

DEAG Deutsche Entertainment AG

Annual Report 2006

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Management Report and Group Management Report

1. Development of the Live Entertainment market and DEAG

Deutsche Entertainment AG (DEAG) is back on a growth course after completing its restructuring phase in fiscal 2006. At the same time, the company was able to relieve the liabilities side of its balance sheet by reducing its liabilities by a double-digit million amount. With sales revenues of EUR 82.8 million (+32%), the EBIT was increased by 44% to EUR 3.1 million. Furthermore, relief for future results was secured through the adjustment of balance sheet items after the integration of the findings of the German Financial Reporting Enforcement Panel (DPR).

Live Entertainment – a growth market

The Live Entertainment market continues to grow. The total volume of EUR 2.7 billion (growth of 0.4%) determined in 2003, which is likely to have risen further during the following years, was considerably above the sales of recorded music (EUR 1.6 billion in 2004, EUR 1.5 billion in 2005) that suffered from piracy. The sales revenues development is driven by the rising distribution of tickets through the Internet, higher ticket pricing, a growing number of modern venues, sponsorship and, in Germany, the growing popularity of German artists as well as positive overall economic development.

The Rock/Pop area continues to be marked by the high fee demands of the artists. The increasing significance of tours for artists, who often sell more tickets than recorded music, will strengthen the position of promoters and allow for a further differentiation from the recording industry.

With a strong presence in Germany and in Switzerland coupled with the preparations for its market entry in the UK, DEAG will be able to benefit both as a tour promoter and as a local promoter of Live Entertainment from this trend through co-operation with several music majors.

Growth driven by Classical Music business, Rock/Pop Germany and Good News

The growth in sales revenues was driven in fiscal 2006 primarily by the extension of the Classical Music business as well as the further development of activities in the Rock/Pop area. Following the acquisition of the concert promoters MPE, KBK and ct in December 2005, DEAG will be able to win back a significant positioning on the German Rock/Pop market. In 2006 tours were organized, amongst others, with the Eagles, 50 Cent, Christina Stürmer, Deep Purple, US 5, Muse, Chris de Burgh and the Black Eyed Peas. For 2007 Justin Timberlake, Beyonce, Snoop Dogg/P. Diddy, Manowar, The Who and Peter Maffay are among the artists in advance booking.

In the Classical Music area the top event was the sold-out Waldbühne concert in Berlin with Anna Netrebko and the two star tenors Plácido Domingo and Rolando Villazón. DEAG not only benefited from the concert result but also from the successful exploitation of ancillary rights: the concert was broadcasted by television in more than 20 countries and has been available on DVD since November 24, 2006.

Furthermore, concerts were staged, inter alia, with Rolando Villazón and Anna Netrebko, René Fleming. Own productions included the Last Night of the Proms and Classical Spectacular. Advance booking has started in 2007 for 11 concerts with the dream couple of the European opera, Anna Netrebko and Rolando Villazón as well as six open airs with the Chinese piano wonder Lang Lang.

In Switzerland Good News was again able to make full use of the Zurich Hallenstadion venue after the restoration work caused losses of sales revenues in 2004 and 2005. The Hallenstadion saw performances of, amongst others, Pink, Carlos Santana, George Michael, Katie Melua, Chris Rea, Oasis, Red Hot Chili Peppers and Iron Maiden. Furthermore, successful open air events were staged: more than 50,000 people came to the Rolling Stones open air performance in Dübendorf near Zurich. The Stade de Suisse was fully sold-out for the Bon Jovi concert. In

July the festival in Locarno with top acts like Eric Clapton, Eros Ramazotti, Depeche Mode and The Who was successfully organized.

Restructuring of investees and strategic partnerships

In 2006 the investee portfolio of DEAG was restructured and further strategic partnerships were entered into:

- The publisher Ringier Verlag has been a 43% shareholder in Good News since July 1, 2006, a company, in which DEAG holds 52%. With the largest Swiss publishing house a strategically important partner has been tied to the company. Good News is entitled to use marketing and advertising services worth several millions of Swiss Francs over the coming years.
- During the third quarter an extensive agreement was entered into with Anschutz Entertainment Group, one of the leading sports and entertainment promoters in the world and the developer of the O₂ World Arena in Berlin. In this connection a joint company was set up in which the two partners hold an equal shareholding. This company will mainly promote events in the new O₂ World Arena in Berlin and the Berlin Waldbühne from 2008 onwards. In addition, DEAG and Anschutz Entertainment will closely co-operate in the tour segment: DEAG will be the preferred promoter of tours that AEG takes to Germany. In connection with this agreement, the shareholding in the British subsidiary Marshall Arts was sold effective October 13, 2006. Anschutz Entertainment Group, in turn, took over 49% of the shares in Marshall Arts.
- In the United Kingdom DEAG entered into an agreement in December 2006 with the world's leading Classical Music agency IMG Artists and England's leading Classical Music promoter Raymond Gubbay to set up a joint venture called "The Classical Entertainment". In this way DEAG invests in the growing segment of popular classical music and implements, as announced, its European expansion into the Classical Music segment.
- Another new business area, into which DEAG expands, is Comedy. The wholly owned subsidiary "Balou Entertainment" signed contracts for several years with star comedian Rüdiger Hoffmann and the music comedian group "The Pops". Further contractual agreements are about to be signed. Comedy is an attractive business area because of its high growth rates and its reasonable production costs.
- The local business, too, was extended: apart from Berlin, Munich and Frankfurt DEAG is now also present in Hamburg: River Concerts GmbH will be the local promoter not only of DEAG events but also of events staged by third parties.
- In July 2006 a co-operation agreement was signed with the promoter ACE GmbH which provides for a later majority holding of DEAG. ACE organizes in 2007, amongst others, the dance show "Riverdance" as well as the Boney M. Musical "Daddy Cool". The core artists of ACE include, amongst others, Udo Lindenberg, Plácido Domingo, TOTO, Schürzenjäger and others.
- After the completion of the fiscal year the 100 percent shareholding in Variété Wintergarten was sold. The divestiture, which had been announced some time ago, was part of the portfolio adjustment of DEAG. Variété Friedrichsbau in Stuttgart has not yet been sold.

Against the backdrop of its partnerships with the world market leaders in ticketing, Ticketmaster, the world's leading Classical Music agency, IMG Artists, the world's second largest live entertainment group, Anschutz Entertainment, and the world's second largest music major Warner Music for the distribution of recorded music and music publishing, DEAG has laid a sound foundation for the expansion of its business in the years to come.

In order to support the growth course charted DEAG extended its Management Board in fiscal 2006: effective August 1, 2006 the Supervisory Board appointed Christian Diekmann as Chief Operating Officer (COO). He is in charge of Operations, Marketing as well as the integration of the companies acquired.

Reduction of liabilities and relief for future results

Moreover, the company was able to significantly relieve the liabilities side of its balance sheet in fiscal 2006. The decrease in liabilities concerns, more particularly, burdens which served for the financing of the restructuring in the years 2003 ff:

- In Q2/2006 DEAG was able to enter into an agreement with the Ringier publishing house to reduce its liabilities under the securities repurchase agreement. DEAG took back the 39% securities sold under the repurchasing agreement and sold 38% to the Ringier publishing house.
- In November 2006 the company was able to achieve a conversion ratio of 99% for its convertible bond. The last conversion window went from November 9 to November 29. Overall, 4.6 million partial debentures with a nominal value of EUR 6.9 million were coming up. The conversion resulted in a further strengthening of the equity capital of DEAG.
- In 2006 all bank loans from the restructuring phase were paid back. Furthermore, more than EUR 5 million tax liabilities were reduced.

Overall, short-term liabilities dropped by EUR 18.7 million and long-term liabilities by EUR 6.3 million. The significant relief on the liabilities side of the balance sheet also has a positive impact on the cost of capital. In fiscal 2005 it still amounted to EUR 2.6 million; in fiscal 2006 it was reduced to EUR 2.1 million and in 2007 it will decrease significantly because of the abolition of the major part of the interest-bearing liabilities. The equity ratio amounted to 46% as of December 31, 2006; this was 18 percentage points more than in fiscal 2005, following the adjustments based on the FREP findings (see Chapter 2.1).

After the reduction of the carrying values for deferred taxes and Jahrhunderthalle, future results will be relieved, more particularly following the removal of the use of deferred taxes.

The successfully developed business areas, co-operations with strong strategic partners and the successful development of concerts already in advance booking, together with a far-reaching relief of the liabilities side of the balance sheet, all mean that DEAG can look optimistically to fiscal 2007.

2. Business development of the DEAG Group

2.1 Adjustments of the financial statements as of December 31, 2005 in accordance with IAS 8 following the findings of the German Financial Enforcement Panel (FREP)

In fiscal 2006 the company underwent an examination in accordance with § 324 para 2 sentence 3 No. 3 HGB (German Commercial Code) (random sampling procedure) by the German Financial Reporting Enforcement Panel (FREP). The examination concerned the consolidated financial statements for fiscal 2005.

The findings of the examination by FREP concerned the following facts:

1. Discontinued operations (IFRS 5):

According to FREP the varieties were qualified in 2005 erroneously as discontinued operations; the reporting of balance sheet figures for discontinued segments (EOne) is not in conformity with IAS.

2. Investment property (IAS 40):

This item is not to be broken down by expected maturities but is to be shown separately under tangible assets.

3. Other intangible assets acquired within the framework of business combinations (IFRS 3):

Within the framework of the acquisitions of MPE GmbH and KBK GmbH, orders on hand from firmly contracted tours, artist and agent relationships as well as competition clauses should have been identified, valued and stated as other intangible assets.

4. Deferred tax assets on losses carried forward (IAS 12):

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Because of the loss history of the company and the volatile nature of the business, a safe utilization of losses carried forward did not exist and, therefore, the recognition of deferred tax assets should be limited to nettable deferred tax liabilities.

5. Impairment of the investment property (IAS 40):

The values reported so far were considered to be too high; safety margins should be deducted because of a possible restricted development capacity.

Although the company does not proceed on the assumption that erroneous financial statements were prepared in the past but wishes to avoid possible disputes with the Federal Financial Supervisory Authority – BaFin, it accepts the FREP findings, also because they will mean relief on future results. The FREP findings were integrated through a restatement of the 2005 financial statements in accordance with IAS 8.

Overall, the FREP adjustments reduced the Group equity as of December 31, 2005 by EUR 15.4 million; the 2005 result was reduced in terms of tax items by EUR 1.7 million (including EUR 0.2 million in discontinued operations). The adjustments are described in more detail in the Notes.

2.2. Income and assets position of the Group

Please note: The prior year figures were adjusted on the basis of the FREP findings.

Income position

Sales revenues rose by 32% from EUR 62.7 million to EUR 82.8 million. The higher revenues resulted, more particularly, from the areas Rock/Pop Germany, the Classical Music segment as well as from our Swiss subsidiary Good News. The Rock/Pop area was impacted, more particularly, by the activities of the concert promoters MPE, KBK and ct acquired in December 2005. In Switzerland, Good News was again able to make full use of the Hallenstadion venue in Zurich whose renovation was completed in fall 2005.

The gross margin of 21% remained on the prior year level. This resulted in an increase in the gross profit on sales in the amount of 31%.

Distribution costs rose following the extension of the business volume. Administration costs were higher because of additional administration costs from the three concert promoters acquired in December 2005.

Other operating income in the amount of EUR 6.7 million (fiscal 2006: EUR 4.3 million) includes this year, amongst other things, income from the sale of part of the shareholding in Good News (EUR 2.2 million) and Marshall Arts (EUR 1.4 million). Furthermore, accruals were written back and commission income as well as income from letting and leasing were achieved.

The EBITDA rose by 79% to EUR 4.3 million. Following depreciations and amortizations of EUR 1.3 million (prior year: EUR 0.3 million), the EBIT amounted to EUR 3.1 million (prior year: EUR 2.1 million).

