0	4	0	47
	5,017	0	0	99	4,472	644
	24,200	-24	-867	652	9,255	14,706
▶ 2005	01.01.2005	Currency translation differences	First-time consolidated companies	Additions	Disposals	31.12.2005
I. Intangible assets						
1. Goodwill ¹⁾	6,356	0	0	2	0	6,358
2. Software	482	0	0	20	128	374
3. Franchises, industrial rights	375	0	0	15	0	390
	7,213	0	0	37	128	7,122
II. Tangible assets						
1. Land and buildings, including buildings on third-party land	617	47	0	289	642	311
2. Other equipment, operating and office equipment	3,689	0	0	865	457	4,097
	4,306	47	0	1,154	1,099	4,408
III. Financial assets						
1. Equity investments in associated companies	294	0	0	0	0	294
2. Equity investments in other companies	303	0	0	0	0	303
4. Other loans	47	0	0	6	0	53
	644	0	0	6	0	650
	12,163	47	0	1,197	1,227	12,180

¹⁾ In accordance with IFRS 3.79b, the accumulated depreciation included up to December 31, 2004 was offset against the acquisition costs of the goodwill

Accumulated depreciation/amortisation / in € thousand						Book value / in € thousand		
01.01.2004	Currency trans- lation differences	First-time consoli- dated companies	Additions	Disposals	31.12.2004	01.01.2004	31.12.2004	
2,897	0	0	1,214	1,568	2,543	7,570	6,356	
631	0	-297	25	0	359	117	123	
414	0	-189	92	0	317	110	58	
3,942	0	-486	1,331	1,568	3,219	7,797	6,537	
915	0	0	0	298	617	2,448	0	
2,897	-18	-239	493	322	2,811	1,184	878	
3,812	-18	-239	493	620	3,428	3,632	878	
4,379	0	0	0	4,379	0	0	0	
294	0	0	0	0	294	0	0	
9	0	0	0	2	7	292	296	
0	0	0	0	0	0	43	47	
4,682	0	0	0	4,381	301	335	343	
12,436	-18	-725	1,824	6,569	6,948	11,764	7,758	
01.01.2005	Currency trans- lation differences	First-time consoli- dated companies	Additions	Disposals	31.12.2005	01.01.2005	31.12.2005	
0	0	0	1,818	0	1,818	6,356	4,540	
359	0	0	65	128	296	123	78	
317	0	0	41	0	358	58	32	
676	0	0	1,924	128	2,472	6,537	4,650	
617	35	0	5	642	15	0	296	
2,811	0	0	678	437	3,052	878	1,045	
3,428	35	0	683	1,079	3,067	878	1,341	
294	0	0	0	0	294	0	0	
7	0	0	1	0	8	296	295	
0	0	0	0	0	0	47	53	
301	0	0	1	0	302	343	348	
4,405	35	0	2,608	1,207	5,841	7,758	6,339	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) OF CONSTANTIN FILM AG FOR THE 2005 FISCAL YEAR

The Constantin Film AG shares were 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 § 315 a I 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), as they have to be applied in the European Union.

The Management Board of Constantin Film AG has approved the submission of the consolidated financial statements to the Supervisory Board. It is the responsibility of the Supervisory Board to review the consolidated financial statements and to state whether it approves the consolidated financial statements.

For this purpose, Constantin Film AG restates all the balance sheets and income statements of individual consolidated companies that have been prepared on the basis of local accounting rules to the international accounting standard IFRS and then compiles consolidated financial statements on this basis. The consolidated financial statements are compiled in accordance with uniform accounting and valuation principles.

At the end of 2003, the International Accounting Standards Board (IASB) published the "Improvements to International Accounting Standards" relating to 17 existing standards:

IAS 1: Presentation of Financial Statements
 IAS 2: Inventories
 IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
 IAS 10: Events After the Balance Sheet Date
 IAS 16: Property, Plant and Equipment
 IAS 17: Leases
 IAS 21: The Effects of Changes in Foreign Exchange Rates
 IAS 24: Related Party Disclosures
 IAS 27: Consolidated and Separate Financial Statements
 IAS 28: Investments in Associates
 IAS 31: Interests in Joint Ventures
 IAS 32: Financial Instruments: Disclosure and Presentation
 IAS 33: Earnings per Share
 IAS 36: Impairment of Assets

IAS 38: Intangible assets
 IAS 39: Financial Instruments: Recognition and Measurement
 IAS 40: Investment Property

In the first quarter of 2004, the IASB published the International Financial Reporting Standards IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 4 Insurance Contracts and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as well as revised versions of IAS 36 Impairment of Assets and IAS 38 Intangible Assets and further changes to IAS 39. In mid-2005, the IASB published a further revision of IAS 39 concerning the fair value option. The Group introduced the changes with effect from January 1, 2005 to the extent that they are of significance for the business operations.

The effects on the periods covered in the 2005 consolidated financial statements can be summarised as follows:

IAS 1 Presentation of Financial Statements

In addition to other requirements, the revised standard specifies that consolidated balance sheets have to be structured on the basis of remaining terms. In this context, it is necessary for the assets and liabilities to be presented in separate current and non-current groups.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In addition to other requirements, the revised standard specifies that changes to accounting policies which are attributable to the application of new or revised standards and interpretations have to be applied retrospectively, unless requirements to the contrary have been specified for the standard in question in the transition rules or interpretations. Up to now, the Group has applied all the changes prospectively, unless requirements to the contrary were specified in the transition rules. Retrospective application requires the results in the corresponding period the previous year and the opening balance sheets for this corresponding period to be adjusted in such a way as if the new accounting policies had always been applied. Prospective application means that the new accounting policies are only applied to the results of the current period under review and that the results of the corresponding period are not adjusted.

IAS 27 Consolidated and Separate Financial Statements

In addition to other requirements, the revised standard specifies that the shares of minority interests in the assets and liabilities are shown as a separate item in equity but separate from it. With their inclusion as part of equity, these minority interests also have to be taken into consideration in the equity restatement and have to be shown in a separate column.

IAS 39 Financial Statements: Recognition and Measurement

Until December 31, 2004, the Constantin Film Group included the foreign exchange futures transactions carried out to reduce possible fluctuations in future cash flows arising from firm commitments in its accounts as cash flow hedges in accordance with IAS 39. Cash flow hedge accounting stipulates that changes in market value are included outside the income statements in equity. The new rules introduced in the context of the "Improvement Project" provide the option of treating these foreign exchange futures transactions in financial statements either as cash flow hedges (as in the past) or as fair value hedges (IAS 39.87). The Constantin Group has decided to exercise this option and to treat the relevant business transactions (foreign exchange futures transactions and pending basic transactions) as fair value hedges in its financial statements. In fair value hedges, the value of both the foreign exchange futures transactions and the basic transactions hedged is included in the income statements and is shown in the balance sheets as other assets or other liabilities.

IFRS 2 Share-based Payment

In addition to other requirements, the new standard specifies in the case of share-based employee stock option plans, i.e. plans that are based on equity instruments, that the market value of the payments made to the employees is determined on the date they are made and are charged to the relevant item in the

income statements over the period until the right can be exercised. Under Group accounting to date, payments granted in the form of equity instruments have not been included in the income statements. The new standard has to be applied retrospectively with certain restrictions. The transition rules require companies to apply the new standard retrospectively for all payments made after November 7, 2002, the rights to which could not yet be exercised on December 31, 2004 as well as for all payment rights not yet exercised on December 31, 2004 that are satisfied in cash. No options have been issued as yet for the only stock option plan that has been introduced since November 7, 2002. Since the Constantin Group has comparatively insignificant stock option plans, material effects on the income statements cannot be expected even if options are issued.

