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mit **Whishaw** mit **Rickman** mit **Hoffman**
DAS PARFUM
 DIE GESCHICHTE EINES MÖRDERS

Nach dem Roman von **Patrick Süskind**
 von **Tom Tykwer** Regie
 von **Bernd Eichinger** Produktion

Ab 14. September 2006 im Kino
 Kinoführer: www.kinofuehrer.de

KEY FIGURES GROUP

	01.01.-31.12.2005 € million	01.01.-31.12.2006 € million
Sales	213.8	270.2
of which in-house productions	176.7	243.2
of which third-party productions	37.1	27.0
EBITDA	81.4	112.4
Gross profit	31.3	34.6
Operating Result	10.9	15.2
Result attributable to the shareholders of the parent company	3.9	8.3
Investments in film assets	119.4	75.8
Depreciation of film assets	67.9	96.4
	31.12.2005	31.12.2006
Film assets	195.1	174.5
Equity	60.7	70.2
Balance sheet total	391.2	387.9
Employees (number)	237	232
Earnings per share in € (undiluted)	0.31	0.65

Dear shareholders,
dear friends of Constantin Film AG,

The situation is improving again! Only a year ago, German theatres were in the throes of a major crisis. Theatrical sales were down 16.6 per cent, the market share of by domestic theatrical films dropped to 17.1 per cent. In addition to a poor range of films and a change in consumers' leisure patterns in Germany, theatres were being hit by the success of DVDs as well as film piracy.

Business at theatre box offices gained momentum again in 2006, however, in spite of the World Cup and excellent summer weather.

With total annual figures of 136.7 million admissions and sales of € 814.4 million, German theatre owners and distributors were able to breathe a sigh of relief again compared with 2005 (127.3 million admissions, sales of € 745.0 million). The industry is, on the other hand, still far behind the record year of 2004 in spite of this encouraging development. (All the figures provided by FFA).

2006 was a year of great variety. German theatres benefitted on the one hand from the American film studios, which supplied such box office hits as **Ice Age – The Meltdown** (8.7 million admissions) and **Pirates of the Caribbean 2** (7.1 million admissions), while it

was a good year for German films too. For the first time in 20 years, German films topped the theatrical charts for 10 weeks in a row in the autumn of 2006.

In addition to **Perfume – The Story of a Murderer**, **Das Leben der Anderen** and **Hui Buh – Das Schlossgespenst**, the World Cup documentary **Deutschland. Ein Sommermärchen**, the sequel **7 Zwerge – Der Wald ist nicht genug** and the surprise hit **Wer früher stirbt, ist länger tot** made sure the German market share reached 25.8 per cent.

Admission and sales figures increased again at international level too. US box office receipts recovered from the previous year by recording growth of almost 5 per cent. Box office receipts for the year in Australia were the second-best ever with an increase of 6 per cent over the previous year. This trend was apparent in most of the key European markets too. Domestic films had a sensational year in France with a market share of 45 per cent. The number of admissions rose by 7 per cent over 2005 to 187 million. Swiss theatres were able to report an impressive record year with 10 per cent higher box office receipts than the previous year. Italy experienced sales that were up 3 per cent. Great Britain roughly matched the performance in the previous year, when box office receipts bucked the general trend and grew by 1 per cent. Spain was one of the few European countries with a downward trend (5 per cent fewer box office admissions). 2006 was a breakthrough year for

theatre admissions in Asia. Chinese box offices, for example, increased their receipts by 30 per cent over 2005. (Source: Blickpunkt:Film)

Constantin Film's fiscal year in 2006

Developments at Constantin Film were very positive in 2006. This was attributable to a very large extent to the excellent results achieved in the TV service production, licence trading and theatrical distribution operations. Thanks primarily to the very good performance of the films **Perfume – The Story of a Murderer**, **Hui Buh – Das Schlossgespenst**, **Atomised** and **Die Wilden Hühner**, Constantin Film is one of the driving forces behind the current success of German films at theatrical box offices. The strategic decision taken with effect from January 1, 2004 to broaden the basis of the core business by adding home entertainment operations proved to be correct last year. In spite of a slight decline in the overall home entertainment market, we succeeded in producing very positive results here too.

This outstanding performance was made possible not only by Constantin Film's very attractive distribution programme and its ambitious and successful development and production operations but also and in particular by the sustained integration of all areas of the company and its systematic expansion into an integrated media group. Maintenance of this development since the 2004 fiscal year is confirmation of our business model and our strategic alignment.

Our theatrical films in 2006

Constantin Film released a total of 17 films to German theatres last year: 9 of them were in-house and co-productions, while 8 were licensed films; German films accounted for 41 per cent of the theatrical distribution programme. A market share of 9.8 per cent was reached with 12.9 million box office admissions. Constantin Film was therefore once again the most successful independent German distributor after the major US studios 20th Century Fox, UIP, Buena Vista and Sony Pictures and before Warner Bros. Every third ticket that was bought at theatres last year for a German film was for a film distributed by Constantin Film. (Source: EDI Nielsen)

An overall total of 487 films were released to German theatres in 2006 – a record number that is far too high. It is very apparent that German theatrical audiences are concentrating on films that have either event potential or a definite marketing message or appeal to clearly defined target groups right from the start. Family entertainment productions but also individual art house productions are relevant categories here. We took account of this trend in the preparation of our distribution programme again in 2006.

Constantin Film supplied the most successful German production of the year with the Bernd Eichinger production **Perfume – The Story of a Murderer**. Audiences of 5.5 million wanted to see the film of

Patrick Süskind's bestselling novel **Perfume** at German theatres by the end of 2006.

A fantastic start was made immediately on September 14, 2006: the long-awaited, controversial Tom Tykwer film went straight to the top of the German theatrical charts on its release weekend, accounting for every second ticket bought at theatres in Germany. With 1.04 million admissions, **Perfume** was the first German film and only the fourth film at all to exceed box office admissions of one million on its very first weekend last year. **Perfume** remained the unchallenged leader of the German theatrical charts over the following three weeks. There was no sign of the theatrical exploitation of **Perfume** in Germany ending at the beginning of 2007 either. Due to the strong demand, 90 theatres included the film of the novel in their programmes again in February 2007.

The film has performed well at the international level too: with global receipts so far of USD 122.1 million, **Perfume** is one of the biggest global successes by German films in recent years. In Spain, for example, **Perfume** entered the theatrical charts in second place on its first weekend and reached total box office receipts of almost USD 10.0 million. Russia / CIS reported excellent box office receipts of USD 9.3 million, while the film performed extremely well in Hong Kong too, where receipts on the first weekend were more than USD 150,000 with only 20 copies released.

Theatrical exploitation fell short of our expectations in the USA and England.

In addition to producing excellent results at the box office, **Perfume** has won a number of awards. Following the BAMBI 2006 for the best film of the year, Tom Tykwer received the Bavarian Film Prize as best director and Uli Harnisch for the best set in mid-January. Karoline Herfurth and Ben Whishaw were also presented a DIVA for their acting performances in **Perfume**.

Our family entertainment production **Hui Buh – Das Schlossgespenst** (release date: July 20, 2006) reached 5th place in the list of the most successful German films in 2006, attracting enthusiastic audiences totalling more than 2 million in Germany. This film at long last brought the adventures of the charming but clumsy ghost, who has been causing havoc for more than 30 years now with sales of over 20 million records, cassettes and books, to the big screen. In **Hui Buh – Das Schlossgespenst**, the ghost brought to life by audience favourite Michael Bully Herbig (**Manitou's Shoe**) and the brave caretaker played by Hans Clarin in his final role are helped by Christoph Maria Herbst, Ellenie Salvo González, Heike Makatsch, Nick Brimble, Rick Kavanian, Wolfgang Völz and many others as they experience hair-raising adventures. The screenplay for the film was developed by author Dirk Ahner together with the director

Sebastian Niemann (**Das Jesus Video**). **Hui Buh – Das Schlossgespenst** was produced by Christian Becker and his team at Rat Pack Filmproduktion, a subsidiary of Constantin Film AG.

Die Wilden Hühner (director: Vivian Naefe), another highlight from the Constantin Film family entertainment programme, was released in the 1st quarter last year. The film of the cult book series by bestseller author Cornelia Funke is a co-production between Uschi Reich, Peter Zenk and Bavaria Filmproduktion in cooperation with Constantin Film. The enchanting adventure about five teenage girls and their gang with Veronica Ferres (**Kein Himmel über Afrika**), Jessica Schwarz (**Der rote Kakadu**) and Benno Fürmann (**Die Sturmflut**) in the leading roles attracted enthusiastic theatrical audiences of 1.1 million and reached 8th place in the list of the most successful German films.

The Bernd Eichinger / Oliver Berben production **Atomised** was released to German theatres in February 2006. Oskar Roehler (**Agnes und seine Brüder**) wrote the screenplay and directed an ensemble consisting, among others, of Moritz Bleibtreu (**Vom Suchen und Finden der Liebe**), Christian Ulmen (**Der Fischer und seine Frau**), Franka Potente (**The Bourne Supremacy**), Martina Gedeck (**Bella Martha**) and Nina Hoss (**The White Maasai**). The adaptation of the controversial cult novel of the same name by Michel Houellebecq is outstanding theatre with German stars and caused a sensation as one of

four German entries in the film competition at the Berlinale last year. Moritz Bleibtreu was awarded the Silver Bear for his acting performance. The film attracted enthusiastic audiences of 820,640 in Germany. The film was sold successfully to many territories around the world during the Berlinale too.

The collina Filmproduktion / Constantin Film co-production **Der Räuber Hotzenplotz**, in which the producer Ulrich Limmer (**Das Sams**) and the director Gernot Roll (**Ballermann 6**) filmed two of the legendary and successful books of the same name from the Hotzenplotz trilogy by Otfried Preußler that have in the meantime sold more than 6.5 million copies and have been translated into 34 languages, was released in March 2006. 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**) were some of the actors appearing in other roles. The fairytale, humorous and exciting film attracted box office audiences of 826,906 to German theatres.

The suspense thriller **The Dark** (release date: January 26, 2006), a production by Impact Pictures / Constantin Film, which was made primarily for exploitation in international territories, recorded box office admissions of 143,152 in Germany.

The licensed film **Basic Instinct 2**, which was released to theatres on March 30, 2006, failed to reach our

expectations. Audiences of 274,935 saw the sequel to the sensational 1992 hit with Hollywood star Sharon Stone playing the leading part.

In view of the strong competition from attractive US blockbusters and from the World Cup in Germany, Constantin Film released a total of only four selected films in the 2nd quarter that were shown at theatres on a small scale.

A start was made in April 2006 with the turbulent and thoroughly black family comedy **Keeping Mum** (director: Niall Johnson). The film is a charming and refreshingly irreverent comedy about family, small town mentality and the difficult art of being happy. Star comedian Rowan Atkinson (**Mr Bean, Love Actually**), Kristin Scott Thomas (**The Horse Whisperer, The English Patient, Four Weddings and a Funeral**) and Oscar® prizewinner Maggie Smith (**Der Duft von Lavendel, Harry Potter 1 – 4**), the grande dame of English theatre and film, perform brilliantly in the main roles. Audiences of 272,803 saw the comedy at German theatres.

On April 13, we released **Manuale d'amore**, a romantic comedy that links four love stories in Rome, varying between the thoroughly amusing and the sentimental before returning to the exuberant. 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, this film directed by Giovanni Veronesi (**What Will Happen to Us?**) is a heart-warming ode to love and its different facets. **Manuale d'amore** – for Constantin an experiment with the aim of starting a glorious new era of pan-European theatrical success and of landing a hit with one of the most popular films in Italy in the previous year – unfortunately attracted audiences of only 36,451 to theatres.

Our documentary film **Gib mich die Kirsche! – Die 1. deutsche Fußballrolle** (directors: Oliver Gieth, Peter Hüls) was released on June 1. We deliberately released this film on a small scale in only 12 theatres in connection with the World Cup and expect **Gib mich die Kirsche! – Die 1. deutsche Fußballrolle** mainly to be a long-running video hit with football fans.

With **Französisch für Anfänger**, we released a co-production by our subsidiary Rat Pack Filmproduktion with, amongst others, Neos Film about falling in love for the first time against the background of a German-French school exchange programme to theatres on June 8. Charmingly and very affectionately staged by newcomer Christian Ditter, the leading actors Paula Schramm and François Göske experience and suffer the ups and downs of their first love affair as “Valerie” and “Hendrik” in this feel-good movie. The romantic comedy attracted young audiences of 255,212 to theatres.

On August 31, 2006, we released the Brazilian drama **Olga** by Jaime Monjardim, which was seen by theatrical audiences of almost 3 million in Brazil, to 25 theatres on August 31, 2006. We were unfortunately unsuccessful in our attempt to repeat South-American theatrical success in Germany.

We released **TKKG – Das Geheimnis um die rätselhafte Mind-Machine** to German theatres on September 28. We continued our successful co-operation with the producers Uschi Reich and Peter Zenk, who acted as co-producer, on the filming of popular children’s novels as co-productions with this family entertainment film. This time it is about the latest case the four amateur detectives Tim, Karl, Klößchen and Gaby are working on. The children’s books in the “TKKG” series by Stefan Wolf have been translated into eight languages in the meantime and more than 14 million copies of them have been sold so far, while as many as almost 30 million audio cassettes and CDs of them have been bought. The screenplay by Marco Petry (**Schule**) and Burt Weinshanker was staged by the director Tomy Wigand (**Das fliegende Klassenzimmer**). 365,368 TKKG fans saw the adventures of the four young amateur detectives at theatres.

With box office receipts of more than USD 65 million, it was the surprise hit in the USA: we released **Step Up** to German theatres on October 05. In a blend of **Dirty Dancing** meets **8 Mile**, **Step Up** offered cool moves,

hot dance scenes, thrilling music and erotic sequences, which attracted an impressively large audience of 623,816 to German theatres. Star choreographer Anne Fletcher (**Along Came Polly, Down with Love**) made her debut as a director in **Step Up**. She was supported by the two newcomers Channing Tatum (**She’s the man**) and Jenna Dewan (**Dance**). Golden Globe prizewinner Rachel Griffiths (**Six Feet Under**) appears in the role of the resolute director.

The proven team of producers Bernd Eichinger, Robert Kulzer, Paul W.S. Anderson and Jeremy Bolt brought a new top-quality video game film to theatres on October 19: **Dead or Alive**, a production by Constantin Film / Impact Film in co-operation with VIP Medienfonds 4B GmbH & Co. KG. **Dead or Alive** has been one of the most popular video games in the world for almost ten years now, with millions of fans and sales of more than six million games. Cory Yuen, one of the icons of the Hong Kong film industry, agreed to act as director. Yuen is an unrivalled expert in all film production skills and martial arts. In **Dead or Alive**, Corey Yuen succeeds impressively in combining the game franchise material with innovative martial arts scenes, making his memorable ladies look brilliant while doing so. Pop musician Holly Valance can be seen on the screen for the first time alongside the sexy lead actresses Jaime Pressly (**Not Another Teen Movie**), Devon Aoki (**Sin City**) and Sarah Carter (**Final Destination 2**). Audiences of 66,871 saw the event

action movie at German theatres last year, a number that was unfortunately below our expectations.

Following the great success of **The Grudge**, which generated box office receipts of more than USD 188 million at theatres all over the world, Constantin Film released the long-awaited sequel **The Grudge 2** to German theatres on November 9. In the production, by star director Sam Raimi (**Spiderman**) this time too, Japan's cult director Takashi Shimizu (**Ju-On – The Grudge**) was again responsible for this unusual horror thriller, which audiences of 209,455 saw at German theatres. The US actress Amber Tamblyn (**Joan of Arcadia**), who had already been able to gain initial experience of the genre in **The Ring**, performed brilliantly in the leading role. Sarah Michelle Gellar (**The Grudge**, **Buffy – Im Bann der Dämonen**) and Jennifer Beals (**Flashdance**) were convincing in other roles.

The 2006 distribution programme ended on December 14, when **Apocalypto** was released to German theatres. With **Apocalypto**, Mel Gibson produced a highly moving, mystical adventure of a very special kind. As was the case with **The Passion of the Christ**, Gibson was one of the people responsible for the screenplay. The realistic portrayal of torture and sacrifices led, however, to negative reactions from the press and public, as a result of which the film was approved for audiences over 18, which had a very adverse effect on commercial exploitation. This

licensed film fell considerably short of expectations with audiences of 188,129 by the end of the year.

New productions

Constantin Film started in-house and co-production of 10 theatrical feature films as well as 9 TV films and further TV series last year.

The projects are a clear reflection of the Management Board's strategy in the in-house production field: in addition to German and international event productions, we are continuing to focus primarily on the family entertainment field.

Principal photography of the comedy **Schwere Jungs** by our subsidiary Olga Film took place in the 1st quarter of 2006. The talented young director Marcus H. Rosenmüller, who succeeded in scoring the surprise hit of 2006 with **Wer früher stirbt, ist länger tot**, staged an exciting and breathtaking winter sports adventure with plenty of comedy and fast-moving action scenes 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 (Czech Republic). **Schwere Jungs** was released to German theatres on January 18, 2007 and has reached more than 540,000 admissions so far.

Successful producer Christian Becker and our subsidiary Rat Pack Filmproduktion started principal

photography of the comedy **Neues vom Wixxer** on April 26, 2006. The sequel to the surprise theatrical hit **Der Wixxer** is being directed by Cyrill Boss and Philipp Stennert, who received an enthusiastic response from viewers last year when the TV ratings hit **Die ProSieben Märchenstunde** (another Rat Pack production) was shown in ProSieben. The film was shot in Prague and the surrounding area up to June 22, 2006 with a star-studded cast, including Oliver Kalkofe, Bastian Pastewka, Christoph Maria Herbst, Hella von Sinnen, Sonja Kirchberger, Christian Tramitz, Martin Semmelrogge, Christiane Paul and Edgar Wallace legend Joachim "Blacky" Fuchsberger. The film was released to theatres throughout Germany on March 15, 2007.

The first take for the international production **Resident Evil: Extinction**, the third film of the "Resident Evil" franchise based on the bestselling video game that is eagerly awaited by the fan community, was completed in Mexico in May 2006. The proven team of producers (Bernd Eichinger, Samuel Hadida, Robert Kulzer, Jeremy Bolt and Paul W.S. Anderson) joined forces again to make **Resident Evil: Extinction** too. It was directed by Russell Mulcahy, who has been considered a specialist for spectacular action films since the fantasy blockbuster **Highlander**. Paul W.S. Anderson wrote the screenplay. Not only Hollywood star Milla Jovovich (**Resident Evil**, **Resident Evil: Apocalypse**) but also – again – Oded Fehr (**The Mummy**, **The Mummy Returns**), Mike Epps (**The Fighting**

Temptations), Iain Glen (**Kingdom of Heaven**) and the hip hop star Ashanti are appearing in the sequel. Principal photography was completed successfully on July 28, 2006 and the film is to be released to theatres in the autumn of 2007. The effective co-operation with the US studio Sony/Screengems is being continued in most territories around the world, including North America.

Principal photography of the horror sequel **Wrong Turn 2**, that we produced in co-operation with Fox in Vancouver with Joe Lynch as director, began at the end of May 2006. Bloodthirsty cannibals are again on the hunt for their victims – this time a group of candidates in a survival reality TV show is involved, who fight for survival in a remote part of West Virginia and soon find out that the TV show is becoming brutal reality. Worldwide marketing of this production is starting in the video sector.

Principal photography of the French-German-Spanish co-production **Asterix at the Olympic Games** started in France and Spain on June 19, 2006. This is the third live action film of the “Asterix” comics by Goscinny and Uderzo that fans have been looking forward to for a long time now and it is one of the most expensive European films of all time with a production budget of more than € 70 million. Frédéric Forestier (**Le Boulet**) directed the film. The French shooting star Clovis Cornillac (**Sky Fighters**) played the role of Asterix for the first time, while the part of Obelix was taken over

once again by the world star Gérard Depardieu. Alain Delon (**Casanova's Return**) appeared before the cameras as Julius Caesar. The European co-production between Pathé Renn Production SAS, Tri Pictures and Constantin Film is to be released to theatres in the spring of 2008.

After the family entertainment movie **Die Wilden Hühner** succeeded in attracting more than a million fans to German theatres at the beginning of 2006, principal photography of the sequel called **Die Wilden Hühner und die Liebe** began in the 3rd quarter of last year. This is already the second cult book by Cornelia Funke that the producers Uschi Reich and Peter Zenk have filmed in a co-production between Bavaria Film and Constantin Film. Principal photography of **Die Wilden Hühner und die Liebe** was again directed by Vivian Naefe in Cologne, Düsseldorf, Xanten, Munich and the surrounding area until October 1, 2006. The cast includes not only the “wilden Hühner” Michelle von Treuberg, Lucie Hollmann, Paula Riemann, Zsó Zsó Inci Bürkle and Jette Hering but also Veronica Ferres (**The Superwife**), Thomas Kretschmann (**Downfall, King Kong**), Jessica Schwarz (**Der Rote Kakadu**) and Benno Fürmann (**Die Sturmflut**). Constantin Film is planning to release the film to theatres throughout Germany on April 5, 2007.

In the children's book movie operations, we started principal photography of the comedy **Herr Bello** in co-operation with collina Filmproduktion on July 2, 2006.

Following the tremendous success of the prizewinning films **Das Sams** and **Das Sams in Gefahr, Herr Bello** is the new film by successful **Sams** trio, consisting of the screenplay author Paul Maar, the director Ben Verbong and the producer/screenplay author Ulrich Limmer. **Herr Bello** tells the classic metamorphosis story in a completely different way for once: a family dog is turned into a human being (Armin Rohde, **Der Räuber Hotzenplotz**) by a magic potion and uses his animal mind to help a widowed pharmacist (August Zirner) and his son (Manuel Steitz) to accept the loss of their wife and mother. Principal photography of this enchanting comedy took place in Wasserburg, Regensburg and Munich as well as at Lake Ammersee and was completed successfully on September 30, 2006. Constantin Film is planning to release it to theatres on May 17, 2007.

The first take in the principal photography of the new Bernd Eichinger production **Pornorama oder die Bekenntnisse der mannstollen Näherin Rita Brauchts**, a turbulent comedy that is set in Munich at the end of the 60s, was completed on August 30, 2006: Bennie is training to be a policeman and is a film enthusiast. To help his older brother Freddie, he allows himself to be talked into acting as the “director” of a sex education film. He gets into all sorts of difficult situations when he falls in love with Luzy, a student, as well. The comedy staged by the successful director Marc Rothmund (**Harte Jungs, Sophie Scholl**) with Benno Fürmann (**Die Sturmflut**) and Karoline Herfurth

(**Perfume – The Story of a Murderer**) in the leading roles was shot in Munich until October 27 and is being distributed to German theatres by Constantin Film in September 2007.

