

Media & Entertainment

A Research Publication by DZ BANK AG

DEAG Entertainment³⁾

Year *	Sales EUR m	Adj. IFRS- Earnings per sh. EUR	Cash flow per share EUR	PER	PCF	Dividend per share EUR
2007	87.2	0.08	0.13	22.3	13.3	0.00
2008e	105.0	0.10	0.16	14.1	9.4	0.00
2009e	120.0	0.12	0.18	11.9	8.3	0.00
2010e	128.0	0.15	0.20	10.0	7.3	0.05

* Fiscal year end December

DEAG returns to its growth path after successful restructuring and an operating turnaround

- DEAG Deutsche Entertainment AG is the European market leader for live events in the classical music segment, number two in the entire live entertainment market in Germany and, after a longer phase of operative and company law restructuring, back on a growth path again.
- Via cooperation agreements with the world market leader in ticketing, Ticketmaster, worldwide leading classical music agencies like CAMI and IMG Artists, as well as the second-largest concert promoter in the world, Anschutz Entertainment, DEAG is in an extremely stable strategic competitive position in an increasingly difficult market.
- The classical segment set up in 2005 is developing into the growth driver for group revenues. On the earnings side, positive synergy effects from the recently purchased stake in Raymond Gubbay Ltd. can be anticipated in the medium term.
- The company has a solid balance sheet and financing structure again.
- We see additional opportunities in the sponsoring and sports consulting segments as well as in the improved marketing of incidental rights, e.g. for TV broadcasts and video recordings, and in merchandising.

DEAG's current business model offers an interesting opportunity/risk profile with clear growth potential in all business segments. On the basis of our revenue and earnings forecasts we calculate a DCF-based fair value for DEAG shares of EUR 2.61. Given the currently cheap valuation we recommend the shares as a Buy.

Selected Companies	Price on		PER		EV / EBITDA		EBITDA marg. 08e	Re-com.
	26 May 2008		08e	09e	08e	09e		
DEAG Entertainment	1.46	EUR	14.1	11.9	7.9	6.2	8.0%	↑
CTS Eventim	25.54	EUR	19.4	14.4	10.3	7.8	15.1%	↑
Live Nation Inc	14.50	USD	85.3	290.0	9.6	7.6	3.9%	–
Median for all peer group companies	52.4	152.2	10.0	7.7	9.5%	–		

↑ = Buy, → = Hold, ↓ = Sell, ● = not rated, n/a = not appropriate

Source: DZ BANK, I/B/E/S, JCF

Equities

Company Report 27 May 2008

Buy

Closing price 26 May 2008

(in EUR): 1.46

Fair value: 2.61

Risk classification: 5

Financial ratios 2008e:

Book value per share (in EUR): 1.41

Equity ratio (in %): 48.4

Net margin (in %): 4.7

ROE (in %): 12.2

Dividend yield (in %): 0.0

Free cash flow (EUR m): -4.0

Net cash (EUR m): 6.0

Number of shares

(million units): 24.8

Market cap

(in EUR m): 36.16

Free float (in %): 75.1

SIN: 551390

ISIN: DE0005513907

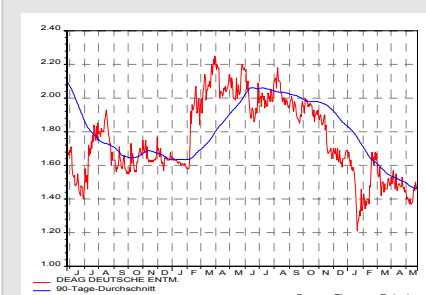
Datastream: D:ERM

Reuters: ERMG.F

Bloomberg: ERM GR

Next Newsflow:

Q1/2008 figures 28.05.2008



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¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

Contents

Investment case	3
SWOT analysis	5
Valuation	6
Comparison of valuation parameters	
Discounted cash flow analysis	7
Shareholder structure	9
Company profile	10
The value chain	10
The business segments	12
The live entertainment industry is “people business”	16
The leisure market	17
The live-entertainment market	18
Developments in the recording market and live entertainment market	19
Revenues and earnings	22
Historical development	22
2006 and 2007 financial years	24
Investments and financing	
Outlook and prospects	30
Challenges facing the corporate strategy	33

Investment case

- DEAG Deutsche Entertainment AG is the European market leader for live events in the classical music segment and number two in the entire live entertainment market in Germany. Via its 52% stake in the Good News Group the company is also market leader for live events in Switzerland.
- In terms of revenues the company is in second place behind the German market leader CTS Eventim. Through targeted company buying in recent years the management has managed to extend the operating base in the core business and take over market leadership in important niches in the live entertainment market (classical, folk music/hits).
- Via cooperation agreements with the world's largest ticketing company, Ticketmaster, the globally leading classical agencies, CAMI and IMG Artists, as well as the world's second largest concert promoter, Anschutz Entertainment and APRO Just Classics for the German market, DEAG is in a very good strategic competitive position as regards access to attractive artists as well as the use of a cheap ticket sales platform.
- Alongside the Live Entertainment segment, DEAG runs several local event operations via its Entertainment Services segment, such as the Waldbühne in Berlin, the Jahrhunderthalle in Frankfurt, Global Concerts in Munich, River Concerts in Hamburg, or the Zurich Hallenstadion (via the Swiss Good News Group). In this way the company can occupy a number of important positions in the live entertainment sector value chain.
- Despite many challenges resulting from the current market environment, we see DEAG as being well on the way to being able to use the available growth potential. We believe the company should succeed in generating further growth in particular in the classical segment and continuing with European expansion in this market segment. There is potential in particular in the intensive cooperation with classical stars such as Anna Netrebko or Lang Lang and other artists. Through the acquisition of a 75.1% stake in Raymond Gubbay Ltd. and its integration into the Group, the first step has been taken in the direction of the Europe-wide placement of artists from the DEAG Classics Portfolio. The resulting synergy effects will make a positive contribution to the DEAG result in the years ahead.
- In addition, we see interesting growth opportunities in the still relatively new sportsperson management and sponsoring segments. In addition, further earnings opportunities will arise from the improved marketing of incidental rights, the marketing of TV broadcasts and DVD recordings of the live events as well as from the strengthened merchandising offer.
- The model targeted by the management of 360° support of promising artists in the DEAG portfolio will also take effect. The cooperation agreed with the world's second-largest music major Warner Music will bring with it new development opportunities above all for the company's own label, DEAG Music, even though this segment is likely to develop only slowly in competition to the established recording companies.
- However, the dependence of the live entertainment market on the artists' current appeal to their audience in each case as well as on certain trends and fashion fads leads in the short term to seasonal fluctuations in business activity, which can scarcely be planned, around a trend which is tending upwards in our view, though. In the light

The company has achieved a good degree of diversification through acquisitions

The classical segment offers the first mover interesting earnings potential

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of the market's special opportunity/risk profile, we anticipate that DEAG's live entertainment activities can achieve an EBIT margin in the upper single-digit region in the long term. The further expansion of the classical segment, which is easier to forecast, would lead to the significant improvement and stabilisation of operating margins as the returns in this segment are way above the market average.

- To summarise, DEAG's current business model, which is on a solid foundation after the restructuring carried out, offers an interesting opportunity/risk profile with clear growth potential in all business segments. This should enable the company to lastingly generate profits and achieve above-average profitability in future as well.

SWOT analysis

Deutsche Entertainment AG			
Strengths	<ul style="list-style-type: none"> • Deutsche Entertainment AG is market leader in Europe for live events in the classical music segment. Its market leadership makes it highly attractive for top classical stars • DEAG is present on all important exploitation platforms and therefore has major exploitation potential • The company has experienced management on group level, in particular in CEO Peter Schwenkow. The managing partners of the subsidiaries also have many years of experience in the entertainment sector • Through targeted participating interests and cooperation agreements, the company has secured itself lasting access to top international stars in the rock/pop and classical segments 	<ul style="list-style-type: none"> • No distribution channel (ticketing) owned by majority • Well-known artists are demanding rising fees • Financially limited scope for investments • Major dependence on raising external capital and additional expansion of capital base to finance further external growth • According to a GfK survey only 11% of those interviewed wanted to get to know new artists "live". A signal for the big challenges DEAG will face to build up and develop unknown artists in the years ahead. 	Weaknesses
Opportunities	<ul style="list-style-type: none"> • Positive development of the live entertainment market • Owing to the further decline in revenues in the music sector (recording industry) the artists are reliant on additional sources of revenue. Owing to this negative market trend, the live entertainment sector is becoming more important. The strong demand from artists for revenues from the live entertainment segment puts the DEAG Group in a strong negotiating position • Development of further European markets together with strategic partners (risk diversification) 	<ul style="list-style-type: none"> • Dependence on ticket sales • Dependent on existing and future business relationships • Availability of artists • Availability of corresponding venues • Increased competitive pressure through the market entry of strong players from other sectors (music industry) • Limited opportunity of passing on increased costs (fees, percentage of ticket sales demanded by the music industry) 	Threats

Source: DZ BANK

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Valuation

We typically base our valuation on a combination of the comparison of the valuation parameters of a peer group and discounted cash flow analysis.

Comparison of valuation parameters

- The market for live entertainment events in Germany is a geographically limited market. The main competitors are either not listed or are hardly comparable as they have another geographical focus, as in the case of Nation Inc, USA, or have an additional, slightly different business focus as in the case of CTS eventim, Germany. In the case of Deutsche Entertainment AG, the comparison of valuation parameters based on a representative peer group does not really hit the mark, therefore. Nevertheless, we have given a brief description of the two main companies which are relevant in terms of competition:
- CTS eventim AG: The company is market leader in the live entertainment events segment in Germany with revenues of around EUR 280.0m. Via a cooperation agreement with Live Nation, CTS has secured access to numerous international top acts from the music industry. Alongside the business focus in the area of tour organisation and local arrangement of live entertainment events, the group concentrates mainly on ticket sales. CTS eventim is market leader in the European region in this segment. It has secured entry to the American market thanks to the future cooperation with Live Nation. This area of business contributes around EUR 100m to group revenues and is highly profitable.
- Live Nation Inc: With revenues of more than US\$ 4.0bn in 2007, the company is the global market leader in the live entertainment event segment with over 33,000 events and live concerts each year. The company regularly produces and markets international tours with numerous top acts from the international music scene such as Madonna, U2, Rolling Stones or Coldplay. Furthermore, Live Nation is the second-largest company for the management of event locations. Live Nation has booking rights for more than 170 venues world-wide. These include for example the Fillmore Auditorium in San Francisco, the Nikon Theatre at Jones Beach in New York and Wembley Arena in London.

The table below shows the relevant comparative figures for these two companies:

Valuation parameters of the peer group

Company	Price in EUR	Market capitalisation In EUR m	EV/EBIT			PER		
			2008e	2009e	2010e	2008e	2009e	2010e
CTS Eventim	26.0	625.0	12.0	8.9	7.5	19.8	14.6	13.1
Live Nation	10.0	756.0	46.7	32.1	13.9	91.3	56.4	64.7
Median			29.4	20.5	10.7	55.6	35.5	38.9

Source: Factset, DZ BANK AG estimates: situation: 16.05.2008

The valuation parameters of the two companies which are relevant in our view are in a considerable fluctuation range. We therefore believe the median of the parameters is only of limited informative value. For this reason, we have selected the lowest comparative multiplier in each case as a rough guide for an indicative valuation:

Valuation of DEAG within the scope of a peer group comparison

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Parameter	EBIT			EPS		
	2008e	2009e	2010e	2008e	2009e	2010e
DEAG	7.1	8.2	9.0	0.10	0.12	0.15
Multiplier	12.0	8.9	7.5	19.8	14.6	13.1
EV	85.2	72.98	67.5	--	--	--
Market value minorities	-36.0	-36.0	-36.0	--	--	--
Net debt	6.0	13.5	20.6	--	--	--
Market value equity capital in EURm	55.2	50.48	52.1	--	--	--
Fair-value per share	2.23	2.04	2.10	1.98	1.75	1.96

Source: DZ BANK AG estimates: situation: 16.05.2008

Based on the comparison of the valuation parameters the valuation would be in a range of EUR 1.75 to 2.23 per share. A consolidation of the properties around the Jahrhunderthalle in Frankfurt, which are currently held as non operational real estate would lead to an additional earnings per share of EUR 0.34 and respectively increase the fair value. However, due to the legal difficulties related to the sale of these properties we do not include this effect in our valuation. In view of the small number of directly comparable companies, the result is only of minor informative value. However, one undervaluation situation can be determined for the DEAG shares by tendency at least.

Discounted cash-flow analysis

As a central valuation method we use the discounted cash flow approach. This is based on the company's future valuation-relevant success. We use the entity method for the DCF valuation. The valuation has been based on an explicit estimate of the future free cash flow for the years from 2008 to 2013 and then a forecast for the 2014 financial year taken into consideration as a basis for the perpetual annuity.

