



Endemol Holding N.V.

Annual report 2002

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Report of the Supervisory Board

Financial Statements

Report of the Supervisory Board

The Executive Board has drawn up the financial statements of Endemol Holding N.V. (hereafter Endemol) for the financial year 2002, which also include the consolidated financial statements and, together with the Executive Board's report, presented them to us.

After discussing the financial statements in the presence of the Executive Board and the auditor, KPMG Accountants N.V., these were signed by the Executive Board and by us. The unqualified auditor's report is included on page 33 of the financial statements.

The financial statements, accompanied by the report of the Executive Board, are presented to you for discussion and adoption. We recommend that you adopt the financial statements for the 2002 financial year.

In accordance with the articles of association, the Supervisory Board has approved the appropriation of profits suggested to the shareholders by the Executive Board. This proposal means that no dividend will be paid to holders of ordinary shares.

During the financial year, the Supervisory Board held five regular meetings with the Executive Board. Main issues during these extensive discussions were: the actual situation in Endemol's present markets and Endemol's corporate development. In respect of the latter, several acquisitions and joint ventures with strategic partners were approved. The Financial Report 2000 – 2001 and the Endemol Strategic Plan 2002 – 2005 were adopted.

Composition of Supervisory and Executive Board

The Supervisory Board comprises of five members, three of whom are appointed by Telefónica and two by Endemol.

During the Shareholders' General Meeting, which was held in Hilversum on June 18, 2002, Messrs Luis Abril, Kim Faura and José Maria Alvarez-Pallete were appointed as members of the Endemol Supervisory Board. Messrs Faura and Alvarez-Pallete took the places of José Antonio Rios and Ele Juárez, who both stood down from the Board.

At the time of his appointment at Endemol, Mr Alvarez-Pallete was the CFO at Telefónica. Mr Faura is Director General Corporativo Contenidos at Telefónica. Since the start of the year, Mr. Abril, General Manager Media, Marketing & Contents at Telefónica, has performed the duties of Juan José Nieto, who resigned from the Board. Following the departure of Mr Rios, the Supervisory Board appointed Mr Abril as Chairman.

Messrs. Joop van den Ende and Gert Smit, appointed to the Supervisory Board by Endemol, remained active as such throughout the period.

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The general meeting of shareholders approved the appointment of Mr Ronald Goes and Mr Unico Glorie as members of the Executive Board. Mr Goes has been acting board member since January 1, 2001, and Mr Glorie as of April 1, 2002. With the appointment of Unico Glorie, the Board of Directors increased its number of seats from 5 to 6.

The composition of and the portfolio allocation within the Endemol Executive Board is as follows:

- John de Mol, Chairman and Chief Creative Officer (CCO), with a strong emphasis on the latter;
- Aat Schouwenaar, Vice Chairman, in charge of virtually all management tasks. He is also responsible for the company's human resources policy and for the Corporate Communications department;
- Alex Oostvogel is Chief Financial Officer (CFO) and also heads the organization's ICT department;
- Hubert Deitmers, in charge of Mergers & Acquisitions, Corporate Development and Legal Affairs;
- Ronald Goes, Chief Operating Officer (COO), responsible for all TV operating companies within the Endemol group;
- Unico Glorie, in charge of all Endemol activities in the field of interactive media and (mobile) telephony.

Hilversum, February 14, 2003

The Supervisory Board:

L. A. Abril

J. A. van den Ende

G. H. Smit

J. B. Faura

A. Vilá

S. Fernández Valbuena

Report of the Executive Board

Review of 2002

Despite disappointing market trends, Endemol managed to retain its position as the largest independent¹ content provider, for European television in particular, in 2002. In addition, production activities in other parts of the world where the company has a presence (Australia, New-Zealand, South Africa, North America and Latin America) were stepped up. In the United States especially, Endemol managed to strengthen its position considerably, and licensing agreements were concluded for the production of Endemol programmes with broadcasters in two new markets: Russia and Chili.

In some of the traditional markets – in particular Germany and the domestic market in the Netherlands – drastic measures were necessary, in order to adapt the organization to the reduced demand from the market. One of the main reasons for this was the reduced spending on advertising. In Germany, the break-up of the Kirch empire had certain consequences, and in the Netherlands Endemol's biggest client, HMG, is – to our opinion - not meeting its obligations. The resulting dispute led to the enforcement of the contractually agreed arbitration procedure in the autumn. The arbitration process is expected to take some considerable time.

During the course of 2002, Endemol adapted its mission statement, in order to bring it into line with the company's new vision on the importance of convergence within the branch. Convergence is defined as the development and exploitation of formats, which use the digitalization, multi- accessibility of infrastructures and devices to merge TV content with computer and telephone platforms into a new generation of creative formats. The mission statement now reads as follows: 'Endemol aims to be a global leader in developing and exploiting creative and market-driven content across television, telephone and computer platforms'.

TV Production

Turnover in TV production during the financial year amounted to EUR 801 million, which is 11.3% down from 2001. The reasons for this fall have already been mentioned. Thanks to a substantial number of cost-saving measures on one hand and increasing margins in France and Spain on the other hand, Endemol managed to maintain its operational margins at acceptable levels. Considerable cutbacks in staff provided the most significant cost savings, in the overhead departments in particular, within the Dutch and German Endemol offices.

During the financial year, Endemol France became the outright owner of Société Miss France, the company behind the internationally renowned beauty competition. The TV recording of the selection procedure, produced by TF1, annually attracts audiences in excess of 10 million. Endemol considers Miss France to be a valuable brand that is ideal for further exploitation. Endemol France also acquired 100% of the shares of NAO and the remaining 50% of the shares in Boite 2 Productions, a television production company.

¹ i.e. not tied to any one broadcaster

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In Great Britain, Endemol UK increased its stake in the comedy production company Zeppotron from 25% to 100%. Zeppotron specializes in the production of comedy content for both traditional and interactive television, and also the Internet and other media distribution channels.