Shooting of the international co-production **Fantastic Four: Rise of the Silver Surfer**, the sequel to the first film that was a worldwide success when it was released in 2005, also started at the end of August in Toronto. We are again producing this film in co-operation with the US studio 20th Century Fox. **Fantastic Four** and the sequel **Fantastic Four: Rise of the Silver Surfer** are the adaptations for the theatre screen of the well-known Marvel comics. The film is again being directed by Tim Story (**Fantastic Four, New York Taxi**) and this time the four superheroes face their greatest challenger so far: the mysterious Silver Surfer, who has cosmic powers and is able to travel throughout the universe on his surfboard. When he comes from the depths of space to destroy the earth, Reed (Ioan Gruffudd), Sue (Jessica Alba), Johnny (Chris Evans) and Ben (Michael Chiklis) have to solve the mystery about the Silver Surfer first, so that they can save the world from the imminent catastrophe ... A real Hollywood blockbuster with lavish state-of-the-art special effects that is being released to theatres all over the world in the summer of this year.

September 19, 2006 was the first day of principal photography of the feature film **Der Bund fürs Leben – Sie kommen um Deutschland zu retten** that we produced with Wiedemann & Berg. The two

young producers made a name for themselves with both audiences and critics last year with their prizewinning drama **Das Leben der Anderen. Der Bund fürs Leben – Sie kommen um Deutschland zu retten** is a turbulent and delightful comedy about Basti, the shy son of an archetypal hippie and would-be revolutionary who is really supposed to follow in his father's pacifist footsteps by refusing to do military service but then finds himself drafted into the army. In his company, he not only stumbles from one mishap to another but also suffers at the hands of a mean officer, who has career plans of his own. In spite of the scheming captain, Basti and his mates manage to safeguard the future of the barracks. The comedy is being directed by Granz Henman, who has already attracted enthusiastic audiences in the millions as the author of **Harte Jungs** and as the author/director of **Knallharte Jungs**. Franz Dinda (**Die Wolke**), Axel Stein (**Harte Jungs**), Florian Lukas (**Good Bye, Lenin!**) and Jan Hendrik Stahlberg (**Knallhart**) are appearing in the leading parts. The comedy is being released to theatres in the summer of 2007.

The following films were in pre-production during the fourth quarter last year: the Leander Haußmann film of the bestselling relationship guide **Warum Männer nicht zuhören und Frauen schlecht einparken, Urmel im Wunderland**, the sequel to this year's successful cartoon film for children **Urmel aus dem Eis** (distributor: Warner Bros) and at the same time the first CGI animation project that we are carrying out with the team headed by the experienced producer

Reinhard Klooss that recently joined Constantin Film, and **Anonyma – Eine Frau in Berlin**, a film based on the diary of a German woman in Berlin who survived the Second World War in the besieged city and its conquest by the Russian Army. **Anonyma – Eine Frau in Berlin** is being produced by Günter Rohrbach; Max Färberböck wrote the screenplay and is acting as director. The film of the global bestseller **The Legend of Pope Joan** by Donna Cross, which is being directed by Oscar® prizewinner Volker Schlöndorff (**The Tin Drum**) with Franka Potente (**Run Lola Run**) in the leading role, was also in pre-production.

TV productions

In the fiction operations, Constantin Television – the subsidiary newly established in January 2006 – completed what are now the sixth and seventh series of our long-running hit sitcom **Hausmeister Krause** with audience favourite Tom Gerhardt (**Voll normaal**) in the leading part. **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 subsidiary MOOVIE – the art of entertainment successfully completed principal photography of a three-part event for the popular ZDF thriller series **Rosa Roth** (director: Carlo Rola) with Iris Berben playing the lead in the 1st quarter of last year. It is to be aired in the spring of 2007 with the title **Der Tag wird kommen**. MOOVIE – the art of entertainment also made two exciting thriller films for ZDF called

Mord in aller Unschuld and **Franziskas Gespür für Männer**, which are based on the successful pilot film **21 Liebesbriefe** that was shown in 2004. Katja Flint (**The White Maasai**) played 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 produced the new and extremely successful comedy series **Die ProSieben Märchenstunde**. 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 classic fairy tales from the Grimm brothers to Wilhelm Hauff are being re-enacted. The directors were the comedy experts Tommy Krappweis, Eric Haffner, Cyrill Boss and Philipp Stennert. The first episode, which was shown on ProSieben on March 20, 2006, immediately achieved sensational ratings of 28.7 per cent among 14- to 49-year-olds and as much as 39.1 per cent in the core target group of 14- to 29-year-olds and the next episodes brought the station what really can be described as “fairy-tale” market shares too. Further episodes for the successful comedy series were shot from October 2006 onwards. Rat Pack Filmproduktion landed further success with the TV film **Meine verrückte türkische Hochzeit** (director: Stefan Holtz), which won the German Television Prize 2006 in the category ‘Best German Television Film’.

Our subsidiary also produced further episodes of the telenovela **Lotta in Love**, which was shown every day on ProSieben in the early-evening programme from the end of March onwards. Since **Lotta in Love** failed to reach the anticipated ratings, however, production was phased out on schedule in August 2006. A total of 130 episodes were produced.

On August 1, our subsidiary MOOVIE – the art of entertainment started principal photography of the three-part event **Afrika, mon amour** for ZDF, an epic adventure film set in the German colonies during the First World War. Iris Berben played the main figure in the TV drama. Robert Atzorn, Matthias Habich, Pierre Besson, Bettina Zimmermann, Thorsten Merten and Alexander Held were some of the actors who appeared in other parts. The three-part event was broadcast in January 2007 and brought Constantin Film and ZDF a sensational market share of 24.2 per cent when the last part was aired. With 8.7 million viewers for the first part, 8.5 million viewers for the second part and 9.2 million viewers for the final part, the Carlo Rola TV film produced by Oliver Berben reached a total of 26.4 million viewers on three days and thus exceeded the record ratings achieved by the three-part film **Die Patriarchin**, which was also produced by Oliver Berben and MOOVIE – the art of entertainment and was seen on ZDF by 25.6 million viewers in January 2005.

The first take of the **Tatort** episode **A G'mahde Wiesn**, which MOOVIE – the art of entertainment produced for Bayerische Rundfunk, was completed in mid-August. This is the first time that a company from the Constantin Film Group produced a **Tatort** episode. **A G'mahde Wiesn** takes the cult detectives Batic, Leitmayr and Menzinger behind the mysterious scenes of the Oktoberfest in Munich. Director Martin Enlen staged the screenplay written by Friedrich Ani. The cast included not only Miroslav Nemeč, Udo Wachtveitl and Michael Fitz but also Monika Baumgartner, Franziska Schlattner and Georg Maier. The principal photography continued in Munich until mid-September, to some extent on the Theresienwiese, where the biggest public festival in the world actually takes place every year.

Principal photography of the comedy **Die Verzauberung**, that Olga Film has produced for BR, started in August too. The film shows in an amusing and charming way how two families experience the most exciting and unusual holiday of their lives instead of an idyllic summer vacation up in the mountains in the ultimate natural setting with beautiful Alpine scenery. Shooting directed by Wolfram Paulus lasted until the beginning of September near Salzburg and in the Untertauern region with a cast led by Katharina Abt, Christoph Waltz, Heio von Stetten and Katharina Müller-Elmau among many others. Olga Film also produced the sixth and seventh episodes of the successful ZDF series **Kommissarin Lucas** with the

titles **German Angst** and **Das Totenschiff**. Ulrike Kriener aka Ellen Lucas once again takes an uncompromising but sensitive approach when she tackles these two cases.

4.81 million viewers saw the fifth programme in the successful ZDF series **Die Kommissarin** with the title **Skizze einer Toten** on October 21, 2006, which was produced by our subsidiary Olga Film too.

In view of current events in the Middle East and their impact on world politics, Norddeutsche Rundfunk showed the MOOVIE – the art of entertainment documentary production **Der Hölle so Nahe** about the Israeli war photographer Ziv Koren for the first time on DAS ERSTE on August 28, 2006 (director: Solo Avital).

On September 19, 2006, our subsidiary Rat Pack Filmproduktion started principal photography of **Das Geheimnis von Loch Ness** on behalf of VCH Alpha Medienproduktion for Sat.1 and ORF, in which a young boy discovers the secret behind the legendary monster in the lake and finds his lost father at the same time. Hans Werner Meier, Lisa Martinek, Dorkas Kiefer and Thomas Fritsch are acting in this film, which is being directed by Micky Rowitz. Sat.1 is planning to show this TV event in the summer of 2007.

As was the case in the previous year, our wholly-owned subsidiary Constantin Entertainment was very successful at supplying programmes that achieved excellent

ratings in the TV entertainment operations. It produced five daily shows alone last year, for example, including the court shows **Das Strafgericht** (RTL) and **Richter Alexander Hold** (Sat.1) as well as the fiction documentaries **Lenßen & Partner** (Sat.1) and **K11 – Kommissare im Einsatz** (Sat.1). In addition to this, the countdown of the nation's funniest clips was presented in **Clipcharts** every day on Kabel 1 by the host Miriam Wimmer. It is particularly encouraging that new daily formats developed by Constantin Entertainment are attracting interest from abroad too in the meantime: the court show **Sedzia Anna Maria Wesolowska**, a series modelled on the German daily show **Richter Alexander Hold**, has been broadcast on Poland's biggest private station TVN every day since March 2006. It is made locally as a service production by Constantin Entertainment Polska Sp. z o.o., a subsidiary of Constantin Entertainment GmbH, and is achieving ratings that are considerably better than expected. Daily programmes that have been newly developed or are produced on the basis of format licences are also being shown with great success in Russia (four programmes) and in Croatia (one programme). Production of the pilot programme for **Hanrahan Investigates**, a new fiction reality soap, was completed successfully in Great Britain for the station Channel Five in September 2006 and preparations for the principal photography of the first series began in October. The main character is the charismatic "chief investigator" Will Hanrahan, a former English television journalist who is now a TV producer.

The weekly formats produced by Constantin Entertainment for German television are the prize-winning Sat.1 science show **clever! – Die Show, die Wissen schafft** (hosts: Barbara Eligmann and Wigald Boning), the comedy show **Die Dreisten Drei** with the audience favourites Janine Kunze, Markus Majowski and Mathias Schlung, the two RTL II reality documentaries **Liebling, wir bringen die Kinder um!** and **Frauentausch** and the Kabel1 review show **Top 10 TV**, in which the host Steven Gätjen presented the most appealing moments of television history.

The Constantin Entertainment prime-time events last year included the **Presentation of the Bavarian Film Prize 2005** at the Prinzregententheater in Munich on January 13. Kai Böcking and Mirja Boes hosted the official event with numerous celebrity speakers and the prizewinners. The gala was broadcast on Kabel1.

Another programme of the exciting action event **Stars am Limit** was aired on January 15, when German celebrities again tackled the most unusual challenges they had faced in their lives.

The two show hosts Hella von Sinnen and Hugo Egon Balder made viewers' wishes come true in the event show **Stars zu verschenken** on Sat.1 on March 26, when they gave away special experiences with stars like Verona Pooth, Alexandra Neldel, Hape Kerkeling and many others to support the German Aids Foundation.

Barbara Eligmann and Wigald Boning presented the XXL version of the successful science show **Mega Clever!** on Sat.1 on May 13 and November 11, 2006 and achieved excellent ratings in the target group relevant to the advertising industry not only when it was broadcast the first time (15 per cent) but also when it was aired in November (14.7 per cent).

Another highlight in the Constantin Entertainment prime-time events last year was the **FIFA WM Ticket Show**, which was shown live on ZDF on June 8, 2006. Thomas Gottschalk and Johannes B. Kerner presented an exciting show from the "World of Football" arena, a spectacular copy of the Olympic Stadium in Berlin, with star guests from politics, sport and show business, in the course of which tickets for World Cup games were given away one day before the World Cup began.

In the Sunday event show **Die Comedy-Falle** on Sat.1, host Kai Pflaume again managed to entice his victims into the "candid camera" trap successfully. Hugo Egon Balder presented more editions of the popular music show **Die Hit Giganten** and together with his colleague Mirja Boes gave a foretaste of the coming holiday season in **Chartbreak-Hotel**, with amusing sketches about travel, hotel, sport and holiday subjects in addition to an excellent selection of music.

The Constantin Entertainment prime-time shows also include the very successful ProSieben show **Extreme Activity**: host Jürgen von der Lippe invites six

celebrities to join in a turbulent battle between the sexes every Saturday. One team of men and one team of women demonstrate their drawing, linguistic and acting talents in each programme, because the candidates have to explain as many terms as possible within 90 seconds in a similar way to the board game "Activity".

From October 30, 2006 onwards, Kabel1 showed amusing court judgements and bizarre court cases in its weekly comedy panel show **Darf man das?** presented by Ingolf Lück. The final episode of this for the time being was, however, aired on January 22, 2007, because the programme was unfortunately unable to reach the expected ratings. The game show format **Sudoku** with Christian Clerici, which was broadcast daily on ZDF, was discontinued after 36 programmes too, because it failed to establish itself in the 14.15 slot that has traditionally been difficult for ZDF.

It was again Jürgen von der Lippe, on the other hand, who closed the year on a high note on December 30. The host went on air at the end of the year with **Wer zuletzt lacht ...** and attracted 3.14 million enthusiastic viewers this time with his amusing review of the year. The show performed particularly well in the target group, because Sat.1 was only just behind the RTL quiz and Günther Jauch with 2.09 million 14- to 49-year-olds, which corresponded to a market share of 16.7 per cent.

Home entertainment

Following our market entry into independent video and DVD programme distribution in 2004, which Constantin Film AG carries out in German-speaking countries in close co-operation with the parent company Highlight Communications AG and the sales organisation Paramount Home Entertainment, we again succeeded in 2006 in continuing to strengthen Constantin Film's market position in the home entertainment field and in establishing the "Constantin Film" product brand as a leading, independent programme distributor in German-speaking countries.

On the basis of what tended to be a poorer theatrical film range from the years 2005 and 2006 by comparison with the previous year and the additional purchase of licensed film and TV products particularly for the home entertainment operations, we managed to fulfil our in-house marketing expectations to a very large extent. Thanks to the steadily growing library and the increasing significance of second-level marketing as a result, Constantin Film succeeded in obtaining 2.0 per cent of the DVD sell-through market in 2006. Our programmes managed to reach an excellent market share of as much as 5.0 per cent in DVD rental business.

Right at the beginning of the year, we were able to report our first, promising video premiere release with the star-studded psychoshocker thriller **The Jacket**, which immediately entered the top 10 of the rental hit

parade by “media control”. In addition to this, **The Jacket** was rated as the best video premiere of 2006 by the readers of the magazine “CINEMA” at the beginning of this year and was awarded a “Jupiter”. The fantasy thriller was driven not only by the main actor – Oscar® prizewinner Adrien Brody (**The Pianist**) – but also by the performances of: Keira Knightley (**Pirates of the Caribbean**), Daniel Craig (**James Bond – Casino Royale**) and the entertainer Kris Kristofferson.

The video premiere of the John Carpenter remake **Assault on Precinct 13**, in which the main actors Ethan Hawke, Laurence Fishburne and Gabriel Byrne give outstanding performances, was just as successful. Following an impressive start on the rental market (2nd place on the rental hit parade), there was tremendous acceptance of the film on the DVD sell-through market too.

At the beginning of February, Constantin Film released the in-house production **Siegfried**, which had already attracted large and enthusiastic theatrical audiences. The successful director Sven Unterwaldt jr. (**7 Zwerge – Männer allein im Wald**) was the director. The cult comedian Tom Gerhardt plays the role of the young Siegfried on his mission to save the Rhineland. Driven by the previous theatrical success, far more than 160,000 copies of the DVD were sold by the end of the year.

We released another in-house production by Constantin Film in March 2007: the film **The White Maasai**, which was based on the bestseller describing the personal experiences of Corinne Hofmann from Switzerland. Hermine Huntgeburth directed a visually powerful love drama which was shot at the original locations in Kenya and for which Nina Hoss won the Bavarian Film Prize as best actress. Jacky Ido acted alongside Nina Hoss as her African husband, with Katja Flint in a supporting role. Professor Dr Günter Rohrbach was responsible for production. Following its theatrical success, **The White Maasai** topped the DVD sell-through hit parade as soon as it was released. More than 330,000 copies of the DVD were sold by the end of the year.

We released the series **Märchenstunde Volume 1 & 2**, which was produced for ProSieben by our subsidiary Rat Pack Filmproduktion, at the beginning of April. Christian Becker was producer.

The relationship comedy **Der Fischer und seine Frau** directed by Doris Dörrie, in which not only Alexandra Maria Lara but also the actors Christian Ulmen and Simon Verhoeven appeared, was released in April too.

The highlight in May was the release of the action thriller **Domino – Live Fast, Die Young**. This action film, which was directed by Tony Scott (**Spy Game**, **Man on Fire**) and has a star-studded cast featuring Keira Knightley (**Pirates of the Caribbean**) and Mickey Rourke (**Sin City**) went to the top of the rental hit

parade produced by “media control” as soon as it was released.

With the in-house production **The Dark** by our subsidiary Impact Pictures, which was staged by John Fawcett on the basis of Simon Maginn’s novel “Sheep”, we were able to release another promising film in advance for rental at video stores in June. **The Dark** succeeded in entering the top 10 of the DVD rental hit parade as soon as it was released.

With the DVD **Metal: A Headbanger’s Journey**, we released a special treat for the large heavy metal fan community. **Metal: A Headbanger’s Journey** is Sam Dunn’s film debut as an author, director and producer and takes the viewer to original locations in England, Germany, Norway, Canada and the USA. The production includes wild music by the most well-known and legendary heavy metal bands.

Another release in June was the comedy **Man about Town** directed by Mike Binder, in which the actors Ben Affleck, Rebecca Romijn and Gina Gershon played the main roles.

At the beginning of July, we started our horror programme designed for the rental market with the release of the horror thriller **The Cave**. The horror trip to **The Cave** directed by Bruce Hunt followed a sound US box office performance by immediately establishing itself in rental and sell-through business too.

The girl's gang **Die Wilden Hühner** was the focal point in August. When the DVD was released, **Die Wilden Hühner** continued its success on the home entertainment market as well. The family entertainment movie immediately topped the DVD sell-through hit parade by "media control" as soon as it was released. Far more than 165,000 copies of the DVD were sold by the end of the year. Constantin Film was nominated for the coveted 'DVD Champion 2006' award by Home Entertainment Verlag for the production of the special DVD edition "Hühner-Box".

The main event in September was the sequel to the classic film **Basic Instinct** with which Paul Verhoeven wrote film history in 1992. Even though it was highly appropriate for the rental market, **Basic Instinct 2: Risk Addiction** only achieved limited marketing success in home entertainment exploitation too.

In September, Constantin Film released **Atomised**, a Bernd Eichinger / Oliver Berben production based on the scandalous novel of the same name by Michel Houellebecq. The main actors Moritz Bleibtreu, Christian Ulmen, Franka Potente and Martina Gedeck performed outstandingly well in the film directed by Oskar Roehler. In spite of the fact that top-quality, star-studded entertainment was on offer, the DVD release did not match the previous success achieved in theatrical exploitation.

The film production **Der Räuber Hotzenplotz**, which was made in co-operation with collina Filmproduktion,

demonstrated once again the central importance of programmes for children and young people in the home entertainment field. About 120,000 DVDs of the production **Der Räuber Hotzenplotz**, which was staged affectionately by Ulrich Limmer, were sold by the end of the year. Not only the film production but also the lavishly produced DVD attracted a great deal of attention. Entertainment Verlag therefore chose the production as "DVD Champion" – the best DVD production in the family entertainment field in 2006 – in October last year.

In the British comedy **Keeping Mum**, which Constantin Film released on DVD at the beginning of November, Rowan Atkinson proved that he can be a very good serious actor too. Kristin Scott Thomas, Oscar® prizewinner Maggie Smith and Patrick Swayze played alongside Rowan Atkinson in the main role of the unusual vicar.

The teenager target group was the priority in November with the release of the in-house production **Französisch für Anfänger** and responded enthusiastically to the comedy about falling in love for the first time that was staged by the director Christian Ditter.

The family entertainment movie **Hui Buh – Das Schlossgespenst**, a production by Rat Pack Filmproduktion, attracted millions of enthusiastic fans to theatres in the summer of 2006. In view of the tremendous theatrical success, video stores had great expectations of the DVD release. Constantin Film

supplied more than 300,000 DVDs to the trade in good time for the Christmas shopping season. Thanks to the impressive sales success achieved in all the German-speaking countries, far more than 60 per cent had been bought by consumers by the end of 2006. The DVD occupied top positions in the DVD sell-through hit parade in Germany, Austria and Switzerland too.

The production **Do you like Hitchcock?**, which was produced with Italy's horror thriller icon Dario Argento as director, was released again specially for the rental market at the end of the year. Although it was originally produced for the TV market, the thriller made by the legendary Dario Argento proved to be very popular on the rental market too.

Licence trading

The licence trading operations continued to develop very positively in 2006. On the one hand, the in-house marketing of the Constantin films throughout the exploitation chain that began three years ago is now producing sustained economic success as the licensing periods for the free TV rights successively begin. On the other hand, Constantin Film Verleih GmbH managed to extend the output deal with the ProSiebenSat.1 Group about the exploitation of free TV rights, which has been in force since the beginning of 2005, for a further two years at the beginning of November 2006. The deal covers the national and international in-house and co-productions by Constantin Film AG and its subsidiaries with principal photography beginning in the period between

January 1, 2007 and December 31, 2008. In addition to the highlights of the existing agreement, such as **Hui Buh – Das Schlossgespenst**, **Perfume – The Story of a Murderer** and **Resident Evil: Apocalypse**, the future deal includes the free TV licence rights to the film of the bestselling relationship guide **Warum Männer nicht zuhören und Frauen nicht einparken** by the successful director Leander Haußmann (**Herr Lehmann**) and **Urmel im Wunderland**, the sequel to this year's cartoon film hit for children **Urmel aus dem Eis**. We also concluded a contract with our partner ProSiebenSat.1 about the sale of the free TV rights to the French-German-Spanish co-production **Asterix at the Olympic Games** and numerous international licensed films from Constantin Film. This film package includes the gripping action thriller **Michael Clayton** by the successful producers Sydney Pollak (**The Interpreter**) and Steven Soderbergh (**Ocean's Twelve**), which stars heartthrob George Clooney (**Ocean's Twelve**) in the leading part, **Bridge to Terabithia**, the new fantasy theatrical event by the makers of **The Chronicles of Narnia** as well as **Step Up** and **The Grudge 2**.

Constantin Film Verleih GmbH is continuing its excellent co-operation with Premiere Fernsehen GmbH & Co. KG and the Disney Channel too. The general licensing agreements about exploitation of the pay TV rights to the Constantin in-house and co-productions that were concluded in February 2004 were both extended by a further two years at the beginning of 2007.

In the 2006 fiscal year, Constantin Film AG managed to exceed the targets it revised upwards in the autumn. The company generated sales of € 270.2 million. The gross profit was € 34.6 million and the operating result were substantially positive at € 15.2 million. This means that Constantin Film had the most successful year in the company's history.

Prospects for 2007

15 distribution releases are currently planned in 2007: in addition to 10 in-house and co-productions, Constantin Film will be releasing 5 licensed films to German theatres.

The highlights of our distribution programme are our in-house and co-productions **Die Wilden Hühner und die Liebe**, **Neues vom Wixxer**, **Herr Bello**, **Pornorama oder die Bekenntnisse der mannstollen Näherin Rita Brauchts** and **Resident Evil: Extinction** as well as the new Michael Bully Herbig production **Lissi und der wilde Kaiser**.

