

DEAG Deutsche Entertainment AG

Annual Report 2005

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Management Report and Group Management Report

1. Development of the Live Entertainment Market and the DEAG

DEAG looks back on a successful year of consolidation in 2005, when in the wake of consequent restructuring in 2003 and 2004 the prospects for continued growth in coming years were further improved. In addition to further expanding the segments of classics and rock/pop as well as the entry into the music publishing business and ticketing, important measures were taken in the area of finances as well.

The live entertainment market has continued strong in past financial year. The total market volume of EUR 2.7 bn in 2003 (growth of 0.4%) exceeded the sales of recorded music (EUR 1.6 bn in 2004, EUR 1.5 bn in 2005) and is likely to have climbed even further in the two subsequent years. Sales have been stimulated by increased volumes of internet sales, increasing tickets prices, increasing number of modern venues, sponsoring and as far as Germany is concerned the increasing popularity of German artists.

There was an ongoing trend towards artists demanding high fees in particular in the sector of rock and pop. Tours continue to gain in importance for artists with ticket sales surpassing sales of recorded music. This will strengthen the position of promoters and allow for further differentiation from the recording industry.

With an excellent position in Germany, Great Britain und in Switzerland DEAG will able to continue to profit from this current trend.

DEAG has used the year 2005 among other things to initiate a re-positioning of its business portfolio. The rock and pop business of Entertainment One in Switzerland which had been run by promoter Marcel Avram will be discontinued and the segment Theatres, which is no longer considered to be part of core business, will be re-positioned outside of the Group. Initial talks have been conducted with investors, among other concerning contribution into a joint company - so far however without any tangible results. Both of these segments are separately accounted for in the group consolidated statements as discontinued operations. For this reason, only the results of continued activities are actually shown.

The Group has closed the past financial year with revenues of EUR 62.7 million from continuing operations (EUR 73.2 million from continuing and discontinued operations) at a positive EBIT of EUR 2.1 million. At the same time it has taken strategic measures laying the foundations for profitable growth in the future. These were:

- Participation in three well-known German promoters in the area of rock/pop live concerts taken out in December 2005: KBK Konzert- und Künstleragentur GmbH, München, MPE Music Pool Europe GmbH, Hamburg and ct creative talent gmbh, Berlin. DEAG has thus considerably strengthened its position in the rock and pop area. In 2006 such artists as Deep Purple, Eagles, Nigel Kennedy, US 5, Bloodhound Gang, Christina Stürmer and Chris de Burgh will contribute to segment revenues. Moreover, DEAG Concerts will keep developing new artists.
- Agreement with Ticketmaster USA, the worldwide market leader in ticketing, on participation of DEAG in the newly established company Ticketmaster Deutschland GmbH, taking out a minority interest in that company in 2006. Ticketmaster Deutschland starts its market activities in Germany by taking over one of the leading German ticket agencies, the Kartenhaus GmbH. Thereby DEAG in Germany has staked its claims in one of the important value added areas of the concert business. DEAG profits from Ticketmaster's leading edge technology, favourable terms and conditions and future revenues of the joint venture. The Company considers it safe to assume that Ticketmaster's market share in Germany will quickly grow in 2006.
- The signing of an exclusive agreement on the promotion of tours with international stars of classic music such as Anna Netrebko, Rolando Villazón, Lang Lang, Hilary Hahn and Maxim Vengerov with the leading world-wide classical artists agency IMG Artists by DEAG Classics, the classic event division of DEAG which started operating in 2004.

- Foundation of DEAG Music, the music publishing company within DEAG, under the leadership of the renowned music manager André Selleneit and the signing of a cooperation agreement with Warner Music Group on publishing and distribution.
- Establishment of DEAG Classics as leading promoter of major classical music events in Germany and preparations for expansion in Europe in 2006.
- Re-structuring of Global Concerts and re-positioning as local promoter in the Munich and Bavaria regions and as presenter of major classical music events.
- Extension of the financing portfolio: New credit lines were negotiated in the areas of event financing as well as operating credits. The Octave Entertainment Fund Ltd. e.g. promised an event financing credit line of up to USD 30 million and the Commerzbank and Berliner Volksbank have granted working credit lines to companies of the DEAG Group in Germany.
- Strengthening of equity by means of two capital increases and two capital increases for cash
- Backing for the buy-back of the 39%-share in the Swiss affiliate company Good News by means of a loans option of Octave Fund Entertainment Ltd.

Expansion in business areas such as rock/pop and classical music, entry into new business areas such as the music publishing business as well as staking out claims in important added value areas such as ticketing will drive – as seen from the Company view point – further growth in revenues in the coming years the financial backing being provided by the measures instituted. These and other factors provide the Company with an optimistic outlook on business in 2006 and the years to follow.

2. Business Development of the DEAG Group

2.1. The Group's Income and Assets Position

Income Position

The financial year 2005 closed with a consolidated net loss of EUR 3.8 million. A consolidated net profit of EUR 0.1 million resulted from continued operations. The net loss from discontinued operations amounts to EUR 3.9 million. This has been mainly due to write-off in respect of goodwill for the business area managed by Marcel Avram amounting to EUR 3.0 million.

The continued operations resulted in an EBIT of EUR 2.1 million (EUR 6.3 million in the previous year, essentially affected by special effects). These were set against the costs of raising capital of EUR 2.6 million, with other financial result of EUR 0.6 million. The costs of raising capital also arise from financing of the re-structuring measures taken in 2002-2003, in particular from convertible bond issue and securities repurchasing agreements as well as from loans taken up. Tax income on continued operations amounted to EUR 0.2 million and third party share amounted to EUR 0.3 million.

The decline in sales from EUR 87.8 million to EUR 62.7 million from continued operations is mainly attributable to the area of rock and pop. Major tours with international stars as in previous years, could not be repeated in the past year. DEAG has taken appropriate counter measures by taking out participations in three German event agencies, thereby decisively strengthening its market position in the rock/pop segment as of 2006.

The gross margin of 21% remained at the same level as for the previous year.

Amounting to EUR 14.6 million, administration and distribution costs fell below the previous year's level of EUR 18.2 million. This is mainly attributable to lower distributions costs as a consequence of lower sales levels.

Other operating revenues amount to EUR 4.3 million (EUR 8.6 million in the previous year). Major items are revenues from lease and rent, waivers of claims, agency commissions, revenues from warranty claims, as well as revenues from write-up of current assets as well as the released accruals. Other operating expenditures amounting to EUR 0.6 million (EUR 1.8 million in the previous year) consisted mainly of individual adjustments of value and write-offs on receivables.

Total depreciations of EUR 0.3 million were below the level of the previous year (EUR 0.6 million).

In the income tax position we are stating a positive result of EUR 0.2 million.

Assets Position

Among other reasons liquid funds rose due to increased revenues from advanced booking and to the increase in liquid capital by EUR 4.6 million to EUR 25.9 million. Goodwill increased due to three acquisitions to EUR 34.6 million. EUR 1.7 million was added to deferred taxes. Total assets increased by EUR 14.0 million to EUR 104.9 million in the financial year 2005. Of this EUR 3.5 million was attributable to operations which are being discontinued.

Group equity rose by EUR 7.0 million to EUR 39.8 million. This improved the equity ratio from 36 % to 38 %. Sales accruals and deferrals (advance booking funds and guarantees received) rose by EUR 5.4 million to EUR 12.8 million. Other current liabilities rose due to, among other reasons, reposting of the securities repurchasing agreement with Swiss publisher Ringier due on 30 June 2006 by EUR 13.2 million to EUR 26.2 million. Accordingly, other long-term liabilities went down by EUR 13.1 million to EUR 0.2 million. Bank loans payable remained constant (EUR 4.0 million). Other accruals went down by EUR 1.7 million to EUR 5.9 million. The liabilities arising from the convertible bond issue coming due in November 2006 were increased pro rata from EUR 5.3 million in 2004 to EUR 6.0 million.

In 2006 the convertible bond issue as well as the securities repurchasing agreement will fall due. The Company feels safe to assume that due to the measures taken and also due to the development of DEAG share prices on the stock markets, these liabilities can be settled (refer also to the explanations given in the report on risk management).

2.2. Business Development by Segment

Our segmentation complies with IAS 14 requirements. Our primary reporting format is by segment, which corresponds to our internal reporting system, too.

Our segments are organised as follows:

Artists & Tours

The segment Artists & Tours is currently our most important segment going by the level of revenues. DEAG activities in this segment consist of promotion and production of regional, national and international entertainment events by its affiliate companies, i.e. DEAG Concerts GmbH, Berlin, Good News AG, Glattbrugg/ Switzerland, Marshall Arts Ltd., London/ Great Britain, BALOU ENTERTAINMENT Konzertagentur GmbH & Co KG, Cologne, coco tours Veranstaltungen GmbH, Berlin, Global Concerts GmbH, Munich and DEAG Classics AG, Berlin. The business area managed by Marcel Avram and run mainly by Entertainment One AG or its affiliates was withdrawn from this segment.

Urban Entertainment

The segment Urban Entertainment covers major DEAG events making use of company owned and contracted venues, i.e. the Jahrhunderthalle Frankfurt and the Waldbühne Berlin.

Theatres

This segment covering any activities in variety theatres is to be re-positioned outside of the Group. Explanations regarding this segment are given in the section on discontinued operations.

Business development in segments to the extent that they concern continued operations

Revenues (in EUR'000)	2005	2004	Change on the previous year
Artists & Tours	57,036	82,186	-25,150
Urban Entertainment	5,895	5,657	238

Segment Performance

Operating result (EBIT) in EUR'000	2005	2004	Change on the previous year
Artists & Tours	3,500	3,451	49
Urban Entertainment	403	595	-192

Artists & Tours

Sales:

The segment Artists & Tours, which is to be continued, showed a drop in sales by EUR 25.2 million. This was mainly due to decreasing sales in the rock/pop area. Major tours with national and international artists staged in previous years could not be repeated with similar events. Actions were taken to correct the sales deficit in the rock/pop segment in Germany in the years to come by taking out shares in three concert agencies and thereby regaining a strong market position in this segment.

Highlights of 2005 included tours in Germany by Rod Stewart und Kylie Minogue, a tour in Great Britain by Elton John and world tours by Paul McCartney and Joe Cocker.

Furthermore sales volume was negatively affected by renovation of the Zurich Hallenstadion, which was closed for concerts until August 2005. After re-opening of that venue our Swiss affiliate company Good News signalled sold-out concerts by artists such as Bryan Adams, 50 Cent, DJ Bobo and Status Quo.

Developments in the classics segment were more than positive. Set up in 2004 it turned into an important source of revenues. Celebrated classical music events with international super-stars such as Anna Netrebko and Rolando Villazón as well as Marcelo Álvarez, Ramón Vargas and Classical Spectacular have greatly enriched the concert scene in Germany and DEAG will continue this work in other European countries as well.

Segment Performance:

Segment performance was at EUR 3.5 million in 2005 (EUR 3.5 million in the previous year). It was greatly affected by start-up costs in the classic segment as well as lower sales levels in Switzerland. On the strength of the three new participations, a Hallenstadion available as concert venue all year round und a number of already contracted major events in the classics area we expect a strong rise in segment performance for 2006.

Urban Entertainment

Sales:

With EUR 5.9 million in sales this segment was above previous year's level.

Segment Performance:

The result in 2005 amounting to EUR 0.4 million (EUR 0.6 million in the previous year) was greatly affected by start-up costs for new formats such as for example the Charlottenburg Schlossgartenfest.