With the appointment of Carla Affonso to the position of Managing Director of Endemol Globo, the Brazilian production company can further identify itself within the Endemol group. In 2002, the joint venture with TV Globo produced a number of Endemol series, which resulted in unbelievably high viewing figures.

The Endemol stake in the Spanish production company Gestmusic Endemol, located in Barcelona, was increased during the course of the financial year from 60% to 100%. At the same time, the management team of this leading production house was linked to the Endemol concern for a longer period.

Finally, in the Netherlands, under Endemol's leadership, the merger was completed between the two famous TV production companies René Stokvis Producties and Ivo Niehe Producties. Endemol already had a stake in the two companies, and is now a majority shareholder in Stokvis & Niehe Producties.

Endemol Interactive

For Endemol Interactive, 2002 was the year in which the organization was restructured and the future course was plotted. As already mentioned, the convergence of different platforms is a key concept. Under management of the new member of the Executive Board, Unico Glorie, three areas for attention, or business lines, were formulated: broadcaster-related, advertiser-related, and consumer-related. The organization has now taken shape around these three business lines, with Endemol Interactive International overseeing, supporting and boosting activities in the different markets from the holding company.

Within the advertiser-related business area, Endemol provides opportunities for major advertisers to reach their target groups more effectively. In broadcaster-related business, thought must be given to existing and new forms of television in which telephone and SMS applications play an important role. The consumer-related business division designs mobile entertainment and infotainment applications that are immediately available to the end user.

At the end of 2002, Endemol acquired a controlling interest in the Amsterdam based company Overloaded Pocket Media, which is involved in the design and production of information and entertainment for mobile platforms. Overloaded targets the consumer independently and directly, but also carries out work on behalf of telecommunications companies, hardware producers, sales organizations and advertisers. The software it produces is particularly suitable for modern mobile telephone systems – the mobile Internet – and therefore fits in very well with Endemol's own vision for the future.

Within a few years, Endemol expects to be generating a considerable percentage of its turnover within the field of Interactivity. In 2002, at a turnover level EUR 68 million, this was still relatively modest in relation to turnover from TV production.

Personnel and organization

The average number of full-time employees (FTE's) in the past financial year amounted to 2,668 (2000/2001: 2,830), a decrease of 6% compared to the preceding financial year.

The calculation of the number of FTE's is related to the consolidated turnover. In other words, all FTE's who work in the companies of the group in which Endemol has a majority holding are included, half of the FTE's are included where Endemol has a 50% interest, and no FTE's at all are counted where Endemol has a minority interest.

Financial results and prospects

In order to align with the Telefónica financial year, Endemol's previous financial year was extended by five months, running from August 1, 2000 until December 31, 2001. For comparison purposes, Endemol has included pro forma financials to reflect the calendar year 2001. This especially applies to the profit and loss information, as for both financial years the December 2001 balance sheet applies.

Net turnover and results

In the 2002 financial year, the net turnover amounted to EUR 868.8 million. This is a decrease of 5% compared to calendar year 2001. Endemol experienced a decrease of turnover in the Netherlands, Germany, Italy and Argentina. Turnover increased substantially in France, Spain and the United Kingdom. Of the total turnover of EUR 868.8 million, an amount of EUR 15.2 million is related to acquisitions during the year 2002.

The operating expenses as a total (costs of outsourced work, personnel costs and other operating expenses) have decreased in line with the decrease of the turnover.

Amortization of goodwill amounts to EUR 17.1 million compared to a last year total of EUR 15.6 million. Next to that, an additional amortization for Endemol Argentina to the amount of EUR 3.4 million was recorded, based on the impairment of the goodwill position. Based on the actuals of 2002 and the strategic plan of Endemol Argentina for the coming years, a new valuation of the company was made and compared to the goodwill position. This has also resulted in a lower earn-out obligation.

During 2002 the operating result before non-recurring items decreased by 5.1 % from EUR 121.7 million to a level of EUR 115.5 million. In the profit and loss account a separate expense category has been inserted for non-recurring items. For this purpose also last year's non-recurring items have been reclassified to this category. These all relate to restructuring costs with Endemol's Dutch and German operating companies. These non-recurring expenses amount to EUR 13.0 million in 2002 compared to an amount of EUR 8.8 million in 2001. The operating result after non-recurring items decreased from a level of EUR 112.8 to EUR 102.5 mln, a decrease of 9.2%.

As a percentage of turnover the operating result before non-recurring items has remained at the same level as 2001 at 13.3 %. In line with the development of turnover, compared to last year the contribution to operating result decreased from the Netherlands, Germany, Italy and Argentina, while the contribution of especially Spain and France has increased. The operating result after non-recurring items as a percentage of turnover has decreased from 12.3% in 2001 to a level of 11.8% in 2002.

The net financial expenses decreased from EUR 7.4 million to a total amount of EUR 5.5 million. This is a result of lower interest rates and on average lower outstanding interest bearing debt. The result from participating interest has increased from minus EUR 0.4 million to minus EUR 0.2 million.

The result from ordinary operations before taxation decreased from EUR 105.0 million to EUR 96.7 million. In 2002 the effective tax rate on ordinary operating activities amounts to 41.8 % (2001 45.2 %); excluding amortization of goodwill, which is non-deductible, the effective tax rate amounts to 34.5%.

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The reason for the decrease compared to last year (39.4%) is because the relative weight of taxable income has shifted from higher tax countries like Germany and Italy to relatively lower tax countries like France and Spain.

No extra-ordinary expenses were recorded in 2002. The EUR 100.0 million of 2001 is completely related to the Telefónica guaranteed bonus.

The net profit after extraordinary items and minority interests amounts to EUR 52.6 million (2001 minus EUR 11.5 million).