The financial result of EUR –2.2 million (prior year: EUR –2.0 million) includes, amongst other things, the cost of capital in connection with the convertible bond up to November 30, 2006, interest in respect of the securities repurchase agreement up to June 30, 2006 as well as the interest on the bank loan up to December 2006. These charges are no longer incurred in 2007.

The net income for the year from continued operations amounts after tax of EUR –0.4 million (prior year: EUR –1.3 million) to EUR 0.5 million which corresponds to a EUR 1.6 million rise versus prior year.

Following the deduction of the income after tax from discontinued operations of EUR –0.6 million (prior year EUR –4.1 million) and minority interests in the amount of EUR 0.3 million

(prior year EUR 0.3 million), the consolidated result amounts to EUR –0.4 million; this corresponds to an increase of EUR 5.1 million versus prior year (EUR –5.5 million).

Assets position

Liquid assets fell by EUR 12.7 million to EUR 14.2 million. The funds were used for the repayment of bank loans, tax liabilities and other liabilities. The increase in inventories (advance payment of fees and production costs) of EUR 2.0 million reflects the increase in business activities in the forthcoming quarters. Goodwill declined more particularly following the reduction of the goodwill of Good News within the framework of the divestiture of 38% of the shares in Good News and the sale of Marshall Arts by EUR 10.4 million to EUR 23.8 million. Other intangible assets rose, amongst other things, following the acquisition of rights by EUR 1.6 million to EUR 3.6 million. The investment properties are parts of plots of land around the Frankfurt Jahrhunderthalle which were reclassified after the value adjustment based on the FREP findings (see Chapter 2.1). The item Deferred Tax Assets disappeared completely after the restatement of the 2005 financial statements following the FREP findings.

Liabilities to banks dropped by EUR 3.1 million following the repayment of loans. The remaining value of EUR 0.9 million in 2006 concerns a working capital line. The increase in sales revenue deferrals of EUR 1.9 million reflects the growing business activity in the forthcoming quarters versus prior year. The decrease in accruals by EUR 1.9 million to EUR 4.8 million is attributable, more particularly, to the lower amount of outstanding invoices. The decrease in other short-term liabilities in the amount of EUR 16.4 million is attributable, more particularly, to the discontinuation of the liability from the securities repurchase agreement in the amount of EUR 12.0 million as well as to the settlement of tax liabilities.

As far as the drop in long-term liabilities in the amount of EUR 6.3 million is concerned, the removal of the liability from the convertible bond has a particularly significant impact. On December 31, 2005 it was reported in the financial statements as EUR 6.0 million.

The subscribed capital rose as a result of the conversion of 4.5 million partial debentures into shares of DEAG by EUR 4.5 million to EUR 23.1 million. The capital reserve increased following the conversion after the recognition of the difference between the nominal value of the share (EUR 1) and the conversion price of EUR 1.48 in the amount of EUR 2.2 million to EUR 64.6 million.

Group equity rose by EUR 7.5 million to EUR 31.9 million; this corresponds to an equity ratio of 46% (prior year 28%).

2.3 Business Development by segment

Since the beginning of fiscal 2006 DEAG has been reporting in a new segment structure. It reflects the strategic orientation of the Group in an appropriate and transparent manner:

- In the segment Live Touring ("traveling business") the touring business is reported. This includes the activities of the companies DEAG Classics (Berlin), Marshall Arts (United Kingdom, deconsolidated effective October 13, 2006), DEAG Concerts (Berlin), KBK Konzert u. Künstleragentur (Munich), Music Pool Europe (Hamburg), Balou Entertainment Künstleragentur (Cologne) and creative talent (Berlin).
- In the segment Entertainment Services ("stationery business") the regional business and the entire services business are reported. This includes the activities of Good News (Switzerland), Global Concerts (Munich), Jahrhunderthalle Kultur (Frankfurt), Concert Concept (Berlin), Friedrichsbau Varieté (Stuttgart), River Concerts (Hamburg, from 2007) as well as the record label and the music publisher DEAG Music (Berlin).
- The activities of the Varieté Wintergarten (Berlin), which has since been sold, are reported as discontinued operations.

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

Revenues (in EUR'000)	2006	2005	Variation versus prior year
Live Touring Entertainment Services	30,697	24,560	6,137
	53,583	38,955	14,628

Segment performance

Operating result (EBIT) in EUR'000	2006	2005	Variation versus prior year
Live Touring Entertainment Services	457	136	321
	5,174	3,767	1,407

Live Touring

Sales:

Sales revenues rose, more particularly, as a result of the new activities of the concert promoters MPE, KBK and ct acquired in December 2005 and the extension of the Classical Music business from EUR 24.6 million to EUR 30.7 million.

Segment performance:

An EBIT of EUR 0.5 million versus EUR 0.1 million in prior year was achieved which did not meet the expectations of the company. The EBIT was burdened by an amount of EUR 0.4 million following the impact of the FREP findings. The EBIT was adversely impacted, amongst other things, by investments in new formats, postponed tours and acquisition costs for artists who will co-operate with DEAG companies in the years to come. The EBIT includes other income from the Anschutz/Marshall Arts transaction in the amount of EUR 1.4 million; the Marshall Arts result was no longer included in the strong fourth quarter.

Entertainment Services

Sales:

Sales revenues rose from EUR 39.0 million to EUR 53.6 million. A special contribution to this increase in sales revenues was made by the Swiss subsidiary Good News which in 2006 was able to make again full use throughout the year of the Zurich Hallenstadion venue which was closed until fall 2005 for major renovation work.

Segment performance:

The extraordinary good segment result in the amount of EUR 5.2 million is attributable firstly to the activities of the Swiss subsidiary Good News. Secondly, other operating income was generated from the sale of 38% in Good News in the amount of EUR 2.2 million.

Discontinued operations

Sales in EUR´000	2006	2005	Variation
	4,226	10,579	-6,353
Operating result (EBIT) in EUR´000	2006	2005	Variation
	- 532	-4,395	3,863

The discontinued business areas include the activities of Wintergarten Varieté (in 2005 including Friedrichsbau) sold with effect from January 1, 2007 as well as the Rock/Pop activities of Entertainment One AG, which were discontinued in 2005. The EBIT 2005 was burdened by goodwill amortization in the amount of EUR 3 million.

2.4 Financing of the Group

Cash flow statement of the Group (abbreviated version) in EUR´000

	2006	2005
Cash flow before changes to net current assets	-2.817	-4.121
<i>Including from discontinued operations</i>		
Outflow of funds from current business activities	-7.509	-118
<i>Including from discontinued operations</i>	<i>-800</i>	<i>-1.632</i>
Addition/outflow from investing activities	-838	744
<i>including from discontinued operations</i>	<i>-9</i>	<i>-24</i>
Additions from financing activities	-3.679	5.023
Change in cash and cash equivalents with an impact on payments	-12.026	5.625
Exchange effects	-45	-24
Cash and cash equivalents at the beginning of the year	26.867	21.266
Cash and cash equivalents at the end of the year	14.796	26.867

The outflow of funds from continued operations in the amount of EUR 7.6 million resulted primarily from non-cash revenue items as well as build-up of working capital.

The outflow of funds from financing activities in the amount of EUR 4.0 million was primarily attributable to the repayment of bank loans.

The liquid assets of the DEAG Group amounted to EUR 14.8 million on the balance sheet date; EUR 1.6 million were pledged escrow funds with restrictions of disposal for the offsetting of other short-term liabilities. EUR 10.1 million are not subject fully disposal of DEAG but depend on the amount and timing of dividend payments.

We assume that in fiscal 2007 all payment obligations from operating activities will be fully covered by the inflow of funds from continued business operations and liquid assets, if our target figures for 2007 are reached. Otherwise, we will be dependent on resources from the sale of the real property around Jahrhunderthalle Frankfurt or other external financing sources.

2.5. Income and assets position of DEAG Holding

The further statements on DEAG Deutsche Entertainment AG are in conformity with the provisions under the German Commercial Code.

Income position

In fiscal 2006 the net loss for the year of DEAG Holding amounted to EUR 5.8 million after a net loss for the year of EUR 6.0 million in fiscal 2005. The financial result amounted to EUR –4.5 million; it was, more particularly, marked by write-downs of investments and high interest expenses from the financing of the restructuring in 2003.

Assets position

Financial assets declined primarily because of write-downs of investments from EUR 11.8 million in 2005 to EUR 7.0 million in 2006. Accounts receivables and other assets fell by EUR 1.7 million to EUR 19.8 million.

The subscribed capital increased as a result of the conversion of 4.5 million partial debentures into shares of DEAG by EUR 4.5 million to EUR 23.1 million. The capital reserve rose following the conversion by recognition of the difference between the nominal value of the share (EUR 1) and the conversion price of EUR 1.48 by EUR 2.2 million to EUR 37.7 million. The balance sheet loss increased by the net loss for the year of EUR 5.8 million to EUR 43.3 million. The equity of the AG amounts to EUR 17.5 million (prior year: EUR 16.6 million); this corresponds to an equity ratio of 64% (46%).

Accruals and liabilities declined, more particularly, following the conversion of the convertible bond and the repayment of the bank loans by EUR 9.6 million to EUR 9.8 million.

2.6. Capital market

Share price development

The DEAG share was characterized by a rather volatile development during the year – overall the share price did not have a satisfactory development from the Management Board's point of view during the fiscal year. During the first months of 2007 the cumulated catch-up potential was, however, transformed into a positive performance and the corresponding comparative indexes were significantly exceeded in terms of value development.

On January 3, 2006 the DEAG share reached its annual high in Xetra trading with a closing price of EUR 2.69. During the following months the share price crumbled until it reached its annual low on June 29 with a closing price of EUR 1.41. The share price then recovered to a year end price of EUR 1.69.

The average trading volume was around 90,000 shares per day on the German stock exchanges in 2006. This means that the DEAG share is attractive for institutional investors also under liquidity aspects.

Investor Relations

DEAG used fiscal 2006 to continue an intensive dialogue with private and institutional investors as well as with the financial and business media. In this connection the emphasis was on the highest possible transparency in connection with clear communication of the business model and strategy. In the course of the year DEAG made presentations to several capital market conferences, e.g. in Frankfurt and Munich and in front of different investor audiences. Furthermore, various roadshows were conducted during the year, which were attended by national and international investors.

The homepage of DEAG, www.deag.de, continues to be kept up-to-date in terms of the investor calendar, all corporate releases, the quarterly and annual reports, analyst surveys and

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interesting press coverage. Interested readers are provided with a good overview of the current situation and the perspectives of the company. Furthermore, several persons can be contacted over the phone (+49 69 90 550 552) or by e-mail (deag@edicto.de).

In fiscal 2007 DEAG will continue to further optimize its investor relations.

2.7. Personnel development

The Group headcount amounted on an annual average to 221 people versus 217 in fiscal 2005. At DEAG Deutsche Entertainment AG 17 employees continued to be employed in the annual average without any change over prior year.

A change occurred on the DEAG Management Board: on August 1, 2006 the Supervisory Board appointed Mr Christian Diekmann as Chief Operating Officer (COO). He is in charge of Operations, Marketing and the integration of the acquired companies.

3. Risk Management Report

In accordance with § 91 para 2 German Stock Corporation Act, the Management Board is obliged to take appropriate measures and, more particularly, to set up a monitoring system in order to ensure early detection of any developments that could jeopardize the continued existence of the company. Risks are an integral part of entrepreneurial activities. Growth and successful actions are dependent on the identification, evaluation and notification of any strategic and operating risks.

All the same, DEAG is constantly exposed to a series of general and market business risks as well as several specific risks which are, more particularly, associated with the industry which means that it is engaged in a volatile business.

The company has set up a monitoring system to detect any developments that could jeopardize the continued existence of the company early on. The monitoring of business activities with a view to detecting any potential jeopardizing risks early on is mainly done by the Management Board and Corporate Controlling at the present time.

