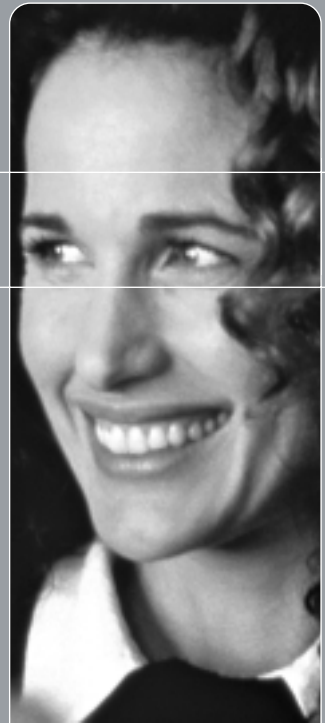




ANNUAL REPORT **2001**



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Foreword of the Chairman of the Management Board

2001 brought with it a period of consolidation and at the same time a return to normality in the media industry.

Spectacular political and economic events were also linked with the disillusionment, already noticeable in the Neue Markt in 2000. Also the destiny of individual media enterprises added to investors uncertainty. During the year under review, a market shake up followed the stock market boom which brought many new enterprises to the market.

This led to a rash change in market structures. Within only a few months, what had been a sellers' market turned into a buyers' market. Numerous players in the media market ran into problems or withdrew again. After the "great media hype", there was a return to concentration on substance and craftsmanship.

The new situation demanded the highest degree of flexibility from all business. Exclusive cooperation – months before a guarantee for access to high-grade film material – lost strategic significance and given the new environment also some of their economic efficiency.

The new situation gave us the chance to push our development approach, in particular the expansion of international business, under our own flag – as a continuation of our strategy based on independence and quality.

The good sales and earnings development up to the third quarter was due primarily to our international business whereas the sale volume we expected for the reporting year in national business could not be reached.

Our group's medium-term development remains optimistic. This is because Senator combines two things which are essential for success in the film business: on the one hand, years of experience with a network and on the other, a realistic growth strategy.

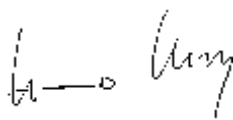
There is hardly any other industry where these factors are so critical. Thus it is not surprising that since the ebb in the boom phase started by the Neue Markt the landscape of the German film business looks a lot like it did prior to the stock exchange boom. Even then Senator was well up front.

Today Senator profits both from its current quality stock of film exploitation rights through every stage of exploitation and the general growth in the entertainment market. Developments such as the take off in DVD technology or future Video on Demand will give us continued tailwinds in the growing markets.

Our aim remains the leap into the top five among the international independent distributors and will provide the means to sustained improvement in our earnings potential.

We are working hard to assure that the success based on our concept will soon be reflected again in a higher share price.

Chairman of the Management Board



Hanno Huth



Hanno Huth, Chairman of the Management Board

Overall Economic Situation and Developments in the Industry

Consolidation in film industry with positive counter trends

The turbulent year 2001 meant the beginning of a phase of consolidation throughout the entire entertainment industry. The film industry suffered especially from the decline in advertising revenues which meant a reduction in the capacity of television broadcasters.

In contrast, as a broadly diversified enterprise, Senator was able to profit from two positive trends during the reporting year. Welcome development in cinema business, record audience figures and the DVD boom have shown that weaknesses in the business cycle are not necessarily directly transferable to the film industry. The ability of cinema feature films to draw interest has also shown that the audiences demand for quality remains unbroken.

The German cinema market reached new highs in 2001 with 177.9 million admissions (compared to the previous year's

+16.7%) and EUR 987 million in box office receipts (+19.7%). Average cinema attendance per inhabitant was 2.16 (previous year: 1.9). The share of the overall market taken by German productions rose from 12.5% to 18.4%. In the video/DVD market, half a billion Euro were earned, a 30% increase compared to the previous year.

The unexpectedly high demand in the video/DVD segment and the future new exploitation stages, above all video on demand, point to a trend in which content in the form of original feature film material will gain in importance. Therefore the demand for high quality cinema feature films should increase. In principle, there is every reason to assume broader commercial use throughout a feature film's entire exploitation cycle.



Andie MacDowell in "Drei Freundinnen und der Liebhaber" (aka "Crush")

Special factors pushing market trend

Several special factors have pushed the general trend from a sellers' to a buyers' market in the film business.

In Germany, the stock exchange segment Neue Markt remained under pressure the whole year. In particular media stocks were hit hard by spectacular events in some companies. The entire segment suffered a loss of investor confidence. Loss of the stock market as a means of financing through capital increases and the loss of shares as currency for acquisitions or just the heavily reduced value of share packages limited the financing capacity of many companies.

The number of film productions increased in the first half of 2001 due to strike threats from screen actors in California, since many projects were moved up as a reaction to the threatened strike – which in the end did not take place.

The business impact of 11 September – which more or less affected all economic sectors – was underestimated by many enterprises.

The special factors mentioned here have strengthened the general trend toward a buyers' market in Germany. The exaggerated prices for feature films and the exaggerated demand in Germany have normalized faster than expected. That has meant that the strategies of film companies have also changed. A year before e.g. output deals were the focus of efforts to secure access to high quality feature films. The rash change during the reporting year required companies to respond with a high degree of strategic flexibility.

Internationalization as growth opportunity

Some companies – like Senator – have pushed internationalization as a result of more intense competition and the limited growth potential offered by the national market.

The increased importance of independents, producing and marketing feature films along side the large studios, is one motor of international growth. On the one hand this means numerous cooperation opportunities with the studios and on the other between the independents in world distribution.



Ralf Richter as Kalle in the Comedy "Was nicht passt, wird passend gemacht"

New financing capacity

The economic upswing and the low interest rates stemming from the resulting monetary policy have opened advantageous financing capacity for those enterprises which emerge successfully from the consolidation phase.

The reduced international interest rate level permits an advantageous revolving financing based on Euribor. Film funds as a source of finance remain a useable resource because of increasing specificity in the tax regime – above all because the “media decree” has added legal certainty to fund-supported financing (see box “Media decree”).

We assume that the bottom of the economic downswing will have been surpassed in the current fiscal year. The fiscal and monetary countermeasures in the United States and the current multifaceted adjustment measures in the business sector should give the business a boost again. The structurally-determined low price level and the increasing money supply dynamic together with continuing low interest rates should give the stock markets positive impulses.

Business development

The good cinema year and further internationalization led to robust business development into the third quarter and beyond so that it was possible to keep to the original targets planned for 2001. The impact of 11 September and the special situation in which the cinema business found itself at year's end, above all the unexpectedly lengthy negotiations in the sale of TV-rights packages forced replanning and finally a correction of earnings for 2001.

Investments

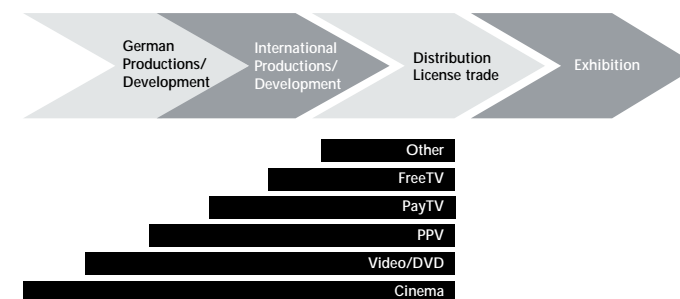
Expansion of our business model

After the various experiences which Senator had made with the exclusive cooperation and investments acquired in the previous years, focus was placed upon build up of core competencies within the Group during the reporting period. An international operative basis for the successful business development is to be created under the umbrella of Senator Entertainment AG. Here the unique approach of a complete value-creation chain in the film business (production, distribution and exhibition) proved to be especially advantageous for the build up and expansion of international business – as already seen in the acquisition of high-value feature films last year.

Internationalizing the competence structures under the Senator roof, especially for international productions, was focused particularly in Senator Entertainment Inc. which was delegated increasing responsibility for project development and coordination and the cooperation with British FilmFour.

Given the changed market conditions, all of the cooperations agreed in previous years have been subject to critical review according to strict efficiency and profitability criteria. Following the end of the third quarter, the exclusive cooperation with Mark Canton was ended in favor of cooperation on a project-by-project basis. The film material developed till now in the context of the joint venture is to be exploited by former Columbia TriStar chairman Canton on a pure success basis, whereby this can also be offered to other producers.

Complete Value Creation Chain and Rights to all Exploitation Stages



Senator International Inc.

With the founding of Senator International Inc. in March 2001, business internationalization has been pushed with even more determination. From the very beginning Senator International Inc. has functioned successfully as the international sales and distribution arm of Senator Entertainment AG. Joe Drake, previously president of the international division of Lions Gate Entertainment, became President and a shareholder at Senator International Inc.

Together with his team of seven, also including Brian Goldsmith as CFO (previously at Sony and Merrill Lynch), he is responsible for acquisition and financing of proprietary, co-productions and third party productions as well as their international distribution. In May of the reporting year, Senator International Inc. made its first appearance in the film market at Cannes and was successful from the very start.

What makes Senator International special is its excellent relationships and contacts to the major studios and the independent producers and distributors. Joe Drake and his staff in Los Angeles have been rooted in the international film industry for many years.

After a brief build up phase, requiring neither investment in goodwill nor M&A activities, Senator International was able to book the first big successes with the films "Trapped" (aka "24 Hours"), "Death to Smoochy", "Nothing" and "Das Experiment" in the reporting year.

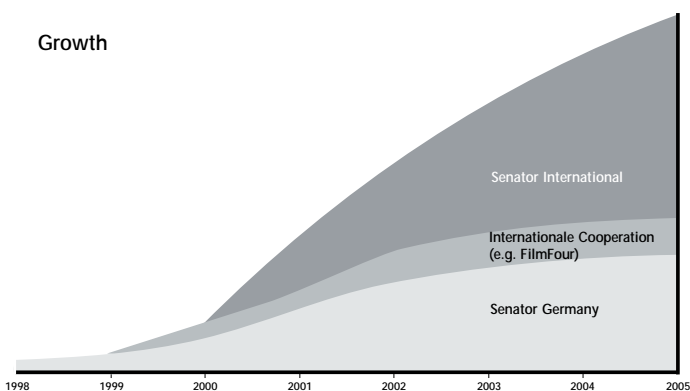
Revenue development

2001 was again characterized by positive revenue development. In comparison to the previous year, sales revenues increased by 29,9% to EUR 140.1 million. Here substantial revenue growth was booked in the cinema and license trade sectors. The share of total sales from cinema revenues rose from 13.5% to 19.9% and license trade revenues rose from 70.0% to 73.8% of total revenues.

The high share of license trade stems from the successful launch of Senator International Inc. As a result the share of world distribution income rose from 15.7% to 63.8%.

Sales of the Senator Group are shown in the segments production and distribution whereas the segment exhibition is shown under financial result as its share in the results of the CinemaxX Group. Production revenues are divided into producer's income and funds to finance production, e.g. grants. Senator combines film distribution (cinema receipts) and license trade (video/DVD, TV rights, Internet rights from our own, co-productions, and third-party productions) as distribution revenues.

The earnings of Senator International Inc., as the Group's international distribution arm, mainly comprised the sales profits from own international productions.



Senator International on Growth Course

In no time at all, Senator in Los Angeles has built up a powerful team which can already show remarkable successes. Under the leadership of Joe Drake, former CEO of the international division of independent Lions Gate, top-grade experts carry out the international film business. Here they draw on long-standing excellent relationships to the major studios, banks specialized in the film business, directors, etc.

Senator International sees itself strategically placed between the major studios, which are increasingly externalizing their value creation chains (esp. distribution), independent producers and independent distributors. A whole series of interesting business approaches result from the excellent contact to all parties.

Thus Senator International guided both own productions "Death to Smoochy" and "Trapped". Both films have been sold in all important territories worldwide. Also the German Senator co-production, "Das Experiment" has already earned remarkable global revenues.

In future, Senator International will be responsible for international film acquisition, international license trade and also the next international productions. In Europe Senator International benefits from Senator AG's distribution network in the German-speaking markets. At the same time world distribution of Senator German own productions will be pushed.

The close contact to banks in LA as well as to European financial institutions makes conception and implementation of structured finance for film projects possible.

Senator and its team of 14 are determined to pursue its aim to generate 80% of the Group's international revenues in future.

Film Production

German productions

Due to the low number of German own productions realized and sold, revenues from national film production were EUR 9.0 million less than the prior year's EUR 17.8 million, with EUR 8.8 million or 50.6% below last year's results. In 2001 seven own and co-productions were developed. Currently there are eleven projects under development and more being planned.