The Executive Board proposes to add the profit for the financial year to the legal reserve in respect of the result of participating interests and the remaining profit to the other reserves. This proposal means that no dividend will be paid to the holders of ordinary shares.

Investments and financing

During the financial year 2002, EUR 89.0 million has been the net investment in new companies, increased stakes in existing companies and payment of earn out obligations. In 2002, EUR 15.1 million has been invested in tangible fixed assets, which were mainly investments for expansion and replacement.

Prospects

In the financial year 2003, Endemol expects to achieve growth in turnover. This expectation includes the prospects with respect to organic growth of the current activities, the development of new activities, acquisitions and the expectations concerning efficiency measures and synergy effects emerging between the corporate subsidiaries.

Finally, we would like to express our gratitude to all our employees for their tremendous efforts in the last year. "All our employees" also includes those employees who do not have a permanent job with Endemol companies, but who have worked for our company as, for example, freelancers, or employees of a company hired in by Endemol. Thanks to the efforts of so many people, the result was achieved that now lies before you.

Hilversum, February 14, 2003

The Executive Board:

J.H.H. de Mol
A. Schouwenaar
A.T.W.M. Oostvogel
H.B.G. Deitmers
R.A.M. Goes
U. Glorie

Consolidated balance sheet as at 31 December 2002

(after appropriation of profit)

	31 December 2002		31 December 2001	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Fixed assets				
Intangible fixed assets	345,619		300,406	
Tangible fixed assets	47,054		53,417	
Financial fixed assets	5,436		7,460	
		<u>398,109</u>		<u>361,283</u>
Current assets				
Stocks	29,116		30,035	
Receivables	350,688		341,941	
Securities	–		–	
Cash	41,716		48,630	
		<u>421,520</u>		<u>420,606</u>
		<u>819,629</u>		<u>781,889</u>
Shareholders' equity		110,146		64,832
Minority interests		1,390		15,438
Provisions		–		2,384
Long-term liabilities		206,230		215,363
Current liabilities		501,863		483,872
		<u>819,629</u>		<u>781,889</u>

Consolidated profit and loss account for the period 1 January 2002 - 31 December 2002

	1 Jan. 2002 – 31 Dec. 2002		1 Jan. 2001 – 31 Dec. 2001 ¹⁾		1 Aug. 2000 – 31 Dec. 2001	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Net turnover		868,818		914,269		1,262,069
Costs of outsourced work and other external costs	506,484		556,352		761,322	
Personnel costs	138,539		139,608		190,391	
Depreciation	15,162		13,439		18,551	
Amortization of goodwill	17,106		15,565		16,816	
Impairment of goodwill	3,400		0		0	
Other operating expenses	72,648		67,631		92,516	
Non-recurring items ²⁾	13,014		8,834		8,834	
		<hr/>		<hr/>		<hr/>
Operating expenses		766,353		801,429		1,088,430
		<hr/>		<hr/>		<hr/>
Operating result		102,465		112,840		173,639
Financial income	5,976		8,259		3,764	
Financial expenses	(11,481)		(15,685)		(12,170)	
Result from participating interests	(218)		(443)		765	
		<hr/>		<hr/>		<hr/>
		(5,723)		(7,869)		(7,641)
		<hr/>		<hr/>		<hr/>
Result from ordinary operations before taxation		96,742		104,971		165,998
Taxation on result from ordinary operations		(40,402)		(47,459)		(71,816)
		<hr/>		<hr/>		<hr/>
Result from ordinary operations after taxation		56,340		57,512		94,182
Carried forward		56,340		57,512		94,182

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	1 Jan. 2002 – 31 Dec. 2002	<i>1 Jan. 2001 – 31 Dec. 2001</i>	1 Aug. 2000 – 31 Dec. 2001
Brought forward	56,340	57,512	94,182
Extraordinary result ²⁾	-	<i>(100,000)</i>	(52,200)
Taxation on extraordinary result	-	34,092	15,863
	<hr/>	<hr/>	<hr/>
	-	(65,908)	(36,337)
	<hr/>	<hr/>	<hr/>
	56,340	(8,396)	57,845
Minority interests	<hr/> (3,789)	<hr/> <i>(3,074)</i>	<hr/> (4,633)
Net profit	<hr/> 52,551	<hr/> <i>(11,470)</i>	<hr/> 53,212

1) In order to align with the Telefónica financial year, Endemol's previous financial year was extended by five months, running from August 1, 2000 until December 31, 2001. For comparison purposes, Endemol has included pro forma financials to reflect the calendar year 2001. The 2001 figures have not been audited.

2) To adhere to the changed guidelines on the presentation and recognition of extraordinary results (RJ Richtlijn 270), extraordinary results have been included as non-recurring items as part of the operating expenses. For comparison purposes, reorganization costs recorded in the 2000/2001 figures have been restated as non-recurring costs. The costs of the Telefónica bonus recorded last year and the sale of our distribution activities in 2000/2001, are still reported as extraordinary expense / income.

Consolidated cash flow statement for the period 1 January 2002 - 31 December 2002

	1 Jan. 2002 - 31 Dec. 2002		1 Jan. 2001 - 31 Dec. 2001		1 Aug. 2000 - 31 Dec. 2001	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Operating result		102.465		112.840		173.639
Amortization and depreciation		35.668		29.004		35.020
Changes in working capital						
Movements in accounts receivable	(3.538)		(8.846)		(49.170)	
Movements in stocks	2.962		(7.314)		(8.190)	
Movements in current liabilities	17.529		19.021		46.773	
Other movements	1.967		(2.039)		(2.553)	
		18.920		822		(13.140)
Cash flow from business activities		157.053		142.666		195.519
Financial expenses paid	(5.505)		(7.426)		(8.405)	
Dividend received	370		681		1.786	
Tax paid	(56.109)		(53.316)		(53.237)	
Other movements	(59.824)		(26.004)		(53.618)	
		(121.068)		(86.065)		(113.474)
Cash flow from operating activities (carried forward)		35.985		56.601		82.045