We have assumed further that the free cash flow will develop further at a growth rate of 0.25% following the explicit valuation period. The beta factor for determining the weighted average cost of capital (WACC) is determined on a period-specific basis. On average this gives a figure of 8.64%. This is based on a risk-free interest rate of 3.92%, a risk premium in the market of 3.5% as well as an unlevered beta factor of 1.45. Similar to the analysis of the comparative figures, the DCF valuation again does not include effects resulting from a potential sale of the real estate properties around the Jahrhunderthalle.

Discounted cash flow valuation

EURm	2008e	2009e	2010e	2011e	2012e	2013e	Perpetual annuity
Adjusted EBIT	7.1	8.2	9.0	9.9	10.2	10.7	11.1
- Income tax on EBIT	-1.4	-1.8	-2.0	-2.2	-2.2	-2.4	-2.4
<i>Effective income tax rate (cash taxes)</i>	20.3%	22.4%	21.7%	22.1%	21.8%	22.1%	21.9%
Net operating profit after tax (NOPAT)	5.7	6.4	7.1	7.7	8.0	8.4	8.7
+write-downs (write-ups)	1.3	1.3	1.3	1.4	1.3	1.4	1.4
-Investments (+divestments)	-10.4	-0.6	-0.8	-1.1	-1.4	-1.6	-1.7
-Increase (+reduction) in working capital	-0.9	0.9	-0.1	0.0	-0.2	0.2	0.3
Other changes	0.0	0.2	0.3	0.2	0.0	0.0	0.0
Free cash flows	-4.3	8.3	7.8	8.2	7.8	8.3	8.7
Cash value of free cash flow	88.5						
+ Value of not operationally necessary assets	0.0						
+ Financial assets and liquid funds	15.7						
Enterprise value at the beginning of the 2008e financial year	104.3						
- Liabilities	-6.4						
- Provisions (inc. pension provisions)	-0.1						
Value of equity capital (inc. minorities) at beginning of 2008e financial year	97.8						
- Value of minorities	-36.0						
+ Correction of outside capital for convertible bonds	0.0						
Value of equity capital (excluding minorities) at the beginning of the 2008e financial year	61.8						
+ Added interest up to the valuation date (with equity capital cost estimate)	2.7						
Value of equity capital (excluding minorities) on the valuation date	64.5						
Value of equity capital per share, diluted (euro)	2.61						

Source: DZ BANK AG estimate

Based on our revenue and earnings forecast the DCF-based fair value comes to EUR 2.61. This valuation approach, which is geared more strongly to the valuation standards of an industrial investor, is likely to represent a good indicative valuation in the medium term, but does not appear to be fully realisable in the short term owing to it not being confirmed by the multiplier analysis. However, given the current price level of the DEAG-shares of EUR 1.41, the shares have interesting price potential even with conservative valuation analysis. We therefore recommend buying the shares.

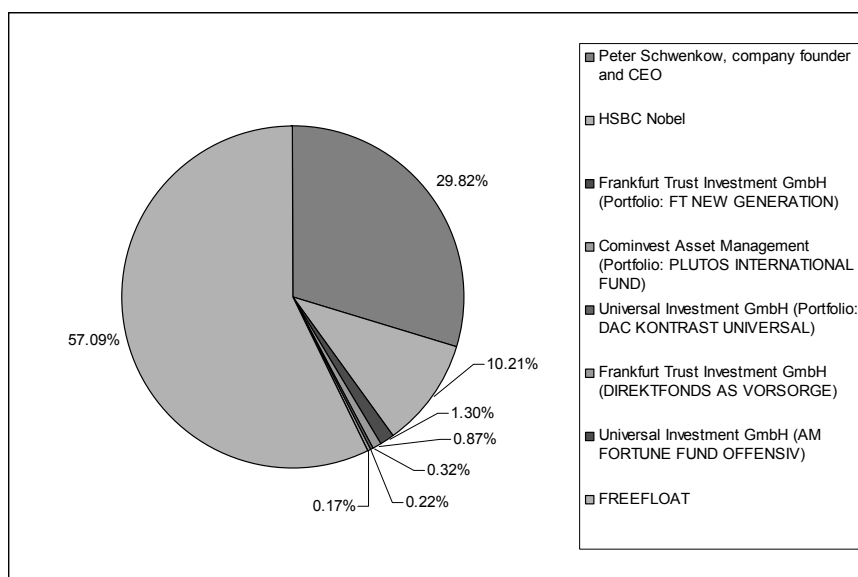
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Shareholder structure

The share capital of Deutsche Entertainment AG was divided into 23,088,812 no-par ordinary bearer shares at the end of fiscal 2007. According to the definition of Deutsche Börse AG 57.09% of the shares (13,181,362) are in free float. Company founder and CEO Peter Schwenkow currently holds 29.82% of the company’s share capital. The remaining 13.09% of the share capital is held by six institutional investors.

1. 10.21% Nobel S.A. (HSBC France)
2. 1.3% Frankfurt Trust Investment GmbH (FT NEW GENERATION),
3. 0.87% Cominvest Asset Management (PLUTOS INTERNATIONAL FUND),
4. 0.32% Universal Investment GmbH (DAC KONTRAST UNIVERSAL),
5. 0.22% Frankfurt Trust Investment GmbH (DIREKTFONDS AS VORSORGE),
6. 0.17% Universal Investment GmbH (AM FORTUNE FUND OFFENSIV).

DEAG shareholder structure



Source: Bloomberg; as of: 31.03.2008

Within the scope of a capital increase through contributions in kind in the first quarter of 2008, the share capital has increased to EUR 24.8m and 24.8 million shares, respectively.

Financial calendar 2008

Date	Event
29.04.2008	Publication of 2007 results
28.05.2008	Publication of 1Q report
03.07.2008	AGM
28.08.2008	Publication of first half report 2008
26.11.2008	Publication of 3Q report

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Company profile

Deutsche Entertainment AG (DEAG) headquartered in Berlin is one of the leading German service groups in the live entertainment segment. The company develops, produces and markets cultural and entertainment events with national and international artists. DEAG occupies important positions along the live entertainment business value chain. The company's core business is arranging tours and concerts in the rock/pop and classical segments in Europe with the focus on Germany. The company's activity ranges from taking on, developing, producing and marketing German and Europe-wide tours (live touring), to the local organisation of individual live events as a local promoter to renting out event facilities and venues (Entertainment Services).

On this basis DEAG offers the artists comprehensive support and professional organisation of the tour or live event on the one hand and the event-goers from the most different target groups and age groups an attractive range of events and complementary services from the entertainment segments variety, musical, classical as well as rock/pop on the other. In 2006 DEAG organised around 2,200 shows and concerts which were attended by around 4.2 million guests.

Within the scope of setting up its own music label, DEAG music, in the 2005 financial year, the company started linking live events with the label business. The medium-term goal is to build up its own rights catalogue in the music segment and extend the value chain to become a full service provider with 360° support for selected and promising artists.

The value chain

The production of a rock, pop or classical concert from its conception to consumption and reception by the audience can be divided into different stages. It can therefore be said that it is a relatively complex value creation process. This value creation process can be divided into a number of individual functional steps which have to be combined in a certain logical time sequence. In the ideal case this production sequence then leads to a marketable concert event. Along this vertical value creation process, various economic entities have specialised on taking on individual or several functions within the scope of the industrial division of labour. The basic operational structure of a typical value chain sequence is therefore presented briefly below.

In the first step, the artist decides to go "live" before the audience within the scope of a concert. In the past, the artist's live appearance was very often initiated in the music business by a record company and served mostly to promote a current music album. As a result of the drastic reduction in revenues from the recording business, the importance of live appearances before an audience as an original source of income for the artists has increased significantly.

The management is responsible for an artist's economic needs. This includes promoting his/her career, building up his/her image, negotiating with record companies, but also planning tours. If the artist has decided in favour of a concert tour together with the management, the artist's manager first of all gets in contact with an internationally operating agent. It is then commissioned to select a suitable national tour promoter in the various countries the artist will be appearing who takes on the organisation of the concert event for a certain geographic region. The agent's aim is to bind the artists with their management to it via exclusive short to medium-term contracts.

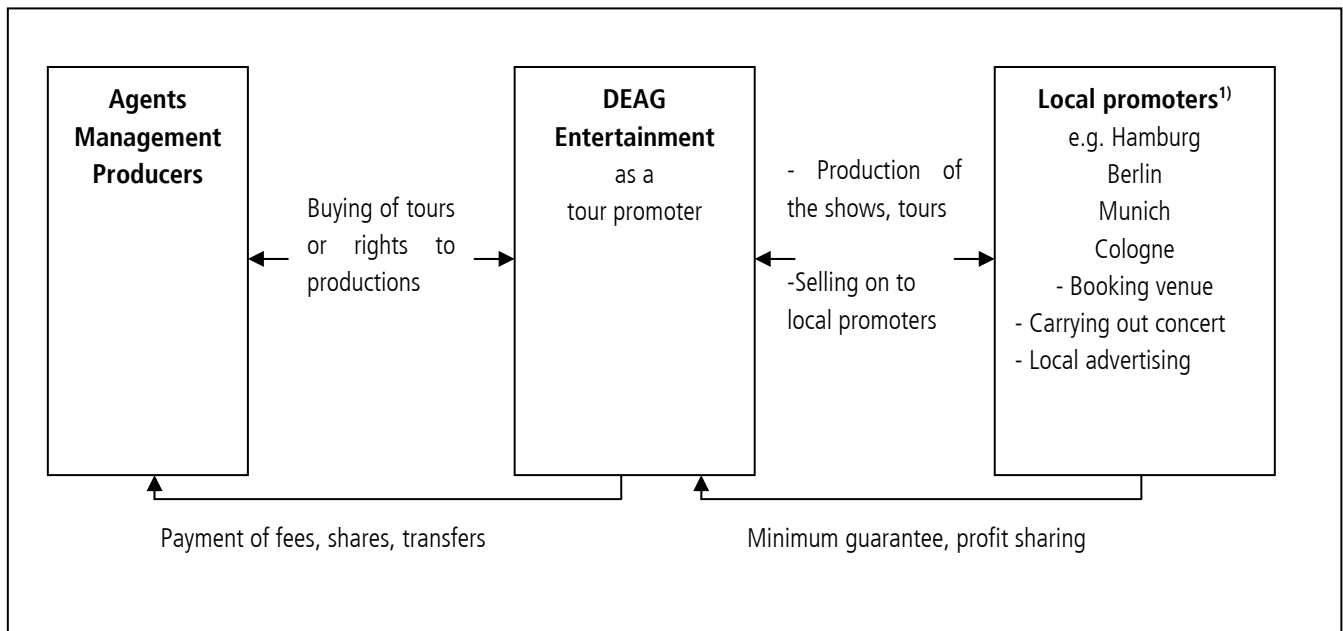
DEAG is one of the leading companies in the German and European live entertainment sector

DEAG offers the artists comprehensive support

The live event is gaining in economic importance in the value creation process

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The value creation chain the in the live entertainment business



Source: DEAG Deutsche Entertainment AG

1) In some cities, DEAG is operating as a local promoter

If a concert promoter secures the contract, it is responsible for the overall concept of the planned tour. This comprises the marketing concept, the selection of advertising partners and sponsors, the selection of the local promoter as well as the organisational and logistical coordination of the concert tours, supporting the artists during the tour and not least the commercial accounting of the concerts. The national promoters of concerts and tours therefore become important partners for the artists appearing. In particular, the tour promoter in most cases together with the local promoter has to see to the high capacity utilisation of the individual events. Controlled ticket sales via all possible distribution channels is one of the factors critical for success.

After all, the failure of concert tours as a result of inadequate marketing and/or insufficient ticket sales as well as poor organisation is associated as a rule with considerable reductions in the popularity and market value of the artists, but also with the risk of economic loss for the promoter.

Alongside the quality of the programme content, for which the artists are responsible in the end, a number of other factors play an important role in the successful execution of an event. Decisive factors of success according to a recent GfK study include clean sanitary facilities, the sound of a concert, the punctual start of the event, friendly security staff, access to the event location by public transport, good parking opportunities and a well-organised cloakroom service. From the promoter's point of view, primarily the right choice of the event location and high capacity utilisation are critical success factors. Within the scope of this value creation chain, DEAG and its subsidiaries have specialised on different functions. Depending on the type of function, responsibility has been assigned to one of the two business segments.