In 2001, four of Senator's own and co-productions were ranked in the top ten among German films. ("Jetzt oder Nie", "Lammbock", "Das Experiment", "Mondscheintarif"). „Jetzt oder Nie“ and „Das Experiment“ both drew more than one million moviegoers. The Senator co-production "Lammbock" reached 7th place among German films, with 851,000 viewers (49th overall).

Senator's German film productions received a wealth of renowned awards: "Das Experiment" received four Deutsche Film Preise (German film awards): for Best Actor, Moritz Bleibtreu, Best Supporting Actor, Best Sets and the Audience Prize as German Film of the Year; three Bavarian film prizes: for Best Camera, Best Director, Best Screenplay, and the Bogey for 1,000 viewers per copy in the opening weekend. The film placed 4th among German films (24th overall) with 1.6 million viewers. In addition, this film also earned extraordinarily good results in world film distribution.

X-Creative Pool GmbH belongs to the consolidated group. Senator has a 51% stake. Its productions include "Lola rennt", "Das Leben ist eine Baustelle", "Der Krieger und die Kaiserin", and "Heaven".

Own film production is of central importance to Senator as a means to assure its earnings potential and the creation of long-lasting assets. Therefore Senator will continue to strengthen its own and co-production activity in the future.

International productions

In 2001, two high quality international productions were made: the film "24 hours", sold internationally as "Trapped" and "Death to Smoochy". Sales from both films are stated under international license trade.

Film Distribution

National distribution

As a rule, Senator holds all right to all exploitation stages. This favorable strategic position offers the advantage of gains when the market changes. Whether a new exploitation stage is created for which the rights then exist or an existing exploitation stage opens to especially strong growth due to unusual market factors or technical innovation.

The DVD boom which surprised many, and the discussion of takeover of the telecom cable networks are examples which show how Senator can also profit in the future from the principle of holding rights to all exploitation stages.

Distribution business for the German language territories is conducted either directly by Senator Film Verleih GmbH or by sublicensees such as usually the case in Austria and Switzerland.

Cinema

During the year under review, Senator Film Verleih GmbH released six own and co-productions and seven third party productions. On average, the films drew 626,449 each (previous year: 244,610) viewers to the cinemas. The cinema segment's EUR 27.9 million in revenues earned lay 91.3% above previous year's receipts of EUR 14.6 million.

The most successful films were "Chocolat" (3 million viewers) and "Das Experiment" (1.6 million viewers), opening at the beginning of the year. Despite summer temperatures, "Lammbock" was also successful (851,000 viewers). The booming movie business was effected by two major phenomena of the second half of the year. The events of 11th September left more than traces, among other things, some of the promotion activities planned for fall could not be carried out for the opening of "America's Sweethearts". The high expectations tied to the good US conditions for this Revolution Film production could therefore not be fulfilled. The presence of more powerful blockbusters than expected during the last months of the reporting year meant that several film starts had to be postponed, among them, "The Others" and "Enigma". The film "Chocolat" received the "Goldene Leinwand" (Golden Screen) for over 3 million viewers. It also received the European Film Prize for Best Actress and the Bogey for 1,000 viewers per copy in the opening weekend. In 2001, "Chocolat" landed in 14th place in Germany's rankings for opening results.



Christian Berkel and Moritz Bleibtreu in "Das Experiment"



Moritz Bleibtreu as test-subject in award-winning film "Das Experiment"

The DVD-Boom

In 2001, DVD technology made its breakthrough in the large world entertainment markets—above all in the US and Europe. In the meantime, all important Hollywood studios have come to prefer video exploitation of their films through (digital) DVD as opposed to (analog) VHS cassettes.

According to information provided by the Bundesverband Video (German Federal Video Industry Federation), more than EUR 1.1 billion worth of video films (cassettes and DVDs) have been sold in Germany last year. Sales growth in the DVD sector was 136% to EUR 406.7 million.

For the first time overall sales of digital audio-visual media in Germany exceeded that of analog products (e.g. VHS). The market is shaped not only by technological change but by overall growth: total sales of analog and digital audio-visual media exceeded total sales from the previous year by 22.7%. This dynamic market growth is due to the superior DVD technology and enrichment with additional content.

Further sales increases seem inevitable: after Christmas 2001, there were more than 3 million DVD players in German households. That corresponds to roughly one for every tenth household. Already in the USA, nearly every fourth household has a DVD player. Even there more growth potential seems possible: The household penetration of traditional video recorders lay at 90 percent in the US. Also many computers and laptops are equipped with DVD drives. Since a global standard has emerged for pre-recorded DVDs – in contrast to the situation when video recorders came out – DVD technology will probably conquer the market faster than was possible in the days of analog media.

For Senator that means the exploitation of our rights will profit enormously from the great market potential. Our business model is based on exploitation of our own rights to all exploitation stages. We will directly benefit from growth in the DVD sector.

Video/DVD

Senator profited from the DVD boom through purchase of high quality films. Sales in the video/DVD sector increased by 249% to EUR 6.5 million, reaching new highs.

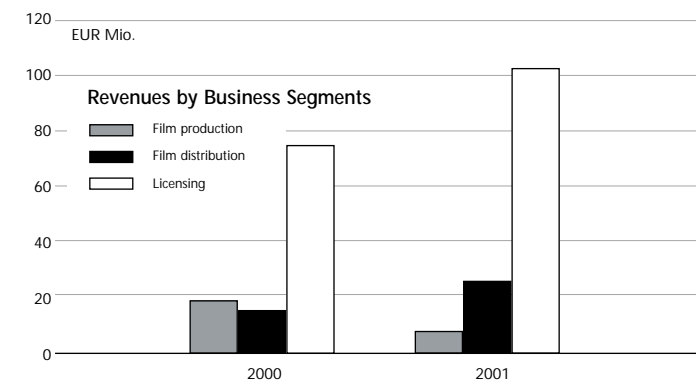
At the end of the year, Senator entered a DVD/video license agreement with Universal Pictures Germany for the exploitation of at least 29 Senator feature titles. Senator's sales volume will be in the range of a double-digit million EUR figure. Included in this package are international films such as "America's Sweethearts", "The Others", "Black Hawk Down" and German productions such as "Lammbock" and "Mondscheintarif". In the reporting year, revenues from minimum guarantees were derived from eight feature films.

TV license trade

Only a small portion of expected sales revenues were earned in the fourth quarter of 2001 although negotiations for a large-volume TV package were under way until November with the intention of signing during the reporting year. In order to relieve the pressure on negotiations, larger agreements were postponed until the next fiscal year. This step meant however that the TV license trade targets could not be reached for 2001.

Its high quality library means that there is great demand for second exploitation rights to Senator films. At the beginning of the new fiscal year, a TV license transaction with ARD/DEGETO was reported consisting of both first and second licenses.

Trading revenues from TV rights declined from EUR 54.4 million to EUR 4.7 million.



International business

The emphasis of the Group's strategy lies in internationalization. Within a few years, 80% of the Group's income is to be generated by international business.

Senator's revenues during the reporting year were dominated by international license trade income which rose more than 426% to 89.4 million. The greatest portion of this segment was borne by world distribution including the productions, "Enigma", "Death to Smoochy", "Trapped" (aka "24 Hours"), and "Das Experiment" as well as the joint-productions with FilmFour "Lucky Break", "Crush" and "Charlotte Gray", which were sold very well in all important markets.

Senator International Inc.

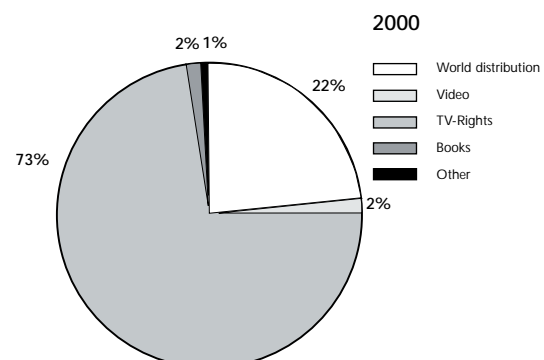
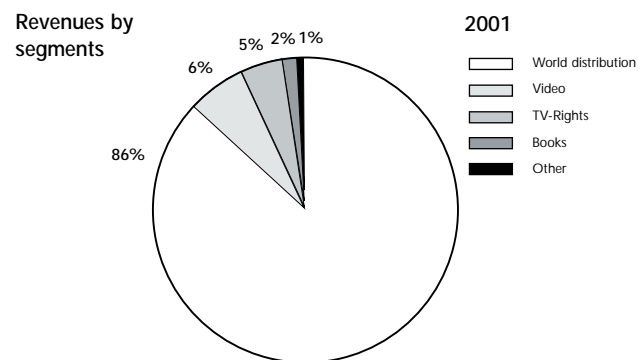
The extraordinary increase in world distribution is attributable to the launch of Senator International, Inc. The exciting entry at Cannes in May 2001 promised continuous sales growth for the second half of the year. The political events in September also had an indirect impact on this division. Some deals were delayed. The London Screenings and MIFED fairs in Milan suffered from numerous cancellations by important market participants and Senator negotiating partners.

However, the successes reached by Senator International, Inc. in the three quarters of a year since it was founded are unmistakable. Senator's own production, "Trapped" was sold in all important territories – including to Sony/Columbia for the USA and other territories. "Death to Smoochy" went to Warner Bros. for the USA and other territories. This film was also sold in most important territories during the reporting year. "Das Experiment" is one of the most successful German films in recent years both in terms of prizes won and global sales.

FilmFour

The subsidiary of the renowned British broadcaster Channel 4 belongs to the most respected companies in Europe's film business. It leads the charts of important producers and has won numerous prizes.

During the reporting year, Senator/ FilmFour co-productions contributed to good results in world distribution. Senator Entertainment AG has an equity participation in the global film exploitation rights. "Lucky Break", "Crush" and "Charlotte Gray" all belong to the co-productions jointly exploited. All were sold most successfully in all important territories.



Film Exhibition

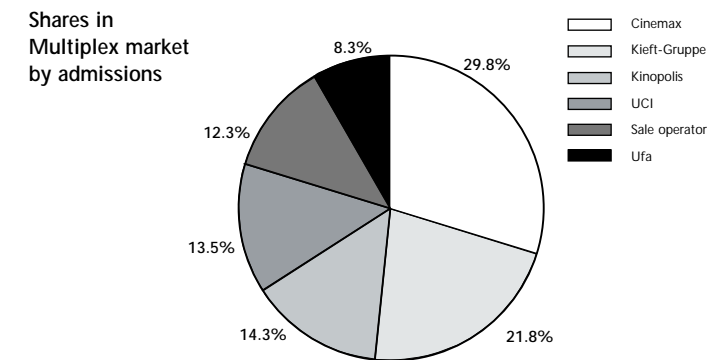
The Exhibition division comprises a strategic investment of 25.1% in the market leader in Multiplex cinemas, Cinemax AG, valued in the Senator consolidated balance sheet at EUR 61.1 million. A film's success in the cinema is the basis for high earnings out of subsequent exploitation. Herein lies the strategic value for Senator but, it also increases Senator's attractiveness to others.

Altogether the group operates 48 cinema centers with 382 screens and approx. 90,000 seats – including 37 modern multiplex cinemas and several renowned traditional movie theaters in Berlin, Hamburg, Hanover and other cities. The market share of the innovative multiplex market is about 30% and its overall share lay at 12.3%. That means access to around 22 million viewers. The Cinemax share of total sales at the end of 2001 exceeded its share of viewers which underscores its market leadership.

In fiscal year 2000, CinemaxX had already begun a comprehensive restructuring and efficiency program in which the group divested itself of some holdings in other European countries in order to concentrate on the German cinema market. The majority of the restructuring costs were incurred during the reporting year.

Senator has to take another high charge from the expenses in 2001 as its 25.1% share of loss absorption. The CinemaxX share of at equity result from ordinary depreciation and percentage loss absorption totaled EUR 10.4 million.

The strong growth in cinema business during the reporting year (16% growth in admissions, 20% increase in revenues), the further positive outlook for the cinema market in 2002 and the fact that the major restructuring measures were already performed in 2001, mean positive development is expected for CinemaxX in the current fiscal year.



Earnings Situation

During the 2001 reporting year, sales revenues increased by 29.9% to EUR 140.1 million. Costs of purchased services increased by 26.6% to EUR 31.0 million. These pertain to costs for marketing films in the cinema. After deducting EUR 7.3 million in personnel expenses and EUR 8.9 million in other operating expenses, EBITDA of EUR 94.1 million was achieved; after the previous year's EUR 72.4 million, an increase of 29.9%.