Discontinued Operations

Sales in EUR'000	2005	2004	Change
Artists and Tours (Avram)	2,960	808	2.152
Theatres	7,619	8.109	-490
Operating result (EBIT) in EUR'000	2005	2004	Change
Artists and Tours (Avram)	-4,013	-1,532	-2,481
Theatres	-383	42	-425

2.3. Financing of the Group

In EUR'000	2005	2004
Cash flow before changes to net current assets	-4,960	-3,828
thereof of discontinued operations	-839	-1,459
Outflow of funds from current business activities	-118	-16,739
thereof of discontinued operations	-1,632	-2,523
Outflow/inflow of funds from investment activities	720	-956
Thereof of discontinued operations	-24	-56
Inflow /outflow of funds from financing activities	5,023	1,529
Payment-effective change in financial resources	5,625	-16,166
Currency effects	-24	-68
Financial resources at start of year	21,266	37,500
Financial resources at end of year ¹⁾	² 26,867	21,266

1) Including discontinued operations

2) kEUR 970 thereof are attributable to discontinued operations

The liquid assets in continued operations of the DEAG Group totalled EUR 25.9 million as on the balance sheet date of which EUR 6.9 million relate to pledged trust funds with restraint on disposal in return for other current liabilities. EUR 14.7 million are not under full control of DEAG being subject to time and volume of dividend payment.

In 2005 DEAG managed to diversify its financing resources. Thus an option on a concert financing credit line as well as two working capital loans was negotiated in 2005. For settlement of the securities repurchasing agreement with Ringier an option on a loan by Octave Entertainment Fund Ltd. was made available.

We are acting on the assumption that financial obligations from operating activities, including investment, debt servicing and fulfilment of residual obligations arising from the past restructuring, can be met in full in 2006 from the inflow of funds from current business activity and from the inventory of cash resources provided we achieve the goals set for 2006. This not being the case we would have to rely on funds raised by the sale of sites adjoining the Jahrhunderthalle in Frankfurt or other participations or on funds from further financing resources.

2.4. Income and Assets Position of DEAG Holding

The further remarks on DEAG Deutsche Entertainment AG comply with commercial law requirements.

Income Position

The net loss for the financial year 2005 amounted to EUR 6.0 million following a net income of EUR 3.4 million in the previous year, which had been due to a positive extraordinary result of EUR 5.3 million. At a positive EBIT of EUR 1.1 million, affected by the release of accruals of EUR 2.3 million, the financial result was EUR -7.1 million, due to the required depreciation of business interests discontinued in the Group (EUR 4.3 million), increasing losses from transfer of profits agreements (EUR 2.5 million) and increased interest expenditure (EUR 0.5 million).

Assets Position

At a balance sheet total of EUR 35.9 million (EUR 32.5 in the previous year) equity amounts to EUR 16.6 million (EUR 12.7 million) and is thus 46 % (39%). The increase in equity by EUR 3.9 million in spite of the losses run up has been due to successful placement of capital increases.

Receivables due from affiliated companies rose by EUR 1.5 million to EUR 20.5 million. Financial investments went down from EUR 12.7 million to EUR 11.8 million. An increase in the value of participations due to the acquisition of three concert agencies in Germany was set off by depreciation of the participation in Entertainment One AG.

2.5. Capital Market

Share Price Development

The development of the DEAG share price was very positive in 2005. It fared even better than the booming small and midcap markets in Germany as a whole. With the share price in the beginning of the year 2005 being EUR 1.69 on the electronic Xetra trading system, the shares rose until they reached their highest price for the year in October trading at EUR 2.98. The share price was EUR 2.57 at the close of the year. This means that in the course of the year the share value rose by more than 50 %. In comparison, the SDAX rose by 35 % in the same period of time.

The management board however is aware of the fact that this positive development of the DEAG share is largely due to the final realization of potential that had accumulated over the past years. The management board will encourage further increases in share value for investors by implementing sound business strategies in 2006.

It is worth mentioning that the share's liquidity further increased in the past year. The average number of DEAG shares traded daily on the largest German stock exchanges, Xetra and Frankfurt, was more than 120,000. That gives the share a level of liquidity that makes it even more interesting for institutional investors.

The convertible bond issued by DEAG fared even better than the share price posting an increase of more than 80 % in the course of the year. Investors showed little interest in converting into shares during the conversion period in June 2005. They appear to be confident that the share price will continue to rise.

Investor Relations

In 2005 DEAG communicated intensively with private and institutional investors. These activities have been very successful as is evidenced by the positive development of the share price mentioned above but also by the fact that it had been possible to raise capital by two successful placements and that the acquisitions in the rock/pop area were financed by two increases in capital in kind thereby retaining liquid funds.

In addition to the fulfilment of mandatory transparency requirements the wider public is also provided with extensive information about the company, the share and financial data on our website at www.deag.de.

DEAG has furthermore carried out a number of road shows in the year 2005 for national and international fund managers and investment trusts and continued to foster those contacts throughout the year. The response had been largely positive, as is also indicated by the fact that Fidelity, the worldwide largest fund management company, had clearly increased its commitment in DEAG shares in 2005. The company has also been presented at several events of the financial community, for example at the German Equity Forum in Frankfurt.

The DEAG Management Board continued its investor relations activities in the beginning of 2006 in cooperation with external service providers.

2.6. Personnel Development

The annual average number of people employed by the Group was 73 compared with 80 in the previous year. At DEAG Deutsche Entertainment AG the annual average number of employees was 17 compared with 15 in the previous year.

A change occurred on the DEAG Management Board: As of 31 August 2005 Mr. Wingolf Mielke resigned from his offices as CFO and COO of the Company. DEAG is grateful to Mr. Mielke for his work during the restructuring of the Company. As of 1 September 2005 his offices were taken up by Dr. Ingo Stein.

3. Report on Risk Management

§91 Section 2 of the German Companies Act (Aktiengesetz) requires the Management Board to undertake suitable measures and, in particular, to set up a monitoring system to ensure early recognition of developments that might pose a threat to the Company's continued existence. Risks form an inherent part of entrepreneurial activity. Growth and successful activity require that strategic and operative risks are recognised, evaluated and reported.

That said, DEAG is always exposed to a number of general market and commercial risks and to various special risks associated in particular with the industry and with the restructuring of the company.

The Company has installed a monitoring system, allowing early identification of risks associated with future development that might endanger the existence of the Company. Monitoring of business developments for early identification of risks endangering the existence of the Company is currently to a great extent carried out by the Management Board and the Company Controlling.

4. Report on Risks and Opportunities

German Commercial code requires us to indicate risks associated with future development. This management report and additional information about the financial year include forward-looking assumptions and estimates associated with risks that may lead to actual results differing from our expectations.

Market/Competition

DEAG does business in a highly competitive market. Our aim is to identify market changes at an early stage and respond to them. Nevertheless the market environment can change surprisingly so that risks could be associated with DEAG's business activities. This applies, for instance, to possible changes in leisure and consumer behaviour that might have a negative influence on live entertainment ticket sales. At present, DEAG's business depends to a large extent on ticket sales. Furthermore the determining factors relating to the availability of artists who correspond to the public's taste might change. Also DEAG must bear in mind that new and powerful companies could enter the market and compete with it.

In addition operating results in particular in the areas of rock and pop depend greatly on the extent to which DEAG affiliates manage to counteract the trend for artists to demand higher fees. Due to decreasing sales of recorded music, the importance of promoters increases improving their position in negotiations.

DEAG's business also depends on the availability of suitable venues. Concert Concept owns the Frankfurt Jahrhunderthalle and in addition DEAG holds long leases for the Waldbühne in Berlin, and for the Zurich Hallenstadion, through its affiliate company Good News Productions AG. If any of these venues are not usable, it could turn out to have a negative influence on DEAG's business.

Furthermore, there is a dependency on existing business relations as well as the creation of new business relations to artists, agents, producers and other industry players. The availability of distribution channels, in particular the availability of advanced booking systems, has a great impact on business results. Taking out a participation in Ticketmaster Deutschland and cooperating closely with Ticketmaster USA DEAG has taken an important strategic step in this area.

The course of DEAG's business is influenced by whether it will continue to succeed in recruiting and keeping qualified employees and industry experts. This is particularly important in the entertainment business, which is heavily dependent on the relations and contacts maintained by individual people, especially board members of the holding company and managing directors of subsidiaries and associated companies. Business success in the rock/pop segment is also dependent on a successful integration of the three participations taken out at the end of 2005.

Goodwill

Given the imponderables in the company's operative business here described, further write-down on DEAG's goodwill and financial investments cannot be ruled out if subsidiaries' actual results differ from expectations. This is specifically true for goodwill additions from the participations taken out in December 2005.

Deferred Taxes

If a reform of German corporation tax were to lead to an explicit reduction in the tax burden, which would lead to a decrease in deferred taxes with a corresponding decrease in earnings. If IAS 12 were in future to require the discounting of deferred tax claims that too could trigger a substantial depreciation requirement.

Financial Obligations

Concerning liquidity, a number of obligations requiring a high level of capital will arise in financial year 2006:

On 1 December 2006 a convertible bond issue with a nominal value of still EUR 6,781,878.00 will be due for repayment. Since the current DEAG share price is clearly above the nominal value EUR 1.48 per share, the company is working on the assumption of a complete conversion. In the event of the bond creditors not exercising their right of conversion to any great extent during the two remaining conversion periods, the Company would be obliged to repay an amount of EUR 6,781,878.00. This would have a considerably negative impact to on the assets and finance position of the Company, even posing a threat to its continued existence.

In addition, DEAG Concerts GmbH, a company belonging to the DEAG Group, will be obliged in accordance with an agreement concluded with the Ringier AG to purchase 39 % of the shares of the Good News Productions AG, which also belongs to the DEAG Group as of 30 June 2006 at a fixed purchase price of up to EUR 12.0 million from the joint shareholder Ringier AG (in the following also referred to as the Repurchase Agreement). As security with respect to the purchase price regarding the repurchasing agreement, DEAG Concerts GmbH has also pledged its further 51 % of the share capital of Good News Productions AG to Ringier AG. The Company has concluded an agreement with a financial investor securing the funds required to meet its repurchasing obligations as a loan. Effectiveness of this agreement however is subject to certain events, the occurrence of which is as yet uncertain. In the event of the financial investor at the time of maturity of the repurchasing agreement

not providing the required liquid funds and further in the event of DEAG not being able to find alternative financing resources, DEAG Concerts GmbH would most likely not be able to meet its repurchasing obligations leading to a selling-up of all DEAG shares in Good News.

Other than that there are short-term bank loans amounting to EUR 6.0 million, which are to be settled either by selling parts of site of the Jahrhunderthalle Frankfurt or other participations and using the operating cash flow of the company. If such funds are not forthcoming, this will have negative effects on the finance, assets and earnings position of the Company.

Exchange Rate Risks

Parts of the artists' fees paid out by the Company are invoiced in American (USD), British (GBP) and Swiss (CHF) currency. Exchange rate fluctuations with respect to these currencies vice versa the EURO could have an impact on business operations and finance and profit positions of the Company, specifically on the operating profit of Group companies, leading to exchange rate gains or losses.

Holding Structure

The Company itself does not conduct any operational business activities of its own but acts as holding company for the DEAG Group. Company assets currently consist largely of shareholdings in affiliated companies conducting actual operational business. The Company has concluded controlling and transfer of profits agreements with some of these companies. The Company as such is dependent for its own profits on the activities of affiliated companies, actually carrying out operative business and transferring profits to the Company. In turn the Company must take it upon itself to make good any losses incurred by the companies, which are party to controlling and transfer of profits agreements. This could have a grave negative impact on the assets, finances and results positions of the Company.

