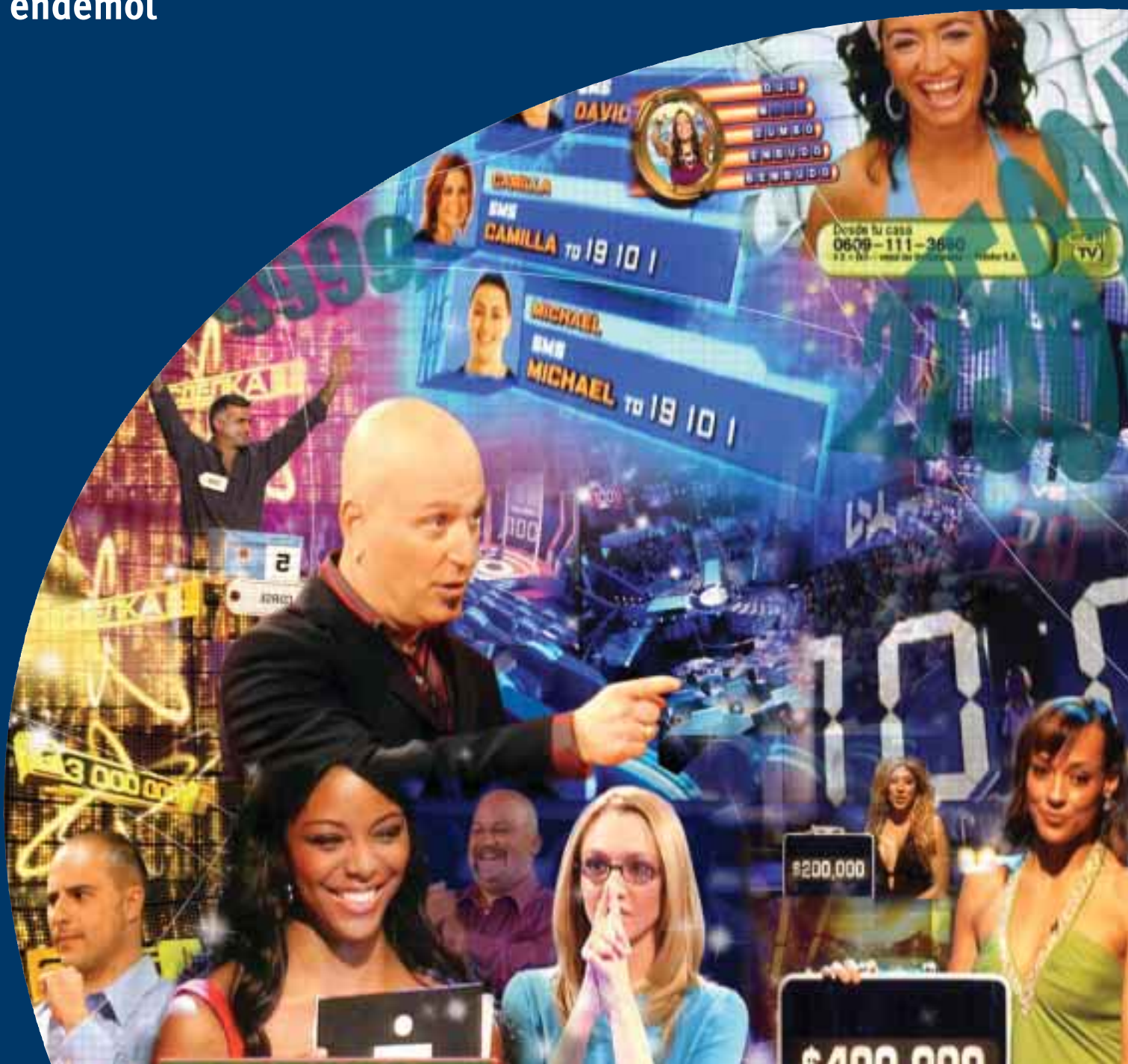


# Annual Report 2006

Endemol N.V.







OPERACION TRIUNFO

Fear factor

ATTENTION A LA MARCHE!

The Cl

100

Ca

SET FOR LIFE

love to

DAYBAT

LUCKY LETTERS

CM CRONICAS MARCIANAS

SHOW ME THE MONEY

Will C or W The

brainteaser

the fat: best food = kids?

Extreme MAKEOVER HOME EDITION

LOOK AT ME

LOVE

Perfect

THE PEOPLE'S BOOK OF RECORDS

STAR ACADEMY

OUS

6PACK

GAME

DEAL OR NO DEAL

EEN TEGEN 100

JOM TIKARI

8 out of 10 Cats

MURSELF AT HOME

YOU ARE YOU W

LOVE

WATCH YOUR STEP

PREMIERE OU A LAIS

READY STEADY COOK

Worldbest

Big Brother

HP

DIET

# Richly rewarding Entertainment... Worldwide





### 1 VS. 100

One player must eliminate 100 opponents by correctly answering questions in different categories. Can they cling on to the hot seat and defeat every one? If so it could mean serious money... A hit in over 20 countries including the USA, the UK and across Europe.



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All references to "Endemol", the "Group", the "Company", "we", "us", "our", and "ours" refer to Endemol N.V. or Endemol N.V. and its Group companies, depending on the context.





Jan Peter Kerstens  
Chief Financial Officer



Elias Rodriguez-Viña  
Chairman and Chief Executive Officer



Peter Bazalgette  
Chief Creative Officer

# From the CEO

Dear shareholder,

The year 2006 has been a successful year for Endemol. We have managed to grow in all areas of our business, as well as in almost every territory. We are especially pleased with the performance of *'Deal or No Deal'* (*'DOND'*), a worldwide phenomenon which triggered the resurgence of the game show genre around the world. We believe we have also taken significant steps towards achieving our long-term strategic goals.

## Strong financial performance in 2006

Total turnover in 2006 was up by 24.1% compared to 2005, to a level of EUR 1,117 million. Organic growth accounted for the vast majority of total growth, representing a remarkably strong 20.9% out of the 24.1%. EBITDA grew by 15.9% to EUR 177 million and net profit grew by 17.2% to EUR 97 million. Earnings per share rose from EUR 0.66 in 2005 to EUR 0.77 in 2006.

In 2006 Endemol experienced turnover growth in all genres: 22.2% in Non-scripted, 8.5% in Scripted and 65.3% in Digital Media. Endemol has also grown in almost every territory in 2006, with particularly strong organic growth contributions from the United Kingdom, the United States, Italy and Spain.

## *DOND* a worldwide phenomenon; game shows on the rise

We are remarkably proud of the strong performance of *Deal or No Deal* in 2006, which highly contributed to the overall performance in the Group. In 2006 it has been aired in a total of 46 countries, and prospects for 2007 - on air in over 60 countries - are very positive as well.

The success of *DOND* has triggered a resurgence of the game show genre worldwide. Endemol has leveraged this increasing demand by closing a number of deals around other game shows such as *1 vs. 100* (a revamped format from Endemol's library) that we expect it to be on air in more than 20 territories in 2007.

## Major achievements in our strategic priorities

In 2006 Endemol made significant progress in each of our strategic priorities

**Growing our core business in our main territories** - Our key formats remain very healthy and our intellectual property ('IP') is currently being traded more quickly across the Group than ever before. As explained above, 2006 was the year of *DOND*. It became a worldwide hit following its successful launches in the US and the UK in late 2005, and triggered an increasing demand for game shows among all major broadcasters around the world.

**North America** - Our operation in the US enjoyed the strongest growth among all our operating companies, with a turnover increase of 46.4% compared to 2005. Success in the US was driven by the excellence performance of shows like *DOND* and *Extreme Makeover: Home Edition*. Endemol USA has developed over the years excellent relationships with the major

networks thanks to their track record for delivery of primetime entertainment hits.

**Scripted** - Our major scripted operations (the Netherlands, Italy and Spain) continued to contribute strongly in this area. Furthermore, coordination and profile of Scripted is rising across the Group, and trading of scripted IP is starting to follow the Non-scripted model.

**Digital Media** - In this area there was a particularly remarkable turnover growth of 65.3% in 2006, strongly fuelled by brand exploitation activities around shows like *DOND*, *Big Brother* and *Operación Triunfo*. Important developments have also taken place in the tailor made arena, with successful examples such as the made-for-mobile interactive reality show *Get Close to...* in the UK and Spain, and the acquisition of *Joe Cartoon* in the US.

**New markets** - We are continuing our expansion into new territories, and had a very successful launch of Endemol India in early 2006. Additionally we are in the process of starting up a new subsidiary in South East Asia, and have very intense licensing activities in Eastern Europe and Middle East.

## Acquisition and reintegration of Endemol France

On 8 January 2007, we concluded the acquisition of Endemol France on the basis of an enterprise value up to EUR 450 million. Of this amount EUR 194 million is fully subject to the annual performance of the acquired company in the period 2007-2010 and will be deferred over that period of four years. The acquisition of all shares of Endemol France was approved in an Extraordinary General Meeting of Shareholders on 14 February 2007. As a result France, that was carved out of the Group prior to the IPO in November 2005, has again become part of the Group, effective from January 2007.

## Summary

2006 has been a very good year for Endemol. We have achieved strong growth in turnover, EBITDA and net income. We have grown in all genres and in almost every region in which we operate. We have also made significant achievements on our main strategic initiatives and have seen a tangible contribution from them.

On behalf of Endemol's Management Board I would like to thank all our managers and employees around the globe for their hard work and valuable contribution to the results achieved in 2006. I would also like to thank our customers and shareholders for the trust placed in us.

Elías Rodríguez-Viña  
Chairman and Chief Executive Officer

# 24.1%

turnover growth

# 96.8m

net profit

# 65.3%

growth in digital media

# €0.45

dividend per share

# 51%

stake in Callactive

## Key developments

- Turnover EUR 1,117.4 million, 24.1% growth compared to 2005. Remarkably strong organic growth of 20.9%.
- EBITDA EUR 177.1 million (15.9% of turnover); 15.9% growth compared to 2005. Normalised EBITDA 17.4% of turnover (2005: 17.3%), a growth of 25.2%.
- Net profit attributable to the shareholders EUR 96.8 million (8.7% of turnover); +17.2% growth compared to 2005.
- Basic earnings per share EUR 0.77 compared to EUR 0.66 in 2005.
- Growth in all genres: +22.2% in Non-scripted, +8.5% in Scripted and +65.3% in Digital Media.
- Diversified geographical mix with growth in almost all territories; remarkable performance in the UK, the US, Italy and Spain.
- Proposed dividend EUR 0.45 per share, total of EUR 56.25 million (58.1% of net profit attributable to shareholders).
- Stake in Dutch NL Film & TV raised to 51%.
- Sale of new game shows by Endemol USA to large American broadcasters.
- *Deal or No Deal* established as a hit format, produced in over 40 countries, setting of a new game show revival.
- Further expansion in Participation TV, by acquisition of 51% stake in Callactive, Germany.
- Elías Rodríguez-Viña appointed CEO in July 2006.
- Sustained strong performance of *Big Brother*; three year deal in the UK.
- Acquisition of Endemol France, with a turnover of EUR 175.2 million in 2006, approved by shareholders early 2007.
- Telefónica announced in March 2007 it is exploring strategic alternatives in relation to its 75%-stake in Endemol N.V.



# Company profile and history

## Endemol in profile

Endemol is a global leader in television and other audiovisual entertainment. The company creates premium entertainment ideas offering them to the world's leading broadcasters. We then use our ideas to produce high-quality shows, often resulting in hits with strong brand value. Subsequently, we exploit the value of our brands across other media and communication channels, such as mobile telephones and broadband Internet.

To develop ideas and brands, we secure and motivate local entrepreneurs who are self-starters and cultivate strong creative teams. We distribute our content via aggregators such as broadcasters, who largely fund our productions, thus minimising

Endemol Holding N.V. was listed on the Amsterdam stock exchange in 1996. Telefónica made a public offer for all of the outstanding shares of Endemol Holding N.V. in 2000, after which it acquired almost 100% of the outstanding shares. Following completion of the acquisition, Endemol Holding N.V. was de-listed.

On 22 November 2005, through an IPO our ordinary shares were listed on Euronext Amsterdam. Prior to our IPO, a corporate reorganisation took place, which resulted in the legal and beneficial ownership of the French Endemol business being separated from the rest of the Group. Despite this reorganisation,

# Endemol France reintegrated as of January 2007

the risk of our business model. We earn our revenues principally through fees from broadcasters and, to a lesser extent, through fees from advertisers and telecom and Internet companies. Being an ideas-led company enables us to minimise our investment in costly equipment and infrastructure.

The content we create comprises Scripted, Non-scripted and Digital Media:

**Scripted** programmes are programmes such as drama, comedy and soap operas for which writers pre-determine the script and structure.

**Non-scripted** programmes comprise reality TV entertainment, game shows and talent shows in which the main events within the programme are not pre-determined by writers and producers but are the result of actual events happening during the show.

**Digital Media** products are mainly but not exclusively brand exploitations of Endemol's main programmes, including ringtones, 'wallpaper' for PCs, broadband streaming of programmes over the Internet and mobile phones, mobile and online games and interactive viewing services including Participation TV.

## Our history

In 1994, the production companies of two major television producers in the Netherlands, Joop van den Ende and John de Mol, merged to become Endemol. This merger triggered the international development of the Endemol Group; since then Endemol has rapidly expanded to become a leading format creation and production company. This rapid growth was achieved through both acquisitions and internally developed start-ups of television production companies.

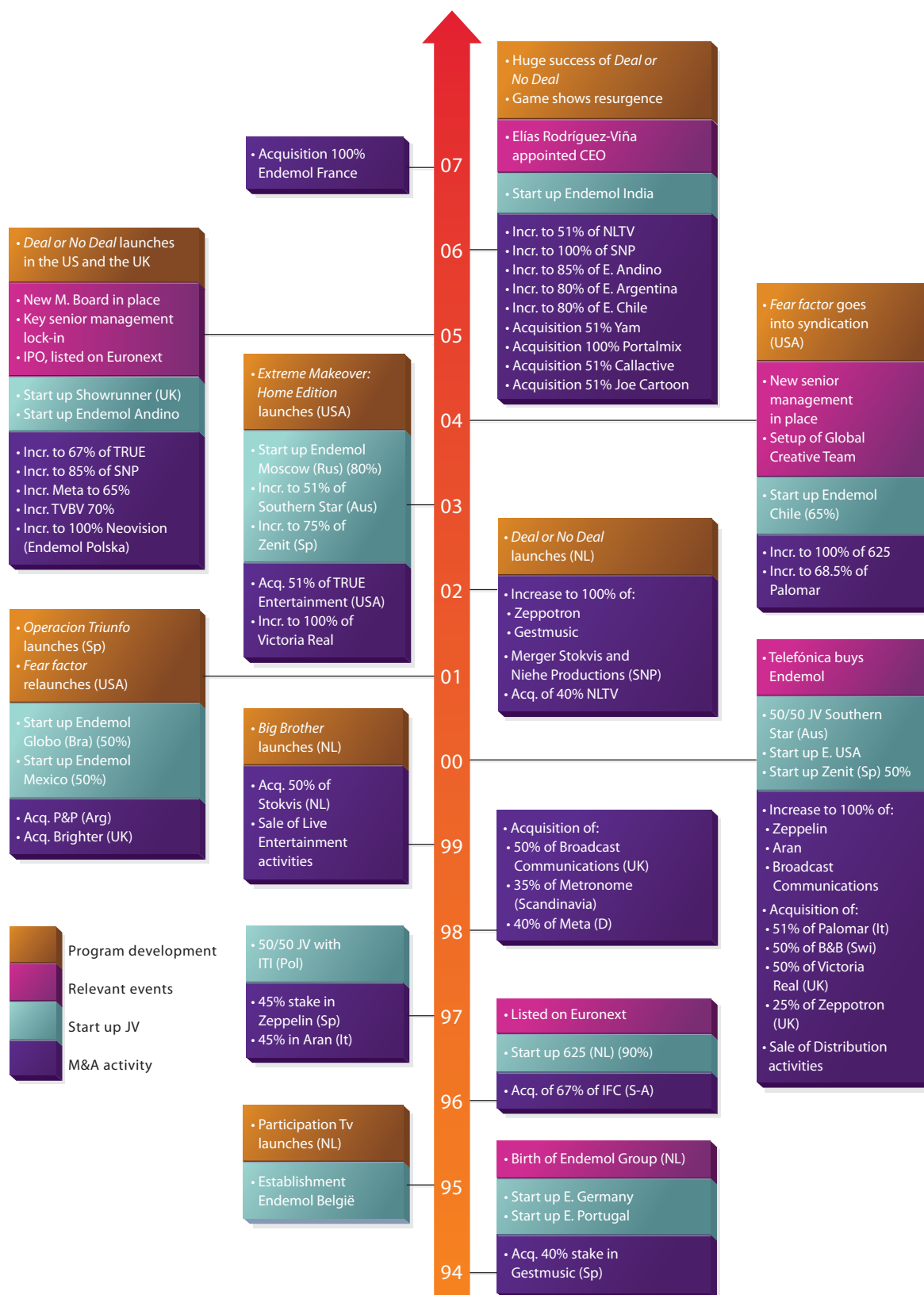
the French Endemol business remained closely connected to the group, both operationally and creatively.

On 8 January 2007, the negotiations were successfully concluded for the acquisition of Endemol France on the basis of an enterprise value up to EUR 450 million. Of this amount EUR 194 million is fully subject to the annual performance of the acquired company in the period 2007-2010 and will be deferred over that period of four years. On 14 February 2007 shareholders approved the acquisition of all shares of Endemol France S.A.S. in an Extraordinary General Meeting of Shareholders. As a result Endemol France has again become part of the Endemol Group as of January 2007.

On 9 March 2007 Telefónica announced that it is exploring strategic alternatives in relation to its stake in Endemol N.V., including a possible total or partial divestiture of its stake. At the time this Report was issued this process was still underway.

## Milestones

The following graphic summarises the main milestones in Endemol's history





# Key figures overview

EUR million	IFRS 2006	2005	2004	Dutch GAAP 2003*	2002*
<b>Income statement data</b>					
Turnover	1,117.4	900.1	850.9	739.7	708.4
EBITDA	177.1	152.8	132.4	127.2	89.7
EBITDA as a % of turnover	15.9%	17.0%	15.6%	17.2%	12.7%
Operating result	160.5	135.4	117.2	107.7	67.7
Profit before Tax	154.5	135.1	111.2	104.3	64.3
Net profit attributable to shareholders	96.8	82.6	64.5	63.1	36.0
Net profit as % of turnover	8.7%	9.2%	7.6%	8.5%	5.1%
Earnings per share (EUR)**	0.77	0.66	0.52	0.50	0.29
Fully diluted earnings per share (EUR)**	0.76	0.65	0.51	0.50	0.28
No. of shares (million)	125.0	125.0	125.0	125.0	125.0
<b>Cash flow data</b>					
Cash flow from operating activities	99.8	95.4	93.7	96.9	29.5
Cash flow from investing activities	(47.2)	(42.0)	(35.4)	(31.8)	(93.4)
Cash flow from financing activities	(14.8)	(90.1)	(0.5)	(79.3)	52.4
Net cash flow	37.8	(36.7)	57.7	(14.2)	(11.5)
Capital expenditure	13.7	14.3	15.2	12.0	14.8
<b>Balance sheet data</b>					
Non-current assets	263.6	235.9	315.6	236.4	214.2
Current assets	450.7	331.0	378.7	304.8	359.9
<b>Total assets</b>	<b>714.3</b>	<b>566.9</b>	<b>694.3</b>	<b>541.2</b>	<b>574.1</b>
Non-current liabilities	36.3	16.1	46.3	47.8	35.9
Current liabilities	433.3	404.9	412.6	338.8	448.9
<b>Total liabilities</b>	<b>469.6</b>	<b>421.0</b>	<b>458.9</b>	<b>386.6</b>	<b>484.8</b>
Shareholders' equity	237.1	139.5	229.5	149.4	87.9
Minority interests	7.6	6.4	5.8	5.3	1.4
<b>Total equity &amp; liabilities</b>	<b>714.3</b>	<b>566.9</b>	<b>694.3</b>	<b>541.2</b>	<b>574.1</b>
<b>Net financial indebtedness</b>					
Cash and cash equivalents	(87.4)	(67.4)	(117.8)	(20.0)	(34.2)
Short-term financial debt	97.8	115.6	129.2	83.0	159.7
Long-term financial debt	2.2	2.2	0.4	0.9	3.5
Net financial debt / (cash)	12.6	50.4	11.8	63.9	129.0
<b>Other / ratio's</b>					
FTE's (full time equivalents)	4,316	3,928	3,249	2,964	2,561
Solvency (total equity incl. minority interests / balance sheet total)	34.3%	25.7%	33.9%	28.6%	15.6%

\* Pro forma figures

\*\* Although Endemol N.V. was incorporated on 28 October 2005, the earnings per share for 2003 and 2002 are calculated based on the same number of shares issued in 2005, as if the company already existed in these prior years

## BIG BROTHER

A group of housemates, who have never met before, live together for months in a fenced-off compound. They are isolated from the outside world, with no contact with loved ones. The housemates are all alone...except for the millions of viewers watching and voting to decide who stays and who goes!

Big Brother



NAME

DAVID

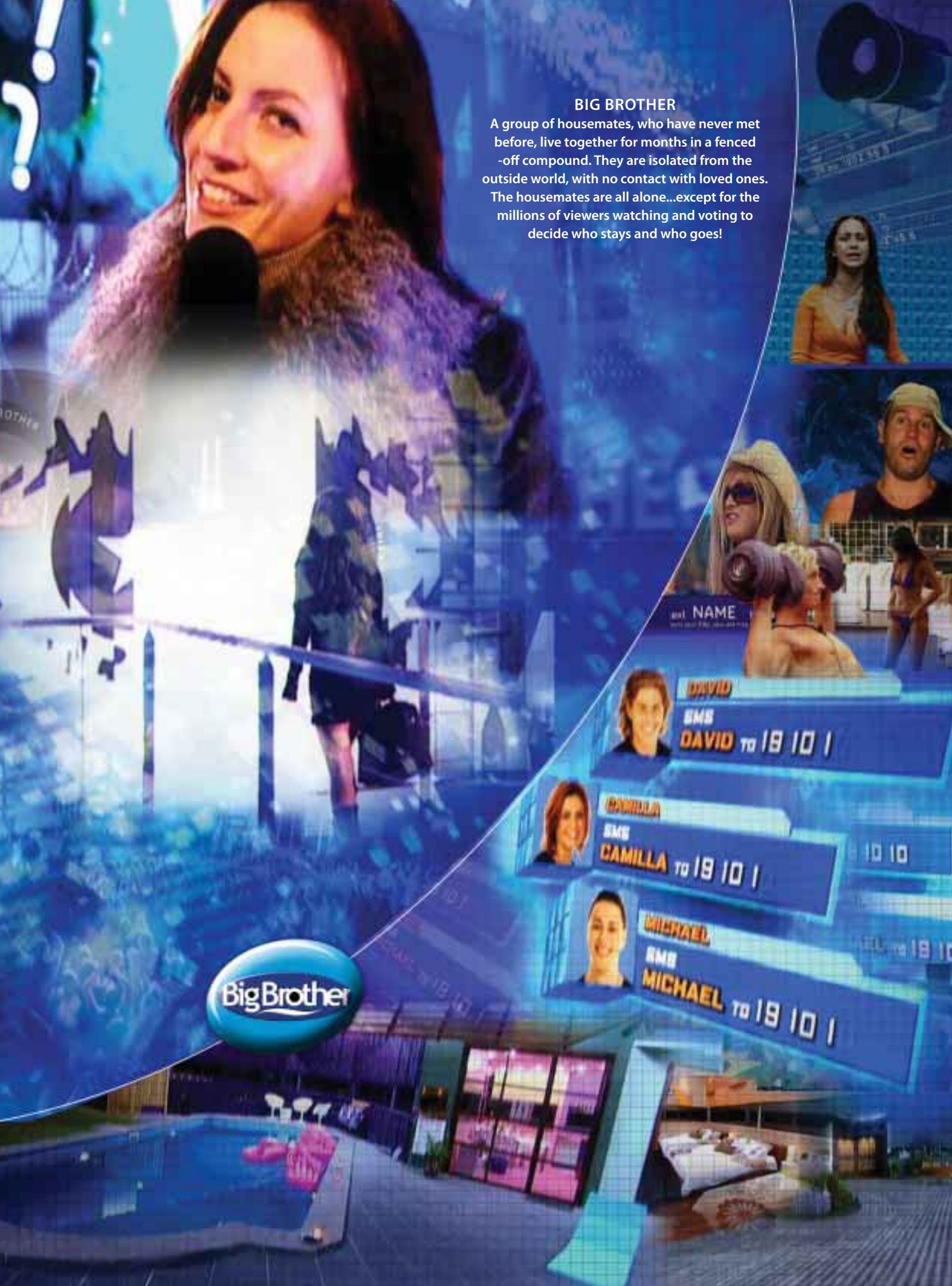
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CAMILLA

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CAMILLA TO 18 10 1

MICHAEL

SMS  
MICHAEL TO 18 10 1





# Corporate strategy and objectives

Endemol's strategy remains focused on profitable growth and market leadership. Maintaining and building the strength of our core business remains our key priority. In recent years we have been generating value from our unique international corporate network and we expect to continue doing so in 2007. Additionally, we intend to create further growth by focusing on five areas: North America, Scripted, Digital Media, new geographic markets and acquisitions.

**Focus on our Core Business:** Endemol's main priority for the coming years is to retain and further expand our strong position in non-scripted programming on the world's major commercial television networks. In order to do so, Endemol is concentrating on a number of key activities: (1) continuing creativity that delivers the best formats via the best talent, (2) proactive management of the lifecycle of our formats, (3) proactive management of our library of formats to stimulate trading of ideas and intellectual property within the Endemol Group, (4) sustaining our strong relationships with major broadcasters, and (5) further deployment of initiatives that enhance cross-company revenues and improve efficiency and high quality standards of productions.

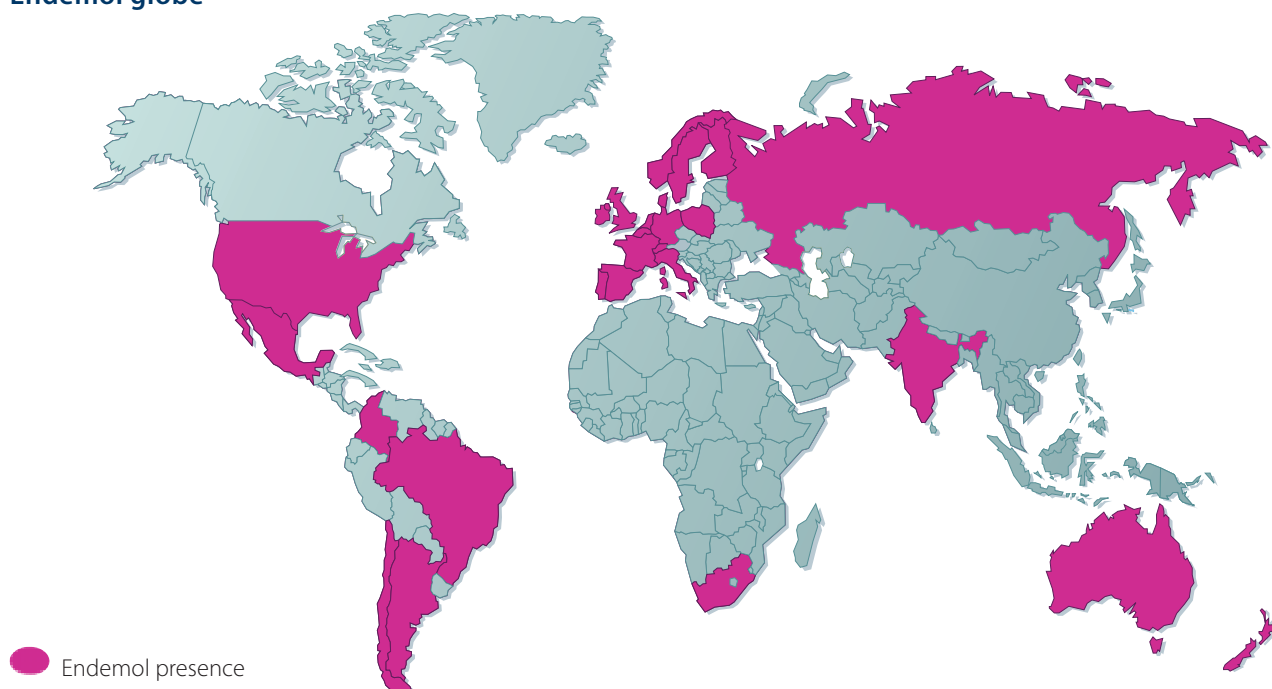
**Expansion in North America:** The United States is the largest television market in the world. Endemol has had a direct presence here since 2000 and has developed strong relationships with the major US television networks thanks to high rating shows

such as *Fear factor*, *Extreme Makeover: Home Edition* and more recently, *Deal or No Deal* and *1 vs. 100*. In order to further develop Endemol's position in North America (including Canada), we will focus on six growth areas: Television networks, Cable networks, Scripted, Digital Media, the Hispanic market and Canada.

**Growth in Scripted:** Scripted programming is a significant genre in terms of viewing hours, prime time and broadcaster budgets, and has increased in popularity over recent years. Endemol's activities in the scripted field span more than ten territories and we enjoy a particularly strong position in three of our main markets: the Netherlands, Italy and Spain. Endemol believes there is potential to leverage this know-how and achieve further growth in other markets. To do so, we plan to adopt a Group-wide approach to scripted (scripted exchanges, scripted GCT, incentives, etc), similar to the one used so successfully in non-scripted. Further efforts will therefore be made to retain IP rights in order to allow the international exploitation of scripted projects. From a funding perspective, Endemol's strategy is generally to avoid undertaking major commitment to deficit financing and pre-financing.