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	1 Jan. 2002 - 31 Dec. 2002		1 Jan. 2001 - 31 Dec. 2001		1 Aug. 2000 - 31 Dec. 2001	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Brought forward		35.985		56.601		82.045
Acquisition and sale of participating interests less acquired cash	(89.043)		(85.580)		(48.378)	
Movements in other financial fixed assets	-		-		-	
Investments in tangible fixed assets	(5.769)		(16.189)		(22.554)	
Investments in intangible fixed assets	(531)		-		(1.399)	
Investments in securities	-		1.631		12.924	
Cash flow from investment activities		(95.343)		(100.138)		(59.407)
Dividend distribution	-		-		-	
Movement in short-term bank loans	54.024		32.130		2.734	
Movement in long-term liabilities	(1.580)		(356)		1.314	
Cash flow from financing activities		52.444		31.774		4.048
Net cash flow		(6.914)		(11.763)		26.686
Cash at beginning of financial year		48.630		60.393		21.944
Cash at end of financial year		41.716		48.630		48.630

Differences between changes of balance sheet items included in the cash flow statement and these items included in the consolidated balance sheet are caused by acquisitions and divestments.

Notes to the consolidated 2002 annual report

General principles for the preparation of the financial statements

General

The company was established in 1994 as the result of a merger between the two major TV producers in the Netherlands: Joop van den Ende Productions and John de Mol Producties. Since then, the company has had an aggressive international expansion through acquisitions of and by starting TV production companies outside the Netherlands. The company, with its head offices in the Netherlands, has subsidiaries and joint ventures in 20 countries, including the major European markets, the United States, Latin America, South Africa and Australia.

Since the summer of 2000, Endemol Holding N.V. is an almost fully-owned subsidiary of Admira whereas the ultimate parent is Telefónica S.A. Telefónica S.A. is the leading provider of telecommunications services in the Spanish- and Portuguese-speaking world.

In August 2002 ENDEMOL Entertainment Holding N.V. changed its name in Endemol Holding N.V. Earlier in the same year this name change has also been implemented at all relevant operating companies.

In order to align with the Telefónica financial year, Endemol's previous financial year was extended by five months, running from August 1, 2000 until December 31, 2001. For comparison purposes, Endemol has included pro forma financials to reflect the calendar year 2001. This especially applies to the profit and loss information, as for both financial years the December 2001 balance sheet applies.

Divestments

In June 2002 Endemol sold its 50% share in Hurricane to the other shareholder Digame, both partners paying 50% of the settlement costs to close down the company. The closing costs of EUR 1.2 million (Endemol share of this amount 50%) are included in the non-recurring expenses.

Acquisitions

In January 2002, Endemol France acquired the remaining 50% of the shares in Boite 2 Productions, a television production company.

Also, in early 2002, Endemol France became the outright owner of Société Miss France, the company behind the internationally renowned beauty competition.

In February 2002, Endemol UK increased its stake in the comedy production company Zeppotron from 25% to 100%.

At the end of 2002, Endemol acquired a controlling interest in the Amsterdam based company Overloaded Pocket Media, which is involved in the design and production of information and entertainment for mobile platforms.

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The Endemol stake in the Spanish production company Gestmusic Endemol, located in Barcelona, was increased during the course of the financial year from 60% to 100%.

Finally, in the Netherlands, under Endemol's leadership, the merger was completed between the two famous TV production companies René Stokvis Producties and Ivo Niehe Producties. Endemol already had a stake in the two companies, and is now a majority shareholder in Stokvis & Niehe Producties.

Accounting principles

Presentation change

As from 2002 and in order to align with the changed guidelines (RJ Richtlijn 270) on the presentation and recognition of extraordinary results, Endemol only recognizes extraordinary results in special cases. This means that e.g. reorganization costs or costs resulting from the termination of activities/closing of businesses are no longer presented as extraordinary. However, to reflect the specific nature of reorganization costs or other incidental costs, these costs are presented as non-recurring costs included in the total operational costs.

This presentation change is applicable as from the financial year 2002. Comparative figures of the previous year/period have been reclassified in line with the current-year presentation.

Consolidation

The consolidated financial statements show the assets and liabilities and the results of Endemol and its group companies (hereinafter Endemol or the "Group"). Group companies are participating interests in which Endemol holds a majority interest or otherwise exercises a controlling influence over business and financial policy. All intercompany accounts and transactions are eliminated in consolidation.

The financial data of these companies are fully consolidated and the minority interests are disclosed separately in the consolidated profit and loss account and in the consolidated balance sheets.

Participating interests in which Endemol has a 50% interest and co-operates with other shareholders are proportionally consolidated. The accounting principles underlying the determination of the net assets and result are the same for all group companies. A full list of companies in which Endemol has a capital interest, within the meaning of Articles 379 and 414, Part 9, Book 2 of the Netherlands Civil Code, has been filed with the Trade Register of the Chamber of Commerce.

Acquisitions

When a company is acquired or disposed of by the Group, its results are brought into the consolidation for the period during which it was under the ultimate control of the Group. Earnings of a company made prior to acquisition by the Group are therefore not included in the consolidated profit and loss account, except to the extent that the company before acquisition was an associated company.

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The net assets of an acquired company are valued at fair value, at the date of acquisition. The remainder of the purchase price is considered as goodwill. If there is a change of ownership of these assets, such transfer should be carried out at the transferring company's book value. In case of an increase in Group ownership of an existing investment, the additional Group investment shall be valued at the fair value of net assets acquired. However, the former Group interests in the same net assets are not revalued (in line with step-up accounting principles).