IFRS 3 Business Combinations

The Constantin Film Group has been applying the new standard IFRS 3 (Business Combinations) together with IAS 36 (Impairment of Assets, revised in 2004) and IAS 38 (Intangible Assets, revised in 2004) since January 1, 2005. Logically enough, acquired goodwill has therefore been subjected to an annual impairment test since the beginning of 2005 instead of being depreciated. This change has a positive effect on EBIT in 2005, because scheduled depreciation of goodwill are eliminated completely. Write-downs determined, for example, on the basis of DCF analyses, have to be taken into consideration, however. In the course of



time, goodwill write-downs must be expected because of the elimination of scheduled depreciation charges. This change in IFRS accounting will lead to greater volatility in income statement accounting.

The Group is currently in the process of investigating the possible effects of the revised and new standards that came into force on January 1, 2006. The Group does not expect the other new and revised standards and interpretations to have any significant impact on the earnings and financial situation of the Group, although they require more extensive reporting for certain areas.

The industry rules specified by US GAAP (SOP 00/2), which have been observed since the 2001 consolidated financial statements, are applied in film asset accounting and sales realisation as per December 31, 2005.

2. DESCRIPTION OF THE CONSTANTIN FILM AG GROUP

Together with its subsidiaries and associated companies, Constantin Film AG (hereinafter referred to as "Constantin Group") is a major German producer and distributor of theatrical, video/DVD and television films. The Group's operations include 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 often 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. The Constantin Group also produces fiction and non-fiction products for TV stations.

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 FILM SERVICES GMBH

Constantin Film Services GmbH is a wholly-owned subsidiary of Constantin Film Produktion GmbH and provides various film production services to the Constantin Group. The company was acquired for € 27,000 and included in the consolidated financial statements of Constantin Film AG for the first time on July 13, 2005.

BOB FILM GMBH

bob Film GmbH is a wholly-owned subsidiary of Olga Film GmbH. The company was established in connection with the production of the theatrical film **Schwere Jungs**. The company was acquired and included in the consolidated financial statements of

Constantin Film AG for the first time on December 1, 2005. The acquisition costs amounted to € 25,000.

Constantin Film AG acquired the remaining shares in Constantin Entertainment GmbH on June 30, 2005. The shares were transferred under civil law with backdated effect from January 1, 2005.

Constantin Entertainment GmbH has been consolidated in full in the consolidated financial statements compiled in accordance with IFRS since September 30, 2003. The relevant minority interests in the equity at the time of first consolidation and in the earnings generated by Constantin Entertainment GmbH were shown under minority interests in the equity item of the consolidated financial statements until June 30, 2005, in accordance with IAS 1 (new). The shareholders of the parent company have been entitled to all of the earnings generated by Constantin Entertainment GmbH since July 1, 2005.

See 2.2. for information about balance sheet treatment of the transaction.

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

► DIRECT CAPITAL INTEREST / in per cent

		Company operations
Constantin Script & Development GmbH , Munich	100.0	Acquisition and development of material rights
Constantin Media GmbH audiovisuelle Produktionen , Munich	100.0	Acquisition and development of material rights
Constantin Film Development Inc. , Los Angeles/USA ^{1)/2)}	100.0	Acquisition and development of material rights
Constantin Film Produktion GmbH , Munich	100.0	Film and television production
Constantin Film Services GmbH , Munich ^{1)/2)}	100.0	Film Services
Constantin Film International GmbH , Munich	100.0	International film production
Constantin Pictures GmbH , Munich ²⁾	100.0	International film and television production
Constantin Production Services Inc. , Los Angeles/USA ^{1)/2)}	100.0	International film production
DoA Production Ltd. , London/Great Britain ^{1)/2)} (previously: Constantin Film (UK) Ltd.)	100.0	International film production
Constantin Entertainment GmbH , Ismaning	100.0	TV entertainment production
Olga Film GmbH , Munich ¹⁾	51.0	Film and television production
bob Film GmbH , Munich ^{1)/2)}	51.0	Film and television production
MOOVIE - the art of entertainment GmbH , Berlin ¹⁾	51.0	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
Constantin Film Verleih GmbH , Munich	100.0	Licence trading and cinema distribution
Classic Media Werbeagentur GmbH , Munich	100.0	Advertising and event marketing
Constantin International B.V. , Amsterdam/NL ¹⁾	100.0	Licence trading
Constantin Music Verlags- GmbH , Munich	100.0	Exploitation of music rights
Constantin Propaganda GmbH , Munich	100.0	Licence trading

1) No profit/loss transfer agreement

2) Indirect equity interest

(See also the summary of equity interests on page 73)

Both alone and together, the following 9 subsidiaries (previous year: 10) 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
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
The Dark Film Ltd. , London/Great Britain
Sheep Ltd. , London/Great Britain

(See also the summary of equity interests on page 73)

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, 2005 and certified by the auditors and/or on the financial statements of the companies included reviewed in the context of the audit made of the consolidated financial statements.



Acquired subsidiaries are included in the accounts applying the acquisition method. The acquisition costs correspond to the present value of the assets contributed, the equity instruments employed and the debts created and/or taken over at the time of the transaction ("date of exchange") plus the costs that can be allocated directly to the acquisition. Assets, debts and contingent liabilities that can be identified in the context of a business combination are valued with their present values at the time of acquisition in initial consolidation, irrespective of the size of the minority interests.

The amount left after deduction of the Group share of the net assets valued with the present value from the acquisition costs is included as goodwill.

When shares are acquired in companies that are already controlled, accounting is carried out as a transaction at the shareholder level, taking the entity concept into consideration, and leads to an offset against equity with no effect on the income statements. The difference is therefore included in the capital reserves and minority interests.

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.

Deferred taxes are formed in connection with consolidation measures affecting the income statements that will probably cancel themselves out again in subsequent periods.

2.3. Currency translation

Translation of business transactions in a foreign currency:

The initial entry in the functional currency is made by translation at the exchange rate on the transaction date. Monetary balance sheet items have to be translated on every balance sheet date using the exchange rate on the qualifying date. Non-monetary items that have to be valued at current acquisition costs or production costs are not translated at the exchange rate on the qualifying date. The rate on the date of the initial entry continues to apply.

Translation of foreign financial statements in the consolidated financial statements:

The functional currency of all the consolidated companies outside Germany is the currency of the parent company of the Group, because the companies are dependent foreign units that are integrated in the business operations of the Group.

All the monetary items are therefore translated at the exchange rate on the qualifying date and non-monetary items are translated at historical rates, 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.

Goodwill and adjustments to the present value that result from the acquisition of a foreign company are treated as assets and liabilities of the foreign company and are translated at the exchange rate on the qualifying date.

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

Country	Currency	Exchange rate on the qualifying date		Average exchange rate	
		31.12.2004	31.12.2005	2004	2005
USA	US\$ 1.00	0.7330	0.8481	0.8040	0.8033
Great Britain	£ 1.00	1.4144	1.4586	1.4749	1.4622
Canada	CAN\$ 1.00	0.6091	0.7284	0.6185	0.6649

3. ACCOUNTING AND VALUATION PRINCIPLES

3.1. Funds

All funds originally due within 3 months are classified by the Constantin Group as funds for the purposes of the statement of cash flows in accordance with IAS 7. This item consists essentially of credit balances at banks 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.

3.3. Promotion loans

What are known as project promotion loans are used to finance film productions. They are loans that have to be repaid under specific conditions. With some funding organisations, the repayment of a loan may lead to an automatic right to a loan for a new production of the size of the repayment. This new loan has to be granted by the funding organisations.

New promotion loans that have been applied for and granted are included as sales on theatrical release of the respective film production. Inclusion of the repayment in the accounts is made dependent on the nature of the rights to subsequent loans. If a legal right to a subsequent loan is created by the repayment of the original loan, this is included as a receivable with no

effect on the income statements. If the right to a subsequent loan depends on the satisfaction of one or more conditions, an expense is posted if repayment of the original loan is foreseeable. The subsequent loan that is approved on request after the relevant conditions have been satisfied is included in sales.