Amortization increased progressively by 62.6% to EUR 88.4 million. Amortization pertained primarily to film exploitation rights. The 63.1% amortization rate (previous year 50.4%) reflects the Group's conservative amortization policy. Earnings before interest and taxes (EBIT), after accounting for amortization, was EUR 5.7 million compared to EUR 18.1 million in the prior year.

The financial result is conditioned by a EUR 1.0 million negative interest result and the at equity expenses of EUR 10.5 million under financial assets.

Earnings before tax and minority interests are negative EUR 5.1 million, after accounting for the financial result.

After taxes and minority interests, the company showed a net loss of EUR 4.2 million, after the previous year's net profit of EUR 1.2 million.

Assets, Liabilities and Investments

As of the balance sheet date on 31 December 2001, the consolidated balance total increased by around 24% to EUR 357.3 million (previous year: EUR 287.5 million). Non-current assets increased by EUR 84.7 million to EUR 267.9 million. That is an increase of approximately 46%. At the same time, current assets declined by EUR 14.9 million to EUR 89.4 million.

Within the non-current assets, intangible assets rose due to investments in film rights by 111.8% from EUR 85.5 million to EUR 181.1 million. The financial assets carried at equity (CinemaxX, X-Verleih AG) declined by EUR 10.5 million to EUR 62.1 million. Due to amortization and percentage loss absorption, the CinemaxX investment declined from EUR 71.5 million to EUR 61.1 million.

Deferred tax assets (mainly losses carried forward) decreased by EUR 1.1 million to EUR 14.3 million after set off against EUR 6.7 million in deferred tax liabilities.

A major aspect in the decline in current assets was a reduction in trade receivables by EUR 19.7 million to EUR 56.6 million (previous year: EUR 76.3 million). This represents a decrease of about 26%.

Liabilities reduced equity minimally by 1.1% to EUR 202.1 million (previous year: EUR 204.3 million). The capital quota as of 31 December 2001 was 56.6%.

Current liabilities increased due to investments for which liabilities due to banks rose to EUR 94.5 million (previous year: EUR 7.4 million). The bank liabilities assumed lay well in budget for 2001. At the same time, trade payables declined by EUR 17.2 million or 41.6% to EUR 24.2 million.

The increase in short-term provisions from EUR 1.5 million to EUR 5.5 million is due to license proceeds not yet settled. The non-current liabilities rose by 9.6% to EUR 21.7 million (previous year: EUR 19.8 million) after set off against deferred tax liabilities of EUR 6.7 million.

Liquidity Situation

The company's liquidity situation was assured at all times. A positive cash flow from operating activities of EUR 90.2 million was reached during the reporting year. That means an improvement in operative cash flow of 175.3% or EUR 57.4 million compared with the previous year.

At the same time, EUR 183.3 million were invested in film rights during the reporting year. This applied both to film production and the acquisition of film licenses. These were financed both from operative cash flow and from a planned increase in loan liabilities of EUR 87.1 million, as of the end of the reporting year.



Charming: Juliette Binoche in "Chocolat"



Juliette Binoche and Johnny Depp in "Chocolat", awarded "Golden Screen"

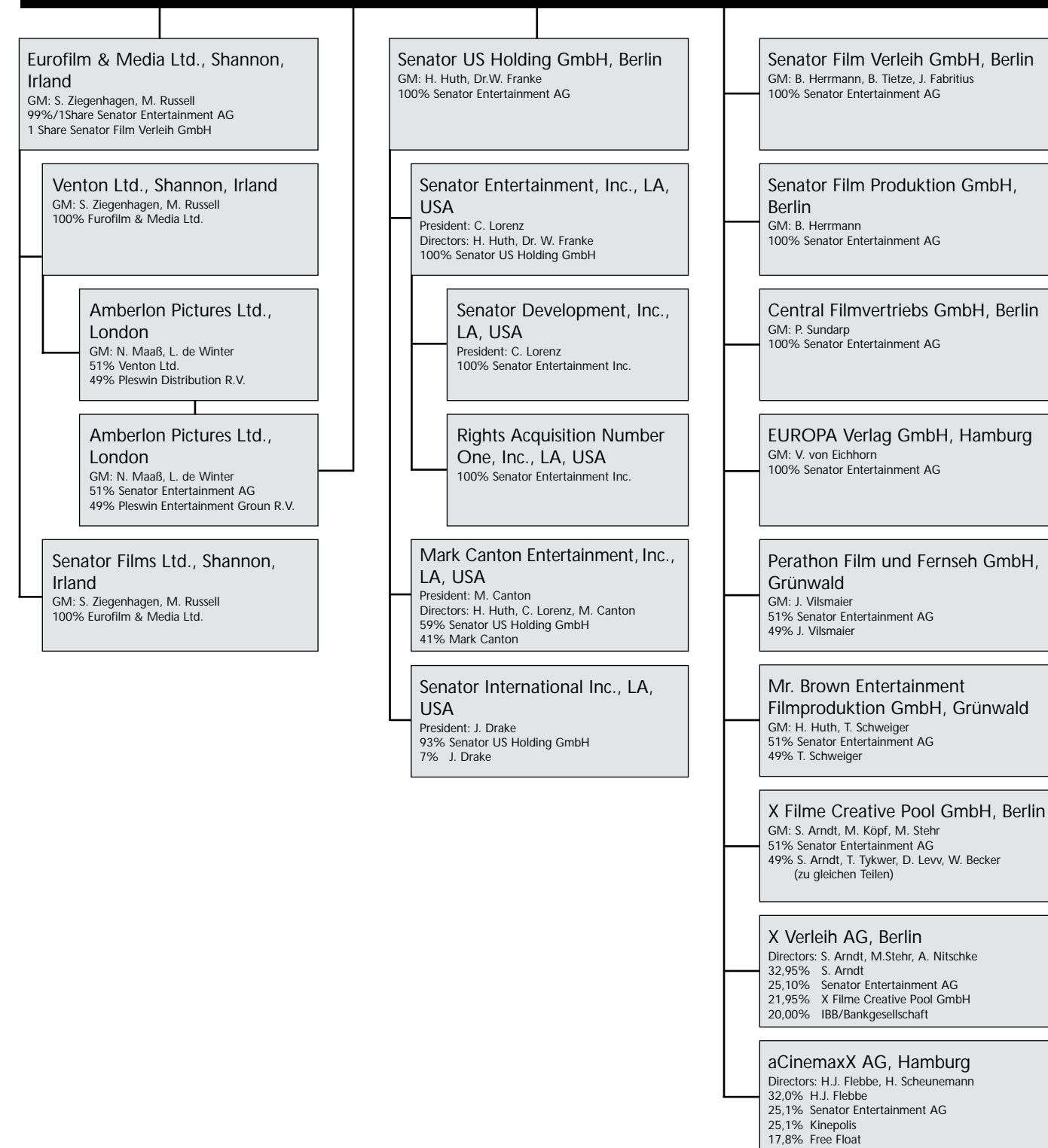
Organization and Workforce

In the reporting year, Senator Entertainment AG employed an average of 142 persons. At the end of the reporting year, 134 persons worked for the Senator Group. 113 were employed in Germany, 6 in Ireland, and 15 in the USA.

In 2001, personnel expenses totaled EUR 7.3 million compared to EUR 6.5 million in the previous year, an increase of 12.3%. Revenues per employee were increased from KEUR 782 in 2000 to KEUR 987 in 2001.

Executives participate in a stock option plan. During the reporting year, new employees were granted 47,000 stock options. Senator AG regularly invest in the development and further education of its staff.

Senator Entertainment AG, Berlin



Risk Report

Competition in film production and distribution market

As producer and purchaser of film rights and exploiter of rights and as dealer in licenses, Senator moves within an intensely competitive environment, both in acquisition and distribution. The broad positioning of the Group, the complete value creation chain and the principle to hold rights to all exploitation stages limits the overall risk and expands its negotiating opportunities with respect to its contract partners.

Risk from film production

For our own productions, Senator competes with other production companies for the right to literary material and screen plays as well as contract with the successful directors, actors and studios.

Own productions as well as co-productions of cinema and television films are cost-intensive and involve corresponding financial risk. In the past production costs for an average German film lay between EUR 2.5 million and EUR 5.0 million. International productions cost many times more. There is also the risk of exceeding budget or failure to complete the production on time.

Appropriate insurance is used to cover the budget risks in international productions. For national productions, the risk is reduced by means of grants and subsidies. As a rule, no grants are provided for international projects. There are other facilities such as gap financing instead. The success of a film depends primarily on the audience and is therefore difficult to plan in advance. Due to the large volume of funds needed for international productions, even one failed project can have disadvantageous consequences for the producers assets, financial and earnings situation.

R & D Report

“Research and development” for a producer and distributor means the viewing, evaluation and finally the utilization of film material or its selective purchase and development of screenplays.

In this sense the production division is to be seen essentially as the R & D department. Investments undertaken as run-up costs for the production of films are R&D investments.

Therefore the company has decided only to realize larger international projects if the sales success can be earned in advance and/or a gap financing is available from a bank. The latter means that an individual film is managed and financed like an independent firm.

Risk in film acquisition

In license trade the company competes with other film distributors for the rights to very promising productions. Even if the market situation has relaxed from the last two years in which high capital resources pushed up prices in the acquisition market, there remains great competition for attractive feature films. In addition, acquisition includes both quantitative risk (purchase price) and a qualitative risk (content). Only the purchaser's experience can help reduce this risk. Senator has more than 20 years experience in this field.

In the last two years Senator has secured access to rights in a very tight market through a sufficient number of cooperation agreements. Due to changes in the competitive environment (change from sellers' to buyers' market), all cooperation agreements were and are being critically reviewed.

Senator aims to have a sufficient number of own productions to satisfy its need for feature films even if the market situation should inhibit acquisition of the number of licenses to high quality films needed at acceptable conditions.

Risks in exploitation

Senator exploits film rights through all exploitation stages. In sales and distribution Senator competes with numerous national and international suppliers in the respective exploitation stages. Proceeds from the exhibition division depend on development in the entire market and audience preferences. Senator's strategic investment in CinemaxX provides it with opportunities to manage its position.

Currently the competitive environment of the TV sector is highly dynamic on the demand side. The outcome of this situation is hard to predict. It is also influenced by advertising revenues which makes it vulnerable to the overall economic situation. Senator can profit from the current DVD boom which in all probability has yet to peak.

Changes in the market and competitive situation in the individual exploitation stages (cinema, video/DVD, pay TV, free TV) could have fundamentally negative impact on business. However, since rights are generally held to all stages of exploitation, a certain balance of risks is achieved.



Lucas Gregorowicz, Julian Weigend, Moritz Bleibtreu in "Lammbock"



Moritz Bleibtreu und Lucas Gregorowicz with joint in hit film "Lammbock"

Grants and subsidies

Due to the current subsidy situation in Germany, Senator finances German productions in part with public funds from granting agencies. Should the subsidy guidelines change detrimentally, a gap in funding could arise which would have to be covered by other available funds or restructuring of medium-term production plans. The facilities available mean that a change in the legal situation could be covered without sustained damage.

Liquidity

The company has sufficient lines of credit at numerous banks to cover further financial requirements for film acquisitions and operating funds.

Due to the planned expansion, esp. in international license trade and international production, the company needs loans from banks and other suppliers of capital. If sufficient loans should no longer be available, this could have negative impact on the company's growth.

Seasonal income fluctuations

License trade is seasonal business whose revenues and revenue recognition are difficult to plan. Fluctuations in revenue within the segment can only be compensated within lapses of time.

Loss of receivables risk

As is common in the industry, long payment horizons mean that loss of receivables risks cannot be eliminated. The company deals with these risks through an appropriate amount of hedging.

Currency risk

The majority of the licenses Senator acquires in the international film markets are paid for in US dollars. However, the bulk of subsequent revenues are earned in Euro. Fluctuations in the Euro/US dollar exchange rate can have impact on business operations which influence the financial and income situations, and above all the company's operating margin, leading to currency gains but, also losses. Senator uses foreign exchange forwards and similar transactions to counter these risks.

Risks from acquisition of CinemaxX stake and other investment risks

A major portion of the funds from the capital increase were used to acquire the more than 25% stake in CinemaxX AG. By virtue of the equity consolidation, CinemaxX's earnings situation therefore influences the results of Senator Entertainment AG.