As far as our licensed films are concerned, we are particularly looking forward to **Bridge to Terabithia**; the producers of **The Chronicles of Narnia** are bringing a further fantastic adventure story for the entire family to theatre screens with this family entertainment movie. The gripping thriller **Michael Clayton** comes from the pen of the successful author of **The Bourne Identity** and promises to be a high-adrenalin roller coaster ride for both men and women – thanks to the “sexiest man alive”!

In the TV service production operations, we are aiming to repeat the excellent performance of the previous year with a sales target of more than € 100 million.

We are in a position to counter the trend towards a slight decline in the overall home entertainment market in 2007 with an extremely attractive product portfolio. Particularly blockbusters like **Perfume – The Story of a Murderer** or **Die Wilden Hühner** but also strong licensed films such as **Lucky Number Slevin**, **Step Up**, **Apocalypto** and **Bridge to Terabithia** suggest that business will develop positively this year.

Constantin Music GmbH is planning to combine the music operations in the publishing, music production and label activity fields in this newly established GmbH in 2007, with the strategic objective of guaranteeing the effective exploitation of the existing music in Constantin Film's film and television products.

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 at least € 250 million and positive operating result of at least € 12 million in 2007.

Dear shareholders,
dear friends of Constantin Film,

2006 was a very successful fiscal year for Constantin Film. Excellent performances by the TV service production operations and by the film **Perfume – The Story of a Murderer** were the main highlights in the past 12 months. Thanks to the responsible corporate policy and the strategic alignment of the company, the business continued to develop extremely positively. The purposeful expansion of the core business has reduced the inherent volatility of the theatrical business and we have succeeded in maintaining our position on the market as one of the leading German media companies. This continues to be our objective in future too.

The clear alignment of our company, our experienced 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 operate successfully in the coming year as well.

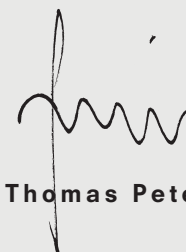
We would like to thank you for the confidence you have placed in us and the loyalty you have demonstrated.



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



► **Hanns Beese** / finance and accounting



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



► **Martin Moszkowicz** / production



► **Franz Woodtli** / home entertainment



The Supervisory Board carried out its advisory and control assignment throughout the 2006 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 ordinary meetings and one extraordinary meeting held in the 2006 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 2006 fiscal year, the Supervisory Board exercised its right to inspect the company's books, other documentation and assets.

The subjects that the Supervisory Board focussed on in particular during the 2006 fiscal year were the company's feature film production operations, in connection with which budget proposals, earnings forecasts and artistic elements were discussed with reference to a large number of projects. Minimisation of the risks associated with the film productions was given high priority by the Supervisory Board. The commercial

exploitation of the company's films in the theatrical and home entertainment operations in particular was an issue that was dealt with just as regularly. Further expansion of the TV service production operations was another subject that was given close attention. 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 2005 fiscal year and the 2006 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 three times in the 2006 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 2006 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 2006 fiscal year were raised after the Supervisory Board subsequently completed its own internal review either. At its meeting on March 28, 2007, 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.

In the context of its review of the accounting documents, the Supervisory Board also checked all the parts of the combined management report of Constantin Film AG required by §§ 289 paragraph 4 and 315 paragraph 4 of the German Commercial Code / HGB (obstacles to takeovers). All the information provided is in line not only with the articles of

association of the company but also with the legal regulations. This information is as follows:

The share capital of Constantin Film AG amounts to € 12,742,600.00. It is divided up into 12,742,600 shares with no par value, with each share granting the right to one vote. Constantin Film AG itself does not hold any of its own shares.

The company's articles of association do not include any restrictions on voting rights and the transfer of shares. The Management Board is not aware of any arrangements involving restrictions on voting rights or the transfer of shares.

At the time when the financial statements were prepared, only one shareholder held an interest of more than 10 per cent in the share capital of Constantin Film AG. This shareholder is Highlight Communications AG, which holds an interest of 92.07 per cent.

Shareholders have not been given any special rights by Constantin Film AG. No shares granting control powers or special rights have been issued either. Employees do not hold any interests in the capital where the control rights are not exercised directly.

§ 5 of the articles of association of Constantin Film AG specifies the rules for the appointment and dismissal of members of the Management Board. To the extent that

this paragraph does not include any specific provision, members of the Management Board are appointed and dismissed in accordance with §§ 84, 85 of the AktG. According to § 5 of the articles of association, the Management Board consists of one or more persons. The fundamental rule is that the Supervisory Board determines the number of members of the Management Board, unless a specific number is stipulated by law. The members of the Management Board are appointed by means of resolutions passed by the Supervisory Board, for which a majority of the votes cast is required. § 5 paragraph 2 of the articles of association of Constantin Film AG specifies that the Supervisory Board can appoint deputy members of the Management Board. The period of office of the members of the Management Board amounts to five years at most. Reappointment or extension of the period of office is possible for a maximum of five years. A new resolution about this has to be passed by the Supervisory Board, which is possible one year before the end of the current period of office at the earliest. If there is a lack of a necessary member of the Management Board, a court appointment of a member can be made in urgent cases. § 85 paragraph 1 of the AktG stipulates that an application by one of the parties has to be submitted in this context. The period of office of the member of the Management Board appointed by the court ends as soon as the gap has been filled. The Supervisory Board is responsible for cancelling the appointment to membership or chairmanship of the Management

Board. Dismissal is by means of a resolution, for which a majority of the votes cast is in turn required. The precondition for the effective dismissal of a member of the Management Board is an important reason. There is such a reason when the member of the Management Board grossly violates his duties or is incapable of conducting the business properly or when the Annual Shareholders' Meeting passes a vote of no confidence about the member. There do, however, have to be objective reasons for such a vote of no confidence. Dismissal remains effective until its ineffectiveness has been determined finally and absolutely.

§ 6 of the articles of association of Constantin Film AG specify that a member of the Management Board is entitled to represent the company alone if only one Management Board member has been appointed. If several members have been appointed, the company is represented either by two members of the Management Board or by one member of the Management Board together with another authorised signatory. The Supervisory Board is, however, entitled to grant individual or all members of the Management Board powers of sole representation. It can also exempt members of the Management Board from the restrictions of § 181 of the German Civil Code (BGB). The articles of association of Constantin Film AG can be changed on the basis of the legal regulations. A resolution that has to be passed to do this requires a majority of three quarters of the share capital



represented when the vote is taken. On the basis of an exceptional ruling in § 11 paragraph 2 of the articles of association, the Supervisory Board is entitled to make changes to the articles of association to the extent that they only affect the wording. In this case, the resolution must be passed by the Supervisory Board with a majority of the votes cast, in accordance with § 9 paragraph 3 of the articles of association of Constantin Film AG.

In accordance with a resolution passed at the Annual Shareholders' Meeting, the Management Board is authorised to acquire company shares amounting to up to 10 per cent of the share capital up to December 7, 2007. No use was made of this authorisation in the 2006 fiscal year.

In accordance with § 4 paragraph 4 of the articles of association of Constantin Film AG, the Management Board is also authorised to increase the share capital of the company 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 by issuing new bearer shares. The number of shares has to be increased in the same ratio as the share capital in this context. With the approval of the Supervisory Board, the Management Board is authorised to take decisions on suspension of the shareholders' subscription right. This is, however,

only possible for a capital increase in return for the injection of physical assets and/or for fractional shares.

The Management Board is also authorised in accordance with § 4 paragraph 5 of the articles of association to increase the share capital of the company 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 by issuing new bearer shares. The capital increases must be made in return for the injection of cash. The Management Board is entitled to suspend the subscription right of the shareholders with the approval of the Supervisory Board in this context too. Suspension is, however, only permissible if the issue amount is not considerably lower than the stock market price.

A resolution about a stock option plan was passed at the Annual Shareholders' Meeting that was held on July 12, 2001. The share capital of the company was increased conditionally by € 291,600.00, divided up into 291,600 shares, by issuing new shares in order to carry out this plan. The plan is only implemented to the extent that subscription rights to shares are issued and the holders of these subscription rights make use of their right to exercise them. This stock option plan was cancelled by a resolution passed by the shareholders' meeting on August 29, 2003.

In addition to this, the share capital of the company has been increased conditionally by € 600,000.00, divided up into 600,000 shares, by issuing new shares in order to carry out another stock option plan that was adopted via a resolution passed at the shareholders' meeting on August 29, 2003. In this case too, the plan is only implemented to the extent that subscription rights to shares are issued under the stock option plan in accordance with the resolution passed at the shareholders' meeting on August 29, 2003 and the holders of these subscription rights make use of their right to exercise them.

No major arrangements have been made by the company that are based on the condition of a change in control as a result of a takeover bid, i.e. include change of control provisions.

No arrangements have been made with members of the Management Board or employees about compensation in case a takeover bid is made either.

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 or disadvantages were compensated for,
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 June 8, 2006, Professor Dr Günter Rohrbach, independent producer, Munich, was elected to be a member of the Supervisory Board for a further five-year period of office. At its meeting on June 8, 2006, the Supervisory Board elected Mr Bernhard Burgener to be its Chairman and Mr Bernd Eichinger to be its Deputy Chairman.

The Supervisory Board would like to express its thanks to the Management Board of Constantin Film AG, to the directors of its subsidiaries and affiliated companies and to all the company staff for their hard work in 2006.

Munich, March 2007



► **Bernhard Burgener** / Chairman of the Supervisory Board

MEMBERS OF THE SUPERVISORY BOARD*

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

Bernd Eichinger / Deputy Chairman // Film producer

Marc Conrad // Film producer

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

Professor Dr Günter Rohrbach // Independent producer

Martin Wagner // Lawyer

* See also the notes to the consolidated financial statements, page 78

COMPANY PORTRAIT – STRENGTHS AND STRATEGY

Together with its subsidiaries and affiliated companies, Constantin Film AG has established itself as by far the most successful independent German production and distribution company not only in the German media community but also in the international film industry since the company 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 to the classic production and distribution operations of licence trading, in-house home entertainment exploitation and intensified TV service production, with a particular focus on TV entertainment.

The company was set up in 1977 by Bernd Eichinger, who is still its most important producer. Constantin Film has always succeeded in attracting millions of enthusiastic film fans with German and international film productions. Box-office successes like **Der bewegte Mann**, **Werner – Das muss kesseln!**, **Rossini – oder die mörderische Frage, wer mit wem schlief** or **The Superwife** are just a few of the early theatrical hits. Constantin Film made a name for itself on the international market 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**.

4 of the top 10 German blockbusters of the last 20 years were produced by Constantin Film; 21 of the top 50 German theatrical films since 1987 were released to theatres by the company. 13 of the 30 most successful German theatrical films of the past 10 years were distributed by Constantin Film. (Source: Top 50 List since 1987, SPIO statistics)

In the past 6 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 2006 distribution year, we reached a market share of just under 10 per cent with more than 12.7 million box office admissions. Constantin Film therefore managed to top the list of independent German distributors again in a challenging but successful theatrical year. Every third ticket that was bought at theatres last year for a German film was for a film distributed by Constantin Film. (Source: SPIO statistics)

The film highlights that Constantin Film has released in recent years include, for example, the most successful German film ever (**Manitou's Shoe**) and the

sensational blockbuster from 2004 **Dreamship Surprise – Period 1**. The outstanding Bernd Eichinger production **Perfume – The Story of a Murderer, 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 **Harte Jungs**. Excellent admission figures have been recorded with the family entertainment productions **Hui Buh – Das Schlossgespenst**, **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 to maintain the consistently high level achieved in the national and international in-house production operations. What this means specifically for 2007 is that we intend to complete probably 6 to 8 films

in the German-speaking theatrical in-house and co-production field and probably up to 3 productions at the international level. International products in particular have become increasingly important in our in-house production operations in recent 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, Ulrich Limmer's collina Filmproduktion and the two new producers Max Wiedemann and Quirin Berg. Our subsidiaries and affiliated companies are important partners too. They include Olga Film with the producers Molly von Fürstenberg, Harry Kügler and Viola Jäger, MOOVIE – the art of entertainment with Oliver Berben and Carlo Rola and Christian Becker's Rat Pack Filmproduktion and Westside Filmproduktion. In our international projects, we count on successful co-operation with our subsidiary Impact Picture as well as the producers Paul W.S. Anderson and Jeremy Bolt. Longstanding intensive contacts to the most important nationally and internationally respected authors, 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 the sources of funding that are available at international level for its

products in order to minimise the risks involved. This enables us to arrange customised financing concepts according to the particular requirements of the individual products.

Constantin Film has developed very positively in the area of advance sales and global marketing of our German and international productions in recent years. Most of our productions are sold abroad by us directly. In this respect on the German market Constantin Film has what we think is exceptional know-how.

Constantin Film has a highly respected and successful position in the production operations for fiction TV programmes with its subsidiaries Olga Film, MOOVIE – the art of entertainment, Rat Pack Filmproduktion, Westside Filmproduktion and the wholly-owned subsidiary Constantin Television. 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. Another important move to broaden our TV production capacity is the joint venture PolyScreen, the establishment of which was decided at the end of last year by Constantin Film together with Polyphon Film und Fernsehgesellschaft. The purpose of the joint venture is to liaise on the development and production of high-quality entertainment formats in the fiction and entertainment fields.

We obtain the minimum of 15 films per year that are required to make our distribution business a success not only from our very important in-house production operations but also from the acquisition of individual licences (known as pick-ups) from our many longstanding production partners in Germany and elsewhere. The 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.

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. With the new output sales contracts concluded in 2006 and 2007 for the airing of our in-house and co-productions on free TV (ProSiebenSat.1) and pay TV (Premiere/Disney Channel), we have kept the biggest German television providers as long-term partners.

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 products.

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 a steadily growing library with more than 100 DVD rights from in-house productions and licensed films independently. Since 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 2006

In January 2006, Constantin Film AG established the wholly-owned subsidiary Constantin Television GmbH with the aim of organising and continuing to expand the in-house TV production operations in the fiction TV series and event field. Kerstin Schmidbauer and Robin von der Leyen were appointed directors / producers. Kerstin Schmidbauer has had a great deal of experience in television film production. In 2005, she was awarded the German Television Prize in the "Best Film" category for the television film **Marias letzte Reise**, which she was responsible for as producer and which has won numerous prizes. Robin von der Leyen has been with Constantin Film AG since 1999 and has had many years of experience in the production field.

Since 2004, he has focussed on the acquisition, development and funding of film productions as well as managing various Constantin Film TV projects. The fiction TV activities of Constantin Film Produktion GmbH are being combined and expanded gradually at Constantin Television. In addition to the implementation and production of the existing TV series like **Hausmeister Krause** with Tom Gerhardt, the focus is on the development and acquisition of further fiction TV products and formats, such as series, sitcoms, mini-series and TV events. The first of the company's own projects in these areas will be realised in 2007.

In January 2006, the experienced feature film and TV producer Mathias Lösel joined the Rat Pack and Westside Filmproduktion team. He is the executive producer responsible for theatrical and television film productions by the Constantin Film subsidiaries.

In February, Constantin Film AG announced the development of a new area of operation with the establishment of the Constantin Music department. The aim is to bring together all the Group's music activities in one company, with the strategic objectives of guaranteeing effective exploitation of the existing music in the development, expansion and investment in feature film and television products and facilitating in new and existing music rights (Constantin

Musikverlag). An interest of initially 25.0 per cent of the new Hamburg music label Königskinder was acquired in addition. The internal networking of the production, distribution and marketing operations in the music field was already optimised last year. We also succeeded in negotiating soundtrack deals for the theatrical films **TKKG – Das Geheimnis um die rätselhafte Mind-Machine** and **Dead or Alive**. Constantin Music managed to provide significant support in the marketing field in the clearing sector too with the song **Holding out for a hero**, which was used for the trailer for the theatrical film **Schwere Jungs**. The first major theatrical project is planned for 2007, alongside co-operation with Constantin Entertainment on existing music programmes and the development of new music formats. Constantin Music is already assuming responsibility for musical supervision of the feature film **Warum Männer nicht zuhören und Frauen schlecht einparken** (director: Leander Haußmann) in the production phase. Medium-term plans include a soundtrack label of our own and activities in the digital music downloading sector.

Reinhard Klooss joined Constantin Film AG as a producer in the feature film operations on May 1, 2006. In his work, he focusses on family entertainment and primarily on computer-generated animation films (CGI animation). Reinhard Klooss studied literature and has been a producer, author and director in the feature film

business since 1986, including assignments at Constantin Film, Bavaria Film and Studio Babelsberg. He was director of Bavaria Filmverleih und Produktion, Babelsberg Film and Bavaria Entertainment and was on the Management Board of Odeon Film AG, of which he is one of the co-founders. His most recent position was as director of Bavaria Pictures GmbH, where he was responsible for the animation project **Urmel aus dem Eis** (theatrical release date: August 3, 2006, Falcom / Warner Brothers), for example. His previous successes include **Asterix & Obelix Take On Caesar**, **Charlie & Louise**, **Comedian Harmonists** and **Go, Trabi, Go**.

Bernd Eichinger and Martin Wagner resigned from their positions as Chairman of the Supervisory Board and Deputy Chairman of the Supervisory Board of Constantin Film AG with effect from the end of the Annual Shareholders' Meeting that was held on June 8, 2006. In the meeting it held after the Annual Shareholders' Meeting, the Supervisory Board appointed Mr Bernhard Burgener as the new Chairman of the Supervisory Board and Bernd Eichinger as the Deputy Chairman. Martin Wagner continues to be a full member of the Supervisory Board.

Our major relaunch of the Constantin Film website was at the end of June. The extensive content of the portal is focussed clearly on the requirements of our target groups and the presentation of the rich media content

in an appropriate way combines an innovative experience with simple navigation. The latest theatrical trailers as video clip or download, details about current and forthcoming feature films, film posters and film sets, competitions and a podcast channel are just a few examples of the content waiting for film fans. We also provide extensive and detailed information about the company, its structures, the management and the individual company operations, while our shareholders and the financial community find all the relevant information in the investor relations section.

THE STOCK MARKETS IN 2006: SHAREHOLDERS DELIGHTED BY SHARE PRICE INCREASES AND RECORD HIGHS

All in all, 2006 was a very successful stock market year and shareholders enjoyed what was already the fourth year in succession with rising share prices. In January, the international stock markets maintained their momentum from the previous year and made a successful start to the new stock market year. The main German index DAX passed the psychologically important 5,500 point mark after only two days of trading. Following what was only a brief change in mood at the end of January due to political uncertainty in connection with the Iran conflict and the increase in the oil price associated with this, the stock markets recovered quickly and considerable share price increases were made. The bull market was driven by

takeover speculation in several industries, good corporate earnings, decreasing raw material prices and substantial optimism in the business community.

As was expected, volatility on the international stock markets increased in early March in view of the high share price levels that had been reached. Concerns about rising interest rates, some disappointing corporate data and growing geopolitical tension led to drops in share prices. The excellent mood in the business community and sound economic facts made sure that confidence soon returned, however, so that the stock markets recovered strongly. The DAX moved steadily towards the 6,000 point mark up to the end of the 1st quarter.

The excellent mood continued initially at the beginning of the 2nd quarter, but then doubts returned again and recovery phases alternated with further setbacks after this. The markets were, on the one hand, depressed by the escalating conflict between the USA and Iran, worries about further increases in interest rates by the European Central Bank and anxiety about inflation due to considerable increases in raw material prices again. Good quarterly figures and high dividend payments had a positive impact, on the other hand.

In mid-May, the international stock markets suddenly hit strong turbulence, however. The reasons were

initially corrections to the overheated stock and raw material bull markets and then new worries about inflation and interest rates. The slump was particularly large in Germany, where the DAX fell by more than 900 points within a month. The downtrend was not stopped until mid-June and the markets recovered again substantially on the back of convincing economic data.

The markets were volatile in July and August. The mood on the German stock market did not improve until anxiety about interest rates in the USA died down and a truce was agreed in Lebanon in mid-August, which led to considerable reductions in crude oil prices. The DAX managed to avoid the traditional summer stock market slump by putting in a spurt in the second half of August, while September went well too. This development was encouraged strongly by the substantial reduction in energy and raw material prices, signs of easing economic growth in the USA and Europe as well as news and rumours about mergers and takeovers.

In the first few weeks of the fourth quarter, the upward trend in the DAX became increasingly stable alongside the considerable share price increases on the international stock markets and the highest levels for several years were topped regularly. Following only brief share price drops at the end of November, the

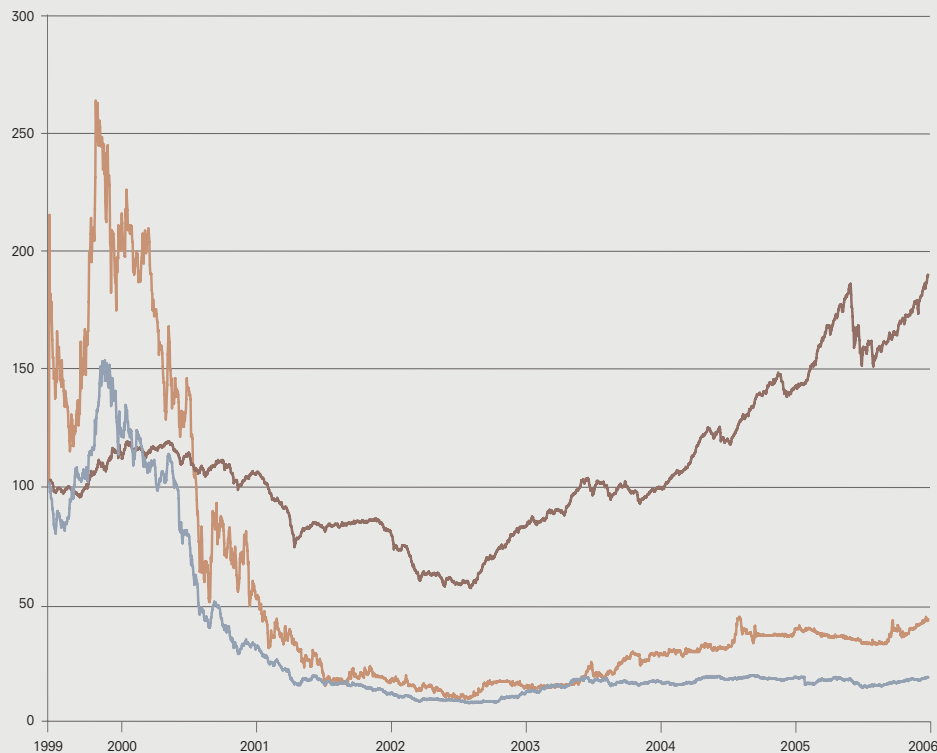
DAX started an emphatic year-end rally in December and reached its high for the year of 6,612 points on the penultimate trading day. It ended the 2006 stock market year on 6,597 points, which represented an increase of 22 per cent over the beginning of the year.