**Digital Media opportunities:** Dynamic technological developments, a range of emerging media platforms and the resultant changes in consumer behaviour are blurring the historical boundaries between the telecom and media industries. What doesn't change is the fact that people want entertaining

## Endemol globe



Endemol currently has subsidiaries or partnerships in 25 countries: Argentina, Australia, Belgium, Brazil, Chile, Colombia, Denmark, Finland, France, Germany, India, Italy, Mexico, New Zealand, the Netherlands, Norway, Poland, Portugal, Russia, South Africa, Spain, Sweden, Switzerland, the United Kingdom and the United States. In addition, Endemol sells directly to countries where we do not have a permanent presence. We do business in almost all geographical markets around the globe.

content. Digital media platforms therefore provide additional opportunities for content production companies like Endemol to exploit their programming and best known brands. Our strategy is focused in three areas: Participation TV (in which viewers interact with Endemol's shows to win prizes, bid for

## Further expansion in Non-scripted

products, etc.), Brand exploitation (in which viewers interact with Endemol's well-known entertainment formats-brands), and Tailor made content (content designed specifically for non-TV related platforms).

**New geographic markets:** We have a two step entry strategy regarding new geographical markets. The first step consists of setting up a solid commercial relationship (licensing) with the main broadcasters in the respective countries. The countries are prioritised based on a number of relevant factors such as market size, openness to western content or regulatory framework. Examples of countries in this first phase include the Middle East and Eastern Europe (although we already have direct presence in Poland and Russia). Once we have established a strong commercial relationship over a number of years, we move into the second step, developing a direct presence in the country through start-up companies. Examples of countries in this second phase are India, where we have had a successful start, and South East Asia, where we are in the process of setting up an Endemol subsidiary.



# Report of the Management Board

## General business performance

Endemol had a very sound year in 2006, with growth in turnover, EBITDA and net profit attributable to shareholders.

Turnover reached EUR 1,117.4 million in 2006, which represents a 24.1% growth compared to 2005. Of this growth 87% is organic and 13% is non-organic. This growth in turnover also led to a 15.9% growth in EBITDA to a level of EUR 177.1 million (2005: EUR 152.8 million). Net profit attributable to shareholders was up 17.2% compared to 2005, reaching EUR 96.8 million in 2006.

Turnover growth in 2006 was achieved in all genres and in almost all countries in which Endemol has a presence. In Non-scripted

we enjoyed growth of 22.2%, it has been a very successful year for *Deal or No Deal* and other game shows. Scripted grew in 2006 by 8.5%, whilst Digital Media also showed an impressive growth of 65.3%.

The contribution of the various countries to the total turnover remains quite stable compared to 2005, with noteworthy performances in the UK, the US, Italy and Spain.

## Group financial review

The following table shows the results of our operations for the year ended 31 December 2006 and the year ended 31 December 2005.

## Consolidated income statement

EUR million	2006		2005		% change
<b>Turnover</b>	<b>1,117.4</b>	100.0%	<b>900.1</b>	100.0%	<b>24.1%</b>
Costs of outsourced work and other external costs	(698.3)	(62.5%)	(546.9)	(60.8%)	27.7%
Employee benefit expense	(171.5)	(15.3%)	(139.5)	(15.5%)	22.9%
Other operating expense	(70.5)	(6.3%)	(60.9)	(6.8%)	15.8%
<b>EBITDA</b>	<b>177.1</b>	15.9%	<b>152.8</b>	17.0%	<b>15.9%</b>
Depreciation, amortisation and impairment expense	(16.6)	(1.5%)	(17.4)	(1.9%)	(4.4%)
<b>Operating result</b>	<b>160.5</b>	14.4%	<b>135.4</b>	15.0%	<b>18.6%</b>
Net financial result	(6.1)	(0.5%)	(0.3)	(0.0%)	2129.2%
<b>Profit before tax</b>	<b>154.5</b>	13.8%	<b>135.1</b>	15.0%	<b>14.3%</b>
Income tax expense	(53.2)	(4.8%)	(48.8)	(5.4%)	(9.0%)
<b>Profit for the year</b>	<b>101.3</b>	9.1%	<b>86.3</b>	9.6%	<b>17.3%</b>
Profit attributable to minority interest	4.4	0.4%	3.7	0.4%	19.7%
Profit attributable to equity holders of Endemol N.V.	96.8	8.7%	82.6	9.2%	17.2%
<b>Earnings per share</b>					
Basic earnings per share (EUR)	0.77		0.66		17.2%
Fully diluted earnings per share (EUR)	0.76		0.65		16.6%
Number of outstanding shares (million)	125.0		125.0		
Number of outstanding shares (fully diluted; million)	128.0		127.3		
Total number of employees and freelancers (year-end)	5,481		4,801		14.2%
of which: unlimited contracts (year-end)	1,485		1,178		26.1%

## Report of the Management Board

### Turnover

Year-on-year growth in turnover was 24.1%.

In terms of genres, growth was primarily driven by the strong performance of Non-scripted formats, with an increase of 22.2% compared to 2005. The Scripted genre showed a growth of 8.5% and Digital Media grew by 65.3%. Both Non-scripted and Digital Media were strongly fuelled by the hit format *Deal or No Deal*.

Organic growth accounted for the vast majority of total growth, representing a remarkably strong 20.9% out of the 24.1%. This is mainly due to the strong organic performance of Endemol's operating companies in the UK, the US, Italy and Spain. The remaining 3.2% is due to non-organic growth. This consisted of

### EBITDA

EBITDA in 2006 reached a level of EUR 177.1 million, a +15.9% increase compared to last year, when it amounted to EUR 152.8 million. In terms of EBITDA margin, Endemol has moved from 17.0% of turnover in 2005 to 15.9% in 2006, almost in the middle of the guided EBITDA range (15-17%). If we exclude the EN-SOP cost/income and the LTIP costs from the expenses, normalised EBITDA would have reached a level of EUR 194.5 million (17.4% of turnover) compared to EUR 155.4 million (17.3% turnover) in 2005.

### Depreciation, amortisation and impairment

Depreciation of tangible and intangible assets in 2006 was EUR 2 million lower than in 2005. In 2005 depreciation of tangible

# Increase of EBITDA in 2006 to €177.1 million

the acquisition of an additional 11% in the Scripted company NL Film & TV in the Netherlands, which increased Endemol's share from 40% to 51%, the acquisitions of the Digital Media companies YAM (Italy; 51%), Portalmix (Spain; 100%), Callactive (Germany; 51%) and Joe Cartoon (the US; 51%) and the start up of Endemol India.

### Operating expenses

In 2006, costs of **outsourced work and other external costs** (mainly production costs) went up compared to 2005 from 60.8% to 62.5% of turnover. This is mainly due to higher relative turnover in countries with lower margins and fewer episodes of the high margin *Fear factor* format in the US.

**Employee benefit expenses** as a percentage of turnover decreased compared to 2005 from 15.5% to 15.3%. Included in the employee expenses are the costs of the Long-term Incentive Plan ("LTIP") and the Telefónica share option plan. The costs for the Long-term Incentive Plan (Endemol shares related) are EUR 8 million in 2006 compared to EUR 4.6 million in 2005. In 2006 the fair value adjustments in the Telefónica share option plans ("EN-SOP") resulted in costs of EUR 9.4 million and an income of EUR 2 million in 2005, due to the increase of the Telefónica share price in 2006. Telefónica has committed itself to reimburse Endemol for the costs of the Telefónica share options granted, by means of a share premium contribution. Therefore the EN-SOP does not negatively impact Endemol's equity, the number of shares outstanding or the cash flow in 2006.

In 2006, **other operating expenses** as a percentage of turnover decreased from 6.8% to 6.3%. Turnover growth did not result in the same proportional cost increase.

assets included an accelerated depreciation of one of our assets. The depreciation of intangible assets is mainly related to the assets that were separated from goodwill on acquisitions made.

The impairment charge in 2006 of EUR 2 million relates to one of Endemol's Italian subsidiaries. Reorganisation of this entity took place later in 2006 resulting in a more favourable outlook for the coming years.

### Net financial result

The net financial result in 2006 amounts to a cost of EUR 6.1 million compared to a cost of EUR 0.3 million in 2005. The net financial expenses in 2006 are EUR 2.1 million higher and the fair value adjustment on financial instruments is EUR 3.3 million lower than 2005. In 2006 NL Film & TV is proportionally consolidated and therefore is no longer reflected as share in profit of associates.

### Taxes

The effective tax rate for 2006 (excluding non-deductible items) was 34.0%. Excluding additional recognition of tax credits and some incidentals the tax rate would amount to 36.1%.

### Net profit and earnings per share

Net profit attributable to the shareholders increased by 17.2%, from EUR 82.6 million in 2005 to EUR 96.8 million in 2006. Resulting earnings per share are EUR 0.77 (fully diluted EPS amounts to EUR 0.76) compared to EUR 0.66 (diluted EUR 0.65) in 2005.

## Consolidated balance sheet

EUR million	31 December 2006		31 December 2005	
<b>Non-current assets</b>	263.6	36.9%	235.9	41.6%
Intangible assets	185.4	26.0%	157.8	27.8%
Property, plant and equipment	47.5	6.6%	40.6	7.2%
Financial assets	30.7	4.3%	37.6	6.6%
<b>Current assets</b>	450.7	63.1%	331.0	58.4%
Cash and cash equivalents	87.4	12.2%	67.4	11.9%
Other current assets	363.3	50.9%	263.6	46.5%
<b>Total assets</b>	<b>714.3</b>	100.0%	<b>566.9</b>	100.0%
<b>Total equity</b>	<b>244.7</b>	34.3%	<b>145.9</b>	25.7%
<b>Equity attributable to equity holders Endemol N.V.</b>	237.1	33.2%	139.5	24.6%
<b>Minority interests</b>	7.6	1.1%	6.4	1.1%
<b>Total liabilities</b>	<b>469.6</b>	65.7%	<b>421.0</b>	74.3%
<b>Non-current liabilities</b>	<b>36.3</b>	5.1%	16.1	2.8%
<b>Current liabilities</b>	<b>433.3</b>	60.7%	404.9	71.4%
• Financial debt	97.8	13.7%	115.6	20.4%
• Other Current Liabilities	335.5	47.0%	289.3	51.0%
<b>Total equity and liabilities</b>	<b>714.3</b>	100.0%	<b>566.9</b>	100.0%

Total assets amounted to EUR 714.3 million at year-end 2006, EUR 147.4 million higher than at year-end 2005. In 2006 Endemol distributed a dividend of EUR 10 million, paid in cash.

### Goodwill positions

The highest amount included under the intangible assets is the goodwill position related to acquisitions. Goodwill amounts to EUR 172.7 million as of 31 December 2006.

### Earn-out obligations and put option liabilities

Included under the non-current liabilities are the long-term earn-out obligations and the long-term put option liabilities (put options granted on minority interests), totalling EUR 7.1 million and EUR 9.5 million respectively as of 31 December 2006. The long-term earn-out obligations and put option liabilities relate to acquisitions in the Netherlands and Germany. Included under the current liabilities are the short-term earn-out obligations payable in the coming year totalling EUR 1.7 million as of 31 December 2006. The short-term earn-out obligations relate to acquisitions in the Netherlands. Earn-out obligations and put option liabilities are stated at their discounted value.

### Positions due from and to customers

Productions in progress as of the balance sheet date are reported at the net amount of work in progress, uninvoiced turnover, deferred revenues and accrued production costs. The net amount is calculated per production and can therefore result in an amount due from or an amount due to customers. As of 31 December 2006 the amounts due from customers amount to EUR 87.1 million (included under the current assets) and the amounts due to customers total EUR 133 million (included under the current liabilities).



## Report of the Management Board

### Net financial indebtedness

EUR million	As of 31 December	
	2006	2005
Cash and cash equivalents	(87.4)	(67.4)
Short-term financial debt	97.8	115.6
Long-term financial debt	2.2	2.2
<b>Net financial debt / (cash)</b>	<b>12.6</b>	<b>50.4</b>

Year-end 2006 total net financial debt amounts to EUR 12.6 million. Endemol's solvency ratio (including minority interests) per year-end 2006 was 34.3%, above the solvency covenant of a EUR 250 million multicurrency revolving credit facility signed with a number of banks in November 2005. The EUR 250 million facility had a three-year term (with options to extend to a maximum of five years). In connection with the acquisition of Endemol France the multicurrency revolving credit facility was renegotiated in January 2007. Thereby the maximum facility amount was increased from EUR 250 million to EUR 400 million. The maximum financial indebtedness was

procedures. If considered necessary, provisions are recognised to cover the possible financial liability.

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

We enter into currency swap arrangements and other derivative transactions from time to time for hedging purposes. Such derivatives are recorded on our balance sheet at fair value.

We did not engage in any other off balance sheet arrangements.

### Put and call options

Endemol has previously entered into various call and put options in connection with some of its acquisitions. The call options typically allow us the right, at a certain point in time following the initial acquisition, to purchase a portion of the other shareholders' interest in the respective company. The put options typically allow the other shareholders to sell us all or a part of their interest. The consideration to be paid for the stake to be acquired is based on the performance of the relevant target company. The estimated cash payment related to the call options as of 31 December 2006 is EUR 12.7 million (2005: EUR 17.9 million).

## Cash flow from operating activities grows to €99.8 million

increased from EUR 300 million to EUR 600 million. The mark-up, duration, terms and covenants remained almost unchanged. The facility will offer us extra financial flexibility in order to fund our working capital, acquisitions and other cash needs.

### Cash and cash equivalents

As of 31 December 2006, all cash is at our disposal. Under IFRS, we are not permitted to net our bank account positions and the balances of our cash pooling arrangements, resulting in lengthening of our balance sheet of approximately EUR 28 million. As of 31 December 2006, our total bank debt was EUR 100 million of which no amounts were drawn under the multicurrency revolving credit facility.

### Off balance sheet arrangements and contingent liabilities.

We have issued various guarantees in the ordinary course of our production business that are not reflected in our balance sheet. As of 31 December 2006 and 31 December 2005, these contingent liabilities represent an amount of EUR 25.1 million and EUR 8.2 million, respectively.

Endemol is involved in several legal disputes and claim

These relate to call options on our prior acquisitions of shares in our entities in the Netherlands, Italy, Argentina and the US. The estimated cash payment related to the put options as of 31 December 2006 is EUR 6 million (2005: EUR 3.2 million). These relate to put options on our prior acquisitions of shares in our entities in the Netherlands.

## Consolidated cash flow statement

(using the indirect method)

EUR million	2006	2005
<b>Operating result</b>	<b>160.5</b>	<b>135.4</b>
Depreciation, amortisation and impairment	16.6	17.4
Movement in working capital and other items	(77.3)	(57.4)
<b>Cash flow from operating activities</b>	<b>99.8</b>	<b>95.4</b>
Acquisitions	(39.3)	(30.0)
Property, plant and equipment	(13.7)	(14.3)
Intangible fixed assets	(0.3)	(0.2)
Other movements	6.1	2.5
<b>Cash flow from investing activities</b>	<b>(47.2)</b>	<b>(42.0)</b>
Dividends paid	(10.0)	(90.0)
Movement in long-term bank loans	(0.0)	1.9
Net interest paid	(4.7)	(1.9)
<b>Cash flow from financing activities</b>	<b>(14.8)</b>	<b>(90.1)</b>
<b>Net cash flow</b>	<b>37.8</b>	<b>(36.7)</b>
Cash and cash equivalents at the beginning of the financial period	(48.1)	(11.4)
<b>Cash and cash equivalents at the end of the financial period</b>	<b>(10.4)</b>	<b>(48.1)</b>
Movement in cash and cash equivalents (debit)	20.0	(50.4)
Movement in short-term borrowings (cash and cash equivalents credit)	17.8	13.7
<b>Net cash flow</b>	<b>37.8</b>	<b>(36.7)</b>

Our net turnover and costs are recognised based on the accrual and matching concept. Related cash flows are generally paid or received in the same period. With respect to certain revenue items and related costs, such as income from our Digital Media activities, however, cash flows are generated in a later period than the related net turnover and costs are recognised because payments often depend on final (call) statistics and statements of income generated. This timing difference also occurs with respect

to profit of associates, where dividends are received in a later period than our share in the result is recognised.

The table shown left shows our cash flows from operating, investing and financing activities for the periods indicated (based on an indirect cash flow calculation).

### Cash flow from operating activities

Cash flow from operating activities consists primarily of our operating result, depreciation, amortisation and impairment and movements in working capital and other items. The latter includes taxes paid. Year-end 2006 and 2005 we recorded a net cash inflow from operating activities of EUR 99.8 million and EUR 95.4 million, respectively. Growth of the cash flow from operating activities in 2006 was lower than the growth of the operating result as the operating cash flow in 2006 was negatively influenced by an increase in working capital at year-end 2006.

### Cash flow from investing activities

Cash flow from investing activities primarily consists of the payments made in relation to acquisitions. These include down-payments on the initiation of an acquisition, earn-out payments and payments made as a result of the exercise of call and put options. In 2006, our cash outflow related to acquisitions was EUR 39.3 million, which related to deferred acquisition payments in Spain, the UK, the Netherlands and Italy, the exercise of call and put options in the Netherlands and the down payment on acquisitions in Italy, Germany, Argentina and the US. In 2005, our cash outflow related to acquisitions was EUR 30 million, which related to deferred acquisition payments in Spain, the UK and the Netherlands, and the exercise of call and put options in the Netherlands, Germany and the US.

Other investments relate to property, plant and equipment and intangible assets. During 2006 and 2005 we recorded a net cash outflow from these investments both in tangible and intangible assets of EUR 14 million compared to EUR 14.5 million in 2005.

The following table sets out our capital expenditure 2005 and 2006 on a direct basis:

EUR million	2006	2005
Land and buildings	1.0	2.7
Plant and equipment	4.6	5.6
Other tangible assets	8.1	6.0
<b>Capital expenditure</b>	<b>13.7</b>	<b>14.3</b>

### Cash flow from financing activities

Cash flow from financing activities consists of changes in the amounts outstanding under our short- and long-term bank loans, principally in the form of drawings and repayments under our

## Report of the Management Board

multicurrency revolving credit facility and the net interest paid. In 2006 and 2005 we recorded a net cash outflow from financing activities of EUR 14.8 million and EUR 90.1 million, respectively. Included in the cash flow from financing activities in 2006 is the dividend payment of EUR 10 million.

### Business report by genre and territory

#### Report by genre

In 2006 Endemol experienced turnover growth in all genres, compared to last year. The growth in Non-scripted (+22.2%) and Digital Media (+65.3%) was particularly remarkable. Scripted showed a 8.5% growth over 2006.

#### Turnover per genre

EUR million	2006	2005	% change
Non-scripted	838.4	686.3	22.2%
Scripted	142.3	131.1	8.5%
Digital Media	136.7	82.7	65.3%
<b>Total</b>	<b>1,117.4</b>	<b>900.1</b>	<b>24.1%</b>

#### Non-scripted

Non-scripted turnover grew by 22.2% compared to 2005, reaching EUR 838.4 million. The main contributors to this growth were Endemol's operations in the UK, the US and Italy.

2006 was an extremely successful year for *Deal or No Deal (DOND)*, which made a major contribution to the overall performance of the Group. It was aired in a total of 46 countries in 2006, the two most notable being the USA and the UK. *DOND* has been so successful that it has triggered a renewed appetite for game shows worldwide. Endemol leveraged this increasing demand by closing a number of deals for other game shows in several territories. These included *1 vs. 100*, a revamped format from Endemol's library, and new formats to follow *DOND: Show me the Money* and *Set for Life*.

In spite of the success of *DOND* and the other game shows, *Big Brother* remained the leading format in terms of revenues, and was aired in a total of 19 countries in 2006. *Extreme Makeover: Home Edition* ranked fourth in Endemol's global format turnover despite the fact that it was only produced in the US market in 2006.

Overall, the main Non-scripted formats continued to perform strongly throughout 2006. This was mostly due to the ongoing creative efforts made to keep them appealing and fresh to the audience.

#### Scripted

In 2006 Scripted reached a turnover of EUR 142.3 million, an increase of 8.5% compared to the previous year. Almost half of this growth was due to the acquisition of an additional 11% in NL Film & TV in the Netherlands. The proportional consolidation of this entity contributed 4.1% to the growth in Scripted.

Spain, the Netherlands and Italy continued to be the main contributors to the Scripted genre in 2006. Spain enjoyed a good year, with successful productions such as *Arrayán* and *Amar en Tiempos Revueltos*. In the Netherlands, the Scripted genre showed strong growth compared to 2005. The most important productions, *Goede Tijden Slechte Tijden (GTST)* and *Onderweg Naar Morgen (ONM)* saw their contracts extended for three and two years respectively. In Italy Scripted business decreased in 2006 compared to the previous year but remained a strong contributor to total Scripted revenues, with well-known series such as *Vivere* and *Cento Vetrine*.

Progress continued to be made in the Scripted field both in the UK (scripted comedy), Germany, Argentina and South Africa. In the US, however, no strong financial contribution in this genre is expected in the short term.

#### Digital Media

In the Digital Media field, total turnover increased by 65.3% compared to 2005, reaching EUR 136.7 million. This remarkable growth was due to important developments in each of the three main areas within Digital Media.

In the area of **Participation TV**, Endemol performed strongly in 2006, generating more than 220 million calls/SMSs (2005: more than 140 million calls/SMSs). Since early 2006 Endemol has been operating under new regulations for Participation TV in the Netherlands. However, Endemol had already started to develop innovative Participation TV concepts that were fully compliant with these regulations before they came into effect. The drop in Participation TV revenues in the Netherlands was almost completely offset by organic growth in other countries like Belgium, Portugal and the UK. Additional growth came from acquisitions in Spain and in Germany. In both countries no Participation TV revenues were recorded in 2005. The first moves into Participation TV in the USA look encouraging.

Endemol's performance within the **Brand exploitation** area was also very good, generating more than 450 million calls/SMSs (2005: more than 300 million calls/SMSs). This was fuelled by *DOND*, particularly in the US and the UK. Other interactive shows like *Big Brother* and *Operación Triunfo* also made a significant contribution to this field.

And finally, Endemol had some notable projects within the area of **Tailor made content** (content specifically for non-TV platforms). One of the most popular was the made-for-mobile interactive reality show *Get Close To...*, which was initially



launched with O2 in the UK, featuring The Sugababes. This was so successful that the same concept was launched in Spain with Movistar featuring the Spanish singer Melendi. Other significant examples include the acquisition of a small US based tailor made company called Joe Cartoon and a deal with Comcast in the US, which sees Endemol commissioning original content for digital distribution.

### Report by territory

Endemol registered growth in almost every territory in 2006, with particularly strong organic growth contributions from the United Kingdom, the United States, Italy and Spain. The Endemol Group continued to enjoy significant turnover contributions from all its different territories.

### Turnover per country

EUR million	2006	2005	% change
United Kingdom	247.5	173.0	+43.1%
United States	202.7	138.4	+46.4%
Spain	154.9	126.3	+22.6%
The Netherlands	152.0	150.2	+1.2%
Italy	137.8	105.9	+30.1%
Germany	71.0	82.9	-/-14.3%
Rest of the world	202.9	166.2	+22.1%
Inter segment*	(51.5)	(42.9)	-/-20.0%
<b>Total</b>	<b>1,117.4</b>	<b>900.1</b>	<b>+24.1%</b>

\* Intercompany turnover realised on at arm's length basis

### United Kingdom

2006 was a superb year for Endemol UK. It enjoyed the second strongest growth in the Group, with a total turnover increase of 43.1% (+42.4% in local currency), reaching a total of EUR 247.5 million, and thereby continuing to be Endemol's largest market.

*Big Brother* (both the standard and the celebrity version) enjoyed very strong ratings, significantly contributing to the success of Endemol UK and resulting in a new long-term deal with Channel 4 being agreed until 2010. *DOND* has also been very successful since its launch in 2005 and has become an integral part of the Channel 4 schedule. *DOND* was also a key driver of Endemol UK's growth in Digital Media revenues in 2006. The increasing demand for game shows worldwide, triggered by the success of *DOND*, can also be seen in the UK with *1vs. 100* successfully launching on BBC1 and two new game shows being sold to ITV.

Other strong areas of growth in the UK included numerous locally created formats (e.g. *Soccer Aid*, *8 Out of 10 Cats*, *Restoration Village*) and tailor-made mobile content (*Get close to The Sugababes*).

### United States

In North America Endemol USA showed the strongest growth in 2006 compared to 2005 (+46.4%) with a total turnover of EUR 202.7 million. If adjusted for the currency effect the year-on-year growth in the US is 45.8%.

*DOND* was a major success on NBC throughout 2006 and was one of the most watched programmes in the country. The digital media *DOND Lucky Case Game* also continued to perform well. Following the success of *DOND*, a number of deals were closed by Endemol USA for other game shows like *1vs100* (NBC), *Set for Life* and *Show Me The Money* (the latter two on ABC). Similarly to the UK, *1vs. 100* is delivering a strong performance in the US. The show's mid-October launch on NBC scored the highest 18-49 rating for any non-sports Friday telecast on any network since January 2005. NBC ordered 10 additional episodes just after its launch. *Extreme Makeover: Home Edition* remained a ratings success for ABC. *Fear factor*, however, was less successful in 2006 and season 7 was therefore not commissioned. Also *The One* was pulled from the screens after disappointing ratings. *Big Brother*, however, proved to be a steady performer in the summer of 2006.

In the **Hispanic** market, *Vas o no Vas*, the Spanish version of *DOND* was successfully launched in the autumn of 2006 on Telemundo. In Canada, two local versions of *DOND* were sold, for both the English and French-speaking communities (this was in addition to the ready made sales by Endemol USA to this market). Both versions premiered in 2007 and achieved extremely good ratings.

### Spain

In Spain, Endemol reached a turnover of EUR 154.9 million in 2006, a 22.6% increase compared to the previous year.

The formats *Operación Triunfo* and *Gran Hermano (BB)* continued to perform strongly on Tele 5 in 2006, both in terms of ratings and ancillary exploitation. *Allá Tú (DOND)* was also very popular on Tele 5. *Mira quién Baila (Strictly Dancing)* continued to be one of the most successful shows on TVE1. Endemol significantly increased its output on the new channel Cuatro, with successful shows such as *Channel nº4*, *Supermodelos*, *Alta Tensión* and *El Hormiguero*. Endemol also did more business with Antena 3. In the digital media field, Endemol enjoyed a good year in the participation TV area through its newly acquired company Portalmix and a number of programmes launched for several broadcasters. These include *Buenas Noches*, *Buena Suerte* (Antena 3). Spain remained a very strong contributor in the Scripted field with successful productions such as *Amar en Tiempos Revueltos* and *Arrayán*.

### The Netherlands

In the Netherlands, Endemol reached a turnover of EUR 152.0 million in 2006, a growth of 1.2% compared to 2005.

## Report of the Management Board

*DOND*, in The Netherlands, also had a sound performance in 2006. *Big Brother* was on air in the autumn on Ten, where it outperformed the channel average (8.8% vs. 6.5%). In the scripted field, the Netherlands continued to be one of the major contributors in the Group and two of the most popular series saw their contracts extended for a number of years. In addition many new series were launched by both Endemol Netherlands and NL Film & TV. Endemol has developed fresh concepts strictly in line with new regulations in effect as to Participation TV in the Netherlands.

### Italy

In Italy Endemol grew by 30.1% in 2006, reaching a total turnover of EUR 137.8 million.

This was largely due to the excellent performance of *Big Brother*, which returned to the Italian screens in 2006 (it was absent in

was produced for 6 different countries. In Asia Endemol saw a solid start for its Indian subsidiary in 2006. And finally, Endemol's subsidiary in Australia performed strongly mainly due to the success of *Big Brother 6*.

## Business organisation and management

Every time Endemol acquires or creates a new Group company, we identify creative entrepreneurs, people who have a track record in audiovisual entertainment. Endemol is a Group consisting of a network of local operating companies in 25 countries, selling formats and ready-made programmes to more than 100 other countries. Our local operating companies became part of the Group either through acquisition or start-up. We work with our local operating companies to create international hits, by exchanging experiences in production, analysing client needs, integrating best practice, and by sharing the facilities, services

# *Deal or No Deal* a worldwide phenomenon in game shows

2005). *DOND* also performed strongly in the Italian market in 2006, as did other programmes like *Il Treno dei Desideri*, *Skating with Celebrities*, *La Fattoria*, *The Beauty and the Geek*, *Who Wants to be a Millionaire*, *Che Tempo Che Fa* and *Invasione Barbariche*. In the Scripted genre there was a decrease in 2006 compared to the previous year especially in TV series. However, Italy remained a very strong contributor of Scripted programming within the Group.

### Germany

Total turnover of Endemol Germany reached EUR 71.0 million, a decrease of 14.3% compared to last year. This was mainly due to the ending of *Big Brother* in February 2006, and the postponement of the new series until 2007. Endemol's main shows in Germany, *Who wants to be a Millionaire* and *All You Need Is Love*, continued to rate strongly in 2006. In addition to this, *DOND* was successfully re-launched in 2006 after being on air for only a short period in 2005. In the scripted field progress was made in 2006 with the production of 3 TV Movies and the commissioning of *8 Out of 10 Cats and Spoons*. In order to strengthen sales in the digital media genre, a company called Callactive was acquired in October 2006. Callactive specialises in the production of Participation TV shows.

### Rest of the world

Among the other territories in Europe where Endemol has a permanent presence, there was a strong performance in Portugal, largely due to Participation TV. In the Latin America region, Endemol enjoyed steady growth in Argentina where *Fear factor*

and initiatives offered by our head office. Crucially, the local operating companies are sharply focused on their own home market; developing specific programming for their domestic audience, as well as adapting Endemol's international formats to the local culture. Being part of the Endemol Group gives them a substantial advantage over local competitors.

Endemol's local entrepreneurs are often the original founders of the local operating companies. The Managing Directors of the biggest companies and the Management Board form the International Committee. This body deals with strategic issues and internal Group policies, such as internal licensing and distribution policies.

The local operating companies also share intellectual property assets and production know-how. As a result members of the Group benefit from what has been developed by their colleagues in other territories. This allows formats and techniques to travel internationally, increasing the lifespan of our programmes.

## Human Resources

Endemol is a creative talent business. Our core business depends on creating, delivering and exploiting original popular content. Our success depends on our ability to attract and retain the best talent in all areas of the business.

The three main operational areas are: recruitment, development and retention.

## Recruitment

In most of our markets Endemol benefits from a high profile, a good reputation and an attractive, exciting image. We are therefore able to attract high quality talent both in our core areas of creativity and production and in our corporate and commercial areas. Endemol's expansion strategy is supported by the acquisition or start-up of companies with experienced local talent as management. We will continue to build the Endemol brand to attract and retain the requisite talent by developing policies across the Group to ensure we are the employer of choice.