In 2001, CinemaxX conducted an extensive domestic restructuring program, including a substantial restructuring of its foreign activities. This is reflected in the negative CinemaxX consolidated result. If these measures are ineffective in 2002, Senator's total assets, financial and earnings situation could be substantially marred.

Continuing good cinema business should also make an impairment of the CinemaxX value unnecessary. This assumption is further supported by the tendency toward increased multiplex share in the overall market for which CinemaxX also profits.

However, the ordinary amortization of CinemaxX goodwill will continue to burden the financial result by EUR 3.0 million p.a.

This applies correspondingly to other holdings of Senator Entertainment AG. However, the risks pertaining to the individual subsidiaries are not significantly related. The individual risks of other holdings, excepting the CinemaxX stake, are not as substantial in relation to Senator's overall business.

Greenshoe litigation

On 30 December 1998, the company's annual general meeting adopted an approved capital to service a so-called greenshoe. This is a surplus allocation option granted to the consortium leader in an IPO. The consortium leader placed a corresponding number of shares in the initial issue and exercised the greenshoe. Metropol GmbH filed a challenge to the shareholders' resolution. In the first instance, the plaintiff lost on all counts but, obtained a judgement in its favor from the appellate division in Berlin (Kammergericht).

Senator filed an appeal with the Federal Court of Appeal (BGH) leading to an interim stay of the judgement. In the unanimous opinion of Senator's counsel, this decision of the Berlin appellate bench will be reversed by the BGH. In particular, the German jurisprudence provides no legal basis for the Kammergericht's decision.

Senator is of the opinion that there are no risks here since the company's counsel believes that even in the unlikely event that the decision of the Berlin appellate bench is upheld at federal level, there are remedies available to the company under stock corporation law.

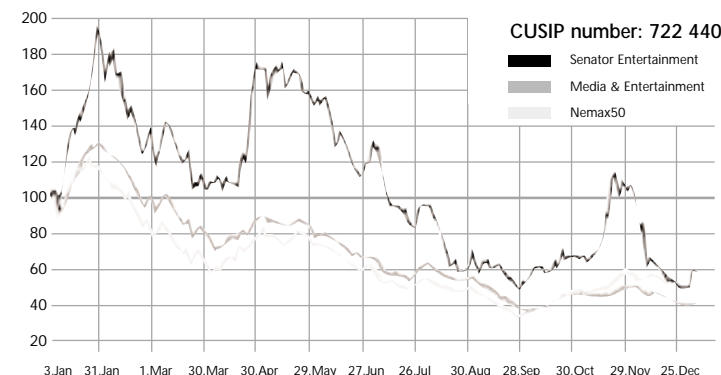
The Senator Share

Since the beginning of 2001, the Senator share has remained relatively strong compared to the Nemax 50 and Media and Entertainment indices. Occasionally, the share even lay well above the market.

In summer, there was again a sharp fall in stock prices, esp. in the Neue Markt. The lows after 11 September led to further sales throughout the market as a whole. In this phase, the Senator share remained relatively stable compared to the indices and the shares of many competitors. After overcoming the September lows and continued market consolidation, confidence gradually returned. Investors oriented toward fundamental values and long-term planning increasingly invested in Senator shares. After the close of the third quarter, and based on earnings expectations at the time, the share price recovered to more than EUR 5. A renewed weak phase began following the correction in the year's expected results. However, the standardized share price from the beginning of the year remained relatively strong compared to the Nemax 50 and the average for media shares. At the end of the year Senator's share lay with EUR 2.59 at 47.68% below its value at the start of the year. In the same period, the Nemax 50 lost 59.95% of its value.



Scene from action drama "Black Hawk Down" by Ridley Scott



Film Highlights

Ridley Scott's "Black Hawk Down" ("Hannibal", "Gladiator"), produced by Jerry Bruckheimer ("Pearl Harbor") counts as one of Senator's cinema highlights. This exciting action drama about a military mission in Somalia which ends in tragedy was nominated for four Oscars and came away with two. Due to current political developments, the German release, planned for April, has been delayed.

"Rat Race", a Jerry Zucker comedy ("The Naked Gun", "Ghost") landed in 3d place in the US in its opening weekend. The slapstick, starring Rowan Atkinson (Mr. Bean) opens in August.

"Crush" exhibits a stylistically confident transition between comedy and drama in the love lives of three people in their mid-forties. Andie MacDowell, star of "Four Weddings and a Funeral", plays the main part in this Senator-FilmFour co-production directed by John McKay.

"Trapped", the kidnapping thriller by Luis Mandoki (aka "24 Hours") with Charlize Theron, Courtney Love, and Kevin Bacon is due for release in the fall.

"Charlotte Gray" is to open in December. This love and war melodrama by Gillian Armstrong features Cate Blanchette as a young Scotswoman in the Resistance.

Further highlights are "Human Nature" from the makers of "Being John Malkovich" and the sequel to "Italian for Beginners", "Minor Mishaps", which received the Blaue Engel as the best European film at the Berlinale. The film comes from the successful Dogma tradition.

"Death to Smoochy", a black comedy starring Danny DeVito and Robin Williams, produced by Senator, starts in the USA on 28 March 2002 and will release in Germany and many other important cinema territories in the following months.

Outlook

In the current fiscal year 2002, consolidation will continue.

Greater growth rates are only expected for 2003 – on the basis of sustained economic recovery in the USA and Europe.

Cinema business is expected to continue in 2002 at last year's levels. There are many reasons to believe that admissions will also remain stable. German feature films, which did well in 2001, will have to fight to keep hold their position. 15 - 20 feature films seems to be a realistic target for film starts in 2002, corresponding to current marketing capacity.

The DVD Boom will most likely continue. Thus the Video/DVD exploitation stage will gain in importance in the medium term.

Senator expects sales at least as high as last year and a positive result. The international division will again be an important source of revenue. In the coming years international business should continually increase its contribution to revenues to 80%. The international film business should continue further expansion of core competence worldwide under the umbrella of Senator Entertainment AG and simultaneously strive for stronger co-operation in individual projects with a number of partners. The gains in flexibility should enable Senator to better reach its future growth targets.

Events since the Balance Sheet Date

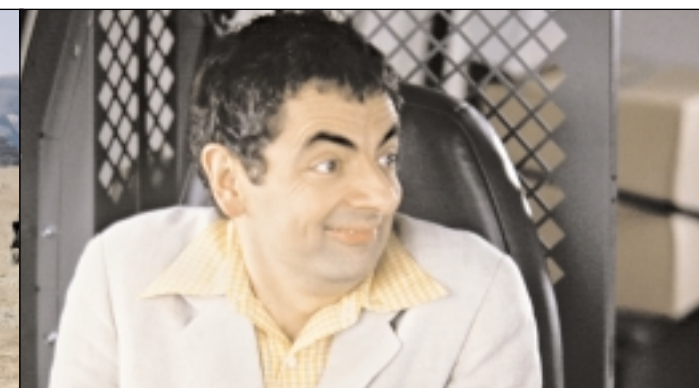
Senator acquired Mark Canton's share in the joint venture founded with Senator. The company was renamed Baxter Entertainment Inc.

X-Filme Creative Pool GmbH, 51% of which is held by Senator Entertainment AG, exercised a put option in the first quarter of the current fiscal year. That increased Senator's share in the company to 54.35%

As of 1 April of the current fiscal year, Dr. Friedrich Carl Wachs joined Senator's Management Board, assuming the functions of COO and deputy to the chairman.



Seth Green in the Jerry Zucker's comedy "Rat Race"



Typical: Rowan Atkinson in "Rat Race"

Prizes and Awards

GIRLFIGHT	January 2000	Sundance Film Festival Grand Jury Prize Director's Award – Karyn Kusama
	September 2000	Deauville – Festival du Cinema Américain Grand Special Prize Acting Prize – Michelle Rodriguez
	September 2001	Valladolid International Film Festival Silver Spike – Karyn Kusama
DAS EXPERIMENT	January 2001	Bavarian Film Awards 2001 Best Director – Oliver Hirschbiegel Best Cinematographer – Rainer Klausmann Best Screenplay – Mario Giordano, Christoph Darnstädt, Don Bohlinger
	March 2001	Bogey Box Office Germany Award for more than 1000 admissions per print at the opening weekend in Germany
	June 2001	German Film Awards 2001 Audience Award Best Picture Audience Award Best Actor – Moritz Bleibtreu Best Supporting Actor – Justus von Dohnányi Best Actor – Moritz Bleibtreu Best Production Design – Andrea Kessler, Uli Hanisch
	August 2001	Montréal World Film Festival Best Director – Oliver Hirschbiegel
	October 2001	Bergen International Film Festival Audience Award – Oliver Hirschbiegel
	December 2001	European Film Awards Nominated for Best Picture
VAYA CON DIOS	January 2002	Bavarian Film Awards Best Young Actress – Chiara Schoras Best Young Actor – Daniel Brühl Best Young Director – Zoltan Spirandelli VGF-Producer's Award – Dieter Ulrich Aselmann

CHOCOLAT	February 2001	Golden Globes - Nominations Best Motion Picture Best Actress – Juliette Binoche Best Supporting Actress – Judi Dench Best Original Score – Rachel Portman
	March 2001	Bogey Box Office Germany Award for more than 1000 admissions per print at the opening weekend in Germany
	March 2001	Academy Awards - Nominations Best Picture Best Adapted Screenplay – Robert Nelson Jacobs Best Actress – Juliette Binoche Best Supporting Actress – Judi Dench Best Original Score – Rachel Portman
	March 2001	Screen Actors Guild Awards Best Supporting Actress – Judi Dench
	December 2001	European Film Awards Audience Award Best Actress – Juliette Binoche
THE OTHERS	December 2001	Golden Screen for more than 3 million admissions in Germany
	February 2002	Goya Awards Best Picture Best Direction – Alejandro Amenábar Best Screenplay – Alejandro Amenábar Best Cinematography – Javier Aguirresarobe Best Production Design – Benjamín Fernández Best Editing – Nacho Ruiz Capillas Best Sound – Tim Cavagin, Daniel Goldstein, Alfonso Raposo, Ricardo Steimberg Best Production Supervision – Miguel Ángel González, Emiliano Otegui
MINOR MISHAPS	February 2002	Golden Globes - Nomination Best Actress – Nicole Kidman
	February 2002	International Berlin Film Festival Best European Film

LAMMBOCK	July 2001	HypoVereinsbank Young Director's Award Nomination for Christian Zübert
SEXY BEAST	February 2002	Golden Globes - Nomination Best Supporting Actor – Ben Kingsley
	March 2002	Academy Awards - Nomination Best Supporting Actor – Ben Kingsley
	October 2001	British Independent Film Awards Best British Independent Film Best Direction – Jonathan Glazer Best Actor – Ben Kingsley Best Screenplay – Louis Mellis, David Scinto
	December 2001	European Film Awards Best Actor – Ben Kingsley
	December 2001	Toronto Film Critics Association Awards Best First Feature Best Supporting Actor – Ben Kingsley
BLACK HAWK DOWN	March 2002	Academy Awards - Nominations Best Director – Ridley Scott Best Cinematography – Slowomir Idziak Academy Awards Best Editing – Pietro Scalia Best Sound – Mike Minkler, Myron Nettinga, Chris Munro
THE WARRIOR	September 2001	San Sebastián International Film Festival Best Cinematography – Roman Osin
	October 2001	Dinard Festival of British Films Grand Prize
	October 2001	British Independent Film Award Douglas Hickox Award – Asif Kapadia Best Cinematography – Roman Osin
	November 2001	London Film Festival Sutherland Trophy – Asif Kapadia

KEY FIGURES FOR SENATOR ENTERTAINMENT AG

in K EUR	31.12.2001	31.12.2000	change in %
Total Sales	140,141	107,913	29.9%
License trade	103,413	75,505	37.0%
Cinema	27,931	14,599	91.3%
Production	8,797	17,809	-50.6%
Results			
Operating Cashflow	90,153	32,752	175.3%
EBITDA	94,104	72,422	29.9%
EBIT	5,692	18,059	-68.5%
Annual net loss	-4,193	1,174	-457.2%
Net income per share	-0.12	0.03	-300.0%
Net income per share (basic)	-0.13	0.04	-427.9%
Net income per share (diluted)	-0.13	0.04	-430.1%
Weighted average shares outstanding (basic)	32,482,374	29,608,000	9.7%
Weighted average shares outstanding (diluted)	33,215,641	29,808,000	11.4%
Workforce			
Number	142	138	2.9%
Personnel expense	7,293	6,547	11.4%
Capital composition			
Equity	202,101	204,251	-1.1%
Total capital	357,272	287,473	24.3%
Equity ratio	56.6%	71.1%	-20.4%
Investments			
Film exploitation rights	183,314	84,093	118.0%
Fixed assets	674	913	-26.2%