3.4. Film assets

Film asset accounting as per December 31, 2005 is carried out in the consolidated financial statements of Constantin Film AG in accordance with the US GAAP standards. The regulation SOP 00/2 has been applied since the 2001 fiscal year. Constantin Film AG has decided to implement this regulation with the aim of providing the recipients of the financial statements with more easily understandable information that is simpler to compare with 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. 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 in accordance with IAS 23.

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 10 years for the kind of films that are accounted for in the film assets of Constantin Film.

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 definitely specified 3 years after initial capitalisation of costs of a project, the costs are written off completely.

3.5. Intangible assets

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

All acquired intangible assets that are shown are carried at their acquisition costs.

Software, franchises and industrial rights are depreciated over their probable useful life of 3 years using the straight-line method. Depreciation to the lower realisable amount is made wherever necessary.

Goodwill is checked on an annual basis to determine impairment. Goodwill is allocated to the relevant cash-generating units (relevant companies). If the realisable amount of the cash-generating unit, which corresponds to the higher of the two amounts of its

market value minus costs of sale and its value in use, is lower than its book value, the book value is reduced. The method applied in the impairment testing of cash-generating units is outlined in point 4.2.2.

3.6. Tangible assets

Tangible assets are valued at acquisition costs minus depreciation. Depreciation is made using the straight-line method. Depreciation to the lower realisable amount 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

3.7. Financial instruments

It is a fundamental rule at Constantin Film AG that derivative financial instruments are only used to hedge

exchange rate and/or interest rate risks. According to IAS 39, all derivative financial instruments, such as foreign exchange futures transactions, must be included in the financial statements at their market value irrespective of the purpose or intention followed in concluding them. The changes in the market value of derivative financial instruments for which hedge accounting is applied are shown in equity as part of the other comprehensive income item, provided only cash flow hedges are involved. The purpose of cash flow hedges is to reduce possible fluctuations in future cash flows from planned, highly probable transactions (forecast transactions). The market values included in the other comprehensive income are transferred at the same time that the basic transaction hedged is included in the accounts. Any part of the changes in market value that is not covered by the basic transaction is stated directly in earnings. In the case of fair value hedges, the changes in market value and the result of the valuation of the basic transaction are included in the income statements. The purpose of fair value hedges is to protect the value of a recognised asset/liability or a firm commitment. Fair value hedges are used primarily with licences bought for international productions. If the preconditions for hedge accounting are not met, the value of derivative financial instruments at market prices is included in the costs of goods sold item in the income statements.

3.8. Financial assets

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

Long-term investments are included at fair value. The change in the fair value is included in the income statements.

The other loans are valued at current acquisition costs, applying the actual interest rate method.

3.9. Liabilities

The liabilities are carried at their redemption value.

3.10. Advance payments received and deferred sales

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 deferred sales relate to sales already realised in accordance with HGB that are not realised until a later

date under IFRS rules (see 4.3.2.) because of their different treatment.

3.11. 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.

3.12. Equity

The segmentation and development of the equity can be found in the statement of changes in equity (see page 33) and the explanatory notes about the balance sheets (see 4.6.).

3.13. 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.

In the case of in-house video/DVD exploitation, the sales – which depend on the video cassettes and DVDs sold – are realised from the release date



onwards. Sales generated by video/DVD and TV (pay and free TV) rights are realised from when the licence begins – generally 6 to 32 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 allocated to the different sales sources. 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. The fundamental rule for realisation of the relevant sales is as follows: theatrical sales on theatrical release in Germany, video/DVD sales 6 months after theatrical release, TV sales 24 months after theatrical release. If the licence period is close to the qualifying date, these flat rates are

periodised. The total minimum guarantee is 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.

3.14. Interest

With the exception of financing costs that can be allocated directly to the film assets, interest is booked as expenditure or income at the time when it is incurred.

3.15. 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 temporary 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. Periodic reviews are made to determine whether the value of deferred tax assets is accurate. Deferred tax assets and liabilities are calculated on the basis of the tax rates that 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.

3.16. Use of estimates

The preparation of financial statements in accordance with the IFRS requires the management to make assumptions and estimates that have an impact on amounts shown and notes associated with them. Although these estimates are made to the best of the company’s knowledge on the basis of current information and activities, the actual results may deviate from these estimates.

All the main estimates and assessments are reviewed regularly and are based on past experience and other

factors, including expectations about future events that appear reasonable in the circumstances:

a. Valuation of the film assets

The anticipated sales play a central role in valuation of the film rights (see “individual film forecast method” in point 3.4.). They are reviewed and updated at quarterly intervals.

b. Goodwill impairment

In line with the accounting and valuation principles outlined in 3.5., the Group makes quarterly reviews of whether impairment of the individual goodwill items has occurred. The realisable amount of cash-generating units is determined on the basis of estimated future cash inflows.

c. Provisions

The Group determines continuously the provisions that need to be made to cover identifiable commitments to third parties from a past event in accordance with IAS 37 and, if appropriate, IAS 19 as well. They are valued at the best possible estimate of the size of the commitment. The main areas the estimates relate to are taxes, risks of legal action, commitments to repay promotion loans and provisions for film expenses.

d. Taxes on income

Extensive estimates have to be made to determine the assets and liabilities from current and deferred taxes on income. Some of these estimates are based on the interpretation of existing tax legislation and regulations. The management is of the opinion that the estimates are reasonable and that the uncertain factors concerning the taxes on income have been taken into account sufficiently in the liabilities stated in the financial statements. Numerous internal and external factors can have favourable and unfavourable effects on the assets and liabilities from taxes on income. These factors include (among others) not only changes to tax legislation and regulations and interpretation of them but also changes to the tax rates and the profit before tax. Changes of these kind that are made can have an effect on the assets and liabilities from current and deferred taxes on income included in future reporting periods.

4. EXPLANATORY NOTES ABOUT THE BALANCE SHEET

4.1. Current assets

4.1.1. Receivables

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

debts relate essentially to receivables from theatre operators.

“In-house productions” accounted for € 22.713 million of the trade receivables (previous year: € 15.585 million), while “third-party productions” accounted for € 7.926 million (previous year: € 3.883 million).

4.1.2. Inventories

The inventories essentially include the costs of goods sold of the service productions that have not yet been supplied to the TV stations.

4.1.3. Other assets

The other assets essentially include other loans.

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

“In-house productions” accounted for € 5.784 million of the other assets (previous year: € 8.537 million), while “third-party productions” accounted for € 2.018 million (previous year: € 2.127 million).

4.2. Non-current assets

4.2.1. Fixed assets

Information on the development of the fixed assets is presented in the statement of changes in fixed assets (pages 42/43), which is part of the notes to the consolidated financial statements.

The increase in tangible assets is attributable mainly to the investments in connection with Constantin Film AG's move to Feilitzschstrasse.

An impairment write-down charge of € 50,000 was made in the fiscal year.

4.2.2. Goodwill

An amount of € 6.356 million was included in the intangible assets for goodwill on January 1, 2005; this amount was divided up between several cash-generating units. These goodwill items were reviewed in the context of an impairment test. The review was made on the basis of forecast cash flows of the individual cash-generating units derived from

the 5-year plan submitted by the management in each case. Over the 5-year period, the figures planned were calculated on the basis of detailed individual projects. Perpetual annuity growth of 1 per cent was assumed after the first 5 years. The value of the cash-generating units was then determined from the cash flows by applying a discounting interest rate of between 7.6 per cent and 9 per cent. The discounting rate is based on free-market interest rates and a risk surcharge for individual cash-generating units that reflects the potential risks of the individual cash-generating units appropriately. Following the review explained above, the goodwill of 4 cash-generating units was reduced by € 1.818 million. This means that the value of the goodwill shown on December 31, 2005 was € 4.540 million. This amount is divided up between 2 cash-generating units in a ratio of 25:75. For these units, the value was determined in accordance with the above-mentioned principles on the basis of a discounting rate of 7.6 per cent. The depreciation charges and the residual book value are attributable to the "in-house production" segment.