Opportunities

DEAG expects a successful course of business in 2006. Opportunities continue to arise from ongoing positive developments in the live entertainment market opening up a number of new lines of business. The Company sees potential for extraordinary profit increases specifically in the following areas:

- **DEAG Music:** This music publisher and label within the DEAG Group founded in 2005 providing a complete line of services in management, touring, publishing and sponsoring, has contracted its first acts in 2005 and in the first quarter of 2006. Next to national and international young artists this specifically includes a cooperation with the star producer DJ Tomekk. In addition agreements have been concluded with the teen magazine "Bravo" and Sony/BMG on the support for newcomer bands. The production of one or several hits and the appropriate returns achieved from such projects through the publishing and distribution cooperation with Warner Music may provide an additional boost to profits. In the medium-run recurring profits will be generated by the building a rights catalogue.
- **Ticketmaster:** Having worldwide access to the Ticketmaster databases, tour management may be optimized. Furthermore, artists may be provided with supplementary income through the use of the Ticketmaster Auctioning Systems. Also DEAG may profit from improved terms and conditions as the volume of ticket sales increases.
- **Classical Music area:** Next to the internationalization of live opera events there will be additional potential profits from other open air concerts, e.g. with the star pianist Lang Lang or the violinist Nigel Kennedy. As regards Classical Spectacular, a product with the Royal Philharmonic Orchestra, which was introduced in Germany in the course of the financial year 2005, there will be additional potential profits from the option of arranging performances in other European cities in addition to Austria, Switzerland and the Netherlands, as well as to promote related products such as for example the "Last Night of the Proms".
- If the potential for synergies between the newly acquired participations in the rock/pop area and the traditional areas of DEAG activities are subjected to further consequent development, further potentials may be realized. Synergies mainly cover the area of joint marketing, product development (e.g. festivals) and the exchange of know-how. While

continuously gaining in importance in the rock/pop area, DEAG is becoming increasingly attractive as a partner for national and international artists, preparing the ground for further solid growth.

- Good News in Switzerland will benefit from the fact that the Hallenstadion may be used as venue for events all year round and by the final establishment of the festival "Moon and Stars" at Locarno.
- One additional source of revenue may be seen in the DEAG entry into the Family Entertainment market via the "Gold Entertainment" brand.
- Apart from promoting tours there are plans to expand the business of local show promotion . DEAG is so far active in Berlin, Munich and Frankfurt only.
- Other additional revenues may arise from sponsoring, merchandising and the granting of television licenses, which is steadily gaining importance in the mix of DEAG revenues.

5. Dependency Report

For the financial year 2005 there was no need to file a dependency report in respect of direct and indirect relations especially with Peter Schwenkow, Berlin, because he did not hold a controlling interest.

6. Outlook

DEAG has made good use of the year 2005 to take important steps paving the way for future success. This concerns separation from the business area managed by the promoter Marcel Avram and the resolved repositioning of the Theatres segment outside of the Group, but it concerns also the repositioning of the rock/pop area, establishment and internationalization of the classical music segment with worldwide leading partners, engagement in ticketing as an important link in the value creation chain cooperating with worldwide market leader Ticketmaster in Germany, establishment of a financing portfolio for financing of future growth, entry into the market of music publishing and in family entertainment. In addition the Zurich Hallenstadion will be available again as event venue all year round. For all these reasons the Company is expecting a net profit for the year 2006. Moreover it is planned to use 2006 to substantially reduce capital costs, leading up to decisively improved results in the financial year 2007 at the latest.

Events after the balance sheet date: The agreed upon participation in Ticketmaster Deutschland GmbH will be implemented on short notice. Further reportable events did not occur.

Berlin, 31 March 2006

DEAG Deutsche Entertainment AG

Management Board

Peter L. H. Schwenkow

Dr. Ingo Stein

Consolidated Balance Sheet

TOTAL ASSETS in EUR'000	Notes	31.12.2005	31.12.2004
Liquid funds	7	25,897	21,266
Short-term investments / marketable securities	8	393	-
Trade receivables	9	2,835	3,218
Accounts receivable due from associated persons and companies	10	-	60
Inventories	11	3,502	3,553
Other current assets	12,27	13,543	10,030
Receivables due from affiliates with operations to be discontinued	30	1,215	-
Other assets directly related to operation, which are to be discontinued	30	3,506	-
Current assets		50,891	38,127
Intangible assets	13	19	27
Goodwill	14,27,29	34,613	33,310
Tangible fixed assets	15,27	761	2,081
Participations	16	126	127
Loans to affiliated companies	16	750	750
Shares in affiliated companies	16	13	9
Other long-term assets	17,27	5,398	5,826
Deferred tax assets	18,41	12,335	10,652
Long-term assets		54,015	52,782
TOTAL ASSETS		104,906	90,909

Liabilities and equity in EUR'000	Notes	31.12.2005	31.12.2004
Bank loans payable	19	4,005	4,000
Trade accounts payable	20	3,495	4,915
Accounts payable to associated persons and companies	21	-	12
Accruals	22	5,868	7,595
Sales accruals and deferrals	23	12,841	7,409
Other current liabilities	24	26,163	12,987
Accounts payable to associated companies with operations which are to be discontinued	30	1,364	-
Accruals and liabilities directly related to operations which are to be discontinued	30	3,174	-
Current liabilities		56,910	36,918
Accruals	22	88	572
Convertible bond	25	6,016	5,281
Other long-term liabilities	26	150	13,284
Deferred taxes	18,41	1,942	2,072
Long-term liabilities		8,196	21,209
Share capital		18,558	13,749
Capital reserve		62,396	56,175
Accumulated deficit		-41,555	-37,781
Accumulated other income		-38	-18
Equity before minority interests		39,361	32,125
Minority interests		439	657
Equity	28	39,800	32,782
TOTAL LIABILITIES AND EQUITY		104,906	90,909

Consolidated Statement of Income

	Notes	01.01. to 31.12.2005 EUR'000	01.01. to ⁽¹⁾ 31.12.2004 EUR'000
Revenues	32	62,653	87,824
Cost of revenues	33	-49,349	-69,548
Gross profit		13,304	18,276
Distribution costs	34	-6,293	-9,327
Administration costs	35	-8,286	-8,922
Other operating income	36	4,259	8,640
Other operating expenses	37	-564	-1,762
Operating result before depreciation (EBITDA)		2,420	6,905
Scheduled depreciation	38	-285	-406
Amortisation of goodwill	38	-	-150
Operating income (EBIT)		2,135	6,349
Interest income and expenses	39	-2,307	-2,046
Participations	40	237	-50
Earnings from associated companies	16	4	-5
Foreign currency exchange gains / losses		77	19
Financial result		-1,989	-2,082
Result before taxes		146	4,267
Income taxes	41	228	471
Result after taxes from continued operations		374	4,738
Result after taxes from discontinued operations		-3,887	-2,005
Result after taxes		-3,513	2,733
Result minority interests		261	-146
Group result		-3,774	2,879
Loss carried forward		-37,781	-40,660
Accumulated deficit		-41,555	-37,781
Earnings per share in EUR (undiluted)			
from continued operations	28	0,01	0,36
from continued and discontinued operations	28	-0,26	0,21
Earnings per share in EUR (diluted)			
from continued operations	28	(2) 0,01	0,29
from continued and discontinued operations	28	(2) -0,26	0,19
Average no. of shares outstanding (undiluted)	28	14,622,837	13,748,820
Average no. of shares outstanding (diluted)	28	19,205,187	18,332,170

(1) Previous year's figures were adjusted because of IFRS 5.

(2) Potentially new shares must be treated as undiluted in case of book value decrease in losses or increase in profits per share.

Consolidated Cash Flow Statement

in EUR'000	2005	2004 (1)
Result from continued operations	374	4,738
Depreciation and amortisation / write-ups	285	559
Changes not affecting payments	-1,110	304
Change in other accruals	-1,853	-7,289
Deferred taxes (net)	-1,813	-686
Result from valuation of affiliated companies	-4	5
Cash flow before changes in net current assets	-4,121	-2,369
Net interest income	2,307	2,046
Changes to receivables, inventories and other assets	-1,708	6,086
Changes to other loan capital without financial debts	5,036	-19,979
Net cash from operating activities from continued operations	1,514	-14,216
Net cash from operating activities from discontinued operations	-1,632	-2,523
Net cash from operating activities (total)	-118	-16,739
Outflows for investments in ...		
...Intangible assets including goodwill	-5	-4
...tangible assets and financial investments	-204	-1,390
Inflow from investments in consolidated companies and business units	596	-
Outflow due to investments in minority interests in consolidated companies	-60	-
Asset disposals	104	58
Interest income	313	436
Net cash from investment activities from continued operations	744	-900
Outflow from current investment activities in discontinued operations	-24	-56
Net cash from financial activities (total)	720	-956
Capital increase at DEAG Deutsche Entertainment AG	6,594	-
Costs of raising capital (net)	-385	-
Sale / acquisition of own shares	-	-1
Changes to financial debts	-	2,500
Repayment of financial debts	-500	-13
Interest expenditures	-526	-608
Inflow due to capital investments by minority interests	12	-
Share capital of minority interests	-172	-349
Net cash from financial activities (total)	5,023	1,529
Changes in liquidity	5,625	-16,166
Effects of exchange rates	-24	-68
Liquid funds as at 01.01.	21,266	37,500
Liquid funds as at 31.12.	(2) 26,867	21,266

(1) Previous year's figures were adjusted on the basis of IFRS 5.

(2) Thereof kEUR 970 to be associated with discontinued operations .

Development of Equity within the Group

	Number of shares issue	Authorized DEAG shares in EUR'000	DEAG capital reserves in EUR'000	Accumulated deficit in EUR'000	Accumulated other income in EUR'000	Minority shares in EUR'000	Equity in EUR'000
as at 31.12.2003	13,750,050	13,750	56,175	-40,660	30	1,172	30,467
Sale /offsetting of own shares	-1,230	-1	-	-	-	-	-1
Consolidated net profit (+)/loss (-)	-	-	-	2,879	-	-146	2,733
Changes resulting from currency translation	-	-	-	-	-48	-20	-68
Dividends	-	-	-	-	-	-349	-349
as at 31.12.2004	13,748,820	13,749	56,175	-37,781	-18	657	32,782
Issue of shares	4,808,732	4,809	6,606	-	-	-	11,415
Costs of raising capital	-	-	-385	-	-	-	-385
Consolidated net profit (+)/loss (-)	-	-	-	-3,774	-	261	-3,513
Changes resulting from currency translation	-	-	-	-	-20	-5	-25
Dividends	-	-	-	-	-	-172	-172
Other changes	-	-	-	-	-	-302	-302
as at 31.12.2005	18,557,552	18,558	62,396	-41,555	-38	439	39,800

Development of Fixed Assets in the Group

Acquisition or production costs	Intangible assets excluding goodwill	Goodwill	Land and buildings	Technical plant and machinery	Other fixtures and fittings, equipment	Financial investments	Fixed assets
Consolidated balance as at 01.01.2004	470	58,623	3,805	1,187	3,261	2,280	69,626
Additions	4	-	5	368	144	920	1,441
Disposals	-	-	-55	-323	-100	-5	-483
Currency adjustments	-	-	-	-1	1	-	-
Acquisition costs balance 31.12.2004	474	58,623	3,755	1,231	3,306	3,195	70,584
Depreciation in EUR'000							
Consolidated balance as at 01.01.2004	416	25,163	2,723	650	2,447	2,254	33,653
Additions	31	150	93	128	354	55	811
Disposals	-	-	-	-57	-80	-	-137
Write-ups	-	-	-	-47	-	-	-47
Currency adjustments	-	-	-	1	-1	-	-
Depreciation balance as at 31.12.2004	447	25,313	2,816	675	2,720	2,309	34,280
Balance sheet values 31.12.2004	27	33,310	939	556	586	886	36,304
Balance sheet values 31.12.2003	54	33,460	1,082	537	814	26	35,973

Acquisition or production costs	Intangible assets excluding goodwill	Goodwill	Land and buildings	Technical plant and machinery	Other fixtures and fittings, equipment	Financial investments	Fixed assets
Consolidated balance as at 01.01.2005	474	58,623	3,755	1,231	3,306	3,195	70,584
Reposting (discontinued operations)	-35	-7,500	-2,899	-562	-963	-	-11,959
Additions from initial consolidation	2	4,927	-	-	38	-	4,967
Additions	5	0	6	28	170	4	213
Disposals	-150	-254	-634	-343	-471	-88	-1,940
Currency adjustments	-1	-	-	-	4	-1	2
Balance as at 31.12.2005	295	55,796	228	354	2,084	3,110	61,867
Depreciation in EUR'000							
Consolidated balance as at 01.01.2005	447	25,313	2,816	675	2,720	2,309	34,280
Reposting (discontinued operations)	-34	-4,130	-2,688	-367	-861	-	-8,080
Additions	12	-	24	22	227	-	285
Disposals	-148	-	-92	-127	-448	-88	-903
Currency adjustments	-1	-	-	-	4	-	3
Balance as at 31.12.2005	276	21,183	60	203	1,642	2,221	25,585
Balance sheet values 31.12.2005	19	34,613	168	151	442	889	36,282

DEAG Deutsche Entertainment Aktiengesellschaft, Berlin

1. Accounting Principles

These Consolidated Financial Statements for DEAG Deutsche Entertainment AG (DEAG) were prepared applying the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as valid on the closing date and in addition the commercial law regulations of § 315a of the German Commercial Code (Handelsgesetzbuch/ HGB) . The designation IFRS also comprises the still valid International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) – formerly Standing Interpretations Committee (SIC).