CONSOLIDATED INCOME STATEMENT (IAS)

in K EUR	Note	1.1.-31.12.2001	Δ in %	(adjusted) 1.1.-31.12.2000	(unaudited) 1.10.-31.12.2001	Δ in %	(unaudited) 1.10.-31.12.2000
Sales	(16)	140,140,900	29.9	107,913,116	24,268,555	-41.7	41,616,157
Other operating income	(17)	1,114,778	13.5	982,250	401,086	58.3	253,332
Cost of purchased services	(18)	-30,970,011	26.6	-24,461,018	-8,603,153	246.8	-2,480,886
Personnel expenses							
Wages and salaries		-6,354,200	13.5	-5,599,301	-1,139,413	-29.2	-1,608,267
Social security and other retirement benefits		-938,748	-0.9	-947,405	-219,312	-32.8	-326,480
Depreciation on intangible assets and other assets	(7,8)	-87,022,160	63.4	-53,265,378	-21,333,310	-25.1	-28,494,180
Amortization of goodwill	(8)	-1,389,566	26.5	-1,098,245	-347,876	-0.6	-350,113
Other operating expenses	(19)	-8,888,847	62.7	-5,464,962	-4,293,335	149.0	-1,724,046
Result of ordinary activities		5,692,146	-68.5	18,059,057	-11,266,758	-263.6	6,885,517
Other interest and similar income		513,030	-53.3	1,099,083	179,773	8.8	165,277
Interest and similar expenses		-1,470,856	-40.7	-2,481,818	-1,036,633	-42.4	-1,798,908
Expenses for financial assets classified at equity	(6)	-10,462,199	-21.6	-13,347,516	-2,946,522	-76.8	-12,716,620
Exchange rate profit/loss		715,949	-329.1	-312,529	599,190	-304.4	-293,129
Other income/expenses		-109,360	788.2	-12,313	-101,394	8.434.8	-1,188
Result before taxes		-5,121,290	-270.5	3,003,964	-14,572,344	87.8	-7,759,051
Taxes on income and earnings	(20)	182,667	-113.8	-1,327,978	3,045,273	102.7	1,502,229
Net loss/profit		-4,938,623	-394.7	1,675,986	-11,527,071	84.2	-6,256,822
Minority interests		745,801	-248.6	-501,923	403,388	-138.7	-1,043,131
Consolidated net loss/profit		-4,192,822	-457.1	1,174,063	-11,123,683	52.4	-7,299,953
Profit/loss carried forward as of 1 January		4,934,266	31.2	3,760,203			
Transfer to revenue reserves		0	-	0			
Consolidated net profit		741,444	-85.0	4,934,266			

CONSOLIDATED BALANCE SHEET (IAS) ASSETS

in EUR	Note	31.12.2001	(adjusted) 31.12.2000	change in %
Current assets				
Cash and equivalents	(5)	9,738,594	15,181,869	-35.85
Trade receivables		56,604,913	76,287,240	-25.80
Inventories				
Work in progress		164,149	94,162	74.33
Finished goods and merchandise		1,152,257	798,798	44.25
Payment on account		317,222	236,719	34.01
Other current assets				
Other receivables	(9)	17,926,313	8,268,439	116.80
Receivables from participations		888,435	281,275	215.86
Prepaid expenses		2,590,067	3,180,806	-18.57
Total current assets		89,381,950	104,329,308	-14.33
Non current assets				
Investments in associated enterprises	(6)	62,139,910	72,602,109	-14.41
Property, plant and equipment (net)	(7)	1,833,896	1,702,502	7.72
Securities		1,725	224,858	-99.23
Intangible assets				
Filmrights and licenses	(8)	181,079,412	85,507,974	111.77
Goodwill	(8)	8,539,814	9,928,735	-13.99
Prepaid expenses	(20)	14,295,184	13,177,842	8.48
Total non current assets		267,889,941	183,144,020	46.27
Total assets		357,271,891	287,473,328	24.28

CONSOLIDATED BALANCE SHEET (IAS) LIABILITIES AND EQUITY

in EUR	Note	31.12.2001	(adjusted) 31.12.2000	change in %
Current liabilities				
Trade accounts payable		24,169,187	41,383,153	-41.60
Tax provisions		957,470	2,843,430	-66.33
Accrued expenses	(10)	4,865,965	1,467,749	231.53
Liabilities due to banks		94,518,362	7,365,581	1,183.24
Advance payments received		259,553	373,315	-30.47
Accounts payable due to participations		35,924	0	0.00
Other current liabilities		6,298,499	6,772,733	-7.00
Total current liabilities		131,104,960	60,205,961	117.76
Non current liabilities				
Pension accrual	(12)	1,156,766	1,058,121	9.32
Deferred income	(11)	20,562,396	18,757,290	9.62
Total non current liabilities		21,719,162	19,815,411	9.61
Minority interest		2,052,783	2,858,927	-28.20
Special items relating to grants and subsidies		293,972	342,194	-14.09
Equity				
Share capital	(13)	32,482,374	32,482,374	0.00
Capital reserve	(14)	167,869,079	166,436,440	0.86
Revenue reserve	(15)	392,700	397,755	-1.27
Translation reserve	(15)	615,417	0	-
Retained earnings	(15)	741,444	4,934,266	-84.97
Total equity		202,101,014	204,250,835	-1.05
Total liabilities and equity		357,271,891	287,473,328	24.28

CONSOLIDATED CASH FLOW STATEMENT (IAS)

in K EUR	(adjusted)		change in %
	1.1.-31.12.2001	1.1.- 31.12.2000	
Cash flows from operating activities			
Result before taxes on income and minority interests	-5,121	3,004	-270.5
Corrections to the net result for the year for reconciliation to cash flow from operating activities:			
Depreciation on intangible assets and property, plant and equipment	87,023	53,265	63.4
Depreciation on goodwill	1,390	1,098	26.6
Depreciation on financial assets	10,564	13,400	-21.2
Interest expense	1,471	2,482	-40.7
Interest paid	-1,439	-702	105.0
Interest income	-513	-1,099	-53.3
Interest received	513	1,099	-53.3
Taxes paid	1,435	-49	3.028.6
Currency differences	661	0	-
Changes in long-term provisions	99	214	-53.7
Changes in special items	-48	342	-114.0
Changes in inventories	-504	-458	10.0
Changes in receivables and other assets	9,417	-57,811	-116.3
Changes in short term provisions	567	-1,479	-138.3
Changes in short-term liabilities	-17,766	22,185	-180.1
Changes in deferred charges and prepaid expenses	2,404	-2,739	-187.8
Net cash flow from operating activities	90,153	32,752	175.3
Cash flows from investing activities			
Net changes in fixed assets	-470	-932	-49.6
Proceeds from sale of film distribution rights	548	2,531	-78.3
Acquisition of subsidiaries	-1	-1,345	-99.9
Investment in associated enterprises	0	-85,981	-100.0
Investment in film distribution rights	-183,348	-72,320	153.5
Net cash from investing activities	-183,271	-158,047	16.0
Cash flows from financing activities			
Proceeds from short-term bank loans	87,121	-15,638	-657.1
Distribution to minority shareholders	-56	-5	1.020.0
Purchase of treasury stock	0	-15,734	-100.0
Capital increase (less expense of IPO)	0	167,880	-100.0
Reversal of revaluation reserve	-5	0	-
Change of translation reserve	615	42	1.364.3
Net cash flows from financing activities	87,675	136,545	-35.8
Net change in cash and cash equivalents	-5,443	11,250	-148.4
cash and equivalents at the beginning of year	15,182	3,932	286.1
cash and equivalents at end of year	9,739	15,182	-35.9

STATEMENT OF CHANGES IN EQUITY

in K EUR	Share Capital	Capital Reserve	Retained Earnings	Translation Reserve	Consolidated Net Profit/Loss	Total Equity
As of 1 January 2000	12,320	23,178	434	-42	3,760	39,650
Issue of share capital	4,614	171,106				175,720
Increase in share capital from company funds	16,580	-16,580				0
Increase in share capital from company funds	36		-36			0
Buy back of treasury shares	-1,068	7,925				6,857
Equity increase through sale of treasury shares		1,191				1,191
Net profit (after minority interests)					1,174	1,174
Amortization of treasury stocks		-15,679				-15,679
Costs of capital increase		-4,704				-4,704
Reversal of translation reserves				42		42
As of 31 December 2000	32,482	166,437	398	0	4,934	204,251
As of 1 January 2001	32,482	166,437	398	0	4,934	204,251
Net profit (after minority interests)					-4,193	-4,193
Changes in treasury stock		1,432				1,432
Reversal of revaluation reserves			-5			-5
Translation reserves				616		616
As of 31 December 2001	32,482	167,869	393	616	741	202,101

Notes to Consolidated Financial Statements

For the fiscal years as of 31 December 2001 and 2000
(all amounts in KEURO, unless otherwise indicated)

1. General Senator Entertainment AG, Berlin (hereinafter "Senator AG, "the Company") and its subsidiaries are engaged in the entertainment and media industries. The Company's business is concentrated on the production of feature films and the exploitation of film rights. Within the Senator AG group, numerous subsidiaries act in the market as independent producers and co-producers of feature films. Other enterprises in the group are engaged in the purchase of licenses and the comprehensive marketing of our own film productions and co-productions. Senator AG trades with international film productions through its Irish subsidiary, Eurofilm & Media Ltd. and its subsidiaries as well as through US subsidiaries. The principal offices of Senator AG are at Kurfürstendamm 65, 10707 Berlin, Germany.

The object of Senator Entertainment AG, Berlin, is the acquisition of companies or participation in companies, particularly those in the areas of media, film production, and film rights exploitation, as well as the management of such companies. The Company is also entitled to acquire, sell or otherwise commercially exploit copyright of other trademark rights of any kind. The company is authorized to undertake all business measures which further its corporate business. To this end, it may establish, acquire, or hold interests in other companies in Germany or abroad.

2. Consolidated Financial Statements in accordance with § 292a paragraphs 1 and 2 German Commercial Code Senator AG has exercised the right in § 292a para.1 and 2 of the German Commercial Code to prepare its financial statements for the Senator Group in accordance with international accounting standards IAS (International Accounting Standards as of December 2001). The differences between IAS and German Generally Accepted Accounting Standards (GAAS) concerning accounting, valuation and consolidation methods mainly affect the capitalization of intangible assets, the deferral of minimum guarantees received and investment grants, the revenue recognition, the accounting for treasury shares, the valuation of defined benefit obligations and the accounting for deferred taxes.

3. Consolidation Group and Consolidation Principles

The Group's consolidated financial statements contain Senator AG and the enterprises it controls. The control results from the fact that the Group holds directly or indirectly more than 50% of the voting rights of a company's subscribed capital and can thereby control an enterprise's financial and business policy. The minority shareholders' equity and the corresponding period profit are shown separately in the balance sheet and income statement. Joint ventures are included in the consolidated financial statements according to the percentage of the participation.

Shares in associated enterprises (in general, those in which the equity holding lies between 20% and 50%) in which Senator exercises a substantial influence are carried according to the equity method. The company revalues its shares in associated enterprises if there are reasons to believe the asset has been impaired or if an impairment recognized in the past no longer applies.

The acquisition method is applied to the purchase of enterprises. Enterprises acquired during the fiscal year are included in the consolidated financial statements as of the date of acquisition.

Intercompany balances and transactions among the consolidated companies of the Senator AG Group, including intercompany profits and losses are eliminated. The financial statements of companies included in the consolidated financial statements were prepared subject to uniform accounting and valuation principles.

The individual financial statements have been prepared as of the same closing date as that of the consolidated financial statements.

The consolidation group has changed in the year under review as follows without altering the comparability:

3.1. Enterprises founded Senator US Holding, the wholly-owned subsidiary of Senator Entertainment AG founded Senator International Inc., L.A., USA together with Joe Drake and holds 93% of the same.

During the fiscal year Senator Entertainment Inc. founded the Senator Development, Inc., L.A., USA and Rights Acquisition Number One, Inc., L.A., USA.

The Senator US Holding GmbH subsidiary, Mark Canton Entertainment, Inc., in which 51% is held, founded The Company Inc., L.A., USA and 24 Hours Productions Inc., L.A., USA.