4. Report on Risks and Opportunities

According to the German Commercial Code, we are obliged to report on the opportunities and risks of the future development. This Management Report and the further information on the fiscal year include forward-looking assumptions and estimates associated with risks which may lead to the actual results deviating from our forecasts.

4.1 Market/competition

DEAG operates on a highly competitive market. We aim to identify and respond to changes on the market at an early stage. Nonetheless, the market environment can change in an unexpected manner which could involve risks for the business activities of DEAG. This applies, for instance, to possible changes in leisure and consumption behavior which could have an adverse impact on ticket sales in Live Entertainment. The business of DEAG is currently to a large extent dependent on ticket sales. Furthermore, the framework conditions governing the availability of artists corresponding to the public's taste, may change and new, strong providers may enter the market and become competitors of DEAG.

Furthermore, business success in the Rock/Pop area depends on the extent to which subsidiaries of DEAG succeed in countering the increasing fee demands of artists. Following the decline in sales of recorded music, the importance of promoters is increasing; this improves their negotiating position.

The business activities of DEAG also depend on the availability of corresponding venues. Apart from Jahrhunderthalle in Frankfurt, which is owned by Concert Concept, leases were signed for Waldbühne in Berlin and through the DEAG investee Good News Productions AG for Hallenstadion in Zurich. The remaining venues are rented for the respective event. If no performance is possible in any of these venues, the business of DEAG can be adversely affected.

In addition, there is a dependence on existing business relations and the development of new business relations with artists, agents, producers and other industry players. The availability of distribution channels, more particularly advance booking systems, has a major impact on the business success. With the shareholding in Ticketmaster Germany and close co-operation with the world market leader Ticketmaster USA, DEAG has taken an important strategic step forward in this respect.

Furthermore, the development of DEAG's business is influenced by the extent to which it can recruit and keep qualified staff and industry insiders within the company. This applies, more particularly, to the entertainment industry which is strongly dependent on relationships and contacts of individual persons. In this connection the Management Board members of the holding company and the managing directors of the subsidiaries and investees play a particularly important role. Business success in the Rock/Pop area depends on the ongoing successful integration of the three investees acquired in late 2005 as well as other acquisitions.

The DEAG group has taken out various insurances. Such insurances are to cover operating risks, more particularly with the management and cancellation of concerts and other events. The risk of having to cancel concerts and other events at short notice, as the respective artist does not or cannot perform, has to be pointed out. In case DEAG does not hold full insurance coverage in such an event or in case of other damaging events, the liabilities arising from such a damaging event can have a material impact on DEAG's assets and financial and income position.

4.2 Evaluation of goodwill

Given the above-mentioned imponderables of DEAG's operating business, a further amortization of the goodwill and/or financial assets of DEAG cannot be excluded if the actual results of subsidiaries deviate from expectations. This applies to both existing and possible new goodwill from further acquisitions.

4.3 Financial obligations

With the retirement of the securities repurchase agreement with the Ringier publishing house, the almost complete conversion of all partial debentures and the repayment of all existing bank loans, the major liquidity burdens of DEAG from 2006 have been removed.

The full service in due time of all remaining liabilities as well as the financing of the operating business depends on the ability of the companies in the DEAG Group to generate sufficient cash flow in a volatile business and/or to build up external financing sources. If this does not succeed to a sufficient extent, the DEAG Group would be considerably impaired in its development.

4.4 Exchange rate risks

Some of the fees paid by the company are billed in US Dollars (USD), British Pounds (GBP) and Swiss Francs (CHF). Fluctuations in the exchange rates with respect to these currencies and the Euro may have an impact on the business operations as well as the financial and income position; this applies, more particularly, to the operating margin of the companies that may lead to both exchange rate gains or exchange rate losses.

4.5 Holding structure

The company itself has almost no operating business but acts as a holding of the DEAG Group. At present, the assets of the company primarily consist of the shares in the operating subsidiaries. The company is associated with the latter partly through profit and loss transfer and control agreements. The company itself is, therefore, dependent in terms of its own income on the operating companies of the DEAG Group generating profits and transferring them to it. On the other hand, the company has obligations vis a vis the investees linked to it through profit and loss transfer and control agreements to offset any losses incurred by these companies. This may lead to significant adverse effects on the assets, financial and income position of the company.

Opportunities

DEAG expects a successful course of business in 2007. Opportunities result on the one hand from an ongoing positive development of the Live Entertainment market which opens up several new business opportunities. Opportunities for an extraordinary increase in profits have been identified by the company, more particularly, in the following areas:

- New business areas: DEAG has already entered the "Comedy" area. In 2007 it will make its first contributions to sales revenues and profits. By means of acquisitions or own developments DEAG intends to enter other attractive market niches.
- Classical Music area: with the preparations for the foundation of "The Classical Entertainment" in England, the European expansion is continuing. Other European markets are to be developed together with strategic partners. As a market leader in Germany DEAG is very attractive to top Classical Music stars.
- Additional income potential can be derived from sponsorship, merchandizing and the exploitation of DVD and television rights whose significance in DEAG's revenue mix increases.
- Opportunities also result from the value adjustments in terms of deferred taxes and the Jahrhunderthalle made in connection with the integration of the FREP findings: the utilization of losses carried forward will no longer lead to a depreciation of deferred taxes during this reporting period. The sale of parts of plots of land of Jahrhunderthalle can lead to other operating income on the basis of a reduced valuation.
- Following the repayment of all liabilities from the restructuring phase the financial result will be considerably relieved; this will have a significant positive impact on the net income for the year.

5. Supplementary report

The Wintergarten Varieté Theater Betriebs GmbH Berlin was sold Effective January 1, 2007. The remaining 25% of Music Pool Europe GmbH were acquired Effective January 1, 2007. The consolidated financial statements were released by the Management Board for publication on May 4, 2007.

6. Compensation report in accordance with § 289 para 2 No. 5 HGB (German Commercial Code) and § 315 para 2 No. 4 HGB

The Supervisory Board fixes the compensation of the Management Board. Some members of the Management Board receive variable compensation in addition to fixed compensation. In addition, they receive compensations in kind for instance through a company car and contributions to a sickness/care insurance. The fixed salary of the Management Board totalled EUR 840.000 in 2006.

The compensation of the Supervisory Board is governed by the provisions of the By-laws. The members of the Supervisory Board receive fixed compensation in the amount of EUR 9,203.25 for each full fiscal year of their membership on the Supervisory Board, payable after the end of the fiscal year. The Chairman receives the triple, the Deputy the double amount. Furthermore, all expenses of the members of the Supervisory Board are refunded and they receive compensation for any VAT which may be payable on their compensation and expenses.

7. Explanatory report of the Management Board in accordance with § 289 para 4 HGB and § 315 para 4 HGB

The subscribed capital consists exclusively of no par value bearer shares with a nominal value of EUR 1 per share. There are no different share categories or shares with special rights which grant control rights. There are no restrictions under the By-laws which concern voting rights or the transfer of shares. The Management Board is not aware of any agreements to that effect between the shareholders.

The CEO, Mr Peter Schwenkow, Berlin and Nobel SA, Paris, France hold and/or control more than 10% of the shares each and hence of the voting rights of the company. Insofar as employees have a share in the capital, they exercise their voting rights directly.

The Management Board is appointed by the Supervisory Board in accordance with § 84 German Stock Corporation Act (AktG). The number of members of the Management Board is determined by the Supervisory Board which also decides on the term of the Management Board offices. The Supervisory Board is empowered to adopt amendments to the By-laws which concern only its version. As for the rest, the Annual General Meeting decides on amendments to the By-laws. The Management Board is empowered to issue new shares once or more with the consent of the Supervisory Board from the authorized capital approved by the Annual General Meeting and from the contingent capital of the company adopted by the Annual General Meeting and to increase the share capital of the company in this way. By resolution of the Annual General Meeting of June 16, 2006 the company is, moreover, empowered in accordance with § 71 para 1 No. 8 AktG to acquire 1,855,792 treasury shares by December 15, 2007. The corresponding decision is taken by the Management Board. Such an acquisition may only be carried out through the stock exchange or by means of a public bid addressed to all shareholders.

There are no agreements which are subject to the condition of a change in control following a takeover bid. Nor are there any agreements on compensations of the company with members of the Management Board or employees in the event of a takeover bid.

8. Outlook

Based on the planning by our operating subsidiaries, supported by firmly contracted concerts and partly commenced advance booking, on the expected positive impact from the co-operation with Anschutz and on an extension of our shareholdings, we proceed on the assumption of a significant increase in sales revenues to more than EUR 100 million with a doubling of the EBIT. Following a considerable decrease in financing expenses and the benefit of tax losses carried forward, we anticipate a satisfactory net income for the year on a Group level in 2007.

Berlin, March 31, 2007/ May 4, 2007

DEAG Deutsche Entertainment AG

The Management Board

Peter L. H. Schwenkow

Dr. Ingo Stein

Christian Diekmann

Consolidated Balance Sheet

TOTAL ASSETS in EUR '000	Notes	31.12.2006	31.12.2005
Liquid funds	9,26	14.190	26.867
Short-term investments / marketable securities	10	198	393
Trade receivables	11	2.886	3.059
Inventories	12	5.526	3.559
Other current assets	13	7.709	7.295
Other assets directly related to operation, which are to be discontinued	3,29	1.735	-
Current assets		32.244	41.173
Goodwill	3,14/15	23.754	34.185
Other intangible assets	3,15	3.634	2.046
Tangible fixed assets	16	738	1.030
Investment properties	3,17	7.798	7.798
Participations	18	727	126
Loans to affiliated companies	18	750	750
Shares in affiliated companies	18	23	13
Deferred tax assets	3,19,40	-	-
Long-term assets		37.424	45.948
TOTAL ASSETS		69.668	87.121
Liabilities and equity in EUR '000	Notes	31.12.2006	31.12.2005
Bank loans payable	20	860	4.005
Trade accounts payable	21	3.434	4.283
Accruals	22	4.740	6.609
Sales accruals and deferrals	23	14.944	13.001
Other current liabilities	24	10.000	26.433
Accounts payable to associated companies with operations which are to be discontinued	2,29	352	-
Accruals and liabilities directly related to operations which are to be discontinued	2,29	1.339	-
Current liabilities		35.669	54.331
Accruals	22	62	88
Convertible bond	25	-	6.016
Other long-term liabilities	26	163	150
Deferred taxes	3,19,40	1.865	2.096
Long-term liabilities		2.090	8.350
Share capital		23.088	18.558
Capital reserve		64.568	62.396
Accumulated deficit		-57.699	-57.334
Accumulated other income		-50	-38
Equity before minority interests		29.907	23.582
Minority interests		2.002	858
Equity	28	31.909	24.440
TOTAL LIABILITIES AND EQUITY		69.668	87.121

Consolidated Statement of Income

	Notes	01.01. to 31.12.2006 EUR '000	01.01. to (1) 31.12.2005 EUR '000
Revenues	31	82.820	62.653
Cost revenues	32	-65.422	-49.349
Gross profit		17.398	13.304
Distribution costs	33	-9.546	-6.293
Administration costs	34	-9.644	-8.286
Other operating income	35	6.653	4.259
Other operating expenses	36	-534	-564
Operating result before depreciation (EBITDA)		4.327	2.420
Scheduled depreciation	37	-990	-285
Amortisation of goodwill	37	-273	-
Depreciation		-1.263	-285
Operating income (EBIT)		3.064	2.135
Interest income and expenses	38	-1.697	-2.307
Participations	39	122	237
Earnings from associated companies	18	-474	4
Write-down of financial assets and working capital securities		-195	-
Foreign currency exchange gains / losses		84	77
Financial result		-2.160	-1.989
Result before taxes		904	146
Income taxes	40	-439	-1.278
Result after taxes from continued operations		465	-1.132
Result after taxes from discontinued operations		-578	-4.065
Result after taxes		-113	-5.197
Result minority interests		252	261
Group result		-365	-5.458
Loss carried forward		-57.334	-51.876
Accumulated deficit		-57.699	-57.334
Earnings per share in EUR (undiluted)			
from continued operations	28	0,01	-0,10
from continued and discontinued operations	28	-0,02	-0,37
Earnings per share in EUR (diluted)			
from continued operations	28	0,01 (2)	-0,10 (2)
from continued and discontinued operations	28	-0,02 (2)	-0,37 (2)
Average no. of shares outstanding (undiluted)	28	18.983.235	14.622.837
Average no. of shares outstanding (diluted)	28	23.133.752	19.205.187

(1) Previous year's figures were adjusted.