Only core production people are hired on a permanent basis, whereas the majority of the production people that work with us are freelancers. This ensures we hire only people with the exact skill set for each project. As per 31 December 2006 we employ 1,485 permanent staff (2005: 1,178), over 80% of whom are in our six main geographic markets.

## Development

Professional appraisal systems are in place in the majority of our territories and we have taken a more unified approach to formalise the development of our people.

Succession planning of the top two levels in our main countries has been formalised and development plans are being drafted for these individuals. Succession planning and identification of high potentials is a continuous process with two formal assessments during the year.

## Retention

Retention of our key talent is important for our business growth aspirations. Endemol has a good retention record.

Most of our key people are employed on a permanent contract, some with long notice provisions; other more senior executives have fixed-term contracts as far as 2011.

Furthermore, Endemol has introduced a number of incentive schemes to enhance talent retention, foster creativity and deliver financial commitments. For example, there are variable compensation incentives, which are paid based on business performance (mostly for delivering top, and bottom-line growth). In addition, there is a range of bonuses for Endemol's creative talent, depending on the market success of formats created. And finally, at the time of Endemol's IPO, a Long-term Incentive Plan was established. For the Management Board, senior managers and the other Top 100 employees, performance shares and/or options were granted. Grants have taken place in November 2005 (with the IPO) and at 28 April 2006. A 3rd grant at 30 April 2007 is being prepared.

## Outlook

For 2007, under existing market conditions, Endemol expects the current trend in terms of strategy, portfolio contribution, and financials to continue:

- Growth in the future will be achieved by hiring and retaining the best talent to maximise Endemol's creative output.
- In general the prospects for 2007 look very sound. Endemol expects contribution to its portfolio from the various genres and geographies to remain reasonably stable.
- Under existing market conditions Endemol forecasts organic growth of 5-7%. Including the reintegration of Endemol France turnover is expected to grow by more than 20% in 2007.
- EBITDA percentage of turnover is expected to be within the 16.5 - 18.5% range (including Endemol France).





### GET CLOSE TO...THE SUGABABES

The first reality show to ever be filmed exclusively for and broadcast on mobile handsets. Fans can 'Get Close to...' their favorite band every day by interacting with them and receiving behind-the-scenes footage and sneak peeks into their daily lives.

# Report of the Supervisory Board

## 2006 results

The Supervisory Board would like to congratulate the Management Board and Endemol employees on the very good 2006 results, which shows an impressive growth in turnover, EBITDA and net profit. These figures demonstrate the strength of Endemol's distinctive business model and its ability to generate value. 2006 also saw the start of the process which resulted in the acquisition and reintegration of Endemol France.

## Meetings

In the first full financial year, the Supervisory Board held twelve meetings. All of these were attended by members of the Management Board and the Company Secretary.

The matters discussed at these meetings included the following:

- Endemol's corporate strategy and any associated risks.
- The Management Board's assessment of the internal systems for risk management and control, as well as any significant changes that were made to these.
- The Group's operations, performance, financial reporting process and compliance with legal and regulatory requirements.
- A range of Human Resources matters and the remuneration policy.
- The composition and function of the Management Board and its individual members (these discussions took place in the absence of the Management Board).
- The desired profile and composition of the Supervisory Board.

## Developments in 2006

In March a Company Secretary was appointed. In April The Supervisory Board granted performance shares and options to the members of the Management Board as described in the 'Remuneration' section of the Annual Report on page 69. At the Annual General Meeting of shareholders in June Mr. Kerstens was appointed CFO by the shareholders. In June the CEO of the Company stepped down after which the Supervisory Board selected a new candidate for appointment by the shareholders. Mr. Rodríguez-Viña was appointed at an Extraordinary General Meeting of shareholders in July.

In September 2006 the Company was informed that an agreement had been reached with the principals of Endemol France regarding the deferred purchase price for the French business, which was indirectly owned by Endemol Investment B.V., a subsidiary of Telefónica. This created an opening for the acquisition and reintegration of Endemol France.

Mr. Fernández Valbuena, a member of the Supervisory Board and CFO of Telefónica decided not to participate in the decision making process regarding this acquisition. The other two members of the Supervisory Board worked on the transaction together with their own legal and financial advisors.

Having duly considered the strategic, economic, financial and social aspects of the transaction, the Management Board and the Supervisory Board concluded that it represented an attractive opportunity for Endemol. They therefore recommended it to

shareholders for their approval at an Extraordinary General Meeting of shareholders in February 2007.

On 8 January 2007, the subsequent negotiations were successfully concluded. N.M. Rothschild & Sons Ltd. and Lehman Brothers provided fairness opinions to the Management Board and the Supervisory Board, assessing the purchase price for Endemol France. The full fairness opinions were included in an annex to a shareholders' circular that was published in January 2007.

The shareholders subsequently approved the acquisition and the transaction was completed on 14 February 2007. As a result Endemol France SAS has again become part of the Endemol Group, effective from January 2007.

## Supervisory Board Rules

The Supervisory Board Rules contain a profile of the Supervisory Board, the purpose of which is to provide guiding principles for the appointment of Supervisory Board members and the composition of the Supervisory Board. (See also the corporate governance section of our website: [www.endemol.com](http://www.endemol.com).) The Supervisory Board has drawn up a rotation schedule to avoid a situation in which more than one member of the Supervisory Board retires at the same time. This rotation schedule is attached to the Supervisory Board Rules as Annex A. The Supervisory Board Rules state that its tasks include supervising and monitoring, as well as advising the Management Board.

## Independence of Supervisory Board members

All Supervisory Board members are independent as required by section III.2.1 of the Dutch Corporate Governance Code.

## Committees

Given the size of our Supervisory Board, it has no committees. Instead, the Supervisory Board as a whole performs the tasks recommended by the Dutch Corporate Governance Code to be attributed to an audit committee, a selection and nomination committee and a remuneration committee.

## Financial Statements 2006

This annual report and the 2006 consolidated financial statements, audited by Ernst & Young Accountants, were presented to the Supervisory Board in its meeting of 11 April 2007 in the presence of the Management Board and the external auditor. The report of Ernst & Young can be found on page 110.

The Supervisory Board recommends that the Annual General Meeting of shareholders adopts the consolidated financial statements of 2006. The Annual General Meeting of shareholders will be asked to release the members of the Management Board from liability of the exercise of the management of the company's affairs and management and the Supervisory Board of their supervising.

Hilversum, 11 April 2007

## The Supervisory Board



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# Corporate Governance

## Introduction

The Management Board and Supervisory Board of Endemol fully support the Dutch Corporate Governance Code's ("Code") principle that a company is a long-term form of collaboration between the various parties involved. This includes not only employees, shareholders and other providers of capital, suppliers and customers, but also government and civil society. The Management and Supervisory Board aim to take account of the interests of the different stakeholders.

## Our application of the Dutch Corporate Governance Code

Taking into account the above, Endemol fully complies with the Code by applying the principles and the best practice provisions, or by explaining why we apply a different strategy. Endemol does not fully comply with the following Code provisions:

- Best practice provision II.1.1. The current members of our Management Board have been appointed for a period of four years. However, their individual secondment agreement and employment contracts can have a longer term. See "Corporate Governance; Secondment Agreements and Determination and disclosure of remuneration".
- Best practice provisions II.2.1, II.2.2 and II.2.3. The Long-term Incentive Plan provides for a provision following which, in the event of the Company's dissolution, liquidation, sale, merger, split, consolidation, takeover, reorganisation or similar transaction, change of control or share-for-share exchanges (some of them as further defined in the Long-term Incentive Plan), the Supervisory Board (who may delegate this authority to the Management Board) shall have the power to cancel any performance shares or performance options granted under the plan and pay to the participant an amount equal to the economic value of the relevant securities as at the date of cancellation. Endemol takes the view that this provision justifiably protects the participants in case of situations as described above. However, this clause may be seen as a

after the expiration of a three-year vesting period. The holding period was set on the basis of a broad interpretation of best practice provision II.2.3. This means that, instead of applying a five-year holding period after vesting, a two-year holding period was used, which, together with the three-year vesting period, still constitutes a total of five years required by that provision. Therefore, we are of the opinion that the award of the performance shares is materially in line with best practice provision II.2.3 (five years between award and sale), if not formally (two years between vesting and sale). We note that, after the expiry of the vesting period, the grantee may sell a portion of his performance shares to cover the tax due, which we consider to be a reasonable exception to the holding period.

- Best practice provision II.2.7. As set forth under "Secondment Agreement" we have contractually agreed upon higher severance payments for one of the current members of our Management Board.
- Principle III.4 and the accompanying best practice provisions are fully subscribed by Article 6 of the Supervisory Board Rules. However, we cannot yet apply them because the Chairman of the Supervisory Board is still to be appointed.

According to a confidentiality agreement, Endemol is compelled to provide Telefónica with all necessary information, including non-public information not available to other shareholders in Endemol for the consolidation of Endemol as a Group company of the Telefónica group.

## Conflicts of interest

In September 2006 the company was informed that an agreement had been reached with the principals of Endemol France regarding the deferred purchase price for the French business, which was indirectly owned by Endemol Investment B.V., a subsidiary of Telefónica.

In accordance with article III.6.3 and III.6.4 of the Code, Mr. Fernández Valbuena, a member of the Supervisory Board and

# Endemol UK secures 3-year deal for *Big Brother* in the UK

deviation from the afore mentioned best practice provisions in case the cash payment is received prior to the end of the vesting and exercise periods as laid down in those best practice provisions and as applied by Endemol.

- Best practice provision II.2.3. The performance shares that are granted under the Long-term Incentive Plan must be retained during an additional holding period of two years

CFO of Telefónica did not participate in the decision making process regarding this acquisition. The other two members of the Supervisory Board worked on the transaction together with their own legal and financial advisors. On 8 January 2007, N.M. Rothschild & Sons Ltd. and Lehman Brothers provided fairness opinions to the Management Board and the Supervisory Board respectively, assessing the purchase price for Endemol France. The full fairness opinions were included in an annex to a shareholders'

## Corporate Governance

circular that was published in January 2007. The shareholders subsequently approved the acquisition and the transaction was completed on 14 February 2007. As a result Endemol France SAS has once again become economically part of the Endemol Group, effective from January 2007.

### Management Board

#### Authority, composition and functioning

During the year 2006 our Management Board consisted of four board members. The General Meeting of Shareholders has appointed the Chief Financial Officer (CFO) as of 8 June, 2006 and the Chief Executive Officer (CEO) as of 5 July, 2006. As of 5 March, 2007 our Chief Operating Officer resigned and per the date of this report he has not yet been replaced. The Management Board is responsible for our day-to-day management. The Management Board is required to keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit certain important decisions to the Supervisory Board for its approval, as described in our Articles of Association, which are available on our website.

The Management Board is responsible for our day-to-day management. The Management Board is required to keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit certain important decisions to the Supervisory Board for its approval, as described in our Articles of Association, which are available on our website.

Members of the Management Board are appointed by the General Meeting of Shareholders. Our Articles of Association state that the number of members of the Management Board will be

### Members of the Management Board

At the date of this report the table below details information regarding each of the members of the Management Board:

Name	Age	Position	Nationality
Mr. Elías Rodríguez-Viña Cancio	46	Chairman and Chief Executive Officer	Spanish
Mr. Peter Bazalgette	53	Chief Creative Officer	English
Mr. Jan Peter Kerstens	44	Chief Financial Officer	Dutch

The term of office of Mr. Bazalgette shall lapse on the day of the Annual General Meeting of Shareholders to be held in 2009. The term of office of Mr. Rodríguez-Viña and Mr. Kerstens shall lapse on the day of the Annual General Meeting of shareholders to be held in 2010.

Mr. Rodríguez-Viña holds a supervisory board position in Lycos Europe N.V. The other members of the Management Board do not hold a supervisory or non-executive position in a listed company or carry on principal activities outside the Company which are significant with respect to the Company.

### Supervisory Board

#### Authority, composition and functioning

The Supervisory Board was established as of our incorporation on 28 October 2005; all three current members of the Supervisory Board were appointed from that date. The Supervisory Board oversees the policies pursued by the Management Board as well as the general course of our business. It also provides advice to the Management Board. In performing its duties, the

# Endemol USA secures game show deals for major US networks

determined by the CEO, with a minimum of one member. Each member of the Management Board is appointed for a maximum of four years; the appointment can be renewed for another period of not more than four years at a time. The Supervisory Board appoints one of the members of the Management Board as Chairman of the Management Board, with the title of CEO.

According to our Articles of Association the Management Board as a whole is authorised to represent us, as is the CEO acting alone. During the year 2006 the other members of the Management Board have been provided with a Power of Attorney, whereby two members of the Management Board may jointly represent us.

Supervisory Board is required to act in our interests and in those of our business as a whole. Members of the Supervisory Board are generally not authorised to represent us in dealing with third parties.

The members of the Supervisory Board are appointed by the General Meeting of shareholders. Our Articles of Association state that the number of members of the Supervisory Board will be determined by the General Meeting of shareholders, with a minimum of three and a maximum of four members. The Supervisory Board appoints a Chairman from among its members. As of the date of this report no Chairman has been appointed. Given the size of our Supervisory Board, the Supervisory Board has no committees. The Supervisory Board as a whole performs

the tasks recommended by the Dutch Corporate Governance Code to be attributed to an audit committee, a selection and nomination committee and a remuneration committee.

As such, the Supervisory Board is responsible for, among other things, considering matters relating to financial controls and reporting, internal and external audits, the scope and results of audits, and the independence and objectivity of auditors. It monitors and reviews our audit function and, with the involvement of our independent auditor, focuses on compliance with applicable legal and regulatory requirements and accounting standards. The Supervisory Board is also responsible for establishing and reviewing material aspects of the Group's policy on remuneration of members of the Management Board.

Each member of the Supervisory Board is appointed for a maximum period of four years; the appointment can be renewed for another period of not more than four years at a time. The members of the Supervisory Board retire periodically in accordance with a rotation plan, drawn up by the Supervisory Board. According to this plan the term of Mr. Smit expires in 2007, the term of Mr. Badía in 2008 and the term of Mr. Fernandez in 2009. The Supervisory Board has prepared a profile of its size and composition, taking into consideration the nature of the business, its activities and the desired expertise and background of Supervisory Board members. This profile can be found on our website: [www.endemol.com](http://www.endemol.com).

In accordance with our Articles of Association, a meeting of the Supervisory Board may be convened at any time if a majority of its members or its Chairman deems necessary. At least four times annually, the Supervisory Board must meet formally in conjunction with a meeting of the Management Board. At least once annually, the Supervisory Board must meet independently of the Management Board to discuss issues relating to its own functioning, composition and size and the composition and functioning of the Management Board. In addition to these formal meetings, members of the Supervisory Board must maintain regular informal contact and meet when necessary either in person or by teleconference. Decisions of the Supervisory Board are taken by majority vote. In the event of a tie vote the proposal shall be rejected.

The Supervisory Board is assisted by the Company Secretary, who is appointed (and when necessary dismissed) by the Management Board, subject to the approval of the Supervisory Board.

### Members of the Supervisory Board

Covering the period from incorporation to the date of this report, the table below details information regarding each of the Supervisory Board members.

Name	Age	Position	Nationality
Mr. Luís Badía Almirall Mr. Santiago Fernández Valbuena	59	Member	Spanish
Mr. Gert Smit	48	Member	Spanish
	59	Member	Dutch

The term of office of any member of the Supervisory Board ends on the day of the Annual General Meeting of Shareholders in the year mentioned in the rotation schedule, unless such member has resigned, or has been dismissed previously.

**Mr. Badía Almirall** was appointed as a Supervisory Board member on 28 October 2005 for a four-year term. In 2006 a rotation schedule was put into place and the term of Mr Badía will expire at the AGM in 2008. Mr. Badía Almirall holds a Law degree from the Universitat de Barcelona. He also has a diploma from the Centre of Fiscal and Financial studies of the Universitat de Barcelona, a diploma from INSEAD at Fontainebleau and he is a Financial Analyst from the Delegation of Catalonia. Mr. Badía Almirall has held different Board memberships in the Managing Society of the Stock Exchange Market of Barcelona (since 1990), Metropolis Inmobiliarias y Restauraciones (since 1995), Tejidos Royo (since 1997), Terra Networks (from 2003 to July 2005) and Leti Laboratories (since June 2005). From 1985 until 2001 he was Partner Founder, Vice President and Executive Board member of the Beta Capital Group. From 2001 to June 2006 he was Vice President of Beta Capital Meespierson, S.A. and Beta Capital, SV, S.A. He left the company in September 2006 to found, Troy Consultores Asociados S.L. He is CEO and President of that company.

**Mr. Fernández Valbuena** was appointed as a Supervisory Board member on 28 October 2005 for a four-year term. Prior to this appointment he has served as Supervisory Board member of Endemol Investment Holding B.V. since 2003. Mr. Fernández Valbuena holds a PhD and Masters (M.S.) in Economics & Finance from Northeastern University in Boston and also has a degree in Economics from the Universidad Complutense de Madrid. He is a member of the National Board of the IEAF, the Spanish Institute of Financial Analysts, where he has also headed the Research Commission. Mr. Fernández Valbuena joined the Telefónica group in January 1997 as CEO of Fonditel, Telefónica group's pension fund manager. In July 2002 he was appointed CFO of Telefónica. In addition, he has served as a Board member of Metrovacesa and Gecina, Spanish and French real estate companies respectively, as well as of Český Telecom, of which company's audit committee he was a member.

**Mr. Smit** was appointed as a Supervisory Board member on 28 October 2005 for a four-year term. In 2006 a rotation schedule was put into place and the term of Mr. Smit will expire at the AGM in 2007. Prior to this appointment he has served as Supervisory Board member of Endemol Holding N.V. from 1996 until early 2006. Mr. Smit holds degrees in Economics and Accountancy



## Corporate Governance

from the University of Amsterdam. He was Chairman of the Executive Board of Vedior N.V. until 2000. He was until 2006 a Supervisory Board member of Transavia Airlines and Bühmann, as well as Chairman of the Supervisory Board of Martin Schilder Holding, M.S.J. Beheer and the cooperative Univé Regio+ U.A. and Chairman of the Board of Advice of Halder Invest. Furthermore, Mr. Smit is the sole Executive Board member of Schoutsbosch Beheer B.V. and Trifinance Holding B.V.

### Secondment agreements

Our Chief Creative Officer Mr. Bazalgette has been seconded to Endemol N.V. by our subsidiary Endemol UK Plc for a period covering 1 January 2005 to 30 April 2011. This follows a secondment agreement between Endemol UK and us, which we or Endemol UK may terminate with a notice period of two weeks. Under this secondment agreement we shall reimburse Endemol UK for costs resulting from the respective service agreements under which Mr. Bazalgette is employed by Endemol UK. The costs include his salary and bonus, as well as a pension contribution of 10% of his annual fixed base salary. Upon termination of his secondment or service, Mr. Bazalgette will not be entitled to receive any termination payment from us. He is entitled to an exit payment payable by Endemol UK Plc upon an involuntary dismissal without cause. Such exit payment equals all amounts (excluding all or part of his performance bonus) due for the remainder of his service agreement had the agreement not been terminated.

### Determination and disclosure of remuneration

Endemol fully supports the principle and best practice provisions relating to the remuneration policy as described in the Dutch Corporate Governance Code (best practice provisions II.2.9 up to and including II.2.14), subject to the explanations in "Dutch Corporate Governance Code as applied by Endemol". These principles are also laid down in the Supervisory Board Rules (reference is made to, amongst others, Article 5B thereof). A remuneration report has been placed on Endemol's website.

### Management Board Remuneration

As described in our Articles of Association, the general policy with regard to the remuneration of members of the Management Board as well as any scheme providing for the remuneration of the members of the Management Board in the form of shares or options is adopted by the General Meeting of Shareholders following a proposal of the Supervisory Board. The remuneration and other conditions of employment of the members of the Management Board are determined by the Supervisory Board with due regard to the remuneration policy adopted by the General Meeting of Shareholders.

The general remuneration policy in respect of Management Board members includes the following. Firstly, existing contractual commitments, including those relating to the members of the Management Board who are not employed by us, but seconded to us, will be honoured. Secondly, the members

of the Management Board participate in an incentive scheme in a manner that has been approved by the Supervisory Board. Thirdly, the incentive scheme shall be performance-based. For a further description of our Long-term Incentive Plan, reference is made to the sub-section "Long-term Incentive Plan" of this chapter. Fourthly, we shall neither grant loans to, nor guarantee obligations of the members of the Management Board.

For further information on the remuneration of key managers as well as the members of the Management Board and Supervisory Board, see the Annual Accounts note 7 Director's remuneration, the notes to the separate financial statements of Endemol N.V.

### Supervisory Board remuneration

The compensation of the members of the Supervisory Board is determined by the General Meeting of Shareholders. Current remuneration levels are EUR 50,000 for members and EUR 75,000 for the Chairman. Members of the Supervisory Board do not participate in our incentive plan.

### Long-term Incentive Plan

On 21 November 2005, our General Meeting of Shareholders approved the adoption of an equity-based Long-term Incentive Plan (the "Plan"). The Plan comprises two elements: a performance share plan and a performance option plan. Under the Plan, up to 6.5% of our present total issued share capital (the "Incentive Pool") may be applied for grants of performance shares or performance options, of which up to 5.1% of our present total issued share capital may be newly issued shares. At 28 April 2006 1.3 million performance share and performance options were granted, including the shares and options granted per the IPO, this makes a cumulative of 50% of the total Incentive Pool. The remainder of the Incentive Pool is at the disposal of our Supervisory Board for distribution.

### Performance share plan

A performance share is a grantee's right to receive one Endemol share (a "Share") for no consideration subject to (i) the grantee remaining in our service for a period of three years from the date of grant (the "Vesting Period") and (ii) a predetermined performance condition based on Total Shareholder Return (including dividend per Share) ("TSR") being met on the date following the last day of the Vesting Period (the "Vesting Date"). If the performance condition has not been met, all or some of the performance shares may lapse on a sliding scale basis. For the performance shares granted prior to the IPO, and for the performance shares granted in April 2006 if the cumulative TSR over the three-year Vesting Period is less than 25%, no performance shares will vest. If TSR performance is 25%, 50% of the performance shares will vest. If TSR performance is 35% or more, 100% of the performance shares will vest. For TSR performance between 25% and 35%, the percentage of performance shares that vest will be determined by linear interpolation. Upon vesting, the grantee will receive one share for each performance share. Such shares may not be traded

during the two-year period following the Vesting Date, or until termination of the grantee's employment, whichever is the earlier.

#### **Performance option plan**

A performance option is a grantee's right to acquire one Share at a pre-set price (the "Exercise Price"). The Exercise Price will be equal to the average closing price of Endemol's ordinary shares, as stated in the daily official list, on the five days (during which the stock exchange was open for business) immediately preceding the date on which the performance options are granted. For the performance options that have been granted at 28 April 2006, the Exercise Price is EUR 13.81. Vested performance options may be exercised during a period of five years from the Vesting Date. The granting and vesting principles of performance options are identical to those applicable to the performance shares, as described in the previous paragraph.

#### **Insider dealing rules**

Transactions relating to performance options and performance shares are subject to any applicable regulation, under applicable law and customary rules on the prevention of insider trading

make such adjustments as it considers appropriate to the terms of a grant of performance options or performance shares.

#### **Performance shares and options granted to management board**

At 28 April 2006, we granted each member of the Management Board the right to receive performance shares and performance option. (see Note 7 Director's remuneration).

#### **Rewards granted to senior management**

A certain group of employees (other than the Management Board) will also participate in the performance option plan. At 29 April 2006 a total of 0.9 million performance options were granted to a total of 97 eligible employees.

#### **Code of Conduct and Whistleblower regulation**

Endemol has drawn up a Code of Conduct which can be found on our website: [www.endemol.com](http://www.endemol.com). The Code of Conduct describes the operational standards that are applicable to all Endemol employees worldwide, and supports Endemol's attitude towards governance, risk management and social responsibility. In order to promote the reporting of irregularities under the

## Further expansion Endemol in Participation TV

that apply. Such rules state that transactions in those securities must not be exercised, and shares must not be sold, during specified periods. We have established, as per Article 47f of the Securities Trade Supervision Act 1995 and Article 11 of the Market Abuse Decree, an internal code regarding the holding of, and transactions in, Endemol securities by our Management Board and Supervisory Board members and our employees (the "Insider Regulations"). These Insider Regulations can be found on our website: [www.endemol.com](http://www.endemol.com).

#### **Events affecting performance options or performance shares**

In the event of our dissolution, liquidation, sale, merger, split, consolidation, takeover, reorganisation or similar transaction, change of control or share-for-share exchange the Supervisory Board shall have the power to (i) cancel any performance share or performance option and pay to the grantee an amount equal to the (economic) value of the securities as at the date of cancellation, or (ii) exchange each outstanding performance share or performance option for a performance share or performance option on shares that are exchanged in the transaction, whose new rights are in the opinion of our auditors no less valuable overall than the prior rights. In the event of any variation in our share capital due to a capitalisation or rights issue, consolidation, reduction or otherwise, the Supervisory Board may

Code of Conduct, a whistleblower policy is in place, enabling employees to submit complaints anonymously if wished and without fear of the complaints leading to disciplinary action and, if requested, on an anonymous basis. The Endemol Whistleblower regulation can be found on our website: [www.endemol.com](http://www.endemol.com).

#### **Future changes to Endemol's corporate governance structure**

The Management Board and Supervisory Board undertake to submit to the Annual General Meeting of Shareholders for discussion any future substantial change to Endemol's corporate governance structure and Endemol's compliance with the Dutch Corporate Governance Code.



## FEAR FACTOR

Fear factor is the ultimate adrenaline rush, a true test of stamina and guile for those willing to put their body and soul on the line for cold hard cash. Contestants have to overcome a series of physical and psychological tasks in order to win a major cash prize.



# Risks and risk management

## General

Risk management and control procedures are integrated in the operation of the business. This includes monitoring of progress in our areas for improvement, through the introduction of an effective structure for the maintenance and evaluation of internal controls.

The aim of risk management within Endemol is to provide reasonable assurance that Endemol understands the risks associated with achieving its business objectives, and that we are responding appropriately to these risks at all levels within the organisation. This will be achieved by ensuring that the following five action points are carried out at all times:

- risks are properly identified, managed and reported;
- ownership is taken for risks and communicated to others;
- resources are effectively and efficiently allocated to manage risks;
- risks that could significantly affect our employees, the company, our suppliers or our clients are suitably managed; and
- the company is compliant with regulatory and legal requirements.

Achieving high performing levels in all dimensions of the business requires the control and coordination of a variety of activities, carried out by different parties within the organisation. The Management Board also recognises that its internal control framework is one of the key elements in enabling the achievement of Group objectives and in realising our financial goals. Effective internal control, of which risk management forms a part, contributes directly to these objectives. We therefore endorse a proactive approach towards risk management with the realisation that managing these risks forms an essential part of our business.

## Forward-looking statements and certain actual risks

Forward-looking statements can generally be identified by the use of terms such as "aim", "hope", "ambition", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue" or similar terms. Forward-looking statements include, without limitation, statements concerning our financial position and business strategy, the future results of our operations, the impact of regulatory initiatives on our operations, our share of new and existing markets, general industry and macro-economic growth rates and our performance relative to these growth rates. By their nature, forward-looking statements involve some risk and uncertainty because they relate to events, and depend on circumstances, that will occur in the future. Forward-looking statements are based on current expectations, estimates, assessments, forecasts, analyses and projections about the industry in which we operate, as well as beliefs and assumptions made about future events and activities by the management. Forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside of our control that may cause actual results to differ materially from any future results expressed in or implied by the forward-looking statements.

We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances or otherwise, unless we would be under a statutory or other regulatory obligation to do so.

Important risks that may cause differences between our forward-looking statements and our realised results include, but are not limited to:

## Business

- Reduced broadcaster revenues from advertising or other sources which could result in a reduction in demand for our formats.
- Broadcasters increasingly seek to acquire and retain the intellectual property rights relating to our formats, which adversely affects our ability to generate revenues by exploiting these rights.
- With the majority of our customers we have not entered into long-term production agreements and, if such agreements are in place, broadcasters may not meet their minimum volume purchase obligations under their contracts with us, and our remedies may be limited.
- Competition in our business is increasing, which could reduce our margins.
- We may not be able to rely on intellectual property rights to protect our formats and we may need to defend ourselves against claims or to take action to protect intellectual property rights.
- The nature of our business subjects us to frequent litigation.
- The digital media business is an immature market and developments in this market are unpredictable.
- Scripted programmes may entail pre-financing and deficit financing and growth in scripted programmes therefore subjects us to increased financial risk.
- Due to the informal culture in our industry, we frequently operate without written contracts in place, which entails certain enforcement and litigation risks.
- We depend on a limited number of major customers.
- We depend on a limited number of formats.
- Our revenues are subject to seasonal and cyclical fluctuations as a result of the fact that the television year does not match the calendar year, and the start and end dates of projects often fluctuate.
- Our business operations in countries worldwide subject us to trends, developments or other events in such countries.

## Regulatory

- Increased restrictive legislation with respect to Participation TV and comparable digital media activities.
- Increased costs associated with corporate governance compliance.
- Our large market share in certain markets which may result in restrictions, including restrictions on our ability to make acquisitions.

## Risks and risk management

### Company

- Our ability to continue to attract and retain qualified personnel, including television hosts.
- The frequent use of freelancers and workers on temporary contracts which, if they are deemed to be our employees, could increase our costs significantly.
- The fact that our principal direct and indirect shareholder may have interests that are different from the interests of other shareholders and therefore may make decisions that are against other shareholders' interests.

### Financial

- The requirement to make additional investments in future years in order to maintain our ownership interest pursuant to the structure of certain of our acquisitions (e.g. call options, rights of first refusal).
- The restrictions set out in our principal finance agreement which limit our flexibility in operating our business.

### General

- General economic conditions, government and regulatory policies and business conditions in the media world, including adverse effects of terrorist attacks, war, the outbreak of hostilities, epidemic diseases or natural disasters

The risks listed above are certain risks that may have a negative adverse effect on us and which we currently consider to be material. However, this list is not exhaustive. There may be additional risks and risks that we do not currently consider to be material or of which we are not aware, that could impair our business or the results of our operations. For additional risk factors and a more detailed description of certain of the risks listed above, reference is made to the chapter "Risk Factors" (page 9 up to and including 19) of our prospectus dated 22 November 2005; this chapter can also be reviewed on our website [www.endemol.com](http://www.endemol.com).