The increases in the prices of minor shares were even more impressive in the past stock market year: the MDAX and SDAX both increased by 28 per cent over the previous year and the technology share index TecDAX went up 24 per cent. This meant that German shares were again ahead of the comparable major share indices like the EuroStoxx 50 (+ 14 per cent), the Paris Stock Exchange (Cac-Index: + 17 per cent) or London (FTSE: + 10 per cent). The US stock exchanges lagged behind the German stock markets too: the Dow was up 16 per cent, the broad S&P 500 increased its value by 14 per cent and the technology exchange Nasdaq Composite managed 10 per cent.

The total turnover of all the German stock exchanges together was more than € 5,000 billion in 2006, growth of 32 per cent over the previous year (2005: € 3,800 billion). Deutsche Börse's review of the market for new issues was positive too. A total of 210 companies with a market capitalisation of about € 32.4 billion were listed for the first time in Frankfurt.

▶ **PERFORMANCE COMPARISON**

from 13.09.1999 to 31.12.2006 / in per cent



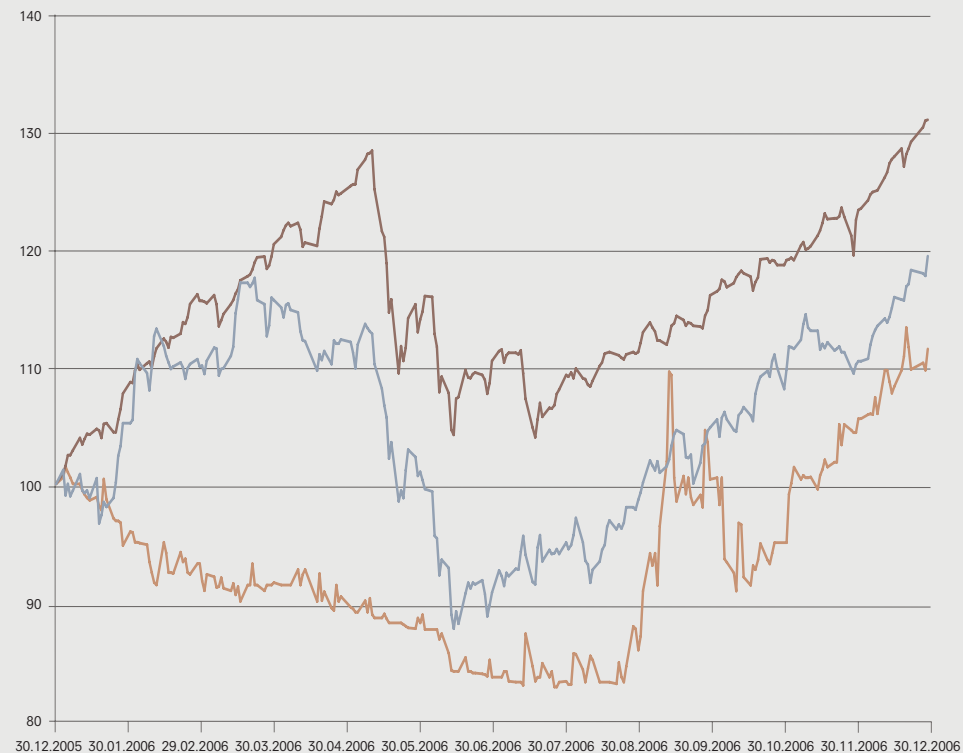
13.09.1999 / Issue price € 29.00

31.12.2006 / Final price € 12.20

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

▶ **PERFORMANCE COMPARISON**

from 31.12.2005 to 31.12.2006 / in per cent



31.12.2005 / Final price € 10.94

31.12.2006 / Final price € 12.20

▶ **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 positive in 2006. The share exceeded the € 11 mark immediately at the beginning of the new year. This was followed by a sideways movement at a level slightly below € 11.00. Following the announcement of a change in the shareholder structure – Highlight Communications AG acquired the 25.07 per cent interest held by Bernd Eichinger Holding GmbH & Co. KG on January 19, 2006 – the share price started a slight downward trend, however, that continued until the beginning of the 3rd quarter.

There was initially another sideways movement between € 9.00 and € 9.50 in July and August, until the share price began to move considerably more dynamically at the end of August in the run-up to the theatrical release of **Perfume – The Story of a Murderer**. Substantially higher daily turnover with the Constantin Film share on the stock exchange was a further demonstration of the positive impact of the long-awaited theatrical release of the Bernd Eichinger production and the highest final price in the year so far was reached on September 12, 2006 (€ 11.99). Profit-taking then meant that share price development remained volatile for a number of weeks after this and the share even dropped back below the € 10 mark for a short time. From mid-October onwards, the overall market optimism then had a positive effect on the price

of the Constantin Film share too, however, and there was a sustained increase in the price. The share price reached a new high for the year of € 12.40 on December 20, which was at the same time the highest price for more than 18 months. The year-end price on December 29, 2006 was € 12.20. This means that the share price rose by 11.5 per cent over the year (December 31, 2005: € 10.94). The Prime Media Performance Index went up by 19.5 per cent over the same period.

Intensive contact was maintained with institutional and private investors, financial analysts and representatives of the business press in the 2006 stock market year by holding roadshows and telephone conferences, by giving interviews and by distributing regular press releases.

The 7th Annual Shareholders' Meeting of Constantin Film AG was held at the Haus der Bayerischen Wirtschaft in Munich on June 8, 2006. 91.83 per cent of the share capital was represented and all seven points on the agenda that required a vote to be taken were passed with a majority of more than 99 per cent.

At the end of November 2006, Deutsche Börse AG held the German Equity Forum at the Messe Frankfurt Congress Centre together with KfW SME Bank. Constantin Film AG took advantage of this leading European information and networking platform to present the company to the decision-makers in the

financial community and to hold its annual conference for analysts.

The Constantin Film AG share was actively followed by five teams of analysts in 2006. Three of the current reports by the research companies recommend that the share is bought, while two analyst think that it should be kept.

▶ PRICES / in €, indicating the final Xetra prices

Number of shares on 31.12.2006	12,742,600
Issue price on 13.09.1999	29.00
Closing price for the year 1999	42.50
Closing price for the year 2000	19.29
Closing price for the year 2001	4.04
Closing price for the year 2002	2.56
Closing price for the year 2003	3.92
Closing price for the year 2004	8.48
Closing price for the year 2005	10.94
Highest price on 20.12.2006	12.40
Lowest price on 26.07.2006	9.06
Closing price for the year 2006	12.20

THE CONSTANTIN FILM AG SHAREHOLDER STRUCTURE

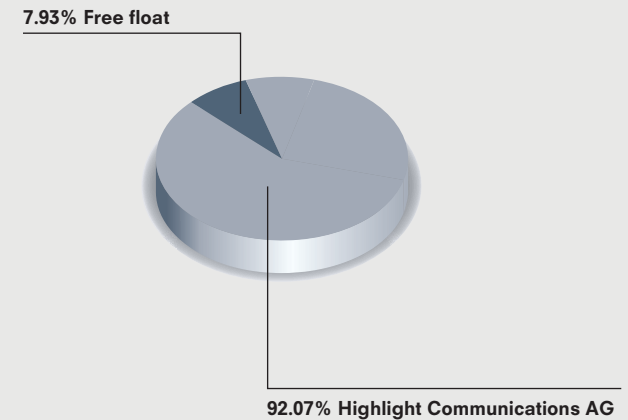
The total number of shares in Constantin Film AG is 12,742,600. On June 14, 2005, the two main shareholders, Bernd Eichinger and Highlight Communications AG, had signed an option agreement about the purchase by the Highlight Group of the 25.07 per cent interest held by Bernd Eichinger Holding GmbH & Co. KG. On January 19, 2006, it was announced that the call option had been exercised, so that Highlight Communications became the sole major shareholder of Constantin Film AG. Following further purchases by the Swiss shareholder from the free float in the course of 2006, the Highlight Group owned 92.07 per cent of the shares in Constantin Film AG on December 31, 2006. The free float amounts to 7.93 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 Constantin Film AG did not carry out any securities business transactions in the period between January 1, 2006 and December 31, 2006. The company did not hold any of its own shares on December 31, 2006.

The members of the Management and Supervisory Boards held the following shares and options on December 31, 2006: Fred Kogel 6,150 shares, Marc Conrad 1,500 shares, Dr Paul Graf 500 shares. The Constantin Film AG 2001 stock option plan expired on July 12, 2006. Up to this time, the Management Board members Thomas Peter Friedl and Martin Moszkowicz held 29,400 options and 32,000 options respectively. These options were not exercised. This means that neither Thomas Peter Friedl nor Martin Moszkowicz hold shares or options to shares in the company.

The two members of the Management Board Fred Kogel and Hanns Beese acquired 5,000 and 2,500 Constantin Film AG shares respectively on January 19, 2007. The members of the Management and Supervisory Boards have therefore held the following shares and options since this date: Fred Kogel 11,150 shares, Hanns Beese 2,500 shares, Marc Conrad 1,500 shares, Dr Paul Graf 500 shares.

▶ SHAREHOLDER STRUCTURE AS PER 31.12.2006

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MANAGEMENT REPORT ABOUT THE COMPANY AND THE GROUP

GENERAL ECONOMIC SITUATION IN GERMANY IN 2006

The German economy grew strongly in 2006 by comparison with the previous year. According to calculations by the German statistical authorities, the Gross Domestic Product (GDP) was 2.7 per cent higher than in the previous year after adjustment to eliminate price changes. This is the most emphatic economic recovery since the boom year in 2000.

Growth in 2006 was driven by both the domestic and export economies, with domestic demand contributing a larger amount to GDP growth (1.5 percentage points) than export trade (1.1 percentage point) last year.

This was attributable primarily to gross investments in fixed assets, which increased faster than in any year since German reunification last year.

The domestic economy saw not only more investment, however, but also higher consumption. Following two years of stagnation, private consumption rose by 0.6 per cent and the state increased its expenditure on consumption by 1.7 per cent. In 2006, private consumption benefitted in addition from expenditure brought forward because of the increase in VAT to 19 per cent on January 1, 2007.

Export trade continued to be very dynamic last year. Export growth was almost twice as high as in the previous year at 12.4 per cent in 2006. Imports were up 12.1 per cent last year. The export surplus was therefore € 122,7 billion.

Thanks to the strong economic growth, tax income in 2006 was higher than expected, which led to lower new debt of € 39.5 billion (1.7 per cent of GDP). This meant that Germany complied with the stability criteria of the Maastricht Treaty again in 2006, for the first time since 2001.

Economic output last year was achieved by 39.1 million employed persons, which was 258,000 or 0.7 per cent more than in the previous year. According to the German employment authorities, the number of unemployed decreased by 464,000 compared with the previous year to 3.4 million. This corresponds to an average unemployment rate over the year of 8.1 per cent and is the lowest unemployment rate for 14 years.

The inflation rate in Germany of 1.7 per cent was lower than in the Eurozone in general, where it was 2.2 per cent. This means that consumer prices in Germany rose considerably more slowly than in the neighbouring European countries. Inflation last year was driven primarily by higher energy prices for gas, heating oil and fuel. Without the energy prices, consumer prices would have only risen by 0.9 per cent.

The German government is forecasting economic growth of 1.7 per cent in 2007 and is thus continuing to make a prediction that is on the conservative side. The German Ministry of Economics and the German employment authorities expect the number of unemployed to drop again too. The ifo business climate index and business expectations improved again at the end of 2006, thus emphasising the positive outlook for 2007.

MARKET DEVELOPMENT

Theatrical market

The theatrical industry experienced a distinct upswing last year. According to the FFA statistics, box office admissions were 7.4 per cent or 9.4 million higher than in the previous year at 136.7 million. Sales amounted to € 814.4 million and were therefore € 69.4 million higher than in the previous year; this represents an increase of 9.3 per cent.

The market share achieved by German films increased to 25.8 per cent in 2006 – the highest market share in the past ten years. This is attributable not only to **Das Leben der Anderen, Deutschland. Ein Sommermärchen, 7 Zwerge – Der Wald ist nicht genug, Hui Buh – Das Schlossgespenst** and **Wer früher stirbt, ist länger tot** but also to the most successful German film in 2006, the Bernd Eichinger production **Perfume – The Story of a Murderer**.

Only 66 of a total of 487 theatrical films succeeded in reaching box office admissions of more than 500,000 last year. It is very clear from this that German cinema-goers are concentrating to an increasing extent on event productions, family entertainment and individual art house films.

The gross advertising revenues generated by theatres amounted to € 89.4 million in 2006. This represents an increase of 4.4 per cent or € 3.7 million at movie theatres. (Source: Nielsen Media Research)

Another encouraging development is that the production cost reimbursement scheme initiated by the State Minister of Culture Bernd Neumann known as the "Deutscher Filmförderfonds" (DFFF), which was established to improve the competitive position and quality of German films and of Germany as a film location with its modern studios and creative staff, was approved by the EU Commission without any further conditions.

This means that there is nothing to stop the new funding instrument for films with production costs in Germany from being introduced with effect from January 1, 2007. According to the rules of the new "Deutscher Filmförderfonds", € 60 million are being made available for the production of theatrical films in Germany every year until the end of the lifetime of this parliament. Reimbursement of 16 – 20 per cent of the production costs incurred in Germany is planned. Not

only major productions but also smaller and medium-sized productions with a feature film budget of € 1 million and upwards will benefit from the scheme.

German films continue to be attractive at international level too. For the Stasi drama **The Lives of Others** by the director Florian Henckel von Donnersmarck, which was awarded the German Film Prize in 7 categories, Ulrich Mühle won the European and Bavarian Film Prize as best actor and this was, finally, followed by the recent Oscar®-award as the "Best Foreign Language Film". This means that a German film was nominated in this category for the fourth time in 5 years now, following the Constantin Film productions **Nowhere in Africa**, **Downfall** and the Goldkind production **Sophie Scholl: The Final Days**.

There were 41 fewer theatre screens in Germany last year. 95 new ones were opened or existing ones reopened, whereas 136 were closed. For the first time, the number of new openings did not exceed the number of closures. The number of theatres decreased by 31. The number of seats dropped in 2006 by 12,079 too, which means that the total loss in the last four years amounts to about 38,300. These figures are clear evidence that theatre operators took action after a disappointing theatrical year in 2005. In our opinion, what is involved here is a market consolidation exercise that has already been overdue for quite a long time now. The positive development on the German theatrical market in 2006 will now act to counter this

trend. This is already becoming apparent from the investments made in technology, programmes and marketing by theatre operators and distributors.

The average ticket price was € 5.96 in 2006, which is € 0.11 more than in the previous year. The national ticket price in Germany in 2006 was therefore 2.6 per cent higher than the average over the last five years. Statistically speaking, every inhabitant of Germany went to the theatre 1.7 times, compared with 1.5 times in the previous year. Reasons for the small increase include greater willingness to spend more money on leisure pursuits and thus on theatre visits.

The current development in the piracy field continues to be a cause for concern: almost every second German over the age of 10 burned music, films, games and other content on CDs in 2006. Since the first survey was made in 1999, the number of people who burn CDs or DVDs has almost quadrupled from 7.9 million to 31.4 million. The number of CDs and DVDs burned last year increased accordingly to 766 million. (Source: German association of the phonographic industry)

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 screening of films, the prosecution of offenders and appropriate information campaigns by the GVU (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 continue to work on the improvement and implementation of countermeasures, particularly coding measures, 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 media and advertising research company Nielsen Media Research, gross advertising investments in the classic media in 2006 amounted in total to € 20.1 billion. This corresponds to an increase of 5.1 per cent or € 977 million over the previous year for the media daily newspapers, general-interest magazines, trade magazines, radio and TV stations. This means that the advertising market grew for the fourth time in succession. The television industry again generated the highest advertising sales of the classic media (€ 8.3 billion) and recorded growth of 3.1 per cent over 2005. (Source: Nielsen Media Research)

Cost pressure at the stations remained as high as ever last year even so and led, as already in the previous years, to some order and budget reductions with respect to in-house productions and licence acquisition business in particular.

The traditional German television market continues to have 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 (including RTL, RTLII, Super RTL, VOX and n-tv).

50.5 per cent of ProSiebenSat.1 Media AG were taken over by the two financial investors Permira and KKR for about € 3.1 billion towards the end of last year. After the takeover, the financial investors also made offers to the remaining shareholders to acquire the station group completely. The investors Permira and KKR already own the European TV group SBS, which is to be merged with ProSiebenSat.1. The aim of this is to create a media group with European operations that is to move up alongside the market leader RTL in future.

The German television market is currently in a process of major change. Television distribution via the Internet and mobile telephones is continuously expanding. Video-on-demand programmes in particular are establishing themselves on the market to an increasing extent. New market players and telecommunications companies are providing programmes and television channels of their own. In addition to this, further television stations came on the air in 2006, which are offering viewers more and more choice. The intensity of competition on the television market has increased considerably as a result.

According to GfK-Fernsehforschung, the public stations were the ones watched most in Germany in 2006. 1st place went to ARD, thanks primarily to the World Cup and the Winter Olympics, with a market share of 14.2 per cent, followed at some distance by ZDF that reached 13.6 per cent. RTL was the most successful private channel with 12.8 per cent. The winner in the target group relevant to the advertising industry was RTL (15.6 per cent) for the 14th time in succession, although the station suffered a loss of 0.4 percentage point over 2005. 2nd place went to ProSieben (11.6 per cent), followed by Sat.1 (11.3 per cent). The places after this were occupied by ARD (8.6 per cent), ZDF (7.8 per cent), RTLII (6.0 per cent) and Kabel Eins (5.4 per cent). The winner of the year was Vox with 7.1 per cent. This channel succeeded in adding 0.7 percentage point in the target group relevant to the advertising industry.

Almost three quarters of the population watched television on an average day in 2006. Average television viewing increased for the seventh time in succession. Daily viewing reached a new record of 212 minutes, which was 1 minute more than in the previous year. The list was topped by the over 50s: they spent an average of 278 minutes watching television every day in 2006, an increase of 1 minute over the previous year. There was again no change in viewing by the 30- to 49-year-olds: as in the previous two years, 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 140 minutes on average. (Source: AGF / GfK-Fernsehforschung)

Video/DVD market

In spite of the sales record of more than 100 million recorded DVDs in 2006 and the most successful business performance in the fourth quarter of a year to date, the home entertainment industry was unable to completely compensate for the sales shortfall during the summer months by the end of 2006. With total sales of € 1.6 billion in 2006, the industry generated 5.6 per cent lower sales than in the previous year (€ 1.7 billion), which was attributable primarily to the substantial sales slump on the rental market during the summer months.

Sales on the sell-through market for recorded DVDs amounted to € 1.3 billion by the end of the year. This represents a drop of 4.3 per cent in sales over the previous year (€ 1.4 billion). The main reason for this apart from the World Cup in Germany was the excellent summer. The cut-throat competition maintained by the retail trade due to an aggressive pricing policy had a negative impact on the figures for the year again too. In spite of the increase in sales of DVDs the retail trade did not benefit from the additional volume, because the trade reduced the average sales price of a DVD by 4.0 per cent over the previous year (€ 13.39) to € 12.86. End-user consumption patterns continued to be positive for the industry, on the other hand. Buying intensity was increased to 5.4 last year (previous year: 5.2). With an

average investment of € 70, the media budget invested in DVD purchases remained almost unchanged. The total number of consumers measured by GfK was almost unchanged in 2006 as well at 18.6 million end-users (previous year: 18.8 million).

Due in particular to the sales slump during the World Cup, which individual retail chains reported as amounting to up to 50.0 per cent in June and July 2006, there was a substantial drop in sales on the rental market following the consolidation experienced in recent years. With the retail sales of € 284.0 million generated on the rental market, video stores in Germany recorded 11.2 per cent lower sales than in the previous year (€ 319.9 million). Parallel to the video sell-through market, the video rental market managed to reverse the trend encouragingly at the beginning of the fourth quarter of 2006 too, however. Driven by a large number of high-quality releases in the last quarter, the video store trade succeeded in achieving almost the same sales as in the previous year (-1.7 per cent). With the average rental price amounting to € 2.55 (previous year: € 2.58), the revenues per rental transaction remained practically unchanged, as did the media budget of € 29.0 invested in the rental trade per consumer. In spite of the reduction of 13.0 per cent in customers to a current level of 9.7 million active customers that was determined by GfK, rental intensity per consumer increased by 4.0 per cent to 11.5 (previous year: 11.1). (Source: GfK Consumer Panel Report 12/2006)

POSITION OF THE GROUP

The internal control system our company uses takes profitability calculations into consideration that are compiled per film to cover the entire added-value chain. The Management Board also focusses on the sales and operating result generated by the whole of the Constantin Group. This control feature is updated at least every quarter and when major changes occur.

The presentation of the position of the Group is based on the added-value chain of film and TV productions.

PRODUCTION

Project development

About 50 German and English film projects are currently at different stages of development by Constantin Film and its subsidiaries or affiliated companies. This means that the company is well-prepared for future production assignments.

Theatrical productions

In 2006, a start was made on principal photography of 10 in-house and co-productions, including the comedy **Schwere Jungs** (director: Marcus H. Rosenmüller), produced by Olga Film, and the sequel **Neues vom Wixxer** by producer Christian Becker. (Directors: Cyrill Boss, Philipp Stennert)

Resident Evil: Extinction, the third film of the "Resident Evil" franchise based on the bestselling video game, was produced in Mexico

In co-operation with Fox, we produced the horror sequel **Wrong Turn 2** in Vancouver with Joe Lynch as director.

Principal photography of the European co-production of **Asterix at the Olympic Games** by Pathé Petite Reine, Tripictures, Medusa and Constantin Film was completed successfully in France and Spain. Frédéric Forestier was the director.

In co-operation with Uschi Reich, Peter Zenk and Bavaria Filmverleih- und Produktions GmbH, Constantin Film successfully completed principal photography of the film of the cult series **Die Wilden Hühner und die Liebe**.

The film of the children's book **Herr Bello** was co-produced with collina Filmproduktion. Armin Rohde is playing the leading role. Ben Verbong was the director.

The Bernd Eichinger production **Pornorama oder die Bekenntnisse der mannstollen Näherin Rita Brauchts** followed in August 2006 (director: Marc Rothemund).

The international co-production of the sequel **Fantastic Four: Rise of the Silver Surfer** was filmed in Toronto in co-operation with the US studio 20th Century Fox.

Principal photography of the feature film **Der Bund fürs Leben – Sie kommen um Deutschland zu retten** was completed with the two producers Wiedemann & Berg.

TV productions

In the fiction production operations, we completed the sixth and seventh series of our successful sitcom **Hausmeister Krause** mit Tom Gerhardt in the main role. Further programmes are already scheduled.

On behalf of ZDF, our subsidiary MOOVIE – the art of entertainment produced the three-part event **Der Tag wird kommen** for the thriller series **Rosa Roth** and the family epic **Afrika, mon amour** with Carlo Rola as director last year. Iris Berben was cast in the respective leading roles.

MOOVIE – the art of entertainment also produced two exciting thrillers for ZDF with Katja Flint in the leading part. **Franziskas Gespür für Männer** was shown on ZDF on November 13 and reached a market share of 15.5 per cent with 5.29 million viewers. The film **Mord in aller Unschuld** is being aired in the autumn of 2007.