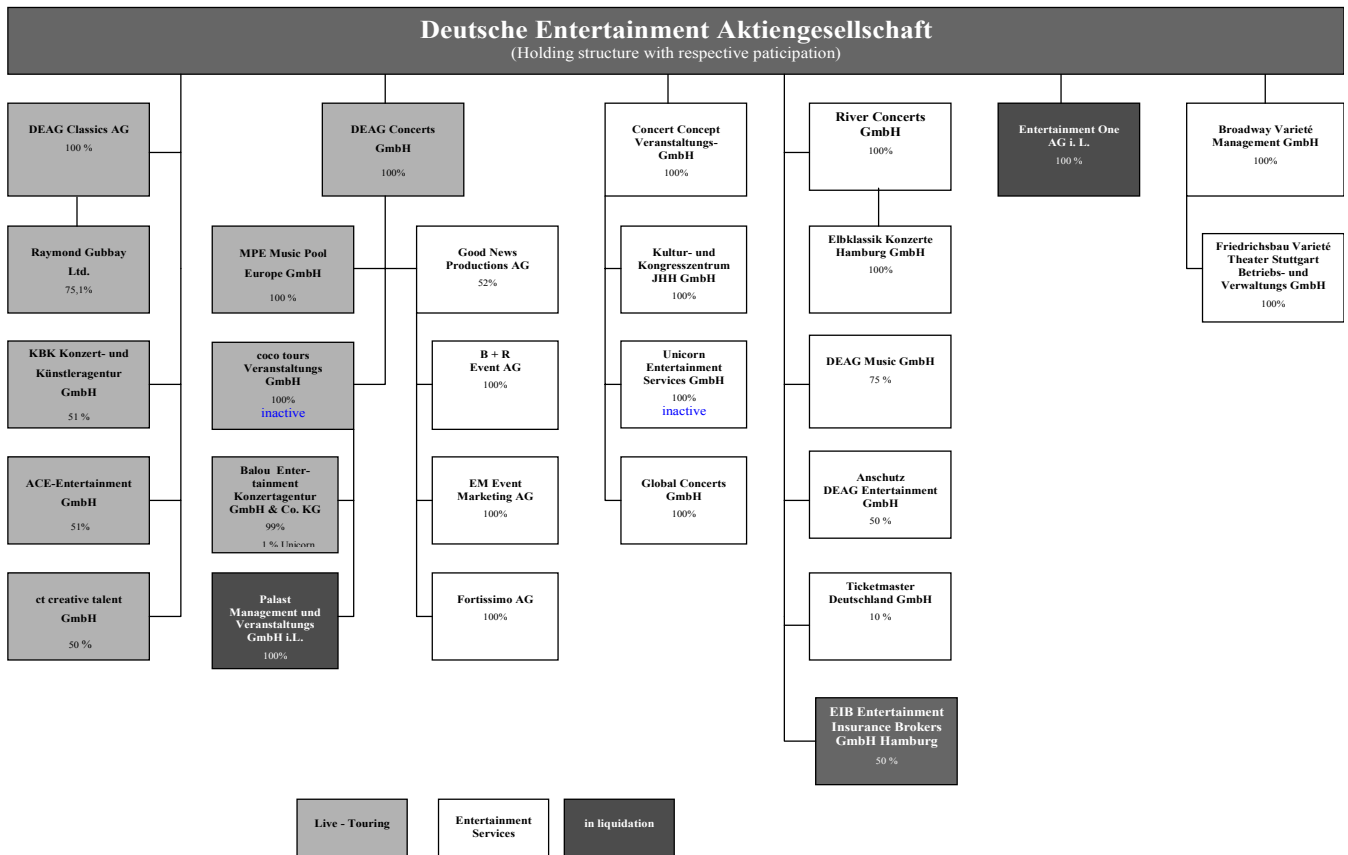
The tour promoter bears overall responsibility in respect of the artist

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The business segments

DEAG’s operating business activities have been split since the beginning of the 2006 financial year into the two business segments “Live Touring” (tour business) and “Entertainment Services” (services and regional business).

Group structure of DEAG Entertainment AG



As of March/April 2008; Source: DEAG AG

■ Live Touring

The “Live Touring” segment, also known as the travelling business, comprises the business activities relating to the organisation of concert tours in the rock/pop and classical segment.

DEAG Concerts GmbH serves as an interim holding in the DEAG group, is run by Mr. Peter Schwenkow and operates primarily as a tour promoter for internationally known artists. In the 2004 financial year revenues of around EUR 2.0m were generated. The New Talent Department, which promotes the establishment and development of successful artists, can also be found at this company.

DEAG Classics AG took up business operations in 2004 and organises as market leader in Germany concert tours and open air festivals in the classical music segment. Concerts with Anna Netrebko, Placido Domingo, Lang Lang or Rolando Villazón among others have been carried out since the company took up operations. In 2005 DEAG Classics was able to

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conclude an outline agreement with the worldwide leading classical music agency, IMG Artists. This outline agreement secures DEAG access to numerous international artists and enables the company to offer attractive concert events under the title "Galaxy of Stars" in the German and Swiss market for classical concerts. An agreement was also signed to carry out concerts with the singer Anna Netrebko. The leading market position in the classical segment was strengthened at the beginning of 2008 by the extension of the cooperation for a further five years with A-Pro Just Classics! GmbH run by the former director of the Deutsche Oper in Berlin, Dr. Alard von Rohr.

In addition, with retrospective effect from 1 April 2008 a 75.1% stake was acquired in **Raymond Gubbay Ltd.**, the leading British classical promoter. Set up in 1966, RGL presents around 400 opera, ballet and concert events each year in Great Britain, Europe and Australia. The purchase price is in the single-digit million pound region and will be paid in cash as well as via the issue of 1.7 million new DEAG Entertainment AG shares within the scope of a capital increase through contributions in kind. Revenues at the new subsidiary are in the region of EUR 13.0m. Overall, the classical segment is to make a large contribution to the planned company growth in the medium term and generate a larger share of concert revenues.

BALOU ENTERTAINMENT Konzertagentur GmbH & Co. KG essentially stands for the comedy activities of the DEAG group. Through servicing agreements with the comedian Rüdiger Hoffmann and the music comedian group "The Pops" the company extended the event portfolio towards the end of 2006 and opened up additional revenue potential.

coco tours Veranstaltungen GmbH has essentially transferred its operating business to the holding companies DEAG Concerts GmbH and Global Concerts GmbH and only operates as an interim holding for Balou Entertainment KG.

In order to expand the company's business activity further, the company acquired interests in three leading German concert promoters in the rock/pop segment in December 2005.

MPE Music Pool Europe GmbH is run by managing partner Johannes Wessels. The object of the company is carrying out and marketing events, in particular music events in Germany and Europe. Since 2002 more than 150 concerts have been organised by Johannes Wessels with artists such as Justin Timberlake, Beyoncé, 50 Cent or Nigel Kennedy. Concerts with Zasha Moktan, Neil Young and Leonard Cohen among others are planned for 2008. DEAG acquired 75.0% of the company in return for the issue of 1.01 million shares. In the meantime the stake has been increased to 100%.

KBK Konzert- und Künstleragentur GmbH was set up in 2003 by Klaus Bönisch. The object of the company is carrying out concerts and concert tours. The concerts are focused on the rock/pop segment. In 2007 concerts were organised for LaFee, Uriah Heep, Chris de Burgh, The Who or Christina Stürmer among others. Katie Melua, Deep Purple, Kaizers Orchestra and Status Quo are among those on the agenda for 2008. DEAG acquired 51.0% of the company in return for the issue of 0.557 million shares.

ct creative talent GmbH was set up in December 2005 by Carlos Fleischmann Holding GmbH, whose sole shareholder is Karl-Heinz Fleischmann. The object of creative talent GmbH is carrying out music events, making arrangements for talented, up-and-coming artists as well as marketing young sports talent. The company portfolio includes among others concerts with the artists Lily Allen, The Bloodhound Gang, Marilyn Manson, Kylie Minogue and Amy Winehouse. 50% of the company was acquired in return for the issue of 0.351 million shares. The company is correspondingly consolidated on a pro rata basis.

In April 2008 DEAG expanded to the British classical market

DEAG took a stake in three leading event companies in the 2005 financial year

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The second most recent addition to the DEAG investment portfolio is **ACE Entertainment GmbH**. This company operates under the management of Hermjo Klein as the leading German concert promoter above all in the German-language rock/pop, hits and folk music segments. The most attractive artists in the ACE portfolio include Howard Cependale, Udo Lindenberg and Peter Kraus. In addition, the company made a real scoop with the placement of the Irish dance show “Riverdance” in the German market. DEAG holds 51% of the ACE shares.

■ Entertainment Services

The “Entertainment Services” segment, also known as the stationary business, comprises the local event business, the operation of the company’s owned or leased venues as well as the entire services business in connection with event management.

The local promoter is responsible for carrying out the event and in most cases carries part of the event risk.

Alongside the large national tour promoters, the market is processed by a large number of regional concert promoters. The holding companies of the DEAG group which operate in this area of activity operate themselves partly as local promoters of live entertainment events, and partly let the venues they operate to other promoters for a corresponding fee. The local promoter is in most cases responsible for letting the event location as well as organising the concerts. In addition, the local organisers have to guarantee the smooth functioning of the events. The regional marketing of the event and advertising in the printed media as well as TV and external advertising is also frequently the responsibility of the local promoter. The local organiser often has to make a guarantee payment to the tour organiser for the artist’s appearance. In return, the organiser gets a percentage, of the revenues from the sale, or the profit of the entrance tickets for the event. Furthermore, the local promoter bears as a rule the tour promoter’s proportionate expenses and costs for the tour manager, accounting and further services provided by it in connection with the concert tour via a flat rate payment. The local promoter’s revenues come from ticket sales and, depending on the contractual agreement, from catering revenues.

Concert Concept Veranstaltungs-GmbH was already set up in 1978 in Berlin and operates as the operator of the Waldbühne open-air stage in Berlin on the one hand and as a local promoter on the other. Its activities are focused on the use of the Waldbühne Berlin within the scope of a rental agreement concluded with the state of Berlin. According to the rental agreement, the company is entitled to carry out concerts at the Waldbühne and rent out the Waldbühne for concerts up to 20 September 2008. The agreement allows in each case in the period from 1 May to 30 September of a year a maximum of 18 music events (twelve rock/pop and six classical) as well as a maximum of 14 cinema events. The open-air stage can take an audience of up to 22,000. Herbert Grönemeyer, Celine Dion, Eric Clapton, R.E.M., Lang Lang and the Berlin Philharmonic Orchestra among others are on the programme for 2008. The lease agreement for the use of Waldbühne will be put out to tender across Europe again from the fourth quarter of 2008.

As a local promoter Concert concept organises, for example, concerts by Jonas Kaufmann and David Garrett. Alongside the operative organisation business, Concert concept Veranstaltungs-GmbH is also owner of the land belonging to the **Jahrhunderthalle in Frankfurt am Main** with over 100,000 sq m. The Jahrhunderthalle is leased to Kultur- und Kongress-Zentrum Jahrhunderthalle GmbH which also belongs to DEAG. The venue is rented out for live music concerts, trade fairs, conferences, AGMs and other events. The

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Jahrhunderthalle can take an audience of up to 4,500. It competes with the other indoor event locations located in Frankfurt/Main. These include the Festival Hall, the Alte Oper, the Offenbach Festival Hall and the Congress Center on the trade fair grounds. Other holding companies also operate as local promoters.

Global Concerts GmbH was converted after Entertainment One AG gave up its business activity to a local promoter in the region Munich and Bavaria while **River Concerts GmbH** operates as a local promoter in Hamburg. The last-mentioned additionally founded the Elbklassik GmbH which is designated to raise supplementary earnings potential from the opening of the Elbphilharmonie in 2010.

The activities of the DEAG music label are also assigned to the Entertainment Services segment. A new record label has been operated under the **DEAG music GmbH** subsidiary since 2005. This so-called indie, in cooperation with Warner Music Germany GmbH, offers in particular young and still unknown artists 360° support, from management, tour organisation to merchandising memorabilia. This therefore enables the artists to do so-called "one-stop shopping", i.e. recording, publishing, distribution, touring and exploitation of incidental rights under one roof. The DEAG record company's most well-known artists include David Garrett, DJ Tommek, the soap opera stars Mars and Schlönvoigt as well as the 2007/2008 winners of the Austrian Grammy "Amadeus", Luttenberger Klug. The label business is run by André Selleneit, the former managing director of BMG Berlin. Despite the management's major experience, we believe the business will develop only very slowly. DEAG music has only limited marketing power compared to the large record labels. According to a current GfK survey, only 11% of those interviewed have the desire to get to know new artists "live". The interest is included at equity.

The **Good News Productions AG** subsidiary located in Switzerland is in an excellent position in the Entertainment Services segment. DEAG holds 52.0% of this company's shares. Ringier-Verlag holds a further 48.0% of the shares. The company is market leader for concert events in Switzerland and operates the Hallenstadion in Zurich. Good News has a quasi monopoly in Switzerland and the company was able to generate around three quarters of overall revenues in this segment for the DEAG Group in the 2006 financial year. This dominant market position is based on three main aspects. With the Zurich Hallenstadion the company operates the largest venue throughout the country to which there are hardly any alternatives for major events. The Hallenstadion was completely renovated in 2004/05 and can take an audience of up to around 13,000. Good News has the right to play the hall until 2010. After that the contract is extended by two years in each case if it is not terminated. The managing director André Bechir has many years of experience and excellent contacts in the music industry. In recent years, the open-air music festival "Moon and Star" in Locarno has developed into a further mainstay of revenues for the company. In addition, there is an exclusive cooperation agreement with the leading Swiss ticketing company "Ticketcorner".