Consequences of initial application of changed and new accounting regulations are essentially limited to the new standard IFRS 5. This standard introduced new requirements concerning reporting on the disposal of assets and liabilities as well as on discontinued operations.

This standard requires any group business area to be designated as discontinued operations if that business area is to be sold or closed down. Discontinued operations must be reported on book value or on value, whichever is the lower value, minus costs of disposal. On the consolidated statement of income, consolidated balance sheet, consolidated cash flow statement and in segment reporting discontinued operations must be marked out as such separately and appropriate notes provided. In doing so, the previous year's figures, except for those of the consolidated balance sheet, must be adjusted accordingly.

In order to increase transparency and comparability of our reporting, mainly continued operations are expanded on. Information on discontinued operations is summarised and reported on in the statement of income, consolidated balance sheet and consolidated cash flow statement respectively in each case under separate items.

As a consequence of re-positioning of the business portfolio the segment Theatres as well as the business activities managed by the promoter Marcel Avram in the segment Artists & Tours had to be reported on in the section on discontinued operations in accordance with IFRS 5.

The consolidated financial statements are based on the financial statements of companies in the Group. These were prepared applying the German Commercial Code (HGB), including the accounting standards passed by the German Standardisation Council (DRSC) as at the closing date in accordance with §342 HGB and the German Companies Act (Aktiengesetz). The financial statements for foreign companies were prepared in accordance with their national regulations, following continuously and uniformly applied accounting and valuation principles.

The individual financial statements of the companies included were drawn up to the closing date for the consolidated financial statement. Reported values based on tax regulations have not been transferred into the consolidated financial statement. The conversion of reported values to accord with IAS rules was done at group level outside the individual financial statements prepared under commercial law, in what is referred to as Commercial Balance Sheet II.

The accounting and evaluation methods applied in the consolidated financial statements to 31 December 2004 were retained unchanged except application of IFRS 5 as described above.

Since 2001, alongside IAS 1 we have applied the Deutsche Börse AG guidelines on Structured Quarterly Reports. In principle, these guidelines are obligatory only for interim reports. With a view to ensuring comparability and consistency of presentation, as a matter of principle we use the structured layout for the consolidated financial statements to the extent that it does not vary significantly from IFRS.

Furthermore, since 2001 our consolidated statement of income layout has followed the internationally common cost-of-sales accounting format. Given the capital market requirement to show earnings before interest, taxes and depreciations (EBITDA), depreciation is listed separately in the consolidated statement of income.

The items summarised in the consolidated balance sheet and in the consolidated statement of income are explained in the notes.

When drawing up the consolidated financial statements, estimates and assumptions have to be made to a limited extent that affect the level and disclosure of assets and liabilities, income and expenses shown in the balance sheet, as well as of contingent liabilities. Actual figures may differ from these estimates respectively.

2. Consolidation Principles

Consolidated Entity

We, DEAG Deutsche Entertainment Aktiengesellschaft, as the parent company, include in the consolidated financial statements those subsidiaries under our control. Control exists if we have the majority of voting rights at our disposal, either directly or indirectly. Companies acquired or disposed of during the financial year are included from the date of acquisition or up until the date of sale.

On the balance sheet date, the consolidated entity comprised 21 fully consolidated German and foreign companies. In all, three joint ventures are consolidated pro rata and one shareholding is evaluated as an associated enterprise according to the equity method as specified in IAS 28. One major shareholding, which is subject to material control, is reported at cost of acquisition in view of its marginal significance.

Consolidation Methods

Capital consolidation involves offsetting the acquisition costs of participating interests against equity at the time of starting up or acquiring the respective subsidiary. Depreciation of value-adjusted subsidiaries was reversed for the purpose of consolidation. Interim gains and losses from intra-group sales of equity holdings were reversed. The differential amounts included in the values reported for holdings in joint ventures and associated companies are established by the same principles.

The asset-side variations arising from capital consolidation were recorded as goodwill in the consolidated balance sheet unless allocable hidden reserves or charges of individual assets or debts are shown. In the case of indirect participations, goodwill is ascertained in the context of step-by-step consolidation.

Receivables, liabilities and accruals, as well as expenses and income between consolidated companies were consolidated. Any intermediate results of intra-group deliveries and services were eliminated. Any depreciation or value adjustments of intra-group receivables in the individual financial statements were reversed in favour of the group result.

Shareholdings in associated companies valued by the equity method were reported at the relevant equity percentage in accordance with the book value method.

In the context of pro rata consolidation, the respective assets and liabilities were included in the consolidated financial statements in line with the proportion of capital held by the parent company. Consolidation was undertaken by the same methods.

On the balance sheet date, along with the parent company DEAG the following companies were fully consolidated:

Segment	Company	Shareholding
Artists & Tours	DEAG Classics AG, Berlin	100%
	Global Concerts GmbH, Munich	100%
	Musicland GmbH, Munich	100%
	coco tours Veranstaltungen GmbH, Berlin	100%
	DEAG Concerts GmbH, Berlin	100 %
	BALOU ENTERTAINMENT Konzertagentur GmbH & Co. KG, Cologne	100 %
	Entertainment One AG, Altendorf (Switzerland)	100%
	Good News Productions AG, Glattbrugg-Opfikon (Switzerland) *	90%
	B+R Event AG, Glattbrugg-Opfikon (Switzerland)	90%
	EM Event Marketing AG, Wangen near Olten (Switzerland)	90%
	Fortissimo AG, Glattbrugg-Opfikon (Switzerland)	90%
	MPE Music Pool Europe GmbH, Hamburg **	75%
	KBK Konzert- und Künstleragentur GmbH, München **	51%
Urban Entertainment	Concert Concept Veranstaltungs-GmbH, Berlin	100%
	Kultur- und Kongresszentrum Jahrhunderthalle GmbH, Frankfurt am Main	100 %
	Unicorn Entertainment Services GmbH, Berlin	100%
	EMC Entertainment Media & Commerce GmbH, Berlin	100%
Theatres *	Wintergarten Varieté Theater Betriebs GmbH, Berlin	100 %
	Friedrichsbau Varieté Betriebs- und Verwaltungs GmbH, Stuttgart	100%
	Broadway Varieté Management GmbH, Berlin	100 %

* Discontinued operations: Theatres segment and Entertainment One AG.

** Purchase of shareholdings in December 2005

The following companies are run as joint ventures and are consolidated with the respective share of capital owned directly or indirectly by DEAG Deutsche Entertainment Aktiengesellschaft in line with pro rata consolidation regulations:

Segment	Company	Shareholding
Artists & Tours	Marshall Arts Ltd., London (UK)	50%
	Ticketnet Ltd., London (UK)	50%
	ct creative talent gmbh, Berlin *	50%

* Purchase of shareholdings in December 2005

The following company is carried in the balance sheet as an associated company:

Segment	Company	Shareholding
Urban Entertainment	EIB Entertainment Insurance Brokers GmbH, Hamburg	50%

3. Foreign Currency Translation Principles

Current receivables and liabilities and credit balances at banks that are reported in a foreign currency in the individual financial statements are translated into EUR at the average exchange rate on the balance sheet date.

We regard our subsidiaries, the Good News Group in Switzerland and the Marshall Arts Group in the UK, as independent companies that operate in their own economic and currency area. The operative currency is the respective national currency.

Currency translation of foreign financial statements into EUR is carried out in accordance with IAS 21 at the average exchange rate on the balance sheet date. Differences arising from the conversion of net assets at different exchange rates compared to the previous year are treated as neutral to earnings. These differences are reported as accumulated other income within equity.

The exchange rates of currencies of significance to us changed as follows:

	Closing rate in EUR		Average rate in EUR	
	2005	2004	2005	2004
1 Pound Sterling	1.4592	1.4183	1.4624	1.4735
1 Swiss Franc	0.6430	0.6481	0.6459	0.6478

4. Balance Sheet Accounting and Valuation Principles

Notes on the Balance Sheet

Intangible assets purchased are capitalised at cost of acquisition and depreciated in a straight line over an anticipated useful life of three to eight years. Goodwill obtained in connection with acquisitions is capitalised in accordance with IFRS 3 (Business Combinations). Since 1 January 2004 this goodwill has no longer been amortised by scheduled depreciation but subjected to annual impairment tests.

Fixed assets are valued at cost of acquisition or production plus incidental acquisition costs minus acquisition cost reductions and, in the case of items subject to wear and tear, less use-related depreciation. Financing costs are not capitalised. Depreciation is in a straight line over the expected useful life.

Movable fixed assets with acquisition costs up to EUR 410 (low value assets) are fully depreciated in the year of acquisition.

Maintenance expenditure constitutes an expense at the time it is incurred unless the result is a substantial change in or extension of potential use.

Scheduled depreciation of fixed assets is based essentially on the following periods of useful life:

Buildings, fixtures and fittings:	4 to 7 years
Plant and machinery:	3 to 10 years
Tools and equipment:	3 to 10 years

If reductions in the value of intangible assets or tangible fixed assets are ascertained, extraordinary depreciation is applied. The value attributable to the intangible assets or tangible fixed assets is ascertained on the basis of future surplus revenue or net sales proceeds (impairment test). Reviews are undertaken annually unless there is reason earlier to assume that values have decreased.

If items are used under the terms of operating leasing, leasing payments are based on the acquisition costs paid by the lessor for the leased object, a standard rate of interest less an appropriate residual value. Extension or purchase options and price adjustment clauses are not agreed as a matter of principle.

Shares in non-consolidated companies are reported in the balance sheet at market or acquisition cost in accordance with IAS 39. Shares in associated companies are reported at equity in accordance with IAS 28. Differential amounts resulting from initial consolidation are allocated following the same principles as for full consolidation.

Inventories are valued at acquisition or production cost. If net sales proceeds on the balance sheet date are less than the cost of acquisition, appropriate value adjustments are made. All advance payments for fees are accounted for under inventories, as are individually attributable costs for events concerning the financial year 2006.

Receivables, other assets and liquid funds are reported in the balance sheet at nominal value. Any necessary adjustments of individual values to cover probable default risks are taken into account.

Management Report

Deferred expenses and deferred income are built in accordance with the accrual accounting concept outlined in IAS 18. Prepaid amounts are their basis. Deferred expenses are essentially prepaid costs and other accruals. Deferred income that relates to income from sales of prepaid tickets for concerts and theatre or variety performances after the balance sheet date is reported as deferred revenue from pre-paid ticket sales.