The **Tatort** episode **A G'mahde Wiesn** was filmed as service production for Bayerische Rundfunk with Miroslav Nemeč, Udo Wachtveitl, Michael Fink, Monika Baumgartner, Franziska Schlatter and Georg Maier (director: Martin Enlen).

Our subsidiary Rat Pack Filmproduktion produced the weekly comedy series **Die ProSieben Märchenstunde** and the telenovela **Lotta in Love**. On behalf of VCH Alpha Medienproduktion, Rat Pack also started principal photography of **Das Geheimnis von Loch Ness** for Sat.1 and ORF, with Hans Werner Meier, Lisa Martinek, Dorkas Kiefer and Thomas Fritsch in the leading roles.

Olga Film completed principal photography of the comedy **Die Verzauberung** on behalf of BR. Wolfram Paulus was director. The main roles were played by Katharina Abt, Christoph Waltz, Heio von Stetten and Katharina Müller-Elmau. Olga Film also produced the sixth and seventh programme for the successful ZDF series **Kommissarin Lucas** with the titles **German Angst** and **Das Totenschiff**.

In the show and entertainment production operations, our subsidiary Constantin Entertainment GmbH produced a total of about 1,200 hours of programmes last year with its established and successful daily formats, including the court shows **Das Strafgericht** and **Richter Alexander Hold**, the crime documen-

taries **Lenßen & Partner** and **K11 – Kommissare im Einsatz** and the clip show **Clipcharts**, a programme in which the nation's funniest clips are presented.

The court show **Sedzia Anna Maria Wesolowska** is produced successfully in Poland as a service production for the television station TVN by Constantin Entertainment Polska Sp. z o.o., a subsidiary of Constantin Entertainment GmbH. Daily programmes that have been newly developed or are produced on the basis of format licences are also being shown successfully in Russia (four programmes) and in Croatia (one programme). In Great Britain, production of the pilot programme for **Hanrahan Investigates**, a new fiction reality soap, was completed successfully for the station Channel Five.

The other productions by Constantin Entertainment included the weekly sketch show **Die Dreisten Drei** with Mirja Boes, Markus Majowski and Mathias Schlung, the science show **clever! – Die Show, die Wissen schafft** (hosts: Barbara Eligmann and Wigald Boning) and the two RTL II reality documentaries **Liebling, wir bringen die Kinder um!**, **Frauentausch** and the Kabel1 review show **Top 10 TV**.

Among the Constantin Entertainment prime-time events were the **Presentation of the Bavarian Film Prize 2005**, the **FIFA WM Ticket-Show**, the exciting action event **Stars am Limit**, the event show **Die**

Comedy Falle, both of them moderated by Kai Pflaume, as well as **Stars zu verschenken** and **Mega Clever!**.

The prime-time shows produced by Constantin Entertainment were the comedy panel show **Darf man das?**, **Extreme Activity**, the popular music show **Die Hit Giganten** and **Chartbreak-Hotel**.

Constantin Entertainment produced the live football summary **Bundesliga Show** for the new pay TV channel Kanal Arena every Saturday last year. In a major off-air event, we also produced **The Big Picture**, the programme screenings of the ProSiebenSat.1 Group in Düsseldorf, successfully for the fifth time already in July.

Jürgen von der Lippe closed the year on a high note with excellent ratings of 16.7 per cent for the comedy event **Wer zuletzt lacht ...**, an amusing review of the year.

RIGHTS EXPLOITATION

Theatrical exploitation

Constantin Film released 17 films to German theaters in the year under review. A total of 12.9 million box office admissions were achieved. Three of our films were among the top 10 feature films in Germany in 2006.

By far the most successful German production in 2006 was the film of Patrick Süskind's bestselling novel **Perfume** with Ben Whishaw in the leading part, which recorded more than 5.4 million box office admissions.

The family entertainment production **Hui Buh – Das Schlossgespenst** (director: Sebastian Niemann) by Rat Pack Filmproduktion attracted an enthusiastic theatrical audience of more than 2 million.

The film of the cult series **Die Wilden Hühner**, which was produced in co-operation with Bavaria Filmproduktion, reached enthusiastic theatrical audiences of 1.1 million.

The Bernd Eichinger / Oliver Berben production **Atomised**, which was based on the cult novel by Michel Houellebecq, impressed 820,640 viewers.

The collina Filmproduktion / Constantin Film co-production **Der Räuber Hotzenplotz**, based on the Hotzenplotz trilogy by Otfried Preußler, reached box office audiences of 826,906 at German theatres.

In the family entertainment distribution segment, the film **TKKG – Das Geheimnis um die rätselhafte Mind-Machine** produced in co-operation with Bavaria Filmproduktion attracted theatrical audiences of 365,368.

The surprise US hit **Step Up** succeeded in reaching enthusiastic theatrical audiences of 623,816 in Germany with its blend of cool moves, hot dance scenes and exciting music.

The sales generated in theatrical distribution amounted to € 47.516 million in the year under review (previous year: € 23.703 million) and accounted for 18 per cent of the total sales volume. Theatrical sales therefore increased by € 23.813 million compared with the previous year. The increase was due primarily to the great success of **Perfume – The Story of a Murderer** and **Hui Buh – Das Schlossgespenst** as well as to the above-average performance of the other German productions **Atomised**, **Die Wilden Hühner** and **Der Räuber Hotzenplotz**. Expectations were not fulfilled in the theatrical exploitation of the licensed films (particularly **Basic Instinct 2** and **Domino**).

Video/DVD exploitation

Home entertainment generated sales of € 28.104 million (previous year: € 52.949 million). The sales therefore decreased by 47 per cent over the previous year. This was due on the one hand to the slow sales of the films from the 2005 distribution year and on the other hand to the fact that only minor international DVD revenues were generated. The sales included in this segment are attributable primarily to the results achieved with the in-house productions **The White Maasai**, **Hui Buh – Das Schlossgespenst**, **Siegfried**,

Die Wilden Hühner and **Downfall** and the national licence exploitation of **Basic Instinct 2** and **Domino**.

TV exploitation

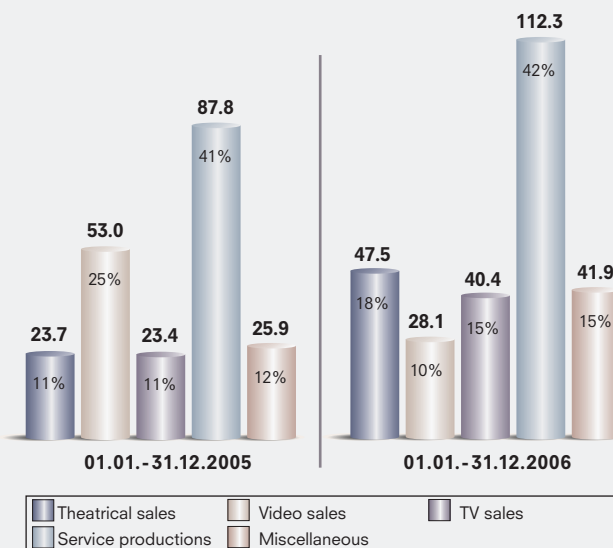
Sales from the licensing of the TV rights to theatrical films are not realised until legal or contractually agreed holdback periods have expired (with pay TV 15 to 18 months after theatrical release, with free TV after 24 to 32 months). The TV sales in 2006 were therefore attributable to films that were released to theatres in 2004 and 2005 as well as to revenue from licences for purely TV productions.

TV-revenues in 2006 totalled € 40.434 million (previous year: € 23.423 million), € 31.536 million of them (previous year: € 18.088 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 **Downfall**, **Wrong Turn**, **Germanikus** and **Der Wixxer**. Also included in the TV-revenues are sales from the licensing of TV in-house and co-productions like the sitcom **Hausmeister Krause 6**. The income from the licensing of TV rights to third-party productions included films like **Imposter**, **Alexander** and **Lost in Translation**.

Sales with service productions amounted to € 112.277 million in the year under review (previous year: € 87.760 million) and corresponded to 42 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 € 270.206 million in the 2006 fiscal year (previous year: € 213.787 million). This means that the highest sales in the history of Constantin Film were achieved in the year under review, representing an increase of 26 per cent over the sales in the previous year. Sales were 9 per cent higher than the 2004 fiscal year too, when the highest annual sales to date were achieved. The plans for 2006 were exceeded, primarily because of the theatrical exploitation of **Perfume – The Story of a Murderer** and the generally positive development of the TV service productions. The service production operations were the biggest source of sales in 2006, contributing € 112.277 million (see the notes to the consolidated financial statements, page 72). Film subsidies and promotion funds amounting to €18.467 million were received in the year under review (previous year: € 13.724 million).

The other sales totalled € 23.408 million in 2006 (previous year: € 12.228 million). Contributions to co-productions were the main item included here.

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 € 2.202 million (previous year: € 90,000).

The gross profit margin amounted to 12,8 per cent (previous year: 14.6 per cent).

► CONSOLIDATED INCOME STATEMENT / in € thousand

01.01.-31.12.2005

01.01.-31.12.2006

	01.01.-31.12.2005	01.01.-31.12.2006
Sales	213,787	270,206
Costs of goods sold	182,417	233,389
Risk provision for films from subsequent years	90	2,202
Gross profit on sales	31,280	34,615
Selling expenses	2,697	1,690
General administration expenses	16,769	18,790
Other operating income	2,481	2,102
Other operating expenses	815	276
Amortisation of goodwill	1,818	0
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	790	720
Operating Result	10,872	15,241
Interest income/interest expenditure	356	-275
Exchange rate profits/losses	665	203
Income/Loss from associated companies and other participations	0	-500
Result for the year before tax	11,893	14,669
Taxes on income	-6,301	-6,144
Other taxes	270	-38
Result for the year	5,862	8,487
- of which attributable to the shareholders of the parent company	3,890	8,301
- of which attributable to the minority shareholders	1,972	186

The gross profit margin by segments was as follows: in-house productions 14.7 per cent (previous year: 17.5 per cent), third-party productions -3.8 per cent (previous year: 1.1 per cent). The development in the margin achieved with the in-house productions was attributable essentially to a reduction in the profits generated by the service productions because of the more intensive cost pressure exerted by the TV stations as well as to reduced margins in the theatrical exploitation of the high-cost theatrical productions. The third-party productions segment recorded a negative gross profit margin in the year under review due to the lack of success with the theatrical releases of the third-party films.

The selling expenses were in line with normal business development and decreased over the previous year, since allowances for bad debts, e.g. in relation to receivables from theatre operators, were made in 2005. No further major allowances for bad debts needed to be made in 2006. The general administration expenses increased mainly because of higher personnel costs.

The earnings before interest and tax (operating result) amounted to € 15.241 million (previous year: € 10.872 million). The recovery of the domestic theatrical market with a considerable increase in the market share obtained by German films, the international marketing of our in-house productions and the very good results in the fiction and non-fiction TV entertainment operations formed the basis for this very positive performance.

The interest expenditure relates to general funding that cannot be allocated to individual projects. The interest balance amounted to € -275,000 (previous year: € 356,000). Valuation of the foreign currency items led to an exchange rate gain of € 203,000 (previous year: € 665,000) After allowing for these factors in the financial result, the result before tax amounted to € 14.669 million (previous year: € 11.893 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 € -3.937 million (previous year: € -5.404 million).

Earnings attributable to the shareholders of the parent company of € 8.301 million (previous year: € 3.890 million) were generated after deduction of taxes on income as well as other taxes of € -6.144 (previous year: € -6.301 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 € 387.915 million on December 31, 2006, which is € 3.273 million lower than in the previous year (€ 391.188 million). This is due essentially to the depreciation of film assets

attributable to the exploitation of films, to the increase in trade receivables and inventories and to the increase in net debt.

The trade receivables increased because of the change in the terms of payment applied by the TV stations. The increase in inventories was due in particular to the service productions **Afrika mon amour** and the **Rosa Roth** event production.

The film assets totalled 174.463 million on December 31, 2006 and were therefore 11 per cent lower than in the previous year (€ 195.060 million). The reduction is attributable to the exploitation of in-house productions that were made in 2004 and 2005 and thus led to high depreciation charges in the 2006 fiscal year. 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 € 55.518 million on December 31, 2006 (previous year: € 83.981 million). This means that the investment volume decreased by 34 per cent over the previous year. The investments in the year under review included such theatrical films as **Resident Evil: Extinction** and **Asterix at the Olympic Games** (international in-house theatrical productions), **Neues vom Wixxer**, **Schwere Jungs** and **Pornorama** and the in-house TV production **Hausmeister Krause 6**. Depreciation of in-house productions amounted to

€ 84.831 million. Film assets attributable to in-house productions therefore decreased by € 29.313 million (20 per cent) compared with the previous year to € 115.288 million.

€ 20.307 million were invested in the acquisition of exploitation rights for distribution and licence trading (previous year: € 35.464 million). These investments were offset by depreciation totalling 11.591 million. The film assets attributable to third-party productions amounted to € 59.175 million on December 31, 2006 as a result (previous year: € 50.459 million).

Fixed assets were € 696 million higher than in the previous year. The change over the previous year is attributable mainly to the increase in intangible assets due to investments in software.

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

	2005	2006
Balance sheet total	391,188	387,915
Equity	60,739	70,201
Total film assets	195,060	174,463
Film assets/in-house productions	144,601	115,288
Film assets/third-party productions	50,459	59,175
Investments in film assets	119,445	75,825
Depreciation of film assets	67,928	96,422
Funds	88,184	79,451
Funds minus liabilities to banks	-23,678	-39,936

FUNDING SITUATION OF THE CONSTANTIN FILM AG GROUP

The objectives of the financial management activities are to optimise capital costs, to make sure sufficient liquidity is available and to avoid financial risks.

The Constantin Film Group had funds of € 79.451 million on December 31, 2006 (previous year: € 88.184 million), while bank liabilities totalled € 119.387 million (previous year: € 111.862 million). Net debt was € 16.258 million higher than on December 31, 2005.

This change corresponds essentially to the investments in new film projects minus the inflows from the investments made in previous years.

Thanks to the funds and credit lines available, the Constantin Group was in a position to meet its payment commitments throughout the fiscal year.

The operating cash flow amounted to € - 12.609 million, which was attributable essentially to the investments in new film projects outlined above, mainly for the in-house productions segment, as well as the change of the non-current trade receivables. The cash flows from financing activities totalled € 5.822 million. The main influencing factor here was the increase in the liabilities to banks to finance the investments in film assets.

Equity increased by € 9.462 million by comparison with the previous year and amounted to € 70.201million on December 31, 2006. See the statement of changes in equity on page 53 for a detailed explanation. The theoretical equity ratio is 18 per cent (previous year: 16 per cent). If the funds and the bank liabilities on December 31, 2006 as well as the film assets and the advance payments received and deferred sales are balanced, equity ratio adjusted by this amount is 38 per cent (previous year: 36 per cent).

The Constantin Group has arranged credit lines as sources of funding, some of which were used. The credit lines have variable interest rates. The interest rates in the Eurozone in 2006 ranged between 4.67 per cent and 5.7 per cent. In accordance with the local interest rate level, the interest rates in foreign currencies – particularly USD and CAD – were higher. What are generally involved here are loans with a remaining term of less than one month. The only internal sources of funding that are available are basically any inflows from the business operations.

OVERALL ASSESSMENT OF SITUATION

Thanks to the great success achieved in theatrical exploitation in the year under review and the positive way in which the TV production business continued to develop, operating result of € 15.241 million were generated, so that the company experienced the most successful fiscal year in its history.

HUMAN RESOURCES

The Group had a total of 247 employees (excluding Management Board members) on December 31, 2006. 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.) as well as the following description in the position report.

POSITION OF THE AG (HGB)

FINANCIAL RATIOS OF CONSTANTIN FILM AG

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.

	2005 € thousand	2006 € thousand
Balance sheet total	80,681	90,158
Equity	52,900	60,246
Equity as a percentage of total capital	66%	67%
Income from continuing operations	2,843	8,772
Net income/loss for the year	3,093	7,346

RESULTS GENERATED BY CONSTANTIN FILM AG

The general administration expenses amounted to € 10.621 million (previous year: € 9.111 million). The increase was attributable essentially to the higher personnel costs. The other operating income and the interest balance totalled € 5.098 million and € 2.474 million respectively. The depreciation of financial assets of € 500,000 refer to the depreciation charged on the interest in Königskinder Schallplatten GmbH, as the company did not succeed in generating the anticipated income; an impairment charge of € 1.760 million was made with respect to the financial assets in the previous year. Due to the profit and loss transfer agreements between Constantin Film AG and its subsidiaries, there was expenditure from loss transfers amounting to € 21.579 million (previous year: € 17.812 million), which was contributed mainly by Constantin Film International GmbH in the year under review, and income from profit transfers of € 33.953 million (previous year: € 21.949 million), which was contributed mainly by Constantin Film Produktion GmbH, Constantin Entertainment GmbH and Constantin Film Verleih GmbH in the year under review. The income from continuing operations amounted to € 8.772 million (previous year: 2.843 million). All in all, Constantin Film AG reported a net income for the year of € 7.346 million in the past fiscal year (previous year: € 3.093 million). The better result for the year was attributable to the performance of the subsidiaries, essentially in the theatrical exploitation and service production operations. We refer here to pages 35 and 36 of the management report.

FINANCIAL POSITION OF CONSTANTIN FILM AG

The balance sheet total amounted to € 90.158 million on December 31, 2006 (previous year: € 80.681 million), which is € 9.477 million higher than in the previous year.

Fixed assets were € 603,000 higher than in the previous year. The change from the previous year was due essentially to the addition of € 541,000 in intangible assets because of investments in software for the future development of the IT infrastructure.

The current assets amounted to € 64.294 million (previous year: € 55.444 million). They consist mainly of receivables from affiliated companies of the operating accounting transactions, taxes and result transfers. The receivables from affiliated companies were attributable essentially to the profit transfers from Constantin Film Produktion GmbH, Constantin Entertainment GmbH and Constantin Film Verleih GmbH as well as to administration cost charges made to the subsidiaries. The increase of € 9.419 million in receivables from affiliated companies was due essentially to the higher profit transfers.

The liabilities to affiliated companies consisted primarily of the loss transfer of € 17.662 million from Constantin Film International GmbH.

Personnel costs were the main reason for the increase of € 354,000 in other provisions. The other liabilities decreased by € 2.862 million, particularly because of

the payment of the remaining instalments from the acquisition of the shares in Constantin Entertainment GmbH.

FUNDING SITUATION OF THE CONSTANTIN FILM AG

Funding of the film productions is carried out by the operating companies. The funding situation of Constantin Film AG did not change materially by comparison with the previous year.

RISKS AND OPPORTUNITIES: PROBABLE DEVELOPMENT

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.

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. This trend towards concentration may be strengthened by initial moves towards digital distribution via the Internet. Online shops have been in operation for quite a long time now, although their sales have been marginal. This distribution channel will become more attractive as sufficient bandwidth for downloading and streaming becomes available to an increasing extent. First major players are starting to enter this market. Competition for pay TV in particular may develop here in the medium to long term.

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. Constantin Film AG has succeeded in continuing to strengthen its sound position on the market and in developing an impressively high profile, even in a difficult 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 ever-increasing amount of piracy may lead to significant sales shortfalls. The growth 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 2006.

2. Operating opportunities and risks with in-house productions

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 co-production contributions 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. Similar formats are used all over the world for TV productions. This means that there is the risk in the industry of format right disputes, which the company is also affected by and for which appropriate provision has been made.

The "Deutscher Filmförderfonds" (DFFF) initiated by the State Minister of Culture Bernd Neumann was approved at the end of 2006. A total of € 180 million are available as a result in production cost reimbursements for productions that fulfil certain criteria. This will have a positive impact on the film production environment.

3. Financial Risks

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.

To make sure there is no liquidity risk, the Constantin Group has arranged credit lines that are higher than the funding requirements.

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 a concentration of default risks from business relationships to individual debtors or debtor groups with respect to TV stations. Actual default is, however, not considered to be probable.

Most of the licences that Constantin Film buys on the international film markets and the production costs of

international films are charged in US dollar. 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 dollar. 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.

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 auditor's report 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.

REMUNERATION REPORT FOR THE 2006 FISCAL YEAR

Remuneration paid to the members of the Management Board

The Supervisory Board is responsible for dealing with issues relating to the contracts with members of the Management Board and thus in particular for specifying the remuneration paid to the Management Board members. The Supervisory Board determines the structure of the remuneration system for the Management Board and reviews it regularly. Criteria for determining appropriate remuneration are in particular the assignments of the Management Board member in question, his personal performance, the overall performance of the Management Board and the economic situation of the company, taking its peer environment into consideration.

Remuneration structure and components

The remuneration paid to the members of the Management Board consists of salary payments and benefits in kind that are not performance-based as well as performance-based components. The performance-based, variable remuneration components consist in turn of two components: a *tantieme* linked to earnings targets and a variable *tantieme* that is at the discretion of the Supervisory Board.

Remuneration paid to the members of the Management Board in 2006

The total remuneration paid to the members of the Management Board for their activities in the 2006 fiscal year amounted to € 2.7 million (see 7.4.). In accordance with a resolution passed at the Annual Shareholders' Meeting on June 08, 2006, the company does not disclose the remuneration paid to individual members of the Management Board.

Remuneration paid to the members of the Supervisory Board

The structure and size of the remuneration paid to the Supervisory Board are specified by the Annual Shareholders' Meeting and in § 12 of the articles of association (version of June 8, 2006). The remuneration is based on the assignments and responsibility of the members of the Supervisory Board as well as on the economic success of the company.

The annual remuneration consists of the following components:

- A basic amount (fixed remuneration) of € 10,000 p.a. for the members of the Supervisory Board, € 20,000 p.a. for the Chairman of the Supervisory Board and € 15,000 p.a. for the Deputy Chairman of the Supervisory Board.
- The members of the Supervisory Board also receive variable remuneration (*tantieme*) of € 1,000 each for every half a percentage point by which the retained earnings exceed the amount of 4 per cent of the share capital up to a maximum of half the fixed remuneration.
- Additional remuneration is paid for membership of Supervisory Board committees (€ 1,000 per meeting). The Chairman of the relevant committee receives € 1,500 per meeting.
- The expenses incurred (travel, hotel and any entertainment costs) are reimbursed to the members of the Supervisory Board as well.

Remuneration paid to the members of the Supervisory Board in 2006

The total remuneration payable to the Supervisory Board for 2006 amounted to € 117,000. A list of the remuneration paid to the individuals who were members of the Supervisory Board in the 2006 fiscal year can be found in section 7.4. of the notes to the consolidated financial statements, to which reference is made.

Miscellaneous information

Two members of the Supervisory Board also received remuneration in the year under review for services they provided personally as producers of films for the

Group. Reference is again made in this context to section 7.4. of the notes to the consolidated financial statements.

INFORMATION IN ACCORDANCE WITH §§ 289 PARAGRAPH 4, 315 PARAGRAPH 4 OF THE HGB

The share capital of Constantin Film AG amounts to € 12,742,600.00 and is divided up into 12,742,600 shares with no par value. The company does not hold any of its own shares. Each share grants the right to one vote.

There are no restrictions on voting rights and the transfer of shares; the Management Board is not aware of any arrangements between shareholders involving restrictions on voting rights and the transfer of shares.