(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	2006	2005
Result from continued operations	465	-1.132
Depreciation and amortisation / write-ups	1.263	285
Non cash-effective change of the consolidation base by divestiture	-1.389	-
Changes not affecting payments	-2.561	-1.110
Change in other accruals	-879	-1.853
Deferred taxes (net)	-231	-129
Result from valuation of affiliated companies	474	-4
Cash flow before changes in net current assets	-2.858	-3.943
Net interest income	1.697	2.307
Changes to receivables, inventories and other assets	-11.847	-1.708
Changes to other loan capital without financial debts	6.258	5.036
Net cash from operating activities from continued operations	-6.750	1.692
Net cash from operating activities from discontinued operations	-800	-1.810
Net cash from operating activities (total)	-7.550	-118
Outflows for investments in ...		
...Intangible assets including goodwill	-744	-5
...Tangible assets and financial investments	-239	-204
Inflow/Outflow from purchase/sale of consolidated companies and business units	-167	596
Inflow/Outflow from purchase/sale of minority shareholdings in consolidated companies	300	-60
Assets disposals	4	104
Interest income	358	313
Net cash from investment activities from continued operations	-488	744
Outflow from current investment activities in discontinued operations	-9	-24
Net cash from financial activities (total)	-497	720
Capital increase at DEAG Deutsche Entertainment AG	-	6.594
Costs of raising capital (net)	-	-385
Sale / acquisition of own shares	-	-
Changes to financial debts	1.212	-
Repayment of financial debts	-3.994	-500
Outflow of funds (Convertible Bond)	-71	-
Interest expenditures	-869	-526
Inflow due to capital investments by minority interests	-	12
Shares capital of minority interests	-257	-172
Net Cash from finance activities (total)	-3.979	5.023
Changes in liquidity	-12.026	5.625
Effects of exchange rates	-45	-24
Liquid funds as at 01.01.	26.867	21.266
Liquid funds as at 31.12.	14.796 (1)	26.867

(1) Thereof kEUR 606 to be associated with discontinued operations.

Management Report

	Number of Shares issue	Authorized DEAG Shares in EUR`000	DEAG capital reserve 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 31.12.2004	13.748.820	13.749	56.175	-51.876	-18	657	18.687
Issue of shares	4.808.732	4.809	6.606	-	-	-	11.415
Costs of raising capital	-	-	-385	-	-	-	-385
Consolidated net profit (+)/loss (-)	-	-	-	-5.458	-	261	-5.197
Changes resulting from currency translation	-	-	-	-	-20	-5	-25
Dividends	-	-	-	-	-	-172	-172
Other changes	-	-	-	-	-	117	117
as at 31.12.2005	18.557.552	18.558	62.396	-57.334	-38	858	24.440
Issue of shares	4.530.030	4.530	2.172	-	-	-	6.702
Costs of raising capital	-	-	-	-	-	-	0
Sale /offsetting of own shares	-	-	-	-	-	-	-
Consolidated net profit (+)/loss (-)	-	-	-	-365	-	252	-113
Changes resulting from currency translation	-	-	-	-	-12	-40	-52
Dividends	-	-	-	-	-	-257	-257
Other changes	-	-	-	-	-	1.189	1.189
as at 31.12.2006	23.087.582	23.088	64.568	-57.699	-50	2.002	31.909

Other changes in minorities of EUR 1.2 million relate to the sale of 38% in Good News

DEAG Deutsche Entertainment Aktiengesellschaft, Berlin

1. Accounting Principles

These Consolidated Financial Statements of DEAG Deutsche Entertainment AG (DEAG) were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, as applicable on the closing date and, in addition, in conformity with the provisions under German commercial law to be applied in accordance with § 315a of the German Commercial Code (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).

The initial application of the amended and new accounting regulations, referred to under 2 below, did not have any impact on the assets, financial and income position of the company.

The reporting requirements concerning non-current assets held for sale and discontinued operations in accordance with IFRS 5 were applied after integration of the amendments referred to under 3 below.

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 measured at the lower of carrying amount and fair value less costs to sell. In the statement of income, balance sheet, cash flow statement and in segment reporting discontinued operations must be presented separately and appropriate notes provided. In doing so, prior year figures, except for those of the balance sheet, must be adjusted accordingly.

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

Within the scope of the re-positioning of the business portfolio in accordance with IFRS 5, mainly the Wintergarten Varieté is reported on under discontinued operations.

The consolidated financial statements are based on the financial statements of the companies included in the consolidation. These were prepared by application of the German Commercial Code (HGB), including the accounting standards adopted by the German Standardisation Council (DRSC) as at the closing date in accordance with § 342 German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The financial statements of foreign companies were prepared in accordance with their national regulations, in conformity with continuously and uniformly applied accounting and valuation principles.

The single-entity financial statements of the consolidated companies were prepared effective on the closing date of the consolidated financial statements. Reported values based on tax regulations are not included in the consolidated financial statements. The reconciliation of the valuations in accordance with the IFRS standards was carried out on the level of the Group outside the single-entity financial statements prepared under German commercial law, in a so-called *Handelsbilanz II* (single-entity financial statements restated to comply with uniform group accounting policies).

The accounting and valuation methods applied in the consolidated financial statements as of December 31, 2006 were retained unchanged under the changes referred to in 3 below.

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

The consolidated statement of income has been prepared in conformity with the cost-of-sales format. Given the capital market requirement to report earnings before interest, taxes, amortizations and depreciations (EBITDA), amortizations and depreciations are shown separately in the statement of income.

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

For the preparation of the consolidated financial statements, estimates and assumptions have to be made to a limited extent that affect the level and reporting of assets and liabilities, income and expenses as well as contingent liabilities. Actual figures may subsequently differ from these estimates.

2. Amendments to the accounting standards

Within the framework of its projects relating to the further development of the IFRS standards and the reaching of convergence with US GAAP, IASB has amended many existing standards or adopted new ones. These were applied in the consolidated financial statements from January 1, 2006 – insofar as they were already adopted by the European Commission. The application of the following standards in the consolidated financial statements has been mandatory since December 31, 2006:

- Amendment to IAS 39 and IFRS 4 (Financial Guarantee Contracts),
- Amendment to IAS 21 (Net Investment in a Foreign Operation),

The application of the above-mentioned new accounting standards did not have any impact on the assets, financial and income position of the company.

Furthermore, the following standards were adopted by IASB or IFRIC but were not yet applied in the financial statements as of December 31, 2006, because they are not yet mandatory or have not yet been adopted by the European Commission.

- Amendment to IAS 1 (Capital Disclosures),
- Amendment to IFRS 4 (Revised Guidance on Implementing IFRS 4),
- IFRS 7 (Financial Instruments – Disclosures),
- IFRS 8 (Operating Segments),
- IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies),
- IFRIC 8 (Scope of IFRS 2),
- IFRIC 9 (Reassessment of Embedded Derivatives),
- IFRIC 10 (Interim Financial Reporting and Impairment).
- IFRIC 11 (IFRS 2 – Group and Treasury Share Transactions),
- IFRIC 12 (Service Concession Arrangements).

These standards will only be applied by DEAG Deutsche Entertainment AG from fiscal 2007 onwards or later. IAS 1, IFRS 7 and IFRS 8 will result in changed or extended information in the Notes. The

impact of the other standards on the assets, financial and income position of fiscal 2007 will be of minor significance.

3. Adjustments of the financial statements as of December 31, 2005 in accordance with IAS 8 following the findings of the German Financial Enforcement Panel (FREP)

In fiscal 2006 the company underwent an examination in accordance with § 324 para 2 sentence 3 No. 3 HGB (German Commercial Code) (random sampling procedure) by the German Financial Reporting Enforcement Panel (FREP). The examination concerned the consolidated financial statements for fiscal 2005.

The findings of the examination by FREP concerned the following facts:

1. Discontinued operations (IFRS 5):

According to FREP the varieties were qualified in 2005 erroneously as discontinued operations; the reporting of balance sheet figures for discontinued segments (EOne) is not in conformity with IAS.

2. Investment property (IAS 40):

This item is not to be broken down by expected maturities but is to be shown separately under tangible assets.

3. Other intangible assets acquired within the framework of business combinations (IFRS 3):

Within the framework of the acquisitions of MPE GmbH and KBK GmbH, orders on hand from firmly contracted tours, artist and agent relationships as well as competition clauses should have been identified, valued and stated as other intangible assets.

4. Deferred tax assets on losses carried forward (IAS 12):

Because of the loss history of the company and the volatile nature of the business, a safe utilization of losses carried forward did not exist and, therefore, the recognition of deferred tax assets should be limited to nettable deferred tax liabilities.

5. Impairment of the investment property (IAS 40):

The values reported so far were considered to be too high; safety margins should be deducted because of a possible restricted development capacity.

Although the company does not proceed on the assumption that erroneous financial statements were prepared in the past but wishes to avoid possible disputes with the Federal Financial Supervisory Authority – BaFin, it accepts the FREP findings, also because they will mean relief on future results. The FREP findings were integrated through a restatement of the 2005 financial statements in accordance with IAS 8.

ad 1 (Reclassification IFRS 5):

The assets and liabilities which were allocated in the balance sheet as of December 31, 2005 altogether to discontinued operations, were reclassified taking into account the now necessary consolidation of receivables/payables of affiliated companies.

In the statement of income no reclassification was made because following the sale of the Wintergarten Variété the statement of income numbers would have had to be re-adjusted after a restatement. A restatement of the statement of income numbers 2005 of Friedrichsbau Variété was waived for reasons of lack of materiality, following consultation with FREP.

There was no impact on equity or result.

ad 2 (Reclassification IAS 40):

The plot areas of Jahrhunderthalle reported so far under non-current and/or current assets were reclassified as “investment property”.

There was no impact on equity or result.

ad 3 (Reclassification IFRS 3):

The orders on hand and the artist/agency relationships are valued and stated in accordance with the method suggested by FREP.

According to the company, our competition clauses do not meet the criteria for separate recognition, so that this was not done.

The impact on equity (minority interests) amounts to kEUR 419. There was no impact on the result.

ad 4 (Impairments IAS 12):

The deferred tax assets on losses carried forward were limited – following adjustments of deferred tax liabilities from 5 – to the amount of the remaining nettable deferred tax liabilities.

The impact on the equity amounts to kEUR -13,319, the impact on the result 2005 amounts to kEUR -1,684, including kEUR -178 in discontinued operations.

ad 5 (Impairments IAS 40):

A surveyor appointed by FREP came to a value indication of EUR 7.8 million for the plot areas Jahrhunderthalle because of safety margins deducted on grounds of uncertain development capacity. On that basis the company made a EUR 4.1 million impairment. After adjustment of the deferred tax liabilities this results in an equity reduction without without an impact on the result of kEUR 2,460.