Alongside the direct participating interests DEAG has further important cooperation agreements within the live entertainment industry. These include in particular the cooperation with Ticketmaster, the American global market leader in the ticketing business. Within the scope of this cooperation, DEAG has acquired a 10% minority stake in **Ticketmaster Deutschland GmbH**. The company holds a 100% stake in Kartenhaus Ticketservice GmbH, which is one of the leading ticketing companies in Germany behind the market-leading CTS eventim platform and sells in particular large parts of the ticket contingent from the DEAG Group. Ticketmaster will introduce its new software including a

"One-stop shopping"

Good-News is market leader in Switzerland in the local events business

The value creation chain is secured by important cooperation agreements

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variety of new features in September. This should again significantly increase the company's competitiveness in the German market. Within the scope of the sale of Marshall Arts Ltd., a cooperation agreement was signed with the world's second-largest concert promoter, the Anschutz Entertainment Group. The "**Anschutz DEAG Entertainment GmbH**" joint venture (each holding 50%) was set up for this cooperation. Artists which are under contract at the Anschutz Entertainment Group are meant to be given preference by DEAG in Germany in respect of support and marketing. This right was capitalised in 2006 at EUR 1.9m and was written down according to its useful life.

With the two segments **Live Touring** and **Entertainment Services** as well as the existing cooperation agreements, Deutsche Entertainment AG is in the position in the German and Swiss live entertainment market to offer the planning, organisation and execution of national and international concert events in the classical, rock/pop, comedy and festivals segments including ticket sales under one roof.

The live entertainment industry is "People Business"

Alongside a viable business model, the competence of the management is frequently of decisive importance for the company's success in sectors such as the live entertainment industry. Personal contacts to agencies, promoters, agents and in particular to the artists themselves play an important role here. The "People Business" is therefore of outstanding importance in the entertainment industry.

DEAG Deutsche Entertainment AG has been run since it was founded by company founder and CEO Peter Schwenkow. Mr. Schwenkow has many years of experience in the entertainment market and valuable contacts which are indispensable for DEAG's operating business. For example, a not insignificant part of the tours which the company organises for internationally-known artists in Germany is based on acquisition by the CEO himself. Numerous awards (LEA Live Entertainment Award 2008, ECHO Klassik 2007, LEA Award 2007) document the CEO's success and the impetus he creates in the company.

Since 1 September 2005 Dr. Ingo Stein has been responsible for Finance within the DEAG management. He was previously CFO of the film company Senator Entertainment AG for four years. The Dr. of Economics has also held leading positions at well-known media companies (Pixelpark, Bertelsmann AG) and therefore also has comprehensive sector knowledge and the corresponding contacts. The management is completed by COO Christian Diekmann who has been responsible for the operating business and marketing at Deutsche Entertainment AG since 1 August 2006. Mr. Diekmann is media scientist and a proven specialist in the area of Internet marketing.

The overall management presents itself as a self-contained team and has in our view the necessary qualifications for managing the DEAG Group. Its orientation in particular to operating profitability criteria, which did not always go without saying in the media sector until the recent past, has taken on major significance within the company management. The management board is supplemented by a large number of professional entrepreneurs who head up the respective subsidiaries and carry entrepreneurial responsibility. For example André Bechir, the managing partner of Good News Productions AG, who has many years of experience in the music industry. The managing directors of ct creative talent (Carlos Fleischmann), ACE (Hermjo Klein), KBK (Klaus Böhnisch) und MPE (Johannes Wessels) also have together more than 100 years of experience in the entertainment and events business and with their excellent contacts should actively contribute to promoting the DEAG Group's growth in the live entertainment sector.

Management has many years of experience in the entertainment sector

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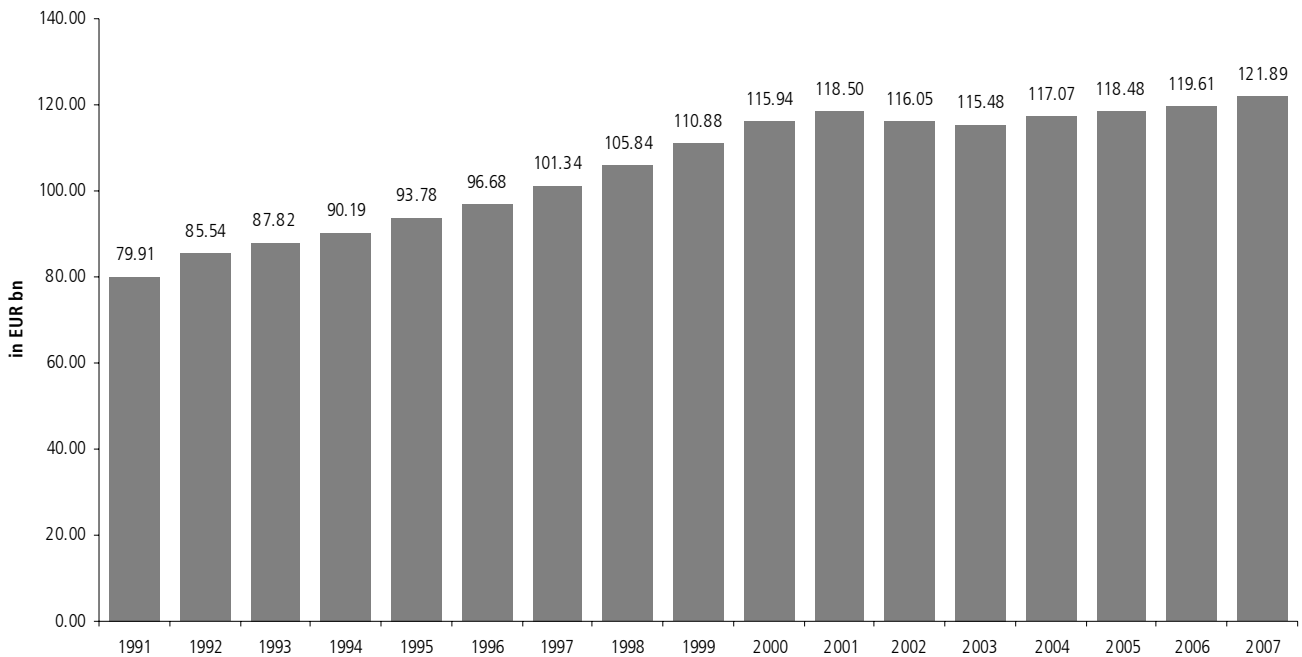
The leisure market

The trend in leisure activities and the demand for entertainment offers are largely determined by economic and demographic factors. The development of working time in particular, and as a residual factor the development of leisure time, the age and population structure, the level of education and not least the income situation, are to be given as the main determinants. One of the most important components for the future growth prospects of the entire leisure sector and of the individual main areas of activity is the development of the leisure time budget.

From the demographic point of view, a relatively reliable assessment can be made that growth in the national leisure budget can be expected based on the increase in life expectancy of the German population in conjunction with the reduction in total working life as well as older persons accounting for a growing share of the overall population.

Leisure activities are of major importance in Germany

Consumer spending of private households on leisure, entertainment and culture in Germany



Source: German Federal Statistical Office

Private households spent more than EUR 120bn on leisure, entertainment and culture for the first time in 2007. The market growth of the events sector has basically been in a positive correlation to the growing consumer spending of private households for many years. Overall, households with a high share of free time have only a below-average financial budget as a rule, whereas households with a qualified profession and regularly limited spare time can have far greater financial resources.

Those with higher incomes typically tend towards representative and prestige-oriented activities in their relatively brief leisure time and consume costly leisure-time goods and services, whereas those consumers with below-average incomes pay attention rather to an attractive price/efficiency ratio.

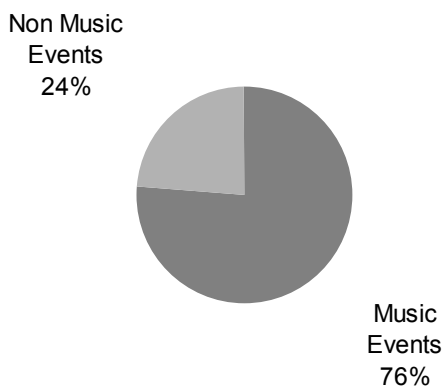
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The live entertainment market

Based on a GfK study on the consumption pattern of concert and event-goers in Germany which was carried out in 2003 on behalf of the German Association of the Promotions Industry (IDKV), the German market for live music events is the third-largest market world-wide. In 2003 revenues of around EUR 2.7bn were generated at live music events and around 142 million tickets sold. This corresponds to an increase of 10.2% compared to revenues of EUR 2.45bn in the 1995 financial year. The German live entertainment market has continued to develop dynamically since 2003. In the first half of 2007 German consumers spent a total of EUR 6.5bn on entertainment offers of which EUR 1.9bn fell upon live events. With 25.1 million event-goers up to mid-year, 60.4 million tickets were sold overall. Of total revenues, EUR 1,444m or 76.0% fell upon the live music events segment (all types of concert including music festivals and musicals) and EUR 456.0m or 24.0% on the non-music-event segment (political cabaret, comedy, show events, variété and dinner-shows).

The live entertainment sector is following a solid growth trend

The live entertainment market; period 1H 2007



Source: GfK Panel Services Consumer Research GmbH

Extrapolated for the full year this gives an estimated revenue volume for live music events for 2007 of EUR 2.88bn corresponding to further growth versus the data for 2003 of 6.7%. The estimated overall revenues for 2007 for live entertainment events including the non-music events comes to around EUR 3.8bn even.

On average consumers paid around EUR 31.45 per entrance ticket for a live event. Consumers were prepared to spend even more money on live music events with the average price at EUR 35.26 whereas for non-music-oriented events only EUR 23.44 was paid on average.

In addition to the ticket, consumers spent around EUR 270m on catering products and services within the scope of live events in the first half of 2007 as well as around EUR 129.0m on merchandising items. This adds up to EUR 399m for 1H 2007. Not only the promoters, but also the artists on the one hand (merchandising) and the catering tenants at the respective venues benefit from this total as a rule.

Analysing the market for live music events more closely, it can be ascertained that the demand is spread very homogeneously across all age groups of the German population.

The market's strength lies in its homogeneous nature

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Around 28.0% of the revenues from concert tickets was generated with event-goers in the over-60 age group. 25.0% fell upon ticket sales with the under-29 age group. However, the spread is slightly different looking at the preferences of the age groups in respect of music genre. While the over-60s allocate around 30.0% of their ticket spending to classical music concerts, younger concert-goers prefer music festivals and rock/pop concerts. This spread shows that it can be interesting for a live entertainment company to specialise on certain genres.

For example, interesting growth potential can be tapped in the classical music events segment. The current age pyramid and the latest demographic studies give an additional indication that the share of the older population should gain significantly in importance in the near future. The steady increase in life expectancy as well as the above-average income and leisure budget of this age group make events which meet the tastes of this target group appear particularly attractive.

According to the GfK study on “Consumer behaviour of concert and event-goers in Germany”, older concert-goers have a clear preference for music events with German texts as well as for operas and operettas. Accordingly, 62 to 85% (depending on the genre) of the audience at such events are in the over-50 age group compared to between just 5 and 20% at rock/pop events.

Lucrative market niches

Entrance prices for selected events from the classical segment

Artist	Venue	Ticket price
Jonas Kaufmann	Philharmonie Berlin	EUR 39.00 to 82.00
David Garrett	Alte Oper Frankfurt	EUR 29.50 to 48.50
Lang Lang	Derby Park Hamburg	EUR 44.85 to 113.85
Montserrat Caballé	Philharmonie Berlin	EUR 38.00 to 90.00
Ø Price		EUR 60.71

Source: DEAG, Kartenhaus.de

The older target group also holds considerable potential as regards achievable margins and segment-specific price elasticity. For example, the average ticket price for selected concerts organised by DEAG or one of its subsidiaries in 2008 in the classical segment came to around EUR 61. This is almost 28% more than for events from the rock/pop segment. Positive impetus is also coming from the fact that a growing number of citizens are entering the higher age groups who already attended concert events in their youth and have grown old together with the artists. Correspondingly, the willingness of the older generations to attend concerts from the rock/pop music genre is also growing. The focus of the content of the music events offered therefore has to be adapted to the growing significance of the older generations.