### Our risk management approach

In order to ensure consistent and high quality risk management across the Group, a standardised and structured approach to risk

management is being developed and continuously improved within Endemol, based on the existing best practices within the Group. In this overall risk management scheme, the business strategy is directly linked to the risk management approach and the assurance approach.

Important factors in the Endemol risk management approach are an awareness of, and proactive attitude towards risk. We rely primarily on the collective experience, knowledge and vision of all our people when managing risks. All Endemol employees therefore have responsibility for proactively identifying, managing, monitoring and reporting (potential) risks. These risks are managed in three principal ways, through:

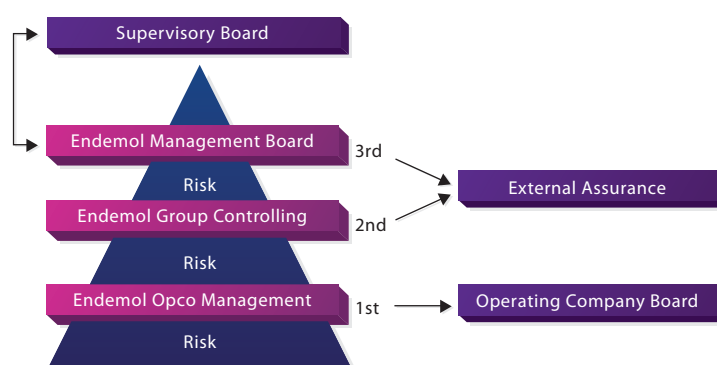
- the organisational structure of the Endemol Group;
- explicit identification, reporting and monitoring of risks in the company processes; and
- through internal reporting, company policies and manuals (e.g. the Finance Manual).

Developing, implementing and sustaining control and risk management structures that provide necessary assurance is based on the integration of lines of defence in such a way that all risks are addressed efficiently and that the appropriate information is communicated to management. This will provide transparency and serve as the basis for informed decision-making, and assurance that risks are being managed in accordance with stakeholder expectations.

**First line of defence** Managing directors of our operating companies are responsible for day-to-day risk management activities, through local controls and regular reports on operations and finance to the operating company's board.

Managers are responsible for creating and maintaining a sound business in line with the strategic goals as determined by Endemol. Managing directors of our operating companies are responsible for reporting in line with the internal regulations as set out in the Finance Manual and the internal Endemol Group policies.

## Risk management



**Second line of defence** Our Chief Financial Officer is a member of the Management Board and is accountable for Group reporting.

As a general rule, the managing director of each operating company will report to its operating company board. In addition, each managing director will be responsible for ensuring that functional reporting lines from (departments of) the operating company to the appropriate departments of Endemol are established and maintained on a consistent basis and in accordance with Endemol Group policies.

Group control is responsible for budgeting, consolidation, group reporting, internal control and external reporting of Endemol. In the case of reporting, the operating companies are responsible for the quality of their reports with regard to timeliness and content. In this context, the operating companies should act in accordance with the procedures described in the Finance Manual.

**Third line of defence** The Management Board is responsible for strategic development, operations and financial reporting. Establishing and implementing a risk management model is an important part of the Management Board's responsibilities, as well as ensuring that the internal control environment is functioning properly and to a high standard.

In line with overall strategic planning, Endemol set up a complete planning module (with templates) to facilitate the Endemol Group's operating companies in preparing their annual strategic plans and budgets. The template is set up in such a way that each of the operating companies carries out an in depth analysis of the external market and internal organisation, which is used to build the company's SWOT (Strengths, Weaknesses, Opportunities and Threats).

Through defining the company's strategy, setting strategic targets, formulating action plans and drawing up a detailed timetable, a thorough overview of the company's challenges for future years can be seen. The combination and consolidation of all the strategic plans of each of the operating companies will lead to the overall Endemol Group business plan.

#### **External assurance**

In general, all companies within the Endemol Group are required to publish statutory annual accounts that are subject to audit. Exemptions to this rule are based on the size of total assets, the number of employees, the level of sales and consolidation rules. External reporting by the Endemol Group - i.e. the periodic supply of information to interested parties outside Endemol - is effected through the Annual Report, semi-annual reporting and press releases. External reporting is based on the internal reports of Endemol for which instructions and procedures are formulated. The instructions and procedures concerning internal reporting should also be followed for external reporting.

All Endemol subsidiaries are responsible for being compliant with local reporting requirements as well as for being compliant with Endemol reporting guidelines as stated in the Finance Manual.

#### **Internal monitoring and (operational and financial) reporting systems**

Endemol has drawn up a Code of Conduct which can be found on our website: [www.endemol.com](http://www.endemol.com). This Code of Conduct describes the operational standards that are applicable to all Endemol employees worldwide, and supports Endemol's attitude towards corporate governance, risk management and social responsibility.

The Code of Conduct refers to the Endemol Business Control Framework for its risk management information. The increased attention being paid to corporate governance during the last few years, and the development of specific codes and laws in this respect, triggered the development of the Endemol Business Control Framework ("EBCF") for Endemol's holding level and the Internal Control Framework ("ICF") for Endemol's operating companies. The EBCF structures the Endemol Group's strategy and business operations by assisting the Management Board and the managers of Endemol's operating companies to execute the strategy and to control the company's operations within the scope of opportunities and risks in Endemol's area of business. The EBCF is a risk-based framework designed to control and manage all relevant risks. As part of the EBCF, the ICF is designed and implemented for the control of activities and the assessment of internal control in Endemol's operating companies. The EBCF and ICF form part of the Endemol Finance Manual.

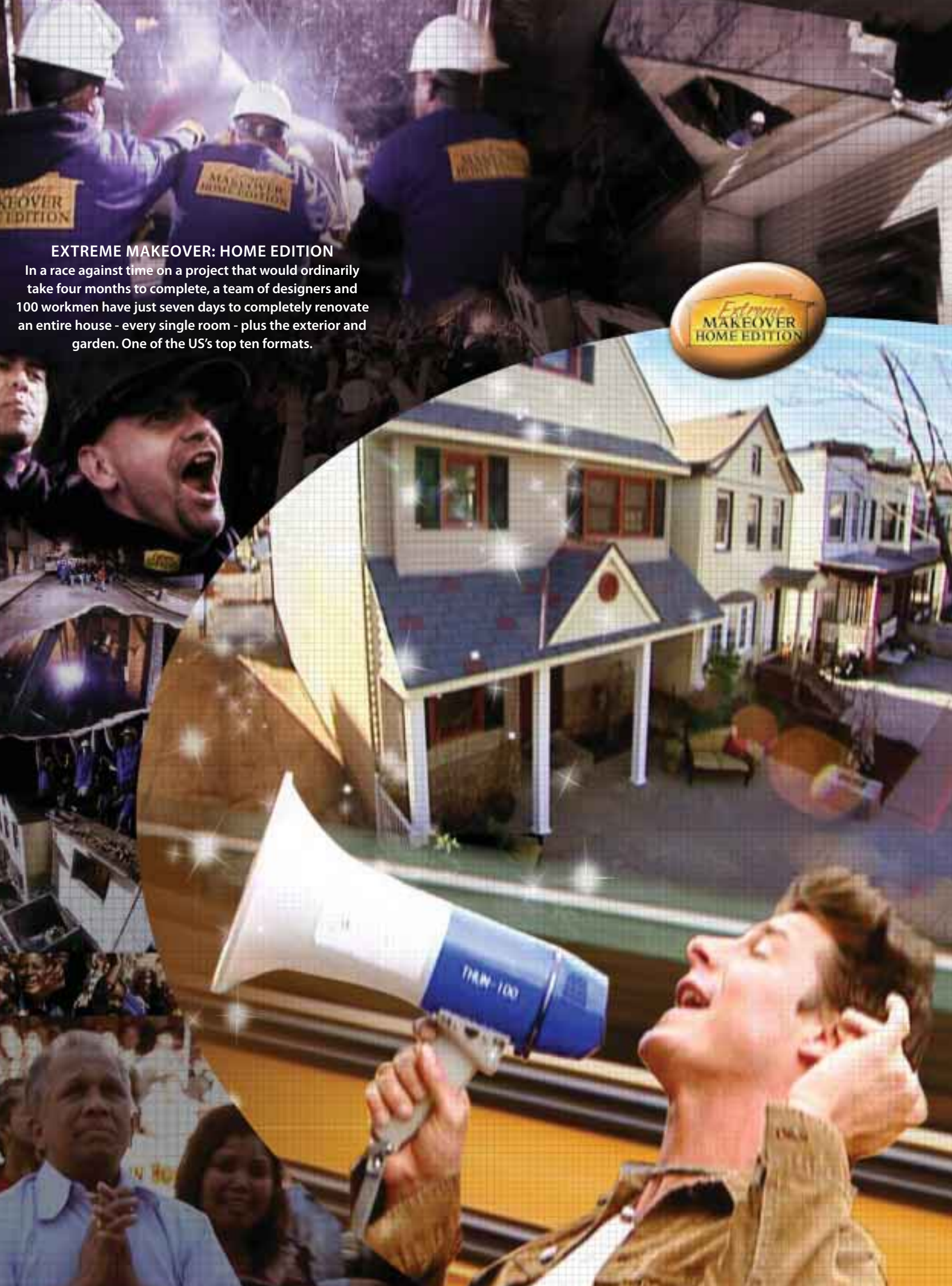
#### **Finance Manual**

The Finance Manual sets out the criteria for the performance of the financial accounting, as well as the planning and control cycle. The main chapters of the Finance Manual are:

- Planning & Control Organisation, which outlines the organisational structure of Endemol Group finance and gives an overview of responsibilities and communication;
- Planning & Control Cycle which is divided into budgeting, monthly, quarterly and annual reporting;
- EBCF, ICF and Defalcation procedure;
- Accounting Policies;
- Treasury Organisation; and
- Tax Organisation.

The Finance Manual contains a defalcation procedure which describes the actions to be taken in case fraud or near fraud is detected. In case a subsidiary detects fraud or near fraud, both Endemol Group Control and the local operating company board shall be informed immediately. Subsequently, the subsidiary must immediately submit a detailed fraud response plan, including the method of investigation, the mitigating of further loss, the protection of evidence, the role of insurers, secrecy and management of publicity. All Endemol employees are





EXTREME  
MAKEOVER  
HOME EDITION



# EXTREME MAKEOVER: HOME EDITION

In a race against time on a project that would ordinarily take four months to complete, a team of designers and 100 workmen have just seven days to completely renovate an entire house - every single room - plus the exterior and garden. One of the US's top ten formats.



encouraged to report to their managers promptly should any breach or suspected breach of any law, regulation or company policy or guideline, internal accounting control or auditing matter occur. Such reporting is commonly known as 'whistle blowing'. Endemol Whistleblower regulation can be found on our website: [www.endemol.com](http://www.endemol.com).

### **Risk management: recent developments and planned improvements**

During 2006, the senior managers in the Company have been made more aware of the importance of corporate governance and risk management, both on holding, and on operating companies' levels. Internal auditing is an independent, objective assurance and consulting activity designed to add value to, and improve on an organisation's operations. Internal audit helps an organisation to accomplish its objectives by bringing

In accordance with the Insider Regulations, Endemol has appointed a Compliance Officer to whom transactions in Endemol shares have to be reported, and who has the authority to conduct investigations regarding such transactions and to report on the results of this investigation to the Management Board.

### **Regulatory matters**

Our business is subject to and may be affected by various laws and regulations, the most important of which are briefly summarised below. As a result of being a Dutch company listed on Euronext Amsterdam, the Dutch Corporate Governance Code, the General Rules of Euronext Amsterdam as well as certain other legislation applicable to listed companies applies to us. In connection with this, we have made a number of changes in some of our corporate governance and compliance

# Introduction of new game shows *Set for Life* and *Golden Balls*

a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Its main objectives are to oversee operational efficiency and effectiveness, to validate reliability and integrity of financial and operational information, to ensure fulfilment of applicable norms and regulations and to safeguard assets.

For 2007, the following initiatives have been planned to further improve our risk management system:

- Conduct further internal audits focusing on the efficiency of the operations and continue to strengthen the internal control system.
- Continue to roll out the EBCF to the Endemol operating companies worldwide.

### **Legal risk management**

In addition to operational and financial risk management, Endemol has several processes and structures in place in order to ensure that Endemol is also professionally managed from a legal point of view. All litigation against and by Endemol companies is reported to our Group legal department on a quarterly basis. Relevant court cases are evaluated and discussed with group companies on a regular basis. This enables us to limit litigation exposure as much as possible and take a pro-active approach towards potential new litigation.

The Format Registration Procedure is a process for review and registration of intellectual property developed by us. It supports us in proving our ownership to intellectual property and in taking swift action against third parties infringing our intellectual property rights.

practices, and are reviewing our internal control procedures on a continuous basis. See "Corporate Governance" and "Risks and risk management". In addition, we evaluate and monitor regulatory developments in the countries in which we are active from time to time. As our accounts are consolidated by Telefónica, we are indirectly subject to certain provisions of the Sarbanes-Oxley Act of 2002 and other legislation in other countries where Telefónica is listed.

In respect of our activities, certain specific regulatory restrictions apply which are worth mentioning:

A substantial part of our business consists of the exploitation of formats. Our success depends, in part, on our ability to protect current and future formats through securing, enforcing and defending our intellectual property rights. However, both the legal status of these formats and the scope of protection offered for them are uncertain. Most jurisdictions do not recognise format rights per se and there is no generally recognised definition of the word "format". Reference is made to "Risks and risk management; Legal risk management" for a description of Endemol's internal system of intellectual property protection.

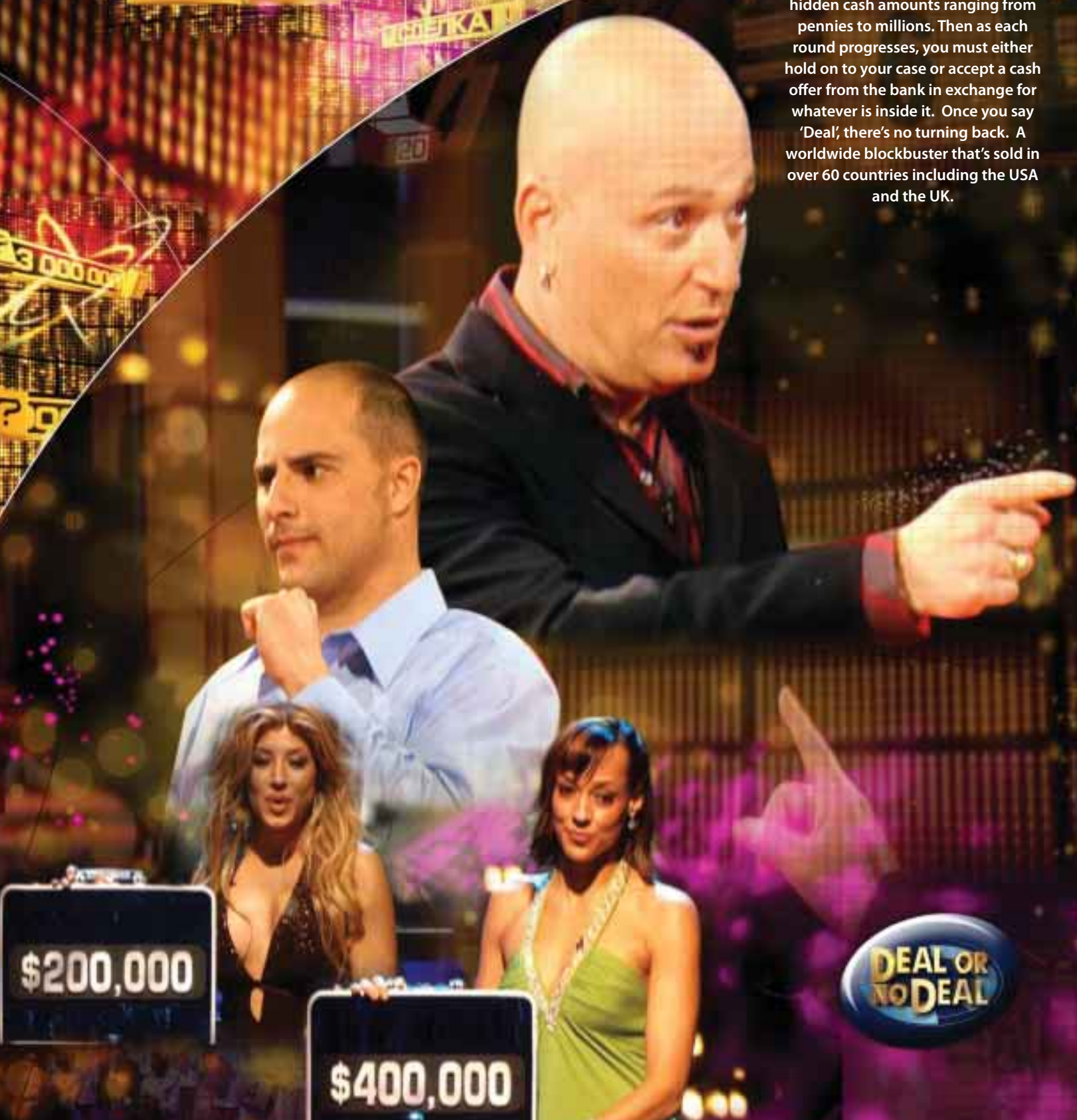
- Participation TV and activities in the Digital Media field entailing participation by the audience may be considered gaming, gambling, a lottery or a competition in certain countries and, consequently, be or become forbidden or subject to restrictive legislation. For example in the Netherlands the so-called "Code for promotional games of chance" came into effect on 1 January 2006. As a result Endemol has reviewed its business models for



# DEAL OR NO DEAL

## DEAL OR NO DEAL

The rules are simple. Choose one of a number of briefcases containing hidden cash amounts ranging from pennies to millions. Then as each round progresses, you must either hold on to your case or accept a cash offer from the bank in exchange for whatever is inside it. Once you say 'Deal', there's no turning back. A worldwide blockbuster that's sold in over 60 countries including the USA and the UK.



Participation TV and various new promotional game formats have been developed in order to comply with these stricter rules.

- The European Commission and the European Parliament are currently revising the Television Without Frontiers Directive (TVWF). It is attempted to reach a common position on the new "Audiovisual Media Services Directive" (AMSD) prior to 24 May. One of the most important subjects of the AMSD for Endemol is product placement. According to the combined European Parliament and Council proposal, product placement will, in principle, be prohibited. By way of derogation, product placement shall be admissible, unless a Member State decides otherwise, in, amongst others, films, series, sports programmes and light entertainment. Programmes containing product placement must be appropriately identified at the start and at the end of the programme and when a programme resumes after an advertising break in order to avoid any confusion on the part of the viewer.
- Because Endemol collects data about individuals, it is subject to rules and regulations concerning the treatment of this information. The European Union has adopted the Data Protection Directive which imposes restrictions on the collection, use and processing of personal data, and guarantees rights to individuals who are the subject of that personal data. The majority of the Endemol operating companies can be regarded as data controllers for the purposes of regulation. In some non-EEA states in which Endemol operates, regulations have been brought into force, which are similar to those operating in the EEA.

## Legal proceedings

We are active in an environment in which parties regularly threaten or commence litigation. We are continually involved in a number of legal proceedings and disputes, primarily in connection with intellectual property rights relating to formats and titles. On the one hand, we face claims that we are infringing the intellectual property rights of third parties. On the other hand, we initiate proceedings to prevent third parties from misusing our intellectual property rights.

The uncertainties inherent in such litigation make the outcome of such infringement actions, breach of confidentiality, contract or tort claims difficult to predict. Over the years, however, we have built up a unique level of experience in protecting our intellectual property and in dealing with these types of claims in many of the countries in which we operate. This is, and will remain, a major focus point for us.

We review our track record of legal proceedings in all of our countries on a regular basis and use the knowledge gathered to improve the know how and skills of our worldwide legal team and set standards for risk management of legal compliance issues. See "Risks and risk management; Legal risk management".

## Statement by the Management Board

Our Management Board is responsible for our system of internal risk management and controls and for reviewing their operational effectiveness. The internal risk management and control systems like the Finance Manual, the Endemol Business Control Framework and the Internal Control Framework are designed to identify significant risks and to assist us in managing the risks that could prevent us from achieving our objectives. Nevertheless, because of their inherent limitations, the control systems described above may not prevent or detect all misstatements, inaccuracies, errors, fraud or non-compliance with law and regulations, neither can they provide certainty as to the achievement of our objectives.

Our internal risk management and control systems were designed based on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) internal control framework. These processes encompass measures relating to the general control environment as well as tools for monitoring the control environment. In addition, there is a system of controls over financial reporting, including amongst others our internal auditors' review. We are of the opinion that the current systems used within the company create an effective and efficient framework of internal control.





8 out of 10 Cats

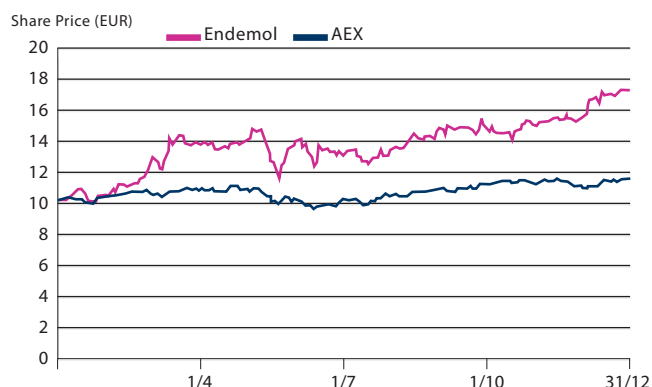
### 8 OUT OF 10 CATS

Irreverent comedy panel show in which two teams of celebrities, led by two regular team captains, discuss unusual, topical and hilarious questions.

# Shareholder information

## Stock exchange listing

As of 22 November 2005, all 125,000,000 outstanding ordinary shares of Endemol are officially listed on Euronext Amsterdam under the symbol EML. The Offer price per share was EUR 9.00.



Between 1 January and 31 December 2006, an average of 213,474 ordinary shares were traded per day.

As of 31 December 2006, the total number of outstanding ordinary shares was unchanged at 125,000,000. With a closing price of EUR 17.30 per ordinary share, Endemol's market capitalisation at year-end was EUR 2.16 billion.

## Dividend and voting rights

Endemol has only one class of shares. All 125,000,000 ordinary shares have a nominal value of EUR 0.10 and carry full dividend rights if and when declared and from the date the holder acquires such rights. Each share entitles its holder to one vote at Endemol shareholders' meetings.

## Major shareholders

Under the Disclosure of Major Holdings in Listed Companies Act, shareholders have to give notice to the Dutch Authority Financial Markets (AFM) of their holdings in Endemol when these exceed the thresholds of 5%, 10%, 25%, 50% and 66⅔%. As of 31 December 2006, Endemol Investment B.V., 99.7% indirectly owned by Telefónica, was the only holder of more than 5% of the Endemol share capital. Endemol Investment B.V. holds 75% of the outstanding ordinary share capital of Endemol. Telefónica announced in March 2007 it is exploring strategic alternatives in relation to its 75%-stake in Endemol. On 3 January 2007, Cyrte Investments B.V. gave notice to the AFM of their holding of 5.15% of the Endemol shares. The remaining 19.85% is mainly held by US and European institutional investors.

## Restriction of transfer and issue of shares

### Issuance of new shares

According to our Articles of Association the issue of new shares shall take place pursuant to a Resolution of the General Meeting or of the Management Board which has been designated as the body with this power by a resolution of the General Meeting, for a period not exceeding five year. At the General

Shareholders Meeting in 2006, it has been decided to designate the Management Board with this power for a period of 18 months. The Management Board requires the approval of the Supervisory Board for a resolution with respect to such issuance. The designation may be renewed from time to time and shall provide how many shares may be issued. The designation may not be withdrawn unless otherwise provided in the resolution in which the designation is made. As long as the Management Board has the power to issue the shares, the General Meeting of Shareholders shall not have this power.

### Our restrictions regarding the transfer of shares or issuance of shares

According to our Articles of Association in the event of an issue of new shares each shareholder shall have a pre-emptive right in proportion to the aggregate amount of his shares. No pre-emptive right shall apply if the shares are paid for in kind. There shall further be no pre-emptive rights in respect to shares which are issued to employees of the Company or of a Group Company. Pre-emptive rights may however be limited or excluded in relation to a particular issue by a resolution passed by the General Meeting of Shareholders. The proposal made to this effect must explain in writing the reasons for the proposal and the choice of the proposed share price.

Pre-emptive rights may also be limited or excluded by the Management Board pursuant to a designation of the power to limit or exclude pre-emption rights to that body by the General Meeting of Shareholders for a period not exceeding five years. At the General Shareholders Meeting in 2006, it has been decided to designate the Management Board with this power for a period of 18 months. This designation may be renewed from time to time for a period not exceeding five years. The designation may not be withdrawn unless otherwise provided in the resolution in which the designation is made. The Management Board requires the approval of the Supervisory Board for a resolution to limit or exclude the pre-emptive rights

If the transfer of shares does not take place in accordance with Article 10.2, 10.3 and 10.4 of our Articles of Association, the transfer of shares can only take place with permission of the Management Board. The Management Board may take its permission subject to such conditions as the Management Board may deem necessary. We can, pursuant to a resolution of the Management Board, make the delivery of shares, within the meaning of article 26 of the Wge, impossible. The resolution to this effect cannot be invoked against a participant any sooner than after six months of the publication of the resolution in at least one daily newspaper, and the Official Pricelist of Euronext Amsterdam N.V.

## Financial year

The regular financial year runs from 1 January to 31 December. The dividend over the financial year 2006 is based on this period.

## Shareholder information

### Dividend policy

The general dividend policy is to pay dividends at levels consistent with maintaining a reasonable level of liquidity. The current intention of the Management Board is to distribute approximately 60% of the net profit attributable to equity holders of Endemol N.V. The dividend policy is subject to:

- the terms of Endemol's financing facilities that contain restrictions on dividend payments if certain financial conditions are not satisfied;
- the discretion of the Management Board, Supervisory Board and the General Meeting of Shareholders; and
- factors such as future earnings, financial condition, cash needs, capital adequacy, compliance with applicable statutory and regulatory requirements and general business conditions.

### Dividend proposal financial year 2006

Within the scope of the reservation and dividend policy of Endemol, the following proposal is made for the determination and distribution of dividend on the Endemol ordinary shares. It is proposed to determine a cash-dividend over the financial year 2006 at EUR 56.25 million (equal to a 58.1% pay-out of the net profit attributable to equity holders of Endemol N.V.). This dividend represents EUR 0.45 per share, a dividend yield of 2.6% (based on the year-end 2006 closing price). It is proposed to make this dividend payable as of 31 May 2007.

### Key figures per share

EUR	2006	2005
Earnings per share	0.77	0.66
Fully diluted earnings per share	0.76	0.65
Offer price (22 November 2005)		9.00
Highest price	17.30	9.99
Lowest price	10.05	9.33
Closing price year-end	17.30	9.99
Dividend per share	0.45	0.08*
Pay-out ratio	58.1%	68.1%*
Dividend yield	2.6%	0.9%*

\* Based on financial year 28 October 2005 – 31 December 2005

### Insider dealing rules

Pursuant to Section 47a of the Dutch Securities Act, Endemol insiders are obliged to notify the AFM if they carry out or cause to be carried out, for their own account, a transaction in Endemol shares or in securities whose value is at least in part determined by the value of the Endemol shares.

These regulations identify a broad range of persons as insiders, including all members of the Supervisory Board, the Management

Board, and other officials who have managerial positions within Endemol, and who in that capacity, are authorised to make decisions which have consequences for the future development of the company and can have access to price sensitive information on a regular basis.

In addition, transactions relating to performance shares and performance options recently granted to selected key staff under the Long-term Incentive Plan, are subject to any applicable regulation under applicable law and customary rules on the prevention of insider trading that apply. For more information on the Long-term Incentive Plan, we refer to the "Corporate Governance" section of this Annual Report.

In order to ensure that the regulations are adhered to, a Compliance Officer has been appointed. Our Insider Regulations can be found on our website: [www.endemol.com](http://www.endemol.com).

### Financial calendar 2007

24 April	Q1 Trading Update
24 May	Annual General Meeting of Shareholders
28 May	Ex dividend date
31 May	Dividend payment
26 July	Half Year Results 2007 Announcement
23 October	Q3 Trading Update

### Investor relations

For Endemol as a listed company, sound relations with its shareholders are a priority. Considerable effort will therefore be devoted to external communications. This entails the correct and timely provision of information to the financial markets and the provision of insights into relevant financial, operational and strategic developments.

Contacts with the financial community will be maintained via presentations, conference calls and face-to-face meetings. In accordance with the Dutch Corporate Governance Code, analyst presentations and press conferences will simultaneously be made publicly accessible via either audio cast or web cast.

### Other information

This Annual Report is also available on Endemol's website: [www.endemol.com](http://www.endemol.com).

For more information please contact Endemol Investor Relations by e-mail: [investor.relations@endemol.com](mailto:investor.relations@endemol.com) or phone: +31 (0)35 53 99 416.





# Financial Statements

For the financial year ended 31 December 2006







### **Cento Vettrine and Vivere**

Two soap opera's.. One revolving around a shopping mall in Turin and its 15 protagonists featuring their lives, romances, work and passion; the other a story of love, jealousy, intrigue and crime between four intensely linked and competitive families.