4.2.3. Film assets

The film assets can be broken down as follows:

	31.12.2004 € thousand	31.12.2005 € thousand
In-house productions		
Films being exploited	62,251	46,786
Films being developed and produced	52,664	97,815
Total in-house productions	114,915	144,601
Third-party productions		
Films being exploited	21,055	24,370
Films being prepared and advance payments received	7,573	26,089
Total third-party productions	28,628	50,459
Film assets	143,543	195,060

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.

The film assets developed as follows by comparison with the previous year:

▶ FILM ASSET MOVEMENTS* / in € thousand

	Acquisition or production costs				Accumulated depreciation/amortisation				Book value	
	01.01.2005	Additions	Disposals	31.12.2005	01.01.2005	Additions	Disposals	31.12.2005	01.01.2005	31.12.2005
In-house and co-productions	354,451	83,981	1,595	436,837	239,536	54,295	1,595	292,236	114,915	144,601
Third-party productions	196,398	35,464	0	231,862	167,770	13,633	0	181,403	28,628	50,459
	550,849	119,445	1,595	668,699	407,306	67,928	1,595	473,639	143,543	195,060

* The residual book values on 01.01.1999 form the basis for the acquisition or production costs

Disposal is also assumed in the case of a complete write-off of screenplay rights.

Financing costs of € 1.857 million (previous year: € 573,000) that could be allocated directly were capitalised in the 2005 fiscal year. The interest rate varies between 3.5 and 6.5 per cent.

4.2.4. Trade receivables

The trade receivables essentially involve receivables from TV stations and from theatre operators.

“In-house productions” accounted for € 7.248 million of the trade receivables (previous year: € 0), while “third-party productions” accounted for € 2.529 million (previous year: € 0).

4.2.5. Receivables from banks

The receivables from banks consist of long-term time deposits and are reserved for repayments of liabilities from the financing of film productions (see 4.4.1.).

4.3. Current liabilities

4.3.1. Trade payables

The trade payables are carried at their redemption value. € 10.370 million (previous year: € 16.946 million) of the trade payables were accounted for by “in-house productions” and € 3.618 million (previous year: € 4.222 million) were accounted for by “third-party productions”.

4.3.2. Advance payments received and deferred sales

This item includes advance payments received and allocated TV and global distribution revenues. € 107.938 million (previous year: € 74.884 million) were accounted for by “in-house productions” and € 27.348 million (previous year: € 17.304 million) were accounted for by “third-party productions”.

The deferred sales amounted to € 100.876 million. The relevant receivables have already been shown in trade receivables, because the conditions for invoicing have been met; according to SOP 00/2, point 8, however, the sales have to be deferred.

4.3.3. Other provisions

The other provisions developed as follows:

► PROVISIONS / in € thousand	01.01.2005	Required	Released	Added	31.12.2005
Provision for outstanding invoices and film expenses	8,270	6,292	942	19,947	20,983
Provision for profit-sharing schemes and licensor shares	2,261	1,092	0	2,919	4,088
Provision for conditional loan repayment	5,353	2,290	140	739	3,662
Provision for personnel expenses	2,008	1,773	40	3,058	3,253
Miscellaneous	4,393	639	464	2,158	5,448
Provisions	22,285	12,086	1,586	28,821	37,434

The "miscellaneous" item essentially includes provisions for risks due to licence disputes.

€ 27.750 million (previous year: € 17.841 million) of the other provisions were accounted for by "in-house productions" and € 9.684 million (previous year: € 4.444 million) were accounted for by "third-party productions".

4.3.4. Other liabilities

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

	31.12.2004 € thousand	31.12.2005 € thousand
Salaries, income tax, social security contributions	1,733	1,853
VAT	74	1,039
Other loans	1,996	1,519
Miscellaneous	1,571	1,848
Financial commitment from share acquisition	0	2,850
Other liabilities	5,374	9,109

€ 6.753 million (previous year: € 4.302 million) of the item were accounted for by "in-house productions" and € 2.356 million (previous year: € 1.072 million) were accounted for by "third-party productions".

4.4. Non-current liabilities

4.4.1. Other liabilities

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

	31.12.2004 € thousand	31.12.2005 € thousand
Financial commitment to Wrongfully Accused Production Limited Partnership and Wrongfully Accused Production Limited Partnership No. 2	5,483	5,483
Financial commitment from share acquisition	0	4,850
Other liabilities	5,483	10,333

€ 10.333 million (previous year: € 5.483 million) of the item were accounted for by "in-house productions".

4.5. 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 Entertainment 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:

- ▶ Olga Film GmbH
- ▶ bob Film GmbH
- ▶ MOOVIE - the art of entertainment GmbH
- ▶ Rat Pack Filmproduktion GmbH
- ▶ Westside Filmproduktion GmbH
- ▶ Constantin Film Development Inc.
- ▶ Constantin Production Services Inc.
- ▶ DoA Production Ltd.
(previously: Constantin Film [UK] Ltd.)
- ▶ Constantin International B.V.
- ▶ Constantin Film Services GmbH

A uniform corporation tax rate of 25 per cent has been applied for the German Group companies in 2005. 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 2004 and 2005 fiscal years is as follows:

	2004	2005
	€ thousand	€ thousand
Current tax revenue/expenditure	-4,346	-897
Deferred tax revenue/expenditure	-4,355	-5,404
Taxes on income	-8,701	-6,301

The deferred tax expenditure of € -5.404 million (previous year: € -4.355 million) shown can be broken down into the tax assets and liabilities relating to temporary differences amounting to € -4.565 million (previous year: € -5.793 million) and tax assets relating to accumulated tax losses amounting to € -839,000 (previous year: € 1.438 million).

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

	2004	2005
	€ thousand	€ thousand
Result for the year before tax	17,520	11,893
Theoretical tax income (40,86%)	-7,159	-4,860
Tax rate differences	19	157
Tax-free income	-398	0
Tax additions and deductions	784	-149
Tax from the previous year	-2	-250
Write-down	-1,430	-507
Miscellaneous items	-19	51
Goodwill	-496	-743
Taxes on income	-8,701	-6,301

The deferred taxes relate to the following items:

	2004	2005
	€ thousand	€ thousand
Deferred taxes (assets)		
Accumulated tax losses	13,539	12,700
Advance payments received and deferred sales	34,251	67,583
Provisions	0	322
Miscellaneous (Equity)	232	202
Deferred taxes (assets)	48,022	80,807
Deferred taxes (liabilities)		
Film assets/in-house productions	33,748	66,188
Film assets/third-party productions	3,385	7,953
Provisions	0	1,213
Deferred taxes (liabilities)	37,133	75,354
Deferred taxes (net)	10,889	5,453

The deferred tax assets and liabilities from the Group companies are balanced in accordance with IAS 12. The deferred tax assets therefore amount to € 15.560 million (previous year: € 18.144 million), while the deferred tax liabilities total € 10.105 million (previous year: € 7.255 million).

The accumulated tax losses amounted to € 31.075 million (previous year: € 33.036 million) on December 31, 2005. The deferred tax assets relating to them amounted to € 12.700 million (previous year:



€ 13.539 million). The change in accumulated tax losses led to tax expenditure of € -839,000 (previous year: € 1.438 million) for the Group in the year under review.

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

4.6. Equity

4.6.1. 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.