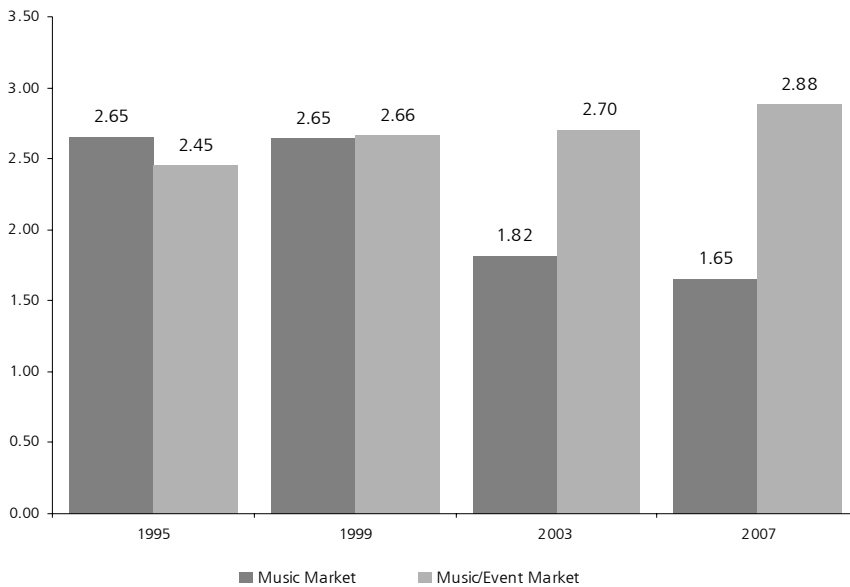
Developments in the recorded music and live entertainment market

Until recently the classical recording market and the market for live entertainment events were strictly separated. Only in the most seldom of cases were companies from the recording market active in the area of concert events. This area of activity was left as a result to the specialised concert promoters. Vice versa, the concert promoters have constantly developed no activities in the area of the recording industry. As a result of the

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erosion of achievable revenues in the recording business, there has been a clear change of paradigms here.

Trend in revenues in the music (recording) market and music events market



Source: Bundesverband der Musikindustrie;

In 1995 revenues in the music events market and in the recording market were almost equal at EUR 2.45bn versus EUR 2.65bn. However, the years that followed were characterised by declining revenues from recorded music sales. While the Germans still spent around EUR 2.65bn on recorded music in 1999, this figure had fallen to only EUR 1.65bn in 2007. Whereas the classical recording market has successively lost ground over the past decade, therefore, and has suffered declines in revenues of EUR 1bn (-37.74%), the live entertainment segment has recorded steady growth over the same period. Compared to 1995 the music events market has grown by an estimated EUR 430m or +18% to EUR 2.88bn.

The main reasons for declining revenues in the recording industry are above all the illegal exchange of music titles via the Internet (“filesharing”) as well as the widespread “burner mentality” among the population, in other words the illegal copying of recorded music and the production of pirate copies. However, the consumer’s ever stronger desire for individuality and exclusivity of that experienced has also led to considerable structural changes in the entertainment market in relatively short periods. Consumers are obviously prepared to allocate an ever greater part of their financial leisure budget to the area of live music events giving rise to additional marketing opportunities for the promoters. They could benefit from this trend by offering combination packages, e.g. in conjunction with city tours and VIP tickets which include access to backstage areas and a higher quality service (catering, chauffeur). The staggering of ticket prices and categories, similar to “yield management” at airlines, would also be conceivable.

However, not only the respective companies (music industry, promoters) are affected by this continuing change in consumer behaviour, but in particular also the artists themselves. In times of falling revenues from the classical recording business, they are increasingly

Change in consumer habits

Promoters and artists have to adapt

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dependent on developing alternative sources of income in order to counter the downward trend on the revenue side. More and more importance is being attached to live events here. The promoters are also benefiting from the fact that their offer cannot be copied. The “live event” and the emotions associated with it cannot be duplicated or simply passed on and the consumer is obviously prepared to honour this increased leisure benefit correspondingly. On the other hand, the rising fees demanded by the artists are leading to significantly higher costs for the concert promoters.

In the light of this, two factors are decisive for the promoters’ business success. Firstly, the question as to what extent the company will succeed in passing on the higher costs to the consumers by increasing ticket prices or, if applicable, taking countermeasures on the earnings side by tapping additional revenue potential (sale of live recordings of the concerts, catering). Secondly, it will be significant to what extent tour organisers can lessen their increased cost risk by concluding minimum guarantee agreements and profit distribution (loss participation) agreements with the local organisers.

Entrance prices for selected events from the rock/pop segment

Events in 1999 (converted into euros)			Events in 2008		
Artist	Venue	Ticket price	Artist	Venue	Ticket price
Whitney Houston	Waldbühne / Berlin	EUR 49.85	Kylie Minogue	Kölnarena	EUR 51.00 to 74.00
Modern Talking	Waldbühne / Schwarzenberg	EUR 30.15	Katie Melua	Arena Leipzig	EUR 49.55 to 66.80
Herbert Grönemeyer	Waldbühne / Berlin	EUR 24.10	Herbert Grönemeyer	Waldbühne Berlin	EUR 42.50
Cher	Festhalle / Frankfurt	EUR 37.45 to 57.10	Wir sind Helden	Stadthalle Göttingen	EUR 27.00
Eurythmics	Kölnarena / Cologne	EUR 42.45 to 51.25			
Bryan Adams	Westfalenhalle / Dortmund	EUR 36.55	Ø Price		EUR 47.54
			Ø Price		EUR 39.13

Source: DEAG, Kartenhaus.de, own research

Increasing ticket prices for live events at least basically appears to be possible. For example, prices for concert tickets for selected events organised by DEAG or one of its subsidiaries in the rock/pop segment have been increased by 21.5% on average in the past eight years. Whether this will be enough, though, to compensate the rising costs appears to be questionable, as the price increases implemented scarcely exceed average inflation. Alongside the artists, the classical music recording industry is namely also looking for a way out of the continuing crisis. The labels are working at full stretch to expand and develop further revenue sources such as artist and concert management, licensing and merchandising as well as other services in order to reduce dependence on the classical recorded music business. The companies in the recording industry are therefore trying to participate in the promoters’ revenues. This means that they demand a share of the live revenues although the contracts between record company and artist do not envisage this at all in most cases. The music industry is trying to implement price mark-ups of EUR 2 to 3 per ticket which are meant to go directly to the record companies.

The figures used in this paragraph are based on two studies published by the GfK (Gesellschaft für Konsumforschung on the consumption behaviour of spectators who visited concerts and other events in Germany in 2003 and 2007. The figures can slightly differ from each other in terms of the underlying census and analysis methods as well as the database used the studies. This must be taken into account when comparing the results.

Less and less scope for increasing ticket prices further

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Revenues and earnings

Historical development

The market for live entertainment events was characterised up to the beginning of the nineties by very strong fragmentation on the supply side and rather weak orientation to the players' business-economic goals. After Deutsche Entertainment AG was set up in 1995 by Mr. Peter Schwenkow, the company went through a phase of stormy growth. Revenues were increased between 1995 and 1999 by an average of 36.7% per annum through both organic and external growth.

Starting from EUR 24.9m in the 1995 financial year, revenues were increased to EUR 86.9m in the 1999 financial year. After the IPO in FY 1998, which brought in equity capital of over EUR 14.0m, more than 26 companies were acquired and the consolidation of the fragmented concert organisation market rapidly pushed ahead with. In the 2000 financial year in particular, there was a major surge in growth through the acquisition of Stella Musical Productions from the insolvency assets of Stella AG and through the acquisition of a 90.0% stake in Good News AG in Switzerland. Essentially due to these acquisitions revenues were increased to EUR 258.7m in the 2000 financial year. Adjusted for the revenue contribution from Stella Musical Productions revenues came to around EUR 131.0m in the 2000 financial year, still representing growth of 50.7%.

In the following 2001 financial year revenues increased to EUR 296.3m even. However, the Stella sub-group again accounted for around EUR 159.2m of this figures. Adjusted for this revenue contribution, a slight increase in revenues of 4.6% to EUR 137.1m was generated in the financial year.

In the 2002 financial year, alongside the difficult operating business trend not least as a result of the terror attacks on 11 September 2001, DEAG also had to put up with the insolvency of the Stella Entertainment AG and Quivive GmbH subsidiaries. The resulting threat to DEAG's continued existence could only be removed by drastic reconstruction measures and the use of balance sheet policy scope.

Although the applications for insolvency by the two companies Quivive GmbH and Broadway Musical Management GmbH were only made in April 2002, the main burdens were already worked off via write-downs, value adjustments and provisions within the scope of a subsequent amendment in the annual financial statements and consolidated financial statements for the financial year. With a serious company crisis on the horizon, a corporate concept to save and continue Deutsche Entertainment AG was worked out and implemented together with the Roland Berger management consultancy. This concept was essentially made up of three stages.

1. Removal of the main risks resulting from the stakes in the Stella Group and Quivive GmbH,
2. Strategic concentration on the former core business,
3. Lasting adjustment of the cost and organisational structure as well as reduction of debt.

These measures had corresponding effects on the annual financial statements for 2001 and 2002. Overall, group revenues fell in the 2002 financial year by EUR 156.3m to EUR 140.0m. Adjusted for the contributions from the Stella Group there was a decline of 36.9% to EUR 100.2m. The insolvency in connection with a difficult operating business in the 2002

Strong growth through active participation in the consolidation of the German live entertainment market

Difficult operating business trend threatens continued existence

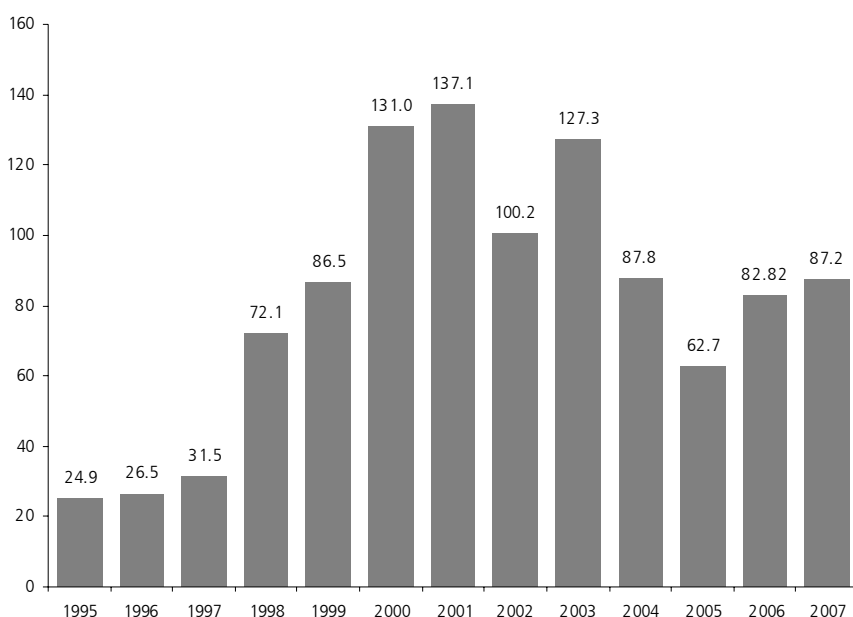
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financial year led to negative EBIT after restructuring expenses of EUR 17.7m with a loss of EUR 14.2m on EBIT level already having been suffered in 2001.

The 2003 financial year was also still characterised by the necessary restructuring of the company. Revenues were increased by 27.1% compared to the 2002 financial year to EUR 127.3m, supported in particular by higher revenue contributions from the two Swiss companies Good-News und Entertainment One, and operating EBIT also improved from EUR – 6.3m to EUR +4.3m. However, a loss of EUR 14.7m was recorded for the year owing to further restructuring expenses of EUR 12.1m after taking the financial result, taxes and minorities interests into consideration.

2003 and 2004 characterised by restructuring

Trend in revenues at the DEAG Group* in EURm



Source: DEAG Entertainment AG; adjusted for the sales revenues of Stella AG; own illustration

The 2004 financial year was characterised by a decline in revenues of 24.1% to EUR 96.5m. This decline was the result on the one hand of the lower revenue contribution from Good News AG, which had to suffer a scheduled and temporary decline in revenues of 30.2% to EUR 32.7m owing to the comprehensive renovation of the Zurich Hallenstadion. In addition, the Entertainment One sub-group had to put up with a decline in revenues of around EUR 14.0m owing to a significant decline in the number of events. Also, from 2H 2004 the revenues from the André Rieu tour were no longer reported in DEAG’s revenues, but only the earnings contributions on a net basis. The 8.9% increase in revenues at the English company, Marshall Arts, to EUR 14.8m was able to only partly compensate this negative trend. The two remaining business segments Theatres und Urban Entertainment were almost on the prior-year level at EUR 8.1m and EUR 5.6m, respectively.

Weak operating business in 2004

As the restructuring of the operating business was largely completed in the 2004 financial year, a result of EUR 4.7m was generated on EBIT level. However, this result includes extraordinary gains from writing back reserves and the renunciation of claims. Net interest income was also improved significantly, but remained negative at EUR 2.1m. Consolidated net profit of EUR 2.88m and fully-diluted earnings per share of EUR 0.19 were nevertheless

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generated against this backdrop. It is to be pointed out on strategic level that DEAG entered the classical business by signing an agreement with the worldwide leading classical music agency, IMG Artists, over the organisation of tours with the international classical stars Anna Netrebko, Roland Villázon and Lang Lang.