At the time when the financial statements were prepared, one shareholder held a direct or indirect interest of more than 10 per cent in the share capital of Constantin Film AG. This shareholder is Highlight Communications AG, which holds an interest of 92.07 per cent in Constantin Film AG.

Constantin Film AG has not given any special rights to the holders of shares and has not issued any shares that grant special rights or control powers either. Employees do not hold any interests in the capital where the control rights are not exercised directly either.

In accordance with § 5 of the articles of association of Constantin Film AG, the Management Board consists

of one or more persons. The Supervisory Board specifies the number of Management Board members unless a certain number is stipulated by law. The Supervisory Board appoints the members of the Management Board for a maximum of five years by passing resolutions that require a majority of the votes cast. Reappointment or extension of the period of office for a maximum of five years in each case is possible. A new resolution has to be passed by the Supervisory Board to do this, which is possible one year before the end of the current period of office at the earliest. If there is a lack of a necessary member of the Management Board, a court appointment of the member is made in urgent cases at the request of one of the parties. The period of office of the member of the Management Board appointed by the court ends as soon as the gap has been filled. The Supervisory Board appoints the Chairman of the Management Board too. The Supervisory Board can appoint deputy members of the Management Board. The Supervisory Board is responsible for cancelling the appointment to the membership or chairmanship of the Management Board as well with a majority of the votes cast. An important reason is required for dismissal. Such a reason is gross violation of duties, incapability of conducting the business properly or a vote of no confidence by the Annual Shareholders' Meeting, unless the vote of confidence is based on obviously irrelevant reasons. Dismissal remains effective until its ineffectiveness has been determined finally and absolutely. If only one member of the Management Board has been appointed, this member is entitled to represent the company alone. If several Management

Board members have been appointed, the company is represented either by two members of the Management Board or by one member of the Management Board together with another authorised signatory. The Supervisory Board is entitled to grant individual or all members of the Management Board powers of sole representation. It can also exempt members of the Management Board from the restrictions of § 181 of the German Civil Code (BGB).

The articles of association can be changed on the basis of the legal regulations with a majority that has to amount to three quarters of the share capital represented when the vote is taken. In accordance with § 11 paragraph 2 of the articles of association of Constantin Film AG, the Supervisory Board is entitled to make changes to the articles of association that only affect the wording.

The Management Board is authorised to acquire company shares amounting to up to 10 per cent of the share capital up to December 7, 2007. No company shares were acquired or sold in the 2006 fiscal year.

The Management Board is also authorised to increase the share capital of the company 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 by issuing up to 4,800,000 bearer shares in return for the injection of cash or physical assets ("authorised capital I"). It is authorised to suspend the shareholders' legal subscription right with the approval of the Supervisory Board. The subscription right may only be suspended,

however, for fractional shares and/or for capital increases in return for the injection of physical assets.

The Management Board is also authorised to increase the share capital of the company 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 by issuing new bearer shares in return for the injection of cash ("authorised capital II"). The number of shares must be increased in the same ratio as the share capital. In this context, the Management Board is authorised to take decisions about the suspension of the shareholders' subscription right, with the approval of the Supervisory Board in each case. Suspension is only permissible if the issue amount is not substantially lower than the stock market price.

The share capital of the company was increased conditionally by € 291,600.00, divided up into 291,600 shares, by issuing new shares to carry out the stock option plan approved by the Annual Shareholders' Meeting that was held on July 12, 2001. The conditional capital increase is only made to the extent that subscription rights to shares are issued and the holders of these subscription rights make use of their right to exercise them in accordance with the stock option plan on the basis of the resolution passed by the Annual Shareholders' Meeting on July 12, 2001. This stock option plan was terminated by a resolution passed at the shareholders' meeting held on August 29, 2003.

The share capital of the company was also increased conditionally by € 600,000.00, divided up into 600,000 shares, by issuing new shares in order to carry out the stock option plan that was adopted via a resolution passed at the shareholders' meeting on August 29, 2003. The conditional capital increase is only made to the extent that subscription rights to shares are issued and the holders of these subscription rights make use of their right to exercise them in accordance with the stock option plan on the basis of the resolution passed by the shareholder' meeting on August 29, 2003.

When a capital increase is made, the participation of new shares in profits can be determined differently from § 60 of the German Companies Act (AktG).

No major arrangements have been made by the company that are based on the condition of a change in control as a result of a takeover bid, i.e. include change of control provisions.

No arrangements have been made with members of the Management Board or employees about compensation in case a takeover bid is made.

EVENTS AFTER THE BALANCE SHEET DATE

The general licensing agreements about exploitation of the pay TV rights to the Constantin in-house and co-productions between Constantin Film Verleih GmbH and Premiere Fernsehen GmbH & Co. KG (Disney Channel) that were concluded in February 2004 were both extended by a further two years at the beginning of 2007.

OUTLOOK AND PROSPECTS

Theatrical exploitation

So far, Constantin Film is planning 15 theatrical releases in the 2007 distribution year: 10 national and international in-house and co-productions as well as 5 licensed films.

We started the distribution year on January 18 with a production by our subsidiary Olga Film, the comedy **Schwere Jungs** by director Marcus H. Rosenmüller (**Wer früher stirbt, ist länger tot**). The film tells the true story of how two rival bobsleigh teams from Garmisch-Partenkirchen fulfil their dream of taking part in the Olympic Games. The charming theatrical adventure with plenty of comedy and fast-moving action scenes has been seen by 540,000 mainly Bavarian cinema-goers so far.

La Vie en Rose celebrated its world premiere on February 8, 2007 as the opening film in the competition for the Golden Bear at the 57th International Film Festival and has attracted enthusiastic audiences of 340,000 since its theatrical release on February 22. The sensitive and emotional artist biopic **La Vie en Rose** tells the unique story of Edith Piaf, one of the greatest French singers of all time. Olivier Dahan portrays how she left the slums of Paris for the spotlights of the stages in New York and Monte Carlo.

The makers of the **Chronicles of Narnia** and **Lord of the Rings** brought another enchanting theatrical highlight for the entire family to the screen on March 1.

Bridge to Terabithia, a stirring and moving film about courage, friendship and the indestructible power of the imagination, was based on the novel of the same name by Katherine Paterson, who received the Astrid Lindgren Memorial Award 2006 for her work. This family entertainment highlight has attracted box office audiences of 205,000 in Germany so far.

Die Wilden Hühner und die Liebe, the sequel to **Die Wilden Hühner**, which took the hearts of audiences of far more than a million by storm last year, is being released on April 5. The second film of the cult series by bestseller author Cornelia Funke is a co-production by Constantin Film in liaison with Uschi Reich, Peter Zenk and Bavaria Filmproduktion.

Following the sensational theatrical success of **Der Wixxer** in 2004, there is now a sequel to the ultimate comedy thriller. In **Neues vom Wixxer** (theatrical release date: March 15) – this time with four genuine Wallace legends, including Joachim ‘Blacky’ Fuchsberger – Chief Inspector Even Longer (Oliver Kalkofe), who is always in a bad mood, and his constantly charming partner Inspector Very Long (Bastian Pastewka) are again investigating together on behalf of Scotland Yard. The first film already attracted almost two million amateur detectives to theatres.

One of the highlights of our theatrical autumn this year is the production **Pornorama oder die Bekenntnisse der mannstollen Näherin Rita Brauchts**, a turbulent comedy that is set in Munich at the end of the 60s. Together with the producer and screenplay author

Bernd Eichinger (**Perfume – The Story of a Murderer**), director Marc Rothmund (**Sophie Scholl**) succeeds in bringing the spirit of Munich in the summer at the end of the 60s back to life. The leading parts in this romantic comedy are played by Benno Fürmann (**Nackt**), Tom Schilling (**Atomised**), Karoline Herfurth (**Perfume – The Story of a Murderer**) and Michael Gwisdek (**Good Bye, Lenin!**) as well as Dieter Landuris (**Verschwende Deine Jugend**), Lisa Maria Potthoff (**Schwere Jungs**) and Martin Glade (**Süperseks**).

Following **Resident Evil** and **Resident Evil: Apocalypse**, Constantin Film Verleih is now releasing the sequel **Resident Evil: Extinction** to theatres in the autumn of 2007 too. The successful team of producers consisting of Bernd Eichinger, Samuel Hadida, Robert Kulzer, Jeremy Bolt and Paul W.S. Anderson joined forces again for the third film of the bestselling video game Resident Evil. Russell Mulcahy, who has been considered a specialist for spectacular action films since the fantasy blockbuster **Highlander**, acted as director. Not only Milla Jovovich but also – again – Oded Fehr (**The Mummy**), Mike Epps (**The Fighting Temptations**) and Iain Glen (**Kingdom of Heaven**) are appearing in the sequel. Ali Larter (**Final Destination**) was cast in the role of Claire. US R&B star and Grammy® winner Ashanti (**Coach Carter**) demonstrates in the role of Betty that she is not just an impressive singer but also a convincing actress.

Ultimate theatrical fun will be waiting for us in Germany at the end of October. Following the blockbusters **Manitou's Shoe** and **Dreamship Surprise – Period 1**,

Michael Bully Herbig is completing his theatrical trilogy with **Lissi und der Wilde Kaiser**. The long-awaited 3D animation film in the tradition of **Shrek** or **The Incredibles** will be an homage to the German “Heimatfilm” genre. The lavish production focusses on the deliriously happy Empress and Emperor Lissi and Franz, whose perfect world falls apart one day. Against their will, they are involved in a turbulent adventure for which not even their loyal friend, the field marshal, was prepared! The fans of the two previous films can look forward to hearing such actors as Christian Tramitz and Rick Kavanian in various narrative roles in this ‘Bully’ work.

Video exploitation

Increasing sales are expected in video exploitation. The strong distribution programme in 2006 will make a substantial contribution here, particularly **Perfume – The Story of a Murderer** and **Hui Buh – Das Schlossgespenst**.

TV exploitation

Free TV exploitation will be driven by the sales generated with the films **Alexander**, **Mädchen Mädchen 2**, **Resident Evil: Apocalypse** and **Sergeant Pepper**, with **Alexander** making the largest contribution to sales in TV exploitation. The sales achieved in pay TV exploitation will be attributable in particular to the films **Fantastic Four**, **The Passion of the Christ**, **The White Maasai** and **Atomised**. Only minimal international TV revenues are anticipated, as a result of which it must be assumed that the TV revenues will be lower than in 2006.

Production / Rights production

We are currently planning a total of 9 German and probably 3 international theatrical in-house and co-productions for 2007 in the production operations.

The "Deutscher Filmförderfonds" is an important development in the production field, as it has created an incentive to produce in Germany to a larger extent in future.

The first in-house productions in January were the Leander Haußmann film of the bestselling relationship guide **Warum Männer nicht zuhören und Frauen schlecht einparken** (theatrical release date: December 6, 2007) and our first CGI animation project **Urmel im Wunderland**, which is being made by Constantin producer Reinhard Klooss.

The first take in the filming of the novel **Anonyma – Eine Frau in Berlin** by producer Günter Rohrbach will be completed in May. Max Färberböck (**Aimée & Jaguar**) will be the director, while Nina Hoss (**The White Maasai**) will be appearing in the leading role. The screenplay is based on the diary of a German woman in Berlin who survived the Second World War in the besieged city and its conquest by the Russian Army. It was published again by Hans-Magnus Enzensberger and the Eichborn Verlag in April 2003. The diary had already been published anonymously in 1959, attracted international attention and has led to regular speculation since then about the identity of the woman who wrote the diary.

In co-production with Bavaria Filmverleih / Produktion we are producing the feature film **Im Winter ein Jahr** (provisional title) by Oscar® prizewinning director Caroline Link (**Nowhere in Africa**) from the spring onwards. Uschi Reich will be the producer, while Karoline Herfurth (**Perfume – The Story of a Murderer**) and Joseph Bierbichler (**Winterreise**) will be playing the leading parts.

Principal photography of **The Wave** is also scheduled to start in the spring of 2007. The film of the classic book for young people by Morton Rhue is being produced by our subsidiary Rat Pack Filmproduktion. Dennis Gansel (**Mädchen Mädchen!**, **Napola**) is the director and Christian Becker is the producer.

From June 2007 onwards, Constantin Film and Impact Pictures are continuing their successful co-operation with the video game industry by filming the global video game hit **Driver** from Atari / Ubisoft. Oscar® prizewinner Roger Avary (**Pulp Fiction**) is writing the screenplay for the major international production and will be directing the film too.

The next major project by our successful producer Bernd Eichinger (**Perfume – The Story of a Murderer**, **Downfall**) is **Der Baader Meinhof Komplex**, a feature film about the history of the terror group Rote Armee Fraktion. Eichinger is currently developing the screenplay together with the author of the bestselling book of the same name and Spiegel editor-in-chief Stefan Aust. Uli Edel (**Last Exit to Brooklyn**) will be the director.

A start is being made on the long-awaited film of the bestselling series of books for children and young people entitled **Freche Mädchen – Freche Bücher** from Thienemann Verlag in August. The film is based on the extremely successful novel by Bianca Minte König, about 1 million copies of which have been sold. Constantin Film is producing the film together with collina Film (producer: Ulrich Limmer).

Refilming of the Theodor Fontane classic **Effi Briest** is also in pre-production for 2007 with Hermine Huntgeburth (**The White Maasai**) as director. This book, which was already filmed by Rainer Werner Fassbinder in 1974, is to be filmed again now with a star cast. Julia Jentsch (**Sophie Scholl – die letzten Tage**) has been cast in the title role. The film will be produced by Professor Günter Rohrbach (**The White Maasai**), while Volker Einrauch (**Das verflixte 17. Jahr**) is writing the screenplay.

In the 4th quarter, we are planning principal photography of the English science fiction project **Pandorum** with an international star cast. Travis Malloy (**Just like Mona**) is the author. Constantin Film is co-producing with Impact Pictures; Christian Alvarth has agreed to act as director.

Furthermore we plan the film adaptation of **The legend of Pope Joan**, based on the international bestseller of the same name by Donna Cross.

Service production

Developments in the TV service production operations continue to be extremely positive. Our wholly-owned subsidiary Constantin Television is planning to produce the first TV movies it has developed in-house and to co-operate with Network Movie Film- und Fernsehproduktion and ZDF Enterprises on filming the novels by the British global bestseller author Ken Follett as an international TV co-production.

Our subsidiary Olga Film is starting principal photography of the drama **Hanami** (director: Doris Dörrie) in the spring of 2007; Monica Bleibtreu, Elmar Wepper and Nadja Uhl are appearing in the leading roles.

MOOVIE – the art of entertainment is producing the novel series **Süden und Das Geheimnis der Königin** by Friedrich Ani in the early summer of 2007 for ZDF. Ulrich Noethen is playing the leading part (director: Martin Enlen). Our subsidiary is planning to produce another episode of the successful thriller series **Luginsland** with Katja Flint in the leading role (director: Nina Grosse) for ZDF too.

Rat Pack Filmproduktion is currently planning a format entitled **Die ProSieben Filmklassiker-Spoofs**, in which parodies of classic film genres – such as love films, Westerns and horror films – are produced, as well as a mystery series.

The TV entertainment operations are also continuing to develop well. The beginning of the year saw the airing of **Falco – Die Show** hosted on Kabel1 by Ingolf Lück, which produced an enthusiastic response with a market share of 8.2 per cent in the target group relevant to the advertising industry, and of **Sasha – Die Show** on Sat.1, in which the German music star Sasha gave his premiere as a host. The comedy sketch programme **Wunderbar – Sketche on the Rocks** produced for RTL with Susan Sideropoulos, Karolin Kebekus, Thomas Gimpel and the singer Ben was broadcast in March too.

Further new projects for Constantin Entertainment in 2007 include the variety show **Worüber lacht die Welt** (to be broadcast in August 07), hosted by Wigald Boning, **Rich List** (to be broadcast in the spring of 07), a quiz show hosted by Kai Pflaume, **Die Job Chance** and a Polish version of **Die Dreisten Drei**, which is being produced in Poland by Constantin Entertainment Polska Sp. z o.o.

Summary

Constantin Film AG owes the good development of its business in recent years to its performance and commitment in the core production and content distribution operations, even though the market environment has tended to become tougher because of increasing competition, a difficult theatrical market, a slight decline of the home entertainment market and high cost pressure exerted on producers by the TV stations.

In the distribution operations, we will be continuing to follow our proven strategy of combining national and international in-house and co-productions with high-quality licensed films in 2007 and the coming years too. We are concentrating in addition on optimising the sustained high quality 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. These operations have now been integrated in our company completely. Constantin Entertainment is one of the leading entertainment production companies on the German market. The successful establishment of Constantin Television and the foundation of the new company PolyScreen GmbH, a joint venture with the successful Polyphon Film und Fernsehgesellschaft GmbH, will add further elements to the TV production operations. The planned establishment of Constantin Music GmbH in 2007 will give the company's music activities a clear structure and combine them at a single company. By concluding the output sales deals for our in-house and co-productions in free TV (ProSiebenSat.1) and pay TV (Premiere/Disney Channel) in 2006 and 2007, we have obtained the biggest German television channels as long-term partners.

Our focus on the core business and its sustained expansion in Germany does not, however, mean that we are neglecting the new distribution and exploitation

channels in the digital media age. The Management Board has been working intensively on video-on-demand and its new forms (download-to-own and electronic sell-through) for years now. In this field, we have at an early stage sought to co-operate with suitable partners, with whom we liaise to develop new strategies that open up these distribution channels for Constantin Film at economically viable conditions. As a content company, we are also watching the market for the distribution of mobile content and mobile TV very closely. Our general starting point here is the economically viable generation and provision of content and not the operation of platforms or stations of our own. In addition to this, further expansion of our operations abroad has particularly high priority in the TV production operations.

We draw attention to the fact that the actual results may differ considerably from the expectations about probable developments, if the assumptions on which our forward-looking statements are based prove to be wrong. Major assumptions that we have made relate to the theatrical and video success of individual films.

On the basis of the information available to us, we are not at the present time working on the assumption of a change in the shareholder structure and in particular of a squeeze-out.

In the in-house production segment, it will not be easy to match the extremely successful year experienced in 2006 in the theatrical exploitation operations.

National exploitation of **Pornorama**, **Neues vom Wixxer** and **Schwere Jungs** will be playing a prominent role here. **Resident Evil: Extinction** will generate sales primarily on the international market. We are expecting video exploitation sales to increase again. The strong distribution programme in 2006 with **Perfume – The Story of a Murderer** and **Hui Buh – Das Schlossgespenst** will make a substantial contribution here. TV exploitation will be driven by the sales generated with the films **Mädchen Mädchen 2**, **Resident Evil: Apocalypse** and **Sergeant Pepper**. Only minimal international TV sales are expected, so it must be assumed that the TV revenues will tend to be lower than in 2006. We are expecting service production sales to develop in a similar way to the 2006 fiscal year. All in all, we anticipate a reduction in the gross profit contributed by this segment, attributable primarily to the theatrical and TV exploitation operations.

Theatrical exploitation in the third-party production segment will be dominated by **Lissi und der wilde Kaiser**. We are expecting good theatrical results with films like **La Vie en Rose**, **Die Wilden Hühner und die Liebe** and **Michael Clayton** too. Major DVD exploitation sales will probably be coming primarily from the films **Apocalypto**, **Step Up** and **Bridge to**

Terabithia. **Alexander** will be generating the largest sales in TV exploitation. The gross profit will improve and probably make a positive contribution.

The company will be continuing to optimise administration cost development by applying systematic cost management.

With outstandingly creative talents attached to Constantin Film and with our highly motivated, excellent-quality team of employees, we are certain that we will tackle the great challenges posed by the market successfully in 2007 and therefore aim to continue the successful development of the last years.

We will be continuing to expand the existing business, particularly the TV production operations, in 2007 and the following years. In addition to this, we are working constantly on adding further activities to our business.