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# Consolidated balance sheet

as of 31 December 2006 and 31 December 2005

EUR 1,000

	Note	31 December 2006	31 December 2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	47,471	40,584
Goodwill	14	172,687	150,209
Other intangible assets	14	12,759	7,578
Investments in associates	15	6,758	15,373
Other financial assets	16	5,970	11,413
Deferred tax assets	11	17,938	10,765
		<b>263,583</b>	<b>235,922</b>
<b>Current assets</b>			
Trade and other receivables	17	339,182	240,315
Receivables from tax authorities		24,117	23,248
Cash and cash equivalents	18	87,428	67,433
		<b>450,727</b>	<b>330,996</b>
<b>Total assets</b>		<b>714,310</b>	<b>566,918</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of Endemol N.V.</b>			
Issued share capital		12,500	12,500
Share premium		104,592	25,886
Translation reserve		147	2,743
Hedge reserve		-	(474)
Revaluation reserve		1,033	1,395
Other legal reserves		13,413	13,743
Retained earnings		8,618	1,108
Profit for the year		96,820	82,620
	19	<b>237,123</b>	<b>139,521</b>
<b>Minority interests</b>		<b>7,557</b>	<b>6,408</b>
<b>Total equity</b>		<b>244,680</b>	<b>145,929</b>
<b>Non-current liabilities</b>			
Long-term loans and borrowings	20	2,211	2,228
Employee benefit obligations	21	690	566
Deferred tax liabilities	11	8,349	5,465
Long-term earn-out obligations	24	7,089	-
Long-term put option liabilities	23	9,518	5,704
Other non-current liabilities		8,460	2,156
		<b>36,317</b>	<b>16,119</b>
<b>Current liabilities</b>			
Short-term loans and borrowings	20	97,796	115,580
Short-term provisions	22	24,254	22,852
Short-term earn-out obligations	24	1,744	24,551
Trade and other payables	25	265,732	208,671
Payables to tax authorities		43,787	33,216
		<b>433,313</b>	<b>404,870</b>
<b>Total liabilities</b>		<b>469,630</b>	<b>420,989</b>
<b>Total equity and liabilities</b>		<b>714,310</b>	<b>566,918</b>

The accompanying notes form an integral part of these consolidated financial statements

# Consolidated income statement

for the financial year ended 31 December 2006 and 31 December 2005

EUR 1,000	Note	2006	2005
<b>Turnover</b>	5	<b>1,117,415</b>	<b>900,132</b>
Costs of outsourced work and other external costs		(698,263)	(546,948)
Employee benefit expense	6,7,8	(171,490)	(139,500)
Other operating expense	9	(70,531)	(60,917)
		(940,284)	(747,365)
<b>EBITDA</b>		<b>177,131</b>	<b>152,767</b>
Depreciation and amortisation expense	13,14	(14,589)	(16,544)
Impairment of goodwill and intangible assets	14	(2,007)	(822)
		(16,596)	(17,366)
<b>Operating result</b>		<b>160,535</b>	<b>135,401</b>
Financial income		3,428	9,322
Financial expense		(9,628)	(10,986)
Net financial income (expense)	10	(6,200)	(1,664)
Share in profit of associates	15	131	1,392
<b>Profit before tax</b>		<b>154,466</b>	<b>135,129</b>
Income tax expense	11	(53,214)	(48,806)
<b>Profit for the year</b>		<b>101,252</b>	<b>86,323</b>
<b>Attributable to:</b>			
Minority interest		4,432	3,703
Equity holders of Endemol N.V.		96,820	82,620
<b>Profit for the year</b>		<b>101,252</b>	<b>86,323</b>
<b>Earnings per share</b>			
Basic earnings per share (EUR)	12	0.77	0.66
Fully diluted earnings per share (EUR)	12	0.76	0.65

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

EUR 1,000	Equity attributable to equity holders of Endemol N.V.					
	Issued share capital	Share premium	Legal reserves			Other legal reserves
			Translation reserve	Hedge reserve	Revaluation reserve	
<b>Balance as of 1 January 2006</b>	<b>12,500</b>	<b>25,886</b>	<b>2,743</b>	<b>(474)</b>	<b>1,395</b>	<b>13,743</b>
Foreign currency translation	-	-	(2,596)	-	-	-
Amortisation hedge reserve	-	-	-	474	-	-
Other movements	-	-	-	-	-	(330)
Net profit	-	-	-	-	-	-
<b>Income and expense recognised in equity during the year</b>	<b>-</b>	<b>-</b>	<b>(2,596)</b>	<b>474</b>	<b>-</b>	<b>(330)</b>
Distribution of pre-incorporation profit of 2005	-	67,946	-	-	-	-
Distribution of profit previous year	-	-	-	-	-	-
Reclassification of amortisation on re-valued assets	-	-	-	-	(362)	-
Dividend paid	-	-	-	-	-	-
Dividend of subsidiaries	-	-	-	-	-	-
Capital contribution Telefónica for share option plans (Note 8)	-	10,760	-	-	-	-
Business combinations resulting from acquisitions	-	-	-	-	-	-
<b>Transactions with equity holders during the year and reclassifications</b>	<b>-</b>	<b>78,706</b>	<b>-</b>	<b>-</b>	<b>(362)</b>	<b>-</b>
<b>Balance as of 31 December 2006</b>	<b>12,500</b>	<b>104,592</b>	<b>147</b>	<b>-</b>	<b>1,033</b>	<b>13,413</b>

Other movements includes EUR 2.1 million for the equity-based Long-term Incentive Plan (Note 8).

## Dividend per share

In 2006 a dividend was paid of EUR 0.08 per share.



Retained earnings	Profit for the year	Total	Minority interest	Total equity
<b>1,108</b>	<b>82,620</b>	<b>139,521</b>	<b>6,408</b>	<b>145,929</b>
-	-	(2,596)	(121)	(2,717)
-	-	474	-	474
2,474	-	2,144	(54)	2,090
	96,820	96,820	4,432	101,252
<b>2,474</b>	<b>96,820</b>	<b>96,842</b>	<b>4,257</b>	<b>101,099</b>
-	(67,946)	-	-	-
14,674	(14,674)	-	-	-
362	-	-	-	-
(10,000)	-	(10,000)	-	(10,000)
-	-	-	(3,832)	(3,832)
-	-	10,760	-	10,760
-	-	-	724	724
<b>5,036</b>	<b>(82,620)</b>	<b>760</b>	<b>(3,108)</b>	<b>(2,348)</b>
<b>8,618</b>	<b>96,820</b>	<b>237,123</b>	<b>7,557</b>	<b>244,680</b>

## Consolidated statement of changes in equity

EUR 1,000	Equity attributable to equity holders of Endemol N.V.					
	Issued share capital	Share premium	Legal reserves			
			Translation reserve	Hedge reserve	Revaluation reserve	Other legal reserves
<b>Balance as of 1 January 2005</b>	-	151,944	(2,039)	(948)	1,337	14,778
<b>Change in accounting (Note 2)</b>	-	(271)	-	-	-	-
<b>Revised opening balance as of 1 January 2005</b>	-	151,673	(2,039)	(948)	1,337	14,778
Foreign currency translation	-	-	4,782	-	-	-
Amortisation hedge reserve	-	-	-	474	-	-
Other movements	-	(3,306)	-	-	-	(1,035)
Net profit	-	-	-	-	-	-
<b>Income and expense recognised in equity during the year</b>	-	(3,306)	4,782	474	-	(1,035)
Distribution of profit of 2004 to share premium due to contribution of shares of Endemol Holding B.V.	-	64,458	-	-	-	-
Incorporation Endemol N.V.	12,500	(12,500)	-	-	-	-
Business combinations resulting from acquisitions	-	-	-	-	660	-
Reclassification of amortisation on re-valued assets	-	529	-	-	(602)	-
Dividend paid	-	(90,000)	-	-	-	-
Dividend of subsidiaries	-	-	-	-	-	-
Capital contribution Telefónica for share option plans (Note 8)	-	(1,041)	-	-	-	-
Assignment loan and distribution in kind	-	(83,927)	-	-	-	-
<b>Transactions with equity holders during the year and reclassifications</b>	12,500	(122,481)	-	-	58	-
<b>Balance as of 31 December 2005</b>	12,500	25,886	2,743	(474)	1,395	13,743

Endemol N.V. was incorporated on 28 October 2005 with an issued share capital of EUR 12,500,000, consisting of 125,000,000 ordinary shares with a nominal value of EUR 0.10. Pursuant to the reorganisation of the Company, Endemol Investment B.V. and Endemol Investment Holding B.V. (the parent company of the Endemol group before the reorganisation) contributed the major

part of the Endemol businesses, excluding the French Endemol business in its entirety, to Endemol Holding B.V. Subsequently, after the incorporation of Endemol N.V. by Endemol Investment B.V., the latter contributed to the former the shares in Endemol Holding B.V. by way of share capital and share premium contribution.

Retained earnings	Profit for the year	Total	Minority interest	Total equity
-	64,458	229,530	5,834	235,364
-	-	(271)	(288)	(559)
-	64,458	229,259	5,546	234,805
-	-	4,782	74	4,856
-	-	474	-	474
1,035	-	(3,306)	29	(3,277)
-	82,620	82,620	3,703	86,323
1,035	82,620	84,570	3,806	88,376
-	(64,458)	-	-	-
-	-	-	-	-
-	-	660	668	1,328
73	-	-	-	-
-	-	(90,000)	-	(90,000)
-	-	-	(3,612)	(3,612)
-	-	(1,041)	-	(1,041)
-	-	(83,927)	-	(83,927)
73	(64,458)	(174,308)	(2,944)	(177,252)
1,108	82,620	139,521	6,408	145,929



# Consolidated cash flow statement

## Using the indirect method

EUR 1,000	Note	2006	2005
<b>Operating result</b>		<b>160,535</b>	<b>135,401</b>
<b>Adjustments for:</b>			
Depreciation and impairment property, plant and equipment	13	12,315	13,622
Amortisation and impairment intangible assets	14	4,281	3,744
Share-based compensation expense		13,154	(1,731)
Movement in provisions	22	1,402	903
Other items		407	(14,123)
		31,559	137,816
<b>Changes in working capital:</b>			
Receivables (increase) decrease		(88,466)	9,943
Other current assets (increase) decrease		(6,517)	(8,475)
Taxes and social security (increase) decrease		4,523	(1,448)
Payables increase (decrease)		56,152	(5,887)
Other accruals increase (decrease)		1,758	(8,254)
		(32,550)	(14,121)
Income taxes (paid) received		(59,793)	(28,265)
<b>Cash flow from operating activities</b>		<b>99,751</b>	<b>95,430</b>
Purchase of property plant and equipment	13	(13,685)	(14,314)
Purchase of intangible assets	14	(250)	(220)
Divestments of property plant and equipment		1,140	2,416
Divestments of intangible assets		1,437	-
Acquisition of business combinations	3	(8,387)	(2,143)
Acquisition of joint ventures, associates and share increases	3	(6,399)	(2,388)
Dividend received from associates	15	937	956
Payment of earn-out obligations	24	(24,502)	(25,472)
Repayment (issue) of loans receivable	16	179	(498)
Trust account reduced (increased)	16	2,333	(408)
<b>Cash flow from investing activities</b>		<b>(47,197)</b>	<b>(42,071)</b>
Dividends paid		(10,000)	(90,000)
Proceeds (repayments) of loans payable	20	(17)	1,864
Net Interest paid	10	(4,758)	(1,941)
<b>Cash flow from financing activities</b>		<b>(14,775)</b>	<b>(90,077)</b>
<b>Net cash flow</b>		<b>37,779</b>	<b>(36,718)</b>
Cash and cash equivalents as of January 1		(48,147)	(11,429)
<b>Cash and cash equivalents as of December 31</b>		<b>(10,368)</b>	<b>(48,147)</b>

The reconciliation of the net cash position as of 31 December to the consolidated balance sheet is as follows:

<i>EUR 1,000</i>	2006	2005
Cash and cash equivalents	87,428	67,433
Short-term interest loans and borrowings	(97,796)	(115,580)
<b>Cash and cash equivalents at the end of the financial period</b>	<b>(10,368)</b>	<b>(48,147)</b>

Cash and cash equivalents acquired in business combinations amounts to EUR 1.3 million in 2006 and EUR 0.5 million in 2005.

# Notes to the consolidated financial statements

## 1 General information

### Company Overview

Endemol is a global leader in television and other audiovisual entertainment active in 25 countries on five continents. We create premium entertainment ideas offering them to the world's leading broadcasters. We then use our ideas to produce high-quality shows, often creating hits with strong brand value. Subsequently, we exploit the value of our brands across other media and communication channels, including, for example, mobile telephones and broadband Internet.

To create ideas and develop brands, we secure and motivate local entrepreneurs who are creative self-starters and cultivate strong creative teams. We distribute our content via aggregators such as broadcasters, who largely fund our productions, thus minimising the risk of our business model. We earn our revenues principally through fees from broadcasters and, to a lesser extent, through fees from advertisers and telecom and Internet companies. Being an ideas-led company enables us to minimise our investment in costly equipment and infrastructure.

Endemol N.V. is a publicly traded company listed on Euronext Amsterdam (100% of our shares are listed). Telefónica, S.A. ("Telefónica") indirectly holds 74.8% of our shares.

### Main Business Areas

The content we create comprises Scripted, Non-scripted and Digital Media:

- **Scripted programmes** are programmes such as drama, comedy and soap operas for which writers pre-determine the script and structure.
- **Non-scripted** programmes comprise reality TV entertainment, game shows and talent shows in which the main events within the programme are not pre-determined by writers and producers but are the result of actual events happening during the show.
- **Digital Media** products are mainly but not exclusively brand exploitations of Endemol's main programmes, including ringtones, 'wallpaper' for pc's, broadband streaming of programmes over the Internet and mobile phones, mobile and online games and interactive viewing services including Participation TV.



## 2 Significant accounting policies

### 2.1 Basis of preparation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as endorsed by the European Union ('EU') and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code

The financial statements have been prepared by the Management Board of the Company and authorised for issue on 11 April, 2007 and will be submitted for approval to the Annual General Meeting of Shareholders on 24 May, 2007.

The consolidated financial statements are presented in euro, the Company's functional and reporting currency, rounded to the nearest thousand. Historical cost is used as the measurement, except for derivative financial instruments, earn-out obligations and put option liabilities which are stated at fair value.

### 2.2 Critical accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses, which mainly affects intangible assets, goodwill, earn-out obligations and taxes. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The accounting policies, set out below, have been applied consistently in the financial statements and have been applied consistently by group entities.

### 2.3 Change in accounting policy

In July 2006 the International Financial Reporting Interpretation Committee ('IFRIC') clarified by an agenda decision the application of a specific paragraph in International Accounting Standard 32 "Financial Instruments: Presentation" ("IAS 32", revised 2005). According to this clarification a parent company should recognise a liability when it has an obligation to pay cash in the future to purchase minority's shares, even if the payment is conditional on the option being exercised by the holder. In a limited number of business combinations Endemol granted

the seller/minority shareholder a put option to sell in the future (part of) the remaining shares to Endemol. Following IAS 32 and despite the (legal) minority rights the related put option is now treated as financial liability in Endemol's consolidated financial statements, stated at fair value of the amount to be paid upon exercise of the option.

The put option liabilities have been measured by applying a choice of different valuation techniques, based on best estimates currently available, and is presented in a separate line on the consolidated balance sheet (Put option liabilities). Following IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the clarification of the revised IAS 32 is treated as a change in accounting policy effecting Endemol's financial statements of 2006 with corresponding adjustments to the prior periods presented. The related minority interests have been reclassified to put option liabilities with the difference between the two amounts accounted for against goodwill. Dividend payments to minority shareholders are treated as financial expense unless the payment reduces the put option liability. All changes to the fair value of the put option are treated as contingent consideration in a business combination in accordance with IFRS 3 "Business Combinations" and led to adjustments of goodwill. The Opening balance 2005 of Shareholders' equity and minority interest are EUR 0.3 million and EUR 0.3 million lower, respectively, due to this change in accounting.

The impact of this revised accounting policy on Endemol's consolidated financial statements for 2005 and 2006 is as follows:

EUR 1,000	2006	2005
Goodwill increase / (decrease)	(1,233)	2,256
Shareholders' equity increase / (decrease)	(1,552)	(1,178)
Minority interests increase / (decrease)	(375)	(865)
Other non-current liabilities increase / (decrease)	-	(1,405)
Put option liability increase / (decrease)	694	5,704
Net profit increase / (decrease)	(374)	(907)

There are no other new International Financial Reporting Standards and amendments or new interpretations that are applicable as of January 1, 2006 that effect Endemol's consolidated financial statements for 2006 other than some extended disclosures.

## Notes to the consolidated financial statements

### 2.4 Basis of consolidation

#### **Subsidiaries**

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are entities where the Company exercises a controlling influence. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. A minority interest is recorded in the consolidated balance sheet and the statements of operations for the minority shareholders' share in the net assets and the profit or loss of subsidiaries. When Endemol gains control in a subsidiary the purchase method (purchase price allocation) is applied to account for the acquisition, taking into account the fair value of assets, liabilities, possible intangible assets, goodwill and if applicable minority interest.

#### **Joint ventures and associates**

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control. Joint control exists when strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. The consolidated financial statements include the Company's share of the total recognised gains and losses of joint ventures on a proportional consolidated basis, from the date that joint control commences until the date that joint control ceases.

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is the power to participate in the financial and operating decisions of the entity but is not control or joint control. The consolidated financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

#### **Special purpose entities**

Special purpose entities ('SPE'), which are entities created to accomplish a narrow and well-defined objective, are consolidated when the substance of the relationship between the Company and the SPE indicates that the SPE is controlled by the Company.

#### **Intra-group transactions**

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Company's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 2.5 Foreign currency translation

Subsidiaries, joint ventures and associates record transactions in their functional currency. This is the principal currency of the economic environment in which they operate. Transactions in currencies other than the functional currency are recorded in the accompanying statements of operations at the rate of exchange in effect at the date of transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the rates of exchange prevailing at the consolidated balance sheet date. Transaction foreign currency gains and losses are reported in the statements of operations.

Upon consolidation, the assets and liabilities of foreign operations with a functional currency other than the euro are translated to Euro at the rates of exchange prevailing at the balance sheet date. The statements of income denominated in currencies other than Euro are translated using an average exchange rate. The resulting exchange differences are recorded directly in consolidated shareholders' equity and are only included in income upon sale or liquidation of the underlying foreign subsidiary. The Company records directly into shareholders' equity exchange gains or losses resulting from re-valuing intra-group loans for which settlement is neither planned nor likely to occur in the foreseeable future. Exchange gains and losses resulting from the translation of foreign operations with a functional currency other than the euro are recorded in shareholders' equity upon consolidation.

### 2.6 Property, plant and equipment

Items of property, plant and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. Borrowing costs directly attributable to the construction or production of assets are capitalised as part of the related asset. Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the income statement as expense when incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, taking into account the estimated residual value. Land is not depreciated. The asset's useful lives and residual values are reviewed and adjusted if necessary, annually.

Based on the estimated useful life of the underlying assets, the following depreciation periods apply:

- Land	Indefinite
- Buildings	13 – 33 years
- Plant and equipment	8 – 13 years
- Other	3 – 5 years

Leased property, plant and equipment, for which the Company substantially assumes all of the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised at their fair value of the leased asset or at the estimated net present value of the underlying lease payments, whichever is the lower. The corresponding current and long-term rental obligations, net of finance charges, are included in the balance sheet as current and long-term payables, respectively. Finance costs are charged to the income statement over the life of each respective lease.

Payments made under operating leases are charged to the income statement in equal instalments over the life of the leases, except where an alternative method is more representative of the time pattern from which benefits are derived.

An item of property, plant and equipment is derecognised whenever the company disposes of it, or when no more future benefits are expected by its use or disposal.

Profit or loss from the de-recognition of an item of property, plant and equipment is calculated as the difference between the net amount of the disposal and the book value of the asset. The profit or loss is recognised in the income statement in the period in which the de-recognition occurs,

## 2.7 Intangible assets

### **Goodwill**

Goodwill represents the excess of the costs of an acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, and is carried at cost less accumulated impairment losses. Goodwill on acquisition of associates is included in investments in associates.

The Company typically 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 at least annually on the basis of the expected future results of the respective company after the business plan cycle or earlier when updated forecasts warrant a recalculation. An adjustment in the earn-out obligation has a corresponding effect on the goodwill.

When a business combination is achieved in stages by successive share purchases, with or without the use of call and put options the fair value of identifiable assets, liabilities and contingent

liabilities are fully recognised in the balance sheet. A minority interest is recognised for the non-owned share, as well as a revaluation reserve related to the share owned by the Company before the business combination for the fair value of the identified assets, liabilities, and contingent liabilities. The related minority interest is released in the income statement over a time period that is equal to the amortisation period of the identified assets, taking into account income tax effects. The revaluation reserve is recognised as retained earnings upon realisation.

For the purpose of impairment testing goodwill is allocated to the smallest identifiable cash-generating units. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the need for an impairment may have arisen. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets of the cash generating unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### **Other intangible assets**

Other intangible assets consist primarily of format rights, (TV) movie rights and contracts with customers. These assets can either be purchased, acquired in a business combination or internally developed if certain criteria for capitalisation are met.

Purchased other intangible assets are stated at historical cost, which is the purchase price plus all normal ancillary costs. Amortisation occurs over the period the Company is expected to benefit from the use of the intangible asset. Format rights are amortised as from the time the format is taken into production and in proportion to the number of episodes produced. (TV) movie rights are amortised to the extent to which the revenue, generated in the period under review, contributes to the expected total revenue. The amortisation of format rights and (TV) movie rights does not exceed a period of ten years.

Format rights, (TV) movie rights and contracts acquired in a business combination are valued based on the cash flows expected to be generated from the assets over its useful life. The amortisation period for these rights equals the period during which cash flows are expected.

An intangible asset arising from the development expenditure on an individual project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources



## Notes to the consolidated financial statements

to complete the asset and the ability to measure reliably the expenditure during the development.

Based on the estimated useful life of the underlying assets, the following amortisation periods apply:

- Format rights	3 – 10 years
- (TV) movie rights	3 – 10 years
- Contracts	5 – 8 years
- Other	3 – 5 years

### 2.8 Financial assets

#### *Investments in associates*

Any excess of the cost of acquisition over Endemol's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. For associates goodwill is included within the carrying amount of the investments and is assessed for impairment as part of the investment.

When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the Company's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### *Other financial assets*

Other financial assets consist of loans and non-current receivables and are stated at amortised cost, with any difference between cost and redemption value being in the income statement on an effective interest basis.

### 2.9 Impairment of non-current assets other than goodwill

The carrying amounts of the Company's non-current assets with finite lives are reviewed annually to determine whether there is an indication for impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

In subsequent years, Endemol assesses whether indications exist that impairment losses previously recognised for non-current assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset (or cash generating unit) is recalculated and its carrying amount is increased to the revised recoverable amount. The increase is recognised in operating result. A reversal is recognised only if it arises from a change in the assumptions used to calculate the recoverable amount. An impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 2.10 Trade and other receivables

#### *Trade receivables*

Trade receivables are carried at amortised cost, which is usually the nominal value. In case necessary, allowances for bad debts are recorded when collection of the full receivable is no longer probable.

#### *Amounts due from/due to customers in relation to productions in progress*

All revenues and expenditures for unfinished productions are capitalised as amounts due from/ due to customers in relation to productions in progress. For each production the net amount of the sum of work in progress and uninvoiced turnover less the sum of deferred revenues and accrued production costs is calculated. An asset is recorded if the sum of work in progress and uninvoiced turnover exceeds the sum of deferred revenues and accrued production costs, presented as amount due from customers in relation to productions in progress. A liability is recorded if the sum of deferred revenues and accrued production costs exceeds the sum of work in progress and uninvoiced turnover, presented as amount due to customers in relation to productions in progress.

### 2.11 Cash and cash equivalents

Cash and cash equivalents include all cash on hand balances, short-term highly liquid cash investments and time deposits with original maturities of three months or less.

### 2.12 Employee benefit obligations

In many of Endemol's business areas Endemol participates in pension and similar plans for its employees. Obligations for contributions to defined-contribution pension plans are recognised as an expense in the income statement as incurred.

A net obligation or net asset recognised in the consolidated balance sheets for defined benefit pension plans represents

the present value of the defined benefit obligations less the fair value of plan assets, adjusted for unrecognised actuarial gains and losses and unamortised past service cost. Endemol applies the corridor approach in recognising actuarial gains and losses related to these plans. A net asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Endemol accounts for multi-employer plans using defined benefit accounting, except for those plans where sufficient and reliable information is not available.

For other long-term employee benefits, such as long-term service benefits, the net obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Endemol's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

### **2.13 Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Recoveries from third parties, which are likely to be realised, are recorded separately, and are not offset against the related liability.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract and when such provision can be reasonably estimated.

### **2.14 Loans and borrowings**

Interest-bearing borrowings are recognised initially at the proceeds received less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings based on the effective interest method.

### **2.15 Earn-out obligations**

In many of the Company's acquisitions part of the purchase price consideration depends on future results. For this contingent consideration an earn-out obligation is recognised at fair value upon acquisition date. Interest accretions are recognised in the income statement as financial expense. Earn-out obligations are recalculated at least annually based on expected future results of the respective company, or earlier when indicators warrant a recalculation. Any adjustment of the earn-out obligations, resulting from these recalculations, is accounted for against goodwill.

### **2.16 Put option liabilities**

A put option liability is recognised in case the Company granted a minority shareholder an option to sell to the Company its remaining interest. This is considered to be an obligation as the Company acquires its own equity, even if the exercise is contingent and conditional. The liability is recognised for the present value of the redemption amount. Interest accretions are recognised in the income statement as financial expense. To the extent dividend payments to minority shareholders reduce the redemption amount, they are recognised against the put option liability. Otherwise dividend payments to minority shareholders are recognised as financial expense in the income statement upon profit distribution.

### **2.17 Share-based payments**

#### ***Telefónica stock option schemes ("EN-SOP")***

Endemol accounts for the Telefónica stock option schemes as cash-settled share-based payment transactions in accordance with IFRS 2. Upon inception of the schemes, the equity component was considered to be non-existent or negligible.

Share options granted to employees are measured at fair value at the end of each reporting period. Compensation expense is recognised in the income statement over the vesting period of the share options. The fair value of the share options is calculated using the market price of the underlying shares and an option valuation model (the Black-Scholes model). Changes in the fair value of the share options are accounted for in the income statement as personnel expenses.

#### ***Endemol performance share and performance option plans***

Endemol accounts for the Endemol performance share and option schemes as equity-settled share-based payments transactions in accordance with IFRS 2.

The costs of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuator using a Monte Carlo simulation. The cost of equity-settled transactions is recognised over the period in which the performance conditions are fulfilled (vesting period), against equity. The cumulative expense recognised for equity-settled transactions at reporting date until the vesting date reflects

## Notes to the consolidated financial statements

the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

### 2.18 Turnover

Turnover from non-scripted television productions (i.e. entertainment and infotainment) is recognised in the income statement in proportion to the stage of completion of the production at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Income recognition of scripted television productions (i.e. drama productions or soaps) is based on the deliverables in the production. The remaining part of the costs and possible advance receipts are capitalised as amounts due from customers and amounts due to customers, respectively.

Income recognition of other television productions is based on the income and production costs of the completed episodes. Income from merchandising, music and other sources is recognised at the time of delivery.

Turnover from the sale of licensing rights on intellectual property formats is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer and the turnover can be reliably measured.

Turnover in the digital media business is recognised on the basis of the number of calls or minutes spent on calls, the number of SMS messages received or the number of Internet hits made. In addition, turnover is recognised for digital media business, based on the number of games sold and / or subscriptions sold in relation to the platforms provided.

### 2.19 Expenses

Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income.

### 2.20 Income tax

Income tax in the income statement represents the sum of current and deferred tax expense. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, taking into account exempted profit constituents, non deductible costs and any adjustment to tax payable in respect of previous years. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case the related income tax is recognised in equity.

Deferred tax is accounted for using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for goodwill, which is

not deductible for tax purposes, the initial recognition of assets or liabilities that affect both accounting and taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 2.21 EBITDA

The Company uses the EBITDA heading in the income statement. We define EBITDA as profit for the year before depreciation, amortisation, impairment, financial income, financial expense, share in profit of associates and income tax. EBITDA is not a measurement under IFRS and should not be considered as an alternative to (a) net profit, (b) cash flows from operating, investing or financing activities, or as a measure of our ability to meet cash needs or (c) any other measures or performance under IFRS. EBITDA is not a direct measure of our liquidity, which is shown by the Company's cash flow statement and should be considered in the context of our financial commitments. EBITDA may not be indicative of our historical operating results, and may not be predictive of our potential future results. Because all companies do not calculate EBITDA identically, the presentation of EBITDA may not be comparable to similarly named measures of other companies.

### 2.22 Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing certain types of services (business segment) or in providing services within a particular economic environment (geographical segment) and that is subject to risks and rewards that are different from those of other segments.

### 2.23 Financial instruments

#### *Derivative financial instruments and hedging activities*

The Company uses derivative financial instruments principally in the management of its foreign currency and interest rate risks. The Company measures all derivative financial instruments based on fair values, derived from market prices or a valuation model.

Gains or losses arising from changes in the fair value of the instruments are recognised in the income statement during the period in which they arise, to the extent that the derivatives have been designated as a fair value hedge, or to the extent that the derivatives have no hedging designation or are ineffective. Gains and losses on derivatives designated as cash flow hedges are included in the hedge reserve, a component of shareholders' equity. The gains and losses on the designated derivatives substantially offset the changes in the values of the recognised



hedged items, which are also recognised as gains and losses in the income statement.

This process includes linking all derivatives that are designated as fair-value, cash-flow or foreign- currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge, are recognised directly in equity until income is affected by the variability in cash flows or forecasted transactions of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either the income statement or recognised directly in equity, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge.

If derivatives qualify and are designated as a hedge, the Company formally assesses, both at the hedge's inception and on an ongoing basis, whether these derivatives are highly effective in offsetting changes in fair values or cash flows of the hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur within a period of two months from the originally forecasted transaction date, the Company continues to carry the derivative on the balance sheet at its fair value, and gains and losses that were recognised directly in equity are recognised immediately in the income statement. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet, and recognises any changes in fair value in the income statement.

#### ***Call and put options relating to acquisition contracts (embedded derivatives)***

Endemol has entered into various call and put options in connection with some of its acquisitions. Call options are valued at fair value and recognised in the balance sheet when the option exercise price is lower than the underlying fair value of the potential future investee. Granted put options to joint venture partners and shareholders of entities where Endemol does not have control are valued at fair value and recognised when the option exercise price is higher than the underlying fair value of the entity involved. The fair value of the options is re-measured at each reporting date. All changes in fair values are accounted for in the income statement, as financial income or expense.

#### **2.24 Compilation of cash flow statement**

In the statement of cash flows, cash flows from operating activities are presented using the indirect method. The net result for the period is adjusted for the effects of non-cash transactions, accruals and items of income or expense associated with investing or financing cash flows. Cash and cash equivalents comprise cash at the bank (both debit and credit) and (call) deposits.