The 2005 financial year was again characterised by strategic reorientation and positioning in the highly-competitive live entertainment market. Based on a strategic management decision, the business activities of the Entertainment One (Marcel Avram) subsidiary in the Artists & Tours segment and the activities in the Theatres segment were classified as discontinued activities. Correspondingly, the prior-year revenues were reduced by the contributions from these companies to EUR 87.8m. Starting from this base, the company suffered a further decline in revenues of 28.5% to EUR 62.7m in the 2005 financial year owing to a difficult market environment. Additional revenues of EUR 10.6m were generated in the area of discontinued operations. The fact that the high density of attractive tour events from the 2004 financial year could not be repeated in the rock/pop segment was particularly decisive for the decline in revenues.

The newly founded Classical Entertainment segment was not able to compensate for this loss. Owing to the continuation of the renovation work on the Zurich Hallenstadion Good News Productions AG was not able to increase revenues to the usual level again. However, the impact of the decline in revenues on the earnings situation was kept within narrow limits thanks to corresponding cost measures. EBIT was down by 67.2% to EUR 2.14m, but an operating loss was avoided. A negative financial result of EUR 1.99m had to be tolerated again given the slightly tense financing situation. Nevertheless, positive net income for the year of EUR 0.375m was generated in the area of continuing operations.

On strategic level, an important course was again set for the future development of the company. The company entered a complementary area of business by setting up the music publisher DEAG music. The Global concerts subsidiary was reorganised into local promoter in Munich and Bavaria as well as organiser of large classical events.

At the end of the 2005 financial year stakes in the three German concert promoters in the rock/pop segment – KBK Konzertagentur GmbH, Munich (51.0%), MPE Musicpool Europe GmbH, Hamburg (75.0%) and ct creative Talent GmbH, Berlin (50.0%) - were acquired within the scope of a capital increase through contributions in kind. The revenue gaps which had arisen in the rock/pop business were to be filled again with these companies in 2006. Various measures were taken in the area of group financing to improve the financing of the operating activities at matching maturities. In particular, arrangements had to be made in order to be able to keep to the obligation to repurchase a 39.0% stake in Good News AG under a repurchase agreement with Ringier-Verlag at a fixed price of up to EUR 12.0m.

2006 and 2007 financial year

In the 2006 financial year the company generated a significant increase in revenues of 32.2% to EUR 82.8m. Since the beginning of the 2006 financial year DEAG has been reporting in a new segment structure with the Live Touring and Entertainment Services segments. The Live Touring segment benefited from the consolidation of the new group companies MPE, KBK and ct, as well as from the expansion of the classical business and was able to increase revenues by 24.7% to EUR 30.7m against this backdrop. The loss of revenues in 4Q 2006 as a result of the sale and deconsolidation of Marshall Arts was more than compensated for. Revenues in the Entertainment Services segment were increased by

Strategic reorientation continues in 2005

Entry into the classical business

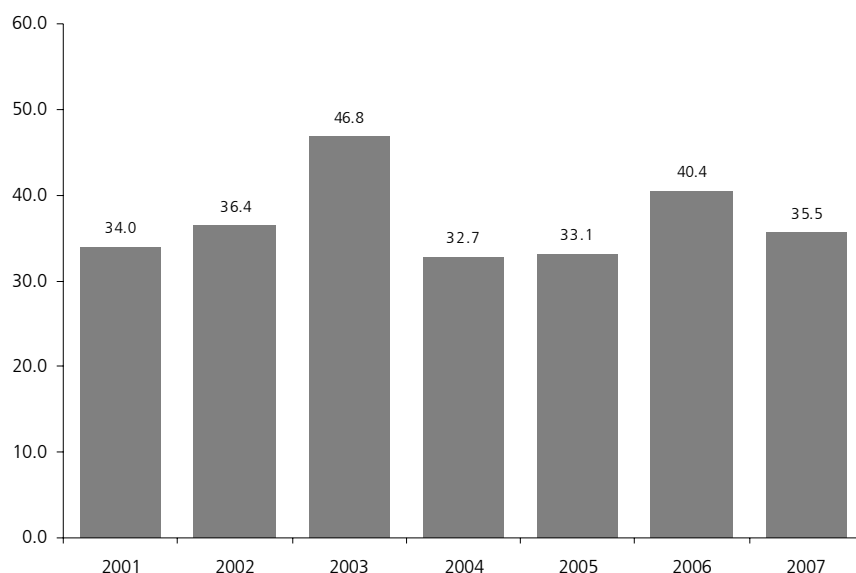
Restructuring completed

Operative turnaround a success

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37.6% even to EUR 53.6m. The Swiss subsidiary Good News, which had full-year access to the Zurich Hallenstadion again in 2006, contributed to this increase in revenues in particular. Revenues of this subsidiary rose by 22.2% to EUR 40.4m.

Trend in revenues of Good News Productions AG in EURm



Source: DEAG Entertainment AG,

On the earnings, group EBIT was improved by 30.3% to EUR 3.06m. It is to be taken into consideration, though, that other operating profit of EUR 3.61m was generated as a result of the sale of the stake in Marshall Arts and the sale of 38.0% of the shares in Good News.

In the Live Touring segment EBIT of EUR 0.5m after EUR 0.1m the previous year was not able to fulfil the management's expectations especially as an extraordinary profit of EUR 1.4m came from the sale of Marshall Arts. In contrast, a favourable result of EUR 5.2m was achieved in the Entertainment Services segment. However, this result also includes an extraordinary profit from the partial sale of Good News. After allowing for the still negative financial result of EUR 2.16m and taxes, the result of continued operations came to EUR 0.465m in 2006. The result of discontinued operations of EUR -0.578m concerns the Wintergarten Variete in Berlin which was sold with effect from 1 January 2007.

On strategic level not only was a profit generated through the sale of the 50.0% stake in Marshall Arts, but also access to international music starts secured for the years ahead at the same time. Within the scope of a far-reaching joint venture agreement with the Anschutz Entertainment Group, it acquired a 49.0% stake in Marshall Arts. In return, DEAG acquired a first option, last matching right for all Anschutz music tours in Germany. In addition, DEAG set up a jointly-run subsidiary with the Anschutz Entertainment Group. It is primarily meant to play the new O2 World Arena in Berlin, which can hold an audience of up to 17,000, but also the Waldbühne, Berlin, within the scope of the local business.

In the 2007 financial year DEAG was able to increase group revenues by around 5.0% to EUR 87.2m. The revenue growth came exclusively from the Live Touring segment. Despite the sale of Marshall Arts Ltd., which made a contribution to group revenues of EUR 8.9m for the last time in the 2006 financial year, segment revenues were increased by 29.3% to

Participating interests and cooperation agreements secure access to international stars

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EUR 39.7m. Part of the loss of revenues as a result of the sale of Marshall Arts Ltd, London, was compensated by the first-time inclusion of ACE Entertainment GmbH in the consolidated financial statements with effect from 1 July 2007. The new company contributed around EUR 7.4m to group revenues in the 2007 financial year. Adjusted for the changes in the sphere of consolidation, revenues grew by EUR 5.8m in organic terms. This organic growth is due primarily to higher revenues in the classical business. 78,000 tickets were sold for the tours of Anna Netrebko with the tenors Rolando Villazón, Ramón Vargas and José Cura and of the pianist Lang Lang, respectively.

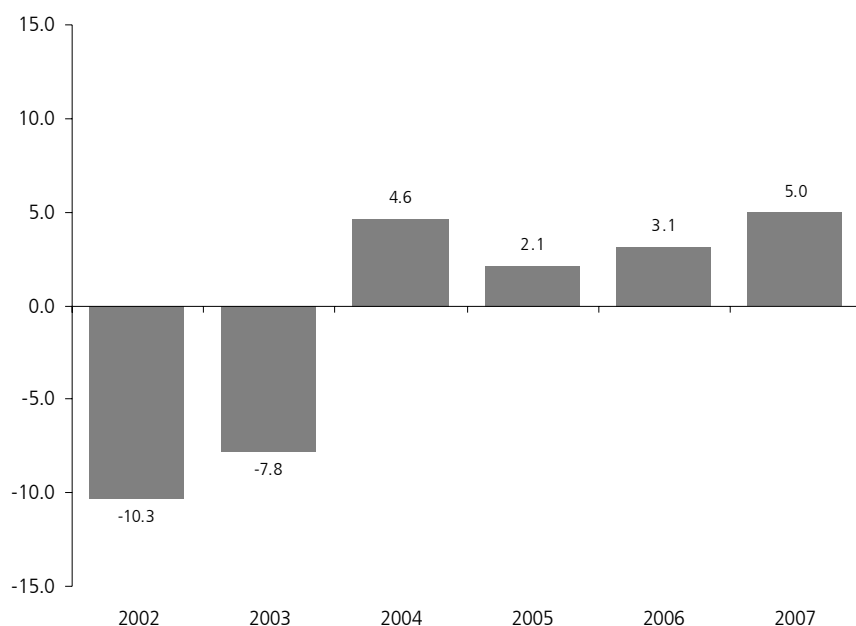
In the Entertainment Services segment revenues declined slightly by 2.6% to EUR 52.2m. Despite a decline in revenues of 12.1% to EUR 35.5m the Good News subsidiary remained the mainstay of revenues in the Entertainment Services segment.

Irrespective of the significant increase in revenues on group level, the cost of revenues was kept constant at EUR 65.4m. Correspondingly, there was a substantial improvement in the group result of 25.3% to EUR 21.8m. Furthermore, distribution and administrative costs were lowered as a result of which DEAG was able to generate an increase in EBITDA of 43.2% to EUR 6.2m. There was an improvement in the EBITDA margin of almost 2.0%-points to 7.1%. After allowing for write-downs, EBIT came to EUR 5.0m corresponding to growth of 63.0% and an EBIT margin of 5.7%.

On segment level there was an improvement in the operating result in the Live Touring segment of around EUR 3.5m to EUR 4.0m. On the other hand, the operating result in the Entertainment Services segment declined slightly by 4.8% to EUR 4.93m parallel to the decline in revenues. After allowing for operating costs on holding level of EUR 3.9m group EBIT came to EUR 5.0m.

Cost reductions enable an improvement in earnings

Development of group EBIT



Source: DEAG Deutsche Entertainment AG

¹⁾⁻⁹⁾ Important: Please read the references to possible conflicts of interest and disclaimers/disclosures at the end of this report.

Thanks to the improvement in the financial result as a result of the reduction of liabilities from EUR -2.2m to EUR -1.3m and after taking income taxes into consideration, net income from continuing operations came to EUR 3.2m representing a massive improvement of 540.0%. After deducting losses from discontinued operations of EUR 0.6m as well as minority interests of EUR 1.4m, net income for the year came to EUR 1.13m and earnings per share to EUR 0.05. This represents an improvement of EUR 0.07 per share.

Investments and financing

Following the expansion of the investment portfolio in the 2005 financial year through the acquisition of shares in the companies KBK Konzert- und Künstleragentur GmbH, Munich (51.0%), MPE Music Pool Europe GmbH, Hamburg (75.0%) as well as ct creative talent GmbH, Berlin (50.0%) in return for the issue of shares within the scope of a capital increase through contributions in kind, further company transactions were carried out in 2006 and 2007. In the 2006 financial year, Marshall Arts Ltd., London, was sold to the Anschutz Entertainment Group leading to an extraordinary profit of EUR 2.2m. In the wake of this sale, DEAG obtained a first option, last matching right for all Anschutz tours in Germany and therefore access to further interesting content.

The stake in Good News AG was finally reduced to 52.0%. Alongside DEAG, the Swiss Ringier Verlag publishing house now also holds a 48.0% stake in Good News. In the light of this transaction, the goodwill in the consolidated balance sheet for the 2006 financial year was reduced by EUR 10.4m to EUR 23.8m. The publishing house supports DEAG'S operating business by providing media services for advertising purposes (advertising in Ringier print media, advertising campaigns).

Due primarily to the almost full conversion of the outstanding convertible bond, group equity capital was increased to EUR 31.9m. The investment portfolio was expanded and restructured again in the 2007 financial year. With effect from 1 July DEAG acquired 51.0% of the shares of the promoter ACE GmbH. ACE Entertainment GmbH's managing partner is Hermjo Klein who has over 40 years of experience in the live entertainment business and numerous contacts to internationally-known artists. The purchase price of EUR 1.62m was set against acquired liquidity of EUR 2.48m as a result of which the acquisition had a positive impact on cash flow of EUR 0.85m.

Apart from the acquisition of the stake in ACE, the stake in MPE Music Pool Europe was increased by 25.0% to 100%. The sale of the 100% stake in the Variété Wintergarten, Berlin, in the 2006 financial year had no impact on the balance sheet. This is now run as a discounted operation.

At the end of the 2007 financial year DEAG had group equity capital of EUR 34.0m and total assets of EUR 70.3m. This corresponds to an equity ratio of 48.0% representing an increase of 2 percentage points versus the ratio in the 2006 financial year. The share capital was divided into 23.088 million shares. Liabilities to banks increased by EUR 0.9m to EUR 2.7m. As at 31 December 2007 the company had a tax loss carry-forward of EUR 54.0m.