Reserves are valued at the amount sound business judgement deems necessary on the balance sheet date to cover future payment obligations, discernible risks and uncertain commitments.

In accordance with IAS 12, deferred taxation is calculated on the basis of different assigned values for assets and liabilities in the commercial balance sheet and the tax balance sheet, of facts in the context of Commercial Balance Sheet II, of consolidation processes and of realisable losses brought forward.

Deferred tax expenses and tax income are offset in the balance sheet at the level possibilities are available for offsetting with the same tax authorities.

Liabilities are accrued at nominal value.

In the repurchase operation relating to our 39% shareholding in Good News AG, the agreed repurchase obligation was accrued at the amount payable. The difference between purchase price and amount payable is shown as deferred expense and will be amortised over the contract term.

In accordance with IAS 1, liabilities and accruals due within one year are reported as current items.

Notes on the Statement of Income

Sales revenues include all income from services rendered. The service relating to a concert, a show or a tour is considered as having been rendered at the end of the concert or show run. Income is booked at the time the services have been rendered.

Interest and other expenditures on loan capital are booked as current expenditure.

5. Segment Reporting

In accordance with the provisions of IAS 14, individual financial statement data is segmented by areas of work and regions, with presentation being oriented to our internal reporting. Accounting by segment is intended to render transparent the profitability and prospects of success of the Group's individual business activities.

In order to improve transparency and comparability of segment reporting the continued operations are shown. Data relating to discontinued operations are in each case summed up in separate items.

Segment reporting does not contain the discontinued operations in the segment Theatres and in the segment Artists & Tours (Entertainment One AG). These items are presented in the section for discontinued operations. The previous year's figures were adjusted accordingly.

Notes on the Segments

DEAG Group subdivides its continued operations into two segments, which are described in the Management Report.

Segment Data

in EUR'000	Artists & Tours		Urban Entertainment		Segment total	
	2005	2004	2005	2004	2005	2004
Revenues	57,036	82,186	5,895	5,657	62,931	87,843
Other income	1,259	1,748	815	640	2,074	2,388
... thereof internal income	170	19	108	0	278	19
Total earnings	58,295	83,934	6,710	6,297	65,005	90,231
Depreciation and amortisation						
... of goodwill, scheduled	0	0	0	0	0	0
... of goodwill, non-scheduled	0	150	0	0	0	150
... of other fixed assets	137	169	99	137	236	306
Segment result (EBIT) ¹	3,500	3,451	403	595	3,903	4,046
Book value of segment assets	73,551	77,895	16,014	15,896	89,565	93,791
Investments	135	1,333	27	15	162	1,348
External funding of segments	61,122	54,911	2,634	3,541	63,756	58,452
Full-time employees as at 31. 12.	39	31	20	22	59	53
Return on sales	6.1 %	4.2 %	6.8 %	10.5%	6.2 %	4.6 %
Net return on assets	28.2 %	15.0 %	3.0 %	4.8 %	15.1 %	11.5 %

¹ EBIT from continued operations; previous year's figures adjusted accordingly.

Internal income relates to services rendered between Group companies in different segments and DEAG as the parent company. Intra-segment services are eliminated within the segment.

The exchange of performance between segments and between the segments and the holding company is adjusted in the consolidation column within following reconciliation overview. The consolidation column also includes the services of the DEAG Holding company. Services are charged at standard market rates and correspond in principle to externally sourced prices. Investments consist of fixed assets, intangible assets and external shareholding values. The return on sales is derived from the segment result (EBIT) divided by the segment sales. The return on net assets is derived from the segment result (EBIT) divided by the net assets.

Reconciliation from Segment to Group Data

in EUR '000	Total of segments		Consolidation (incl, Holding)		Group	
	2005	2004 (1)	2005	2004 (1)	2005	2004 (1)
Revenues *	62,931	87,843	-278	-19	62,653	87,824
Other income	2,074	2,388	2,185	6,252	4,259	8,640
- thereof internal income *	278	19	-278	-19	-	-
Total earnings	65,005	90,231	1,907	6,233	66,912	96,464
Segment result (EBIT)					3,903	4,046
Unallocated expenditure and income (including DEAG Holding and consolidation effects)					-1,768	2,303
Operating result (EBIT)					2,135	6,349
Result from associated companies					4	-5
Other financial result					-1,993	-2,077
Result before taxes and minority interests					146	4,267
Taxes on income and earnings					228	471
Result after tax from continued operations					374	4,738
Result after tax from discontinued operations					-3,887	-2,005
Result after tax					-3,513	2,733
Minority interests					261	-146
Net group profit/loss for the year					-3,774	2,879

(1) Adjustment of previous year's figures according to IFRS 5

Other Information

EUR'000	Group 2005	Group 2004
Book value of segment assets (previous. year incl. Theatres)	89,565	96,040
Shares in affiliated companies	13	9
Unallocated assets, including consolidation transactions (1)	11,822	-5,140
Consolidated assets	101,400	90,909
External funding of segments (previous. year incl. Theatres)	63,756	61,704
Unallocated external funding, including consolidation transactions (1)	-1,824	-3,577
Consolidated external funds	61,932	58,127
Net assets (including minority interests)	39,468	32,782
Full-time employees as at 31. 12.	76	65
Return on sales	3.4 %	7.2 %
Net return on assets	5.4 %	19.4 %

(1) Concerns DEAG Holding and consolidation transactions between segments and segments and DEAG Holding respectively.

The return on sales is derived from the operating result (EBIT) divided by the income from sales.

The Group's return on net assets is derived from the operating result (EBIT divided by consolidated net assets (including minority interests)).

The breakdown of segment data by regional subdivision is shown below. The Group companies concerned are Good News Group in Switzerland and Marshall Arts Ltd. in the UK.

in EUR'000	Group 2005	Group 2004
Revenues of Artists & Tours segment	57,036	82,186
... thereof:		
Marshall Arts (UK)	11,938	14,834
Good News-Group (Switzerland)	33,060	32,715
Book value of Artists & Tours segment assets	73,551	77,895
... thereof:		
Marshall Arts (UK)	5,141	3,153
Good News-Group (Switzerland)	14,112	10,439
Investments of Artists & Tours segment	135	1,333
... thereof:		
Marshall Arts (UK)	8	43
Good News-Group (Switzerland)	98	158

6. Notes on the Consolidated Cash Flow Statement

In 2005 acquisition costs for acquisition of other companies amounted to a total of kEUR 4,820, which were earned by the issue of shares. Liquid funds from acquired affiliates amounted to kEUR 596. Please refer to Notes item 29 for more information on assets and liabilities acquired.

7. Liquid Funds

Cash in hand and credit balances at banks are shown as liquid funds. Of the credit balances shown, EUR 6.889 million relates to pledged trust funds with restraint on disposal. The corresponding liability, for which the credit is pledged as collateral, is reported under other liabilities as tax liabilities.

8. Marketable Securities

The item concerns the stock of marketable securities valued below acquisition costs at fair value.

9. Trade Receivables

Trade receivables are due within one year.

10. Accounts Receivable Due from Associated Persons and Companies

The item was paid in the financial year.

11. Inventories

This item is made up as follows:

In EUR'000	31.12.2005	31.12.2004
Finished goods and products	3,502	2,916
Unfinished products	-	558
Advance payments	-	79
Inventories	3,502	3,553

12. Other Current Assets

Other current assets consist of the following:

in EUR'000	31.12.2005	31.12.2004
Jahrhunderthalle site	6,500	6,500
Claims against tax authorities (1)	3,272	960
Procurement services claims	600	-
Accrued and deferred items	530	1,256
Loans	369	51
Miscellaneous	2,272	1,263
Other current assets	13,543	10,030

(1) Thereof kEUR 3,163 of assigned artists' tax.

The item Accrued and deferred includes kEUR 428 (2004: kEUR 859) in the short-term portion of accrued interest on a repurchase agreement in respect of the sale of the 39 % shareholding in Good News Productions AG.

13. Intangible Assets

Intangible assets include concessions in particular. Disposals related to expired rights.

The development of this item during the reporting year is apparent from the schedule of fixed assets.

14. Goodwill

This item relates to asset-side variances revealed within the context of capital consolidation and shown as goodwill. The reported values were checked on 31 December 2005. As a result no consolidation-related goodwill item was depreciated extraordinarily due to a reduction of utility value (2004: kEUR 150). The utility value is established on the basis of anticipated surplus income of the companies, discounted by interest appropriate to the risk (at present 8%). Cash-generating units are considered to be the domestic section of the Artists & Tours segment, the foreign section with Good News and Marshall Arts as well as the Urban segment.

Goodwill in respect of discontinued operations is accounted for in Schedule of Fixed Assets as reposting in the discontinued operation section with value as of 1.1.2005.

Additions in the financial year 2005 amounted to kEUR 4,909 from initial consolidation of MPE Music Pool Europe GmbH, Hamburg, KBK Konzert- und Künstleragentur GmbH, Munich and ct creative talent gmbh, Berlin. In addition goodwill amounting to kEUR 18 was added from an individual acquisition.

15. Tangible Fixed Assets

The breakdown and development of this item during the reporting year are apparent from the schedule of fixed assets.

Investments in fixed assets totalled EUR 0.2 million in 2005 (2004: EUR 0.5 million) and consist of the following:

in EUR'000	2005
Land and buildings	6
Technical plant and machinery	28
Other fixtures and fittings, tools and	170
Total	204

16. Financial Assets

The development of financial assets is apparent from the schedule of fixed assets.

Disposals include three shareholdings not included in consolidated group reporting and which had been completely depreciated in the past years.

The item also includes kEUR 13 (2004: kEUR 9) of shares in associated companies. It relates to our 50% shareholding in EIB Entertainment Insurance Brokers GmbH, Hamburg. A breakdown of asset and liabilities as well as expenditures and revenues is not made due to a lack of relevance (IAS 28.37). The balance was kEUR 8 for the year.

17. Other Long-Term Assets

Other long-term assets are as follows:

in EUR'000	31.12.2005	31.12.2004
Jahrhunderthalle site	5,398	5,398
Accruals	-	428
Other long-term assets	5,398	5,826

Other long-term assets are sites adjoining the Jahrhunderthalle not yet sold. The unchanged valuation is based on the anticipated benefit.

18. Deferred Taxes

Deferred tax credits totalling EUR 15.1 million (2004: EUR 13.4 million) are solely tax credits on accumulated losses carried forward, against which deferred tax liabilities of EUR 2.8 million for valuation variances in respect of the Jahrhunderthalle were offset (same tax authority). Deferred taxes payable are shown at EUR 1.9 million, due to limited options for setting-off against losses.

19. Bank Loans Payable

Bank loans payable essentially relate to a single loan of kEUR 4,000. The agreed interest rate is 8.5 %. Interest is paid quarterly.

20. Trade Accounts Payable

These liabilities relate to outstanding payments for services received that are due within one year.

21. Accounts Payable Due to Associated Persons and Companies

The liability of the previous year was paid in the reporting year.

22. Accruals

This item has developed as shown above.

in EUR'000	as at 01.01.05	Reposting	Use	Dis- posal	Addi- tion	Currency difference	As at 31.12.05
Taxes for assessment period	-	-	-	-	395	-	395
Tax for previous years	778	-87	131	23	32	3	572
Outstanding balances	1,431	-24	1,122	63	2,472	-3	2,691
Personnel obligations	630	-223	359	13	339	-	374
Obligations / risks from current	2,438	-189	2,104	30	110	14	239
Consulting and audit costs	292	-30	249	4	185	-	194
Repurchase agreement	397	-	336	61	501	-	501
Other accruals ¹	2,201	-315	375	586	67	-2	990
Total	8,167	-868	4,676	780	4,101	12	5,956

(1) Accruals of discontinued operations as at 1.1.05.

Except for kEUR 88 in personnel obligations, these liabilities are in principle payable within one year.