The amendments are as follows::

	<u>Reposting</u>		<u>Write-down</u>		Adjustment Total
	1. IFRS 5	2. IAS 40	3. IFRS 3	4. IAS 12, 5. IAS 40	
Assets	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Liquid funds	970				970
Trade receivables	224				224
Inventories	57				57
Other current assets	252	- 6.500			- 6.248
Receivables due from affiliated companies with respect to continued operations	1.364				1.364
Intangible assets	-		2.027		2.027
Goodwill	370		- 798		- 428
Fixed assets	269				269
Investment property	-	11.898		- 4.100	7.798
Long-term assets	-	- 5.398			- 5.398
Deferred tax assets	-			- 12.335	- 12.335
Assets in discontinued operations	- 3.506		-	-	- 3.506
Assets	-	-	1.229	- 16.435	- 15.206
Liabilities	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Trade accounts payable	788				788
Accruals	741				741
Sales accruals	160				160
Other current liabilities	270				270
Payables due to affiliated companies with continued operations	1.215				1.215
Accruals and Liabilities in discontinued operations	- 3.174				- 3.174
passive deferred taxes	-		810	- 656	154
Loss carried forward			-	- 14.095	- 14.095
Net loss			-	- 1.684	- 1.684
Minority interests			419		419
Equity			419	- 15.779	- 15.360
Liabilities	-	-	1.229	- 16.435	- 15.206

The reconciliation from the previous to the adjusted balance sheet per 31.12.2005 consists of the following.

	Previous 31.12.2005	Adjustment	Consoli- dation	Adjusted 31.12.2005
	EUR'000	EUR'000	EUR'000	EUR'000
Assets				
Liquid funds	25.897	970	-	26.867
Short-term investments / marketable securities	393	-	-	393
Accounts receivable	2.835	224	-	3.059
Inventories	3.502	57	-	3.559
Other current assets	13.543	- 6.248	-	7.295
Receivables due from affiliates with operations to be discontinued	1.215	1.364	- 2.579	-
Other assets directly related to discontinued operations	3.506	- 3.506	-	-
Current assets	50.891	- 7.139	- 2.579	41.173
Intangible assets	19	2.027	-	2.046
Goodwill	34.613	- 428	-	34.185
Fixed assets	761	269	-	1.030
Investment properties	-	7.798	-	7.798
Participations	126	-	-	126
Loans to affiliated companies	750	-	-	750
Shares in affiliated companies	13	-	-	13
Other long-term assets	5.398	- 5.398	-	-
Deferred tax assets	12.335	- 12.335	-	-
Long-term assets	54.015	- 8.067	-	45.948
TOTAL ASSETS	104.906	- 15.206	- 2.579	87.121
Liabilities	EUR'000	EUR'000	EUR'000	EUR'000
Bank loans payable	4.005	-	-	4.005
Trade accounts payable	3.495	788	-	4.283
Accruals	5.868	741	-	6.609
Sales accruals and deferrals	12.841	160	-	13.001
Other current liabilities	26.163	270	-	26.433
Accounts payable to associated companies with operations which are to be discontinued	1.364	1.215	- 2.579	-
Accruals and liabilities directly related to operations which are to be discontinued	3.174	- 3.174	-	-
Current liabilities	56.910	-	- 2.579	54.331
Accruals	88	-	-	88
Convertible bond	6.016	-	-	6.016
Other long-term liabilities	150	-	-	150
Deferred taxes	1.942	154	-	2.096
Long-term liabilities	8.196	154	-	8.350
Share capital	18.558	-	-	18.558
Capital reserve	62.396	-	-	62.396
Accumulated deficit	- 41.555	- 15.779	-	- 57.334
Accumulated other income	- 38	-	-	- 38
Equity before minority interests	39.361	- 15.779	-	23.582
Minority interests	439	419	-	858
Equity	39.800	- 15.360	-	24.440
TOTAL LIABILITIES AND EQUITY	104.906	- 15.206	- 2.579	87.121

The 2005 statement of income is affected by the adjustments as follows::

	31.12.2005		31.12.2005	
	EUR'000	EUR'000	EUR'000	EUR'000
No changes down to "Result before tax"	146	-		146
Income taxes	228	- 1.506	-	1.278
Result after taxes from continued operations	374	- 1.506	-	1.132
Result after taxes from discontinued operations	- 3.887	- 178	-	4.065
Result after taxes	- 3.513	- 1.684	-	5.197
Result minority interests	261	-		261
Group Result	- 3.774	- 1.684	-	5.458
Loss carried forward	- 37.781	- 14.095	-	51.876
Accumulated deficit	- 41.555	- 15.779	-	57.334
Earnings per share in EUR (undiluted)				
from continued operations	0,01			-0,10
from continued and discontinued operations	-0,26			-0,37
Earnings per share in EUR (diluted)				
from continued operations	0,01			-0,10 ⁽¹⁾
from continued and discontinued operations	-0,26			-0,37 ⁽¹⁾

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

4. 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
Live & Touring	DEAG Classics AG, Berlin	100 %
	DEAG Concerts GmbH, Berlin	100 %
	BALOU ENTERTAINMENT Konzertagentur GmbH & Co. KG, Köln	100 %
	coco tours Veranstaltungen GmbH, Berlin	100 %
	MPE Music Pool Europe GmbH, Hamburg	75 %
	KBK Konzert- und Künstleragentur GmbH, München	51 %
Entertainment Services	Concert Concept Veranstaltungs-GmbH, Berlin	100 %
	Kultur- und Kongresszentrum Jahrhunderthalle GmbH, Frankfurt a.M.	100 %
	Global Concerts GmbH, München	100 %
	Musicland Concerts GmbH, München	100 %
	Friedrichsbau Varieté Betriebs- und Verwaltungs GmbH, Stuttgart	100 %
	Broadway Varieté Management GmbH, Berlin	100 %
	Unicorn Entertainment Services GmbH, Berlin	100 %
	EMC Entertainment Media & Commerce GmbH, Berlin	100 %
	Good News Productions AG, Glattbrugg-Opfikon (Schweiz)	52 %
	B+R Event AG, Glattbrugg-Opfikon (Schweiz)	52 %
	EM Event Marketing AG, Wangen bei Olten (Schweiz)	52 %
Fortissimo AG, Glattbrugg-Opfikon (Schweiz)	52 %	
Discontinued operations	Wintergarten Varieté Theater Betriebs GmbH, Berlin	100 %
	Entertainment One AG, Altendorf (Schweiz)	100 %

At Good News DEAG holds only 40 percent of the voting rights. By virtue of an agreement among shareholders it has, however, the right to appoint or dismiss the Management board as well as to approve the budget. This meets the requirements of the control concept.

In 2006 the shareholdings of DEAG decreased following the sale of 38 percent of the shares to 52 percent. After the settlement of the repurchase agreement due on June 30 concerning 39 percent of the shares 38 percent were sold. After the writing-off of the pro rata goodwill and the pro rata equity, this transaction led to a net result of EUR 2.2 million which is reported under other operating income.

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:

<u>Segment</u>	<u>Company</u>	<u>Shareholding</u>
Entertainment Services	Anschutz DEAG Entertainment GmbH, Berlin *	50 %
Live & Touring	ct creative talent GmbH, Berlin	50 %

* The company was founded in 2006

The following companies are carried in the balance sheet as associated companies:

<u>Segment</u>	<u>Company</u>	<u>Shareholding</u>
Entertainment Services	DEAG Music GmbH, Berlin	75 %
DEAG Holding	EIB Entertainment Insurance Brokers GmbH, Hamburg	50 %

Although DEAG holds the majority of voting rights in DEAG Music set up last year, a majority of 75 percent is necessary under the memorandum and articles of association for the appointment and dismissal of the managing directors. For that reason DEAG Music has to be qualified as an associate. No adjustment was made for 2005 on grounds of absolute immateriality.

Palast Management und Veranstaltungen GmbH, Berlin (shareholding 100%), was not consolidated for lack of operations and on grounds of immateriality.

The change in the scope of consolidation was due to divestitures.

<u>Segment</u>	<u>Company</u>	<u>Divestiture</u>
Live Touring	Marshall Arts Ltd., London	13.10.2006
Live Touring	Ticketnet Ltd. , London	13.10.2006

The disposal of the shareholding in Marshall Arts was directly linked to the more extensive joint venture agreement with Anschutz Entertainment Group, Inc, Los Angeles, which was entered into in 2006. This agreement includes the following components, amongst others:

- Formation of a joint venture, more particularly, for the Berlin market
- Sale of the DEAG shareholding (50%) in Marshall Arts to the company and acquisition of 49 percent of the shares in Marshall Arts by Anschutz
- Acquisition of a first offering obligation for Anschutz in respect of all Anschutz tours in Germany as well as a so-called first option last matching right for these tours by DEAG.

After the writing-off of the goodwill and the pro rata equity the net result from this transaction amounted to EUR 1.4 million; it is reported in other operating income.

5. 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 until its sale in mid-October 2006, 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	
	2006	2005	2006	2005
1 Pound Sterling	1,5881	1,4592	1,4669	1,4624
1 Swiss Franc	0,6223	0,6430	0,6358	0,6459

6. 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). Such goodwill is subject to annual impairment tests and, if necessary, unscheduled depreciation.

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 50 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, unscheduled 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 taking place after the balance sheet date.

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.

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 until June 30,2006.

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.

7. 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. These items are presented in the section for discontinued operations.

Notes on the Segments

Since 2006 DEAG Group subdivides its continued operations into two segments, which are described in the Management Report.

Segment Data

In EUR '000	Live Touring		Entertainment Services		Total segments	
	2006	2005	2006	2005	2006	2005
Revenues	30.697	24.560	53.583	38.955	84.280	63.515
Other income	1.857	265	3.518	1.809	5.375	2.074
- there of internal income	107	170	1.443	692	1.550	862
Total earnings	32.554	24.825	57.101	40.764	89.655	65.589
Depreciation and amortisation						
... of goodwill, non-scheduled	273	0	0	0	273	0
... of other fixed assets	771	52	180	184	951	236
Segment result (EBIT)	457	136	5.174	3.767	5.631	3.903
Book value of segment assets	35.902	39.439	42.840	50.126	78.742	89.565
Investments	2,390	37	355	125	2,745	162
External funding of segments	24.881	24.833	30.559	38.923	55.440	63.756
Full-time employees as at 31.12.	20	20	79	39	99	59
Return on sales	1,5%	0,6%	9,7%	9,7%	6,7%	6,1%
Net return on assets	4,1%	0,9%	42,1%	33,6%	24,2%	15,1%

(1) Previous year figures were 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 output 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	
	2006	2005 (1)	2006	2005 (1)	2006	2005 (1)
Revenues*	84.280	63.515	-1.460	-862	82.820	62.653
Other income	5.375	2.074	1.278	2.185	6.653	4.259
- thereof internal income	1.550	862	-1.550	-862	-	-
Total earnings	89.655	65.589	-182	1.323	89.473	66.912
Segment-result (EBIT)					5.631	3.903
Unallocated expenditure and income (Including DEAG Holding and consolidation effects)					-2.567	-1.768
Operating result (EBIT)					3.064	2.135
Result from associated companies					-474	4
Other financial result					-1.686	-1.993
Result before taxes and minority interests					904	146
Taxes on income and earnings					-439	-1.278
Result after tax from continued operations					465	-1.132
Result after tax from discontinued operations					-578	-4.065
Result after tax					-113	-5.197
Minority interests					252	261
Net group profit/loss for the year					-365	-5.458

(1) Previous year figures were adjusted

The result of associated companies of kEUR -484 relates to the Entertainment Services segment (Book value EUR 0.00) and DEAG Holding (kEUR 10).