It is to be noted when analysing the consolidated financial statements that DEAG has reported real estate held as financial investments with a value of EUR 8.2m on the assets-side under long-term assets. This carrying value is based on an independent expert report. This real estate includes two parts of plots of land around the Frankfurt Jahrhunderthalle for which contracts of sale have already been signed (EDEKA, ST BAU). Planning permission has not yet been granted, though. It depends in particular on the on-going procedure of the so-called Seveso guideline being checked by the local authorities. The timescale for the possible sale of the land is therefore difficult to foresee. Should building on the land not be permitted as planned, there is a risk of a not inconsiderable reduction in value. In the event of a successful sale, DEAG would receive liquid funds of around EUR 6.5m.

With effect from 1 April 2008 DEAG acquired a 75.1% stake in Raymond Gubbay Ltd. The purchase price came to around GBP 5.0m (around EUR 6.3m) in cash as well as 1.7 million new shares from a capital increase through contributions in kind. This means that the

Adjustment and expansion of the investment portfolio

High equity ratio

Expansion of classical activities

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company's share capital will be increased to EUR 24.8m. We expect that the new stake can contribute around EUR 13.0m to annual revenues. The company's business is focused on organising and executing around 400 opera, ballet and concert events in the classical segment in Great Britain, Europe and Australia. All of the tranches of the existing mezzanine financing of EUR 5.5m not yet drawn on as at the 2007 balance sheet date were used to finance the cash component. The remaining amount was paid out of the DEAG Group's liquid funds. We believe the company's future investments should be limited to neighbouring European countries (Austria, Netherlands) with the aim of expanding European market leadership in the classical live events segment.

Outlook and prospects

The preliminary figures published by DEAG for Q1/2008 published only recently already look very promising. In the traditionally slowest-selling first quarter, the company was able to generate revenues of EUR 14.6m, around a quarter more than in the previous year (+24%). The increase in earnings before interest and taxes (EBIT) turned out to be even more favourable. Impressive growth of 40% to EUR 0.7m was generated here. This increase is attributable above all to the classical segment, the live entertainment activities in Switzerland (Good News Group) as well as growing sponsoring revenues. The consolidation of the British classical concert promoter Raymond Gubbay Ltd. (RGL), which we regard as the main growth driver for the full year, is not yet taken into consideration and will only be included in the consolidated financial statements from Q2/2008.

Overall, we are expecting revenue growth for 2008 of 20.0% to EUR 105.0m. Of this growth we believe around EUR 13.0m will fall upon RGL and a further estimated EUR 6.5m on the first-time full-year inclusion of ACE Entertainment GmbH. The eight concerts to be given by international star Kylie Minogue in Germany and Switzerland in particular as well as the two tours by Udo Lindenberg and Howard Carpendale which are already almost sold out should see to a substantial revenue contribution in the rock/pop segment.

The latter should be able to achieve six-digit audience and ticket-figures with his series of comeback concerts and the concerts by veteran rocker Lindenberg are also likely to see to lively demand based on his major cult character and the successful chart placement of his single "Wenn Du durchhängst". The good trend in sponsoring revenues and the new business of managing up-and-coming stars in the Sports segment could also have a positive impact on revenues within the Creative Talents division.

We believe DEAG's classical activities will account for around 21% of overall revenues in the 2008 financial year. The primarily external growth will be attributable in particular to the first-time consolidation of RGL, London. We estimate that the contribution made by the business activities of DEAG Classics to date of EUR 8.0m will be slightly lower than in the previous year. A highlight in the classical business in the 2008 financial year will be the open air performance by Anna Netrebko with her colleagues Plácido Domingo and Rolando Villazon at Schloss Schönbrunn in Vienna. But two major concerts to be given by the pianist Lang Lang will also make positive revenue contributions.

In the Entertainment Services segment the first revenues will come from the playing of the O2-Arena Berlin from autumn of the current financial year. Otherwise we are expecting average capacity utilisation of the venues in Frankfurt, Berlin and Zurich. The prospects remain rather restrained for the Swiss Good News Group. In the light of this, we have allowed for slightly lower revenue contributions from this subsidiary. However, positive impulse could still come here from a large open air concert with Madonna in the Zurich region.

On the earnings side we are assuming steady growth slightly above the prior-year level. According to our estimates, EBIT 2008e should increase by 42.0% to EUR 7.1m. The EBIT margin will therefore reach a level of 6.8%. This increase is attributable primarily to the synergy effects to be expected within the scope of the cooperation between RGL (Classical Spectacular, Royal Albert Hall events) and DEAG Classics to date. The focus here in particular is on the possible placement of the artists from the DEAG Classics portfolio at RGL events and the resulting significant improvement in the marketability of these artists. The European market leadership in the classical segment achieved with this purchase and

Good prospects for 2008

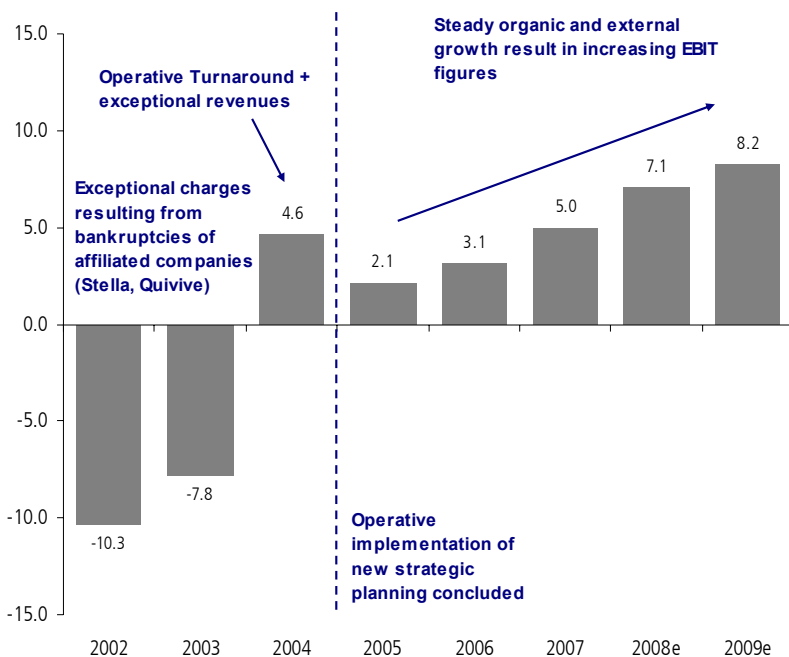
Dynamic EBIT growth

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the newly-founded joint venture Switzerland Classics (together with Dina Thoma, DEAG-stake 51%) will therefore give rise to considerable potential for expansion in this increasingly attractive segment.

Expected net investment income should benefit from the discontinuation of the negative earnings contribution from the company’s own label DEAG Music which resulted from investing in a roster of young artists (2007: EUR –1m). We are expecting an operating turnaround here over the course of the year at the end of which a break-even result should be achieved at least. The burdens from the financial result are also likely to turn out to be slightly lower this year than in 2007 at EUR –0.9m. Taking into consideration the depreciation of EUR 1.3m we are expecting including a write-down on the purchase price allocation within the scope of the RGL acquisition, this gives EBT of EUR 6.2m. The first-time full consolidation of the ACE and RGL stakes should lead to increased tax charges in 2008 (DZ 2008e: EUR 1.2m). This gives an after-tax result of EUR 5m. After deducting minority interests (DZ 2008e: EUR -2.4m) this would leave net income for the year for 2008 of around EUR 2.6m (+126% vs. 2007) or earnings per share of EUR 0.10.

Development of group EBIT



Forecast: DZ BANK

There are already several highlights as far as the events are concerned looking forward to the 2009 financial year. The major Peter Maffay tour, for which over 80,000 tickets have already been sold, as well as the return of Anna Netrebko and Elina Gavanca to the DEAG Classics stage should see to substantial revenue growth in the Live Entertainment segment. The two female top stars of classical music together with their agents only recently left the marketer IMG Artists according to press reports and are supposed to have hired the newly-founded events segment of the competitor Universal Music, to which the DEAG Group maintains intensive business relations.

Highlight in the rock/pop segment: The 2009 Peter Maffay tour

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The other European classical activities apart from DEAG Classics and RGL should also be able to benefit from the newly-created potential of pan-European promotion of the artists from the DEAG portfolio. Alongside organic growth, revenues will grow as a result of the first-time full-year inclusion of RGL. For 2009 we are planning group revenues in the region of EUR 120m. This corresponds to growth of 14.3% versus 2008e. For reasons of caution we have not taken any revenues from the playing or rental of the Waldbühne Berlin into consideration as the exclusive lease agreement expires at the end of September 2008 and will be renegotiated within the scope of a Europe-wide tender.

On EBIT level the increase compared to the previous years should turn out to be slightly more moderate. With an increase compared to the estimated result in 2008 of 15.5% to EUR 8.2m, the company is likely to be able to achieve a significant increase again on the earnings side, though. This corresponds to an unchanged estimated EBIT margin versus the 2008 financial year of 6.8%.

The synergy effects in the DEAG Classics segment already taken into consideration in the forecasts for 2008 should have an even stronger impact in 2009 and support the positive trend in operating earnings. 2009 could therefore be a record year for the DEAG Group again in the classical segment. Assuming that there will be a largely constant trend in write-downs and burdens from the financial result, we are expecting EBIT of EUR 7.3m for 2009e. However, the increased earnings contributions from DEAG's participating interests are likely to increase the income tax burden again in the year ahead to around EUR 1.6m according to our estimates. The expected after tax-result of EUR 5.7m is still presentable, though.

After allowing for the higher earnings contributions from participating interests as well as rising minority interests of EUR 2.7m, net income for the 2009e financial year 2009e comes to EUR 3.0m and EPS to EUR 0.12. This corresponds to growth of 18.7% versus the 2008 financial year.

In the long term, the rapid expansion in Europe in the classical segment most recently (RG acquisition, Switzerland Classics, planned expansion in Austria and the Netherlands) should have a lastingly positive impact on DEAG'S business performance. The demographic trend and the current allocation of income will make this segment appear more and more attractive in future from which DEAG should benefit more than proportionately as European market leader.

By bringing together the artist portfolios of DEAG Classics to date and RGL, the company has considerable potential for the Europe-wide marketing of its artists at the same time as reducing the costs which are incurred. The outstanding relationships to the agents of the respective artists should also help DEAG to survive the fee negotiations, which will probably be more difficult in future, without a strong increase in the pressure on costs and enable it to maintain the above-average returns in the classical segment.

The Sponsoring segment, which got off to a good start, was able to make favourable revenue and earnings contributions in 2007 and should make an even greater contribution to the company's growth in future. Further growth potential also lies here in the marketing of live entertainment incidental rights such as TV and DVD recordings of the live events and in the area of merchandising memorabilia. The hits/folk music and German rock segments acquired with ACE Entertainment GmbH also promise interesting growth rates in future.

2009: New record year in the classical segment?

Strong organic growth and targeted buying

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Challenges facing the corporate strategy

With the restructuring measures in recent years largely completed and the acquisition of a number of concert promoters, the company has created the basis for strategic repositioning. The strategic measures include:

- Focusing on the core business of concert promotion, as both tour organiser and local executor at selective locations with a balanced artist portfolio,
- Securing the quasi-monopoly as a Swiss concert promoter via Good News AG in conjunction with the Ringier publishing house,
- The marketing of US content in the German rock/pop concert business via cooperation with the world's second-largest promoter Anschutz Entertainment,
- A "first-mover" advantage in the dynamically-growing classical business via multi-year agreements with stars such as Anna Netrebko, Rolando Villazon and Lang Lang.

Nevertheless, it should not be ignored that DEAG will have to stand its ground in a competitive environment which is becoming increasingly more difficult. Given that revenues in the classical recording business are still on the decline, it is to be anticipated that the companies in the recording industry will try increasingly to penetrate the live entertainment market and tap complementary sources of revenue. The large music publishers and record labels often have far-reaching capital reserves which they can use to build up a corresponding live entertainment business themselves or acquire existing live entertainment companies.

At the same time, the artists are trying to implement higher fees and minimum guarantees in order to compensate the decline in revenues from the recording business. The increase in the fees and minimum guarantees demanded by the artists increases the risk of economic failure for the promoter. Reaching break-even point for an event requires constantly rising ticket prices and increased capacity utilisation. Many concerts can only be executed profitably if sold out. This trend could lead to the narrowing of margins in the live entertainment industry and also have a negative impact on DEAG's earnings situation. Added to this are risks typical to the industry such as the availability of artists and venues.

We believe DEAG is in a favourable competitive position to be able to meet the challenges presented by the market. Thanks to its various subsidiaries the company has a very broad portfolio of offers with focuses in different segments. This risk diversification helps it to deal with failed events more easily, which are presumably unavoidable despite diligent event planning and execution.