4.6.2. 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 amounted to € 55.546 million on the balance sheet date (previous year: € 70.183 million). The change from the previous year is attributable to offsetting with no effect on the income statements in the context of the acquisition of the remaining shares in Constantin Entertainment GmbH.

The difference between the reserves under commercial law and in accordance with IFRS is as follows:

▶ RESTATEMENT OF THE CAPITAL RESERVES / in € thousand

Capital reserves according to HGB on December 31, 2005	40,157
Direct allocation of the IPO costs (1999)	-6,553
Goodwill charge on the basis of fair market value calculation (1999)	2,242
Capital increase at Constantin Film AG (2001)	1,640
Release of the capital reserves acc. to §150 paragraphs 3 and 4 AktG (2005)	32,697
Acquisition of shares in companies already controlled (2005)	-14,637
Capital reserves according to IFRS on December 31, 2005	55,546

4.6.3. Retained earnings / other comprehensive income

See the statement of changes in equity, page 41 / 7.3., for the development of the items in the year under review.

The retained earnings include the accumulated operating results attributable to the shareholders of the parent company.

Changes in the market value of the foreign exchange futures transactions included in the accounts as cash flow hedges are shown in the other comprehensive income.

4.6.4. Authorised capital

In accordance with a resolution passed at the Annual Shareholders' Meeting on May 12, 2005, the Management Board has been authorised to increase the share capital on one or more occasions by up to a total of € 4,800,000.00 by April 30, 2010 with the approval of the Supervisory Board in return for the injection of cash and/or physical assets. The subscription right of the shareholders can be suspended to some extent in this context (authorised capital 2005/I).

In accordance with a resolution passed at the Annual Shareholders' Meeting on May 12, 2005, the Management Board has been authorised to increase the share capital on one or more occasions by up to a total of € 1,200,000.00 by April 30, 2010 with the approval of the Supervisory Board in return for the injection of cash. The subscription right of the shareholders can be suspended to some extent in this context (authorised capital 2005/II).

4.6.5. Conditional capital

In accordance with a resolution passed at the shareholders' meeting on July 7, 2001, the share capital was increased conditionally by up to € 600,000.00 to implement a stock option plan (conditional capital 2001/I).

In accordance with a resolution passed at the shareholders' meeting on August 29, 2003, the share capital of the company was increased conditionally by up to € 600,000.00 to implement a stock option plan (conditional capital 2003/I).

In accordance with a resolution passed at the shareholders' meeting on May 5, 2004, the conditional capital 2001/I still amounts to € 291,600.00.

4.6.6. Equity attributable to the minority shareholders

This item includes the accumulated results that are attributable to the minority shareholders.

5. EXPLANATORY NOTES ABOUT THE INCOME STATEMENT

5.1. Sales/division reporting

The Constantin Group distinguishes in its reporting between 2 different divisions (segments) that are subject to regular review by the Management Board. These two divisions are known as "in-house production (or co-production)" and "third-party production":

In the case of in-house production (or co-production), the Group contributes services of its own to the production of a film. In the initial phase, these services include monitoring trends, finding the right material and developing the 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 production 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 productions. 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). The purchasing strategy is based fundamentally on the acquisition of individual licences (known as pick-ups) from our numerous longstanding production partners in Germany and other countries. First look agreements are often concluded between producers and rights buyers, according to which the potential buyer is granted a right of first look and last refusal. This means that the producer has an obligation to offer a film to the potential rights buyer, while the latter has the right to negotiate and buy first. These Group operations are organised in the third-party production division.

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

There are no business relationships between the in-house production (or co-production) division and the third-party production division. The management of the Constantin Group uses "sales", "depreciation" 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 specific division expenses. The total sales figure includes proceeds of € 28.506 million (previous year: € 34.556 million) from the international exploitation of film rights. They can be broken down into the different territories as follows:

► SALES SEGMENTATION BY COUNTRIES / in € thousand

	2004	2005
Europe (without Germany)	21,093	6,793
USA	7,891	9,894
Japan	2,154	5,657
Others	3,418	6,162

An allocation of the film assets and other major balance sheet items by divisions is given in 4.1.1, 4.1.3., 4.2.3., 4.2.4., 4.3.1., 4.3.2., 4.3.3., 4.3.4. and 4.4.1.

▶ SEGMENTATION BY DIVISIONS / in € thousand

	2004	2005	2004	2005	2004	2005
	In-house and co-productions		Third-party productions		Total	
Sales:						
Theatrical sales	27,768	14,844	43,845	8,859	71,613	23,703
Video sales	11,160	31,344	11,568	21,605	22,728	52,949
TV sales	34,217	18,088	5,028	5,335	39,245	23,423
Service productions	85,749	87,760	0	0	85,749	87,760
Subsidies	16,390	12,913	496	811	16,886	13,724
Others	10,694	11,766	0	462	10,694	12,228
Total	185,978	176,715	60,937	37,072	246,915	213,787
Amortisation	69,292	54,295	15,037	13,633	84,329	67,928
Other costs of goods sold	95,765	91,548	34,514	23,031	130,279	114,579
Gross profit on sales	20,921	30,872	11,386	408	32,307	31,280
Percentage of sales	11.2	17.5	18.7	1.1	13.1	14.6
Selling expenses					1,675	2,697
General administration expenses					15,182	16,769
Other operating income					2,343	2,481
Other operating expenses					1,181	815
Amortisation of goodwill					1,214	1,818
Depreciation of tangible assets and financial assets, amortisation of other intangible assets					610	790
EBIT					14,788	10,872

5.2. 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. The depreciation of film rights includes expenses of

€ 2.333 million (previous year: € 1.856 million) that are due to adjustments of the residual book values on the basis of current sales estimates. € 1.047 million of this amount are accounted for by the “in-house production” segment, while the “third-party production” segment accounted for € 1.286 million. The risk provision for films that are not yet being exploited amounted to € 90,000 (previous year: € 126,000). The whole of this amount is attributable to the “third-party production” segment.

5.3. Depreciation of tangible assets, other intangible assets and financial assets

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

5.4. Personnel expenses

Wages and salaries in the year under review amounted to € 12.335 million (previous year: € 11.467 million). Social security expenditure amounted to € 1.762 million (previous year: € 1.501 million).

The Constantin Film Group had an average of 237 employees over the year (previous year: 243) (see also the human resources section of the management report, page 30).

5.5. Financial result

Interest expenses in the year under review amounted in total to € 97,000 (previous year: € 812,000). Interest income amounted to € 453,000 (previous year: € 366,000).

5.6. Currency translation

An exchange rate gain totalling € 665,000 (previous year: € 3.718 million) was recorded because of the valuation on the qualifying date of the transactions carried out in US dollars that cannot be allocated to individual projects and of the foreign currency portfolio. The exchange rate income amounted to € 3.364 million (previous year: € 3.179 million), whereas the exchange rate expenses totalled € 2.699 million (previous year: € 1,000).

5.7. Earnings per share

The undiluted earnings per share are calculated by dividing the proportion of earnings attributable to the shareholders of Constantin Film AG by the weighted average number of shares in circulation during the fiscal year. The earnings per share are diluted by what are known as "potential shares". These include option rights, although they only dilute earnings when they allow for shares being issued at a value lower than the stock exchange price for the share. The exercise price that applies in the case of the active stock option plan at Constantin Film AG was lower than the average and/or year-end stock exchange price of the share in 2005. This means that the option rights have a diluting effect. The earnings per share before dilution amounted to € 0.3053 after € 0.5524 in the previous year. The numerator for calculating the diluted earnings per share is reduced by 234 shares due to the diluting effect of the option rights. The denominator remains unchanged. The diluted earnings per share therefore amounted to € 0.3052.