23. Sales Accruals and Deferrals

This item includes customers' takings for concert and theatre tickets as well as guarantee payments for events after the balance sheet date. Payments received enter revenues on the date of each event.

24. Other Current Liabilities

Other current liabilities are as follows:

in EUR'000	31.12.2005	31.12.2004
Repurchasing agreement	12,031	-
Tax liabilities	11,695	8,649
Social security liabilities	157	256
Accruals and deferrals	40	69
Miscellaneous	2,240	4,013
Other current liabilities	26,163	12,987

Other current liabilities include EUR 12.0 million relating to a repurchase agreement. This repurchase agreement relates to the sale of our 39 % interest in Good News Productions AG. Under the terms of the purchase agreement, Ringier Verlag AG granted DEAG the right to purchase the Good News shares sold at an agreed purchase price less 50 % of the dividends accrued by Ringier Verlag AG from the Good News shares sold or to which it is entitled up until 30 June 2006. DEAG granted Ringier Verlag AG a corresponding selling right. In the previous year this item was shown under other long-term liabilities.

Liabilities arising from the repurchase agreement were valued at the anticipated amount payable on the balance sheet date.

Tax liabilities include EUR 6.889 million in artists' tax for previous years. The artist has appealed to the fiscal court. Credit balances held in trust have been pledged as security.

Tax liabilities in the financial year include a further kEUR 3,163 of artists' tax. These are off-set by assigned claims for the same amount (compare Item 12).

Miscellaneous includes a EUR 2.0 million short-term loan.

These liabilities are payable within one year.

25. Convertible Bond

The Management Board decided on 22 August/13 November 2003 with the Supervisory Board's approval dated 14 November 2003 based on the authorisation by the ordinary General Meeting of Shareholders held on 17 June 2003 to issue a convertible bond for a total nominal value of EUR 6,783,358.00 divided into 4,583,350 individual bonds, each with a nominal value of EUR 1.48. Shareholders were granted indirect subscription rights. This was done by letting VEM Aktienbank AG, Munich subscribe to and take over the bonds at an issue price of EUR 1,00 per bond subject to an undertaking to offer them to shareholders for subscription at a ratio of 2:1 and at an issue price of EUR 1.00 per bond. Subscription rights are ruled out for residual amounts. To give conversion rights to bond holders, the General Meeting of Shareholders held on 17 June 2003 resolved to create conditional capital of EUR 4,583,350.00. The convertible bond has been tradable over the counter since 18 February 2004. The term of the convertible bond runs up until 30 November 2006, by which time accumulated interest (2005: kEUR 737) will take it up to the total nominal value.

In the reporting year 860 new shares were issued by conversion of 1,000 units of the convertible bond, increasing the share capital accordingly. Entry in the register of companies was made on 23 March 2006.

26. Other Long-Term Liabilities

This item consists mainly of the following:

in EUR'000	31.12.2005	31.12.2004
Repurchase agreement	-	12,386
Miscellaneous	150	898
Other long-term liabilities	150	13,284

Liabilities arising from the repurchase agreement due on 30 June 2006 are posted in the financial year under other current liabilities (compare Item 24).

27. Collateralisation

Amounts owed to credit institutions (EUR 4.0 million) are secured by a EUR 4.0 million charge against a not yet due payment from the sale of commercial land adjoining the Jahrhunderthalle in Frankfurt and by land charges of EUR 3.0 million and EUR 2.0 million plus interest and incidentals on the Jahrhunderthalle sites.

To secure other short-term liabilities totalling EUR 2.0 million a not yet due payment of EUR 1.85 million for the sale of commercial land adjoining the Jahrhunderthalle in Frankfurt has been ceded. Furthermore a land charge of EUR 2.5 million plus interest and incidentals on the Jahrhunderthalle site set aside for commercial development has been granted and shares in Concert Concept Veranstaltungen-GmbH have been pledged.

In addition, the shares in Good News Productions AG have been pledged as collateral for other current liabilities totalling kEUR 12,031.

To provide security for DEAG's liabilities arising from the 2003 / 06 zero coupon convertible bond issue for kEUR 6,016, in December 2003 a charge in the sum of EUR 2.0 million plus interest and incidentals on the main Jahrhunderthalle site was assigned to VEM Aktienbank AG as trustee in the interest of the loan creditors. The shares in Entertainment One AG, the participation in BALOU ENTERTAINMENT Konzertagentur GmbH & Co. KG and the share in Marshall Arts Limited are pledged in this connection.

Of the liquid funds, EUR 6.889 million in trust funds are pledged, mainly as collateral for tax liabilities and carried as other short-term liabilities.

28. Equity

The Company's capital stock amounts to EUR 18,558,782.00 less EUR 1,230.00 own shares. It is divided into 18,557,552.00 ordinary registered shares in the form of no-par-value individual share certificates each with a book share of EUR 1 in capital stock.

The Company's Management Board on 11 May 2005 decided, as approved by the Supervisory Board on 19 May 2005, to make use of the authorisation to increase capital stock (authorised capital) given to it by the General Meeting of Shareholders held on 17 June 2004 and to increase the Company's capital stock by EUR 1,375,000.00 from EUR 13,750,050 to EUR 15,125,050 by issuing 1,375,000 registered individual shares each with a book share of EUR 1 in capital stock. The shares were issued within the framework of a capital increase ex new through cash deposit at an issue price of EUR 2.10 each. The company obtained proceeds of EUR 2.89 million from the capital increase. The capital increase was entered in the register of companies on 23 May 2005. Subsequently the share capital was EUR 15,125,050.00.

The Company's Management Board on 2 December 2005 decided, as approved by the Supervisory Board on 5 December 2005, to make further partial use of the authorisation to increase capital stock (authorised capital) given to it by the General Meeting of Shareholders held on 17 June 2004 and to increase the Company's capital stock by up to EUR 1,512,000.00 from EUR 15,125,050 up to EUR 16,637,050 by issuing up to 1,512,000 registered individual shares each with a book share of EUR 1,00 in capital stock. VEM Aktienbank AG was nominated as underwriting and subscription bank for the new issue at EUR 1.00 per share with the obligation to offer the shares to shareholders at a ratio of 10:1 and to pay out any excess amounts to the company subtracting any issuing costs. VEM Aktienbank AG handled underwriting and subscription for the complete issue of EUR 1,512,000. The company obtained proceeds of EUR 3.7 million from the capital increase. The capital increase was entered in the register of companies on 22 December 2005.

The Company's Management Board on 20 December 2005 decided, as approved by the Supervisory Board on 21 December 2005, to make further partial use of the authorisation to increase capital stock (authorised capital) given to it by the General Meeting of Shareholders held on 17 June 2004 and to increase the Company's capital stock by up to EUR 909,057.00 from EUR 16,637,050 up to EUR 17,546,107 by issuing up to 909,057 registered individual shares each with a book share of EUR 1,00 in capital stock. The new shares were issued completely against investments in kind. The lowest issue price of EUR 1.00 per share was chosen as issue price. The 351,537 shares were issued in exchange for 50 % of the shares in ct creative talent gmbh. Furthermore, 557,520 new shares were issued in exchange for 51 % of shares of KBK Konzert- und Künstleragentur GmbH, München.

The Company's Management Board on 20 December 2005 decided also, as approved by the Supervisory Board on 21 December 2005, to make further partial use of the authorisation to increase capital stock (authorised capital) given to it by the General Meeting of Shareholders held on 17 June 2004 and to increase the Company's capital stock by EUR 1,011,815.00 from EUR 17,546,107.00 up to EUR 18,557,922.00 by issuing up to 1,011,815 registered individual shares each with a book share of EUR 1 in capital stock. The issue of new shares was made ex new. The issue was made against contributions in kind at the lowest issue price of EUR 1.00 per share. The new shares were issued in exchange for 75 % of shares of MPE Music Pool Europe GmbH, Hamburg.

The capital increase decided upon on 20 December 2005 was entered in the register of companies on 20 December 2005. Since that time the share capital of the Company is EUR 18.557.922.00 being divided up into 18,557.922 registered individual shares each with a book share of EUR 1 in capital stock.

In the financial year 860 new shares were issued due to conversion of 1,000 units of convertible bonds, increasing the share capital accordingly. Entry into the register of companies was made on 23 March 2006.

The Company's capital is fully paid up.

The capital reserve contains the additional funds raised from DEAG's share issue less the capital increase from company funds to adjust subscribed capital following the change-over to the Euro.

Management Report

The balance sheet loss includes past results of companies included in the consolidated financial statements and consolidated net earnings for the current financial year.

Earnings per share are calculated by dividing group profit by the weighted number of shares outstanding. As at 31 December 2005, there were 4,582,350 shares outstanding from the convertible bond issue that could potentially dilute earnings per share.

According to IAS 33, the number of shares for working out undiluted and diluted earnings per share is calculated as follows:

Date	Action	Shares Issued	Own shares	Month 2005	Shares in circulation	Weighted average	Stock as at ...
01.01.2005	Stock at start of year	13,750,050	1,230		13,748,820		
31.01.2005				January	13,748,820		
28.02.2005				February	13,748,820		
31.03.2005				March	13,748,820	13,748,820	31.03.2005
30.04.2005				April	13,748,820		
31.05.2005		1,3750,000		May	15,123,820		
30.06.2005		860		June	15,124,680	14,037,494	30.06.2005
31.07.2005				July	15,124,680		
31.08.2005				August	15,124,680		
30.09.2005				September	15,124,680	14,403,872	30.09.2005
31.10.2005				October	15,124,680		
30.11.2005				November	15,124,680		
31.12.2005		3,432,872	1,230	December	18,557,552	14,622,837	31.12.2005
31.12.2005	Convertible bond (potential shares)	4,582,350		2005	23,139,902	19,205,187	31.12.2005

Undiluted earnings per share are calculated on the basis of 14,622,837 shares. Diluted EPS is calculated on the basis of 19,205,187 shares. To calculate diluted EPS, kEUR 543 in interest on the convertible bond (after taxes) was eliminated.

Conditional Capital

The company's capital stock was increased, as resolved by the General Meeting of Shareholders on 17 June 2003, by EUR 4,583,350 (Conditional Capital 2003/1) and, as resolved by the General Meeting of Shareholders on 17 June 2004, by up to a further EUR 2,291,675 (Conditional Capital 2004/II).

The company made full use of Conditional Capital 2003/1 with the 2003/2006 convertible bond issue on the basis of the 17 June 2003 General Meeting resolution by issuing 4,583,350 convertible bonds with a total nominal value of up to EUR 6,783,358 entitling the holders to convert them into up to 4,583,350 shares in the company. This conditional capital increase will only be implemented insofar as bond holders make use of their conversion rights in accordance with the terms of the 2003/06 convertible bond issue. They will have an opportunity to do so on the third trading day and the 14 following trading days after the company's annual general meetings in 2005 and 2006 and at the end of the term on 29 November 2006.

Due to the issue of 860 converted shares from the conditional capital following conversion of convertible bonds out of a zero-coupon convertible bond issue in 2003/2006 the conditional capital is now EUR 4,582,350.00 divided up in up to 4,582,350 individual shares with a nominal share in the capital stock of EUR 1.00.

The conditional capital increase from the remaining Conditional Capital 2004/II by EUR 2,291,675 will be implemented only to the extent that the holders of option and conversion rights attached to the bonds and/or options issued by the Company up until 16 June 2009 on the basis of the Management Board's authorisation dated 17 June 2004 exercise those conversion or option rights, or that holders of convertible bonds who are obliged to convert fulfil their obligation to do so. New shares will share in profits from the beginning of the financial year in which they come into being by exercise of conversion

or option rights or by fulfilment of conversion obligations. The Management Board is authorised with the Supervisory Board's approval to specify the further details as to how the capital increase is implemented. DEAG Deutsche Entertainment AG has not subscribed to any shares in the context of the Company's conditional capital increase.