Foreign currencies

The assets and liabilities of foreign participating interests are included in the consolidated financial statements at the exchange rates as at the balance sheet date. Turnover, costs and results of foreign participating interests in the profit and loss account are converted into euros at the average monthly exchange rate. Exchange rate gains and losses on foreign participating interests, and related permanent financing, are taken directly to shareholders' equity.

Other assets and liabilities denominated in foreign currencies are translated at the exchange rates as at the balance sheet date, except where specific forward contracts have been concluded, in which case the forward rate is applied.

Transactions in foreign currencies are translated at the exchange rates at the time of those transactions. The resulting foreign exchange differences are included in the profit and loss account.

Financial instruments

Derivatives

The company uses derivative financial instruments principally in the management of the foreign currency risks and to a more limited extent for interest rate risks. Endemol applies hedge accounting for the treatment of derivatives in the financial reporting. Therefore, Endemol incepts on an ongoing basis whether derivatives that are used are effective as a hedge. When hedge accounting is discontinued, Endemol records the fair value on its balance sheet, while changes in the fair value are recognized in earnings.

Swaps and forward rate agreements

The net interest to be paid or received under interest rate swaps and forward rate agreements (FRA's) is recorded on an accrual basis and included within net interest in the profit and loss account.

The notional amounts of interest rate swaps and FRA's are recorded off balance sheet. Interest rate swaps are used to hedge the initial draw down and final repayment of interest bearing debt, as well as to hedge the risks of adverse interest rate movements.

Forward exchange contracts

Forward exchange contracts are carried on balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the profit and loss account as interest over the life of the contract.

Principles of valuation of assets and liabilities

General

Unless stated otherwise, assets and liabilities are shown at historic cost less a provision if necessary, and their nominal value, respectively.

Intangible fixed assets

The intangible fixed assets relate to goodwill, format rights and (TV) movie rights.

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill will be amortized on a straight-line basis over its estimated useful life with a maximum of 20 years, but in addition will be tested for impairment on an annual basis and whenever indicators of impairment arise. For interactive media companies an amortization period up to a maximum of 5 years is adopted, based on its expected economic life.

The book value is reassessed periodically on the basis of actual income and expectations of future income. If and to the extent that a permanent impairment in value occurs, it is charged to the profit and loss account (impairment loss is part of the amortisation of goodwill).

Endemol normally acquires its subsidiaries at a purchase price that consists of (an) initial cash payment(s) and estimated future earn-out obligations, based on (or related to) estimates of future results. Earn-out obligations are recalculated annually on the basis of the expected future results of the respective company. An adjustment in the earn-out obligation has a corresponding effect on the goodwill. At the same time, on a forward basis, the amortization of goodwill is adjusted *over the remaining lifetime of the goodwill*.

Acquired production rights and the like are stated at historic cost, which is the purchase cost plus all normal incidental costs. The rights acquired from third parties are written off as from the moment where the program format is taken into production and in proportion to the number of episodes.

(TV) movie rights acquired from third parties are written off to the extent to which the revenue generated in the period under review contributes to the expected total revenue, calculated over a maximum 10-year period. Permanent decreases in value are charged to the result as soon as they occur.

Depending on the specific nature of an acquisition, a value can be assigned to the program formats and game concepts included in the acquisition. This value is related to the profitability of the rights and the

Endemol Holding N.V.

minimum return on investment projects as required by the company, but may not exceed the acquisition price.

Tangible fixed assets

Tangible fixed assets are stated at historic cost, less straight-line depreciation based on the estimated economic life. The following depreciation rates apply:

Land and buildings	:	3%	-	7.5%
Plant and machinery	:	7.5%	-	12.5%
Other fixed assets	:	20%	-	33%

Expenditure during the financial year on the maintenance of clothing, props and the music archives is taken directly to the result. As a consequence, systematic depreciation may be omitted. Permanent decreases in value are charged to the result as soon as these occur.

Financial fixed assets

The non-consolidated participating interests in which Endemol exerts a significant influence over business and financial policy but not control are valued at net asset value, determined in accordance with the accounting principles of Endemol.

Participating interests in which this influence is not exerted are stated at acquisition cost or are written down to their estimated fair value if an other-than-temporary decline in value exists.

Long-term receivables are carried at face value less, if applicable, provisions for bad debts.

Stocks

All expenditure for unfinished productions that have not yet actually been recorded is capitalized as productions in progress. These television productions in progress are stated at the direct production costs less provisions for expected lower realisable value.

Securities

Directly tradable securities are stated at the stock exchange price. Price gains or losses are charged to the profit and loss account. Other securities are valued at cost or lower market value.

Debt and other liabilities

Debt and other liabilities other than provisions are stated at face value.

Principles for determination of the result

General

The result is determined according to a system based on historic cost.

Net turnover

Revenue from productions is recognized in the profit and loss account in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Income recognition of drama productions or soaps is based on the realized recording days in relation to the total scheduled recording days. This means that if partial recording has taken place, the income and production costs will be pro rata recognized. The remaining part of the costs and possible advance receipts will be capitalized as work in progress respectively current liabilities.

Income recognition of other TV-productions is based on the income and production costs of the finalised episodes. Telephone turnover is recognized on the basis on the number of calls made. Income from merchandizing, music and other sources is recognized at the time of delivery.

Revenue from the sale of (TV) movie rights is recognized in the profit and loss account when the significant risks and rewards of ownership have been transferred to the buyer.

Financial income and expenses

Interest income and interest expense are recognized on an accrual basis.

Result from participating interests

With regard to the result from participating interests: for those participating interests in which significant influence is exercised, the share in the net profit is included. In the case of the remaining participating interests, the dividend is recognized.

Taxation

Tax on profit is determined on the basis of the commercial result taking into account exempted profit constituents. Tax on result is calculated according to the tax system of the corresponding country.

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Deferred tax assets arising from loss carry forwards, are recognized if it is more likely than not that the asset will be realized.