The close relationships to the nationally and internationally-operating artist agencies and promoters Anschutz, CAMI, APRO Just Classics and IMG are particularly valuable in this context. Thanks to this cooperation, DEAG has an advantage compared to many smaller competitors of being able to commit artists who appeal to the masses for the German-speaking and European region.

Furthermore, we see DEAG as being in a strategically good position through its cooperation with the global market leader, Ticketmaster. The availability of efficient ticket distribution across all relevant platforms from traditional advance sales offices, box offices, call centre distribution to online ticketing is of growing importance for a company's economic success. We expect that after the introduction of its new software, Ticketmaster will be able to offer DEAG a cheap alternative to the currently parallel used market-leading CTS ticket platform.

Increasingly difficult competitive environment

DEAG is strategically well positioned

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This should enable the company to enhance the distribution via the online platform Kartenhaus.de, which would also have a positive impact on DEAG's earnings.

On operative level DEAG has also paved the way for further growth. As European market leader for live events in the classical music segment, DEAG Classics can present the superstars in this genre to an international audience. Due to the recent acquisition of a stake the Raymond Gubbay Ltd., the company has access to an attractive artist portfolio to further intensify its European expansion in this high margin business segment. In the segment Rock/Pop Germany DEAG is possessing a balanced portfolio of artists. Besides international superstars like Alicia Keys and Katie Melua and German artists like Peter Maffay, Howard Carpendale and Udo Lindenberg, DEAG can present more mature stars like for example Chris de Burgh as well as promising newcomers like Christina Stürmer, LaFee or the Austrian Duo Luttenberger/Klug. In the segment Entertainment Services we expect the Swiss subsidiary Good News to deliver rising sales and earnings contributions.

The steadily-growing pressure on the music majors to look for alternative sources of revenue alongside the sale of recorded music also entails several opportunities for DEAG. It can easily be envisaged that the industry giants such as Warner, Sony BMG or Universal could use DEAG's know-how and contacts to enter the live entertainment market. The valuation of the DEAG shares would allow some scope for such thoughts in any case given that the music majors' coffers are crammed full.

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Profit and loss account

Euro m	2007	2008e	2009e	2010e	2011e	2012e
Sales	87.2	105.0	120.0	128.0	134.0	140.0
% against prev. year	5%	20%	14%	7%	5%	4%
Cost of goods sold	-66.6	-79.4	-90.6	-96.5	-100.9	-105.4
Gross profit	20.6	25.6	29.4	31.5	33.1	34.6
% against prev. year	28%	24%	15%	7%	5%	4%
Sales costs	-9.1	-10.8	-12.2	-12.9	-13.4	-14.0
Administration costs	-9.4	-10.9	-12.4	-13.1	-13.5	-14.1
R&D expenditure	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	3.5	4.0	4.3	4.6	4.7	4.8
Other operating expenses	-0.6	-0.7	-0.9	-1.1	-1.0	-1.0
Extraordinary income/expenses	0.0	0.0	0.0	0.0	0.0	0.0
Operating profit (EBIT)	5.0	7.1	8.2	9.0	9.9	10.2
For information: EBIT adjusted	5.0	7.1	8.2	9.0	9.9	10.2
% against prev. year	50%	42%	15%	10%	9%	4%
Interest paid / received	-1.3	-0.9	-0.9	-0.7	-0.5	-0.3
Profit before tax	3.7	6.2	7.3	8.4	9.4	9.9
For information: EBT adjusted	3.7	6.2	7.3	8.4	9.4	9.9
% against prev. year	213%	69%	18%	14%	12%	6%
Income taxes from continuing operations	-0.5	-1.3	-1.6	-1.7	-2.0	-2.2
Tax rate	14%	20%	22%	21%	21%	22%
Net profit from continuing operations	3.2	5.0	5.7	6.6	7.3	7.8
Net profit from discontinued operations	-0.6	0.0	0.0	0.0	0.0	0.0
Net profit	2.5	5.0	5.7	6.6	7.3	7.8
Profit or loss attributable to minority interest	-1.4	-2.4	-2.7	-3.0	-3.2	-3.4
Profit or loss attributable to shareholders	1.1	2.6	3.0	3.6	4.1	4.4
thereof from continuing operations	1.8	2.6	3.0	3.6	4.1	4.4
thereof from discontinued operations	-0.6	0.0	0.0	0.0	0.0	0.0
Weighted average number of shares, diluted (m)	23.089	24.766	24.766	24.766	24.766	24.766
IFRS earnings per share, diluted	0.05	0.10	0.12	0.15	0.17	0.18
Adjusted earnings per share, diluted (contin.)	0.08	0.10	0.12	0.15	0.17	0.18
For information						
Depreciation	1.2	1.3	1.3	1.3	1.4	1.3
EBITDA	6.2	8.4	9.5	10.4	11.2	11.6
EBITDA adjusted	6.2	8.4	9.5	10.4	11.2	11.6
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

Ratios

Euro	2007	2008e	2009e	2010e	2011e	2012e
Profit and loss ratios						
Sales (m)	87.2	105.0	120.0	128.0	134.0	140.0
EBITDA margin	7.1%	8.0%	7.9%	8.1%	8.4%	8.3%
EBIT margin	5.7%	6.8%	6.8%	7.1%	7.4%	7.3%
Net margin	3.6%	4.7%	4.8%	5.2%	5.5%	5.5%
Investment ratio	0.0%	9.9%	0.5%	0.6%	0.8%	1.0%
R&D as % of sales						
Admin and sales costs as % of sales	21.2%	20.7%	20.5%	20.3%	20.1%	20.1%
Net other operating costs as % of sales	-3.3%	-3.1%	-2.8%	-2.8%	-2.8%	-2.7%
Net financial income as % of sales	-1.5%	-0.8%	-0.7%	-0.5%	-0.4%	-0.2%
Interest cover	23.2	7.9	8.8	11.6	15.2	21.0
Average sales growth next five years	9.9%	6.7%				
Average earnings growth next five years	18.3%	12.6%				
Profitability ratios						
ROE	9.3%	12.2%	12.4%	12.5%	12.4%	11.9%
ROCE	19.3%	19.8%	24.1%	27.2%	30.1%	31.0%
Productivity ratios						
Sales per employee ('000)	540.12	648.15	727.27	775.76	800.00	811.59
EBIT per employee ('000)	30.98	43.83	49.70	54.81	58.81	59.25
Balance sheet ratios						
Equity ratio	48.5%	48.4%	50.1%	52.9%	56.1%	58.8%
Long term debt and equity / Fixed assets	90.0%	96.7%	109.3%	123.7%	132.4%	142.2%
Liquidity (quick ratio)	72.9%	79.5%	97.6%	116.0%	126.1%	137.8%
Receivables as % of sales	7.5%	7.5%	7.5%	7.5%	7.5%	7.6%
Investment (net of GW) / Depreciation		796.2%	42.0%	59.3%	78.0%	100.8%
Working capital as % of sales	-19.1%	-15.1%	-14.0%	-13.0%	-12.4%	-11.8%
Film assets (m)	0.0	0.0	0.0	0.0	0.0	0.0
Figures per share						
Earnings per share, diluted	0.08	0.10	0.12	0.15	0.17	0.18
Diluted cash earnings per share	0.13	0.16	0.18	0.20	0.22	0.23
Dividend per common share	0.00	0.00	0.00	0.05	0.06	0.08
Cash per share, diluted	0.61	0.66	0.96	1.24	1.41	1.60
Net cash per share, diluted	0.40	0.24	0.54	0.83	1.09	1.33
Valuation ratios						
Enterprise value / Sales	0.8	0.6	0.5	0.4	0.3	0.3
Enterprise value / EBITDA	10.7	7.9	6.2	5.0	4.0	3.4
Enterprise value / EBIT	13.2	9.3	7.2	5.7	4.6	3.8
EV/Sales to sales growth	0.07	0.06	0.07	0.06	0.05	0.04
PEG ratio - common shares	0.45	0.77	0.94			
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

Balance sheet

IFRS - Euro m	2007	2008e	2009e	2010e	2011e	2012e
ASSETS						
Non current assets	43.6	52.7	51.9	51.2	50.9	51.1
Intangible assets	31.5	39.5	38.7	38.2	37.8	37.7
thereof goodwill	24.5	31.5	31.5	31.5	31.5	31.5
Long-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	9.1	10.1	9.8	9.5	9.3	9.3
Financial assets	1.0	1.0	1.1	1.2	1.3	1.5
Other long-term assets	2.1	2.2	2.3	2.4	2.5	2.6
Current assets	26.5	31.3	40.7	49.1	54.4	60.1
Inventories	3.7	4.7	5.4	5.9	6.3	6.7
Short-term film assets	0.0	0.0	0.0	0.0	0.0	0.0
Trade receivables	6.5	7.9	9.0	9.6	10.1	10.6
Financial assets	0.6	0.6	0.6	0.6	0.6	0.6
Other receivables and short-term assets	1.5	1.7	2.0	2.2	2.4	2.5
Liquid assets	14.1	16.4	23.7	30.7	35.0	39.5
Assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Total assets	70.1	84.0	92.6	100.3	105.4	111.2
LIABILITIES						
Shareholders' equity	34.0	40.6	46.4	53.0	59.1	65.4
Share capital	23.1	24.8	24.8	24.8	24.8	24.8
Reserves	8.0	10.6	13.6	17.2	20.1	23.0
Other equity	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Minority interest	3.3	5.7	8.4	11.4	14.6	18.0
Treasury stock	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	5.3	10.3	10.3	10.3	8.3	7.3
Provisions for pensions	0.0	0.0	0.0	0.0	0.0	0.0
Other provisions	0.1	0.1	0.1	0.1	0.1	0.1
Financial liabilities	3.7	8.7	8.7	8.7	6.7	5.7
Other payables	1.6	1.6	1.6	1.6	1.6	1.6
Current liabilities	30.8	33.1	35.9	37.0	37.9	38.5
Trade receivables	4.2	5.1	5.8	6.2	6.5	6.8
Other provisions	5.3	5.4	5.4	5.4	5.5	5.5
Financial liabilities	2.7	3.2	3.1	2.9	2.8	2.4
Other liabilities	18.5	19.4	21.6	22.4	23.2	23.8
Liabilities assoc. with assets held for sale	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity and liabilities	70.1	84.0	92.6	100.3	105.4	111.2
Fiscal year end December						

Source: DEAG Entertainment and DZ BANK estimates

Discounted cash flow valuation**Market data**

Risk-free interest rate	3.92%
Market premium	3.50%

Data from comparable company

Levered beta factor	1.4500
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Data from company to be valued

Growth rate of perpetuity	0.3%
Weighted average cost of capital (WACC)	8.64%

(Capital cost are specifically calculated for each particular period)

Euro m	2008e	2009e	2010e	2011e	2012e	2013e	2014e
Adjusted EBIT	7.1	8.2	9.0	9.9	10.2	10.7	11.1
Taxes on EBIT	-1.4	-1.8	-2.0	-2.2	-2.2	-2.4	-2.4
Cash Taxes	20.3%	22.4%	21.7%	22.1%	21.8%	22.1%	21.9%
Net Operating Profit After Tax (NOPAT)	5.7	6.4	7.1	7.7	8.0	8.4	8.7
+ Depreciations (-Reversals)	1.3	1.3	1.3	1.4	1.3	1.4	1.4
- Investments (+Proceeds from sale)	-10.4	-0.6	-0.8	-1.1	-1.4	-1.6	-1.7
Change in working capital	-0.9	0.9	-0.1	0.0	-0.2	0.2	0.3
Other changes	0.0	0.2	0.3	0.2	0.0	0.0	0.0
Free cash flow	-4.3	8.3	7.8	8.2	7.8	8.3	8.7
Present value of free cash flows	88.5						
Market value of non-operating assets	0.0						
Financial and liquid assets	15.7						
Enterprise value, beginning of period	104.3						
Liabilities	-6.4						
Provisions (inc. provisions for pensions)	-0.1						
Equity value incl. minority interest, bop	97.8						
Value of minority interest	-36.0						
Correction of liabilities by convertible bonds	0.0						
EQV excl. minority interest, bop	61.8						
Accumulation till effective valuation date (with KE-rate)	2.7						
EQV excl. minority interest at valuation date	64.5						
Equity value per share, diluted (EUR)	2.6						
Fiscal year end December							

Source: DEAG Entertainment and DZ BANK estimates

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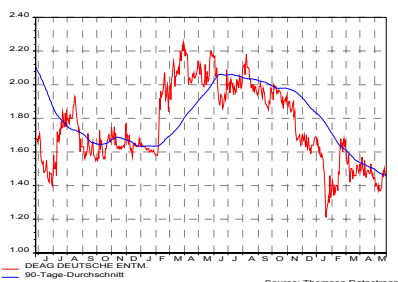
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Rating History

Recommendation	Date	Price
Buy	27 May 2008	1.46 EUR

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