Authorised Capital

By issuing shares in return for contributions in cash or kind, the Management Board is authorised, subject to the Supervisory Board's approval, to increase the capital stock by up to EUR 6,875,025.00. This capital increase can be undertaken in one or more tranches until 16 June 2009. Subject to the Supervisory Board's approval the Management Board is in certain instances also authorised to rule out a rights entitlement on the part of existing shareholders.

The authorized capital as resolved by the General Meeting of Shareholders held on 17 June 2004 was together with appropriate modifications to the articles of association entered into the register of companies on 13 September 2004.

Since then the authorized capital has been used on several occasions. At present the authorized capital amounts to EUR 2,067,153.00.

Purchase of own shares (§ 71 Par. 1 Number 8 AktG)

As resolved by the General Meeting of Shareholders on 17 June 2005, Management Board is authorised to purchase up to 10 % of the company's shares. It must do so by 16 December 2006 and only via the stock exchange or a public offer to buy from shareholders. As of 31 December 2005 the company held 1,230 own shares.

Minority Interests

Minority interests are shown in the form of shares in paid up and earned equity that DEAG holds neither directly nor indirectly. They are carried in the books under equity.

29. Participation in other Companies in the Context of two Fixed Capital Increases

At the end of 2005 DEAG has taken out interests in three companies as follows: 75 % in Music Pool Europe GmbH (MPE), Hamburg, 51 % in KBK Konzert und Künstleragentur GmbH (KBK), München, 50 % in ct creative talent gmbh (ct), Berlin.

The acquisition costs in the event of an acquisition in exchange for the issue of equity are considered to the actual value of the consideration on the date of transaction, i.e. the stock market price.

Accordingly, acquisition costs and the acquired goodwill are as follows:

	MPE	KBK	ct
Capital share with voting rights	75%	51%	50%
Date of transaction	21.12.2005	20.12.2005	20.12.2005
Shares (units)	1,011,815	557,520	351,537
Share price	2.51	2.51	2.51
Costs of acquisition (kEUR)	2,539	1,399	882
minus/plus pro rata equity	63	35	-9
Goodwill	2,602	1,434	873
Assets (in kEUR)			(50% quota)
long-term	27	16	16
short-term	1,114	1,296	17
	1,141	1,312	33
Debt (in kEUR) short-term	1,204	1,347	24
	1,204	1,347	24
Result 2005	-88	-64	-4

31 December 2005 was selected as date of initial consolidation for all three companies applying considerations of materiality.

30. Discontinued Operations

DEAG has used the year 2005 for starting out on a re-positioning of the business portfolio. The rock/pop business run by Entertainment One and managed by the promoter Marcel Avram is closed down and the segment Theatres which is no longer considered part of the core business will be re-positioned outside of the group. Initial talks of contribution into a joint company have been conducted – so far however without concrete results. Both segments are shown as discontinued operations in the DEAG financial statement.

In assets and liabilities shown separately in the consolidated balance sheet, the discontinued operations in the segment Theatres and Entertainment One (segment Artists & Tours) are in each case included with the following figures:

Assets	Theatres segment	Artist & Tours segment	Total 2005 in EUR'000
Liquid funds	837	133	970
Accounts receivable	182	42	224
Inventories	57	-	57
Other current assets	150	102	252
Receivables due from affiliated companies with respect to continued operations	328	1,036	1,364
Current assets	1,554	1,313	2,867
Goodwill	370	-	370
Fixed assets	269	-	269
Long-term assets	639	-	639
Other assets directly related to discontinued operations	2,193	1,313	3,506

Liabilities	Theatres segment	Artist & Tours segment	Total 2005 in EUR'000
Accruals	625	116	741
Accounts payable	746	42	788
Sales accruals	160	-	160
Other current liabilities	266	4	270
Payables with due to affiliated companies with continued operations	1,215	-	1,215
Current liabilities	3,012	162	3,174
Accruals and liabilities directly related to discontinued operations	3,012	162	3,174

Current results with respect to discontinued operations break down as follows:

in EUR'000	Theatres segment		Artists & Tours segment		Total segments	
	2005	2004	2005	2004	2005	2004
Revenues	7,619	8,109	2,960	808	10,579	8,917
Cost of revenues	-5,325	-5,460	-3,131	-1,315	-8,456	-6,775
Gross Profit	2,294	2,649	-171	-507	2,123	2,142
Distribution costs	-1,628	-1,689	-277	-391	-1,905	-2,080
Administration costs	-1,100	-1,096	-598	-433	-1,698	-1,529
Other operating income/expenses	183	324	166	-147	349	177
Operating results before depreciation (EBITDA)	-251	188	-880	-1,478	-1,131	-1,290
Scheduled depreciation	-132	-146	-133	-54	-265	-200
Amortisation of goodwill	-	-	-3,000	-	-3,000	-
Operating income (EBIT)	-383	42	-4,013	-1,532	-4,396	-1,490
Financial result	-62	3	153	-70	91	-67
Result before taxes	-445	45	-3,860	-1,602	-4,305	-1,557
Income taxes	178	-18	239	-223	417	-241
Result after tax for continued operations	-267	27	-3,621	-1,825	-3,888	-1,798

	Total segments		Consolidation		Group	
	2005	2004	2005	2004	2005	2004
Revenues	10,579	8,917		-185	10,579	8,732
Cost of revenues	-8,456	-6,775		185	-8,456	-6,590
Gross Profit	2,123	2,142	-	-	2,123	2,142
Distribution costs	-1,905	-2,080			-1,905	-2,080
Administration costs	-1,698	-1,529	-12		-1,710	-1,529
Other operating income/expenses	349	177	13	-207	362	-30
Operating results before depreciation (EBITDA)	-1,131	-1,290	1	-207	-1,130	-1,497
Scheduled depreciation	-265	-200			-265	-200
Amortisation of goodwill	-3,000	-			-3,000	-
Operating income (EBIT)	-4,396	-1,490	1	-207	-4,395	-1,697
Interest income/expenses	-74	-56			-74	-56
Participations results	172	-			172	-
Currency exchange gains/losses	-7	-11			-7	-11
Financial result	91	-67	-	-	91	-67
Result before taxes	-4,305	-1,557	1	-207	-4,304	-1,764
Income taxes	417	-241			417	-241
Result after tax from discontinued operations	-3,888	-1,798	1	-207	-3,887	-2,005

Depreciation of goodwill for an amount of kEUR 3,000 relates to write-off of goodwill for the business area managed by Marcel Avram.

Discontinued operations affect the consolidated cash flow as follows:

in EUR'000	2005	2004
Cash flow before changes in net current assets	-839	-1,459
Net cash from operating activities from discontinued operations	-1,632	-2,523
Net cash from investment activities in discontinued operations	-24	-56
Inflow from investments in discontinued operations from continued operations	1,699	2,287
Changes in liquidity	43	-292
Liquid funds as at 01.01.	927	1,219
Liquid funds as at 31.12.	970	927

31. Information on Relationships with Related Parties in Accordance with IAS 24

According to IAS 24, the Management Board of DEAG Deutsche Entertainment AG, its shareholders and the Supervisory Board come into consideration as related parties.

In the reporting year the following legal relationships existed with **Mr Peter Schwenkow**:

Expenses, Travel Expenses, Entertainment Expenses, Corporate Gifts

In the financial year 2005, Mr Schwenkow made a large number of business trips on DEAG's behalf. The majority of travel costs that he incurred were billed directly to DEAG, but in on some occasions they were paid by Mr Schwenkow and reimbursed by DEAG within the context of travel expense settlement. They were paid in accordance with the provisions laid down in DEAG's travel expenses guidelines. Where the particular activity could be directly allocated to individual subsidiaries, DEAG passed these costs on internally to the relevant subsidiary.

DEAG also reimbursed Mr Schwenkow, mainly within the context of travel expense settlement, for the cost of hospitality provided in the course of business and, to a minor extent, the cost of flowers and similar presents given as corporate gifts.

Annual emoluments received in 2005 by the members of the management board totalled kEUR 987 (2004:kEUR 940).

Supervisory Board

Members of the Supervisory Board are remunerated in line with the articles of incorporation. In the year under review, remuneration totalled kEUR 55 (2004: kEUR 55). The Company also reimbursed travel costs of kEUR 1 incurred in connection with Supervisory Board meetings (2004: kEUR 3).

Remuneration Agreement with Hogan Hartson & Raue

Between the Company and the law firm of Hogan Hartson & Raue, of which the Chairman of the Supervisory Board is a partner, a remuneration agreement has been concluded, which is applied when legal services are provided by that law firm. DEAG Group is not obliged to actually make of the consulting services offered. In the financial year 2005 kEUR 14 (2004: - kEUR) were invoiced for consulting services rendered.

32. Revenues

The segment account shows the breakdown of revenues by lines of business and geographical markets.

33. Cost of Revenues

The cost of materials, purchased services, especially fees, personnel expenses, event-related hire and rental charges and other material costs incurred to achieve sales revenue are booked as revenue costs.

34. Distribution Costs

Distribution costs include personnel expenses, advertising and travel costs, cost of premises and other distribution-related material costs.

35. Administration Costs

Administration costs include personnel expenses, legal and consulting costs, cost of premises and other administration-related material costs.

36. Other Operating Income

Other operating income consists primarily of the following:

in EUR'000	2005	2004
Income from retransfer of reserves	780	4,105
Income unrelated to the accounting period	578	400
Income from waivers of claims outstanding	439	2,467
Income from write-ups (fair value)	397	-
Rental income	349	239
Damages	200	1
Asset disposals	85	4
Insurance payments	8	94
One-off amount related to Stella insolvency	-	123
Other	1,423	1,207
TOTAL	4,259	8,640

37. Other Operating Expenses

Other operating expenditure consists of the following:

EUR'000	2005	2004
Itemised allowances /risk provision	311	592
Other taxes	98	110
Losses from fixed asset disposals	10	308
Damages	6	23
One-off effects and restructuring	-	200
Other	139	529
Total	564	1,762

38. Depreciation/Amortisation

Depreciation /amortisation for continued operations as follows:

in EUR'000	2005	2004
Amortisation of consolidation-related goodwill (unscheduled)	-	150
Depreciation of other fixed assets and intangibles	285	406
Total depreciations	285	556

39. Interest Income and Expenses

Net interest income was as follows:

in EUR'000	2005	2004
Other interest and similar income	313	436
Other interest and similar expenditure	-2,620	-2,482
Net interest income	-2,307	-2,046

40. Result From Investments and Participations

This item relates to distributions from a company not included in Group consolidation.

41. Income Taxes

Actual tax liabilities for the current financial year and previous years are calculated on the basis of the amounts expected to be payable to the tax authorities, applying the tax rates in force on the balance sheet date. Deferred tax claims and tax liabilities are calculated on the basis of the rates that were valid on the balance sheet date.

in EUR'000	2005	2004
Current tax expenditure	-911	-455
Deferred tax income / expenditure resulting mainly from future use of losses carried forward and from temporary differences	1,556	686
Tax income / expenditure	645	231

Income tax includes all income tax paid or payable in the respective countries and all deferred taxes.

Income tax includes corporate income tax, trade tax on earnings, solidarity surcharge and the corresponding foreign taxes.

Deferred taxes are formed in order to record all substantial temporary variances between the individual financial statement and the tax balance sheet and temporary variances due to consolidation adjustments. In addition, deferred tax claims are capitalised to the extent that tax-deductible losses have been carried forward.

The rate of corporate income tax in Germany is 25 % plus a 5.5 % solidarity surcharge. Trade tax deductible when establishing income for corporate income tax purposes varies between 17% and 19.7%, depending on the local authority. The calculation of asset-side deferred tax was based on a rate of 40 %.

Income tax rate in the United Kingdom is approximately 33% and in Switzerland approximately 19.5 %.