#### **2.25 Recent IFRS pronouncements**

During 2006, the IASB issued new International Financial Reporting Standards and amendments and the IFRIC issued new interpretations with an effective date on or after January 1, 2007, of which the following are applicable to the consolidated financial statements of Endemol:

IFRS 7 "Financial Instruments: Disclosures" requires disclosure of the significance of financial instruments for an entity's position and performance and qualitative and quantitative information on risks arising from financial instruments. The Standard is effective from 2007 onwards. The effect on Endemol's disclosure is expected to be limited because many of the required disclosures are already supplied.

IAS 1 "Presentation of Financial Statements" is amended in order to disclose information about Endemol's objectives, policies and processes for managing capital. The Standard is effective from 2007 onwards.

IFRS 8 "Operating Segments" is a new standard that is effective on or after January 1, 2009 and replaces IAS 14 "Segment Reporting". The new standard requires segment information to be presented similar to information management uses internally for evaluating the performance of the operating segments and allocating resources to those segments. Endemol does not expect the new standard will materially alter the current segment information disclosure.

IFRIC 9 "Reassessment of Embedded Derivatives" requires an entity to assess whether a contract contains an embedded derivative at the date the entity first becomes a party to the contract and prohibits reassessment unless there is a change and the contract significantly modifies the cash flows. The interpretation is effective for annual periods beginning on or after June 1, 2007. Endemol is in the process of evaluation the impact, if any, on the Company's consolidated financial statements.

IFRIC 11 "IFRS 2 – Group and Treasury share transactions" requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity. The interpretation is effective for annual periods beginning on or after March 1, 2007. Endemol is in the process of evaluation the impact, if any, on the Company's consolidated financial statements.

## Notes to the consolidated financial statements

### 3 Acquisitions

#### 2006

##### Acquisitions

In January 2006, Endemol increased its stake in Nijenhuis en de Levita Holding B.V. ("NL Film & TV") from 40% to 51%. NL Film & TV is a Dutch production company, which focuses on scripted television drama, comedy and feature films. NL Film & TV has been proportionally consolidated as of 1 January 2006, since Endemol considers to have joint control.

In Italy, Endemol participated in a start-up company end February 2006, called Yam, to strengthen its Digital Media activities in this market. In addition to reinforcing Endemol Italy's current business, Yam is focusing on creating new content for various digital platforms, especially mobile phones. Endemol acquired 51% of the shares. In addition, Endemol acquired call options for the remaining shares of Yam and granted the sellers a put option to sell their remaining shares, which is exercisable after expiration of the last call option exercise term. Yam has been fully consolidated as from the date of acquisition.

In Spain, Endemol acquired 100% of the shares of Portalmix, a digital media company, on 30 March 2006. Portalmix has been fully consolidated as from that date.

In June 2006 the acquisition of a further stake in SNP Holding in the Netherlands increased our stake from 85% to 100%. The results of SNP Holding were already consolidated in our accounts prior to that date.

In August 2006 Endemol increased its stake in Endemol Andino (Colombia) from 51% to 85%. The results of Endemol Andino were already consolidated in our accounts prior to that date.

In August 2006, Endemol acquired 100% of the shares of Estudio Mayor in Argentina. Estudio Mayor has been fully consolidated as from the date of acquisition.

In October 2006 Endemol acquired 51% of the shares of the German company Callactive. Callactive is one of the market leaders in Participation TV formats in Germany and Switzerland. In addition to the acquisition of the shares, Endemol acquired call options for the remaining shares of Callactive and granted the sellers a put option to sell their remaining shares, which is exercisable after expiration of the last call option exercise term. Callactive has been fully consolidated as from the date of acquisition.

In November 2006 Endemol acquired an interest of 51% in JoeCartoon in the USA. JoeCartoon develops and creates tailor made (animation) content for distribution via various platforms, including internet, wireless networks and television. JoeCartoon is fully consolidated as from the date of acquisition. In addition to the acquisition of the shares, Endemol acquired call options for the remaining shares of JoeCartoon.

In December 2006 Endemol increased its stake in Endemol Argentina from 65% to 80% and bought out one of the other shareholders. The results of Endemol Argentina were already consolidated in our accounts prior to that date.

In December 2006 Endemol increased its stake in Endemol Chile from 65% to 80% and bought out one of the other shareholders. The results of Endemol Chile were already consolidated in our accounts prior to that date.

The allocation of net assets acquired in business combinations, being the acquisitions of YAM, Portalmix, Estudio Mayor, Callactive and Joe Cartoon, and the goodwill arising at the acquisition date are stated below on an aggregated basis:

	Aggregate of business combinations		
EUR 1,000	Initially recorded amounts subsidiary	Application of accounting for business combinations	Recognised at fair value
Non-current assets	2,723	12,302	15,025
Current assets	3,689	-	3,689
Non-current liabilities	(61)	(4,708)	(4,769)
Current liabilities	(3,449)	-	(3,449)
<b>Net assets</b>	<b>2,902</b>	<b>7,594</b>	<b>10,496</b>
Interest acquired			10,404
Fair value call options acquired			74
			10,478
Goodwill			13,281
<b>Total</b>			<b>23,759</b>
<b>Purchase price</b>			
Initial payments			8,387
Deferred payments			2,830
Earn-out obligations			3,811
Put option liabilities			8,731
<b>Total</b>			<b>23,759</b>

These business combinations contributed EUR 0.3 million to Endemol's net profit in 2006.

The consideration paid in cash for the other acquisitions in 2006 was EUR 6.4 million (2005: EUR 2.4 million), with a related goodwill of EUR 11.3 million.

## 2005

### Acquisitions

The acquisition of an additional 25% of the shares in Meta Entertainment increased our stake to 65% in January 2005, and, as from 1 January 2005, its results have been fully consolidated with a minority interest.

As of 1 January 2005, Endemol exercised a call option to acquire 30% of the shares of the Dutch company TVBV B.V., bringing Endemol's ownership to 70%. As Endemol did not obtain control but joint control, the share in TVBV B.V. is consolidated proportionally as of the date of exercise of the option. Endemol reported its share in TVBV B.V. until 2004 as "interest in associates".

## Notes to the consolidated financial statements

The acquisition of a further stake in Stokvis & Niehe Producties in April 2005 increased our stake from 80% to 85%. The results of Stokvis & Niehe Producties were already consolidated in our accounts prior to that date.

As of 1 May 2005, Endemol USA exercised a call option to acquire an additional 16% of the shares of True Entertainment, bringing Endemol's ownership to 67%. True Entertainment was already fully consolidated with a minority interest.

As of 1 July 2005, Endemol UK acquired 75% of the shares of Showrunner, a start-up scripted company in the United Kingdom. Its results have been fully consolidated with a minority interest since that date.

As of 1 November, 2005 Endemol acquired the remaining 50% of the shares of Endemol Neovision, a joint-venture company in Poland. Its results have been fully consolidated since that date. The company was re-named Endemol Polska.

The allocation of net assets acquired in business combinations and the goodwill arising at the acquisition date are stated below in the aggregate.

### Aggregate of business combinations

<i>EUR 1,000</i>	Initially recorded amounts subsidiary	Application of account- ing for busi- ness combi- nations	Recognised at fair value
Non-current assets	3	3,171	3,174
Current assets	1,083		1,083
Non-current liabilities	(140)	(1,245)	(1,385)
Current liabilities	(289)		(289)
<b>Net assets acquired</b>	<b>657</b>	<b>1,926</b>	<b>2,583</b>
Interest acquired			1,392
Initial goodwill			2,635
<b>Total</b>			<b>4,027</b>
<b>Purchase price</b>			
Initial payment			2,143
Options exercised			730
Earn-out obligations			
Put option liabilities			1,154
<b>Total</b>			<b>4,027</b>

### Divestments

In November 2005 Endemol signed a share sale and purchase agreement for the divestment of Overloaded Pocket Media, a small Dutch company involved in the design and production of information and entertainment for mobile platforms. Share transfer took place in the first week of January 2006.



## 4 Subsequent events

### **Acquisition Endemol France S.A.S.**

In September 2006, Endemol was informed that a settlement agreement had been entered into in respect of the earn-out arrangement with the former shareholders of Endemol France S.A.S. This created an opening for a possible acquisition by Endemol of Endemol France S.A.S. The subsequent negotiations were successfully concluded on 8 January 2007. On 14 February 2007, shareholders approved the acquisition of 100% of the share capital of Endemol France S.A.S. ('Endemol France'), that was previously held by an indirect subsidiary of Telefónica S.A. The Endemol France business will be consolidated into Endemol's financial statements as from January 2007.

Endemol France creates premium entertainment formats or licenses formats from Endemol and third parties and sells them to leading French broadcasters. Endemol France produces shows based on these formats to high standards, creating hits with strong brand value. It also exploits the value of these formats across other media and communication channels like mobile or broadband internet. From a customer perspective Endemol France sells its content to most of the broadcasters in the French arena, both public and private, although TF1 – the leading broadcaster in France – is the most important client. From a genre perspective, Endemol France is active in the production of non-scripted shows, which represent the largest part of its total revenues, as well as in the digital media field. Turnover reached EUR 175.2 million in 2006.

Endemol France employs 174 employees as of 31 December 2006, of which 50 have a temporary contract. Also 342 freelancers are contracted as of 31 December 2006.

The assets and liabilities arising from the acquisition are as follows:

## Notes to the consolidated financial statements

EUR 1,000	Initially recorded amounts subsidiary	Application of account- ing for busi- ness combi- nations	Recognised at fair value
Non-current assets	3,156	131,077	134,233
Current assets	133,653	-	133,653
Non-current liabilities	(51,193)	(45,130)	(96,323)
Current liabilities	(61,971)	-	(61,971)
<b>Net assets acquired</b>	<b>23,645</b>	<b>85,947</b>	<b>109,592</b>
Goodwill			324,408
<b>Total</b>			<b>434,000</b>
Purchase consideration settled in cash (including escrow)			292,000
Fair value of contingent payments (earn-outs)			142,000
<b>Total consideration</b>			<b>434,000</b>
Purchase consideration settled in cash (including escrow)			292,000
Cash and cash equivalents in subsidiary acquired (including bankers)			(32,451)
<b>Cash outflow on acquisition</b>			<b>259,549</b>

The fair values identified upon acquisition are provisional and may still be subject to change. Changes in fair values will be shown as an adjustment to the initially identified goodwill within one year after acquisition date. The goodwill is attributable to new formats, either developed by Endemol France, Endemol or externally, that are expected to be sold to current or new customers in the future, the workforce of the acquired business, deferred taxes resulting from the various fair value adjustments and the synergies expected to arise after Endemol's acquisition of Endemol France.

### Financing

On 19 November 2005 Endemol entered into an agreement in respect of a EUR 250.0 million multicurrency revolving credit facility. The EUR 250.0 million multicurrency revolving credit facility with a number of banks has a three-year term (with options to extend to a maximum of five years), which is available to fund our working capital, acquisition and other cash needs. Loans under the facility are guaranteed by several of our operating subsidiaries.

The multicurrency revolving credit facility requires us to maintain certain financial ratios and has customary terms restricting our ability to make fundamental changes to our business, sell and acquire assets (including formats) and incur debt above a maximum aggregate amount of EUR 300.0 million, including amounts drawn under the facility. We are restricted in paying dividends and making other distributions if certain financial conditions are not satisfied. Covenants relate primarily to senior debt / EBITDA, interest-bearing debt / EBITDA, EBIT / interest paid and solvency.

In connection with the acquisition of Endemol France the multicurrency revolving credit facility was renegotiated in January 2007. Thereby the facility amount was increased from EUR 250.0 million to EUR 400.0 million. The maximum financial indebtedness was increased from EUR 300.0 million to EUR 600.0 million. The mark-up, duration, terms and covenants remained almost unchanged.

#### Endemol stock option plan

Endemol intends to issue a new grant under the long-term incentive plan as of 30 April 2007 for a total number of approximately 2.0 million shares and options.

#### Endemol Chief Operating Officer steps down

On 5 March 2007 Endemol announced that Endemol and Tom Barnicoat have mutually agreed that Mr. Barnicoat will step down with immediate effect as member of the Management Board and Chief Operating Officer (COO) of Endemol N.V.

Mr. Barnicoat has received the severance payment and a pension contribution to which he was entitled according to his contract (respectively GBP 2,599,999 and GBP 191,042). In accordance with the Long-term Incentive Plan of the Company, Mr Barnicoat has received the pro rata parte portion of the performance shares and stock options granted to him during his tenure with Endemol N.V.

## 5 Segment information

### Primary segmentation 2006

Endemol's primary segmentation is based on type of product (genre). Endemol's genres are Non-scripted, Scripted and Digital Media.

<i>EUR 1,000</i>	Non-scripted	Scripted	Digital Media	Unallocated	Total group
<b>Turnover</b>	<b>838,435</b>	<b>142,248</b>	<b>136,732</b>	<b>-</b>	<b>1,117,415</b>
<b>Operating result</b>	<b>149,722</b>	<b>12,848</b>	<b>29,386</b>	<b>(31,421)</b>	<b>160,535</b>
<b>Segment assets</b>	378,316	71,783	74,527	182,926	707,552
Investment in associates	6,758	-	-	-	6,758
<b>Consolidated assets</b>	<b>385,074</b>	<b>71,783</b>	<b>74,527</b>	<b>182,926</b>	<b>714,310</b>
<b>Consolidated liabilities</b>	<b>153,204</b>	<b>27,177</b>	<b>36,962</b>	<b>252,287</b>	<b>469,630</b>
<b>Depreciation and amortisation</b>	<b>9,040</b>	<b>3,351</b>	<b>1,011</b>	<b>1,187</b>	<b>14,589</b>
<b>Impairment</b>	<b>-</b>	<b>2,007</b>	<b>-</b>	<b>-</b>	<b>2,007</b>
<b>Expenditure on PPE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,686</b>	<b>13,686</b>

In establishing the operating result per type of product, assumptions were used to make a reasonable allocation of costs to the different types of product, this relates especially to general costs. Where appropriate, turnover was used as an allocation basis. There is no inter-segment turnover recognised in the primary segmentation.

## Notes to the consolidated financial statements

### Primary segmentation 2005

<i>EUR 1,000</i>	Non-scripted	Scripted	Digital Media	Unallocated	Total group
<b>Turnover</b>	<b>686,301</b>	<b>131,119</b>	<b>82,712</b>	<b>-</b>	<b>900,132</b>
<b>Operating result</b>	<b>124,388</b>	<b>10,080</b>	<b>15,247</b>	<b>(14,314)</b>	<b>135,401</b>
Segment assets	322,365	53,136	22,601	153,443	551,545
Investment in associates	6,448	8,925	-	-	15,373
<b>Consolidated assets</b>	<b>328,813</b>	<b>62,061</b>	<b>22,601</b>	<b>153,443</b>	<b>566,918</b>
<b>Consolidated liabilities</b>	<b>186,769</b>	<b>36,228</b>	<b>16,752</b>	<b>181,240</b>	<b>420,989</b>
<b>Depreciation and amortisation</b>	<b>10,249</b>	<b>2,013</b>	<b>1,500</b>	<b>2,782</b>	<b>16,544</b>
<b>Impairment</b>	<b>745</b>	<b>-</b>	<b>77</b>	<b>-</b>	<b>822</b>
<b>Expenditure on PPE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,314</b>	<b>14,314</b>

### Secondary segmentation 2006

The secondary segmentation is based on geographical areas.

<i>EUR 1,000</i>	The Netherlands	Germany	Spain	Italy	United Kingdom	USA
<b>Total turnover</b>	<b>151,956</b>	<b>71,027</b>	<b>154,920</b>	<b>137,798</b>	<b>247,534</b>	<b>202,746</b>
<b>Segment assets</b>	<b>106,728</b>	<b>45,852</b>	<b>161,247</b>	<b>83,555</b>	<b>132,726</b>	<b>65,484</b>
<b>Expenditure on PPE</b>	<b>3,004</b>	<b>563</b>	<b>4,590</b>	<b>404</b>	<b>1,205</b>	<b>675</b>

### Secondary segmentation 2005

<i>EUR 1,000</i>	The Netherlands	Germany	Spain	Italy	United Kingdom	USA
<b>Total turnover</b>	<b>150,222</b>	<b>82,871</b>	<b>126,346</b>	<b>105,911</b>	<b>173,000</b>	<b>138,449</b>
<b>Segment assets</b>	<b>108,188</b>	<b>19,694</b>	<b>132,801</b>	<b>70,592</b>	<b>111,490</b>	<b>50,978</b>
<b>Expenditure on PPE</b>	<b>2,250</b>	<b>867</b>	<b>5,847</b>	<b>9</b>	<b>1,408</b>	<b>861</b>

Inter-segment turnover is realised on an at arm's length basis.



Other entities	Inter segment	Un- allocated	Total group
202,920	(51,486)	-	1,117,415
118,718	-	-	714,310
2,377	-	868	13,686

Other entities	Inter segment	Un- allocated	Total group
166,218	(42,885)	-	900,132
73,175	-	-	566,918
1,331	-	1,741	14,314

## Notes to the consolidated financial statements

### 6 Employee benefit expense

EUR 1,000	2006	2005
Wages and salaries	113,652	103,440
Compulsory social security contributions	13,892	13,342
Pension and early retirement costs	2,942	3,166
Cash settled Telefónica stock option plans	9,451	(1,976)
Endemol Long-term Incentive Plan and cash award	8,000	4,565
Other personnel costs	23,553	16,963
<b>Total employee benefit expense</b>	<b>171,490</b>	<b>139,500</b>

With respect to the Telefónica stock option plans and the Endemol Long-term Incentive Plan we refer to Note 8, Share-based payments.

The number of full time equivalents as of 31 December 2006, including both workers on temporary contracts and workers on contracts for an indefinite term, was 4,316, compared to 3,928 at year-end 2005. This represents an increase of 9.9%, primarily as a result of a higher volume in Spain, resulting in more workers on temporary contracts.

As of 31 December 2006, the number of workers on contracts for an indefinite term amounted to 1,485 (2005: 1,178), mainly increasing in Argentina and Spain, the number of workers on temporary contracts amounted to 2,831 (2005: 2,750). As of 31 December 2006, the number of freelancers amounted to 1,165 (2005: 873).

The geographical breakdown of full time equivalents is as follows:

	31 december 2006	31 december 2005
Spain	1,712	961
The Netherlands (incl. holding entities)	791	884
United Kingdom	617	910
Italy	301	512
Germany	250	274
USA	58	45
Other countries	587	342
<b>Total number of full time equivalents</b>	<b>4,316</b>	<b>3,928</b>

## 7 Director's remuneration

### Remuneration Supervisory Board

Remuneration relating to the members of the Supervisory Board amounted to EUR 100,000 (2005: EUR 53,333). The remuneration of the individual members of the Supervisory Board was as follows:

EUR	2006	2005
L. Badía Almirall	50,000	8,333
S. Fernández Valbuena	-	-
G. Smit	50,000	25,000
Former Supervisory Board members	-	20,000
<b>Total remuneration Supervisory Board</b>	<b>100,000</b>	<b>53,333</b>

### Remuneration Management Board

Remuneration and pension charges relating to the members of the Management Board amounted to EUR 3,169,026 (2005: EUR 1,704,163). In 2006, an additional amount of EUR 1,153,488 (2005: EUR 1,207,784) was paid in the form of other compensation. The remuneration of the individual members of the Management Board was as follows:

2006					
EUR	Salary	Annual incentive	Pensions	Other compensation	Total cash
E. Rodríguez-Viña	305,434	150,000	30,543	-	485,977
T. Barnicoat	746,826	298,730	74,683	-	1,120,239
P. Bazalgette	746,826	298,730	74,683	-	1,120,239
J.P. Kerstens	270,321	132,500	39,750	66,831	509,402
Former Management Board members	-	-	-	1,086,657	1,086,657
<b>Total remuneration Management Board</b>	<b>2,069,407</b>	<b>879,960</b>	<b>219,659</b>	<b>1,153,488</b>	<b>4,322,514</b>

2005					
EUR	Salary	Annual incentive	Pensions	Other compensation	Total cash
T. Barnicoat	437,190	145,730	43,719	-	626,639
P. Bazalgette	437,190	145,730	43,719	-	626,639
Former Management Board members	255,218	170,145	25,522	1,207,784	1,658,669
<b>Total remuneration Management Board</b>	<b>1,129,598</b>	<b>461,605</b>	<b>112,960</b>	<b>1,207,784</b>	<b>2,911,947</b>

The total pension charges of the members of the Management Board in 2006 amount to EUR 0.2 million (2005: EUR 0.1 million).

## Notes to the consolidated financial statements

### Remuneration key management

As of 22 November 2005, we granted key management in aggregate 590,628 performance shares and in aggregate 590,628 performance options. As of 28 April 2006, we granted key management in aggregate 196,874 performance shares and in aggregate 196,874 performance options.

The remuneration charged to the income statement for other key management was EUR 6.8 million (2005: EUR 6.3 million). In addition to their salaries amounting to EUR 2.5 million (2005: EUR 2.3 million), this amount includes bonuses amounting to EUR 3.4 million (2005: EUR 3.5 million), contributions to pension plans amounting to EUR 0.1 million (2005: EUR 0.1 million), EN-SOP expenses amounting to EUR 0.4 million (2005: EUR 0.1 million) and other expenses amounting to EUR 0.4 million (2005: EUR 0.3 million).

### Shares and stock options

Members of the Management Board have been granted stock options on Telefónica shares. The options can be exercised in two tranches, falling three and four years respectively after the original year of granting.

Year of granting	2002		2003		2004	
	No of options	Exercise price	No of options	Exercise price	No of options	Exercise price
T. Barnicoat	23,790	11.8827				
P. Bazalgette	23,790	11.8827				
J.P. Kerstens	15,860	11.8827	27,685	8.853	29,425	12.24
Former Management Board members	47,580	11.8827	132,890	8.853		
<b>Total</b>	<b>111,020</b>		<b>160,575</b>		<b>29,425</b>	

As part of the Endemol Long-term Incentive Plan as of 22 November 2005 and as of 28 April 2006 we granted each member of the Management Board the right to receive performance shares and performance options. As per 31 December 2006 the following shares and options were outstanding:

Year of granting	2005			2006		
	No of shares	No of options	Exercise price	No of shares	No of options	Exercise price
T. Barnicoat	82,813	82,813	9.00	27,604	27,604	13.81
P. Bazalgette	82,813	82,813	9.00	27,604	27,604	13.81
J.P. Kerstens	31,250	31,250	9.00	10,416	10,416	13.81
<b>Total</b>	<b>196,876</b>	<b>196,876</b>		<b>65,624</b>	<b>65,624</b>	



## 8 Share-based compensation

### Telefónica share option plans ("EN-SOP").

Employees within the Endemol group participate in the Telefónica share option plans ("EN-SOP").

EN-SOP consists of grants to the beneficiaries (all the Endemol's group permanent employees who do not participate in other similar stock option plans), effective 1 January 2001, 2002, 2003 and 2004, of a variable number (based on the various wage and functional categories) of purchase options on Telefónica, S.A. shares. The duration of the options is three or four years from the grant date and the options may be exercised at a rate of 50% on years three and four after the related grant date.

The option exercise price will be the related annual reference value, and the exercise terms will be the customary terms in programmes of this nature. The beneficiaries must remain permanent employees of Endemol without interruption, until the options are exercised, without prejudice to the regulation of cases of early settlement of the options in certain cases in which the employment relationship is interrupted prior to the exercise of the options.

The options may be settled through the acquisition by the beneficiary of the underlying shares or, alternatively, by receiving a net amount in cash. Endemol accounts for the option scheme as a cash-settled share-based payment transaction in accordance with IFRS 2 and uses vesting periods of three and four years.

All share options are measured at fair value at the reporting date, taking into consideration the extent to which employees have rendered service to that date. In accordance with paragraphs 32 and 33 of IFRS 2, the expenses related to the option schemes are accounted for in the income statement over the vesting period. Changes in the fair value of the share options are accounted for in the income statement as employee benefit expenses.

Telefónica has committed itself to reimburse Endemol for the costs of the share options granted. In the consolidated financial statements as of 31 December 2006 and in the consolidated financial statements as of 31 December 2005, a receivable from Telefónica and a capital contribution equal to that amount have therefore been included in the balance sheet.

The total number of granted and non-cancelled share options as of 31 December 2006 is 2,542,421. The following table shows the movement of the outstanding options:

## Notes to the consolidated financial statements

	Number of share options	Weighted average exercise price EUR
Granted options outstanding as of 1 January 2005	5,586,774	10.87
Exercised in 2005	(438,270)	11.88
Cancelled in 2005	(603,626)	10.75
<b>Granted options outstanding and exercisable as of 31 December 2005</b>	<b>4,544,878</b>	<b>10.78</b>
Exercised in 2006	(1,706,131)	10.34
Cancelled in 2006	(296,326)	10.81
<b>Granted options outstanding and exercisable as of 31 December 2006</b>	<b>2,542,421</b>	<b>11.07</b>

The recognised fair value of the share options outstanding as of 31 December 2006 amounts to EUR 13.0 million (2005: EUR 8.1 million) and is included in the accrued bonuses.

EUR 1,000	2006	2005
Share options granted in 2002 – total fair value	0	702
Share options granted in 2003 – total fair value	6,970	7,017
Share options granted in 2004 – total fair value	6,879	2,304
Total fair value of granted and non-cancelled share options	<b>13,849</b>	<b>10,023</b>
Accrued personnel related expense EN-SOP as of 1 January	8,089	11,017
Expense arising from increase of accrued liability for all options granted	1,594	5,685
Effect of changes in the fair value of share options	7,857	(7,660)
Total expense recognised as costs	9,451	(1,975)
Effect arising from the options vested	(4,536)	(953)
<b>Accrued personnel related expense EN-SOP as of 31 December</b>	<b>13,004</b>	<b>8,089</b>
Total intrinsic value	-	-

Total fair value represents the full fair value of the options outstanding as if they were completely vested, i.e. without considering the extent to which the employees have rendered service to date.

In 2006 1,706,131 (2005: 438,270) options were exercised and 296,326 options were cancelled (2005: 603,626). In total EUR 4.9 million was paid in cash to Endemol employees.

The difference between the total fair value of granted and non-cancelled share options and the accrued personnel-related expenses as of 31 December 2006, corrected for future fair value adjustments, will be accounted for in the income statement as personnel expenses in future years, during the vesting period.

The weighted average exercise price as of 31 December 2006 of the outstanding options (in the range of EUR 8.85 - EUR 12.24) is EUR 11.07. The weighted average remaining contractual life of these options is 0.62 years.

The fair value of the share options granted in the period until 31 December 2006 is determined using the Black-Scholes model. The fair value of the liability is re-measured at each balance sheet date and at the settlement date.

We obtain the expected volatility from a report published by a financial institution regarding options on shares of Telefónica, S.A. Therefore, no historical volatility is considered.

The fair value of the options outstanding as of 31 December 2006 and the model inputs that were used in its measurement as of 31 December 2006 are the following:

Fair value of share options and assumptions as of 31 December 2006	Outstanding options as of 31 December 2006	Outstanding options as of 31 December 2005
Weighted average fair value at measurement date (EUR per option)	5.05	2.20
Share price (EUR)	16.12	12.71
Weighted average exercise price (EUR)	11.07	10.78
Weighted average expected volatility	19.67%	17.16%
Weighted average option life (years)	0.62	0.83
Expected dividend yield	3.10%	3.93%
Range of risk-free interest rate	3.63% - 4.03%	2.18% - 2.75%

### Endemol Long-term Incentive Plan

As of 21 November 2005, Endemol adopted an equity-based Long-term Incentive Plan ("the Plan"). A new grant under the Long-term Incentive Plan was issued at the end of April 2006. The Plan comprises two elements: a performance share plan and a performance option plan.

#### 1. Performance Share Plan

A performance share is a grantee's right to receive one share for no consideration subject to (i) the grantee remaining in our service for a period of three years following the date of grant (the "Vesting Period") and (ii) a predetermined performance condition based on total stockholder return (including dividend per share) ("TSR") being met on the date following the last

## Notes to the consolidated financial statements

day of the Vesting Period (the "Vesting Date"). If the performance condition has not been met, all or some of the performance shares may lapse on a sliding scale basis. For the performance shares granted, if the cumulative TSR over the three-year Vesting Period is less than 25%, no performance shares will vest. If TSR performance is 25%, then 50% of the performance shares will vest. If TSR performance is 35% or more, 100% of the performance shares will vest. For TSR performance between 25% and 35%, the percentage of performance shares that vest will be determined by linear interpolation.

Upon vesting, the grantee will receive one share for each performance share. Such shares may not be traded during the two-year period following the Vesting Date, or until termination of the grantee's employment, whichever is earlier.

As of 21 November 2005, 870,317 performance shares were granted, including 31,250 performance shares that were reserved for the Chief Financial Officer. The fair value of the performance share is calculated at EUR 4.50 per performance share.

As of 28 April 2006, 290,102 performance shares were granted. The fair value of the performance share is calculated at EUR 6.71 per performance share.

### 2. *Performance Option Plan*

A performance option is a grantee's right to acquire one share at a pre set price (the "Exercise Price"). The Exercise Price will be equal to the average closing price of Endemol's ordinary shares, as stated in the daily official listing, on the five days (during which the stock exchange was open for business) immediately preceding the date on which the performance options are granted. For the performance options granted as of 21 November 2005, the exercise price is the offer price of EUR 9.00. For the performance options granted as of 28 April 2006, the exercise price is EUR 13.81.

A performance option will be granted by our Supervisory Board and may only be exercised if (i) the grantee has remained in our service during a period of three years following the date of grant (the "Vesting Period") and (ii) a predetermined performance condition based on TSR has been met on the date following the last day of the Vesting Period (the "Vesting Date"). Vested performance options may be exercised during a period of five years from the Vesting Date. For the performance options granted all or some of the performance options may lapse on a sliding scale basis, if the performance condition has not been met. If the cumulative TSR over the three year Vesting Period is less than 25%, no performance options will vest. If TSR performance is 25%, then 50% of the performance options will vest. If TSR performance is 35% or more, 100% of the performance options will vest. For TSR performance between 25% and 35%, the percentage of performance options that vest will be determined by linear interpolation.

As of 21 November 2005, 2,390,024 options were granted. The fair value of the performance option is calculated at EUR 2.11 per performance option.