6. EXPLANATORY NOTES ABOUT THE STATEMENT OF CASH FLOW

Income tax and interest payments are as follows:

	2004 € thousand	2005 € thousand
Payments made for taxes on income	-4,346	-897
Interest payments received	366	453
Interest payments made, minus the capitalised amounts	-1,385	-1,954

Net Group liquidity decreased by € 34.083 million over the previous year to € -23.678 million. The decrease is mainly attributable to the large investments in film assets and the increase in trade receivables in 2005.

The following table shows the credit lines that are available to the Group. Use was made of them with the different banks to some extent:

DZ Bank AG, BayernLB, Dresdner Bank AG, Syndicate loan production financing	US\$ thousand	100,000
BayernLB, Dresdner Bank AG licence trading and working capital	€ thousand	40,000

7. OTHER EXPLANATORY NOTES

7.1. Stock option plan

There are several employee stock option plans outlined below at Constantin Film AG at the present time. The granting of stock options has had no impact on either the balance sheets or the income statements so far.

7.1.1. 1999 stock option plan

The first stock option plan was introduced in connection with the IPO in 1999. It 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 first stock option plan were waived in the 2003 fiscal year (see 4.6.5.).

7.1.2. 2001 stock option plan

A second stock option plan was agreed in the 2001 fiscal year, on the basis of which stock options were issued to employees in the 2001 fiscal year. The second 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 second stock option plan that was introduced in 2001 have a term of almost 5 years and enable the company's staff to exercise one third of their options after waiting for periods of 2, 3 and 4 years respectively after the options were granted. This means that the options issued in 2001 will expire on July 12, 2006.

The price at which the 350,000 options issued in 2001 can be exercised corresponded 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 and 2003.

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. This level was exceeded for the first time in the course of the 2005 fiscal year. Another rule is that the option can only be exercised as long as the owner of the options has an un-terminated 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. 122,100 option rights have already expired in accordance with these rules of the 2001 stock option plan. This means that 227,900 options are still in force. Conditional capital totalling € 291,600 (see 4.6.5.) is available to permit the option rights granted on the basis of the 2001 stock option plan to be exercised. No options from the 2001 stock option plan have been exercised as yet.

7.1.3. 2003 stock option plan

A third stock option plan was agreed in the 2003 fiscal year. Up to the end of the 2005 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 2003 stock option plan have a term of 5 years and enable the company' staff to exercise one third of their options 2, 3 and 4 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 rule is that the option can only be exercised as long as the owner of the option has an un-terminated employment contract. Conditional capital totalling € 600,000.00 (see 4.6.5.) is available to permit the option rights granted on the basis of the 2003 stock option plan to be exercised.

▶ 2001 OPTION PLAN

	Number in 2001	Number in 2002	Number in 2003	Number in 2004	Number in 2005
Options granted	350,000	350,000	350,000	350,000	350,000
Options issued as per 01.01.	0	342,500	329,500	291,600	248,400
Additions in the fiscal year	350,000	0	0	0	0
Options exercised	0	0	0	0	0
Options expired	-7,500	-13,000	-37,900	-43,200	-20,500
Options issued as per 31.12.	342,500	329,500	291,600	248,400	227,900
	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005
Exercise price in €	9.72	9.72	9.72	9.72	9.72
Share price in €	4.15	2.56	3.92	8.48	10.94
Remaining term of the options (years)	5	4	3	2	0.6
Options that can be exercised	0	0	0	0	227,900

7.2. 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 € 2.174 million (previous year: € 2.007 million).

There is also a rent guarantee for the business premises rented by Constantin Film AG amounting to € 229,000 (previous year: € 135,000). There are in addition guarantees for service productions with a total value of € 8.767 million (previous year: € 2.556 million) to various TV stations and at 2 banks amounting to € 5.000 million and USD 2.500 million.

The credit lines (revolving production loans and licence trading line) are secured by the film rights shown in the film assets and the proceeds of the exploitation of them.

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.

	2004 € thousand	2005 € thousand
Remaining term up to 1 year	1,071	889
Remaining term 1-5 years	1,981	1,527
Remaining term more than 5 years	0	7,169
Total	3,052	9,585

Constantin Film AG guarantees various banks the repayment of licence prices of GBP 49,442,000, which relate to the financing of international film productions. The guarantees have to be honoured if the banks with an excellent credit standing with which sufficient funds for repayment have been invested do not pay out this money.

In addition to this, Constantin Film AG has issued a completion guarantee to the co-producer in the context of the production of **Perfume – The Story of a Murderer** and **Dead or Alive**. This is covered by a completion bond.

The Group obtains access to future film rights by concluding licence contracts. Film purchasing and production preparations lead to financial commitments for the future that amount to about € 13.000 million (previous year: € 15.000 million). The impact on the asset situation, financial position and profitability from 2007 onwards cannot be estimated with sufficient certainty at the present time.

7.3. Derivative financial instruments

Management of the currency translation risk

The Constantin Group concludes hedging contracts (with particular emphasis on the US dollar) with a term that is generally less than one year in order to reduce the currency translation risks associated with its business operations. The derivative financial instruments are arranged with banks. The financial instruments relate to future foreign currency flows for film projects. The Group does not hold and issue any derivative financial instruments for trading purposes. As a fundamental rule the Constantin Group makes sure that the amount of the hedging contract does not exceed the basic business transaction.

Foreign exchange hedging contracts and options were in force on December 31, 2005. The strict conditions for hedge accounting in accordance with IAS 39 in a cash flow hedge relationship and a fair value hedge relationship are met. The hedging transactions relate to rights purchases as well as to anticipated income from international in-house productions and continue until January / February 2006.

The nominal amount of all the hedging contracts and options in force amounts to € 19.169 million. Market price valuation leads to an amount of € -19,000. Valuation was carried out on the basis of the

exchange rate when the foreign exchange transaction was concluded and the forward rate on the balance sheet date. In accordance with IAS 39, the changes in market value after deduction of taxes are shown in equity as part of the other comprehensive income in the case of cash flow hedges (€ -296,000) and in the income statements in the case of fair value hedges (€ -89,000). The change in the valuation of the pending basic transaction is in turn included in the income statements.

Management of default and credit risks

The financial asset amount included in the financial statements indicates the maximum default risk, should contractors be unable to meet their contractual payment commitments, irrespective of existing securities. To minimise the default risk – depending on the nature and size of the service involved – the rule with all the supply relationships that are the basis for original financial instruments is that securities are demanded, credit information / references are obtained or historical data from the business relationships to date – particularly payment patterns – are used to avoid bad debts.

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

In the case of derivative financial instruments, the Group is also exposed to a credit risk that materialises if contractual partners do not meet the contractual commitments. This credit risk is minimised by restricting the conclusion of business transactions to contractual partners with an excellent credit standing. The general credit risk is therefore not considered to be material. There is no apparent concentration of default risks from business relationships to individual debtors or debtor groups.

Management of the interest rate risk

Although the Group concentrates its financing on short- and medium-term financial liabilities, it protects itself against liquidity risks at the same time by means of longer-term general financing agreements.

7.4. Connections to related parties

The Management Board and the Supervisory Board of Constantin Film AG, the shareholders of the company that have a controlling and significant influence and the associated companies are the main related parties as defined by IAS 24. Since the shareholders Bernd Eichinger (indirect interest of 25.07 per cent) and Highlight Communications AG (57.98 per cent) have this influence, they are related parties.

The other members of the Management and Supervisory Boards held the same number of shares and options on December 31, 2005 as in the previous year: Fred Kogel 6,150 shares, Thomas Peter Friedl 29,400 options, Martin Moszkowicz 32,000 options, Bernd Eichinger 3,194,630 shares, Marc Conrad 1,500 shares and Dr Paul Graf 500 shares.