The following enterprises have been included in the consolidated financial statements of Senator AG:

Entity	Place of incorporation	Principal activities	Ownership interest %
Subsidiaries			
24 Hours Production, Inc.	USA	Production	51.0
Amberlon Pictures L.P.	Great Britain	Distribution and Production	51.0
Amberlon Pictures Ltd.	Great Britain	Distribution and Production	51.0
Boomer Pictures Inc.	USA	Production	51.0
Castle Productions Ltd.	Ireland	Production	100.0
Central Filmvertriebs GmbH	Germany	Distribution	100.0
Datext Ltd.	Ireland	No business	100.0
Eurofilm & Media Ltd.	Ireland	Distribution	100.0
Europa Verlag GmbH	Germany	Production, distribution, trade	100.0
Mark Canton Entertainment Inc.	USA	Production	51.0
Perathon Film und Fernsehen GmbH	Germany	Production	51.0
Rights Acquisition Number One, Inc.	USA	Production, distribution	100.0
Senator Development, Inc.	USA	Production	100.0
Senator Entertainment Inc.	USA	Holding	100.0
Senator Entertainment Inc.	Ireland	No business	100.0
Senator Film Produktion GmbH	Germany	Production	100.0
Senator Film Verleih GmbH	Germany	Distribution	100.0
Senator Films Ltd.	Ireland	No business	100.0
Senator International, Inc.	USA	Distribution	93.0
Senator US Holding GmbH	Germany	Holding	100.0
SFI Ltd.	Ireland	No business	100.0
Style Productions Ltd.	Ireland	Production	100.0
The Company, Inc.	USA	Production	51.0
Venton Ltd.	Ireland	No business	100.0
X Filme Creative Pool GmbH	Germany	Production	51.0
X Filme Produktionsgesellschaft mbH	Germany	No business	51.0
Joint Ventures			
Mr. Brown Entertainment GmbH 1)	Germany	Production	51.0
Associated companies			
CinemaxX AG 2)	Germany	Distribution	25.1
X-Verleih AG 2)	Germany	Distribution	25.1

1) Quota consolidation

2) "At equity" method

4. 4. Presentation of accounting and valuation methods

The principal accounting and valuation policies applied in the preparation of the Senator AG financial statements are as follows:

4.1. General The accompanying financial statements are prepared in accordance with the standards formulated by the International Accounting Standards Committee (IASC). The income statement is prepared using the total cost method.

4.2. Method of representation The financial statements were prepared using the historical cost method.

4.3. Use of estimates Preparation of financial statements requires management to make estimates and assumptions that could affect amounts of assets, liabilities and financial obligations on the balance sheet date, as well as income and expenses in the reporting year. Actual results may differ from those estimates and assumptions.

4.4. Reporting currency The financial statements have been prepared in EURO.

4.5. Cash and cash equivalents Cash includes cash on hand and deposits at banks.

4.6. Receivables Receivables are stated at nominal value less allowance for doubtful accounts.

4.7. Financial instruments Financial assets and financial liabilities carried in the balance sheet include cash and cash equivalents, trade and other accounts receivable, long-term receivables, loans, borrowings, and investments. The recognition and measurement criteria for these items are disclosed together with the respective accounting policies.

4.8. Intangible assets Senator capitalizes intangible assets, if

- (a) the asset has become economic property of the Company as a result of events in the past.
- (b) It is to be assumed that the enterprise will derive future economic benefit from this asset.

In conformity with IAS 38, Senator AG values an intangible asset at its acquisition cost if,

- (a) it is likely that the enterprise will derive future economic benefit from the asset and
- (b) the costs of the asset can be reliably measured.

This method is applied if an intangible asset is externally acquired or internally generated. Intangible assets are recognized at the acquisition costs less cumulative amortization and cumulative impairments. According to IAS 38 intangible assets are amortized uniformly over the course of their estimated useful life. The useful life of an intangible asset is a maximum of 20 years from the date on which the asset may be used. The amortization period begins as soon as the asset can be used. Amortization periods and plans are reviewed annually at the end of a fiscal year.

(1) **Patents, brands and licenses** The amounts paid for patents, brands, and licenses are capitalized and subsequently amortized using the straight line method over the expected useful life of the asset. Patents, brands and licenses are valued at their original acquisition cost. The estimated useful life of patents, brands and licenses varies between five and seven years. Rights to manuscripts and screenplays are not amortized.

(2) **Film exploitation rights** The amounts paid for the acquisition or production of films are capitalized in conformity with IAS 38 "Intangible Assets". Films are amortized over the expected useful life depending on exploitation. Use includes the exploitation of cinema, video, and television rights. In principle the following amortization is applied to the three exploitation stages:

	2001	2000
on opening	30%	50%
on sale of video/ DVD rights	10%	25%
on sale of TV rights	60%	25%

The amortization rates are adjusted according to improved forecasts as to the exploitation of the rights.

(3) **Software** New software is capitalized at its acquisition costs and posted as an intangible asset to the extent that it is not an integral part of the hardware to which it belongs. Software is amortized over three to ten years by the straight line method.

4.9. Goodwill The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is amortized on a straight-line basis over its useful life. The amortisation period reflects the best estimate of the period during which future economic benefits are expected to flow to the enterprise.

The amortization period is determined at the time of the acquisition based upon the particular circumstances and ranges from 5 to 20 years. The unamortized balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognised.

4.10. Provisions Provisions are recorded for liabilities of uncertain timing or amount in accordance with IAS 37. A provision is recognized when, and only when:

- (a) The company has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words, the amount that the company would pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time.

The tax provision for the period is the amount of the taxes charged to the income statement, excluding the amount of the amount of the taxes related and allocated to those items not dealt with in the current income statement. Taxable income in this context is the amount of the income for a period, determined in accordance with the rules established by the German taxation authorities, upon which the provision for taxes payable is determined. Senator AG records provisions for taxes in the amount of taxes currently payable in respect of taxable income for the period and past periods.

Contingent liabilities which arise from a possible obligation from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the company; or a present obligation that arises from past events but is not recognized because

- (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or
- (b) the amount of the obligation cannot be measured with sufficient reliability.

are disclosed as contingent liabilities, unless the possibility of an outflow of resources embodying economic benefits is remote.

4.11. Foreign Currencies

(1) **Foreign currency transactions** Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised in the income statement in the period in which they arise.

(2) **Foreign subsidiaries** All of the foreign consolidated subsidiaries of Senator are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at the average exchange rates with respect to the income statement. A difference in results or exchange rate induced changes in consolidated equity and earnings carried forward are carried neutrally in the currency translation reserve under equity.

(3) **Public grants and subsidies** Public grants and subsidies are deferred and amortized into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying financial statements. Reversals from deferred income are recognized as revenues.

4.12. Revenue recognition Revenues are recognized in accordance IAS 18 when all of the following conditions have been satisfied:

- Senator AG has transferred to the buyer the significant risks and rewards of ownership of the goods;
- Senator AG retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;
- The amount of revenue can be measured reliably
- It is sufficiently probable that the economic benefits of the sale will accrue to the company.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues are recorded when the transfer of the risks and rewards of ownership coincides with the transfer of the legal title and the passing of possession to the buyer. If the company retains significant risks of ownership, the transaction revenue is not recognized.

In accordance with the matching principle in IAS 18 revenue and expenses that relate to the same transaction or other event are recognized simultaneously.

(1) **Films licensed to cinemas** Motion picture exhibition rights are sold (licensed) to theaters on the basis of a percentage of the box office receipts and/or for a flat fee. In certain instances, the Senator AG receives a nonrefundable guarantee against a percentage of the box office receipts.

Senator AG recognizes revenues on the dates of exhibition for both percentage and flat fee engagements. Nonrefundable guarantees are deferred in the accounts and recognized as revenues on the dates of exhibition. Guarantees that are, in substance, outright sales, are recognized as revenue under certain conditions, as is the case for licensing of TV rights. This also applies to the sale of film rights to other distributors in certain territories.

(2) **Films licensed to television** Senator AG considers license agreements for television program material as a sale of a right or a group of rights.

Senator AG recognizes revenues from a license agreement for television program material when all of the following conditions have been met:

- The license fee for each film is known
- The cost of each film is known or reasonably determinable
- Collectability of the full license fee is reasonably assured
- The film has been accepted by the licensee in accordance with the conditions of the license agreement

- The film is available for its first showing or telecast. Unless a conflicting license prevents usage by the licensee, restrictions under the same license agreement or another license agreement with the same licensee on the timing of subsequent showings shall not affect this condition.

4.13. Income taxes The income tax charge is based on tax payable for the year and considers current results and deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company reassesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised.

Deferred tax liabilities have not been provided on undistributed earnings of foreign subsidiaries to the extent that the earnings are intended to remain indefinitely invested in those entities. A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

4.14. Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles carried at cost and treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

4.15. Segments For management purposes the Group is organised on a world-wide basis into four major operating businesses. Financial information on business and geographical segments is presented in Note 22.

5. Trade Receivables

in K EUR	2001	2000
Accounts receivable	57,057	76,796
Less provision for doubtful accounts	-452	-509
Accounts receivable - net	56,605	76,287
Thereof out of public grants	2,713	3,932

Accounts receivable are stated with their nominal value less allowance for doubtful accounts.

Senator AG capitalizes trade receivables resulting from public grants and subsidies for production costs or distribution costs for films. The subsidies are granted to the producer or the licensor.

6. Shares in Associated Companies

in K EUR	As of 01.01.2001	Change	As of 31.12.2001
CinemaxX AG, Hamburg	71,513	-10,421	61,092
X-Verleih AG, Berlin	1,089	-41	1,048
	72,602	-10,462	62,140

The 25,1 % share in CinemaxX AG constitutes a strategic investment for Senator from which positive impact on the cost and revenue structure is expected. Goodwill is subject to ordinary depreciation over a period of 20 years (KEUR 3,002), to the extent that no unexpected developments make an additional write-down necessary.

7. Property, Plant and Equipment

in K EUR	Total 2001	Total 2000
Costs 01.01.01	3,235	2,391
Additions	640	913
Disposals	-163	-68
31.12.01	3,712	3,236
Accumulated Amortization 01.01.01	1,533	1,178
Additions	462	416
Disposals	-117	-61
31.12.01	1,878	1,533
Net book value	1,834	1,703

The assets are capitalized at acquisition costs less ordinary depreciation. In the event that the fixed assets are impaired, an impairment loss is recorded. If in future periods the reason for the impairment is obsolete, a write-up of the respective asset is recorded.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life. The company estimates the useful life of the assets between 3 and 10 years.

8. Intangible Assets

in K EUR	Goodwill	Film distribution rights	Patents, trademarks and licences	Prepayment	2001 Total	2000 Total
Costs						
1 January	11,704	197,597	1,721	4,173	215,195	147,163
Additions	1	182,594	67	686	183,348	88,218
Transfers	0	2,301	-201	-2,100	0	0
Currency differences	0	88	0	0	88	0
Disposals	0	-419	-211	-241	-871	-20,186
31 December	11,705	382,161	1,376	2,518	397,760	215,195
Accumulated Amortization						
1 January	1,775	117,492	491	0	119,758	83,212
Additions	1,390	86,364	196	0	87,950	53,966
Transfers	0	201	-201	0	0	0
Currency differences	0	755	0	0	755	0
Disposals	0	-112	-211	0	-323	-17,420
31 December	3,165	204,700	275	0	208,140	119,758
Net book value	8,540	177,461	1,101	2,518	189,620	95,437
Net book value prior year	9,929	80,105	1,230	4,173		

Intangible assets are capitalized at their acquisition or manufacturing costs.

Debit differences arising from capital consolidation are stated as goodwill.

Goodwill, subject to ordinary depreciation, comprise the following:

in K EUR	2001	2000
X Filme Creative Pool GmbH	3,122	3,479
Perathon Film & Fernseh GmbH	2,070	2,373
Mr. Brown Entertainment Filmproduktion GmbH	1,534	1,887
Amberlon Pictures L.P.	1,145	1,293
Central Film GmbH	532	726
Mark Canton Entertainment Inc.	121	153
X Filme Produktion GmbH	16	18
	8,540	9,929

Film rights include acquired film rights for third-party film productions as well as the rights from in-house productions. Film rights from own film productions are capitalised with their respective production costs in accordance with IAS 38.

The position "Patents, Trademarks, Licenses" mainly comprise screenplay rights. As soon as the screenplay rights have been used for the production of a film, the rights will be classified as production cost for the respective film and are capitalized under film exploitation rights.