Extraordinary items

An item of revenue or expense may only be classified as an extraordinary item if it is clearly distinct from the ordinary activities of the enterprise and therefore not expected to occur frequently or regularly.

Consolidated balance sheet as at 31 December 2002

Fixed assets

Intangible fixed assets

	Goodwill	Rights	Rights on (TV) movies, series and other	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
As at 31 December 2001	294,440	2,108	3,858	300,406
Acquisitions / investments	83,440	133	398	83,971
Divestment	–	–	(1,426)	(1,426)
Earn-out adjustments	(12,136)	–	–	(12,136)
Amortization	(17,106)	(1,409)	(209)	(18,724)
Impairment goodwill	(3,400)	–	–	(3,400)
Exchange differences	(3,063)	–	(9)	(3,072)
As at 31 December 2002	<u>342,175</u>	<u>832</u>	<u>2,612</u>	<u>345,619</u>
Acquisition price	379,082	9,925	11,286	400,293
Cumulative amortization	(36,907)	(9,093)	(8,674)	(54,674)
As at 31 December 2002	<u>342,175</u>	<u>832</u>	<u>2,612</u>	<u>345,619</u>

As a result of the economic crisis in Argentina an amount of EUR 3.4 million goodwill has additionally been amortized.

As a result of the recalculation of the earn-out obligations, the goodwill was adjusted accordingly. These amounts are presented as earn-out adjustments.

Tangible fixed assets

	Land and buildings EUR 1,000	Plant and machinery EUR 1,000	Other fixed assets EUR 1,000	Total EUR 1,000
As at 31 December 2001	25,125	9,736	18,556	53,417
Acquisitions	190	85	1,470	1,745
Investments	3,193	2,967	8,921	15,081
Disposals	(3,392)	(795)	(5,125)	(9,312)
Depreciation	(3,343)	(2,022)	(8,179)	(13,544)
Exchange differences	(91)	(30)	(212)	(333)
As at 31 December 2002	<u>21,682</u>	<u>9,941</u>	<u>15,431</u>	<u>47,054</u>
Acquisition price	34,561	19,099	51,838	105,498
Cumulative depreciation	(12,879)	(9,158)	(36,407)	(58,444)
As at 31 December 2002	<u>21,682</u>	<u>9,941</u>	<u>15,431</u>	<u>47,054</u>

The valuation on the basis of historic cost does not differ materially from the valuation according to current value.

Financial fixed assets

	Participating interests EUR 1,000	Loans EUR 1,000	Total EUR 1,000
As at 31 December 2001	5,691	1,769	7,460
Acquisition/provision	735	–	735
Sale/redemption	(693)	(1,233)	(1,926)
Share in the result	(217)	–	(217)
Dividend received	(370)	–	(370)
Exchange differences	(246)	–	(246)
As at 31 December 2002	<u>4,900</u>	<u>536</u>	<u>5,436</u>

Current assets

Stocks

	31 Dec. 2002 EUR 1,000	31 Dec. 2001 EUR 1,000
Productions in progress	28,899	29,447
Other stocks	217	588
	<hr/>	<hr/>
	29,116	30,035
	<hr/>	<hr/>

Accounts receivable

	31 Dec. 2002 EUR 1,000	31 Dec. 2001 EUR 1,000
Trade debtors	186,070	199,016
Taxation	50,493	36,623
Non-consolidated participating interests	431	1,333
Other receivables	32,699	18,274
Other accruals	80,995	86,695
	<hr/>	<hr/>
	350,688	341,941
	<hr/>	<hr/>

Included under the taxation is an amount of EUR 26.1 million deferred corporate tax receivable.

Cash

Except for an amount of EUR 9.4 million, which is restricted cash in production trust accounts, all cash is at the free disposal of the company.

Shareholders' equity

For a breakdown of shareholders' equity, reference is made to the notes to the company balance sheet.

Provisions

	Pensions EUR 1,000	Other provisions EUR 1,000
As at 31 December 2001	46	2,338
Reclassification	(46)	(1,024)
Other	-	(1,314)
As at 31 December 2002	<u>-</u>	<u>-</u>

Long-term liabilities

	31 Dec. 2002 EUR 1,000	31 Dec. 2001 EUR 1,000
Credit institutions	3,753	5,333
Long-term liabilities with respect to acquisitions	202,477	210,030
	<u>206,230</u>	<u>215,363</u>

The interest rate on the amounts due to credit institutions is variable.

The long-term liabilities with respect to acquisitions (earn-out obligations) are estimated on the basis of the expected future results of the respective companies (performance related criteria) and are non-interest bearing. Main liabilities relate to the companies acquired in France and in Spain. Of the total amount, EUR 1.1 million is payable after 2007.

Current liabilities

	31 Dec. 2002 EUR 1,000	31 Dec. 2001 EUR 1,000
Credit institutions	159,931	105,907
Trade creditors	45,368	50,882
Non-consolidated participating interests	495	1,167
Taxation and social security charges	35,776	36,986
Amounts received in advance and payable production costs	108,492	105,637
Other liabilities	75,583	70,861
Accruals and deferred income	76,218	112,432
	<u>501,863</u>	<u>483,872</u>

Endemol Holding N.V.

In September 2002 Endemol entered into a new multi-currency revolving credit facility for EUR 250 million with a group of five relationship banks. This credit facility replaces the former multi-currency revolving credit facility of EUR 200 million. As at December 31, 2002, Endemol has drawn EUR 145 million under this facility. In addition Endemol has a total of EUR 15 million outstanding under other non-committed overdraft lines. The company and some of its group companies have accepted joint and several liability for the credit facilities and are subject to restrictions on the transfer of format rights (in general Endemol does not capitalize own-developed format rights). Negative pledge clauses have been agreed for the debts to credit institutions, which are payable on demand in the event of certain ratios not being realized.