On June 14, 2005, two of the shareholders of Constantin Film AG, Bernd Eichinger and Highlight Communications AG, signed an option agreement about the purchase by Highlight Communications AG of the 25.07 per cent interest held by Bernd Eichinger Holding GmbH & Co. KG. The call option was exercised by Highlight Communications AG on January 19, 2006.

On June 15, 2005, Constantin Film Verleih GmbH concluded a licence agreement with Kogel & Schmidt GmbH about the marketing of the DVD "Best of Harald Schmidt" amounting to € 75,000. On June 29, 2005, Constantin Film AG acquired shares in Constantin Entertainment GmbH from Kogel Beteiligungs- und Verwaltungs-GmbH. € 4 million of the total purchase price of € 9 million remained to be paid on December 31, 2005.

The members of the Management Board receive annual remuneration consisting of fixed and variable elements. The total remuneration paid to the Management Board (January 1 to December 31, 2005) amounted to € 2.291 million (previous year: € 2.464 million).

The remuneration paid to the members of the Supervisory Board for their Supervisory Board activities and other services for the Constantin Group amounted in total to € 2.406 million (previous year: € 1.245 million) in 2005.

The sales and other operating income of € 29.301 million and expenses of € 14.401 million recorded by the Constantin Film Group with Highlight Communications AG in 2005 relate essentially to the joint operation of the video business. There were receivables of € 3.604 million and liabilities of € 7,000 on December 31, 2005.

The amounts paid to Bernd Eichinger are included in the total remuneration paid to the Supervisory Board and essentially include remuneration from the producer contract and screenplay fees.

7.5. 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.

A new subsidiary, Constantin Television GmbH, has been established and 25 per cent of the record label Königskinder Schallplatten GmbH have been acquired.

7.6. Board members

7.6.1. Management Board of Constantin Film AG

The Management Board of Constantin Film AG has 5 members at the moment:

Mr Fred Kogel / lawyer and producer,
Chairman of the Management Board
Mr Hanns Beese / economics graduate
Mr Thomas Peter Friedl / film businessman
Mr Martin Moszkowicz / businessman and producer
Mr Franz Woodtli / businessman

The members of the Management Board are appointed for a period of 2 to 3 years.

7.6.2. Supervisory Board of Constantin Film AG

The Supervisory Board consists of 6 members at the present time (see also page 66).

7.7. Corporate governance

The Management Board and Supervisory Board of Constantin Film AG have issued the compliance statement about the German Corporate Governance Code required in accordance with § 161 of the German Companies Act (AktG) and have made it available to the shareholders on a permanent basis on the company website (www.constantinfilm.de).

7.8. Fees paid to the auditor

The fees for the auditor of the consolidated financial statements (KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft) that were included in the 2005 fiscal year in accordance with § 314 paragraph 1 no. 9 of the HGB amounted in total to € 387,000. Auditing fees accounted for € 314,000, while € 73,000 were fees charged for tax consultancy.



The Supervisory Board consists of 6 members:

	Main profession	Membership of other Supervisory Boards
Bernd Eichinger Chairman of the Supervisory Board (since 27.03.2003) (since 03.01.2003)	Film producer	Artists for Kids gemeinnützige GmbH
Martin Wagner Deputy Chairman (since 29.08.2003) (since 23.07.2003)	Lawyer	Birkhäuser-Gruppe Escor Casino & Entertainment SA Highlight Communications AG Jean Frey AG Rainbow Home Entertainment AG Swissfirst Bank AG T.E.A.M. Television Event And Media Marketing AG Team Football Marketing AG Team Holding AG
Bernhard Burgener (since 05.05.2004)	Chairman of the Board of Highlight Communications AG	Escor Casino & Entertainment SA Lechner Marmor SA Rainbow Home Entertainment AG Rainbow Home Entertainment GmbH T.E.A.M. Television Event And Media Marketing AG Team Football Marketing AG Team Holding AG
Marc Conrad (since 12.05.2005)	Film producer	None
Dr Paul Graf (since 19.08.2004)	Businessman	None
Professor Dr Günter Rohrbach (since 13.07.2001)	Independent producer	None

Munich, March 2006

► The Management Board

AUDITOR'S CERTIFICATE

We have audited the consolidated financial statements – consisting of the balance sheets, income statements, statement of changes in equity, statement of cash flows and notes – prepared by Constantin Film Aktiengesellschaft, Munich, and the consolidated management report for the fiscal year that started on January 1, 2005 and ended on December 31, 2005. The legal representatives of the company are responsible for preparing the consolidated financial statements and the consolidated management report in accordance with the IFRS as they have to be applied in the EU and in accordance with the provisions of commercial law that also have to be observed as stipulated in § 315a paragraph 1 of the German Commercial Code (HGB). Our assignment is to make a judgement about the consolidated financial statements and the consolidated management report on the basis of the audit we have completed.

We have made our audit of the consolidated financial statements in accordance with § 317 of the HGB and observing the principles governing the proper conduct of audits as issued by the German Institute of Auditors. According to these regulations and principles, the audit must be planned and implemented in such a way that inaccuracies and violations which have substantial impact on the picture of the asset situation, financial position and profitability presented by the consolidated financial statements (in compliance with the

accounting regulations that have to be applied) and by the consolidated management report are identified with sufficient certainty. Information about the business operations and the economic and legal environment of the Group as well as expectations about possible mistakes are taken into account when specifying the audit procedures. The effectiveness of the internal accounting control system and supporting evidence confirming the information provided in the consolidated financial statements and the consolidated management report are checked mainly by taking random samples in the course of the audit. The audit consists of an evaluation of the financial statements of the companies included in the consolidated financial statements, of the definition of the companies consolidated, of the accounting and consolidation principles applied and of the main elements of company management by the legal representatives as well as an assessment of the overall presentation of the consolidated financial statements and the management report about the company and the Group. We are of the opinion that our audit forms a reliable enough basis for making a sound judgement.

Our audit has not led to any objections being raised.

In our considered opinion, based on the findings of the audit, the consolidated financial statements comply with the IFRS as they have to be applied in the EU and

with the provisions of commercial law that also have to be observed as stipulated in § 315a paragraph 1 of the HGB and present a true and fair picture of the asset situation, financial position and profitability of the Group, taking these regulations into account. The consolidated management report is consistent with the consolidated financial statements, gives an appropriate overall description of the situation of the Group and presents the future opportunities and risks in an accurate way.

Munich, March 17, 2006

▶ **KPMG Deutsche Treuhand-Gesellschaft**
Aktiengesellschaft / Wirtschaftsprüfungsgesellschaft
Kilgert / Independent Auditor
Zeitler / Independent Auditor

ASSETS / HGB	31.12.2004 € thousand	31.12.2005 € thousand
A. Fixed assets		
I. Intangible assets	115	65
II. Tangible assets	150	719
III. Financial assets	9,920	24,414
Total fixed assets	10,185	25,198
B. Current assets		
I. Receivables and other current assets		
1. Receivables from affiliated companies	63,702	53,054
2. Other assets	1,784	2,376
II. Cash in hand and at banks, cheques	37	14
Total current assets	65,523	55,444
C. Prepaid expenses	60	39
Total assets	75,768	80,681

EQUITY AND LIABILITIES / HGB	31.12.2004 € thousand	31.12.2005 € thousand
A. Equity		
I. Subscribed capital	12,743	12,743
II. Capital reserves	72,854	40,157
III. Retained earnings	0	0
IV. Accumulated profits/losses	-35,790	0
Total equity	49,807	52,900
B. Provisions		
I. Tax provisions	0	96
II. Other provisions	1,279	1,202
Total provisions	1,279	1,298
C. Liabilities		
1. Trade payables of which due within 1 year: € 0,351 million (previous year: € 0,244 million)	244	351
2. Liabilities to affiliated companies of which due within 1 year: € 18,184 million (previous year: € 24,213 million)	24,213	18,184
3. Other liabilities of which due within 1 year: € 3,098 million (previous year: € 0,225 million) of which from taxes: € 0,156 million (previous year: € 0,143 million) of which in connection with social security: € 0,069 million (previous year: € 0,067 million)	225	7,948
Total liabilities	24,682	26,483
Total equity and liabilities	75,768	80,681