Munich, March 2007

► **The Management Board**

ASSETS		1) 31.12.2005 € thousand	31.12.2006 € thousand
Current assets			
I. Funds	3.1.	88,184	79,451
II. Receivables	3.2./4.1.1.		
1. Trade receivables		30,639	31,178
2. Receivables from affiliated companies		3,604	2,526
III. Inventories: stocks of unfinished service productions	4.1.2.	27,606	36,508
IV. Other assets	3.2./4.1.3.	7,802	11,804
V. Current tax assets		1,134	1,253
Total current assets		158,969	162,720
Non-current assets			
I. Intangible assets	4.2.1./3.5.	4,650	5,179
II. Tangible assets	4.2.1./3.6.	1,341	1,463
III. Financial assets	4.2.1./3.8.	348	393
IV. Film assets	3.4./4.2.3.		
1. In-house productions		144,601	115,288
2. Third-party productions		50,459	59,175
V. Receivables	3.2./4.2.4.		
1. Trade receivables		9,777	30,169
2. Receivables from banks		5,483	0
VI. Deferred tax claims	3.15./4.5.	15,560	13,528
Total non-current assets		232,219	225,195
Total assets		391,188	387,915

EQUITY AND LIABILITIES		1) 31.12.2005 € thousand	31.12.2006 € thousand
Current liabilities			
I. Liabilities to banks	4.3.5.	111,862	119,387
II. Trade payables	3.9./4.3.5.	13,988	18,395
III. Liabilities to affiliated companies	7.4.	7	8
IV. Advance payments received and deferred sales	3.10./4.3.2.	135,286	125,779
V. Provisions	3.11./4.3.3.		
1. Tax provisions		1,295	2,050
2. Other provisions		37,434	29,673
VI. Other liabilities	3.9./4.3.4.	9,109	7,366
VII. Current tax liabilities		1,030	375
Total current liabilities		310,011	303,033
Non-current liabilities			
I. Other liabilities	3.9./4.4.1.	10,333	2,000
II. Deferred tax liabilities	3.15./4.5.	10,105	12,681
Total non-current liabilities		20,438	14,681
Equity	3.12./4.6.		
I. Subscribed capital		12,743	12,743
II. Capital reserves		55,546	55,546
III. Retained earnings		-7,765	536
IV. Other comprehensive income		-296	678
– Equity attributable to the shareholders of the parent company		60,228	69,503
– Equity attributable to the minority shareholders		511	698
Total equity		60,739	70,201
Total equity and liabilities		391,188	387,915

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

	2)	01.10.-31.12.2005 ⁴⁾ € thousand	01.10.-31.12.2006 ⁴⁾ € thousand	01.01.-31.12.2005 € thousand	01.01.-31.12.2006 € thousand
Sales	3.13./5.1.	64,982	57,909	213,787	270,206
Costs of goods sold	5.2.	54,658	48,385	182,507	235,591
Gross profit on sales¹⁾		10,324	9,524	31,280	34,615
Selling expenses		1,501	263	2,697	1,690
General administration expenses		4,887	5,462	16,769	18,790
Other operating income		617	881	2,481	2,102
Other operating expenses		648	143	815	276
Amortisation of goodwill		1,267	0	1,818	0
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	5.3.	398	146	790	720
Operating Result		2,240	4,391	10,872	15,241
Interest income/interest expenditure	3.14./5.5.	151	-79	356	-275
Exchange rate profits/losses	5.6.	351	108	665	203
Income/Loss from associated companies and other participations	4.2.1.	0	-431	0	-500
Result for the year before tax		2,742	3,989	11,893	14,669
Taxes on income	3.15./4.5.	-1,997	-1,475	-6,301	-6,144
Other taxes		324	-80	270	-38
Result for the year		1,069	2,434	5,862	8,487
- of which attributable to the shareholders of the parent company		571	2,054	3,890	8,301
- of which attributable to the minority shareholders		498	380	1,972	186
Earnings per share in €³⁾ (undiluted)	5.7.	0.04	0.16	0.31	0.65
Average number of shares in circulation		12,742,600	12,742,600	12,742,600	12,742,600

1) See the management report, page 37, 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: € 0.65 (previous year: € 0.3052)

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

	01.01.- 31.12.2005	01.01.- 31.12.2006
	€ thousand	€ thousand
Result for the year	5,862	8,487
Depreciation of tangible assets and financial assets, amortisation of other intangible assets	2,608	1,221
Profits/losses on the disposal of fixed assets	20	18
Change in net working capital		
Change in short term trade receivables ¹⁾	-11,171	8,904
Change in long term trade receivables ¹⁾	-9,777	-29,835
Change in the other non-interest bearing receivables and other assets	-14,664	-11,855
Additions to film assets / in-house productions	-83,981	-55,760
Depreciation of film assets / in-house productions	54,295	84,831
Additions to film assets / third-party productions	-35,464	-20,294
Depreciation of film assets / third-party productions	13,633	11,591
Change in trade payables	-7,180	4,407
Change in advance payments received and deferred sales	43,098	-9,507
Change in non-interest bearing liabilities, provisions and other liabilities	15,524	-9,224
Change in deferred taxes	5,404	3,937
Other expenses not affecting payment	43	470
Cash flows from ordinary activities	-21,750	-12,609
Inflow of funds from disposals of tangible assets and financial assets	0	19
Investments in intangible and tangible assets	-1,189	-1,413
Investments in financial assets ¹⁾	-6	-547
Investments in participations ¹⁾	-52	-27
Currency translation differences	-12	9
Cash flows from investing activities	-1,259	-1,959
Acquisition of shares in companies already controlled	-8,700	-2,850
Profit distributions	-2,469	0
Change in liabilities to banks	36,922	8,672
Cash flows from financing activities	25,753	5,822
Currency translation difference in relation to funds	45	0
Change in funds	2,789	-8,746
Change in funds due to changes in the companies consolidated	50	13
Funds at the beginning of the period	85,345	88,184
Funds at the end of the period	88,184	79,451

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

▶ **STATEMENT OF CHANGES IN EQUITY AS PER JANUARY 1, 2006 THROUGH DECEMBER 31, 2006** / 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	55,546	-7,765	-296	60,228	511	60,739	73,707
Quarterly result January 1 - March 31			1,660		1,660	298	1,958	1,283
Currency translation difference/hedging				62	62		62	314
Other change in minority interests						1	1	0
As of 31.03.¹⁾	12,743	55,546	-6,105	-234	61,950	810	62,760	75,304
Quarterly result April 1 - June 30			270		270	-111	159	1,743
Currency translation difference/hedging				-23	-23		-23	-501
Other change in minority interests						0	0	-18,870
As of 30.06.¹⁾	12,743	55,546	-5,835	-257	62,197	699	62,896	57,676
Quarterly result July 1 - September 30			4,317		4,317	-381	3,936	1,768
Currency translation difference/hedging				-160	-160		-160	194
Other change in minority interests						0	0	0
As of 30.09.¹⁾	12,743	55,546	-1,518	-417	66,354	318	66,672	59,638
Quarterly result October 1 - December 31			2,054		2,054	380	2,434	1,069
Currency translation difference/hedging				1,095	1,095		1,095	32
Other change in minority interests						0	0	0
As of 31.12.	12,743	55,546	536	678	69,503	698	70,201	60,739

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

▶ CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS 2005	Acquisition or production costs/in € thousand				
	01.01.2005	Currency translation differences	Additions	Disposals	31.12.2005
I. Intangible assets					
1. Goodwill	6,356	0	2	0	6,358
2. Software	482	0	20	128	374
3. Franchises, industrial rights	375	0	15	0	390
	7,213	0	37	128	7,122
II. Tangible assets					
1. Land and buildings, including buildings on third-party land	617	47	289	642	311
2. Other equipment, operating and office equipmen	3,689	0	865	457	4,097
	4,306	47	1,154	1,099	4,408
III. Financial assets					
1. Equity investments in other companies	294	0	0	0	294
2. Long-term investments	303	0	0	0	303
3. Other loans	47	0	6	0	53
	644	0	6	0	650
	12,163	47	1,197	1,227	12,180

▶ CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS 2006	01.01.2006	Currency translation differences	Additions	Disposals	31.12.2006
I. Intangible assets					
1. Goodwill	6,358	0	3	0	6,361
2. Software	374	0	662	0	1,036
3. Franchises, industrial rights	390	0	15	9	396
	7,122	0	680	9	7,793
II. Tangible assets					
1. Land and buildings, including buildings on third-party land	311	-3	0	0	308
2. Other equipment, operating and office equipmen	4,097	-35	736	299	4,499
	4,408	-38	736	299	4,807
III. Financial assets					
1. Equity investments in other companies	0	0	500	0	500
2. Equity investments in other companies	294	0	0	0	294
3. Long-term investments	303	0	0	1	302
4. Other loans	53	0	47	0	100
	650	0	547	1	1,196
	12,180	-38	1,963	309	13,796

Accumulated depreciation/amortisation / in € thousand					Book value / in € thousand		
01.01.2005	Currency translation differences	Additions	Disposals	31.12.2005	01.01.2005	31.12.2005	
0	0	1,818	0	1,818	6,356	4,540	
359	0	65	128	296	123	78	
317	0	41	0	358	58	32	
676	0	1,924	128	2,472	6,537	4,650	
617	35	5	642	15	0	296	
2,811	0	678	437	3,052	878	1,045	
3,428	35	683	1,079	3,067	878	1,341	
294	0	0	0	294	0	0	
7	0	1	0	8	296	295	
0	0	0	0	0	47	53	
301	0	1	0	302	343	348	
4,405	35	2,608	1,207	5,841	7,758	6,339	
01.01.2006	Currency translation differences	Additions	Disposals	31.12.2006	01.01.2006	31.12.2006	
1,818	0	0	0	1,818	4,540	4,543	
296	0	127	0	423	78	613	
358	0	21	6	373	32	23	
2,472	0	148	6	2,614	4,650	5,179	
15	-1	39	0	53	296	255	
3,052	-28	533	266	3,291	1,045	1,208	
3,067	-29	572	266	3,344	1,341	1,463	
0	0	500	0	500	0	0	
294	0	0	0	294	0	0	
8	0	1	0	9	295	293	
0	0	0	0	0	53	100	
302	0	501	0	803	348	393	
5,841	-29	1,221	272	6,761	6,339	7,035	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) OF CONSTANTIN FILM AG FOR THE 2006 FISCAL YEAR

Constantin Film AG's 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.

The standards and interpretations that had to be applied for the first time for the 2006 fiscal year did not have any impact on 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, 2007 as well as the interpretations. Of those the Group does not expect any significant impact on the earnings and financial situation of the Group, although they require more extensive reporting for certain areas. This applies in particular to IFRS 7.

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 as per December 31, 2006 and sales realisation.

2. DESCRIPTION OF THE CONSTANTIN FILM AG GROUP

Together with its subsidiaries and affiliated 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 of the Constantin Group include the financial statements of Constantin Film AG and its subsidiaries.

Subsidiaries are companies that Constantin Film AG controls directly or indirectly. Control means the possibility of dominating the financial transactions and business operations in order to generate appropriate benefits. This is normally the case when Constantin Film AG owns more than 50 per cent of the voting rights or potential voting rights of a company directly or indirectly. Special purpose entities are included in the

consolidated financial statements if the Group controls the special purpose entity in view of the nature of the relationship. The following changes were made to the companies consolidated in the year under review:

Constantin Television GmbH

Constantin Television GmbH is a wholly-owned subsidiary of Constantin Film Produktion GmbH and produces fiction TV formats for various stations. The company was acquired in January, 2006 for € 27,000 and included in the consolidated financial statements of Constantin Film AG for the first time on March 31, 2006.

Resident Evil Mexico S. DE R.L. DE C.V.

The company was bought for a price of MXN 3,000 in February 2006 in connection with the production of the film **Resident Evil: Extinction**. Constantin Film International GmbH and Constantin Film Produktion GmbH each hold 50 per cent of the shares. The company was consolidated for the first time on March 31, 2006.

Resident Evil Productions, LLC

The company is being used as a special purpose entity for production of the film **Resident Evil: Extinction**. The shares are not held by Constantin Film AG. The Constantin Group can exercise control over the company during the production of the film. The company was consolidated for the first time on December 31, 2006.

Constantin Entertainment U.K. Ltd.

The company was established in September 2006 as a wholly-owned subsidiary of Constantin Entertainment GmbH with a capital of GBP 95,000. It focusses in its operations on the service production of non-fiction TV entertainment formats. The company was commissioned to produce a pilot programme for a documentary crime series for a major British private channel. The company was consolidated for the first time in the fourth quarter of 2006.

Constantin Entertainment Polska Sp. z o.o.

The company was established by Constantin Entertainment GmbH in March 2006 with a capital of PLN 50,000. Constantin Entertainment GmbH holds 90 per cent of the shares in the company. It focusses in its operations on the service production of non-fiction TV entertainment formats. The company produced court shows for the biggest Polish private station in the year under review. Initial consolidation was carried out in the 1st quarter of 2006.

The total impact of the initial consolidation of the above-mentioned companies was goodwill of € 3,000 and an effect on earnings of € 64,000.

Königskinder Schallplatten GmbH

The company is a record label that produces and markets music. The company is consolidated by the equity method. The acquired shares amounting to 25 per cent are held directly by Constantin Film AG. The

company was consolidated for the first time in the 2nd quarter of 2006. The purchase price of the shares acquired amounted to € 500,000.

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 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/Großbritannien ^{1)/2)} (vormals: 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
Constantin Television GmbH , Munich ^{1)/2)}	100.0	TV production
Königskinder Schallplatten GmbH , Hamburg ¹⁾	25.0	Music production
Resident Evil Mexico S. DE R.L. DE C.V. , Mexicali/Mexiko ^{1)/2)}	100.0	Production of Resident Evil:Extinction
Constantin Entertainment UK Ltd. , London ^{1)/2)}	100.0	TV entertainment production
Constantin Entertainment Polska Sp. z o.o. , Warsaw ^{1)/2)}	90.0	TV entertainment production

¹⁾ No profit/loss transfer agreement

²⁾ Indirect equity interest

(See also the summary of equity interests on page 85)

In addition to this, the company Resident Evil Productions LLC (Delaware / USA), in which no indirect or direct interest is held, was consolidated in accordance with SIC 12. Both alone and together, the following 9 subsidiaries (previous year: 9) 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
Impact Pictures LLC , Delaware/USA
Impact Pictures Ltd. , London/Great Britain
The Dark Film Ltd. , London/Great Britain
Sheep Ltd. , Isle of Man/Great Britain
Constantin Music Publishing Inc. , Los Angeles/USA

(See also the summary of equity interests on page 85)

The sales generated by the non-consolidated companies amounted to less than 1 per cent of Group sales.

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, 2006 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 by 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.

Interests in associated companies are consolidated by the equity method. These are companies which the Group does not control but on which it exercises or could exercise a significant influence. This is generally the case when 20 per cent to 50 per cent of the voting rights or potential voting rights are held.

Sales, expenses and income within the Group and receivables and liabilities between the consolidated companies have been eliminated. Appropriate adjust-

ments 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 otherwise 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	
		31.12.2005	31.12.2006	2005	2006
USA	US\$ 1.00	0.8481	0.7590	0.8033	0.7961
Great Britain	£ 1.00	1.4586	1.4883	1.4622	1.4667
Canada	CAN\$ 1.00	0.7284	0.6536	0.6649	0.7024
Poland	PLN 1.00	0.2594	0.2611	0.2491	0.2569

3. ACCOUNTING AND VALUATION PRINCIPLES

3.1. Funds

All the 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 and subsidies

A distinction is made between project and distribution promotions in the form of conditionally repayable loans and subsidies, which are grants that do not have to be repaid.

Project promotion

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.

The new promotion loans that have been applied for and granted are included as sales on theatrical release

to theatres at the earliest, if it is adequately certain that repayment will not be made. Inclusion in sales 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.

Distribution promotion

What are known as distribution promotion loans are used to finance the P&A costs of a film. They are loans that have to be repaid under specific conditions and are included as sales at the earliest when the film financed with these funds is released to theatres, if it is adequately certain that repayment will not be made. These loans are repaid completely or partly when films are successful. This is taken into account via deferral and allocation.

Subsidies

Subsidies are grants that do not have to be repaid, to which either the producer (project subsidies) or the distributor (sales subsidies) are entitled in order to finance the project or P&A costs, depending on the number of box office admissions in theatrical exploitation. Project subsidies are posted as sales at the time

when principal photography begins of the film for which they have been used. Sales realisation of the sales subsidies is linked to the theatrical release date.

3.4. Film assets

Film asset accounting as per December 31, 2006 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 accepted by 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. The individual instalments of the minimum guarantee are included as an advance payment and are capitalised in film assets when the material is supplied and accepted.

In-house productions are shown with their production 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.

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. When the depreciation in connection with the video sales is determined, the latter are adjusted to eliminate the video costs. 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 principal photo-

graphy of the film or sale of the rights cannot be specified definitely 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 to 6 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 interests in associated companies refer to the shares in the company KönigsKinder Schallplatten GmbH.

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 because of their different treatment (see 4.3.2.).

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 53) 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 accepted by the commissioning party. In the service production of series, realisation occurs when each episode is accepted.

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. 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.

Promotion loans that have to be repaid under certain conditions are realised as sales when it is reasonably certain that the loans will not be repaid.

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 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 at monthly intervals. 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 particularly for format right disputes, 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 the taxes on income involve 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 kinds 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. Allowances for bad debts of € 3.615 million (previous year: € 3.384 million) were made with respect to trade receivables.

“In-house productions” accounted for € 20.603 million of the trade receivables (previous year: € 22.713 million), while “third-party productions” accounted for € 10.575 million (previous year: € 7.926 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 € 7.853 million of the other assets (previous year: € 5.784 million), while “third-party productions” accounted for € 4.031 million (previous year: € 2.018 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 54/55), which is part of the notes to the consolidated financial statements.

The increase in intangible assets is due essentially to the introduction of SAP at Constantin Film AG for the Group.

The increase in tangible assets is attributable primarily to the investments in operating and business equipment.

The change in the financial assets is the result of the acquisition of Königskinder Schallplatten GmbH as well as of the loss transfer from current business of € 97,000. An impairment charge of € 403,000 was also made.

€ 4.649 million (previous year: € 4.699 million) of the fixed assets are accounted for by the ‘in-house production’ division and € 2.386 (previous year: € 1.639 million) million by the ‘third-party production’ division.

An impairment write-down charge of € 533,000 was made in the fiscal year.

4.2.2. Goodwill

An amount of € 4.540 million was included in the intangible assets for goodwill on January 1, 2006; 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 and 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, no reductions were made to the goodwill of cash-generating units. This means that the value of the goodwill shown on December 31, 2006 was € 4.543 million. This amount was divided up essentially between Constantin Entertainment GmbH (€ 3.476 million) and Olga Film GmbH (€ 1.022 million). The addition of € 3,000 relates to Constantin Television GmbH. 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 and 9 per cent. The residual book value is attributable to the “in-house production” segment.

4.2.3. Film assets

The film assets can be broken down as follows:

	31.12.2005 € thousand	31.12.2006 € thousand
In-house productions		
Films being exploited	46,786	67,676
Films being developed and produced	97,815	47,612
Total in-house productions	144,601	115,288
Third-party productions		
Films being exploited	24,370	47,387
Films being prepared and advance payments received	26,089	11,788
Total third-party productions	50,459	59,175
Film assets	195,060	174,463

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	
	01.01.2006	Additions	Disposals	31.12.2006	01.01.2006	Additions	Disposals	31.12.2006	01.01.2006	31.12.2006
In-house and co-productions	436,837	55,518	406	491,949	292,236	84,831	406	376,661	144,601	115,288
Third-party productions	231,862	20,307	0	252,169	181,403	11,591	0	192,994	50,459	59,175
	668,699	75,825	406	744,118	473,639	96,422	406	569,655	195,060	174,463

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

Financing costs of € 3.010 million (previous year: € 1.857 million) that could be allocated directly were capitalised in the 2006 fiscal year. The interest rate varies between 3.5 and 6.5 per cent.

The film rights and the receivables attributable to them are partially assigned as security for the bank loans.

4.2.4. Trade receivables

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

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

"In-house productions" accounted for € 19.936 million of the trade receivables (previous year: € 7.248 million), while "third-party productions" accounted for € 10.233 million (previous year: € 2.529 million).

4.3. Current liabilities

4.3.1. Trade payables

The trade payables are carried at their redemption value. € 12.156 million (previous year: € 10.370 million) of the trade payables were accounted for by "in-house productions" and € 6.239 million (previous year: € 3.618 million) were accounted for by "third-party productions".

4.3.2. Advance payments received and deferred sales

This item includes advance payments received and deferred TV and global distribution revenues. € 91.987 million (previous year: € 107.938 million) were accounted for by "in-house productions" and € 33.792 million (previous year: € 27.348 million) were accounted for by "third-party productions".

The deferred sales amounted to € 110.610 million. Provided that payment has not already been received, the relevant receivables are already included in the trade receivables, as the conditions for invoicing have been met; according to SOP 00/2, point 8, however, the sales have to be deferred.

4.3.3. Provisions

The provisions developed as follows:

► **PROVISIONS** / in € thousand

	31.12.2005	Required	Released	Added	31.12.2006
Provision for outstanding invoices and film expenses	20,983	13,338	5,898	8,985	10,732
Provision for profit-sharing schemes and licensor shares	4,088	1,055	527	2,240	4,746
Provision for conditional promotion loan repayment	3,662	2,052	350	3,011	4,271
Provision for personnel expenses	3,253	3,097	124	3,677	3,709
Provisions for tax expenses	1,295	1,172	0	1,927	2,050
Miscellaneous	5,448	949	1,974	3,690	6,215
Provisions	38,729	21,663	8,873	23,530	31,723

The other provisions mainly included the provisions at Constantin Entertainment GmbH of € 3.783 million for impending legal disputes. The legal disputes relate mainly to possible format right violations by the company in show and entertainment productions. The provision estimate was adapted from 2005 to 2006 in the context of these license disputes. Whereas potential damage was still anticipated in 2005 on the basis of demands for discontinuation in addition to possible licence claims, the company is only working on the assumption of the latter at the present time. This change led to the release of € 557,000.

€ 1.695 million were added in the year under review for current and new licence right disputes.

€ 20.963 million (previous year: € 28.710 million) of the other provisions were accounted for by "in-house productions" and € 10.760 million (previous year: € 10.019 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:

	31.12.2005 € thousand	31.12.2006 € thousand
Salaries, income tax, social security contributions	1,853	1,575
VAT	1,039	437
Other loans	1,519	347
Financial commitment from share acquisition	2,850	2,850
Miscellaneous	1,848	2,157
Other liabilities	9,109	7,366

€ 4.868 million (previous year: € 6.753 million) of the item were accounted for by “in-house productions” and € 2.498 million (previous year: € 2.356 million) were accounted for by “third-party productions”.

4.3.5. Liabilities to banks

The liabilities to and credit balances at banks have variable interest rates. The interest rates in the Eurozone in 2006 ranged between 4.67 per cent and 5.7 per cent. In accordance with the local interest rate level, the interest rates in foreign currencies – particularly USD and CAD – were higher. Individual credit amounts with a term of generally less than one month were involved here.

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:

	31.12.2005	31.12.2006
	€ thousand	€ thousand
Financial commitment to Wrongfully Accused Production Limited Partnership and Wrongfully Accused Production Limited Partnership No. 2	5,483	0
Financial commitment from share acquisition	4,850	2,000
Other liabilities	10,333	2,000

€ 2.000 million (previous year: € 10.333 million) of the item were accounted for by “in-house productions”. This liability and the relevant current portion (see 4.3.4) is subject to the payment of interest at a variable rate (EURIBOR + 1.25 percentage points) and is due on September 30, 2009.

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
- ▶ Constantin Film Services 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 Television GmbH
- ▶ Königskinder Schallplatten GmbH
- ▶ Resident Evil Mexico S. DE R.L. DE C.V.
- ▶ Resident Evil Productions, LLC
- ▶ Constantin Entertainment UK Ltd.
- ▶ Constantin Entertainment Polska Sp. z o.o.

A uniform corporation tax rate of 25 per cent has been applied for the German Group companies in 2006. 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 2005 and 2006 fiscal years is as follows:

	2005 € thousand	2006 € thousand
Current tax revenue/ expenditure	-897	-2,207
Deferred tax revenue/ expenditure	-5,404	-3,937
Taxes on income	-6,301	-6,144

The deferred tax expenditure of € -3.937 million (previous year: € -5.404 million) shown can be broken down into the tax assets and liabilities relating to temporary differences amounting to € -1.568 million (previous year: € -4.565 million) and tax assets relating to accumulated tax losses amounting to € -2.369 million (previous year: € -839,000).

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:

	2005 € thousand	2006 € thousand
Result for the year before tax	11,893	14,669
Theoretical tax income (40.86%)	-4,860	-5,994
Tax rate differences	157	105
Tax additions and deductions	-149	-14
Tax from the previous year	-250	-95
Write-down	-507	0
Miscellaneous items	51	94
Goodwill	-743	0
Off balance sheet tax losses	0	-36
Tax-free Income	0	-204
Taxes on income	-6,301	-6,144

The deferred taxes relate to the following items:

	2005 € thousand	2006 € thousand
Deferred taxes (assets)		
Accumulated tax losses	12,700	10,331
Advance payments received and deferred sales	67,583	52,801
Provisions	322	250
Miscellaneous (Equity)	202	0
Deferred taxes (assets)	80,807	63,382
Deferred taxes (liabilities)		
Film assets/in-house productions	66,188	53,134
Film assets/third-party productions	7,953	8,932
Miscellaneous (Equity)	0	469
Miscellaneous	1,213	0
Deferred taxes (liabilities)	75,354	62,535
Deferred taxes (net)	5,453	847

The deferred tax assets and liabilities from the Group companies are balanced in accordance with IAS 12. The deferred tax assets in the company therefore amounted to € 13.528 million (previous year: € 15.560 million), while the deferred tax liabilities totalled € 12.681 million (previous year: € 10.105 million).

The accumulated tax losses amounted to € 25.214 million (previous year: € 31.075 million) on December 31, 2006. The deferred tax assets relating to them amount-

ted to € 10.331 million (previous year: € 12.700 million). The change in accumulated tax losses led to tax expenditure of € -2.369 (previous year: € -839,000) 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 € 12,742,600,00 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: € 55.546 million).