9. Other Receivables

in K EUR	2001	2000
Other receivables	17,926	8,269
Receivables from companies in which participations are held	889	281
	18,815	8,550

The other assets mainly include a loan extended to a third party totalling KEUR 7,898, a minimum guarantee of KEUR 4,816 granted to the production of two films and KEUR 2,797 in receivables from tax refunds.

10. Other Provisions

in K EUR	as of 01.01.2001	Use	Reversal	Addition	as of 31.12.2001
Provisions for personnel costs	329	280	2	379	426
Outstanding invoices	1,139	1,013	84	4,398	4,440
	1,468	1,293	86	4,777	4,866

Provisions for personnel comprise mainly unused vacation and outstanding invoices for film production.

11. Deferred Income Non-refundable guarantees and minimum guarantees for film rights are deferred in the consolidated financial statements and recognized as income on the respective dates of exhibition.

Public grants and subsidies related to assets are stated as deferred income. Deferred income is reversed over the useful life of the subsidized assets.

12. Employee Benefit Obligations

12.1. Pension plans and pension provisions The Senator AG Group provides defined benefit pension plans for some employees. Provisions for pension obligations are established for benefits payable in the form of retirement, disability and surviving dependent pensions. Benefits are dependent on years of service and the respective employee's compensation.

The obligation resulting from defined benefit pension plans is determined using the 'project unit credit' method. Unrecognised gains and losses resulting from changes in actuarial assumptions are recognised as income (expense) over the expected remaining service life of the active employees. There were no plan terminations, curtailments or settlements for the year ended 31 December 2001.

The following table reconciles the status of non funded defined benefit plans to the amounts recognised in the balance sheet:

in K EUR	2001	2000
Present value of unfunded obligations	1,044	940
Unrecognized actuarial gains	113	118
Net liability in the balance sheet	1,157	1,058

Pension expense is comprised of the following:

in K EUR	2001	2000
Current service cost	66	68
Interest expense on obligations	67	56
Amortization	-34	-24
Total pensions expense	99	100

Principal actuarial assumptions used to determine pension obligations as of 31 December 2001 were as follows:

in %	2001	2000
Discount rate	6.0	6.0
Wage and salary increases	1.0	1.0
Retirement benefit increases	1.0	1.0

In accordance with paragraph 41 of IAS 19 the company recognizes its rights under an insurance policy as an asset because the policy is held by the enterprise itself.

The value of the insurance claim as of 31 December 2001 amounts to KEUR 604.

12.2. Stock option plan

The Stock Option Plan introduced in 2000 provides for the granting of options to employees and management of the Company to purchase common shares. The option exercise price per share is the fair market value of shares on five days before the gratification on the Frankfurt Stock Exchange. The maximum term of an option does not exceed four years.

The stock options are classified in three categories. Category I has a block-up period of 2, Category II of 3 and Category III of 4 years before the option may be exercised. After expiring of the blocking period the option has to be exercised within 15 trading days on the Frankfurt Stock Exchange.

The exercise of the option in the respective categories is subject to the following conditions:

- option of Category I can only be exercised if the fair value of shares at the date of exercise is more than 20% above the share price on the date the option was granted.
- Category II can under the condition of Category I (see (a)) be exercised if the price exceeds the option price in 30%
- Category III can under the condition of Categories I and II (see (a) and (b)) be exercised if the price exceeds the option price in 40%.

In fiscal year 2001, no options were exercised. The stock options of Senator AG as of 31 December 2001 are presented below:

Year	Category I units	Category II units	Category III units	Total units
2002	35,000	217,500	0	252,500
2003	183,000	17,500	10,000	210,500
2004	0	129,500	12,500	142,000
2005	0	0	129,500	129,500
Total	218,000	364,500	152,000	734,500
Prior year	467,500	396,250	191,250	1,055,000

13. Share Capital

in units	2001	2000
Shares, 34,000,000 new value; authorized 17,000,000; issued and outstanding in FY 2000 4,248,000 and 1,750,000 in FY 1999	34,000,000	34,000,000
Treasury stock	-1,517,626	-1,517,626
	32,482,374	32,482,374

Movements in share capital are shown below:

	Number of shares (thousands)		Amount (EUR)	
	2001	2000	2001	2000
Common shares, issued and paid up 1 January	34,000	4,995	34,000,000	12,769,515
Capital increase	0	1,805	0	4,614,409
Stock split	0	27,200	0	-
Treasury stock	-1,518	-1,518	-1,517,626	-1,517,626
Capital increase without issuance of new shares	0	-	0	16,616,076
31 December	32,482	32,482	32,482,374	32,482,374

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the financial statements as a change in equity. No gain or loss has been recognised in the income statement on the sale, issuance, or cancellation of treasury shares.

At the annual general meeting on 7 June 2000, the shareholders resolved to convert the nominal share capital from DM into EURO. Thus the DM registered share capital of DM 34,000,000 was converted into a share capital of EURO 17,383,923.96. In the same shareholder meeting, the shareholders agreed on a stock split of 1:5. The number of shares issued changed therefore from 6,800,000 to 34,000,000 accordingly. Furthermore, the shareholders agreed on a capital increase from then EUR 17,383,923.96 by EUR 16,616,076.04 to now EUR 34,000,000. The resolution of the annual general meeting was entered in the commercial register on 14 June 2000.

On 7 June 2000, the shareholders also authorised the management to issue new shares in the amount of EUR 17,000,000. Senator AG can use the capital stock authorised for issue for at least five years to issue common shares through cash payments or contributions in kind.

The management has been authorised by the annual general meeting to acquire treasury shares up to a maximum of 10% of the share capital after the stock split and the capital increase mentioned above. The company is obliged not to trade with treasury shares and sell treasury shares only under certain conditions.

14. Capital Reserve The development of the capital reserve in fiscal year 2001 is shown below:

in K EUR	2001	2000
01 January	166,437	23,178
Capital increase	0	154,526
Change in treasury stock	1,432	-7,754
Sale of treasury stock	0	1,191
Issuance costs, net of tax	0	-4,704
31 December	167,869	166,437

15. Revenue reserves, Translation Reserves and Net Profit

in K EUR	2001	2000
Legal reserve	-	-
Revaluation reserve	-	5
Other retained earnings	393	393
Other retained earnings	393	398
Translation reserve	616	0
Revenue reserves	741	4,934

During the reporting year, the revaluation reserve from the previous year was reversed.

The translation reserve consisted almost entirely of the difference between balance sheet exchange rate and average exchange rate (income statement exchange rate) for the translation of earnings from the US companies.

16. Sales Revenues

	2001		2000	
	K EUR	%	K EUR	%
License	103,413	73.79	75,505	69.97
Film Production	8,797	6.28	17,809	16.50
Cinema revenues	27,931	19.93	14,599	13.53
	140,141	100.00	107,913	100.00

Sales revenues include income from film grants and subsidies:

in K EUR	2001	2000
Income from grants and subsidies	6,336	13,109

The sales revenues from license trade result from the exploitation of the following rights:

	2001		2000	
	K EUR	%	K EUR	%
TV	4,734	4.58	54,477	72.15
Worldwide distribution	89,421	86.47	16,973	22.48
Video	6,530	6.31	1,871	2.48
Book rights	1,675	1.62	1,142	1.51
Other	1,053	1.02	1,041	1.38
	103,413	100.00	75,504	100.00

■ **17. Other Operating Income** Other operating income consists of:

in K EUR	2001	2000
Income from costs for third parties	264	430
Rental income	233	109
Income from reinsurance	191	64
Investment grants	116	138
Film rights, write ups	112	0
Reversal of accruals	86	100
Compensation of remuneration in kind	29	29
Compensation for damages	4	74
Sale of assets	4	3
Write-up securities	2	3
Reversal of general bad-debt allowances	0	6
Other	74	27
	1,115	983

■ **18. Cost of Purchased Services** The cost of purchased services comprise the following:

in K EUR	2001	2000
Film exploitation costs	18,088	15,521
Licensor share	7,041	4,553
Pay over to film granting agencies	2,931	2,326
Film production costs	1,089	632
Book exploitation costs	1,821	1,260
Other	0	169
	30,970	24,461

■ **19. Other Operating Expenses** Other operating expenses include the following items:

in K EUR	2001	2000
Consulting and legal fees	2,218	1,459
Loss on receivables	1,245	22
Rent expense	1,207	1,068
Representation and advertisement costs	529	523
Travel expenses	410	774
Insurance costs	322	104
Telephone, Postage	284	268
Office supplies, Journals	194	203
Shareholder meeting	193	186
Car costs	156	145
Foreign exchange differences	0	0
Other taxes	88	33
Third party service	98	75
Expenses, other periods	1,125	0
Other	820	604
	8,889	5,464

■ **20. Income Taxes** Actual taxes payable are computed for the current fiscal year and the previous year using the tax rate valid on the balance sheet date with the amounts expected to be due the tax authorities. Deferred tax assets and deferred tax liabilities are computed at the tax rates valid on the balance sheet date.

in K EUR	2001	2000
Current tax expense	-490	2,302
Deferred tax expense relating to the origin and reversal of temporary differences	307	-974
	-183	1,328

The taxes on income comprise the income taxes paid or payable in the respective country, including all deferred taxes.

Income taxes comprise corporate income tax, trade tax on income, solidarity surcharge and the respective foreign taxes.

Deferred tax assets are formed to cover differences between the trade balance sheet/ consolidated net profit/ loss and the accumulated tax result. The measurement of future tax reduction claims to be capitalized in future depends on whether the utility of losses carried forward is probable or not.

Deferred taxes are computed using the tax rate which would probably apply to the individual group company at the time in which the differences would be reversed or settled („liability method“). Based on individual income tax planning, it is likely that the pre-tax profit will be sufficient for the company to exhaust the unused tax losses or tax credits by set-offs from 2002 to 2004 at the latest. For reasons of caution, an allowance of about 26% was made in the previous year and remains unchanged.

In Germany, the corporate income tax rate is 25%, plus solidarity surcharge of 5.5%. The trade tax deductible when computing corporate income tax varies depending on local government rates currently between 17.0% and 19.7%. A 40% tax rate was used to compute the deferred tax assets.

The income tax rate in Ireland is approx. 10% and in the USA between 23% and 30%, depending on which state.

The reconciliation by Senator AG of the effective tax rate to the statutory tax rate is as follows:

	2001		2000	
	K EUR	%	K EUR	%
Accounting profit	-5,121		2,961	
Change of translation reserve	0		42	
Result before taxes	-5,121	-100	3,003	100
Tax at the applicable tax rate	-2,048	-40	1,202	40
Effect of non-taxable income in determining taxable profit				
Different foreign tax rates	-2,712	-53	-5,663	-188
Equity share	4,185	82	-13	-1
Effect of non-deductible expenses in determining taxable profit				
Surcharge on corporate income tax	0	0	228	7
Non-deductible expenses	40	1	22	1
Amortization of goodwill	556	11	439	15
Depreciation on deferred tax assets	0	0	5,113	170
Effect of temporary differences				
Other	-204	-4	0	0
Tax charge as per statutory books	-183	-3	1,328	44

The deferred tax assets and deferred tax liabilities comprise the following:

in K EUR	01.01.2001	Credited/ (charged) to in- come statement	31.12.2001
Intercompany profit elimination	10	0	10
Restructuring cost	8	0	8
Deferred interest expenses	702	-702	0
Film rights, minimum guarantees, government grants	17	-17	0
Tax loss carryforward	19,549	6,498	26,047
Deferred benefit obligation	0	2	2
Depreciation of deferred tax assets	-5,113	0	-5,113
Deferred tax assets	15,173	5,781	20,954
Exploitation costs	1,255	-609	646
Film rights, minimum guarantees, government grants	739	5,272	6,011
Investment properties	7	-7	0
Film production subsidies	0	0	0
Deferred benefit obligation	-5	7	2
Deferred tax liability	1,996	4,663	6,659
Net deferred tax assets	13,177	1,118	14,295

In the year under review tax assets were balanced entirely due to the set-offs recognized by the same tax authorities.

For purposes of IAS adjustments and for temporary differences arising from consolidation measures, deferred tax assets and deferred tax liabilities were accrued, reversal of which is expected in the future and because of tax losses.

Based on current tax planning, Senator AG assumes that the approx. EUR 57.9 million in tax losses carried forward can be used over the next three years.

21. Earnings per Share Undiluted earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the weighted average number of shares outstanding is adjusted for the effects of dilutive potential of ordinary shares from exercise of share options (See note 12.2.). The number of stock options is the weighted average number of ordinary shares plus the weighted average number of ordinary shares which would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Share options are deemed to have been converted into ordinary shares on the date when the options were granted.