Commitments and contingent liabilities

Commitments	2002
Commitments in respect of contracts placed	256
Contingent liabilities	2002
Trading guarantees (e.g. bank/production guarantees)	3,496

Endemol is involved in several legal disputes and claim procedures. If considered necessary, provisions are recognized to cover the possible financial risk.

Endemol participates in a number of partnerships where Endemol is jointly and severally liable for debts incurred in these partnerships. The external financial exposure from these liabilities is limited.

Leases

Group operating lease commitments payable in the following year, analyzed according to the period in which each lease expires, are as follows:

	<u>Land and buildings</u>	<u>Other assets</u>
	2002	2002
Expiring within one year	9.938	5.304
Expiring in years two to five	31.457	3.128
Expiring thereafter	26.232	-

Related party transactions

As part of the public offer for Endemol in 2000, Telefónica guaranteed a bonus payment. During 2002, Endemol transferred EUR 28 million, in relation to this bonus payment, to an entity controlled by Mr. De Mol, to further decide on the distribution within the terms of the bonus agreement.

Financial instruments

Endemol makes use of financial instruments to hedge future foreign currency exposures resulting from assets, liabilities and operational cash flow.

The estimated market value of these financial instruments does not differ materially from the book value or has been valued at market rates.

At 31 December 2002, outstanding forward exchange contracts to buy currencies totalled EUR 13.3 million (2001: EUR 6.6 million), while forward exchange contracts to sell currencies totalled EUR 14.6 million (2001: EUR 10.0 million). Approximately EUR 19.4 million (2001: EUR 9.7 million) is related to hedging of financing transactions. EUR 8.5 million (2001: EUR 6.9 million) is related to hedging of trade exposures. The valuation of the forward exchange contracts, fair value in the balance sheet, does not differ materially from the book value.

In the course of 2002, Endemol entered into a series of interest rate swaps for an amount of EUR 120.0 million. These swaps, with durations of 3 and 5 years, have been entered into to hedge long-term adverse interest movements.

Consolidated profit and loss account for the period 1 January 2002 - 31 December 2002

General

The financial data of Endemol have been included in the profit and loss account. As a result, the company profit and loss account of Endemol has been drawn up pursuant to Article 402, Part 9, Book 2 of the Netherlands Civil Code.

Net turnover

The net turnover can be specified as follows:

	1 Jan. 2002 – 31 Dec. 2002 EUR 1,000	<i>1 Jan. 2001 – 31 Dec. 2001 EUR 1,000</i>	1 Aug. 2000 – 31 Dec. 2001 EUR 1,000
Television / interactive production	868,818	<i>914,269</i>	1,262,069

The geographical breakdown of the turnover is as follows:

	1 Jan. 2002– 31 Dec. 2002 EUR 1,000	<i>1 Jan. 2001 – 31 Dec. 2001 EUR 1,000</i>	1 Aug. 2000 – 31 Dec. 2001 EUR 1,000
The Netherlands	159,691	<i>180,828</i>	293,138
Germany	76,592	<i>129,132</i>	195,398
Spain	134,129	<i>112,424</i>	144,676
Italy	82,188	<i>129,500</i>	171,923
United Kingdom	103,581	<i>85,393</i>	121,098
France	161,151	<i>126,120</i>	144,431
Other countries	151,486	<i>150,872</i>	191,405
	868,818	<i>914,269</i>	1,262,069

Personnel costs

	1 Jan.2002 – 31 Dec. 2002 EUR 1,000	<i>1 Jan. 2001 – 31 Dec. 2001 EUR 1,000</i>	1 Aug. 2000 – 31 Dec. 2001 EUR 1,000
Salaries	108,700	<i>110,610</i>	150,150
Social security charges	15,445	<i>15,153</i>	20,929
Pension and early retirement costs	2,987	<i>2,511</i>	2,854
Other personnel costs	11,407	<i>11,334</i>	16,458
	138,539	<i>139,608</i>	190,391

Number of employees

The average number of employees in 2002 was 2,668 (2000/2001: 2,830). The number of employees has been calculated on the basis of full-time equivalents.

Remuneration of (former) members of the Executive Board and Supervisory Board

	1 Jan.2002 – 31 Dec. 2002 EUR 1,000	1 Aug. 2000 – 31 Dec. 2001 EUR 1,000
Executive Board	4,907	6,058
Supervisory Board	66	136
	4,973	6,194

The remuneration of the Executive Board relates to a 12 month period and includes bonuses paid.

Extraordinary result

In 2002 no extraordinary results were recorded.

Taxation

In 2002 the effective tax rate on ordinary operating activities amounts to 41.8 % (2001 45.2 %); excluding amortization of goodwill, which is non-deductible, the effective tax rate amounted to 34.5%. The reason for the decrease compared to last year (39.4%) is because the relative weight of taxable income has shifted from higher tax countries like Germany and Italy to relatively lower tax countries like France and Spain.

For purposes of corporation tax, in the Netherlands the company forms a fiscal unity with its domestic wholly-owned subsidiaries with the exception of De Mol Catalyst B.V. and Endemol Finance B.V.

Company balance sheet as at 31 December 2002

(after appropriation of profit)

	31 December 2002		31 December 2001	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Fixed assets				
Financial fixed assets		147,086		123,535
Current assets				
Taxation		24,163		1,078
		<u>171,249</u>		<u>124,613</u>
Shareholders' equity				
Capital paid up and called	694		787	
Share premium	112,315		112,317	
Legal reserve	14,058		23,231	
Other reserves	(16,921)		(71,503)	
		<u>110,146</u>		<u>64,832</u>
Current liabilities				
Credit institutions	37,190		39,931	
Other liabilities	478		594	
Current account group companies	23,435		19,256	
		<u>61,103</u>		<u>59,781</u>
		<u>171,249</u>		<u>124,613</u>

Company profit and loss account for the period 1 January 2002 - 31 December 2002

	1 Jan. 2002– 31 Dec. 2002	<i>1 Jan 2001 – 31 Dec. 2001</i>	1 Aug. 2000 – 31 Dec. 2001
	EUR 1,000	<i>EUR 1,000</i>	EUR 1,000
Results from participating interests after taxation	53,936	<i>(15,672)</i>	55,132
Other results after taxation	(1,385)	<i>4,202</i>	(1,920)
Net profit	52,551	<i>(11,470)</i>	53,212

Notes to the company 2002 annual report

General

The principles for the valuation of assets and liabilities are set out in the notes to the consolidated financial statements. The participations in group companies are valued at their net asset value, subject to the valuation principles of Endemol. The financial particulars of Endemol are incorporated in the consolidated financial statements.