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

4.6.3. Retained earnings / other comprehensive income

See the statement of changes in equity, page 53 / 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 comprehensive other 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 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 STATEMENTS

5.1. Sales/division reporting

The Constantin Group makes a distinction in its reporting between 2 segments that are exposed to different risks and are therefore evaluated regularly 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 principal photography for the film. Technical post-production of the film starts when principal photography 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 commis-

sions 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.

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 on sales” 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 € 46.921 million (previous year: € 28.506 million) from the international exploitation of film rights. The total sales can be broken down into the different territories as follows:

► SALES SEGMENTATION BY COUNTRIES / in € thousand

	2005	2006
Germany	185,281	223,285
Europe (without Germany)	6,793	21,823
USA	9,894	15,002
Japan	5,657	5,848
Others	6,162	4,248

A breakdown of the film assets and other major balance sheet items by divisions is given in 4.1.1., 4.1.3., 4.2.1., 4.2.3., 4.2.4., 4.3.1., 4.3.2., 4.3.3., 4.3.4. and 4.4.1.

Constantin Film does not have any significant assets outside the Federal Republic of Germany and did not make any investments abroad.

▶ SEGMENTATION BY DIVISIONS / in € thousand

	2005	2006	2005	2006	2005	2006
	In-house and co-productions		Third-party productions		Total	
Sales:						
Theatrical sales	14,844	42,794	8,859	4,722	23,703	47,516
Video sales	31,344	17,650	21,605	10,454	52,949	28,104
TV sales	18,088	31,536	5,335	8,898	23,423	40,434
Service productions	87,760	112,277	0	0	87,760	112,277
Subsidies	12,913	17,435	811	1,032	13,724	18,467
Others	11,766	21,500	462	1,908	12,228	23,408
Total	176,715	243,192	37,072	27,014	213,787	270,206
Costs of goods sold:						
Amortisation	54,295	84,831	13,633	11,591	67,928	96,422
Other costs of goods sold	91,548	122,723	23,031	16,446	114,579	139,169
Total	145,843	207,554	36,664	28,037	182,507	235,591
Gross profit on sales	30,872	35,638	408	-1,023	31,280	34,615
Percentage of sales	17.5	14.7	1.1	-3.8	14.6	12.8
Selling expenses					2,697	1,690
General administration expenses					16,769	18,790
Other operating income					2,481	2,102
Other operating expenses					815	275
Amortisation of goodwill					1,818	0
Depreciation of tangible assets and financial assets, amortisation of other intangible assets					790	721
Operating Result					10,872	15,241

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 film rights depreciation charge includes expenses of € 3.137 million (previous year: € 2.423 million) that are attributable to adjustments of the residual book values on the basis of current sales estimates amounting to € 935,000 (previous year: € 2.333 million) as well as to the risk provision made for films that are not yet being exploited with an amount of € 2.202 million (previous year: € 90,000). € 1.730 million of this amount are accounted for by the “in-house production” segment, while the “third-party production” segment accounted for € 1.407 million.

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 € 15.387 million (previous year: € 12.335 million). Social security expenditure amounted to € 2.080 million (previous year: € 1.762 million).

The Constantin Film Group had an average of 232 employees over the year (previous year: 237) (see also the human resources section of the management report, page 40). At the end of the year the Constantin Film Group had 247 employees. 200 of them were full-time employees, 20 of them senior executives and directors and 27 of them part-time employees and apprentices.

5.5. Financial result

Interest expenses in the year under review amounted in total to € 754,000 (previous year: € 97,000). Interest income amounted to € 479,000 (previous year: € 453,000).

5.6. Currency translation

An exchange rate balance of € 203,000 (previous year: € 665,000) was recorded because of the valuation on the qualifying date of the transactions carried out in USD that cannot be allocated to individual projects and of the foreign currency portfolio. The exchange rate income amounted to € 1.325 million (previous year: € 3.364 million), whereas the exchange rate expenses totalled € 1.122 million (previous year: € 2.699 million).

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 have the consequence that shares are issued at a value lower than the stock exchange price for the share.

The existing or expired stock option plans in the fiscal year 2006 have no dilution. Earnings per share amounted to € 0.65 (previous year: € 0.31).

The picture in the 2005 fiscal year was as follows: 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 on December 31, 2005. This means that the option rights had a diluting effect in 2005. The earnings per share before dilution amounted to € 0.3053 after € 0.5524 in 2004. 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 in 2005.

6. EXPLANATORY NOTES ABOUT THE STATEMENT OF CASH FLOW

The cash flows from ordinary activities include the following inflows and outflows in accordance with IAS 7.31 and IAS 7.35:

	2005 € thousand	2006 € thousand
Payments made for taxes on income	-897	-2,351
Interest payments received	453	479
Interest payments made, minus the capitalised amounts	-1,954	-3,675

Net Group liquidity decreased by € 16.258 million over the previous year to € - 39.936 million. The decrease is attributable essentially to the increase in trade receivables and investments in film assets in 2006.

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	TUS\$	100,000
BayernLB, Dresdner Bank AG, licence trading and working capital	T€	40,000

7. OTHER EXPLANATORY NOTES

7.1. Stock option plan

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

7.1.1. 2001 stock option plan

A stock option plan was agreed in the 2001 fiscal year, on the basis of which stock options were issued to employees from the 2001 fiscal year onwards. A total of 350,000 options were granted with an exercise price of € 9.72, 227,500 of which were still in force on December 31, 2005. This stock option plan was terminated in the 2003 fiscal year, so that no more options are being issued on the basis of it. All the outstanding options in connection with the 2001 stock option plan expired in the 2006 fiscal year (see 4.6.5.).

7.1.2. 2003 stock option plan

A further stock option plan was agreed in the 2003 fiscal year. Up to the end of the 2006 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 (max options on 600,000 shares) 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 untermiated 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.

7.2. Financial commitments and contingent assets and 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 € 2.755 million (previous year: € 2.174 million).

There is also a rent guarantee for the business premises rented by Constantin Film AG amounting to € 229,000 (previous year: € 229,000). There are in addition guarantees for service productions with a total value of € 8.520 million (previous year: € 8.767

million) to various TV stations and a bank credit to one bank amounting to USD 4.000 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 rent and leasing payments arising from operating lease/rental agreements that are due as follows until the minimum term of the contracts ends:

	2005 € thousand	2006 € thousand
payable in upto 1 year	889	2,410
payable in more than 1 to 5 years	1,527	4,902
payable in more than 5 years	7,169	2,851
total	9,585	10,163

Constantin Film AG guarantees various banks the repayment of licence prices of GBP 49,442,000,00, 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.

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 € 28.000 million (previous year: € 13.000 million). The impact on the asset situation, financial position and profitability from 2008 onwards cannot be estimated with sufficient certainty at the present time.

The acquisition of intangible assets led to a contractual commitment of € 175,000.

There are contingent claims in the Group attributable to the reimbursement of additional costs of two TV productions. The size of the reimbursement is in the process of being negotiated and cannot be estimated reliably yet.

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. The Constantin Group makes sure as a fundamental rule that the amount of the hedging contract does not exceed the basic business transaction.

Foreign exchange futures contracts and loans were in force as hedging instruments on December 31, 2006. 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 contractual agreed income from international in-house productions in USD and will probably continue until August 2007.

The nominal amount of all the futures contracts and loans in force is € 6.787 million. Total market price valuation of these business transactions leads to € -1.499 million. Valuation of the futures contracts was calculated as the difference between the forward rate when the transaction was concluded and the market value of the futures contract on the balance sheet date. Valuation of the loans was determined as the difference between the exchange rate on the date when the first tranche of the loan was taken and the market value on the qualifying date (taking the income already paid into account).

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 (€ -678,000; previous year: € 296,000) and in the income statements in the case of fair value hedges (€ -352,000; previous year: € -98,000). The change in the valuation of the pending basic transaction is in turn included in the income statements in the case of fair value hedges.

In the context of the application of cash flow hedge accounting for derivative financial instruments, € -296,000 (previous year: € 0) were removed from equity and taken into account in valuation for the first time of the advance payments received. The change in equity due to cash flow hedge accounting amounted to € -974,000 (previous year: € 296,000), which had no effect on earnings.

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 not therefore considered to be material. There is no obvious 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 main shareholder Highlight Communications AG (92,07 per cent) has this influence, it is a related party.

The members of the Management and Supervisory Boards held the following number of shares on December 31, 2006: Fred Kogel 6,150 shares, Marc Conrad 1,500 shares and Dr Paul Graf 500 shares.

On November 6, 2006, Constantin Verleih GmbH concluded a licence agreement with Kogel & Schmidt GmbH about the marketing of the DVD "Best of Harald

Schmidt 2006" for a net share of the proceeds of 25 per cent for Kogel & Schmidt GmbH. On June 29, 2005, Constantin Film AG acquired shares in Constantin Entertainment GmbH from Kogel Beteiligungs- und Verwaltungs-GmbH. € 3 million of the purchase price of € 9 million remained to be paid on December 31, 2006.

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, 2006) amounted to € 2.688 million (previous year: € 2.291 million).

The remuneration paid to the members of the Supervisory Board for their Supervisory Board activities amounted in total to € 117,000 (previous year: € 83,000) in 2006. The remuneration paid to the individual members was as follows:

Name	Function	Compensation € thousand
Bernhard Burgener	Chairman	27
Bernd Eichinger	Deputy Chairman	25
Marc Conrad		15
Dr Paul Graf		18
Professor Dr Günter Rohrbach		15
Martin Wagner		17

Bernd Eichinger received remuneration of € 2.470 million (previous year: € 2.150 million) from the producer contract and screenplay fees in 2006. Professor Dr Günter Rohrbach received € 29,000 (previous year: € 173,000) as compensation for his assignments as a producer in 2006.

The sales and other operating income of € 21.073 million (previous year: € 29.301 million) and expenses of € 10.320 million (previous year: € 14.401 million) recorded by the Constantin Film Group with Highlight Communications AG in 2006 relate essentially to the joint operation of the video business. There were receivables of € 2.446 million (previous year: € 3.604 million) and liabilities of € 8,000 (previous year: € 3,000) on December 31, 2006.

Mr Bernd Eichinger and Mr Thomas P. Friedl hold the shares in Topeka GmbH, Cologne, (operator of the CINEDOM multiplex) directly and indirectly. The Constantin Group had theatrical sales of € 540,000 with Topeka GmbH this year (previous year: € 616,000). There was a receivable amounting to € 32,000 on December 31, 2006 (previous year: € 307,000).

The shares in the company Resident Evil LLC (formerly ProCon Pictures LLC), which is consolidated in accordance with SIC 12, were bought by the Management Board members Hanns Beese and Martin Moszkowicz

for the book value of € 0, combined with a purchase option for Constantin Film at a price of € 1.

7.5. Events since the balance sheet date

The general licensing agreements about exploitation of the pay TV rights to the Constantin in-house and co-productions that were concluded in February 2004 by Constantin Film Verleih GmbH and Premiere Fernsehen GmbH & Co. KG (Disney Channel) were extended by a further two years at the beginning of 2007.

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 1 to 5 years.

7.6.2. Supervisory Board of Constantin Film AG

The Supervisory Board consists of 6 members at the present time (see also page 78).

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 2006 fiscal year in accordance with § 314 paragraph 1 no. 9 of the HGB amounted in total to € 405,000. Auditing fees accounted for € 346,000, while € 59,000 were fees charged for tax consultancy.

7.9. Exemption of subsidiaries

Even though they are companies limited by shares, the following subsidiaries were not required to compile a management report in accordance with the regulations for companies limited by shares and to apply the disclosure regulations, on the basis of the provisions of § 264 III of the German Commercial Code (HGB):

Constantin Film Verleih GmbH

Constantin Film Produktion GmbH

Constantin Film International GmbH

**The Supervisory Board consists of 6 members:**

	Main profession	Membership of other Supervisory Boards
Bernhard Burgener Chairman of the Supervisory Board (since 08.06.2006) (in the supervisory board since 05.05.2004)	Chairman of the Board of Highlight Communications AG	President of the supervisory board Team Holding AG, Luzern, Switzerland Supervisory board Team Football Marketing AG, Luzern, Switzerland Supervisory board T.E.A.M. Television Event And Media Marketing AG, Luzern, Switzerland President of the supervisory board Rainbow Home Entertainment AG, Pratteln, Switzerland Director of the Rainbow Home Entertainment GmbH, Wien, Österreich Supervisory board Escor Casino & Entertainment SA, Düringen, Switzerland President of the supervisory board Lechner Marmor SA, Laas, Italy President of the KJP Holding AG, Luzern, Schweiz
Bernd Eichinger Deputy Chairman (since 08.06.2006) (in the supervisory board since 03.01.2003)	Film producer	Artists for Kids gemeinnützige GmbH
Martin Wagner (since 23.07.2003)	Lawyer	Vicepresident of the supervisory board Highlight Communications AG, Pratteln, Switzerland Supervisory board Team Holding AG, Luzern, Switzerland Supervisory board Team Football Marketing AG, Luzern, Switzerland Supervisory board T.E.A.M. Television Event And Media Marketing AG, Luzern, Switzerland Supervisory board Rainbow Home Entertainment AG, Pratteln, Switzerland Supervisory board Escor Casino & Entertainment SA, Düringen, Switzerland Supervisory board Jean Frey AG, Zürich, Switzerland Supervisory board Birkhäuser-Gruppe President of the supervisory board Weltwoche Verlags 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 2007

► The Management Board

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Constantin Film AG, comprising the balance sheet, the income statement, statement of changes in equity¹, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the

consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 28, 2007

▶ **KPMG Deutsche Treuhand-Gesellschaft**

Aktiengesellschaft / Wirtschaftsprüfungsgesellschaft

Hagner / Independent Auditor

Sandhaas / Independent Auditor

ASSETS / HGB	31.12.2005 € thousand	31.12.2006 € thousand
A. Fixed assets		
I. Intangible assets	65	606
II. Tangible assets	719	781
III. Financial assets	24,414	24,414
Total fixed assets	25,198	25,801
B. Current assets		
I. Receivables and other current assets		
1. Receivables from affiliated companies	53,054	62,473
2. Receivables from companies in which the company has a participating interest	0	80
3. Other assets	2,376	1,727
II. Cash in hand and at banks, cheques	14	14
Total current assets	55,444	64,294
C. Prepaid expenses	39	63
Prepaid expenses	80,681	90,158

EQUITY AND LIABILITIES / HGB	31.12.2005 € thousand	31.12.2006 € thousand
A. Equity		
I. Subscribed capital	12,743	12,743
II. Capital reserves	40,157	40,157
III. Retained earnings	0	6,372
IV. Accumulated profits/losses	0	974
Total equity	52,900	60,246
B. Provisions		
I. Tax provisions	96	1,521
II. Other provisions	1,202	1,556
Total provisions	1,298	3,077
C. Liabilities		
1. Trade payables of which due within 1 year: € 0.402 million (previous year: € 0.351 million)	351	460
2. Liabilities to affiliated companies of which due within 1 year: € 21.289 million (previous year: € 18.184 million)	18,184	21,289
3. Other liabilities of which due within 1 year: € 3.087 million (previous year: € 3.098 million) of which from taxes: € 0.221 million (previous year: € 0.156 million) of which in connection with social security: € 0.2 million (previous year: € 0.69 million)	7,948	5,086
Total liabilities	26,483	26,835
Total equity and liabilities	80,681	90,158

	01.01.-31.12.2005 € thousand	01.01.-31.12.2006 € thousand
General administration expenses	9,111	10,621
Other operating income	4,888	5,098
Other operating expenses	306	53
Income from equity interests	3,862	0
Income from profit transfer agreements	21,949	33,953
Other interest and similar income of which from affiliated companies € 2.791 million (previous year: € 1.136 million)	1,147	2,848
Depreciation of financial assets	1,760	500
Interest and similar expenses of which to affiliated companies € 0 (previous year: € 0)	14	374
Costs of loss absorption	17,812	21,579
Income from continuing operations	2,843	8,772
Taxes on income	-96	-1,424
Other taxes	346	-2
Net income/loss for the year	3,093	7,346
Allocation to retained Earnings	-35,790	0
Accumulated losses from previous years	32,697	0
Withdrawal from the capital reserves	0	-6,372
Accumulated profits/losses	0	974

▶ **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.

▶ **COMPUTER-GENERATED ANIMATION FILMS (CGI ANIMATION):**

Computer-generated imagery is the English technical term for pictures created by 3D computer graphics for film production and visual effects. It is used in connection with computer animation in films.

▶ **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.

▶ **DEUTSCHER FILMFÖRDERFONDS (DFFF):**

The German government will be promoting German theatrical films with grants of € 60 million per year up to 2009. These funds are intended for German film productions and international co-productions with German partners. The new film promotion fund is supposed to continue improving the competitive position and quality of German films as well as to safeguard and strengthen Germany as a film location.

▶ **DISTRIBUTION COSTS ("P&A")**

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

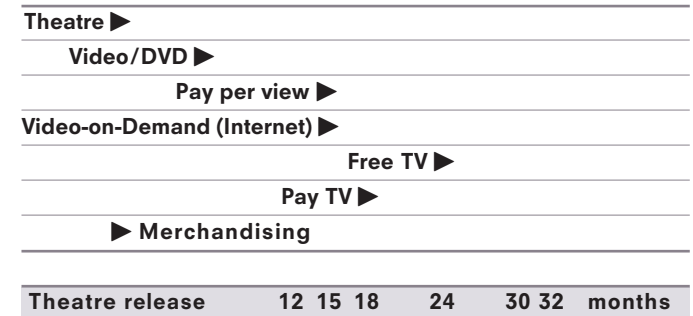
▶ **EPS**

(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)**



▶ **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).

▶ **FILMFÖRDERUNGSANSTALT (FFA):**

The assignments for which the FFA is responsible include taking action to promote German films and to improve the structure of the German film industry, supporting the overall economic interests of the film industry in Germany, improving the bases not only for the distribution and exploitation of German films in the country in line with market requirements but also for their economic and cultural impact outside Germany and making sure film promotion by the federal and state governments is agreed and co-ordinated.

▶ **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).

▶ **SPITZENORGANISATION DER FILMWIRTSCHAFT E.V. (SPIO):**

The central organisation of the film industry represents the interests of the German film, television and video industry. SPIO's assignments include both promoting the interests of the film and media community at the political level and carrying out service functions for its members.

▶ **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**

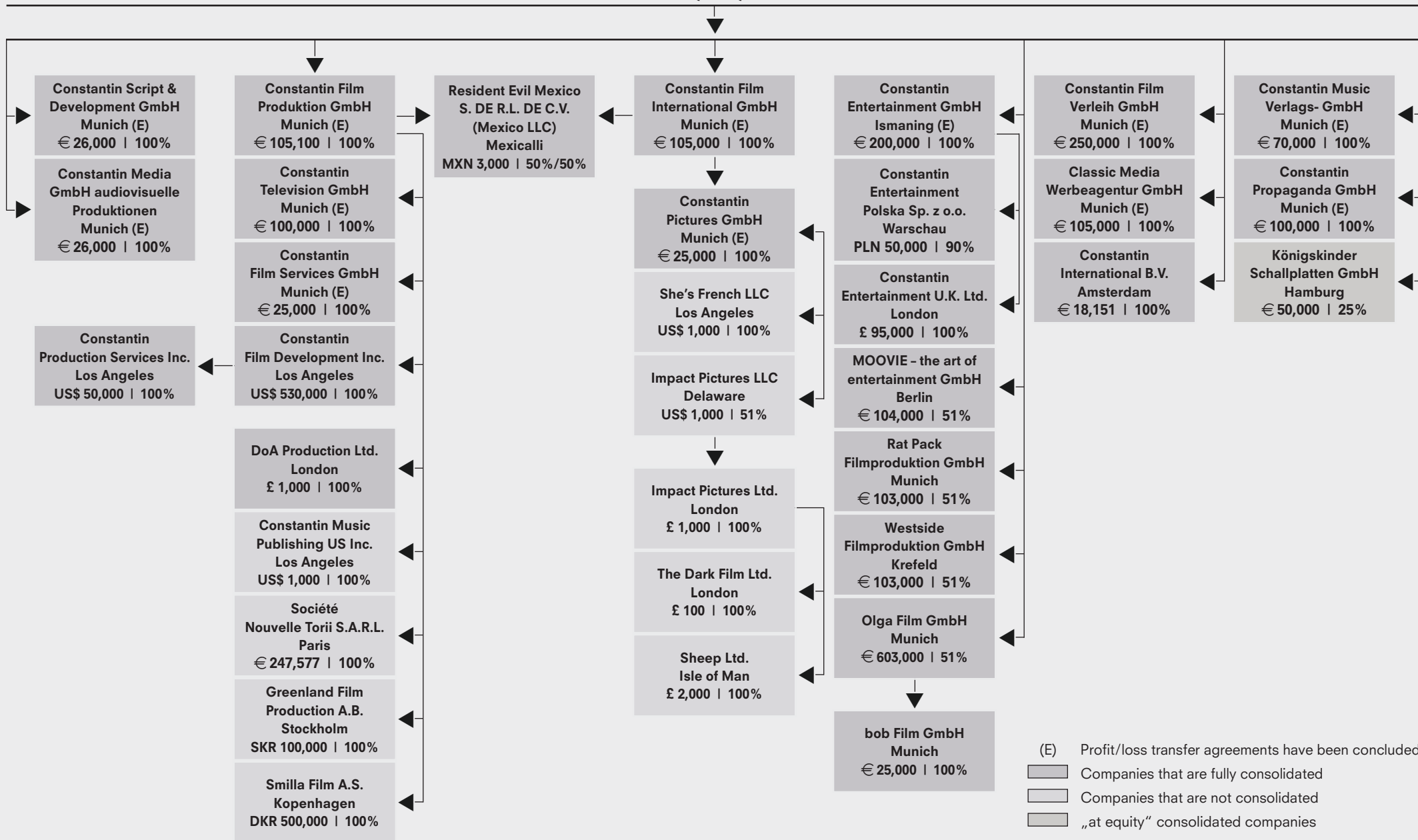
Films, for example, that are shown when specifically ordered.

▶ **SUMMARY OF EQUITY INTERESTS** as of March 15, 2006

Development of film material	Production	Distribution	Ancillary rights
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Constantin Film AG München

€ 12,742,600



- (E) Profit/loss transfer agreements have been concluded
- Companies that are fully consolidated
- Companies that are not consolidated
- „at equity“ consolidated companies

▶ **IMPORTANT DATES** / for 2007

- | | |
|---|---------------|
| ▶ Publication of the results for the first three months | May 2007 |
| ▶ Annual Shareholders' Meeting | June 06, 2007 |
| ▶ Publication of the results for the first six months | August 2007 |
| ▶ Publication of the results for the first nine months | November 2007 |
| ▶ Analysts' conference | November 2007 |

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

▶ **SECURITIES IDENTIFICATION NUMBER 580 080**

▶ **CONTACT**

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



ANNUAL REPORT OF *Constantin Film* AG 2006

MANAGEMENT BOARD MEMBERS FRED KOGEL (CHAIRMAN) HANNS BEESE THOMAS PETER FRIEDL MARTIN MOSZKOWICZ FRANZ WOODTLI
 SUPERVISORY BOARD BERNHARD BURGNER (CHAIRMAN) BERND EICHINGER MARTIN WAGNER 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 TELEVISION 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 2006