Tax expenses resulting from application of the DEAG tax rate can be translated into actual tax expenses as follows:

In EUR'000	2005	2004
Result before taxes on income and minority interests	-4,156	2,502
Tax expenditure / income at the DEAG Holding's tax rate	1,662	-1,001
Tax expenditure / income as per profit and loss statement	645	231
Carryover figure	1,017	-1,232
Amortisation of goodwill	1,200	60
Taxes (previous years)	15	-284
Tax-free earnings and non-deductible expenses	457	-951
Different tax rates	-930	-403
Write-up / value adjustment of tax accruals	275	346
	1,017	-1,232

Deferred tax assets and liabilities are made up as follows:

in EUR'000	2005	2004
Tax accruals on losses carried forward by DEAG AG and temporary differences	15,087	13,403
Tax deferrals that can be set off against accruals	-2,752	-2,751
Deferred tax assets (net)	12,335	10,652

The calculation of net tax claims is based on the level, offsetting is possible with the same tax authority.

Deferred tax assets were formed exclusively for tax relevant losses at DEAG AG taking into account temporary differences in the group. To guard against the risk of fiscal non-recognition or a failure of utilisation, appropriate reductions were made.

Deferred tax liabilities are made up as follows:

in EUR'000	2005	2004
Deferred income from the value write-up on the Jahrhunderthalle Frankfurt	4,587	4,586
Deferred taxes deductible from deferred income (Jahrhunderthalle Frankfurt)	-2,752	-2,751
Total deferred taxes (Jahrhunderthalle Frankfurt)	1,835	1,835
Deferred income from other temporary differences in the reporting year	107	237
Total deferred taxes	1,942	2,072

42. Personnel Expenses

in EUR'000	2005	2004
Wages and salaries	6,957	7,553
Social security contributions	983	1,005
Total	7,940	8,558

43. Average Number of Employees During the Year

Head count	2005	2004
Artists & Tours	34	43
Urban Entertainment	22	22
DEAG Holding	17	15
TOTAL Continued Operations	73	80
Discontinued Operations	144	146
Grand Total	217	226

On 31 December 2005 the Group employed 76 (2004: 65) full-time staff in continued operations.

44. Off Balance Sheet Contingencies

On the balance sheet date the following contingencies relating to securities and guarantees provided for third parties exist: A claim for damage may result in a claim for kEUR 89. An obligation to contribute additional kEUR 25 exists versus an associated company.

45. Other Financial Commitments

In addition to the accruals and liabilities in the balance sheet and the contingencies, the following financial commitments exist:

in EUR'000	Other	Rent	Leasing	Total
2006	2,560	447	219	3,226
2007-10	889	1,325	113	2,327
Total	3,449	1,772	332	5,553

46. Companies Included Pro Rata

According to IAS 31.47 companies that have been included pro rata are shown in the consolidated financial statements as follows:

in EUR'000	2005	2004
Assets:		
Short-term assets	5,098	3,081
Long-term assets	76	72
Total assets	5,174	3,153
Liabilities:		
Short-term debt	4,078	2,500
Total liabilities	4,078	2,500
Statement of income:		
Revenues	11,939	14,833
Cost of revenues	-10,238	-13,546
	1,701	1,287
Other operating expenses	-992	-957
Result from interest	92	70
	801	400
Income tax	-260	-52
Result for the year	541	348

47. Audit fees

The auditor's fees in the financial year 2005 are made up as follows:

EUR'000	2005
Audit costs	198
Other services rendered	<u>129</u>
	327

48. Statement of Conformity in accordance with § 161 AktG

The Management Board and Supervisory Board have issued a statement of conformity with the recommendations of the government commission on a German Corporate Governance Code in accordance with § 161 AktG and made it permanently accessible to shareholders on the Internet at www.deag.de/en/investors.htm

49. Legal Disputes

Various DEAG Group companies are involved in legal or out-of-court disputes in respect of substantial claims. Adequate provision was made to cover all risks.

50. Personal Data

Management Board

Peter Schwenkow

Place of residence	Berlin
Profession	CEO
Responsibility within the Group	Strategic Business Development and Operations, Sales, Marketing, Investor Relations
Group retainers	Administrative Board Member of Good News Productions AG, Glattbrugg-Opfikon (CH) Administrative Board Member of Entertainment One AG, Altendorf (CH) (until 5 October 2005)
Shares held as at 31.12.2005	391,770

Dr. Ingo Stein

Place of residence	Berlin
Profession	Board Member (appointed on 01.09.2005)
Responsibility within the Group	Finance and Human Resources
Group retainers	Member of the Supervisory Board of DEAG Classics AG
Shares held as at 31.12.2005	-

Wingolf Mielke

Place of residence	Hamburg
Profession	Board Member (until 31.08.2005)
Responsibility within the Group	Group Controlling, Finance and Administration
Group retainers	-
Shares held as at 31.12.2005	-

Supervisory Board

Prof. Dr. Peter Raue

Place of residence	Berlin
Position on Supervisory Board	Chairman
Profession	Lawyer and Notary Public
Retainers on other boards	Supervisory Board Member of Hebbel Theater GmbH, Berlin
Group retainers	-
Shares held as at 31.12.2005	-

Wolf-D. Gramatke

Place of residence	Hamburg
Position on Supervisory Board	Vice-Chairman
Profession	Freelance Consultant
Retainers on other boards	Supervisory Board Chairman of Pixelpark AG, Berlin Supervisory Board Chairman of Steristics AG, Münster Supervisory Board Member of VIVA Media AG, Cologne (until 22.11.2005)
Group retainers	Supervisory Board Member of DEAG Classics AG
Shares held as at 31.12.2005	-

Dr. Günther R. Niethammer

Place of residence	Nuremberg
Position on Supervisory Board	Supervisory board member
Profession	Managing Partner, Odewald & Cie GmbH
Retainers on other boards	Supervisory Board Member of ad pepper media International N.V, Amsterdam (NL)
Group retainers	-
Shares held as at 31.12.2005	-

Berlin, 31 March 2006

DEAG
Deutsche Entertainment Aktiengesellschaft
Management Board

Peter L. H. Schwenkow

Dr. Ingo Stein

Independent Auditor's Report

We have audited the consolidated financial statements drawn up by DEAG Deutsche Entertainment Aktiengesellschaft for the financial year 1 January 2005 to 31 December 2005 comprising balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement and notes as well as the management report. The company's Management Board is responsible for drawing up the consolidated financial statements and for their content in accordance with IFRS as applicable within the EC and in addition in accordance to any commercial law to be applied pursuant to § 315a Section 1 HGB. Our responsibility is to give an opinion on the basis of our audit of the consolidated financial statements and the management report and the group management report of the Company.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB following the principles of German audit regulations laid down by the German Institute of Auditors (IDW) and following in addition the International Standards on Auditing (ISA). These require us to plan and carry out the audit so as to be able to judge with sufficient certainty whether the consolidated financial statements are free from material misstatements, that would have a material impact on the presentation of the assets, finance and income position of the company provided by the financial statements of the company, drawn up under observance of applicable reporting regulations, and by the management report and the group management report. The audit program was set up taking into consideration information on the business as well as the economic and legal circumstances of the Group and the expectations regarding possible errors. During the audit, evidence on the effectiveness of internal financial controls and of the values reported and information given in the consolidated financial statements and in the management report and group management report is assessed on the basis of random samples. The audit includes assessing the annual reports of the companies included in the consolidated financial statements of the Group, the definition of consolidating entities, accounting and consolidation principles applied and the Management Board's material estimates as well as evaluating the overall presentation of the consolidated financial statements and the management and group management reports. We believe that our audit provides a sufficiently reliable basis on which to form an opinion.

Our audit gave rise to no objections.

In our opinion, based on information gathered during the audit the annual report complies with IFRS, as applicable in the EU, as well as with the applicable commercial law regulations pursuant to §315a Section 1 HGB and it presents in accordance with such regulations a true picture of the Group's asset, financial and earnings position. Both the management report and the group management report are in accord with the consolidated financial statements, , convey an accurate idea of the Group's position and accurately describe the chances and risks inherent in future developments.

Without qualifying this opinion, with regard to the Company's continued existence we draw attention to the risks from financial obligations as described in the section of the management and group management report entitled "Chances and risks".

Berlin, 10 April 2006

BDO Deutsche Warentreuhand Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Braasch
Auditor

ppa. Pfeiffer
Auditor

DEAG Deutsche Entertainment Aktiengesellschaft

Balance Sheet Summary (according to HGB)

Assets in EUR'000	31.12.2005	31.12.2004
Intangible assets and tangible fixed assets	118	124
Financial assets	11,839	12,747
Fixed assets	11,957	12,871
Receivables and prepaid expenses	21,471	19,392
Cash, cash equivalents and securities	2,518	269
Total current assets	23,989	19,661
Total assets	35,946	32,532
Equity and liabilities in EUR'000	31.12.2005	31.12.2004
Share capital	18,559	13,750
Capital reserve	35,557	30,479
Reserve for own shares	1	1
Accumulated deficit	-37,540	-31,507
Shareholders' equity	16,577	12,723
Accruals	1,265	3,641
Convertible bond	6,016	5,280
Accounts payable to financial institutions	4,005	4,000
Other accounts payable and deferred income	8,083	6,888
Total payables	18,104	16,168
Total equity and liabilities	35,946	32,532

DEAG Deutsche Entertainment Aktiengesellschaft

Consolidated Statement of Income (according to HGB)

in EUR'000	Financial statement 01.01.-31.12.2005	Financial statement 01.01.-31.12.2004
+		
Distribution costs	-293	-25
General and administration costs	-4,182	-4,186
Other operating income and expenses	5,590	2,302
Interest income / expenses	-525	-1,052
Depreciation of financial assets and marketable securities	-4,299	-
Income from investments and participations	-2,323	689
Result of ordinary business activities	-6,030	-2,272
Extraordinary result	-	5,340
Income tax and other taxes	-3	331
Net income / loss	-6,033	3,399
Loss carried forward	-31,507	-34,905
Transfer to the reserve for own shares	-	-1
Accumulated deficit	-37,540	-31,507

The annual report containing the consolidated financial statements of DEAG Deutsche Entertainment AG was awarded an unqualified audit opinion by the BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft can be requested from the company.

Report of the supervisory board

In the last financial year the Supervisory Board paid close attention to the Company's situation and development and monitored and advised the management continuously with the help of oral and written reports from the Management Board.

The Supervisory Board met on five occasions in the financial year 2005. At these meetings it discussed the company's current position and the general progress of business and made numerous decisions. No committees were formed. All business transactions requiring the Supervisory Board's approval were discussed and examined at the meetings. In this way, the Supervisory Board assured itself that the company is being managed in accordance with regulations. Moreover, in between meetings the Supervisory Board chairman received written and oral reports on business transactions of special significance for the company and on the outcome of Management Board meetings.

The Company followed the Corporate Governance Code guidelines except for a few points mentioned in the statements in the statements of conformity that are either not easily practicable or disadvantageous. Publication of the salaries of individual Management Board members will commence, as specified by law, as from the financial year 2006. The statement of conformity for 2006 was passed at the Supervisory Board meeting of 27 February 2006 and is published on the company website.

The financial statements and consolidated financial statements, the management report and group management report for the financial year 2005 were audited by the auditors appointed by the Supervisory Board, BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin, who issued an unqualified audit certificate. The auditors attended the Supervisory Board accounts meeting, where they reported on the audit findings, which the Supervisory Board noted and endorsed.

After concluding its own scrutiny, the Supervisory Board raised no objections. It approved the financial statements, which are therefore final. The Supervisory Board also approved the consolidated financial statements. The Supervisory Board agrees with the Management Board's proposal for the appropriation of net income.

Berlin, 27 April 2006

The Supervisory Board

Prof. Dr. Peter Raue
Chairman