As of 28 April 2006, 1,006,602 options were granted. The fair value of the performance option is calculated at EUR 3.24 per performance option.



Under the plan, up to 6.5% of the present total issued share capital may be applied for grants of performance shares or performance options, of which up to 5.1% of our present total issued share capital may be newly issued shares. As of 31 December 2006, 1,050,002 performance shares and 3,040,933 options were outstanding, representing 3.27% of the present total issued share capital.

	Number of shares	Number of share options	Weighted average exercise price options EUR
Granted shares and options outstanding as of 1 January 2006	870,317	2,390,024	9.00
Granted shares and options in 2006	290,102	1,006,602	13.81
Returned / cancelled in 2006	(110,417)	(355,693)	9.64
<b>Granted options outstanding as of 31 December 2006</b>	<b>1,050,002</b>	<b>3,040,933</b>	<b>10.52</b>

#### Main assumptions as of 31 December 2006

	Performance Shares Plan IPO grant	Performance Options Plan IPO grant	Performance Shares Plan 2 <sup>nd</sup> grant	Performance Options Plan 2 <sup>nd</sup> grant
Valuation method used	Monte Carlo	Black Scholes	Monte Carlo	Black Scholes
Grant price (EUR)	9.00	9.00	13.81	13.81
Weighted average expected volatility	40%	40%	40%	40%
Vesting / performance period (years)	3	3	3	3
Weighted average expected life (years)	5	5	5	5
Expected dividend yield	3.977%	3.977%	3.977%	3.977%
Range of risk-free interest rate	3.106%	3.106%	3.915%	3.915%

#### Rewards granted to other beneficiaries

Eligible employees who do not participate in the Plan participate in an initial public offering celebration cash award, the amount of which depends on the level of the employee and is to be paid in equal parts in December 2005 and January 2007. The total amount of awards granted as of 31 December 2006, including both instalments, amounted to EUR 8.6 million. Of this amount, EUR 4.3 million was included in the employee benefit expense of 2005. The remaining amount of EUR 4.3 million has been spread over the vesting period until December 2006.

## Notes to the consolidated financial statements

### 9 Other operating expense

<i>EUR 1,000</i>	2006	2005
Building expenses	20,034	16,823
Representation and selling expenses	20,545	18,026
Other operating expense	29,952	26,068
<b>Total other operating expense</b>	<b>70,531</b>	<b>60,917</b>

### 10 Financial income and expense

<i>EUR 1,000</i>	2006	2005
<b>Financial income</b>		
Interest income	2,462	5,080
Net result on fair value adjustments of financial instruments	966	4,242
	<b>3,428</b>	<b>9,322</b>
<b>Financial expenses</b>		
Interest expense	(7,219)	(7,021)
Interest expense on put option liabilities	(537)	(635)
Interest expense on earn-out obligations	(563)	(1,333)
Net foreign currency exchange results	(1,045)	(1,633)
Other financial result	(264)	(364)
	<b>(9,628)</b>	<b>(10,986)</b>
<b>Total financial income and expenses</b>	<b>(6,200)</b>	<b>(1,664)</b>

Net result on fair value adjustments of financial instruments is related to changes in fair value of the interest rate swaps, call and put options and other financial instruments.

### 11 Income taxes

Endemol's operations are subject to income taxes in various jurisdictions. For 2006 the effective tax rate amounted to 34.5% (2005: 36.1%). Excluding non-deductible items such as impairment of goodwill, results on fair value adjustments, interest expense on earn-out obligations and share in profit of associates, the effective tax rate would be 34.0% for 2006 (2005: 36.9%).

### Reconciliation tax expense

EUR 1,000

#### Current tax expense

Current year (expense relating to current period based on tax filing calculations)

Adjustments for prior years (expense/profit relating to prior periods based on updated or final tax filing calculations)

2006	2005
62,030	56,957
(1,763)	(1,549)
<b>58,267</b>	<b>55,408</b>

#### Deferred tax expense

Origination and reversal of temporary differences

Reduction in tax rate (impact on deferred tax position of change of (future) applicable tax rate in the respective country)

(5,091)	(6,620)
39	18
<b>(5,052)</b>	<b>(6,602)</b>

#### Total income tax expense in income statement

<b>53,214</b>	<b>48,806</b>
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### Reconciliation effective tax rate

EUR 1,000

#### Profit before tax

Local corporate tax rates in %

Income tax using the local corporation tax rate

Non-deductible expenses

Tax exempt revenues

Tax incentives not recognised in the income statement

Under / (over) provided in prior years

2006	2005
<b>154,466</b>	<b>135,129</b>
17% - 40%	17% - 40%
53,655	45,245
5,770	4,768
(2,691)	(1,225)
(1,601)	-
(1,920)	18

#### Effective tax

<b>53,214</b>	<b>48,806</b>
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#### Effective tax rate

<b>34.5%</b>	<b>36.1%</b>
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### Deferred Tax Assets and Liabilities

Deferred tax assets consist primarily of tax losses carried forward and temporary differences in revenue and cost recognition.

Deferred tax liabilities consist primarily of deferred tax liabilities arising from step acquisitions and temporary differences in revenue and cost recognition.

In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future

## Notes to the consolidated financial statements

taxable income during the periods in which the net operating losses can be utilised or the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax strategies in making this assessment. In order to fully realise deferred tax assets related to the net operating losses, Endemol will need to generate sufficient future taxable income in the countries where these net operating losses exist. Based upon projections for future taxable income over the periods in which the net operating losses can be utilised or the temporary differences become deductible, management believes it is probable that Endemol will realise the deferred tax assets as of 31 December 2006.

### Recognised deferred tax assets and liabilities

EUR 1,000	31 December 2006		
	Assets	Liabilities	Net
Property, plant and equipment	149	1,456	(1,307)
Intangible assets	779	5,485	(4,706)
Other investments	1,175	-	1,175
Inventories	-	303	(303)
Other current assets	2,307	572	1,735
Employee benefits	7,674	-	7,674
Provisions	3,025	-	3,025
Other items	967	533	434
Tax value of loss carry-forwards recognised	1,862	-	1,862
<b>Tax assets / liabilities</b>	<b>17,938</b>	<b>8,349</b>	<b>9,589</b>
Offsetting tax assets and liabilities	-	-	-
<b>Net tax assets / liabilities</b>	<b>17,938</b>	<b>8,349</b>	<b>9,589</b>

EUR 1,000	31 December 2005		
	Assets	Liabilities	Net
Property, plant and equipment	38	10	28
Intangible assets	2,955	3,159	(204)
Other investments	649	-	649
Inventories	-	483	(483)
Other current assets	82	42	40
Employee benefits	4,628	591	4,037
Provisions	798	-	798
Other items	2,552	2,151	401
Tax value of loss carry-forwards recognised	34	-	34
<b>Tax assets / liabilities</b>	<b>11,736</b>	<b>6,436</b>	<b>5,300</b>
Offsetting tax assets and liabilities	(971)	(971)	-
<b>Net tax assets / liabilities</b>	<b>10,765</b>	<b>5,465</b>	<b>5,300</b>



### Movement in recognised deferred taxes

<i>EUR 1,000</i>	Balance as of 31 December 2005	Acquisi- tions	Reclassi- fication to current tax	Recognised in income	Balance as of 31 December 2006
Property, plant and equipment	28	(1,424)	-	89	(1,307)
Intangible assets	(204)	(3,103)	-	(1,399)	(4,706)
Other investments	649	-	106	420	1,175
Inventories	(483)	-	(18)	198	(303)
Other current assets	40	-	2,757	(1,062)	1,735
Employee benefits	4,037	-	(1,904)	5,541	7,674
Provisions	798	-	1,653	574	3,025
Other items	164	-	100	170	434
Tax loss carry-forwards utilised	271	-	1,069	522	1,862
<b>Net tax assets / liabilities</b>	<b>5,300</b>	<b>(4,527)</b>	<b>3,763</b>	<b>5,052</b>	<b>9,589</b>

<i>EUR 1,000</i>	Balance as of 31 December 2004	Reclassi- fication to current tax	Recognised in income	Recognised in equity	Balance as of 31 December 2005
Property, plant and equipment	16	-	12	-	28
Intangible assets	(2,186)	-	3,213	(1,231)	(204)
Other investments	253	-	396	-	649
Inventories	(73)	-	(410)	-	(483)
Other current assets	(27)	-	67	-	40
Employee benefits	7,220	(5,140)	1,957	-	4,037
Provisions	433	-	365	-	798
Other items	821	-	(657)	-	164
Tax loss carry-forwards utilised	12,753	(14,159)	1,677	-	271
<b>Net tax assets / liabilities</b>	<b>19,210</b>	<b>(19,299)</b>	<b>6,620</b>	<b>(1,231)</b>	<b>5,300</b>

## Notes to the consolidated financial statements

### 12 Earnings per share

#### Basic earnings per share

The calculation of the basic earnings per share as of 31 December 2006 is based on the net profit attributable to ordinary shareholders in the amount of EUR 96.8 million and a weighted average number of ordinary shares outstanding during 2006 of 125,000,000.

<i>EUR 1,000</i>	2006	2005
Net profit attributable to ordinary shareholders of Endemol N.V.	96,820	82,620
<b>Net profit attributable to ordinary shareholders of Endemol N.V.</b>	<b>96,820</b>	<b>82,620</b>
<i>(in thousands of shares)</i>	2006	2005
Number of outstanding shares	125,000	125,000
<b>Weighted average number of ordinary shares</b>	<b>125,000</b>	<b>125,000</b>
Basic earnings per share (EUR)	<b>0.77</b>	<b>0.66</b>

#### Diluted earnings per share

The calculation of the diluted earnings per share as of 31 December 2006 is based on the net profit attributable to ordinary shareholders in the amount of EUR 96.8 million and the number of ordinary shares outstanding end 2006 of 128,040,933.

<i>EUR 1,000</i>	2006	2005
Net profit attributable to ordinary shareholders of Endemol N.V.	96,820	82,620
<b>Net profit attributable to ordinary shareholders of Endemol N.V.</b>	<b>96,820</b>	<b>82,620</b>
<i>(in thousands of shares)</i>	2006	2005
Number of ordinary shares as of 31 December	125,000	125,000
Effect of share options on issue	3,041	2,346
<b>Number of ordinary shares (diluted) as of 31 December</b>	<b>128,041</b>	<b>127,346</b>
Diluted earnings per share (EUR)	<b>0.76</b>	<b>0.65</b>

### 13 Property, plant and equipment

#### Movement schedule 2006

EUR 1,000

#### Balance as of 31 December 2005

Cost (gross carrying amount)	34,187	30,768	48,919	113,874
Accumulated depreciation and impairment	(18,284)	(19,739)	(35,267)	(73,290)

#### Net carrying amount

<b>15,903</b>	<b>11,029</b>	<b>13,652</b>	<b>40,584</b>
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#### Cost

Balance as of 31 December 2005	34,187	30,768	48,919	113,874
Additions	1,049	4,574	8,063	13,686
Additions through business combinations	6,219	265	158	6,642
Disposals, reclassifications and other movements	(1,281)	(787)	(1,833)	(3,901)
Currency exchange effects	(183)	(177)	(525)	(885)

#### Balance as of 31 December 2006

<b>39,991</b>	<b>34,643</b>	<b>54,782</b>	<b>129,416</b>
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#### Depreciation and impairment losses

Balance as of 31 December 2005	(18,284)	(19,739)	(35,267)	(73,290)
Depreciation	(2,696)	(3,070)	(6,549)	(12,315)
Disposals, reclassifications and other movements	1,198	66	2,032	3,296
Currency exchange effects	13	113	238	364

#### Balance as of 31 December 2006

<b>(19,769)</b>	<b>(22,630)</b>	<b>(39,546)</b>	<b>(81,945)</b>
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#### Balance as of 31 December 2006

Cost (gross carrying amount)	39,991	34,643	54,782	129,416
Accumulated depreciation and impairment	(19,769)	(22,630)	(39,546)	(81,945)

#### Net carrying amount

<b>20,222</b>	<b>12,013</b>	<b>15,236</b>	<b>47,471</b>
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## Notes to the consolidated financial statements

### Movement schedule 2005

EUR 1,000

	Land and buildings	Plant and equipment	Other	Total
<b>Balance as of 31 December 2004</b>				
Cost (gross carrying amount)	32,375	25,987	51,343	109,705
Accumulated depreciation and impairment	(14,680)	(16,190)	(37,409)	(68,279)
<b>Net carrying amount</b>	<b>17,695</b>	<b>9,797</b>	<b>13,934</b>	<b>41,426</b>
<b>Cost</b>				
Balance as of 31 December 2004	32,375	25,987	51,343	109,705
Additions	2,699	5,583	6,032	14,314
Additions through business combinations	-	19	19	38
Disposals, reclassifications and other movements	(1,090)	(1,248)	(8,827)	(11,165)
Currency exchange effects	203	332	233	768
<b>Balance as of 31 December 2005</b>	<b>34,187</b>	<b>30,673</b>	<b>48,800</b>	<b>113,660</b>
<b>Depreciation and impairment losses</b>				
Balance as of 31 December 2004	(14,680)	(16,190)	(37,409)	(68,279)
Depreciation	(4,695)	(2,466)	(6,461)	(13,622)
Disposals, reclassifications and other movements	1,088	(944)	8,641	8,785
Currency exchange effects	3	(44)	81	40
<b>Balance as of 31 December 2005</b>	<b>(18,284)</b>	<b>(19,644)</b>	<b>(35,148)</b>	<b>(73,076)</b>
<b>Balance as of 31 December 2005</b>				
Cost (gross carrying amount)	34,187	30,673	48,800	113,660
Accumulated depreciation and impairment	(18,284)	(19,644)	(35,148)	(73,076)
<b>Net carrying amount</b>	<b>15,903</b>	<b>11,029</b>	<b>13,652</b>	<b>40,584</b>



## 14 Goodwill and other intangible assets

### Movement schedule 2006

EUR 1,000

	Goodwill	Format rights	Other rights	Total
<b>Balance as of 31 December 2005</b>				
Cost (gross carrying amount)	151,526	10,701	12,396	174,623
Accumulated amortisation	(1,317)	(4,838)	(10,681)	(16,836)
<b>Net carrying amount</b>	<b>150,209</b>	<b>5,863</b>	<b>1,715</b>	<b>157,787</b>
<b>Cost</b>				
Balance as of 31 December 2005	151,526	10,701	12,396	174,623
Additions	-	164	86	250
Additions through business combinations and other acquisitions	24,550	23	8,246	32,819
Revised contingent purchase price consideration	(2,000)	-	-	(2,000)
Disposals, reclassifications and other movements	1,690	(23)	(269)	1,398
Currency exchange effects	-	(16)	(10)	(26)
<b>Balance as of 31 December 2006</b>	<b>175,766</b>	<b>10,849</b>	<b>20,449</b>	<b>207,064</b>
<b>Depreciation and impairment losses</b>				
Balance as of 31 December 2005	(1,317)	(4,838)	(10,681)	(16,836)
Amortisation/ depreciation	-	(1,563)	(711)	(2,274)
Impairment	(2,007)	-	-	(2,007)
Disposals, reclassifications and other movements	-	-	(756)	(756)
Currency exchange effects	245	8	2	255
<b>Balance as of 31 December 2006</b>	<b>(3,079)</b>	<b>(6,393)</b>	<b>(12,146)</b>	<b>(21,618)</b>
<b>Balance as of 31 December 2006</b>				
Cost (gross carrying amount)	175,766	10,849	20,449	207,064
Accumulated amortisation and impairment	(3,079)	(6,393)	(12,146)	(21,618)
<b>Net carrying amount</b>	<b>172,687</b>	<b>4,456</b>	<b>8,303</b>	<b>185,446</b>

### Goodwill

Revised contingent purchase price considerations relate to both earn-out obligations and put option liabilities. Disposals, reclassifications and other movements includes EUR 7.3 million relating to the reclassification of the goodwill of NL TV upon acquisition (from investments in associates) and EUR (5.6) million is relating to step acquisitions.

## Notes to the consolidated financial statements

### Movement schedule 2005

EUR 1,000

	Goodwill	Format rights	Other rights	Total
<b>Balance as of 31 December 2004</b>				
Cost (gross carrying amount)	146,577	7,426	12,129	166,132
Accumulated amortisation	(495)	(2,315)	(10,101)	(12,911)
<b>Net carrying amount</b>	<b>146,082</b>	<b>5,111</b>	<b>2,028</b>	<b>153,221</b>
<b>Cost</b>				
Balance as of 31 December 2004	146,577	7,426	12,129	166,132
Additions	-	-	220	220
Additions through business combinations and other acquisitions	6,593	3,282	208	10,083
Revised contingent purchase price consideration	(3,268)	-	-	(3,268)
Disposals, reclassifications and other movements	-	-	(173)	(173)
Currency exchange effects	1,624	(7)	12	1,629
<b>Balance as of 31 December 2005</b>	<b>151,526</b>	<b>10,701</b>	<b>12,396</b>	<b>174,623</b>
<b>Depreciation and impairment losses</b>				
Balance as of 31 December 2004	(495)	(2,315)	(10,101)	(12,911)
Amortisation/ depreciation	-	(2,533)	(389)	(2,922)
Impairment	(822)	-	-	(822)
Additions through business combinations	-	-	(191)	(191)
Disposals, reclassifications and other movements	-	10	-	10
<b>Balance as of 31 December 2005</b>	<b>(1,317)</b>	<b>(4,838)</b>	<b>(10,681)</b>	<b>(16,836)</b>
<b>Balance as of 31 December 2005</b>				
Cost (gross carrying amount)	151,526	10,701	12,396	174,623
Accumulated amortisation and impairment	(1,317)	(4,838)	(10,681)	(16,836)
<b>Net carrying amount</b>	<b>150,209</b>	<b>5,863</b>	<b>1,715</b>	<b>157,787</b>

### Goodwill

Under previous GAAP, goodwill acquired through business combinations and other acquisitions with an acquisition date before 1 August 2000 was deducted from equity. Goodwill acquired through business combinations and acquired businesses after 1 August 2000, has been capitalised and allocated to the following cash generating units.

EUR 1,000	31 December 2006	31 December 2005
United Kingdom	68,300	67,835
Spain	51,636	51,636
The Netherlands	26,271	14,313
Germany	12,045	739
USA	6,727	6,664
Argentina	5,604	6,768
Italy	1,578	2,007
Various other cash generating units	526	247
<b>Total</b>	<b>172,687</b>	<b>150,209</b>

Goodwill of these cash generating units has been tested for impairment at year-end 2006. The recoverable amounts of the cash generating units have been determined based on a value-in-use calculation. To determine the value-in-use, cash flow projections are based on financial budgets, approved by senior management, covering a five-year period. The discount rates, applied to the cash flow projections, vary between 10% and 14%. This rate has been calculated using the weighted average cost of capital methodology. The main parameters are the targeted debt to equity ratio, the risk-free interest rate based on government bonds and a risk premium of 45 basis points. The cash flows beyond the budget horizon are based on the last budget period and an assumed growth rate varying between 0% and 10%, which is considered to be the best available projection of the business cycle. To test the current asset base, a normalised cash flow is calculated by adjusting incidental cash flow impacts and cash flow impacts of strategic projects.

Goodwill impairment charges for the year 2006 amount to EUR 2.0 million, which relates to one of the Italian subsidiaries. This impairment loss was recognised following a deteriorated future outlook.

With regard to the value in use of the cash generating units, management believes that no reasonably possible change of the key assumptions (discount rates and growth rates) would cause the carrying value of any other cash generating units to materially exceed its recoverable amount.

In 2005 impairment charges amounted to EUR 0.8 million and related to the 'various other cash generating units'.

### Other intangible assets

No expenditures for development were capitalised in 2006 and 2005. The aggregate amount of the research and development expenditure recognised as an expense in 2006 amounts to EUR 13.3 million (2005: EUR 9.2 million). Research and development expenditure mainly consists of personnel expenses.

## Notes to the consolidated financial statements

### 15 Investments in associates and joint ventures

#### Investments in associates

As of year-end 2006 and 2005 Endemol held a number of investments in associates. Investments in associates are accounted for using the equity method. Following are the movements in investments in associates:

<i>EUR 1,000</i>	Share in net equity	Goodwill	Total investment
Balance as of 31 December 2004	<b>7,965</b>	<b>7,087</b>	<b>15,052</b>
Share in net profit	1,392	-	1,392
Dividends declared	(956)	-	(956)
Change in classification due to share increase	(291)	-	(291)
Additions and other movements	-	176	176
Balance as of 31 December 2005	<b>8,110</b>	<b>7,263</b>	<b>15,373</b>
Share in net profit	131	-	131
Dividends declared	(937)	-	(937)
Change in classification due to share increase	(539)	(7,263)	(7,802)
Foreign exchange	(7)	-	(7)
<b>Balance as of 31 December 2006</b>	<b>6,758</b>	<b>-</b>	<b>6,758</b>

A condensed balance sheet and a condensed income statement of Endemol's investments in associates in the aggregate as of and for the years ended December 31, 2006 and December 31, 2005 are presented below:

#### Condensed balance sheet data

<i>EUR 1,000</i>	31 December 2006	31 December 2005
Non-current assets	18,002	16,945
Current assets	22,465	27,888
Non-current liabilities	(20,569)	(6,283)
Current liabilities	(1,023)	(16,026)
<b>Net assets</b>	<b>18,875</b>	<b>22,524</b>

### Condensed income statement

EUR 1,000

	31 December 2006	31 December 2005
Turnover	115,916	115,225
Net operating expenses	(114,813)	(110,712)
Profit before tax	1,103	4,513
Income taxes	(205)	(973)
<b>Net profit for the period</b>	<b>898</b>	<b>3,540</b>

### Joint ventures

A condensed balance sheet and a condensed income statement of Endemol's joint ventures in the aggregate as of and for the years ended 31 December 2006 and 31 December 2005 are presented below:

### Condensed balance sheet data

EUR 1,000

	31 December 2006	31 December 2005
Non-current assets	1,910	728
Current assets	29,117	29,132
Non-current liabilities	(270)	-
Current liabilities	(14,466)	(13,308)
<b>Net assets</b>	<b>16,291</b>	<b>16,552</b>

### Condensed income statement

EUR 1,000

	31 December 2006	31 December 2005
Turnover	79,958	86,838
Net operating expenses	(65,970)	(66,055)
Profit before tax	13,988	20,783
Income taxes	(5,427)	(7,088)
<b>Net profit for the period</b>	<b>8,561</b>	<b>13,695</b>



## Notes to the consolidated financial statements

### 16 Other financial assets

EUR 1,000	Loans receivable	Trust accounts	Long term call options	Total
<b>Balance as of 31 December 2004</b>	<b>80,895</b>	<b>3,102</b>	<b>2,745</b>	<b>86,742</b>
Additions	498	408	-	906
Sale/ redemption	(80,000)	-	-	(80,000)
Transfer to current assets	-	-	-	-
Revaluation	-	-	3,765	3,765
<b>Balance as of 31 December 2005</b>	<b>1,393</b>	<b>3,510</b>	<b>6,510</b>	<b>11,413</b>
Additions	401	-	443	844
Sale/ redemption/ reclassification	(580)	(2,333)	-	(2,913)
Acquired in business combinations	139	-	-	139
Transfer to current assets	-	-	(3,121)	(3,121)
Revaluation	-	-	(247)	(247)
Currency exchange results	(6)	-	(139)	(145)
<b>Balance as of 31 December 2006</b>	<b>1,347</b>	<b>1,177</b>	<b>3,446</b>	<b>5,970</b>

#### Trust Accounts

The Company receives cash from customers for specific productions in production trust accounts, held by Endemol. Due to the nature of the restrictions on the use of these cash items, the trust accounts are qualified as long-term deposits and guarantees (non-current assets). The Company receives a market-based interest on these deposits.

#### Long-term call options

Call options are valued at fair value and recognised in the balance sheet when the option exercise price is lower than the underlying fair value. Reference is made to Note 26, Financial instruments.

### 17 Trade and other receivables

EUR 1,000	31 December 2006	31 December 2005
Trade receivables	193,169	119,813
Amounts due from customers	87,072	80,201
Amounts receivable from related companies		
- Related companies	28,065	17,300
- Associated companies	145	380
Other receivables and accrued expenses	30,731	22,621
<b>Total trade and other receivables</b>	<b>339,182</b>	<b>240,315</b>

#### Trade receivables

Trade receivables as of 31 December 2006 amounted to EUR 200.2 million (31 December 2005: EUR 129.5 million). Allowances for doubtful debts as of 31 December 2006 are deducted from trade receivables and amounted to EUR 7.0 million (31 December 2005: EUR 9.7 million), resulting in a net receivable of EUR 193.2 million.

### Amounts due from customers in relation to the productions in progress

The gross amounts due from customers as of year-end relate to capitalised expenses (work in progress) and turnover that has not yet been invoiced to customers

The following table summarises the production status with a reconciliation to the positions on a project-by-project basis as presented in the consolidated balance sheet:

EUR 1,000	31 December 2006	31 December 2005
Work in progress	57,091	21,670
Uninvoiced turnover	104,259	81,829
Deferred revenues	(91,948)	(51,184)
Accrued production costs	(115,302)	(75,338)
<b>Net amount</b>	<b>(45,900)</b>	<b>(23,023)</b>

Amounts due from customers	87,072	80,201
Amounts due to customers	(132,972)	(103,224)
<b>Net amount</b>	<b>(45,900)</b>	<b>(23,023)</b>

## 18 Cash and cash equivalents

EUR 1,000	31 December 2006	31 December 2005
Cash at bank and in hand	78,970	58,552
Short-term deposits	8,458	8,881
<b>Total cash and cash equivalents</b>	<b>87,428</b>	<b>67,433</b>

### Notional cash pool

Positive and negative bank balances of a legal entity with one bank are not offset, even though these balances are part of a notional cash pool, unless there is a legally enforceable right to offset the recognised amounts and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Notional cash pools form an integral part of the Company's cash management. Based on the above Endemol is required to report the cash balances and the bank overdrafts on a gross basis. For interest calculation purposes these amounts are netted. The effect amounts to EUR 28.4 million as of 31 December 2006 (EUR 21.8 million as of 31 December 2005).

All cash is at the free disposal of the Company.

### Short-term deposits

Short-term deposits in the amount of EUR 8.5 million were placed for periods less than one month.

## Notes to the consolidated financial statements

### 19 Shares and share capital

Authorised share capital comprises:

(in thousands of shares)

Ordinary shares of EUR 0.10 par value each

**Total**

2006	2005
125,000	125,000
<b>125,000</b>	<b>125,000</b>

#### Issued share capital

The issued share capital of EUR 12,500,000 consists of 125,000,000 ordinary shares with a nominal value of EUR 0.10.

#### Share premium

The previous year result is transferred to share premium in the amount of EUR 67.9 million. In addition, Telefónica contributed EUR 10.8 million related to share-based compensation (EN-SOP).

#### Translation reserve

The translation reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations.

#### Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedge instruments, related to hedged transactions that have not yet occurred.

#### Revaluation reserve

The revaluation reserve relates to the re-valued intangible assets arising from business combinations.

#### Other legal reserves

The other legal reserve is formed for the retained profits from investments in joint ventures and associates, which are not paid in the form of dividends and payment of which cannot be realised by the Company itself.

### 20 Loans and borrowings

EUR 1,000

#### Non-current liabilities

Other bank debt

#### Current liabilities

Loans payable to related companies

Other bank debt

**Total loans and borrowings**

31 December 2006	31 December 2005
2,211	2,228
2,211	2,228
57,171	52,259
40,625	63,321
97,796	115,580
<b>100,007</b>	<b>117,808</b>

### Credit facilities

On 19 November 2005 Endemol entered into an agreement in respect of a EUR 250.0 million multicurrency revolving credit facility. The EUR 250.0 million multicurrency revolving credit facility with a number of banks has a three-year term (with options to extend to a maximum of five years), which is available to fund our working capital, acquisition and other cash needs. Loans under the facility are guaranteed by several of our operating subsidiaries.

The multicurrency revolving credit facility requires us to maintain certain financial ratios and has customary terms restricting our ability to make fundamental changes to our business, sell and acquire assets (including formats) and incur debt above a maximum aggregate amount of EUR 300.0 million, including amounts drawn under the facility. We are being restricted in paying dividends and making other distributions if certain financial conditions are not satisfied. Covenants relate primarily to senior debt / EBITDA, interest-bearing debt / EBITDA, EBIT / interest paid and solvency.

In connection with the acquisition of Endemol France the multicurrency revolving credit facility was renegotiated in January 2007. Thereby the facility amount was increased from EUR 250.0 million to EUR 400.0 million. The maximum financial indebtedness was increased from EUR 300.0 million to EUR 600.0 million. The mark-up, duration, terms and covenants remained almost unchanged.

The interest rate on the amounts due to credit institutions is variable and based on Euribor plus a company specific mark-up. The multicurrency revolving credit facility includes interest charges at Euribor + 45bp.

In addition, we maintain a number of bilateral facilities in amongst others Italy, Argentina, Chile, Colombia and India with other interest rates than the multicurrency facility that is currently in place.

### Other non-current bank debt

Based on IAS 32.42, positive and negative bank balances of a legal entity with a bank are no longer offset, even though these balances are part of a notional cash pool, unless there is a legally enforceable right to offset the recognised amounts and the entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Notional cash pools form an integral part of the Company's cash management. Based on the above, Endemol is required to report the cash balances and the bank overdrafts on a gross basis. For interest calculation purposes these amounts are netted.

## 21 Employee benefit obligations

The provision for employee benefit obligations amount to:

EUR 1,000

Severance liabilities

**Total employee benefit obligations**

	31 December 2006	31 December 2005
	690	566
	<b>690</b>	<b>566</b>

## Notes to the consolidated financial statements

Except for the Dutch group companies, all of Endemol's employees are covered by several defined contribution plans. In the Netherlands Endemol participates in a defined benefit plan for nearly all employees in the Netherlands at Pensioenfond PNO Media ("PNO Media"). This plan is a multi-employer defined benefit pension plan, which is accounted for as a defined contribution plan because sufficient information for defined benefit accounting is not available. PNO Media is a multi-employer pension fund and for that reason PNO Media is not able to provide Endemol with sufficient information on the present fair value of the benefit obligations, the fair value of plan assets and the funded status of Endemol. At year-end 2006 there are no indications for additional contributions by Endemol to PNO Media due to deficits of the pension fund and no liability is recorded accordingly.