	01.01.-31.12.2004	01.01.-31.12.2005
	€ thousand	€ thousand
General administration expenses	8,106	9,111
Other operating income	3,950	4,888
Other operating expenses	12	306
Income from equity interests	1,063	3,862
Income from profit transfer agreements	26,010	21,949
Other interest and similar income	785	1,147
of which from affiliated companies € 1,136 million (previous year: € 0,775 million)		
Depreciation of financial assets	1,121	1,760
Interest and similar expenses	3	14
of which to affiliated companies € 0 (previous year: € 0)		
Costs of loss absorption	31,615	17,812
Income from continuing operations	-9,049	2,843
Taxes on income	0	-96
Other taxes	-1	346
Net income/loss for the year	-9,050	3,093
Accumulated losses from previous years	-26,740	-35,790
Withdrawal from the capital reserves	0	32,697
Accumulated profits/losses	-35,790	0

▶ **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 32 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 PROMOTION**

General term for government support provided for specific projects relating to the production and distribution of films, which normally takes the form of tax depreciation options or direct funding. If funding is granted as (conditional) loans, a right to new funding in the form of a subsequent loan is often created on repayment.

▶ **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**.

▶ **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.

▶ **IMPROVEMENT PROJECT**

IASB project to revise the standards (see also www.iasb.org).

▶ **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 (Paramount, Buena Vista, Fox, Universal, Warner, Sony Pictures).

▶ **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.

▶ **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 MEDIA PERFORMANCE INDEX**

The Prime Media Performance Index is one of the 18 industry indices in the Prime All-Share Index (includes all the companies in the **Prime Standard**). The industry indices are a breakdown of the Prime All-Share Index and distinguish the companies in the Prime Standard as a result. The Prime Media Performance Index includes all the media companies in the Prime Standard.

▶ **PRIME STANDARD**

The Prime Standard is a quality segment with high information and transparency requirements. It 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).

▶ **SUBSIDIES**

Right to financial support for a film project that is granted depending on the theatrical success of a German film.

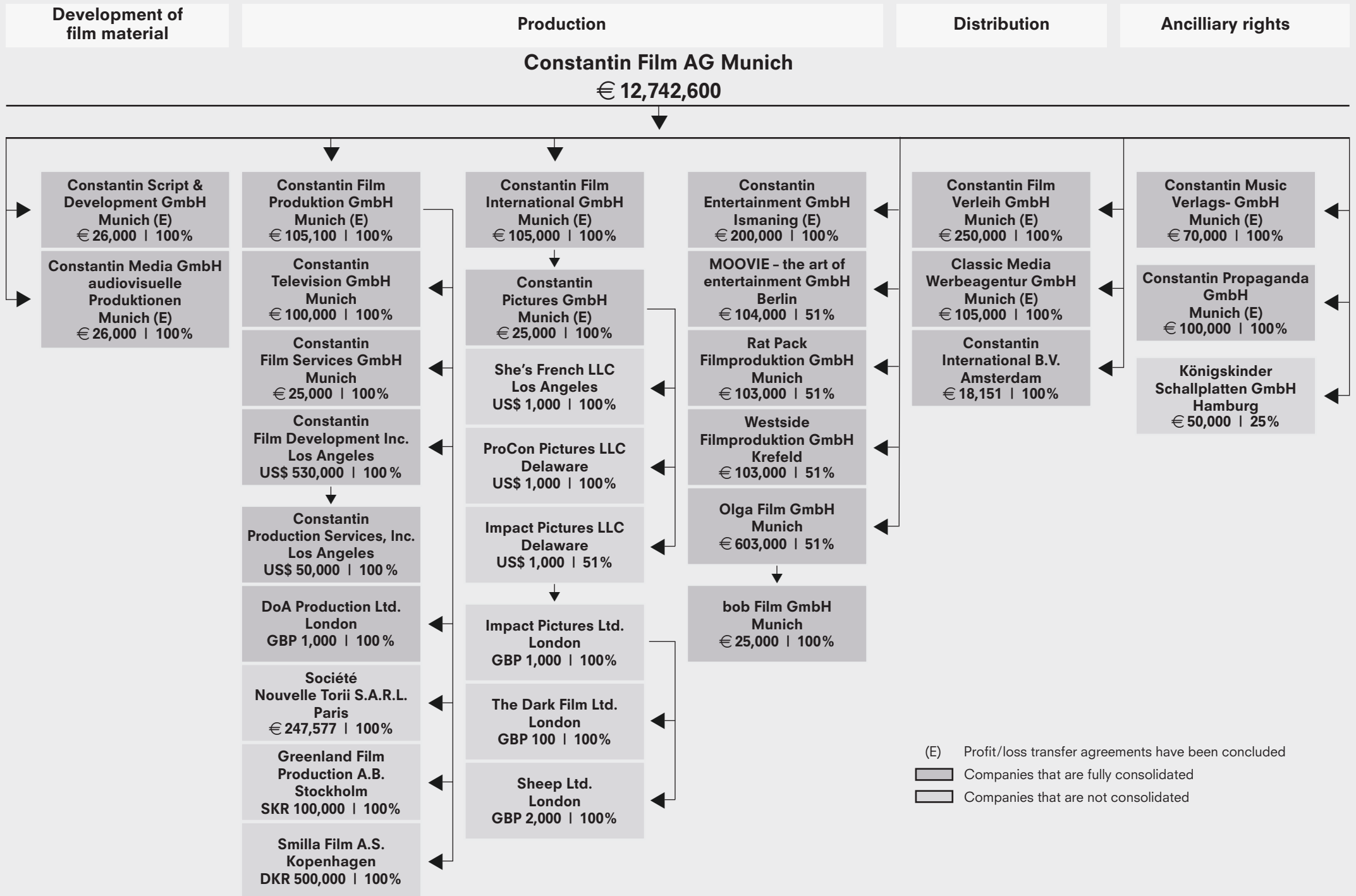
▶ **US GAAP**

(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 March 1, 2006



(E) Profit/loss transfer agreements have been concluded
 Companies that are fully consolidated
 Companies that are not consolidated

▶ **IMPORTANT DATES** / for 2006

- | | |
|---|---------------|
| ▶ Publication of the results for the first three months | May 2006 |
| ▶ Annual Shareholders' Meeting | June 08, 2006 |
| ▶ Publication of the results for the first six months | August 2006 |
| ▶ Publication of the results for the first nine months | November 2006 |
| ▶ Analysts' conference | November 2006 |

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

▶ **SECURITIES IDENTIFICATION NUMBER 580 080**

▶ **CONTACT**

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ANNUAL REPORT OF *Constantin Film* AG 2005

MANAGEMENT BOARD MEMBERS FRED KOGEL (CHAIRMAN) HANNS BEESE THOMAS PETER FRIEDL MARTIN MOSZKOWICZ FRANZ WOODTLI
 SUPERVISORY BOARD MEMBERS BERND EICHINGER (CHAIRMAN) MARTIN WAGNER BERNHARD BURGNER MARC CONRAD DR PAUL GRAF PROFESSOR DR GÜNTER ROHRBACH
 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
 CONSTANTIN ENTERTAINMENT GMBH CONSTANTIN FILM SERVICES GMBH
 EQUITY INTERESTS OLGA FILM GMBH MOOVIE – THE ART OF ENTERTAINMENT GMBH RAT PACK FILMPRODUKTION GMBH WESTSIDE FILMPRODUKTION 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

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

Constantin Film 2005