Other Information

In EUR'000	Group	
	2006	2005
Book value of segment assets	78.742	89.565
Shares in affiliated companies	23	13
Unallocated assets incl. consolidation transactions	-9.097	-2.457
Consolidated assets	69.668	87.121
External funding of assets	55.440	63.756
Unallocated external funding of segments incl. consolidation transactions	-17.681	-1.075
Consolidated external funds	37.759	62.681
Net assets (Including minority interests)	31.909	24.440
Full-time employees as at 31.12.	116	76
Return on sales	3,7 %	3,4 %
Net return on assets	9,6 %	8,7 %

(1) Concerns DEAG Holding at kEUR 27.258 (previous year kEUR 35,946) and consolidation transactions (mainly debt and capital consolidation at kEUR -36,469 (previous year kEUR -34,655) between segments and between segments and DEAG Holding respectively

(2) including Discontinued operations

(3) concerns DEAG Holding at kEUR 9,772 (previous year kEUR 19,369) and consolidation transactions (mainly debt consolidation at kEUR -28,873 (previous year kEUR -22,441) between segments and between segments and DEAG Holding

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	Group
	2006	2005
Live Touring Segment Sales	30,697	24,560
... thereof:		
Marshall Arts (UK)	8,783	11,938
Entertainment Services Segment Sales	53,583	38,955
... thereof:		
Good News-Group (Switzerland)	40,441	33,060
Book value of Entertainment Services Segment Assets	42,840	50,126
thereof Good News-Group (Switzerland):	13,152	14,112
Investments of Entertainment Services Segment	355	125
... thereof:		
Good News-Group (Switzerland)	82	98

8. Notes on the Consolidated Cash Flow Statement

The settlement of the repurchase agreement concerning Good News and the subsequent disposal of 38 percent of the shares resulted in a contribution effect of kEUR 300.

The consideration received in 2006 for the disposal of the Marshall Arts shares included liquid assets in the amount of kEUR 2,500 and a so-called first option last matching right (see Item 15.) with a value of kEUR 1,600. The (pro rata) liquid assets disposed of in connection with the sale of Marshall Arts amounted to kEUR 2,636.

The assets and liabilities disposed of in connection with the sale are as follows:

in EUR`000	2006
Assets:	
Current Assets (without liquid funds)	7.731
Other long-term assets	49
Goodwill	1.380
Total Assets	9.160
Liabilities:	
Current liabilities	9.109
Total Liabilities	9.109

The cash and cash equivalents include exclusively liquid funds (see Item 9).

9. Liquid Funds

Cash in hand and credit balances at banks are shown as liquid funds. Of the credit balances shown, EUR 1.627 million relates to pledged trust funds with restraint on disposal. The corresponding liability, for which the credit is pledged as collateral, is mainly reported under other liabilities as tax liabilities. DEAG cannot dispose of liquid funds of kEUR 10,820 and depends on dividend payments.

10. Marketable Securities

The item concerns the stock of marketable securities valued below acquisition costs at fair value, after a writedown of kEUR 195 due to the decreased stock exchange price.

11. Trade Receivables

Trade receivables include kEUR 206 of receivables with a maturity of more than one year.

12. Inventories

This item is made up as follows:

In EUR`000	31.12.2006	31.12.2005
Advance Payments	5,508	3,502
Finished Product	18	57
Inventories	5,526	3,559

13. Other Current Assets

Other current assets consist of the following:

In EUR'000	31.12.2006	31.12.2005
Tax Claims (1)	3,484	3,282
Loans	2,181	621
Accruals and deferrals	125	561
Receivables from agency services	-	600
Other	1,919	2,231
Other current assets	7,709	7,295

(1) thereof ceded artists withholding tax kEUR 3,299

14/15. Goodwill and Intangible Assets

The development of this item during fiscal 2005 and 2006:

Acquisition or production costs in EUR '000	Goodwill	Orders at hand	Artist and agency relationships	Other rights	Soft-ware	Intangible Assets
January 1, 2005	58.623	-	-	143	331	474
Additions from first consolidation	4.927	-	-	-	2	2
Additions	-	-	-	-	5	5
Disposals	- 5.203	-	-	- 143	- 12	- 155
Adjustment currency effects	-	-	-	-	- 1	- 1
Adjustments due to FREP findings	- 798	290	1.737	-	-	2.027
December 31, 2005	57.549	290	1.737	-	325	2.352
Depreciation in EUR'000						
January 1, 2005	25.313	-	-	143	304	447
Additions	-	-	-	-	12	12
Additions (discontinued operations)	3.000	-	-	-	1	1
Disposals	- 4.949	-	-	- 143	- 10	- 153
Adjustment currency effects	-	-	-	-	- 1	- 1
December 31, 2005	23.364	-	-	-	306	306
Balance sheet values 31.12.05	34.185	290	1.737	-	19	2.046
Balance sheet values 31.12.04	33.310	-	-	-	27	27
in EUR '000						
January 1, 2006	57.549	290	1.737	-	325	2.352
Reposting (discontinued operations)	- 2.247	-	-	-	- 22	- 22
Additions from first consolidation	31	-	-	-	-	-
Additions	150	-	-	2.341	3	2.344
Disposals	- 11.880	-	-	-	-	-
Change in consolidation basis	- 5.536	-	-	-	-	-
Adjustment currency effects	-	-	-	-	-	-
December 31, 2006	38.067	290	1.737	2.341	306	4.674
Depreciation in EUR'000						
January 1, 2006	23.364	-	-	-	306	306
Reposting (discontinued operations)	- 1.877	-	-	-	- 22	- 22
Additions	273	200	174	377	5	756
Disposals	- 3.291	-	-	-	-	-
Change in consolidation basis	- 4.156	-	-	-	-	-
Adjustment currency effects	-	-	-	-	-	-
December 31, 2006	14.313	200	174	377	289	1.040
Balance sheet values 31.12.04	23.754	90	1.563	1.964	17	3.634

14. Goodwill

Goodwill shown is accounted for by the Live Touring segment with group companies without external shareholder per December 31, 2006 at kEUR 5,700, by kEUR 2,153 to Music Pool Europe GmbH, by kEUR 1.253 to KBK Konzert- und Künstleragentur GmbH and by kEUR 450 to ct creative talent GmbH. Accounted for by the Entertainment Services segment are kEUR 2,638 to the domestic companies of this segment and kEUR 11,560 to the Good News group. This break down also applies to the identification of cash generating units.

In the reporting year there was a divestiture of kEUR 1,380 net due to a change in the basis of consolidation (Sale of Marshall Arts), of kEUR 8,440 due to the sale of 38% of the shares in Good News and of kEUR 150 due to a repayment at ct. The ct goodwill was written down unscheduledy at kEUR 273.

Additions from first consolidation relate to Anschutz DEAG Entertainment GmbH from ancillary cost, the remaining additions (kEUR 150) affect KBK from an ex post purchase price rise.

An impairment test was made for the goodwill of each cash generating unit (CGU) and with the expectation of ct did not result in any need for writedowns.

Impairment tests are based on the utility value of the CGUs, which was derived from the anticipated surplus income taken from a three year plan. Target figures were calculated considering current and future probabilities , the expected economic development as well as other factors. Target figures of the last budget year were used to determine the standard year (perpetuity). A discounting rate of 9% was applied, while for reasons of caution no deduction for growth was used for the standard year.

15. Other intangible assets

Orders on hand as well as artist/agent relationships from the company mergers as part of the capital in kind increase during 2005 were capitalized on the basis of FREP findings (See item 3 of the Report). The artist/agent relationships are amortized on a straight-line basis over a period of 10 years.

The addition of other rights includes above all the acquisition of a first offering obligation of Anschutz for all Anschutz tours in Germany and a so-called first option last matching right for these tours by DEAG. It is amortized as scheduled over a useful life of 6 years. The book value as at December 31, 2006 amounts to EUR 1.6 million.

Production cost for the exploitation rights for the television recording and DVD of kEUR 588 are shown as additions under other rights. They are amortized (2006: kEUR 355) on the basis of expected income inflow.

16. Tangible Fixed Assets

Investments in fixed assets totalled EUR 0.2 million in 2006 (2005: EUR 0.2 million) and consist of the following:

In EUR '000	2006
Land and buildings	16
Technical plant and machinery	89
Other fixtures and fittings, tools and equipment	134
Total	239

The development of tangible fixed assets during fiscal 2005 and 2006 consists of the following:

Acquisition or production costs	Land and buildings	Technical plant and machinery	Other fixtures and fittings, equipment	Total tangible assets
January 1, 2005	3.755	1.231	3.306	8.292
Additions from first consolidation	-	-	38	38
Additions	6	34	201	241
Disposals	-651	-400	-505	-1.556
Currency adjustments	-	-	4	4
December 31, 2005	3.110	865	3.044	7.019
Depreciation in EUR`000				
January 1, 2005	2.816	675	2.720	6.211
Additions	24	22	227	273
Additions (discontinued operations)	67	143	54	264
Disposals	-109	-183	-472	-764
Currency adjustments	-	1	4	5
December 31, 2005	2.798	658	2.533	5.989
Balance sheet value 31.12.2005	312	207		1.030
Balance sheet value 31.12.2004	939	556	586	2.081
January 1, 2006				
January 1, 2006	3,110	865	3,044	7,019
Reposting (discontinued operations)	-2,876	-504	-277	-3,657
Additions from first consolidation	-	-	0	0
Additions	16	89	134	239
Disposals	-25	-40	-117	-182
Disposal due to change in consolidation basis	-	-214	-22	-236
Currency adjustments	-	2	-5	-3
December 31, 2006	225	198	2,757	3,180
Depreciation in EUR`000				
January 1, 2006	2,798	658	2,533	5,989
Reposting (discontinued operations)	2,731	-452	-247	-3,430
Additions	14	39	181	234
Disposals	-21	-40	-105	-166
Disposal due to change in consolidation basis	-	-174	-13	-187
Currency adjustments	-	4	-2	2
December 31, 2006	60	35	2,347	2,442
Balance sheet value 31.12.2006	165	163	410	738

17. Investment property

Already in 2001 DEAG valued the plots of land held as financial investment and not used within the DEAG Group in accordance with the fair value model on the basis of sufficiently objectifiable market prices, and a corresponding write-up was made.

A surveyor appointed by FREP came to a value indication of EUR 7.8 million for the plot areas around Jahrhunderthalle because of safety margins deducted on grounds of uncertain development capacity. On that basis the company made an impairment. (see Item 3).

The appraisal was based on indicative land values.

During fiscal 2006 operating expenses in the amount of kEUR 35 were incurred which were directly attributable to the real property; no rental income was generated.

18. Financial Assets

Financial assets were marked by the addition of an investment of 10% of the shares in Ticketmaster Deutschland GmbH of kEUR 600.

The item associates concerns our 50 percent shareholding in EIB Entertainment Insurance Brokers GmbH, Hamburg. A breakdown of assets and liabilities as well as expenditure and income (IAS 28.37) is not made on grounds of immateriality. The profit for the year amounted to kEUR 10.

Furthermore, DEAG Music GmbH is reported as an associate with a book value of EUR 0. The pro rata result of the company was included with an amount of kEUR -484 because of a loss transfer to DEAG expected in this amount in the result from associates. DEAG Music (100%) owns assets of kEUR 378 and liabilities of kEUR 1,009. Sales amounted to kEUR 182 in 2006, the net loss for the year was kEUR 645.

19. Deferred Taxes

The deferred tax assets concern in the amount of EUR 1.8 million (2005: EUR 1.8 million) exclusively deferred taxes on losses carried forward against which deferred tax liabilities of EUR 1.8 million were offset in respect of valuation differences concerning Jahrhunderthalle (same tax authority). Deferred tax liabilities are reported in an amount of EUR 1.9 million because of a limited loss set-off possibility.

20. Bank Loans Payable

Bank loans payable essentially relate to short-term loan liabilities at two banks to the amount of kEUR 855.

21. Trade Accounts Payable

These liabilities are due within one year. There are no collaterals.

22. Accruals

This item has developed as shown below:

In EUR'000	as at 01.01.06	Reposting (1)	Use	Dis- posal	Addi- tion	Curre ncy differe nce	Consoli dation basis changes	As at 31.12.06
Taxes for assessment period	-	-	-	-	181	-	-101	80
Tax for previous years	1,038	-	159	4	1	-3	-262	611
Outstanding balances	2,720	-	2,488	143	2,229	-74	-3	2,241
Personnel obligations	522	-110	245	14	340	-7	-	486
Obligations / risks from current business	284	-	161	14	430	1	-11	529
Consulting and audit costs	220	-7	181	3	179	-	-13	195
Repurchase agreement	501	-	501	-	-	-	-	-
Other accruals ¹	1,412	-	352	583	183	-	-	660
Total	6,697	-117	4,087	761	3,543	-83	-390	4,802

(1) Accruals of discontinued operations as at 1.1.06.