In Italy, employees are covered by a severance plan (post-employment benefit plan) provided for in accordance with local legislation. Severance pay is considered normal remuneration that has been deferred and approximates one month's pay for each year of service, valued each year on a basis linked to cost-of-living indices. The severance liability as of 31 December 2006 of EUR 0.7 million, represents the accumulated amount due to employees upon termination based on service to date.

## 22 Provisions

EUR 1,000

	Restructuring	Other	Total
<b>Balance as of 31 December 2004</b>	<b>5,339</b>	<b>16,610</b>	<b>21,949</b>
Additions	-	6,215	6,215
Utilisation	(3,723)	-	(3,723)
Reversal	(650)	(939)	(1,589)
<b>Balance as of 31 December 2005</b>	<b>966</b>	<b>21,886</b>	<b>22,852</b>
Additions	-	4,071	4,071
Utilisation	(966)	(146)	(1,112)
Reversal	-	(1,557)	(1,557)
<b>Balance as of 31 December 2006</b>	<b>-</b>	<b>24,254</b>	<b>24,254</b>

As of 31 December 2005 the provisions were classified as follows:

	Restructuring	Other	Total
- Current	966	21,886	<b>22,852</b>
- Non-current	-	-	-

As of 31 December 2006 the provisions were classified as follows:

	Restructuring	Other	Total
- Current	-	24,254	<b>24,254</b>
- Non-current	-	-	-



### Restructuring

The restructuring provision related primarily to the restructuring of the operating companies in the Netherlands that has been effected in 2005 and 2006.

### Other provisions

In the other provisions an amount of EUR 18.4 million for legal and tax disputes is recognised. In addition EUR 5.8 million has been recognised for an onerous contract.

## 23 Put option liabilities

In a number of business combinations Endemol granted the seller/minority shareholder a put option to sell in the future (part of) the remaining shares to Endemol. These put options are regarded as a financial liability in Endemol's consolidated financial statements, stated at the fair value of the consideration to be paid upon exercise of the options.

EUR 1,000	2006	2005
Beginning of the year	5,704	7,337
Additions through business combinations	8,731	1,154
Changes as a result of recalculations	79	(3,065)
Settlement	(5,208)	-
Dividend payments	-	(57)
Interest accretions	212	335
<b>End of the year</b>	<b>9,518</b>	<b>5,704</b>

The additions in 2006 relate to acquisitions done in 2006. The settlement relates to the increase of the share interest in a Dutch subsidiary from 85% to 100%. The put option liabilities are non-current liabilities.

## 24 Earn-out obligations

The 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). Earn-out obligations are recognised at the net present value of management's best estimate of the expected future cash flows. The net present value is calculated using the applicable historical interest rate including a mark-up reflecting the risks of the market in which the Company operates. Discount rates used vary between 4.0% and 4.3%. The main liabilities relate to the companies acquired in the Netherlands and Germany.

The movement in the long-term earn-out obligations is as follows:

EUR 1,000	2006	2005
<b>Beginning of the year</b>	-	-
Additions through business combinations	8,256	-
Changes as a result of recalculations	(1,268)	-
Interest accretions	101	-
<b>End of the year</b>	<b>7,089</b>	-

## Notes to the consolidated financial statements

The movement in the short-term earn-out obligations is as follows:

<i>EUR 1,000</i>	2006	2005
Beginning of the year	24,551	48,754
Additions through business combinations	2,194	-
Changes as a result of recalculations	(811)	(317)
Payments	(24,502)	(25,472)
Interest accretions	462	1,333
Currency exchange effects	(150)	253
<b>End of the year</b>	<b>1,744</b>	<b>24,551</b>

Reported on the balance sheet as of 31 December:

<i>EUR 1,000</i>	2006	2005
Long-term earn-out obligations	7,089	-
Short-term earn-out obligations	1,744	24,551

The changes as a result of the recalculation of the earn-out obligations in 2006 have been accounted for against goodwill. The long-term earn-out obligations outstanding as of 31 December 2006 are due in 2008 and 2009, the short-term earn-out obligations are all payable in 2007.

## 25 Trade and other payables

<i>EUR 1,000</i>	31 December 2006	31 December 2005
Trade payables	43,708	29,788
Amounts due to customers	132,972	103,224
Financial payables	-	399
Amounts payable to related companies:		
- Related companies	8,639	38
- Affiliated companies	291	358
Other liabilities	15,336	19,722
Accruals and accrued bonus allowances employees	64,786	55,142
<b>Total trade and other payables</b>	<b>265,732</b>	<b>208,671</b>

For amounts due to customers reference is made to Note 17 Trade and other receivables.

In the accrued bonus allowances an amount of EUR 13.0 million (2005: EUR 8.1 million) is recorded in relation to the Telefónica share option plans (EN-SOP). Reference is made to Note 8, Share-based compensation. Also included is an amount of EUR 2.7 million (2005: 8.8 million) corresponding to Telefónica welcome bonus.

## 26 Financial Instruments

Exposure to credit, interest-rate and currency risks arises in the course of the Company's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

### Foreign currency risk

Endemol assesses foreign currency risk by identifying and monitoring changes in exchange rate exposures that may adversely impact the income statement. Endemol maintains risk management control systems to monitor foreign currency risk attributable to both Endemol's outstanding foreign currency positions and commitments, as well as Endemol's offsetting hedge positions. The risk management control systems involve the centralisation of Endemol's foreign currency exposure management, the netting of offsetting exposures from different group companies and the use of analytical techniques, including sensitivity analyses, to estimate the expected impact of changes in foreign currency rates on Endemol's income statement.

Endemol group companies enter into transactions denominated in currencies other than the functional currency of the group company concerned. These transactions expose Endemol to foreign currency results due to changes in foreign currency rates. Endemol enters into foreign currency forward contracts to minimise exchange results due to the foreign currency risk on receivables, payables and expected future cash-flows denominated in currencies other than the functional currency.

Although foreign currency forward contracts are used to economically hedge the net exchange results due to changes in foreign currency rates, Endemol does not apply hedge accounting under IAS 39 for these contracts. Changes in the fair value of foreign currency forward contracts are reported in the income statement as fair value adjustments on derivative financial instruments and (partially) offset the exchange results recognised as foreign exchange results on the assets and liabilities denominated in foreign currencies.

### Credit risk

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

### Liquidity risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and the multi currency facility.

### Interest rate risk / interest rate swaps

In September 2002 Endemol entered into a multicurrency revolving credit facility for EUR 250.0 million with an interest rate based on three months Euribor plus a company specific mark up (+ 45bp). To mitigate the impact of adverse interest rate movements on Endemol's interest expenses, the Company entered into a series of interest rate swaps in 2002 for a nominal amount of EUR 120.0 million. These swaps, with durations of three and five years, were entered into to economically hedge adverse interest movements. As Endemol chooses not to apply hedge accounting, the fair value changes are recognised in the income statement.

## Notes to the consolidated financial statements

By the end of 2006, two of the original six interest rate swaps have matured. The remaining term of the four active swaps, amounting to EUR 80.0 million, is until the end of 2007. At year-end 2006 the fair value of the interest rate swaps amounts to EUR (0.1) million.

### Call and put options relating to acquisition contracts

Endemol has entered into various call and put options in connection with some of its acquisitions. The consideration to be paid for the interest to be acquired is based on the performance of the respective company. Under IAS 39 Endemol values these derivatives at fair value using a valuation model. The fair value of the call options as of 31 December 2006 was EUR 6.6 million (31 December 2005 EUR 6.5 million). The fair value of the put options as of 31 December 2006 was EUR 0.4 million (31 December 2005 EUR nil).

	Call options		Put options	
	2006	2005	2006	2005
<i>EUR 1,000</i>				
<b>Balance at 1 January</b>	<b>6,510</b>	<b>4,895</b>	-	-
Exercised	-	(2,281)	-	-
Acquired	74	-	-	-
Revaluation	122	3,896	(432)	-
Currency exchange effects	(139)	-	-	-
<b>Balance at 31 December</b>	<b>6,567</b>	<b>6,510</b>	<b>(432)</b>	-
<b>Balance as of 31 December</b>				
Long-term options	<b>3,446</b>	<b>6,510</b>	<b>(432)</b>	-
Short-term options	<b>3,121</b>	-	-	-

The call options have exercise terms that range from 2007 to 2011. The put options are exercisable in 2010 and 2011. Put options on acquisition of minority interests are not included in the above overview.

### Effective interest rates and re-pricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

	Effective interest rate	Total	6 months or less	6 -12 months	1-2 years	2-5 years	More than 5 years
<i>EUR 1,000</i>							
<b>As of 31 December 2006</b>							
Cash and cash equivalents		87,428	87,428	-	-	-	-
Financial payables to affiliated companies	3.75%	(57,170)	(57,170)	-	-	-	-
Other bank debt long-term	3.50%	(2,211)	-	-	(2,211)	-	-
Other bank debt short-term	6.31%	(40,625)	(40,625)	-	-	-	-
<b>Net interest bearing debt</b>		<b>(12,578)</b>	<b>(10,367)</b>	-	<b>(2,211)</b>	-	-

Financial instruments in the consolidated balance sheet, other than the derivative instruments, include cash, cash equivalents, shares held for option plans, accounts receivable, accounts payable and accrued liabilities and short-term and long-term debt.

The estimated fair values approximate their carrying amounts because of the short-term maturity of these financial instruments. Some of these instruments are already recorded at fair values and other financial instruments bear interest at variable rates that are re-priced frequently.

#### Estimation of fair values

In estimating the fair values of financial instruments, the following methods are applicable.

The forward exchange and interest rate swap contracts are valued against bank quotes. The call and put options relating to acquisitions are valued using a valuation model. For earn-out obligations and put option liabilities the fair value is calculated based on discounted expected future principal and interest cash flows using applicable interest rates. For trade receivables and trade payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables and payables are discounted to determine the fair value.

## 27 Commitments, litigation and other matters

No accrual has been recorded on Endemol's consolidated balance sheet for commitments and contingencies unless otherwise indicated.

#### Rent commitments

Endemol leases office facilities, vehicles, computers, and other equipment under long-term operating leases. Some leases contain renewal provisions, purchase options and escalation clauses. The annual costs of rentals and operating leases for 2006 were EUR 11.0 million (2005: EUR 8.2 million).

The aggregate amounts of rental commitments to third parties as of December 31, 2006 under non-cancellable operating lease contracts are as follows:

	31 December 2006		31 December 2005	
	Land and buildings	Other assets	Land and buildings	Other assets
<i>EUR 1,000</i>				
Expiring within one year	11,187	4,092	11,487	2,489
Expiring in years two to five	31,970	4,654	29,772	3,279
Expiring thereafter	7,561	47	11,593	-
<b>Total rent commitments</b>	<b>50,718</b>	<b>8,793</b>	<b>52,852</b>	<b>5,768</b>

#### Guarantees

On 31 December 2006, Endemol had outstanding guarantees to commercial banks and other guarantees for a total of EUR 25.1 million (2005: EUR 8.2 million).



## Notes to the consolidated financial statements

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

### Litigation and other matters

Endemol group companies are involved in various legal proceedings and other claims considered typical for its businesses. In the judgement of management, no losses in excess of provisions made or covered by insurance programmes, which would be material in relation to Endemol's financial position, are likely to arise in respect of these matters, although their occurrence may have a significant effect on periodic results.

### Call and put options

Endemol has entered into various call and put options in connection with some of its acquisitions. The consideration to be paid for the interest to be acquired is based on the performance of the respective company. The estimated cash payment related to call options as of 31 December 2006 was EUR 12.7 million (2005: EUR 17.9 million). The estimated cash payment related to put options as per 31 December 2006 was EUR 6.0 million (2005: EUR 3.2 million). The valuation of the options is discussed in Note 25. Put options to purchase minority's shares are not included as they are presented in a separate line on the consolidated balance sheet.

## 28 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and its subsidiaries on one hand and related parties on the other are disclosed below.

During 2006 and 2005, the Company and its subsidiaries entered into the following transactions with unconsolidated related parties.

### For the year ended 31 December, 2006

EUR 1,000

	Sale of goods or services	Receivables from rela- ted parties	Payables to related parties
Endemol Investment Holding B.V.	-	1,708	-
Endemol Investment B.V.	-	744	31,588
Endemol France Holding S.A.S.	-	11	2,608
Endemol France S.A.S.	6,056	11,611	31,614
Telefónica S.A.	-	13,990	-

## For the year ended 31 December, 2005

EUR 1,000

	Sale of goods or services	Receivables from rela- ted parties	Payables to related parties
Endemol Investment B.V.	-	196	29,291
Endemol France S.A.S.	9,374	9,014	23,326
Telefónica S.A.	-	8,089	38

The nature of the relationship with the above mentioned related parties is as follows:

- Endemol Investment Holding is the parent company of Endemol Investment
- Endemol Investment is the parent company of Endemol N.V.
- Endemol France Holding is the parent company of Endemol France
- Endemol France is a 100% owned entity of Endemol Investment
- Telefónica has via intermediaries a controlling interest in Endemol N.V. of approximately 75%.
  - Telefónica has committed itself to reimburse Endemol for the costs of the share options granted (EN-SOP). In the financial statements as of 31 December 2006, a receivable from Telefónica and a capital contribution equal to that amount have therefore been included in the balance sheet.
  - During part of 2006 a secondment agreement with Telefónica was in place regarding the services rendered to the Company by Mr. Agut, the former Chief Executive Officer.

## 29 List of subsidiaries, joint ventures and associates

The following are Endemol's significant subsidiaries, joint ventures and associates as of December 31, 2006. Ownership percentage is 100% unless stated otherwise.

### Consolidated subsidiaries

#### **The Netherlands**

Endemol Holding B.V., Hilversum  
 Endemol International B.V., Hilversum  
 Endemol Finance B.V., Hilversum  
 Endemol Nederland Holding B.V., Hilversum  
 Endemol Nederland B.V., Aalsmeer  
 SNP Holding B.V., Laren  
 625 TV Produkties B.V., Almere  
 Endemol International Distribution B.V., Hilversum

#### **Germany**

Endemol Deutschland GmbH, Cologne  
 META Productions Gesellschaft für Film- und Fernsehproduktion GmbH, Cologne (65%)  
 Callactive GmbH, Munich (51%)

#### **Spain**

Endemol Espana Holding S.L., Barcelona  
 Gestmusic Endemol S.A., Barcelona  
 Diagonal Television, S.A., Barcelona (65%)  
 Zeppelin Television S.A., Madrid  
 Zeppelin Media S.A., Madrid  
 Linze Television, S.A., Madrid (80%)  
 Portalmix S.A., Barcelona

## Notes to the consolidated financial statements

### **Italy**

Endemol Italia Holding S.p.a., Rome  
Endemol Italia S.p.a., Rome  
Palomar S.p.a., Rome (68.5%)  
Yam S.r.L, Milan (51%)

### **United Kingdom**

Endemol UK Holding Ltd, London  
Endemol UK Plc, London  
Brighter Pictures Ltd, Brighton  
Zeppotron Ltd, London  
Hawkshead Ltd, London  
Victoria Real Ltd, London  
Showrunner Ltd, London (75%)

### **United States**

Endemol USA Holding, Inc, Los Angeles  
Endemol USA, Inc, Los Angeles  
Lock and Key Productions, Inc, Los Angeles  
Coconunu Productions, Inc, Los Angeles  
Our House Productions, Inc, Los Angeles  
True Entertainment, LLC, New York (67%)  
Distance Productions, Inc, Los Angeles  
JoeCartoon.com, LLC, Los Angeles (51%)

### **Other**

Endemol Belgie N.V., Mechelen, Belgium  
Endemol Portugal Lda., Lisbon, Portugal  
Endemol Polska Sp. Z.o.o., Warsaw, Poland  
OOO Endemol Moscow, Moscow, Russia  
Endemol South Africa Holding (Pty) Ltd, Johannesburg, South Africa (66.66%)  
Endemol Argentina S.A., Buenos Aires, Argentina (80%)  
Estudio Mayor, S.A., Buenos Aires, Argentina  
Endemol Chile S.A., Santiago, Chile (80%)  
Endemol Andino S.A., Bogota, Colombia (85%)  
Endemol Southern Star Pty Ltd, Sydney, Australia (51%)  
Endemol Southern Star (New Zealand) Ltd, Auckland, New Zealand (51%)  
Endemol Thailand Ltd, Bangkok, Thailand (99.9%)  
Endemol India Private Ltd, Bombay, India  
Endemol Hellas S.A., Athens, Greece

### **Joint ventures and associates**

Te Verkoppen Bewegend Video B.V., Almere, The Netherlands (70%)  
Nijenhuis & De Levita Holding B.V., Amsterdam, The Netherlands (51%)  
Mediavivere S.r.L., Milan, Italy (50%)  
B&B Endemol A.G., Zurich, Switzerland (50%)  
Endemol Mexico S.A. de CV, Mexico City, Mexico (50%)  
Endemol Globo S.A., Sao Paulo, Brazil (50%)  
Metronome Film & Television AB, Stockholm, Sweden (35%)

A full list of names, the locations and Endemol's interest in subsidiaries, joint ventures and associates is filed separately at the Chamber of Commerce Gooi- en Eemland in Hilversum.

## Separate financial statements Endemol N.V.

### Balance sheet Endemol N.V.

as of 31 December 2006 and 31 December 2005

EUR 1,000	31 December 2006	31 December 2005
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	237,181	139,521
	<b>237,181</b>	<b>139,521</b>
<b>Current assets</b>		
Receivables from tax authorities	1,057	-
	<b>1,057</b>	<b>-</b>
<b>Total assets</b>	<b>238,238</b>	<b>139,521</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Issued share capital	12,500	12,500
Share premium	104,592	93,832
Translation reserve	147	2,743
Hedge reserve	-	(474)
Revaluation reserve	1,033	1,395
Other legal reserves	13,413	13,743
Retained earnings	8,618	1,108
Profit for the year	96,820	14,674
	<b>237,123</b>	<b>139,521</b>
<b>Non-current liabilities</b>		
	-	-
	<b>-</b>	<b>-</b>
<b>Current liabilities</b>		
Short-term loans and borrowings	769	-
Trade and other payables	346	-
	<b>1,115</b>	<b>-</b>
<b>Total equity and liabilities</b>	<b>238,238</b>	<b>139,521</b>

## Income Statement Endemol N.V. for the financial year ended 31 December 2006 and 31 December 2005

EUR 1,000

	2006	2005
Share in the results of subsidiaries (after taxation)	96,898	14,674
Other income and expenses	(110)	-
Taxation	32	-
<b>Net profit for the year</b>	<b>96,820</b>	<b>14,674</b>

As Endemol N.V. was incorporated on 28 October 2005, the shortened financial year 2005 is from 28 October 2005 until 31 December 2005.

## Notes to the separate financial statements of Endemol N.V.

### General

The financial data of Endemol N.V. (the parent company) are included in the consolidated financial statements. Therefore, in accordance with section 402, Book 2 of the Dutch Civil Code, the separate financial statements of the parent company are presented in a condensed form.

The financial statements of the parent company Endemol N.V. have been prepared in accordance with Part 9, Book 2, of the Netherlands Civil Code. The Company uses the option of Article 362.8 of Part 9, Book 2, of the Netherlands Civil Code to prepare these financial statements, using the same accounting policies as in the consolidated financial statements. Valuation is based on recognition and measurement requirements of accounting standards endorsed by the EU as explained further in the notes to the consolidated financial statements.

The Company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Netherlands Civil Code.

All amounts reported are in thousands of Euro.

### Significant accounting policies

#### Change in accounting policy

In July 2006 the International Financial Reporting Interpretation Committee ('IFRIC') clarified by an agenda decision the application of a specific paragraph in International Accounting Standard 32 "Financial Instruments: Presentation" ("IAS 32", revised 2005). According to this clarification a parent company should recognise a liability when it has an obligation to pay cash in the future to purchase minority's shares, even if the payment is conditional on the option being exercised by the holder. Following IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the clarification of the revised IAS 32 is treated as a change in accounting policy affecting Endemol's financial statements of 2006 with corresponding adjustments to the prior periods presented.

The impact of this revised accounting policy on the parent financial statements of Endemol N.V. for 2005 and 2006 is as follows:



EUR 1,000

	2006	2005
Subsidiaries (decrease)	(1,552)	(1,178)
Shareholders' equity increase / (decrease)	(1,552)	(1,178)
Net profit increase / (decrease)	(374)	-

### Investments in subsidiaries

The investments in subsidiaries are stated at net equity value (equity method).

### Investments in subsidiaries

The movement in investment in subsidiaries can be specified as follows

EUR 1,000

<b>Net equity value as of 28 October 2005</b>	<b>125,483</b>
Result of subsidiaries	14,674
Movement in capital contribution EN-SOP	(1,041)
Release hedge reserve	79
Exchange rate differences	326
<b>Net equity value as of 31 December 2005</b>	<b>139,521</b>
Result of subsidiaries	96,898
Movement in capital contribution EN-SOP	10,760
Long-term incentive plan equity settled	2,144
Release hedge reserve	474
Dividends paid by subsidiaries	(10,020)
Exchange rate differences	(2,596)
<b>Net equity value as of 31 December 2006</b>	<b>237,181</b>

## Notes to the separate financial statements of Endemol N.V.

### Capital and reserves

For the financial years ended 31 December 2006 and 31 December 2005.

EUR 1,000	Equity attributable to equity holders of Endemol N.V.				
	Issued share capital	Share premium	Translation reserve	Legal reserves	
				Hedge reserve	Revaluation reserve
					Other legal reserve
<b>Balance as of 1 January 2006</b>	<b>12,500</b>	<b>93,832</b>	<b>2,743</b>	<b>(474)</b>	<b>1,395</b>
Foreign currency translation	-	-	(2,596)	-	-
Amortisation hedge reserve	-	-	-	474	-
Other movements	-	-	-	-	(330)
Net Profit	-	-	-	-	-
<b>Income and expense recognised in equity during the year</b>	<b>-</b>	<b>-</b>	<b>(2,596)</b>	<b>474</b>	<b>-</b>
Distribution of profit previous year	-	-	-	-	-
Reclassification of amortisation on re-valued assets	-	-	-	-	(362)
Dividend paid	-	-	-	-	-
Capital contribution Telefónica for share option plans	-	10,760	-	-	-
<b>Transactions with equity holders during the year and reclassifications</b>	<b>-</b>	<b>10,760</b>	<b>-</b>	<b>-</b>	<b>(362)</b>
<b>Balance as of 31 December 2006</b>	<b>12,500</b>	<b>104,592</b>	<b>147</b>	<b>-</b>	<b>1,033</b>

Retained earnings	Profit for the year	Total
<b>1,108</b>	<b>14,674</b>	<b>139,521</b>
-	-	(2,596)
-	-	474
2,474	-	2,144
-	96,820	96,820
<b>2,474</b>	<b>96,820</b>	<b>96,842</b>
14,674	(14,674)	-
362	-	-
(10,000)	-	(10,000)
-	-	10,760
<b>5,036</b>	<b>(14,674)</b>	<b>760</b>
<b>8,618</b>	<b>96,820</b>	<b>237,123</b>

## Notes to the separate financial statements of Endemol N.V.

EUR 1,000	Equity attributable to equity holders of Endemol N.V.					
	Issued share capital	Share premium	Translation reserve	Legal reserves		Other legal reserve
				Hedge reserve	Revaluation reserve	
<b>Opening balance as of 1 January 2005</b>	-	-	-	-	-	-
Foreign currency translation	-	-	326	-	-	-
Amortisation hedge reserve	-	-	-	79	-	-
Other movements	-	-	-	-	-	(1,035)
Net profit	-	-	-	-	-	-
<b>Income and expense recognised in equity during the year</b>	-	-	326	79	-	(1,035)
Incorporation Endemol N.V. as of 28 October 2005	12,500	94,873	2,417	(553)	1,468	14,778
Reclassification of amortisation on re-valued assets	-	-	-	-	(73)	-
Capital contribution Telefónica for share option plans	-	(1,041)	-	-	-	-
<b>Transactions with equity holders during the year and reclassifications</b>	12,500	93,832	2,417	(553)	1,395	14,778
<b>Balance as of 31 December 2005</b>	12,500	93,832	2,743	(474)	1,395	13,743

### Number of issued shares

	Number of shares
<b>Number of issued shares as of 1 January 2005</b>	-
Issue of share capital as of 28 October 2005	125,000,000
<b>Number of issued shares as of 31 December 2005</b>	125,000,000
Issue of share capital in 2006	-
<b>Number of issued shares as of 31 December 2006</b>	125,000,000

Retained earnings	Profit for the year	Total
-	-	-
-	-	326
-	-	79
1,035	-	-
-	14,674	14,674
<b>1,035</b>	<b>14,674</b>	<b>15,079</b>
-	-	125,483
73	-	-
-	-	(1,041)
<b>73</b>	<b>-</b>	<b>124,442</b>
<b>1,108</b>	<b>14,674</b>	<b>139,521</b>

#### Issued share capital

Endemol N.V. was incorporated on 28 October 2005 with an issued share capital of EUR 12,500,000, consisting of 125,000,000 ordinary shares with a nominal value of EUR 0.10.

#### Share premium

The share premium is formed due to the contribution of the shares in Endemol Holding B.V. in 2005 by the former shareholder Endemol Investment B.V. The result for the period January 2005 until October 2005 is included in the amount of share premium. This result is included in the consolidated statements in the profit for the year as the consolidated statements have been prepared based on the pooling of interest method.

#### Translation reserve

The translation reserve comprises of all foreign exchange differences arising from the translation of the financial statements of foreign operations.



## Notes to the separate financial statements of Endemol N.V.

### Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedge instruments, related to hedged transactions that have not yet occurred.

### Revaluation reserve

The revaluation reserve relates to the re-valued intangible assets arising from business combinations.

### Other legal reserves

The other legal reserve is formed for the retained profits from investments in joint ventures and associates, which are not paid in the form of dividends and payment of which cannot be realised by the Company itself.

### Commitments and guarantees

Endemol N.V. has issued liability statements within the framework of Article 403, Book 2 of the Netherlands Civil Code regarding all wholly-owned domestic subsidiaries.

Hilversum, 11 April 2007

### Management Board

E. Rodríguez-Viña, chairman  
P. Bazalgette  
J.P. Kerstens

### Supervisory Board

L. Badía Almirall  
S. Fernández Valbuena  
G. Smit

## Other information

### Profit appropriation as laid down in the articles of association

#### Summary of article 24

With the approval of the Supervisory Board, the Management Board shall have the power to determine to what extent the profits – the positive balance of the profit and loss account – shall be retained by way of a reserve, with due observance of the statutory provisions with respect to the statutory reserves. The distributable profits that remain after the first sentence have been applied, shall be at the disposal of the General Meeting for distribution of dividend or in order to be further added to the reserves or for such other purposes within the Company's objectives as the meeting shall determine.

#### Profit appropriation proposal

At the Annual General Meeting of Shareholders, Endemol proposes to declare a dividend of EUR 56.25 million (equal to 58.1% pay-out of the net profit attributable to the shareholders of Endemol N.V.).

#### Subsequent events

Subsequent events are disclosed in Note 4.

# Auditor's report

**To: Supervisory Board and shareholders of Endemol N.V.**

## Report on the financial statements

We have audited the financial statements of Endemol N.V., Hilversum, for the year 2006 as set out on pages 41 to 108. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company income statement for the year then ended and the notes.

## Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the management board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Endemol N.V. as at 31 December 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

## Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Endemol N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Report of the Management Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 11 April 2007

for Ernst & Young Accountants

signed by M. van Dam

## Explanation of terms

Aggregator	A content distributor, such as a broadcaster or a webportal.
Back end exploitation of formats	The exploitation of television programmes is divided into primary and secondary rights. The primary rights are initial transmission at a channel. All other, secondary rights (e.g. further ready-made sales, format licensing, merchandising, etc.) are often referred as back-end exploitation.
Bartering	Advertiser-related business in which an agency's client funds or partly funds the production of a programme, in return for broadcast airtime. Typically, the amount of advertising time given by the broadcaster would be equal in value to the amount the client put into production.
Call TV	A television programme wherein viewers are invited to participate from home with the aim of winning prizes by using premium rate phone calls or SMS. The income results from the amount charged to callers for the phone calls, which is shared with the telephone companies.
Format	The characteristics that together comprise the distinctive elements of the programme, including any or all of the editorial specifications, programme, proposal structure, set and/or setting, designs and situations, characters, themes, narrative development rules, questions, contestants, prizes, script, transmission title, title sequences, game show mechanics and any other distinctive factors.
IPTV	The distribution of television programmes via the Internet.
Interactive applications	Items added to television programmes through which the viewer can participate in said programme via calling, SMS, the Internet or digital television.
Line producer	A television production company or personnel employed in a subcontracted manner to manage all direct aspects of recording or relating to the live transmission of a television show.
Non-scripted programming	Shows which are not based on a script, generally divided between those programmes which are primarily designed to entertain (Entertainment) and those which are intended to provide information in a way that is considered entertaining (Infotainment).
(Non) spot advertising	Spot advertising is commercials between programmes, whereas non-spot advertising is all other forms of advertising, such as programme advertising, billboards, Internet advertising, etc.
Off-take	Purchase of television programmes.
Packager	A packager offers the broadcaster not just specific programmes, but a combination of them (a pack) to directly fill a time slot in the broadcaster's programming.
Participation TV	Television programmes in which participation of the audience is sought, e.g. by way of phone calls, or the Internet, such as Call TV, Homeshopping or Auction TV
Pay TV	As opposed to free television, television channels/content where the viewer has to pay (subscription fees and/or pay-per-content fees) in order to have access to them.
Product placement	The deliberate display of a commercial client's goods or services in programming in return for payments or benefits in kind.
Ready made	Recordings of programmes that are sold for repeated broadcasting.
Scripted programming	Programming such as drama, comedy, soap operas and telenovelas where pre-determined outcomes are recorded
Syndication	A sale to markets other than the original broadcaster.
Sponsoring of TV programmes	Payment by companies to be associated with programmes through the exhibition of their company or brand name at the junctures of commercial breaks.
Telenovelas	Scripted serials with a regular core cast with a defined ending
Terrestrial channels	Television channels where the signal can be received via an antenna.
Television advertisement spend	The gross turnover derived from on-screen commercial advertising.



## Colophon

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