For Fiscal Year 2001	Net profit EUR	Weighted average number of shares (thousands)	Earnings per share EUR
Profit attributable to shareholders	-4,192,822		
Undiluted earnings per share			
Period profit attributable to common shareholders	-4,192,822	32,482	-0.13
Plus assumed exercise of stock options granted	-	734	
Diluted earnings per share			
After the assumed conversion, profit available to common shareholders	-4,192,822	33,216	-0.13

For Fiscal Year 2000	Net profit EUR	Weighted average number of shares (thousands)	Earnings per share EUR
Profit attributable to shareholders	1,174,063		
Undiluted earnings per share			
Profit available to common shareholders	1,174,063	29,608	0.04
Plus assumed exercise of stock options granted	-	200	
Diluted earnings per share			
After the assumed conversion, profit available to common shareholders	1,174,063	29,808	0.04

22. Segment Information IAS 14 contains the standards for the disclosure of information regarding business segments and geographical segments. Segment reporting pursuant to IAS 14 is to be done using the 'management approach', i.e. segment reporting is to be based on the segmentation actually used for internal reporting. Intersegment transactions: segment revenue, segment expenses and segment performance includes transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

Segment information is prepared on the following bases:

(1) Business segments The Senator AG Group conducts the majority of its business activities in the following segments:

- (a) Own and co-production of films
- (b) Third-party film production

(2) Geographical segments The Senator Group intensified its international activities during the fiscal year.

22.1. Business segments

in K EUR	In-house and Co-production of films 2001	Third-party film production 2001	Total 2001	Total 2000
Related revenues				
Cinema	10,936	16,995	27,931	14,599
License trade	94,844	8,569	103,413	75,505
Film production	8,797	0	8,797	17,809
Total	114,577	25,564	140,141	107,913
Related expenses				
Depreciation	-60,236	-26,282	-86,518	-52,844
Exploitation and production costs	-20,701	-10,269	-30,970	-24,461
Total	-80,937	-36,551	-117,488	-77,305
Gross operating profit	33,640	-10,987	22,653	30,608
Non-related revenues				
Other operating income			1,115	982
Personnel expenses			-7,293	-6,547
Depreciation			-1,894	-1,520
Other operating expenses			-8,889	-5,465
EBIT			5,692	18,058
Interest and similar income			513	1,099
Interest and similar expenses			-1,471	-2,482
Equity expenditure			-10,462	-13,348
Foreign exchange, gains/losses			716	-312
Other income/expenses			-109	-12
Result before taxes			-5,121	3,003

The related assets and liabilities as well as the investments in the respective segment split up as follows:

in K EUR	2001	2000
Assets		
Own and co-production of films	117,267	63,403
Third-party film productions	63,323	21,930
Other assets	176,682	202,140
Total	357,272	287,473

in K EUR	2001	2000
Liabilities		
Own and co-production of films	25,574	20,051
Third-party film productions	945	139
Other liabilities	128,652	63,032
Total	155,171	83,222

in K EUR	2001	2000
Investments		
Own and co-production of films	125,793	67,127
Third-party film productions	57,521	16,966
Other Investments	674	90,800
Total	183,988	174,893

22.2. Geographical segments

in K EUR	2001	2000
Revenues		
Germany	48,632	90,409
Rest of World	91,509	17,505
Total	140,141	107,914

in K EUR	2001	2000
Assets		
Germany	285,797	196,055
Rest of World	71,475	91,418
Total	357,272	287,473

in K EUR	2001	2000
Investments		
Germany	26,098	129,692
Rest of World	157,890	45,201
Total	183,988	174,893

23. Notes to the Cash Flow Statements

Senator AG reports cash flows from operating activities in accordance with IAS 7 'Cash Flow Statement' using the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

24. Financial Instruments

24.1. Liquidity risks Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Company within the normal terms of trade. To manage this risk the Company periodically assesses the financial viability of customers. Liquidity risk arises from the possibility that a market for derivatives may not exist in some circumstances.

24.2. Credit risks Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the corporation obtains collateral in the form of rights to securities or arranges master netting agreements.

24.3. Fair value of financial instruments

Financial instruments held to maturity in the normal course of business are recorded at cost or redemption amount as appropriate. The carrying amount is referred to below as the book value.

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(1) Cash and cash equivalents, current investments and other non-current assets

The book value of cash and other financial assets approximates fair value due to the relatively short term maturity of these financial instruments. The fair values of publicly traded instruments are estimated based on quoted market prices for those or similar investments where there are no quoted market prices are available. All other instruments for which there are no quoted market prices, a reasonable estimate of fair value has been calculated based on the expected cash flows or the underlying net asset base for each investment.

(2) Short-term loans The book value approximates fair value because of the short period to maturity of those instruments.

(3) Long-term loans The fair value of the long term loans is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their book value.

25. Other Financial Commitments

(1) Various legal actions and claims are pending or may be asserted in the future against Group companies from litigation and claims incident to the ordinary course of business. Related risks have been analysed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, Management believes that no material liabilities are likely to result.

(2) In connection with the purchase of 51% share of X-Filme Creative Pool GmbH, the sellers were granted a put option to sell further shares at a total nominal value of KDM 20 (KEUR 10.2). The put option was exercised on 28 January 2002. The purchase price to be paid by Senator Entertainment AG is partially dependent on X-Filme Creative Pool GmbH reaching a certain profit targets by June 2003.

(3) As of 31 December 2001, the company had long-term rental and leasing obligations totaling KEUR 3,267, with the following maturities:

in K EUR	2002	2003	2004	2005
Rent and Leasing	1,088	1,434	692	53

Thus there are contingent liabilities from conditionally-refundable subsidized loans in connection with production- (KEUR 14,973) and distribution support (KEUR 6,451).

26. Further Explanations pursuant to the Regulations of the German Commercial Code (HGB) and the Regulations of the Neue Markt

The following explanations include information which is a mandatory part of the Notes in accordance with the German Commercial Code.

26.1. Remuneration of the Management and Supervisory Boards

Management Board	EUR 998,714.45
Supervisory Board	EUR 87,669.47

Messrs. Dr. Werner Franke and Dr. Ingo Stein were granted an option of three times 50,000 shares, which may be exercised subject to various blocking periods between 2 and 4 years.

A member of the Management Board was extended a loan of EUR 76,693.78. As of 31 December 2001 the loan totaled EUR 51,129.19. The interest rate charged in fiscal year 2001 was 5.5%.

The actuarial value of pension commitments to members of the Management Board total KEUR 714. The value of the commitments to former members of the Management Board total KEUR 264.

Management Board

Hanno Huth, Berlin Film merchant	Chairman
Hermann Lutter, Berlin Diplom-Kaufmann	Corporate Finance/Controlling (CFO until 14 November 2001)
Christoph Ott, Berlin Film merchant	Distribution/Marketing (until 31 March 2001)
Borris Brandt, Berlin Advertising merchant	Music & New Media (until 28 February 2001)
Dr. Werner Franke, Berlin Lawyer	(Corporate Affairs, Mergers & Acquisitions and Legal Affairs)
Dr. Ingo Stein Diplom-Kaufmann	CFO (since 15 November 2001)

Hanno Huth is also member of the supervisory boards of Perathon Film und Fernseh GmbH, Grünwald, and Cinemaxx AG, Hamburg. Hermann Lutter is member of the Supervisory Board of X-Verleih AG, Berlin. Dr. Werner Franke is also member of the Supervisory Board of X-Verleih AG, Berlin, and until 2 July 2001 was member of the Supervisory Board of Newmex AG, Hamburg.

Supervisory Board

Michael Krohne, Schlagenbad Diplom-Betriebswirt (FH), General Manager of Major Creative Development & Production GmbH & Co. KG -Chairman-
Dr. Volker Hassemer, Berlin Presiding General Manager of Partner für Berlin GmbH -Vice Chairman-
Gerd Peterka, Maintal Retired (former film merchant)
Dr. Norbert Bense, Berlin Member of the Management Board of DaimlerChrysler Services AG
Jürgen Ipfelkofer, Vendersheim Self-employed business consultant
Heiko Gebhardt, Dannenberg Journalist

Dr. Volker Hassemer
is also member of the Supervisory Board of
- Mediport Kardiotechnik GmbH, Berlin

Dr. Bense
is also member of the Management Board of
- Vereinigung der Freunde des DIW Berlin
and in the Supervisory Boards of
- Berliner Verkehrsgesellschaft AG (BVG), Berlin
- BT Berlin Transport GmbH, Berlin
- Partner für Berlin GmbH, Berlin
- Femtec GmbH, Berlin

26.3. Shares and share options held by members of the Company's governing bodies

Hanno Huth (CEO)	4,513,190	13.3%	shares
Hermann Lutter (Corporate Finance/Controlling CFO until 14 November 2001)	102,000	0.3%	shares
Dr. Ingo Stein (CFO since 15 November 2001)	150,000	0.4%	stock options
Dr. Werner Franke (Corporate Affairs, Mergers & Acquisitions and Legal Affairs)	150,000	0.4%	stock options
Michael Krohne (Chairman of Supervisory Board)	4,492,155	13.2%	shares
Heiko Gebhardt (Member of Supervisory Board)	750	0.0%	shares
Total	9,408,095	27.6%	

26.4. Workforce The average number of persons employed in fiscal year 2001:

	2001	2000
Germany	116	138
Rest of World	26	6
	142	144

The average number of employees declined by 2 in comparison to the previous year. Due to the enterprises founded the number of employees in other countries increased to 26.

Berlin, 23 March 2002

Hanno Huth

Hermann Lutter

Dr. Ingo Stein

Dr. Werner Franke

Auditors' Certificate

Report of the Supervisory Board

Corporate Calendar

Auditors' Certificate

We have audited the consolidated balance sheets of Senator Entertainment AG as of December 31, 2001, the consolidated statements of income, changes in shareholders' equity and cash flows for the period ended December 31, 2001, and the notes to the Consolidated Financial Statements. These Consolidated Financial Statements are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion based on our audit as to whether these Consolidated Financial Statements comply with International Accounting Standards (IAS).

We conducted our audit in accordance with International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement.

An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of Senator Entertainment AG as of December 31, 2001 and the consolidated results of its operations and its cash flows for the period ended December 31, 2001 in accordance with IAS.

Our audit, which also covered the Group's Management Report for the period ended December 31, 2001 prepared by the Company's Executive Board did not lead to any objections. In our opinion, the Group's Management Report is consistent with the Group's position overall and presents a fair picture of risks in future development.

We also confirm that the Consolidated Financial Statements and the Group's Management Report for the period ended December 31, 2001 meet the requirements for an exemption from the obligation to prepare Consolidated Financial Statements and a Group Management Report under German law.

Berlin, 26 March 2002

BDO Deutsche Warentreuhand
Aktiengesellschaft

Schulz
Wirtschaftsprüfer

Braasch
Wirtschaftsprüfer

Report of the Supervisory Board

In the fiscal year 2001, the supervisory board reviewed the conduct of business of the company as presented in written and oral reports and at five meetings was informed about the status of the company as well as discussed the financial plans and the strategic commercial orientation of the company. In addition, a meeting of the financial statements committee took place which was also attended by the management board and representatives of the company's auditors.

The annual financial statements for the fiscal year 2001 and the management report have been audited by BDO Deutsche Warentreuhand AG, Berlin, as auditors. They have issued an unqualified auditors' certificate confirming that the accounting and the annual financial statements conform with all legal requirements. The same applies to the group's annual financial statements and the group management report.

In the auditors' opinion, the annual financial statements convey a true picture of the company's net worth, financial position and earnings situation in accordance with the principles of proper accounting. The management report is consistent with the annual financial statements.

The supervisory board has concurred with the auditors' report.

Following the conclusion of its own examination, the supervisory board has accepted the annual financial statements as of 31 December 2001 and the management report. It has further concurred with the group annual financial statements and group management report.

The supervisory board approves the annual financial statements, as submitted by the management board, which are herewith ratified.

The supervisory board declares its consent to the proposal of the management board for the appropriation of the accumulated deficit.

Berlin, 26 March 2002

The Supervisory Board

Dr. Volker Hassemer
Vice Chairman



Corporate Calendar



Th 28 March 2002
DVFA-Analysts Conference, Frankfurt

Fr 31 May 2002
Publication of 1st Quarter Figures 2002

Tu 4 June 2002
Shareholders' Meeting

Fr 23 August 2002
Publication of Figures for 1st Half of 2002



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