Except for kEUR 62 (Previous Year: 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	31.12.2006	31.12.2005
Repurchasing agreement	-	12,031
Tax liabilities	6,508	11,738
Finance liabilities	2,200	2,035
Social security liabilities	11	123
Accruals and deferrals	24	64
Miscellaneous	1,257	443
Other current liabilities	10,000	26,434

Tax liabilities include kEUR 1,627 (Previous year kEUR 6,889) in artists' withholding 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 3,299 of artists' tax. These are off-set by assigned claims for the same amount (compare Item 13).

Miscellaneous includes a kEUR 2,000 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 (term December 1, 2003 to November 30, 2006) 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 was due on November, 30 2006. Until maturity accrued interest was added to the total nominal value (2006: kEUR 758).

During the first conversion window in 2005 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.

In the business year 2006 during the second conversion window following the 2006 General Meeting, 97,668 subscription shares, and at the end of the term, 4,432,362 subscription shares were issued to owners of convertible bond, who made use of their subscription rights.

26. Other Long-Term Liabilities

This item includes the long-term part of collateralised financial liabilities due in 2008.

27. Collateralisation

To secure other short-term liabilities totalling kEUR 2,000 a not yet due payment of kEUR 1,850 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 Veranstaltungs-GmbH have been pledged.

kEUR 200 in dividend entitlements to Good News Productions AG, Glattbrugg-Opfikon, Switzerland, have been pledged as collateral for a repayment requirement in connection with a loan and kEUR 163 of the other long-term liabilities.

Of the liquid funds, kEUR 1,627 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 23,088,812.00 (Previous year EUR 18,558,782.00) less EUR 1,230.00 own shares. It is divided into 23,088,812 ordinary registered shares in the form of no-par-value individual share certificates each with a book share of EUR 1 in capital stock.

Due the conditional capital increase of up to EUR 4,583,350.00 resolved by the General Meeting of Shareholders on June 17, 2003, which was still in effect on January 1, 2006 at the amount of EUR 4,582,490.00, 97,668 subscription shares were issued in the financial year 2006 due to conversion declarations in relation to the DEAG convertible bond 2003/2006 during the conversion window following the General Meeting 2006. The authorised capital of DEAG rose to EUR 18,656,450. Entry into the register of companies was made on September 5, 2006.

In the conversion period at the end of the term 4,432,362 stock allotments were issued. The company's authorised capital rose to EUR 23,099,812.00. Entry into the register of companies was made on February 6, 2007.

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.

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.

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 2006	Shares in circulation	Weighted average	Stock as at ...
01.01.2006	Stock at start of year	18,558,782	1,230		18,557,552		
31.01.2006				January	18,557,552		
28.02.2006				February	18,557,552		
31.03.2006				March	18,557,552	18,557,552	31.03.2006
30.04.2006				April	18,557,552		
31.05.2006				May	18,557,552		
30.06.2006	2 nd conversion	97,668		June	18,655,220	18,557,552	30.06.2006
31.07.2006				July	18,655,220		
31.08.2006				August	18,655,220		
30.09.2006				September	18,655,220	18,590,466	30.09.2006
31.10.2006				October	18,655,220		
30.11.2006	3 rd conversion	4,432,362		November	23,087,582		
31.12.2006		3,432,872	1,230	December	23,087,582	18,983,235	31.12.2006

Undiluted earnings per share are calculated on the basis of 18,983,235 shares. Diluted EPS is calculated on the basis of 23,133,752 shares. To calculate diluted EPS, kEUR 757 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 4,583,350.00 (Conditional Capital 2003/1) and, as resolved by the General Meeting of Shareholders on 17 June 2004, by up to a further EUR 2,291,675.00 (Conditional Capital 2004/II).

2003/I

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 November, 30 2006.

Due to the issue of 4,530,890 subscription 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 52,460.00 divided up in up to 52,460 individual shares with a nominal share in the capital stock of EUR 1.00.

2004/II

The conditional capital increase from the remaining Conditional Capital 2004/II by EUR 2,291,675.00 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 June,16 2009 on the basis of the Management Board's authorisation dated June,17 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

On June 16, 2006 the General Meeting created under revocation of the previously conditional capital to the extent it hadn't been made use of, a new conditional capital. The Management Board was authorised, subject to the Supervisory Board's approval, to increase the capital stock once or repeatedly by up to EUR 9,289,391,00 (Conditional capital 2006) until June 15, 2011. The Management Board was further authorised, 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:

- a) as compensation for fractions
- b) to issue shares as employee shares to company staff
- c) recovery of investments in kind, most particular in the form of companies or parts of companies or other assets
- d) if the issue amount of the new shares is not materially lower than the stock exchange price and the shares issued to the exclusion of the subscription right in accordance with § 186 para 3 sentence 4 AktG (German Stock Corporation Act) do not exceed a total of 10 percent of the current share capital. Shares which were issued or have to be issued to service bonds with warrants or convertible bonds, insofar as the bonds were issued by corresponding application of § 186 para 3 sentence 4 AktG to the exclusion of the subscription right and treasury shares which were acquired by virtue of an empowerment in accordance with § 71 para 1 no 8 AktG and were sold to the exclusion of the subscription right of the shareholders in accordance with § 186 para 2 sentence 4 AktG, must be counted towards this number;
- e) insofar as it is necessary to grant the holders of convertible bonds/bonds cum warrants, which were issued by the company, a subscription right in respect of new shares in the range that they would be entitled to after the exercise of their conversion and/or option right following the fulfilment of conversion obligations, but only insofar as the shares cannot already be granted by virtue of contingent capital. The authorized capital approved by the Annual General Meeting on June 16, 2006 was entered in the Commercial Register together with the corresponding amendments to the Byelaws on September 5, 2006.

At the end of business year 2006 the authorized capital continued to amount to EUR 9,289,391.00.

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

As resolved by the General Meeting of Shareholders on 16 June 2006, Management Board is authorised to purchase up to 10 % of the company's shares. It must do so by 15 December 2007 and only via the stock exchange or a public offer to buy from shareholders. As of 31 December 2006 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. 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 was closed down and the segment Theatres which is no longer considered part of the core business was re-positioned outside of the group. Both segments are shown as discontinued operations in the DEAG 2005 financial statement. The Wintergarten Varieté, Berlin, has since been sold effective January 1, 2007. The Varieté Friedrichsbau, Stuttgart, has not been disposed of yet. In the 2006 group accounts the Wintergarten Varieté Theater Betriebs GmbH, Berlin, has been listed as part of discontinued operations. Figures have not been restated in the 2005 Statement Of Income on account of Friedrichsbau Varieté for reasons of negligibility.

Assets and liabilities shown of the discontinued segment Wintergarten Variété are made up as follows per December 31,2005.

Assets	EUR'000
Liquid funds	606
Accounts receivable	190
Inventories	11
Other current assets	48
Receivables due from affiliated companies with respect to continued operations	352
Current assets	1,207
Goodwill	370
Fixed assets	158
Long-term assets	528
Other assets directly related to discontinued operations	1,735

Liabilities	EUR'000
Accruals	240
Accounts payable	764
Sales accruals	241
Other current liabilities	94
Current liabilities	1,339
Accruals and liabilities directly related to discontinued operations	1,339

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

	Total segments	
	2006	2005
In EUR'000		
Revenues	4,226	10,579
Cost of revenues	-2,703	-8,456
Gross Profit	1,523	2,123
Distribution costs	-1,273	-1,905
Administration costs	-648	-1,710
Other operating income/expenses	-56	362
Operating results before depreciation (EBITDA)	-454	-1,130
Scheduled depreciation	-78	-265
Amortisation of goodwill	-	-3,000
Operating income (EBIT)	-532	-4,395
Financial result	-44	91
Result before taxes	-576	-4,304
Income taxes	-2	239
Result after tax for discontinued operations	-578	-4,065

Depreciation of goodwill for an amount of kEUR 3,000 in 2005 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	2006	2005
Cash flow before changes in net current assets	-844	-1,017
Net cash from operating activities from discontinued operations	-800	-1,810
Net cash from investment activities in discontinued operations	-9	-24
Inflow from investments in discontinued operations from continued operations	445	1,877
Changes in liquidity	-364	43
Liquid funds as at 01.01.	970	927
Liquid funds as at 31.12.	606	970

30. 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, Loans Granted, Travel Expenses, Entertainment Expenses, Corporate Gifts

In the financial year 2006, 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.

In the business year he was granted a short-term loan of kEUR 30 at 5% interest with supervisory board approval. The loan was repaid at the date of balance.

In the reporting year financial services of around kEUR 111 were rendered by Open Air Classics Concert Veranstaltungen GmbH, a company controlled by Mr Schwenkow.

Annual emoluments received in 2006 by the members of the management board totalled kEUR 994 (2005:kEUR 987).

Board Member	Fixed Compensation	Variable Compensation	Other benefits	Total emoluments
Peter L.H. Schwenkow	540	102	11	653
Dr. Ingo Stein	250	-	4	254
Christian Diekmann	50	13	4	67
Subtotal	840	115	19	974
Wingolf Mielke (retired in 2005)	-	20	-	20
GRAND TOTAL	840	135	19	994

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 (200: kEUR 55). The Company also reimbursed travel costs of kEUR 3 incurred in connection with Supervisory Board meetings (2005: kEUR 1).

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 use of the consulting services offered. In the financial year 2006 kEUR 55 (2004: kEUR 14) were invoiced for consulting services rendered.

31. Revenues

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

32. 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.

33. Distribution Costs

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

34. Administration Costs

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

35. Other Operating Income

Other operating income consists primarily of the following:

In EUR'000	2006	2005
Income from retransfer of reserves	3,610	-
Income unrelated to the accounting period	761	780
Income from written-off liabilities and receipt of written-off receivables	517	513
Rental income	313	349
Consulting and agency services	270	600
Compensation	108	8
Asset disposals	6	85
Damages	76	200
Income from other accounting periods	19	530
Other	973	1,194
TOTAL	6,653	4,259

kEUR 2,197 of the gains from the sale of shareholdings originate from the sale of 38 percent of the shares in Good News and kEUR 1,413 originate from the sale of 50 percent of the shares in Marshall Arts.

36. Other Operating Expenses

Other operating expenditure consists of the following:

In EUR'000	2006	2005
Itemised allowances /Risk provision	121	311
Other taxes	98	98
Damages	75	6
Losses from fixed asset disposals	12	10
Other	228	139
Total	534	564

37. Depreciation/Amortisation

Depreciation /amortisation for continued operations as follows:

In EUR'000	2006	2005
Amortisation of consolidation-related goodwill (unscheduled)	273	-
Depreciation of other intangibles	756	12
Depreciation of fixed assets	234	273
Total depreciations	1,263	285

38. Interest Income and Expenses

Net interest income was as follows:

In EUR'000	2006	2005
Other interest and similar income	358	313
Other interest and similar expenditure	-2,055	-2,620
Net interest income	-1,697	-2,307

39. Result From Investments and Participations

This income from participations relates to a payout of dividends from a silent partnership.

40. 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	2006	2005
Current tax expenditure	-670	-911
Deferred tax income / expenditure resulting mainly from future use of losses carried forward and from temporary differences	229	-128
Tax income / expenditure (Including discontinued operations)	-441	-1,039

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. Deferred tax claims are applied as far as they can be settled against deferred taxes on the liabilities side.