Corporate balance sheet as at 31 December 2002

Fixed assets

Financial fixed assets

	31 Dec. 2002 EUR 1,000
As at 31 December 2001	123,535
Earn-out adjustments	(4,820)
Result	53,936
Exchange differences	(2,418)
Dividend received	(30,000)
Other	6,853
	<hr/>
As at 31 December 2002	147,086 <hr/>

Shareholders' equity

	Capital paid up and called EUR 1,000	Share premium EUR 1,000	Legal reserve EUR 1,000	Other reserves EUR 1,000	Total EUR 1,000
As at 31 December 2001	787	112,317	23,231	(71,503)	64,832
Goodwill acquisitions	-	-	-	120	120
Goodwill adjustments	-	-	-	(4,940)	(4,940)
Exchange differences	-	-	-	(2,418)	(2,418)
Reclassification	-	-	(12,155)	12,155	-
Other	(93)	(2)	93	3	1
Result for financial year	-	-	2,889	49,662	52,551
As at 31 December 2002	<u>694</u>	<u>112,315</u>	<u>14,058</u>	<u>(16,921)</u>	<u>110,146</u>

	Capital paid up and called EUR 1,000	Share premium EUR 1,000	Legal reserve EUR 1,000	Other reserves EUR 1,000	Total EUR 1,000
As at 31 July 2000	787	112,317	18,535	(105,074)	26,565
Goodwill acquisitions	-	-	-	(13,996)	(13,996)
Goodwill divestments	-	-	-	5,353	5,353
Exchange differences	-	-	-	(147)	(147)
Change of accounting principles	-	-	-	(6,155)	(6,155)
Result for financial year	-	-	4,696	48,516	53,212
As at 31 December 2001	<u>787</u>	<u>112,317</u>	<u>23,231</u>	<u>(71,503)</u>	<u>64,832</u>

Capital paid up

In 2002, by change in the bylaws of the company, the share capital was converted from Dutch guilders into euro. The difference between the paid up capital in Dutch guilder and in euro has been transferred to the legal reserves.

The authorized capital of the company amounts to three million and four hundred thousand euro (EUR 3,400,000) and is divided into one hundred and seventy million (170,000,000) shares, each with a par value of two eurocents (EUR 0.02).

Legal reserve

The legal reserve was formed for the retained profit from participations, which was not paid in the form of dividend from the moment of acquisition, and payment of which cannot be realized by the company itself.

Contingent liabilities

The company has assumed joint and several liability for debts arising from legal actions of its Dutch wholly-owned subsidiaries, with the exception of De Mol Catalyst B.V. In drawing up the financial statements, the aforementioned companies make use of the facilities as referred to in Article 403, Part 9, Book 2 of the Netherlands Civil Code.

Hilversum, February 14, 2003

Executive Board:

J.H.H. de Mol

A. Schouwenaar

A.T.W.M. Oostvogel

H.B.G. Deitmers

B.A.M. Goes

U. Glorie

Supervisory Board:

L.A. Abril

J.A. van den Ende

G.H. Smit

J.B. Faura

A. Vilá

S. Fernández Valbuena



Auditors' report

Introduction

We have audited the financial statements of Endemol Holding N.V., Hilversum, for the year ending 31 December 2002. These financial statements are the responsibility of the Executive Board of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2002 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code, except that the notes do not disclose the remuneration of the Executive Board and the members of the Supervisory Board as required to be disclosed by section 2:383b, section 2:383c, section 2:383d and section 2:383e of the Netherlands Civil Code.

Amstelveen, 14 February 2003

KPMG Accountants N.V.

Ref.: L.N.J. Epskamp



KPMG Assurance

Initialed for identification purposes

KPMG Accountants N.V.



Profit appropriation provisions in the articles of association

Article 26

1. The company may only make distributions to the shareholders and other persons entitled to the profit eligible for distribution insofar as its own equity is larger than the amount of the paid-up and called-up part of the capital increased with the reserves that pursuant to the law or the articles of association should be kept.
2. The executive board, with the approval of the supervisory board, will determine which part of the profit, as this appears from the adopted profit and loss account, then remaining will be reserved. The part of the profit remaining after reservation as meant afore will be distributed as dividend on the shares.
3. The general shareholders' meeting may decide on proposal of the executive board and with the approval of the supervisory board to make distributions to the holders of ordinary shares to the charge of the distributable part of the own equity.

Article 27

1. On proposal of the executive board and with the approval of the supervisory board the general shareholders' meeting will be authorised to decide that a distribution of dividend or another distribution on the shares will be made entirely or partially not in cash but in ordinary shares in the capital of the company.
2. Distribution of dividend or another distribution will be made not later than fourteen days after declaration. Payment being available will be announced in the manner as prescribed in article 16 paragraph 7.
3. At calculating the allocation of profit the shares that the company holds in its own capital do not count unless there rests on these shares a right of pledge or a right of usufruct.
4. The claim of a shareholder to distribution will expire to the advantage of the company by a time lapse of five (5) years after eligibility.

Proposed appropriation of profit

It will be proposed to the shareholders that the profit for the financial year is added to the legal reserve and the other reserves. The appropriation of profit has been incorporated in the financial statements.