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 Switzerland is 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	2006	2005
Result before taxes on income and minority interests	328	-4,158
Tax expenditure / income at the DEAG Holding's tax rate	-131	1,663
Tax expenditure / income as per profit and loss statement	-441	-1,039
Carryover figure	310	2,702
Amortisation of goodwill	109	1,200
Taxes (previous years)	2	15
Tax-free earnings and non-deductible expenses	-1,235	457
Different tax rates	-502	-930
Write-up / value adjustment of tax accruals	1,936	1,960
	310	2,702

Deferred tax assets and liabilities are made up as follows:

In EUR'000	2006	2005
Tax accruals on losses carried forward by DEAG AG	1,760	1,768
Tax deferrals that can be set off against accruals	-1,760	-1,768
Deferred tax assets (net)	-	-

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

Following FREP findings deferred tax assets were only applied to the extent that they can be settled against deferred taxes on the liabilities side.

DEAG's tax losses carried forward amounted to EUR 53.8 million per December 31, 2006.

Deferred tax assets and liabilities are made up as follows:

In EUR'000	2006	2005
Deferred income from the value write-up on the Jahrhunderthalle Frankfurt	2,933	2,947
Deferred taxes deductible from deferred income (Jahrhunderthalle Frankfurt)	-1,760	-1,768
Total deferred taxes (Jahrhunderthalle Frankfurt)	1,173	1,179
Deferred income on intangible assets	662	810
Other temporary differences	30	107
Total deferred taxes	1,865	2,096

41. Personnel Expenses

In EUR'000	2006	2005
Wages and salaries	8,977	6,957
Social security contributions	1,235	983
Total	10,212	7,940

42. Average Number of Employees During the Year

Head count	2006	2005
Live Touring	27	16
Entertainment Services	120	40
DEAG Holding	17	17
TOTAL Continued Operations	164	73
Discontinued Operations	57	144
Grand Total	221	217

On December, 31 2006 the Group employed 175 (2005: 81) full-time staff in continued operations.

43. Off Balance Sheet Contingencies

On the balance sheet date the following contingencies relating to securities and guarantees provided for third parties exist:

Off balance sheet contingencies in EUR'000	2006	2005
Securities	2,100	-
Other guarantees	89	89
Total	2,189	89

44. 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	Artist Guarantees	Rent and Leasing	Other	Total
2007	6,871	773	1,427	9,071
2008-11	4,107	1,358	882	6,347
Total	10,978	2,131	2,309	15,418

Other financial commitments mainly concern contractual consulting services

45. 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	2006	2005
Assets:		
Short-term assets	190	5,098
Long-term assets	40	76
Total assets	230	5,174
Liabilities:		
Short-term debt	219	4,078
Total liabilities	219	4,078
Statement of income:		
Revenues	10,036	11,939
Cost of revenues	-8,918	-10,238
	1,118	1,701
Other operating expenses	-1,195	-992
Result from interest	129	92
	52	801
Income tax	-100	-260
Result for the year	-48	541

46. Audit fees

The auditor's fees in the financial year 2006 are made up as follows:

EUR'000	2006
Audit costs	223
Other services rendered	214
	437

47. 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

48. 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.

49. Post balance date events

DEAG Concerts purchased the 25% external shares in Music Pool Europe GmbH by notarised sales contract on April 27, 2007.

On April 18, 2007 the Wintergarten Varieté Betriebs GmbH was sold effective January 1, 2007 as part of a MBO.

50. Personal Data

Management Board

Peter Schwenkow

Place of residence	Berlin
Profession	CEO, Businessman
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)
Shares held as at 31.12.2006	1,802,531

Dr. Ingo Stein

Place of residence	Berlin
Profession	Board Member, Businessman
Responsibility within the Group	Finance and Human Resources
Group retainers	Member of the Supervisory Board of DEAG Classics AG
Shares held as at 31.12.2006	-

Christian Diekmann

Place of residence	Berlin
Profession	Board Member (since 01.08.2006), Businessman
Responsibility within the Group	Operations, Marketing
Group retainers	-
Shares held as at 31.12.2006	-

Supervisory Board

Prof. Dr. Peter Raue

Place of residence	Berlin
Position on Supervisory Board	Chairman
Profession	Lawyer and Notary Public at Hogan Hartson & Raue LLP, Berlin
Retainers on other boards	Supervisory Board Member of Hebbel Theater GmbH, Berlin
Group retainers	-
Shares held as at 31.12.2006	-

Wolf-D. Gramatke

Place of residence	Hamburg
Position on Supervisory Board	Vice-Chairman
Profession	Freelance Media Consultant
Retainers on other boards	Supervisory Board Chairman of Pixelpark AG, Berlin Supervisory Board Vice-Chairman of Senator Entertainment AG, Berlin Supervisory Board Chairman of Steristics AG, Münster (Until June 30, 2006) Other: Member of Supervisory Board of Jetix Europe N.V., Netherlands Member of the media business committee of the Hamburg Chamber Of Commerce
Group retainers	Supervisory Board Member of DEAG Classics AG
Shares held as at 31.12.2006	-

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 31.12.2006	-

The consolidated financial statements were released by the Management Board for publication on May 4, 2007.

Berlin, 31 March 2006/4 May 2007

DEAG
Deutsche Entertainment Aktiengesellschaft
Management Board

Peter L. H. Schwenkow

Dr. Ingo Stein

Christian Diekmann

Independent Auditor's Report

We have audited the consolidated financial statements, including the balance sheet, the statement of income, the statement of changes in shareholders' equity, the cash flow statement and the Notes as well as the management report and the Group management report for the fiscal year from January 1, 2006 to December 31, 2006 prepared by DEAG Deutsche Entertainment Aktiengesellschaft. The preparation of the consolidated financial statements and of the management report of the company and the Group in accordance with IFRS as applicable within the EC and, in addition, in accordance with the commercial law provisions to be applied pursuant to § 315a para 1 HGB (German Commercial Code) is the responsibility of the statutory representatives of the company. Our responsibility is to express an opinion on the basis of our audit of the consolidated financial statements and the management report and Group management report of the Company.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements adopted by the German Institute of Public Auditors (IDW). These require us to plan and perform the audit in such a way that we are able to judge with sufficient reliability whether the consolidated financial statements are free from misstatements that would have a material impact on the presentation of the assets, financial and income position of the company as provided by the consolidated financial statements of the company, prepared in conformity with the applicable generally accepted accounting principles and by the management report and the Group management report. The scope of the audit was defined taking into consideration information on the business activities as well as the economic and legal circumstances of the Group and the expectations regarding possible errors. Within the framework of the audit, evidence on the effectiveness of the 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 primarily on the basis of random checks. The audit includes assessing the financial statements of the entities included in the consolidated financial statements, the determination of the entities to be consolidated, the accounting and consolidation principles applied and material estimates made by the statutory representatives as well as the evaluation of 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 for our opinion.

Our audit has not resulted in any qualifications.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as applicable within the EU, as well as with the additional commercial law provisions to be applied pursuant to § 315a para 1 HGB (German Commercial Code) and give a true and fair view of the Group's asset, financial and income position in accordance with such provisions. Both the management report and the Group management report are in conformity with the consolidated financial statements, provide an accurate view of the Group's position and accurately describe the opportunities and risks of future developments.

Berlin, 4 May 2007

BDO Deutsche Warentreuhand

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft

Braasch

ppa. Pfeiffer

Auditor

Auditor

DEAG Deutsche Entertainment Aktiengesellschaft**Balance Sheet Summary (according to HGB)**

Assets in EUR'000	31.12.2006	31.12.2005
Intangible assets and tangible fixed assets	93	118
Financial assets	7,031	11,839
Fixed assets	7,124	11,957
Receivables and prepaid expenses	19,798	21,471
Cash, cash equivalents and securities	336	2,518
Total current assets	20,134	23,989
Total assets	27,258	35,946
Equity and liabilities in EUR'000	31.12.2006	31.12.2005
Share capital	23,089	18,559
Capital reserve	37,729	35,557
Reserve for own shares	1	1
Accumulated deficit	-43,333	-37,540
Shareholders' equity	17,486	16,577
Accruals	251	1,265
Convertible bond	-	6,016
Accounts payable to financial institutions	861	4,005
Other accounts payable and deferred income	8,660	8,083
Total payables	9,521	18,104
Total equity and liabilities	27,258	35,946

DEAG Deutsche Entertainment Aktiengesellschaft

Consolidated Statement of Income (according to HGB)

in EUR'000	Financial statement 01.01.-31.12.2006	Financial statement 01.01.-31.12.2005
+		
Distribution costs	-309	-293
General and administration costs	-3,980	-4,182
Other operating income and expenses	2,973	5,592
Interest income / expenses	-924	-525
Depreciation of financial assets and marketable securities	-5,315	-4,299
Income from investments and participations	1,765	-2,323
Result of ordinary business activities	-5,793	-6,030
Income tax and other taxes	-3	-3
Net income / loss	-5,793	-6,033
Loss carried forward	-37,540	-31,507
Accumulated deficit	-43,333	-37,540

Report of the supervisory board

In fiscal 2006 the Supervisory Board dealt in detail with the situation and development of the company during 5 meetings, on February 27, March 16, April 27, June 16 and December 12, 2006. Based on oral and written reports by the Management Board and deliberations during the meetings of the Supervisory Board, the Management Board of the company was supervised and supported with advice on an ongoing basis.

During the meetings of the Supervisory Board the current situation of the company and the general business development were thoroughly discussed with the Management Board. The meetings were attended by all members of the Supervisory Board either personally or they were represented in individual cases on the telephone or through proxies. The deliberations were based on regular reports by the Management Board as well as written draft resolutions and reporting documents which were made available to all members of the Supervisory Board. In addition, 7 resolutions were adopted by correspondence. In this way the Supervisory Board was able to convince itself that the company was properly managed. Regular deliberations during the meetings of the Supervisory Board concerned the development of sales revenues and income in the Group and investees. Special emphasis was placed on the financial position and planning as well as the scheme for the early detection of risks.

The Supervisory Board was involved in all decisions which were particularly relevant for the company. No committees were set up because of the small size of the Supervisory Board. The Chairman of the Supervisory Board was also provided between the meetings of the Supervisory Board with written or oral reports on business transactions which were particularly relevant for the company as well as on the results of the meetings of the Management Board. In many instances which in accordance with the Byelaws and the Rules of Procedure for the Management Board and the Supervisory Board require the approval of the Supervisory Board, the Supervisory Board took the final decision.

In fiscal 2006 the Supervisory Board did not receive any information on conflicts of interests from a member of the Management Board or a member of the Supervisory Board.

The provisions of the German Corporate Governance Code were complied with apart from the few items referred to in the declarations of conformity which are difficult to implement or disadvantageous for the company. At the meeting of the Supervisory Board on December 14, 2006 the declaration of conformity for 2007 was adopted. At the meeting of the Supervisory Board on April 19, 2007 it was updated. The declaration of conformity is published on the website of the company. In accordance with Clause 3.10 of the Code, a separate report on Corporate Governance is included in the Annual Report.

The financial statements and the consolidated financial statements as well as the management report and the Group management report for fiscal 2006 were audited by BDO Deutsche Warentreuhand Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin, the auditors appointed by the Supervisory Board, who issued an unqualified audit opinion. The representatives of the independent auditor attended the deliberations on the financial statements and consolidated financial statements during the meeting of the Supervisory Board dealing with the financial statements and presented the findings of their audit of which the Supervisory Board took approving note.

In the Group management report the Management Board has listed the possible obstacles to takeover. The Supervisory Board reviewed them and discussed them with the Management Board. The Supervisory Board is of the opinion that they are reported in a sufficient and accurate manner.

After its own review of the financial statements, the consolidated financial statements as well as the corresponding management reports, which did not lead to any objections, the Supervisory Board approved the results of the audit by the independent auditor and adopted the financial statements and the consolidated financial statements. Consequently, the financial statements are approved.

Berlin, May 2007

The Supervisory Board

Prof. Dr. Peter Raue

Chairman

IMPRINT

Editing and Coordination

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Further Information

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The Annual Report and current information on DEAG
are posted on the internet at www.deag.de/en/investors.htm

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